

Social Entrepreneurship as an Instrument to Empowering Small and Medium Enterprises: An Islamic Perspective

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ABSTRACT: Small and Medium Enterprises (SMEs) are reckoned as the main player in domestic economic activities. This paper tries to contribute to the development and understanding of SMEs by encompassing social entrepreneurship as an empowering instrument. Considering the latest thought for intellectual milieu, this paper discloses the buried interlocking principles for social entrepreneurship by Islamic doctrine. The plot of current research is generated by few related frameworks that are in line with the Islamic notion which reviews the roles and obstacles of SMEs development. Given the extensive attentions on Islamic values, this paper reveals that every Muslim entrepreneur and related supporting agent must change their old vision into the new one- that they should work more productively. Besides, in many countries, several programs to empower SMEs have practically exposed its significant need and development. Therefore, a number of policies, initiatives and objectives are drawn to build social entrepreneurship to empower SMEs. However, empowering SMEs can change Muslim entrepreneurs' vision regarding fair production which is attributed by Islam. Therefore, there is a need to a condition in which the cooperation between Islamic financial institutions and SMEs is naturally embedded in social capital structure.

Keywords: *Social Entrepreneurship, Small and Medium Enterprises (SMEs), Islamic Principles*

INTRODUCTION

It has been generally recognized that Small and Medium Enterprises (SMEs) play important roles in supporting national economic development. Such important roles of SMEs can be observed in a number of aspects including labor absorption, income generation and distribution, poverty alleviation, training ground for the development and upgrading entrepreneurship skills, and important vehicles for promoting forward and backward linkages in geographically and economically diverse sectors of the economy in many countries (Moha Asri, 1999). Shortly, according to Castel-Branco (2003), hardly any arguments were put forward against SMEs' roles in economic development of a country; even if industrial policies do not favor them and economic programs often continue to result in large capital investment. Therefore, SMEs seem to be an "accepted panacea" for a country facing economic challenges e.g. poverty and unemployment in its development policies especially for those less developed countries.

The development of SMEs and changes related to their structure over time are usually thought to be related to many factors. According to Tambunan (2008), there are two main factors affecting the development of SMEs namely the level of economic development and government promotion programs. While Arrighetti et al (2001) added social capital and institutional rules as factors that contribute to enterprise development. In this context, social capital is viewed as an individual resource which is able to 'secure benefits by virtue of membership in a social network or other social structures' so as it constitutes behavior restraints, reciprocal obligations, and social norms of an enterprise.

Moreover, the rise of Muslims' consideration on Islamic principles practiced in all aspects of life leads to an increasing intention to implement such principles in business activities. Since the goals of Islam are to lead daily life with a balance of materialistic and spiritualistic aspects in accordance with the Divine guidance prescribed in the Holy *Qur'an* and the *Sunnah*, there is

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a need to set Islamic principles and motivational process with initiatives of SMEs development. Therefore, appropriate Islamic institutions (such as Islamic banks, Islamic microfinance institutions, and/or Business Development Services) should provide a vast space of accessibility to SME owners and their resources to ensure capability for exchange in line with Islamic norms of mutual interdependence among related agents. This relationship can be viewed as a form of collective investment strategy for institutional creation among any given Muslim society and as one of the strategies to empower SMEs itself.

This paper aims to address two main issues which are related to the empowerment efforts for SMEs based on Islamic principles. First, it reviews the roles and obstacles of SMEs development before evaluating the supporting programs implemented to strengthen SMEs in resolving their obstacles as well as proposed models to empower SMEs on the basis of Islamic principles. Finally, this paper provides a series of implications in this regard.

Role and Obstacles of SMEs Development

In many countries, especially in less developed ones, SMEs have historically been the main player in domestic economic activities. Their roles in domestic economy are very significant as SMEs contribute to the improvement of income distribution, employment creation, poverty reduction, rural development, industrial development, and export growth. For low income households in rural areas, such enterprises especially micro- and small ones have also assumed a significant role as an important engine for the development of rural economy and communities' well-being.

