



# AICIF

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Revival of Islamic Social Finance To Strengthen Economic  
Development Towards Aglobal Industrial Revolution

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CONFERENCE ON ISLAMIC FINANCE (AICIF) 2019  
"REVIVAL OF ISLAMIC SOCIAL FINANCE TO STRENGTHEN  
ECONOMIC DEVELOPMENT TOWARDS A GLOBAL INDUSTRIAL  
REVOLUTION"

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DEVELOPMENT TOWARDS A GLOBAL INDUSTRIAL REVOLUTION"

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## A MODEL TO IMPROVE ISLAMIC COMMUNITY SOCIAL IDENTITY AND SMES PERFORMANCE

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### ABSTRACT

The purpose of this study is to examine the role of community engagement in shaping community social identity and SMEs performance. Existing research has noted that community engagement takes a role to strengthen social identity and SMEs performance. However, there is lack of research which discuss SMEs community under LAZIS assistance. SMEs -LAZIS community is a community that has an orientation to support SMEs in order to achieve high performance. 103 SMEs under owners were involved in this research as respondents. Data was collected through questionnaire and interview. The data was analyzed using regression analysis. The result showed that community engagement improved Islamic social identity and SMEs performance. This research proved that the SMEs community created by LAZIS will support Islamic community social identity and SMEs performance. In the long term, this model will support Islamic Economics Growth.

*Keywords : Islamic social identity, community engagement, SMEs performance*

# A Model to Improve Islamic Community Social Identity and SMEs Performance

*by* Ardian Adhiatma

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## A Model to Improve Islamic Community Social Identity and SMEs Performance

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### Introduction

One of the main factors of economic growth in many countries is by supporting and encouraging the improvement of SME performance. Small and medium enterprises need an active support from the government in form of relationships between sectors with a more advanced business scale. It aims to result a value-based transaction in order to improve their competence and performance (Mason & Brown, 2013). The SME business segment covers a very important and vital part in creating an acceleration of Indonesia's economic growth. Small and medium enterprises become one of the needs in the Indonesia's economic progress plan, regardless of the SME struggle amid the volatility phenomenon of the global economic crisis in 1998. It is proven that SMEs are more able to survive than other business (Wulansari & Kurniawan, 2017). Increased growth in Micro, Small, and Medium Enterprises (MSMEs) reached 62.92 million units with 9.4 million labors (Ministry of Cooperatives and MSMEs, 2018) (BPS (Indonesia Statistics), 2017). MSMEs contribute 60.34% for Indonesian GDP (Gross Domestic Product) (Coordinating Ministry for Economic Affairs, Republic of Indonesia, 2019). It is the source of strength that becomes a competitive advantage for the state to be able to overcome various impacts of the crisis, for example alleviating poverty and lowering the unemployment rate.

However, the growth of MSMEs has not been in line with the quality competencies of human resources in MSMEs. So that the growth of MSMEs in general tends to be constant, even there are MSMEs unable to maintain the business continuity, and have not been able to play a role in increasing exports. It is proven in (Financial Service Authority, 2019) that MSMEs contributed to the trade balance, approximately Rp. 5.400 trillion from the output, while the export value was just about Rp. 182 trillion (3.37%), and around 49 million MSMEs are still experiencing difficulty in gaining capital. In terms of MSMEs performance growth, many countries are still facing the challenge of low growth, weak investment and trading, weak ability to adapt towards technological developments, etc

(OECD, 2017). Various obstacles that become a barrier to the growth of SME performance in Indonesia are such as the difficulties of capital access, technology adaptation, marketing, access to information, and the weak soft skill quality of the labors (Ndiaye, Razak, Nagayev, & Ng, 2018) (Nugroho, Susilo, Fajar, & Rahmawati, 2018) (Ogbuanu, Kabuoh, & Okwu, 2014). The main obstacle that often occurs in SMEs is competition among SMEs, so it needs a policy solution that can encourage SMEs involvement into the community network. The availability of SMEs community, will increase their awareness, encourage them to be more independent, able to support each other and collaborate among community members. In order to strengthen the performance of SMEs, the Government's efforts through various elements are increasingly optimal. The examples are Indonesia Chamber of Commerce and Industry (Kadin) community, SMEs community guided by State-owned Corporation (BUMN), Indonesia Chamber of Commerce and Industry (Kadin), MSMEs community guided by banking companies, craft community Laweyan Solo, PLUT-KUMKM (Ministry of Cooperatives and SMEs program), etc. It is expected that the SMEs under the community will get benefit from sharing knowledge and information.

