

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

2.1 Islamic Business Ethic

Simorangkir (1992) describe if ethics are come from Yunani languages that is ethikos have three meaning. The first meaning as a concept analysis towards what should and must to do appropriate the morality, right and responsibility. The second, application to an characteristic of morality or moral act. The third, the good life actualization with morality. Ethic is all about morality, so the main objective is a moral. The morality is the term use to include the practice and activities that distinguishes what a rights and what is wrong, rules that control an activities and a value consisting of defense used as target for activities and practices.

K. Bertens cited by Darmawati (2013) formulate the ethic divided to three definition also, first, ethic used to explanation of the values and moral norm to handle someone or community in a set the behaviour. Second, ethic is a several basis or moral values or ethic code. And third, ethic as a science for the good and bad. According to Hulaimi (2016) giving a limitation that Islamic business ethic is a science who explain the good and bad meaning, created welfare for human life and also clarify about what should we do as a human for all. Furthermore, it explain the goal to destination by human in their deeds and shows the way to do and what should be in done.

According to Beekun (1996), ethic as a various morality principle which is differentiate between what is a right and what is a wrong. Ethic is a science which has a normative characteristic, because that is determine what the obligation and prohibition for every individual. Business ethic usually refer to management ethic

or organization ethic which giving a limitation to the reference of framework in a concept of organization (Muhammad, 2004).

Ethic is a condition or activity of society who general in every time, ethic have a lot of value in usual condition of community with the norm, morality, rules, and culture. A person who had a good act and habit would found more ethically in their place. Based on ethimology ethic based from the Yunani word that is ethicus and eticos and the meaning is a habit. Ethic in an philosophy is a criticism which is important tings except aesthetics issues, metaphysical, and aesthetics in a scope of the philosophy study (Simorangkir, 1992).

According to Muhammad (2004), Ethic be effect on a good name and attitude in each individual, because is one thing that subordinates and have a measurable. In the other words, ethic is a morality or the rules of law which are determine the appropriateness the source of law with a morality. In al qur'an the term of the most related and there are have a relationship with the ethic term that is khuluq. Wijaya and Mariani (2014) argue that basically ethic or basic value in business functional to help the businessman to create a problem solving in their business practice.

According to Rahardjo (2004), a business have the characteristic which are impersonal resembles expect a strategy and understanding about an special ethic which is received in every party. In the other site, the meaning of a combination between ethic and business might be assert some religion norm in a business. Based on the explanation before we knew that if business ethic it's done in a business, so it will be effect for the business purpose especially in a business growth. Although in general business ethic it's a something differences, but there are some of the value that can be interconnected that is believer, loyalty, tolerance in general are seen as a good things and has a high value for a manager who are still less for manage the business. In those problem had been known to all of society in the world. Based on the explanation above from several researcher, we can summarize that the ethic are a role package, norm who manage the activity of

human in real life. although that is a obligation or harm every community or society.

In a Al Munawwir dictionary explain the relationship between ethic in Al Qur'an is Al-khuluq based on the word of khaluqa khuluqan and the meaning is tabi'at or a good character, habit, and knight. In a moral basically is urge and desire of human in business, it will be happen if appropriate with a good attitude and ethic. In a explanation of business before, we can know that an ethic and business is have a relationship, have the influence to realize some a business purpose. In khazanah Islamic though, ethic as akhlaq or al adab with the purpose to teaching about human morality. Ethic are exist on containt of al qur'an, and developing the philosophy influence from yunani until sufi (Darmawati, 2013).

According to Putra & Durachman (2009) cited by Muliasari (2014) Islam is the source of the value and ethic in all of human life aspect with comprehensive including a business plan. Start from a basic principle, main of the damage in a trade, factor of production, labor, capital organization, wealth distribution, all about salary, good and services, qualification on a business, to socioeconomic ethics concerning the property right and social relationship. Chairiawaty (2012) argue that some people argue that an ethic has same meaning with Akhlaq, it is happened in real life. the similarity between those are always discuss about a bad and good in human life, in Islam akhlak is a science who teaching about the goodness and a badness in life based on Allah and Rasulullah.