According to Tambunan (2007), the role of SMEs in the industrial development of most Asian economies is more pronounced than that of the West. Countries such as Japan, South Korea, and China regulate SMEs to be the backbone of their industrial and manufacturing sectors. Their number and contribution to total employment in such economies are very well over 95% and 70% respectively.

While more specifically in ASEAN countries, SMEs have also been the engine of economic growth and development, the backbone of national economies, the highest employment-generating sector, and a potential tool for poverty alleviation by its creation of self-employment opportunities. Tambunan (2007) recorded

that roughly there is an estimated total of 21 million non-agricultural SMEs in ASEAN, or about more than 90% of all non-agricultural firms in the region. These enterprises play strategic roles in private sector development, particularly in the aftermath of the 1997 Asian financial crisis as they provide the much-needed inter-firm linkages required to support large enterprises (LEs) to ensure that they remain competitive in the world markets. SMEs account for about 20% to 40% of total domestic output and employ an overwhelming proportion (mostly in the 75%-90% cent range) of the domestic workforce.

Apart from SMEs' important roles in terms of their contribution to the national economy, there is a general recognition in the related literature of challenges and barriers faced by those enterprises. Commonly, Jalal (1997) highlighted the constraints or obstacles faced by SMEs as follows: (1) a lack of relevant law and administrative procedures, (2) a lack of adequate capital, a policy bias towards large firms and capital-intensive industries, (3) limited access to institutional credit, (4) a lack of marketing channels and supporting infrastructures, imperfect market information, exclusion from participatory processes, and (5) limited opportunities for skills development. In addition, Harvie (2007) stated that difficulties faced by SMEs are not always related purely to size and lack of resources but also to their isolation of cooperation, and in terms of interaction with other similar sized enterprises.

This, to some extent, shows that the constraints to SMEs development are as many and diverse as the actors in the process of change – governments, funding agencies, non-governmental organizations (NGOs), and the entrepreneurs themselves. Hence, viewed from a policy arrangement perspective, there should be a more firm a strategic framework that fortifies the linkages between policy environments and entrepreneurship, the contribution of SMEs to achieving equity as well as economic growth, and efforts to address poverty reduction issues through SMEs activities.

Thus, the fundamental rationale of economic policies for supporting SMEs' progress arises when those policies are really needed to achieve the objectives of national economic development. In this regard, it is clear that the government should introduce all types of SME support at one time or another aimed at making SME sectors become stronger and more competitive (Hill, 2002; Wie, 2005). These types of

support were reflected in various direct promotion policies and special programs, especially with priority to result in expanding assistance programs. Referring to the ADB Report, Wie (2005) also stated that most of these promotional policies and programs were aimed at assisting such enterprises in overcoming major constraints to their growth namely low levels of technology and managerial skills, poor marketing, and difficulty in accessing financial resources. In general, however, supporting programs needed to empower SMEs include both financial and non-financial ones.

Strategies to Empower SMEs: An Islamic Perspective

In both developed and developing countries, many programs to empower SMEs actually have worked well and revealed significant progress. Generally, the objectives of any SME development policy can be categorized into the following categories:

1) *For creation as industry itself*. This policy is adopted by countries that do not have modern industry, where micro enterprises dominate the industrial structures in those countries. Example of this policy can be referred to Laos PDR and Cambodia.

2) *For creation as support industry*. This policy is implemented in countries that do not have strong support industry such as Indonesia, the Philippines and Malaysia. The policy is directed to tie in a network between leading industries and SMEs as support industries.

3) *Industry sector reform*. Some countries such as China and East European countries need SMEs to absorb the excess labor forces released by the privatization of their state owned enterprises. By restructuring industrial sector, those countries expect to find several new industries promoted by SME development that could be the candidates of leading industry in the next generation.

4) *Labor force absorption*. Over capacity of the labor market often becomes a crucial problem for countries such as China. In such cases the policy to develop SMEs as effectively as possible is designed to address this problem as well as reducing unemployment rate.