In order to optimize the community, there must be high value suitability in SMEs who belong to the community. It is called value congruence. A person as a member of an organization who has value congruence with his organization will recognize their role to the community (Edwards & Cable, 2009). The harmonization of the value congruence between members of the community increase their self-image, their interest in job assignments, and feel congruence with their role of organization. So that their psychological needs as a community member in form of work satisfaction can be fulfilled (Flint, Signori, & Golicic, 2018). If each SME as a community member has value congruence to the community they belong to, the their involvement for the community will be stronger and it increases community engagement. Community engagement is an individual willingness to the community in order to achieve common interest. The structure of activities conducted by an organization to be collaboratively integrated, and through certain groups to be proactive in the problem solving will influence the social welfare of its members (Williams & Schaefer, 2013) (Brammer, Hojmosse, & Marchant, 2012) (Bowen, Newenham-Kahindi, & Herremans, 2010) (Schaefer, Williams, & Blundle, 2018). It can be concluded that community engagement is the activity of a citizen or group of individuals working collaboratively to achieve the goals. In other words, community engagement is an activity of interconnected team members or groups who collaborate to achieve their goals.

In this research, we argue that value congruence is indicated to improve community engagement. From SMEs point of view as the member of an organization, the higher value congruence in SMEs resulted an increased engagement of SMEs who belong to the community. The engagement of SMEs' high activity with a high value congruence to the community will create community engagement. We noted that there is lack of research which focus on how to improve organizational performance through community engagement. Hence, this research aims to explore the relationship between community engagement and organizational performance. Moreover, we test several antecedents of community engagement which are spiritual leisure and job crafting.

Spiritual Leisure is a business that is done to balance the fulfillment of religious needs with comfort, through the improvement of self-determination, grow social support, empowerment, palliative coping, and positive attitude behavior. (Ward, 1999) (Heintzman & Mannell, 2010) (Wrzesniewski, LoBuglio, Dutton, & Berg, 2013) (Iqbal, 2019). The higher spiritual leisure of a person or member of an organization, will form an inner life, the meaningful life in the community (Singh & Chopra, 2019), sense of connection with another member of the organization, and grow the sense of responsibility according to the social identity of the organization (Newman, Tay, & Diener, 2014). A conducive organizational

environment will form community with spiritual based (SBCs), increasing the participation of each member of the community to be more involved in community engagement (Granger, Nhat, Conduit, Veale, & Habel, 2014). Similarly, in the context of the SMEs with their communities. spiritual leisure is available from the community, giving a sense of comfort to each SME, raising awareness to the meaningful work of life and spiritual well-being that the task of their work is an interesting thing and is part of worship (Granger et al., 2014) (Driscoll, MCISAAC, & Wiebe, 2019). Spiritual Leisure of each SME provides a harmony to the sense of responsibility and sense of connection, horizontally that is between themselves to other members of the community, as well as vertically that is concerned with faith and worship to God. So that spiritual leisure formed in SMEs, will influence the level of involvement in its community.

In addition, job crafting is an increased mentoring work engagement to improve the performance of individual or members of a team, community or organization, related to the employment solutions (Wrzesniewski et al., 2013) (Tims, Derks, & Bakker, 2016) (Well, Song, & Hong, 2018). Job Crafting in a person as a member of an organization or community, contribute to social resources, structural resources, and job challenges, thus it forms their work involvement in form of, intrinsic motivation, loyalty, dedication and humility during work (Wingerden & Poell, 2017). Increasing job crafting from each of the SMEs will lead to stronger value congruence, SMEs are increasingly proactive in solving the challenges of work, increased satisfaction to the community, thereby it forms community engagement. The involvement of SMEs in the community will improve SMEs performance. Community involvement relates to the connection between members of the organization, to support each other in a business or organizational environment (Panwar, Nybakk, Hansen, & Pinkse, 2016) (Greenberg, Farja, & Gimmon, 2018). This is an important point to improve the meaningful relationship and collaboration between members in a community in order to result more value that can improve the performance of all members in the community. Community involvement through SMEs, will improve the reputation of each SME, increase customer loyalty, market share, exchange ideas, information, and experiences (Mazzarol, 2015) (Veronica, Giudice, Shlomo, Petruzzelli, & Victor, 2019). So that the SME community engagement will contribute to the improvement of competitive advantage on the business enterprises of each SME, as part of the community members. In conclusion, this research aims to examine the role of spiritual leisure and job crafting moderation in improving community social identity and SMEs performance