Islam is the value of ethic with the highest level, basically Islam degraded as intructions in behave as moral and ethical code for a human life. Based on hadits that is "I was sent his manners glorious". In terminology close to the definition of ethic in Islamic as morals. In Islam, ethic as the reflection of believing Islam or Iman. In Islamic ethic are giving strong internal sanction as well as the authorities in carrying the standard of ethics. The ethic concept in Islam is not utilitarian and relatively but just absolute and lasting (Nawatmi, 2010).

Qardhawi (1997) in book *Norma dan etika ekonomi Islam* explain that what distinguishes Islam with materialism is that Islam never separated between economic and ethics. as never separated between science with moral, politic with ethic, war and ethic. Muslim, individual or community in a economic field or business in a one site given the freedom to find all the advantage. But in the other site, they has an believing and ethic so they can not to free absolute in invested the capital or to consumed. Their bound to faith and ethical noble, and also their bound the Islamic law.

The basic of the law in Islamic business ethic that is from al Qur'an surah al Maidah verse 8 have an substantation that is for believers, Allah govern to human being a good act and become a people who always do the truth actually it must being a honest people and giving justice, because Allah really love a good human who always be honest and justice for everything. Not only about the justice, in those ayat explain that a human banned do hate each others who never give a goodness. Al qur'an and sunnah actually manage the time working every male and female. Male and female have an different task, but it must be justice and also applied the patiently, responsibility for social welfare.

Islamic business ethic could be successful if their not have a general purpose, and mostly the business have the main purpose to get success achievement. Thus, Islamic business ethic is an important thing in a professional business activities. According to Syahata (2001) about the Islamic business ethic have the substansial function to the equip of perpetrators business, such as :

1. Build the Islamic ethic code who manage, developing and applied the business method to the framework of the religious teaching. Ethic code also as a directive symbol to save the business and risk.
2. This code could be the basis of law to decide the responsibility of business, particularly for them between the business community, society and above everything is the responsibility in front of Allah SWT.

3. This ethic code in the perceptions as the legal paperwork that can be completed the problem, rather than should be handed over to the justice.
4. Ethic code can be giving the contribution in a settlement many issues that took place between a business and society who work there. that can build a fraternity and cooperation between all of them.

Based on the several hadits gives the guideline for business ethic had many, likewise :

- a. Honest is the important term in business. Honest is one of the fundamental part in business activity. Thus, Prophet Muhammad SAW said that : “are not unjustified a Muslim sell one selling which has disgrace except they explain about those goods” (H.R. Al Quzwani). Rasullullah SAW always say anything with honestly, and Rasul give the rule that is a merchant to sell fraudulently or lie.
- b. Awareness as the importance of social activities in a business. In Islam not only teach to maximize the profit, indeed to be apply ta’awun or always helping each other between workers and superiors.
- c. In Islam is prohibited to do swear fake in a business transaction, because it will give bad impact for a buyer or each other. In HR. Abu Dzar , Rasullullah SAW threatened with a punishment of the pain for people who vow fake in business.
- d. An abuser business should be friendly in doing business. According to hadits H.R. Bukhari and Tarmizi ” Allah give grace for someone who are friendly and tolerant in business”.

Kuncoro (2000) explain In Islam conceptual, economy is rationality actually in behavioural and action in compliance with Islamic principle or syariah. And the purpose is to create and give balancing in society. Human with Islamic rationality is human with their action tried to maximize the confirmation values appropriate with Islamic concept. So in Islam not all of rational activities is maximization. Rationalism in Islamic version including basis element as among :

- a. Successful concept in Islam always include with moral values.
- b. Time scale in consumption
- c. The Wealth concept
- d. The goods concept
- e. Consumption ethic

Successful concept based on Siddiqi cited by Kuncoro (2010) is succes lies in being virtuous. The more one behaviour is in accord with moral standard and the higher the level of his goodness, the more succesful he is.