At these junctures, programs and strategies to empower SMEs are constructed to achieve such objectives which may be put into three categories; *first*, to assist and give incentives to SMEs, *second*, to adjust industrial structure and give suitable rooms for SMEs on their survival and chance to grow, and *third*, to respond to societal needs as business can no longer

focus solely on profit. Internally the programs are addressed to improve the condition of the entrepreneurs as well as their enterprises, and externally the programs are directed to provide appropriate guidance to related institutions in assisting SMEs. Besides, the programs also include guidelines on constructing mutual inter-dependence between SMEs and their supporting institutions. This mutual interdependence which is commonly known as social entrepreneurship becomes an instrument for SMEs to solve their problems and achieve their objectives both economically and socially. Viewed from the Islamic perspective, it is a necessary approach to empower SMEs based on Islamic principles as Islam pays much attention on individual and social equilibrium.

Empowerment Strategy inside SMEs

In the present globalization era, SMEs in less developed countries are now faced with a crucial problem caused by the invasion of products imported from more advanced countries. The newest case is the implementation of CAFTA (China ASEAN Free Trade Area) that has threatened the members of ASEAN countries as China has more comparative advantages such as in number and price of products, compared to other ASEAN countries' products. The lower price of products made in China is commonly known as a big threat that potentially reduces the market share of the products made by ASEAN countries.

Faced with such problems, nothing can be done by SMEs except that they should improve and incorporate their products with good quality, and least cost of production as the baseline of production process. The both should be a strategic orientation of SMEs in order to achieve their goals when the world is gaining competitiveness. Viewed from the Islamic perspective, to produce a product with high quality and competitive price reflects an ideal characteristic of a Muslim entrepreneur. It is indicated by *al-Qur'an Surah al-Ra'du*: 17 saying that:

"He sends down water from the skies, and the channels flow, each according to its measure: But the torrent bears away to foam that mounts up to the surface....For the scum disappears like forth cast out; while that which is for the good of mankind remains on the earth....."

To do so, the first step that should be done is to change the Muslim entrepreneurs' vision into a new one that supports them in achieving the objectives of

SME operations. Muslim entrepreneurs must have a vision that they no longer produce the product at minimum level of quality but they should strive to do their best in producing the product with high quality and reasonable price.

According to Mohtsham (2007), effective vision provides a word picture of what the organization (in this sense, the SMEs) wants to become eventually, which may be in five, ten, or fifteen years in the future. It contains a concrete image of the desired state and provides also foundations for future strategies and objectives. As China's products are now becoming a threat in terms of its low price, for example, a new vision might be set up in mind of SME owners to produce with least production cost as their baseline.

Islam does support every Muslim entrepreneur to have an appropriate vision that directs his/her enterprise to triumph over business competition within the globalization era. *Surah al-Fatihah: 5-6*: "Thee do we worship, and Thine aid we seek, show us the straight way" clearly pays much attention to the importance of an appropriate vision when Muslim entrepreneurs want to be the best among their competitors. Mohtsham (2007) has explained the main elements constituting Islamic vision in this respect (table 1).

As a perfect religion, Islam has a direct impact on cultural and societal norms of a country, especially of Muslim countries. In the process of Islamic vision development, figure 1 describes how Islam affects the vision of SMEs which directs the goal of business to satisfy the needs of SMEs themselves in particular and of the *ummah* or society in general. This vision leads SMEs to achieve their goals that should not only be based on financial performances e.g. net profit, total asset growth etc. but also ethical performance i.e. respect to customers and service to the *ummah* or the society.