## **Literature Review**

### **Value Congruence and Community Engagement**

Value Congruence according to Ostroff & Judge, (2007) is the level of conformity between individual values and organizational value. According to Baumeister & Vohs, (2005) value congruence is the desire to connect with others and feel the freedom of his own actions to accomplish a goal. Individual who has the conformity of self-esteem with the value of the community that they follow will feel their identity is represented in the identity of the community (Edwards & Shipp, 2007). Congruence will strengthen the self image so they will feel that the work is very interesting and valuable. In the end, the psychological needs for satisfaction in work can be fulfilled (Baumeister et al, 2005). Meanwhile, according to Crane et al. (2004), community engagement is a group of community members who bind themselves in a community to achieve common interests. While according to Hall and Vredenburg, (2005) community engagement is a pattern of activities implemented by companies to work collaboratively with and through groups of people to address issues affecting social welfare of the people (Fawcett et al., 1995; Scantlebury, 2003). So it can be

concluded that community engagement is the activity of a citizen or group of individuals working collaboratively to achieve a common goal.

Research by Vogel et al. (2016) stated that job involvement will increase when the value congruence is moving from low to high. Rich et al. (2010) also stated that value congruence is positively related to job engagement. It explains that the higher value congruence, the higher job engagement will be. The involvement of high activity with a high value of congruence to the community will create community engagement, so that value congruence affects community engagement. Russel et al. (1997) stated that even though value congruence can facilitate the interaction among members of the organization, but it is not enough to affect performance. Whereas, Bhargava et al. (2017) stated that value congruence is positively related to the effectiveness of job performance. This will happen when a person has a high self esteem, it results an increasingly self-value and the value is align with the value of the value of the comminty the it will the person to his community. Meanwhile Adekola (2011) stated that work involvement is the result of a work source such as support and encouragement at work, performance feedback, opportunities to use various skills, wisdom to govern someone to complete his work, providing opportunities for study, initiatives that reduce the negative effects of workplace demands, and when employee values correspond to their organizational vision and mission.

Some early studies have covered many engagements between employees and their organizations, while in this study, we measured the engagement between SMEs with the community. The more congruent their value, the higher their engagement with the community. The availability of various types of community that oversees SMEs, making them free to choose to join a community that they think will bring many benefits.

H1: Value congruence significantly affects the community engagement

### **The Moderation Role of Spiritual Leisure**

Ryan and Deci (2000) stated that leisure is the freedom to choose the type of leisure activities, presenting a unique opportunity for people to fulfill their needs and desires. Tay and Diener (2013) conceptualized leisure as different activities to spend the time by finishing work or participation in the free time as has been defined subjectively. Walter (1997) stated that spirituality is the essence of dealing with God, for ourselves, for others and our environment. According to Gall et al (2005), spirituality is often associated with connection to nature. Spiritual Leisure is a mental exercise based on spirituality, relaxation techniques, and guided imagination. According to Grafanaki et al. (2005), spiritual leisure is found in free time provided to gain a spiritual experience. This will help individuals achieve balance and integration in everyday life and with the demands of their work. In Indonesia, some communities that aim to build SMEs have goal to improve their business performance. It is expected that by joining in SMEs community building, the exchange of knowledge, information and resources will occur. However, joining a community will make them more busy in allocating time to participate in various meetings, trainings or gathering sessions in order to improve knowledge. However, gathering with other SMEs in the same community will also increase the chances for SMEs to get a spiritual leisure. This is because at the meeting there are exchanges of activities outside the business, such as hobbies, religious social activities and how they serve the members of their non-customers.

So it can be concluded that spiritual leisure is a balance and integration between spiritual and comfort. Gowen et al. (2016) stated that activities such as working on personal hobbies, sports, and community involvement can give employees the opportunity to solve problems that arise from a negative situation in the workplace. For SMEs, the various business issues they face will be discussed or shared informally toward members of the community. As a member of the community, they will strengthen each other in order to

support them. One of the activities is related with spiritual or religion. Hence, by joining in a community, SMEs can reach spiritual leisure as well. In addition, Leversen et al. (2012) states that leisure activities that provide opportunities for youth to develop skills, enable them to feel that they have high competence, give them the role active contributions, a focus on social relations and positive interactions among participants, can improve growth, development, and subjective improvement of prosperity in adolescent life. This is also expected to happen to SMEs who join a community.