The application of Islamic business ethic also must be able to implemented in every aspect of economy. That is including the implementation of production, consumption or distribution. Because Islam in all of human live aspect including business role, that is the way in order to look for life. It's already done in some small business with set of Islamic ethic in their business activity (Amalia, 2014).

Al qur'an and hadits give more explanation and as an basic law of business ethic that is describe the difference between halal and haram in business. In Islam actually prevent the harm business, because most of business just think that how to get a big profit from customer. So this context Al qur'an surah Al Baqarah:188 explain that prohibition to get a wealth with wrong way or bathil, and also don't to take the treasure belong to other people.

When a business wants to develop into large , it is necessary as a means of advertising and promotion for the introduction of memory products to the public . In making the ads required elements are very influential in the success of the advertisement so as to boost sales. Business according to fiqh perspective included in *muamalah* that allows the human to one another conduct transactions or civil relations. In terms *muamalah* , any activity is allowed as long as no arguments proscribe (al-ashlu fil-mu'malah illa al-ibahah ayyadulla dalilun'ala tahrimiha) . Trading activities are permissible in Islam as long as there are no elements that conflict with Personality ' such as the element of *maysir*, *gharar* and *riba* (Azizah, 2013).

Narjono (2013) explain an Islamic ethical system is something that has a uniqueness, because Islamic ethical system there are no separate between ethic system with religion. Precisely, ethical system more emphasize to being equal between worldly and hereafter because of that human it must be equal in Islamic ethical system toward a human welfare.

Darmawati (2013) Business is something that is very important in human life. No wonder Islam is rooted in the Qur'an and Sunnah provide guidance in the field of business. Business for many years, was suggested as a business for profit as much as possible, even to go to the dirty tricks and unethical. Business ethics is very important to put forward in the era of globalization often ignore the moral values and ethics. Thus, Islam emphasizes that the business activities of human beings are not merely intended as a way to satisfy the desire, but rather on finding a balanced life with a positive attitude rather than destructive.

Micro small and medium enterprises especially halal food business is a business owned by individuals, and has an economic productive because can increasing the opportunity. moreover, MSME halal food business improve the national and local income. The important thing is to understand about the basic law MSME as UU No.20, year 2008.

Micro Small and Medium Enterprises in UU No.20, year 2008 describe as productive business belong to individual or business ownership who meet the characteristic of micro, small and medium enterprises based to the law. The characteristics of MSME based on the UU No.20, 2008th is have a net worth maximum 50 million rupiah, not include land and building, and have the sale maximum 300 million rupiah per year.

According to Tambunan (2000) explain the law of regional rule to give social welfare based on UU No.22, year 1999 and UU No. 25/1999 concerning financial and regional rule. There are two main government which involved in the implementation of MSME activity promotion that is Agency for Regional

Development (BAPPEDA) and local office in those department. However, since one January 2001, whole office changes to an agency and responsible for the local government which, not only to developing Micro Small and Medium Enterprises in those area. Micro Small and Medium Enterprises have obstacles, as not having appropriate report through SAK-ETAP (Standar Akuntansi Keuangan) if business has financial report appropriate based on the standard, the development of business is be better than another business, although the duration of business are same (Narsa and Friends, 2012).

The development of Micro Small and Medium Enterprises change over time in their employment share, in market share, composition and location are usually thought to be related in many factors, that is including the level of changes in real income per capita and population density. The MSME are perceived as being population largely by firms that are considerable employment growth potential . The characteristics of MSME including as an important element of policy to create employment and generate income. This is a awareness may also explain the the growing emphasis on the regulation of these enterprises in rural area (Tambunan, 2011). MSME are society economic act, that could be encourage the national economy. In one side MSME it's very helpful and giving a goodness because their can hold out from crisis problem and also give the opportunity for unemployment or people who need a job, and also can decrease poverty in every state. although in another side MSME has an obstacle and limitedness on internal or external factor (Prasetyo, 2008).