Once this Islamic vision is realized by Muslim entrepreneurs, the vision will provide full guidance for the entrepreneurs to achieve their enterprises' goals. There have been many types of assistantship to empower the existence of SMEs. Generally, Moha Asri (1999) put all such types of assistantship into five categories, they are; 1) financial and credit assistance; 2) entrepreneurial development and business management training; 3) human resources development, technical and vocational programs; 4) location and infrastructure facilities; and 5) fiscal policy and incentives for SMEs. Viewed from the Islamic perspective, all those assistantship programs must be

Table 1: Elements of Islamic Vision for the Purpose to Empower SMEs

Elements of Islamic Vision	Description
Clarity of Direction	Islamic vision should have an obvious image of direction as it enables the enterprise to set clear targets and reach its desired destination. As the Prophet (peace be upon him) said: "Leave that which causes you doubt in favor of that which causes you no doubt" (<i>al-Tarmidzi</i>).
Ambitiousness, Motivation and Excitement	Once a clear direction is available to Muslim entrepreneurs, they are forced to strive hard and use all the energies for accomplishment of their shared dream. <i>Al-Qur'an Surah al-Zumar: 53</i> encourages the faithful believers not to despair from the mercy of Allah.
Memorability	Islamic vision is never complex or tricky; it should be easily understandable and equally memorable for all the members working for the enterprise.
Relevance to Customers	Islamic vision is always relevant and has honest commitment to its customers. As <i>al-Qur'an (Surah Maryam: 54)</i> indicates that fulfillment of a commitment is considered as one of the characteristics of prophet hood.
Truthfulness	The success of an enterprise depends on the truthfulness and transparency in the dealings. As <i>al-Qur'an Surah as-Sad 38: 24</i> stated: "Truly many are the partners (<i>in business</i>) who wrong each other: Not so do those who believe and work deeds of righteousness".
Needs of the Society	Islamic vision also emphasizes on social interdependence as it is a significant part of the Islamic teaching which aims at the development of a secure, united, and peaceful society. As the Prophet p.b.u.h. said: "A faithful believer to other faithful believers is like the bricks of wall, strengthening each other." (<i>Bukhari</i>).
Shared Vision	Islamic vision encourages Muslim entrepreneurs to work together towards a common goal. This is needed as no vision can be turned into reality if it lacks the people's support. As the Prophet p.b.u.h. said: "Anyone who gets even on feet away from the <i>ummah</i> , has taken out the Islamic yoke from his neck, even if he prays and fasts." (<i>Tirmidzi</i>).

Source: compiled from Mohtsham (2007)

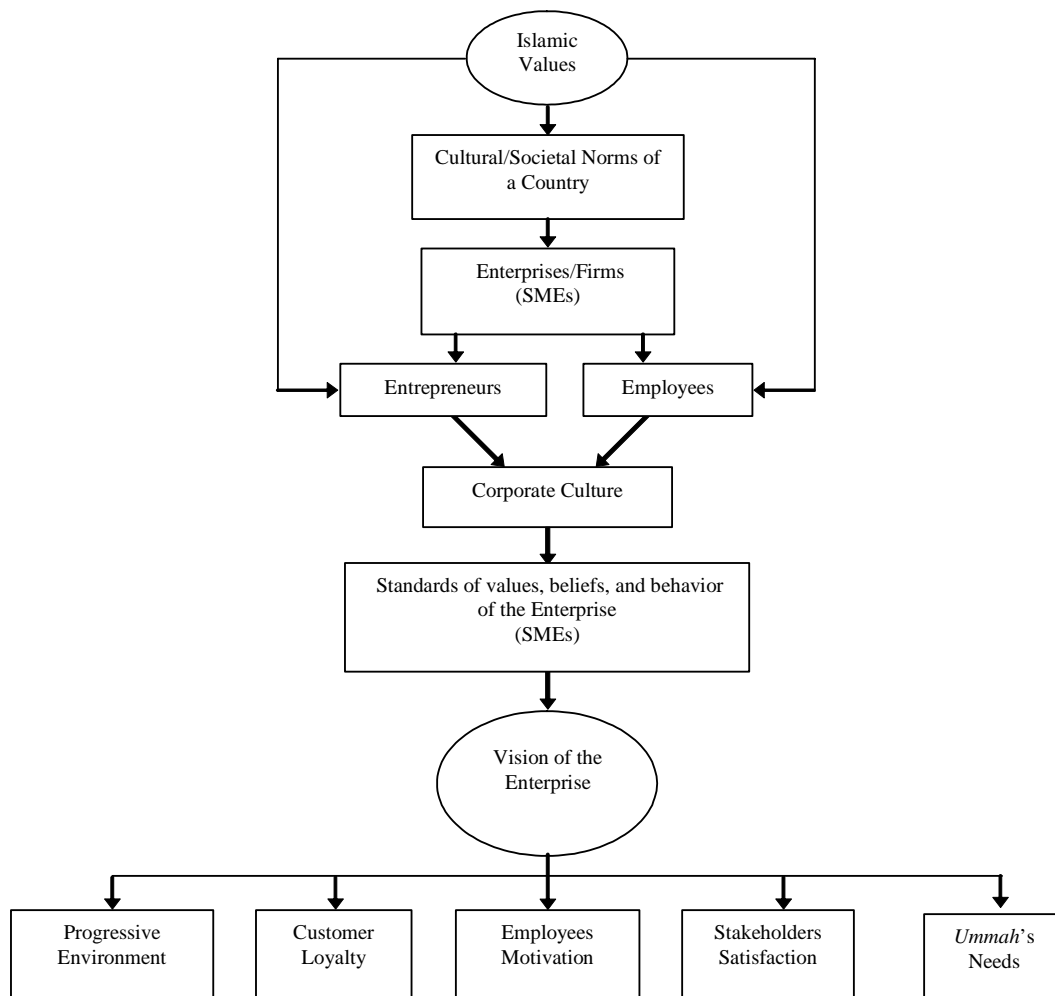
implemented in accordance to the Islamic vision of Muslim entrepreneurs namely producing the products with high quality and reasonable price as well as serving the *ummah*'s needs.