While Petra (2014) stated that the motive for involvement is individual, and each individual can be different, for example a person can engage in sports because his friends also do it when they have (dominant hedonistic motive), meanwhile other will exercise because he wants to achieve better sports results. While, Shih-Hsiu Lin (2010) stated that leisure provides participants with a demonstration recreation program that emphasizes how recreational activities facilitate the establishment of social relations in modern society, so that it will form community involvement. In addition, Sonnetag (2003) stated that individuals who feel that they are recovering enough during leisure time are experiencing higher levels of employment involvement during weekdays. This high level of work engagement in turn helps them to take initiative and pursue learning objectives.

H2 : Spiritual leisure moderates the relationship between value congruence and community engagement

### **The Moderation Role of Job crafting**

Wrzesniewski and Dutton (2001) stated that job crafting is a process inspired by employee motivators such as the need for control over work, work which has a positive self-image and the need for social relationships with others. Grant and Ashrford (2008) defined job crafting as proactive behaviors, which may involve employees to shape their work to minimize job demands and maximize job resources. According to Tims, Bakker, Derks (2012), job crafting is essentially about increasing employee resources and looking for challenges in their work to motivate themselves in the workplace. Therefore it can be concluded that job crafting is a mentoring given related with the work solution. In SMEs community, the officer will provide a mentor or senior consultant that will assist them personally to achieve good performance.

While Bakker et al. (2013) showed that job crafting related with the performance through work involvement at the individual or team level. This is in line with the research of Wingerden et al. (2015) which suggested that job crafting does not lead to increase the employee job involvement. Research Vogel et al. (2016) proved that the higher job crafting then the value congruence will be high, so it will create community engagement in the individual. Petrou et al. (2012) also tested the relationship between work involvement and job creation. Particularly, when employees are looking for more challenges or reducing their demand, their results are more involved. Wrzesniewski et al. (2013) also stated that job crafting offers important contributions to this field by paying off employees not as passive recipients of the job characteristics, but as active participants in the development of their work and self meaning. We argued that in such SMEs community, if senior mentor or business consultant do the job crafting then the SMEs will enjoy to join the community which in turn will strengthen the community engagement. Hence, we can conclude that job crafting has a high role in a community to form community engagement.

H3 : Job crafting moderates the influence of value congruence towards community engagement

### **Community Engagement and Community Social Identity**

Social identity is a person's feeling or taste based on their membership in the group (Tajfel 1979). According to Brewer & Gradner (1996), social identity is an approach on group processes and sharing values as a means of enhancing individual self-esteem. According to Heere et al. (2011), the perception of ownership of the group affects the process of establishing an individual social identity based on many aspects such as behavioral involvement ( "to what extent and individuals engage in actions that directly involve group identity "). According to the experts, it can be concluded that community social identity is the identity representing a set of social relations of one based on its membership in a group.

The study by Niklas K et al. (2013) stated that the group members who work and have high involvement with the community who supported their activities would reduce their flexibility in the presence of job crafting. This suggests that leaders are able to drive engagement and able to prevent tensions among group members by creating a special feeling towards the organization. The higher the engagement it will create a strong community social identity. While research by Case and Zeglen (2018) stated that sense of group identity, ownership and sense of success are identified as a major determinant of increased involvement in the community. Based on the results of previous studies it can be concluded that community social Identity will be formed when community engagement is high. Research by Mooneen (2018) also concluded that, in line with the job-claim model of resources, both social identity and social support are significantly associated with the involvement of community members.

SMEs who join in such business community will identify their business identity with community identity. Once they engaged with the community then their social identity will also become very clear. Member will feel as part of the community, their identity is also community's identity. Activities in their community is also part of their community. Hence, H4 is proposed as follows:

H4 :Community engagement significantly affects the community social identity

### **Community engagement and SMEs Performance**

Mwita (2000) stated that performance is a key element for achieving organizational objectives, so the performance improves effectiveness and organizational effectiveness. According to Chen et al (2006) organizational performance means the transformation of inputs to achieve certain results. With regards to content, performance informs about the relationship between minimal and effective costs (economics), between effective costs and realized output (efficiency) and between outputs and achieving results (effectiveness). According to Bolman & Deal (2003), De Clerk (2008) and Scott & Davis (2015), the organizational performance is the organizational ability to achieve its objectives. Based on the notion of some experts it can be concluded that organizational performance is the most important criterion in managing and assessing the actions and environment of the organization.