The important role of Micro Small and Medium Enterprises halal food busines in Indonesia is not only limited as a job provider for the vast majority of the people, but also very vital in combating poverty, reducing unemployment, distributing income, and increasing product. The role of MSME halal food business becomes even higher along with the emerging of autonomy era and globalization (Sulistiyastuti, 2004). Based on the explanation from several researcher above about MSME (Micro Small and Medium Enterprises) halal food business are discuss about basic of MSME and all about those. Almost researcher

said that MSME halal food business are business who stand alone and have a bit employees not like SMEs, usually a business standing due to meet the needs of family or every person.

According to the several researcher above explain that the Islamic business ethic give many kinds of orientation it's like norm, responsibility and justice in order to make more consistence and to being responsible every obligation in a business. So, with the existence of norm and Islamic business ethic are higher in a business application it would be more good in small business or micro business. a business in this research is halal food business in Bantul regency who already has a certification from halal MUI Yogyakarta.

2.2 Internal Factors

Carslaw & Kaplan (1991) cited by Pratama (2013) found strong internal restraint in business have a short time relative for auditor to bring the loyalty and substantif test, hence it will faster carried out the audit process of financial report and minimize the determinant to announce the financial report for public. Cultural for business is important because making decision without culture create impact which can not be anticipate. Organization culture could be colour of business who must be applicate in all of organization members, stakeholder and also society. Cultivation process could not be done instant but took time and enhanced from other factors, such as strong commitment and dicipline leadership (Nawatmi, 2010).

Based on Jafar Hafsah cited by Raselawati research (2011) explain the development and succesful of business influenced by the internal factor, and internal factor have several aspect impacted on a business as follows:

1. The lack of capital: capital is the main factor to build and the succesful in a business, because MSME actually create their business using individual fund and limited. Usually the characteristic of business is closed, while the loanable

fund from bank or institution is very difficult so it would be make an businessman not want to build a business.

2. The lack of human resource: MSME is create from limited person and growth traditional with. the limitation of human resource in a business actually from education, skill and knowledge that will be very influence the development and management so it is difficult for business to developing.
3. The limitation business network: MSME is usually business family unit, so there are no a wide network or the amount is very limited and there are less in competitive quality. It is different with a big business who have a wide networking and support with a good technology.

The wisdom of the development Micro Small and Medium Enterprises (MSME) are declared in explicit in a Great Line the Bow of the Country (GBHN) 1999-2004. The guidelines of policy in this country underscore 28 grain concerning the policy of national economic development for the periode 1999-2004. The policy framework including three kinds of policy that are:

- 1) The economy system is based on the mechanism market with some competitiveness which is justice, and pay attention the development of economic, social priority, the quality of life, environment, and sustainable growth. This system are guarantee for the opportunity of business and for employment in the same.
- 2) The creation of business climate conducive to empower business that more efficient, good, productive, stable and competitive. Those policy had an objective to create some mechanism with justice where the Micro Small and Medium Enterprises could be get more income in propotional and could be compete with an justice in market.

The policy to increasing the capacity of MSME which has an purpose to create a business who can be compete in market with one another business. this policy tried to omit the obstacle in Micro Small and Medium Enterprises (MSME) it's

like limitedness of capital, marketing, production input, business, technical, technology and labor.

Internal factors are including creativity, innovation, emotion, entrepreneurship soul, risk taking and locus of control. Locus of control is individuality variable related to the hope of someone toward the skill to control human phenomenon (Chairiawaty, 2012). According to Prasetyo (2008) generally Micro Small and Medium Enterprises have the main objective every government rule to developing regional in this country, because there are include cooperation and a lot of important implementation from MSME. Through MSME activities, create problem solving especially on poverty problem, unemployment, imbalance distribution, and give the opportunity to get job. Widhiandono (2016) explain the individual internal factors is influence to business and have relation to business interest that is entrepreneur characteristics include locus of control, risk, and achievement.