Empowerment Strategy through Supporting Institutions

SMEs require a favorable institutional framework in order to develop steadily. This framework is needed as in their practice; SMEs suffer from the large burden and cost of bureaucracy compared to bigger

companies. The reason is that only few SMEs possess the necessary financial or human resources to deal with such operational burdens.

One initiative in an effort to make the favorable institutional framework for SMEs is contributed by the World Business Council for Sustainable Development (WBCSD). This institution has set up an institutional framework to empower SMEs development which can be implemented by the government and business sector. Such initiatives can be reviewed in table 2.



Source: adapted from Mohtsham (2007)

Figure 1: Role of Islamic Values in Vision Development Process in SMEs Setting

Table 2: Policies to Empower SMEs

Agent	Initiative	Objective
Government	Implement inclusive reforms	To relax burdens of regulatory measures. They must simplify business registration procedures to make them cheaper, simpler and speedier.
	Provide financial incentives	Tax incentives, subsidies, start-up funds
	Friendly regulatory	To promote public-private mutual partnerships.
	Involve SMEs in reforms	SMEs participate in the needed reforms.
	Building capacity	To improve capacity building of SMEs through vocational trainings.
	Procure more goods and Services for the public sector from SMEs	To strengthen SMEs by linking them to policies of public sector development.
Business Sector	Building supply chain Capacity	To help SMEs become more viable business partners by providing training in basic skills e.g. management, business planning, and quality control.
	Strengthening local distribution networks	To make mutual partnership between large firms and SMEs in dealing with local knowledge and access to remote regions.
	Improving standards	To help SMEs to compete in international markets.
	Improving environmental Performance	To assist SMEs integrate sustainable development thinking into their production processes and operations.
	Providing access to financial services	To assist SMEs in coping their lack in financial services and investment capital.

In the context of Islam, those initiatives benefit Islamic supporting institutions in the effort of empowering SMEs by means of Islamic approaches. Accordingly, Islamic financial institutions and business development services, for example, work together to implement such initiatives. While such supporting institutions strive to strengthen SMEs in particular, they also direct SMEs activities to realize the welfare of the *ummah* in general.

Islamic Financial Institutions

Islamic financial institutions have developed several financial products that comply with the *Shariah*. Many of these instruments are based on equity participation, but leasing and deferred payment contracts have become more frequent. Besides, benevolent loans or loans without interest are common as well.