Earlier research on Mone and London (2007) showed that if effective performance management is applied, it will help to create and maintain a high employee engagement that leads to a high level of organizational performance. It means, the higher involvement of community members will improve the community's performance. The research by Bowen et al. (2010) stated that community involvement varies and which is often used is transactional engagement, which is involved in a community because there is a reciprocal of the organization. As such, the higher the level of engagement with the community, the higher performance of an organization. The research by Tims et al. (2013) stated that influential job crafting at the team level is the same as at the individual level so that it will create a job involvement in the community and affect the performance of the team or organization.

If an SME is strongly tied up with a business community, then there will be a lot of things they get related with the ideal business execution process. Therefore, expected involvement with a community will improve the performance of SMEs.

H5: community engagement significantly affect the SMEs performance

The relationship between variables can be described in Figure 1.

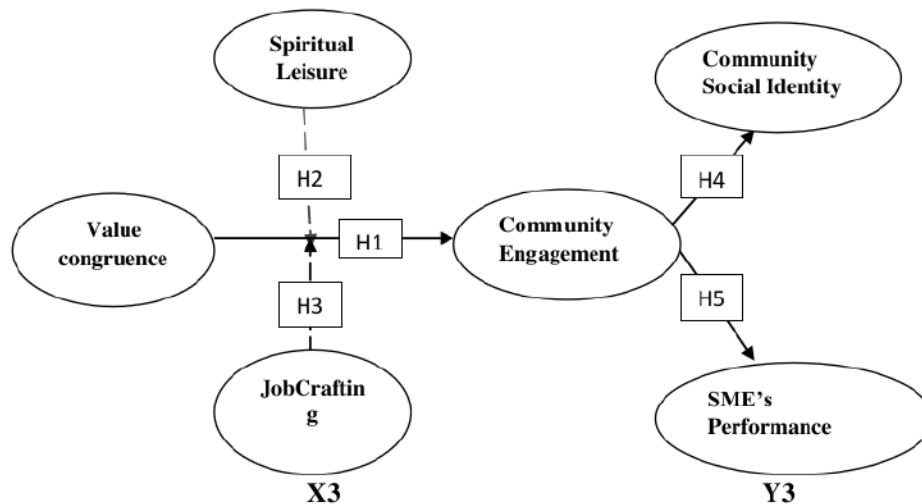


Figure 1. Empirical Model

## Research Method

### Data

Samples of this study were 103 respondents, the individual MSMEs owners who joined in a community building, namely the community formed by Department of Cooperatives and SME (Dinkop UKM) in Central Java and DIY. The sampling technique used is purposive non-random sampling by using the assessment of certain criteria in the study (Rahi, 2017). Criteria used in this study was SMEs that have joined the community building at least 1 year.

### Measure

Value congruence is the level of congruence between the SMEs value and the of the community value to achieve the goal of SMEs. Indicators used to measure value congruence were 1)altruism 2)Relationship 3)Security 4)Authority 5)Prestige 6)Autonomy. These indicator are an adaptation of Cable and Edwards (2004).

Spiritual Leisure is the balance and integration between the needs of religious spirituality and leisure in running the SME business. The extent to which the SMEs community provides the opportunity for SMEs to integrate the spiritual value and leisure value in running its business. Indicators for measuring spiritual leisure in research were developed from instruments compiled by Gall et. Al (2005) i.e. 1)Business Purpose 2)religious orientation in business 3)Mental attitude and 4)sacralisation.

Job Crafting is a mentoring given by the business community towards its SMEs related with techniques or methods of conducting business. The indicator for measuring job crafting in research was developed by Leana et al (2009) i.e. 1)introducing a new work

approach 2)adding tasks to minimize unpleasant tasks 3)improve the standard procedures of business dealings.

Community engagement is a level of SMEs member attachment to the community in which it is shared for a common purpose. Indicators to measure community engagement in this study were in the adaptation of Schouten and Remm (2006), i.e. 1)understanding Community Objectives 2)strong relationships with community 3)trust with the community 4) involvement in community decision making.

Community Social Identity is an identity that represents a set of social relationships based on its membership in a community. The indicators for measuring this variable were in the adaptation of Albert et al., (2000) & Sluss Ashforth (2007) i.e. 1)social categorization 2) social identification 3)social comparison.

SMEs Performance is the achievement of SMEs work and its relationship to the working environment. The indicator used to measure this variable was developed by Richard (2002) i.e. 1)Productivity 2)Quality 3)Quantity.

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