The caused of business failed actually from Internal factors are happen from management, availability of capital, lack of innovation, and other problem in business (Setyowati, 2015). According to Musran Munizu (2010), small business performance sector influence by two main factors that is Internal factors and eksternal factors. Internal factors, such as Human resources aspects (labor, manager, and owner), financial aspect, technique industry aspect, and marketing aspect. External aspect such as government policy, aspect of social culture and economy, and also the role of government agencies.

The competitiveness problem and international market give the challenge and include the issues. The specialization product important to make an competitiveness in market, beside that can make producer must to get new idea and how to face the problem, create problem solving. Speciality on product and human resource who create the product influence to business performance of micro small and medium enterprises. The research also explain the factors should influence to the performance of business based on Suryana (2014).

According to Hidayat (2015) explain the result of his research has main internal factor that could be failed on a business is less competence in business so, government could giving special program and some role. Hadinugroho (2012) argue the performance of business are reflected from financial report a business, a fault when determine a capital structure it would be maked bad impact toward a business.

From the several definition regarding internal factors above explain internal factors there are have relation and influential for a business, based on the management every business. Although, some researcher argue not all of business have impact from Internal factor toward business development. Because, internal factor there are include many aspect or concept who can't be explain with directly. Almost researcher said that internal factor which including management and human resource sometimes it would be impact but sometimes not really because of many reasons in a business.

2.3 Performance

Every community or person has potential and various form of activity in the world, in general a human has ability to do that with originality. The potential to do anything is a capability while the expression from potential is performance (Brahmasari, 2008). The implementation every organization or business are need to dreeded performance employees, that has relation with the aim of organization or business for example to give profit for employees, evaluation performance result every period and another necessary in a business (Sriwidodo and Haryanto, 2010). Based on the research by Ardiana (2010) explain the performance of business it would be influenced by human resource who has more skill and creativity in a business, and her research also explain if the education of human resource or employees in a business is not influenced the performance of business.

According to Ambarwati (2002) business succes in achieving the vision and mission are based on the quality of human resource, the quality of human resource

can indicate by expertise, competence and capability the employees to create a professionalism in a business. so the business has a good performance if the employees are professional and good quality. Ningrum (2013) argue that education and skill of human resource has a positive impact and succes to influenced the performance of business, because management of human resource is very decisive to materialized the organization or business.

Schuller on Ambarwati (2005) explain the type of performance criteria that could be appreciate an organization performance in the business that is centralise on characteristics itself for employees and identifying creature. In the other words, the performance in a business is based on the characteristics and individual every employees. In the other research explain the meaning of performance in a business, that is the research by Kurnia (2011) said that performance in a business is a result of work or creativity every single employees to encourage and to realize of purpose on a business. the aim of business are to raises the performance, and to develop the business.

There are have several factor that can be influence performance of business, based on Sumantri and friends (2013) education, age, and experience are influence an income and the expansion of market, while the performance of business influenced by personal characteristics internal environment.

Kasenda (2013) explain that business has importance role to build and increase the employment, performance of business actually based on human resource who has motivation and welfare from business. because those very importace to develop the performance every employment or human resource. There are can be increase the performance and quantity in a business.

The performance estimation have some purposes, generally it's used to validation criteria and determined the necessary of organization or a business. The implementation and estimation performance, it has benefit for business and human resource especially employees. According to Rivai (2008) cited by Kurnia research said that the benefit divided in many kinds that is:

- a. Benefit for employees who estimated in research, that would be increase their motivation, increasing satisfaction work, there are have a standard, develop the plans to increase the performance and decreasing the weakness every employees.
- b. Benefit for assessoris the opportunity to measure and identify the performance in a business especially the employees and upgrading the next management.
- c. Increase the satisfaction work for manager or employees
- d. Give the opportunity for manager to explained the aim and the ideals of a business, so the employees it will be know the needness of business and create new inovation or idea to develop a business.