Through such instruments, Islamic financial institutions pursue a specific objective, that is, to endorse a holistic approach in supporting business and advocate entrepreneurship, productive activities and risk sharing. Additionally, Islamic financial institutions also pursue Islamic religious principles that mandate social responsibility and assistance for those in need. The mechanism of Islamic financial operations can be reviewed in figure 2.

With respect to the effort of empowering SMEs, Islamic financial institutions could be integrated into a wider assistantship scheme. While the Islamic financial institutions serve as the financial inter-mediation to SMEs, they also need to develop the human resources (confidence, skills, knowledge and information) among the clients at the same time to build local structures that help SMEs to grow progressively.

Nonetheless, the problems that arise within this effort may not be entirely related to policies, access to capital, and entrepreneurial skills. There are also social details that must be taken into consideration such as problems related to levels of distrust and lack of cooperation among SMEs which has the potential to reduce the benefit of financial support for SMEs empowerment in itself.

Hence, there is a need to constitute a condition in which the cooperation between Islamic financial institutions and SMEs is naturally embedded in social capital structure. Ito (2003) mentioned that social capital is defined by the World Bank as the norms and social relations embedded in the social structures of societies that enable people to coordinate action to achieve desired goals. Woolcock (1998) defined social capital as information, trust, and norms of reciprocity inherent

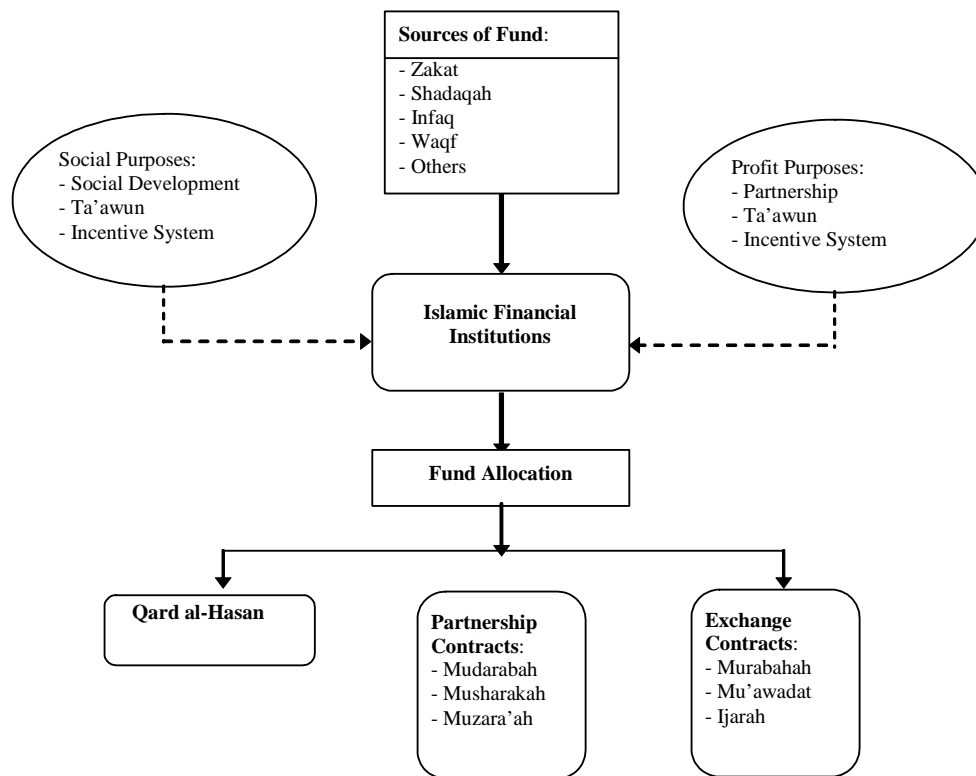


Figure 2: Islamic Financing in SMEs Setting

in one's social networks. Lin (2000) defined social capital as the investment and use of embedded resources in social relations for expected returns. Accordingly, these salient features of social capital can be utilized as a creation of human capital as well as a substitute for physical capital (Dusuki, 2006) and a facility to individuals with the resolution of collective action problems (Farooqi, 2006).