2.4 Previous Study

In Puspitasari (2014) entitled “*Analisis penerapan etika bisnis islam terhadap tingkat profitabilitas rumah yogurt berdasarkan perspektif karyawan*” explain that In business world it’s coul’n’t be a business if there is no ethic. Many kind research explain positive relationship between business ethic and business succesful. Finally, there were support to do a business without honestly, more on how to get maximal profit and giving a badness to other business. because of that the society try to understand concerning the important of ethic in a business. the result from her research explain the home yogurt industry who applied Islamic business ethic increased the profitability of those business.

Based on Rahmawati (2011) entitled “*Penerapan etika bisnis dalam melakukan transaksi penjualan di pasar tradisional kecamatan Marpoyan Damai di Pekanbaru menurut perspektif etika bisnis Islam*” determine the human applied the ethic as a study about the legal and good action with moral. Those research is a field research with interview and survey method. The implementation of selling and buying is done with a good application from behavioral safe variable. Thus

show that business ethic in selling transaction who are seller applied there are has the changes in ethic and non ethic.

According to Chalimah (2017) entitled “ *Implementasi Etika Bisnis Islam dalam persaingan penjualan*”. Those research give the information about business competition is exist in everywhere. Researcher known the competition in *Pasar Wage* market is based on the price, usually the entrepreneur not want to lose in market, hence they reducing the price lower than market price. Because of that problem, researcher recognize the business competition need to be applied on Islamic business ethic to give a goodness for seller and buyer, and seller with seller. Researcher known the application of Islamic business ethic in the market based on field research, so the business competition in the market use the honestly strategy based on syariah.

Based on Setyowati (2015) research explain that entrepreneurs need to make the understanding of external and internal environment. The existence of dynamic change and competition in business can find the opportunity that are adjusted to the capabilities of company. Beside that analyzing the external and internal environment analyze and determine the needs and desire of the market. Instead internal environment analysis shows that should be done by the company or business.

Based on Suryana (2014) explain that the benefit of partnership reviewed by 3 aspect. First, the partnership prosecute the efficiency, productivity, increasing the quality of product, decrease the cost of production, developing and increase the competitiveness. Secondly, the partnership must be understand about the ethic and norm. Third, the partnership should be know and understand about the social welfare and togetherness.

The role of business ethics in the development of noble character is the implementation of ethical codes of entrepreneurs, managers or human resources in business organizations as well as stakeholders, based on moral values, norms, ethics and religions that are used to make decisions and solutions to problems. In

an effort to build noble character, they are implementing the principles and standards of business ethics, such as honesty or not lie, Integrity (integrity), holding principles and beliefs, promise keeping commitment and trustworthiness, loyalty or perform obligations, commitment of justice, caring for others, respect for others respect freedom and rights, responsibility, obey the law, social consciousness (Iskandar, 2007).

Rosyadi (2012) describe concerning the Islamic business ethic with several aspects such as justice, free will, responsibility and rightness. Those explain the influence of aspect in Islamic business ethic, based on T test the result of those study discuss if the variable have a positive influence with wignificant toward the satisfaction of business. F test give the result if the justice, free will, responsibility and rightness togetherness has positive influence and significant. To increase the business, it's better to increase Islamic business ethic also.

According to research Anisya Aditya (2013) explain that Islamic business ethics are an orientation that shape and influence the involvement and participation of workers, which can be seen from the business, competition, transparency, and responsible. Organizational commitment is an attitude that reflects the feelings of like or dislike the employee towards the organization, Some of studies concluded that those who strongly support Islamic business ethics would be more committed with their organization.

At Surya Hotel Duri, the application of ethics applied by the hotel is good enough, seen from the employees who serve the consumers well. However, the number of consumers has not reached the target. Of course this is related to the application of ethics that has not been maximized, so there are still many consumers or service users do not want to use the services Surya Hotel Duri. The result is the application of ethics that do Surya Hotel Duri are quite good and reasonably fit (Fachri, 2013).

Syaifullah (2011) explain that the Muhammad's behavior and business ethics before being appointed as messenger is an interesting study, because the conduct

and business ethics that Mohammed applied was based on the study of the verses of the Koran. After appointed as messenger (40 years old), the life of prophet Muhammad was more guided by the revelations of the Qur'an. Some principles which the prophet applied are honest, amanah, accurate in weighting, avoid gharar, not hoard goods, not execute al-ghab and tadlis among seller and buyer.

In all of previous study above, this research is difference with all of previous study. The researcher in this study just want to know and understand about the influence of Islamic business ethic and internal factor but include several concept in every independent variable. The concept of every independent variable it has an Islamic principle toward the performance of halal food business.

B. Hypothesis

Based on this research the researcher can determine the hypothesis of MSME for Internal Factors and Islamic Business Ethic.

H0: If Ha do not influence the performance MSME of halal food business.

H1: If Islamic business ethic simultaneously influence toward performance MSME of halal food business.

H2: If internal factor simultaneously influence toward performance MSME of halal food business.

Based on the problem and research framework as above, so the hypothesis this study those following:

1. The Islamic business ethic influence to performance of MSME halal food business
2. The Islamic business ethic influence to Internal factors
3. Internal factors influence to the performance of MSME halal food business.

C. Conceptual Framework

The research framework is the most important part in a research report. Other than describes the conceptual model of research, as well as general overview of the research process is done. According to Sekaran (2006), the research framework is a model conceptual as to how theory relates to the important issues. Something that conceptually provides a temporary explanation for the symptoms that are the problems or object research.

Based on some description regarding the concept on this research, the conceptual framework from this research can be formulated as son below, where the variable competence X or independent is consisting of the Islamic business ethic (X1), the internal factors (X2), and directly can be effect the Micro, Small and Medium Enterprises Performance (Y). The schematic relationship image can look at the figure based on the problems and research framework behind this.

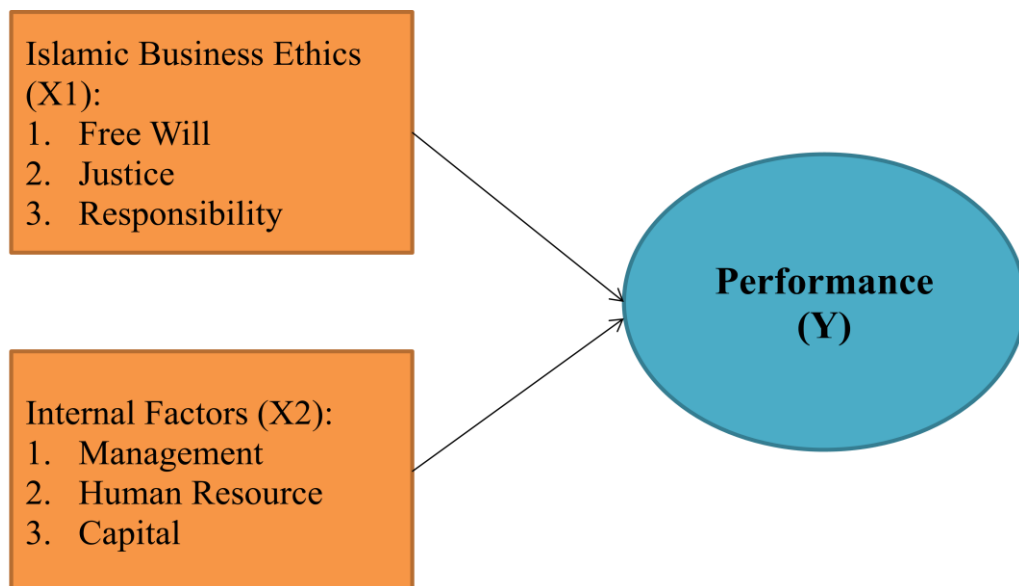


Figure 2.1 Conceptual Framework