Islam strongly supports the implementation of social capital as a basis for the strategies of SMEs empowerment as long as it is in line with Islamic principles. We can find many verses in the Holy *Qur'an* and in *Hadiths* that encourage every Muslim to be trusted persons and always be promoters for mutual cooperation with others. Some examples are as follows: "Allah doth command you to render back your trusts to those to whom they are due; and when ye judge between man and man, that ye judge with justice: verily how excellent is the teaching which He giveth you! For Allah is He who heareth and seeth all things." (*al-Nisa*: 58).

While the Prophet (p.b.u.h) mentioned the importance of trust in transaction and public administration as follows: "Allah will bless the transaction in which the buyer and the seller are unambiguous and frank and have goodwill for each other". "Any ruler who has been entrusted with the affairs of a group of Muslims and who dies as a dishonest ruler, to him paradise is forbidden by Allah".

According to Farooqi (2006), the concept of Islamic social capital is useful when it is interpreted as the networking between sets of agents located in different sectors of the economy which is critical to the success of development interventions. This networking creates the ground rules for transparent functioning of development interventions and develops trust and coordinated action for development, innovative interactions between such agents, and helps solve problems such as free-riding that emerges in such a networking. Hence, efforts to empower SMEs through services given by Islamic financial institutions need

stocks of Islamic social capital that tailor the mutual interdependence between the two agents as this model provides a viable framework for SMEs and Muslim community development simultaneously.

Refined Clustering

Clustering is another model useful to empower SMEs. It focuses on the linkages among actors in the value chain for production of products and services, and is often cross-sectoral (vertical and/or lateral) network, made up of dissimilar and complementary firms specializing around a specific link or knowledge base in the value chain (Roelandt and Hertog, 1999). For the growth path of enterprise clusters, five major factors determine the growth, namely: 1) size of the market, 2) the stock of economies of scale and scope, 3) the rate of upgrading, 4) the nature of the supporting institutions, and 5) the form of collective efficiency (Uzor, 2004).

There are many advantages of clustering that can be picked up by SMEs such as the availability of skilled labor and knowledge spillover. The clusters will be more useful for SMEs if they can show collective efficiency, that is, competitive advantages caused by external economies and joint action.

In respect to SMEs empowerment through clustering, there is still a deficiency in its policy implementation as its full potential is not always reached. According to Ebbekink (2010), it is because the intelligence base of cluster policy is largely based on generic ideas and routines, and fails to take into account the more detailed insights i.e. the strategic intelligence of cluster actors. The strategic intelligence remains clouded and its attainment and usage is suboptimal, due to a lack of co-producing engagement of cluster actors in policy implementation. To solve this deficiency, a refined clustering that includes strategic intelligence and strategic learning is proposed as depicted in figure 3.

Figure 3 explains that an effective clustering will be attained if strategic intelligence becomes a basis for clustering development. Strategic intelligence is a knowledge-based 'club good' of the cluster actors – the firms, education/research institutes and supporting organizations that encompass the cluster actors' ideas on how their functioning can be improved. The knowledge that emerges from strategic intelligence is gathered by cluster actors in Networks of Practice (NoPs). Accordingly, activities of generating knowledge to develop strategic intelligence can

collectively be labeled strategic learning that takes place in Communities of Practice (CoPs); they are: "groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in this area by interacting on an ongoing basis".

Ebbekink (2010) insisted that at the core of CoPs is the fundamental process by which people learn through their engagement in social practice. In this regard, mutual trust and social capital will stimulate the participants to engage in the learning process alongside honesty, reciprocity and acceptance of established tacit codes of conduct between participants. Additionally, the process of this strategic learning is facilitated by mutual engagement, a sense of joint enterprise, and a shared repertoire of communal resources.

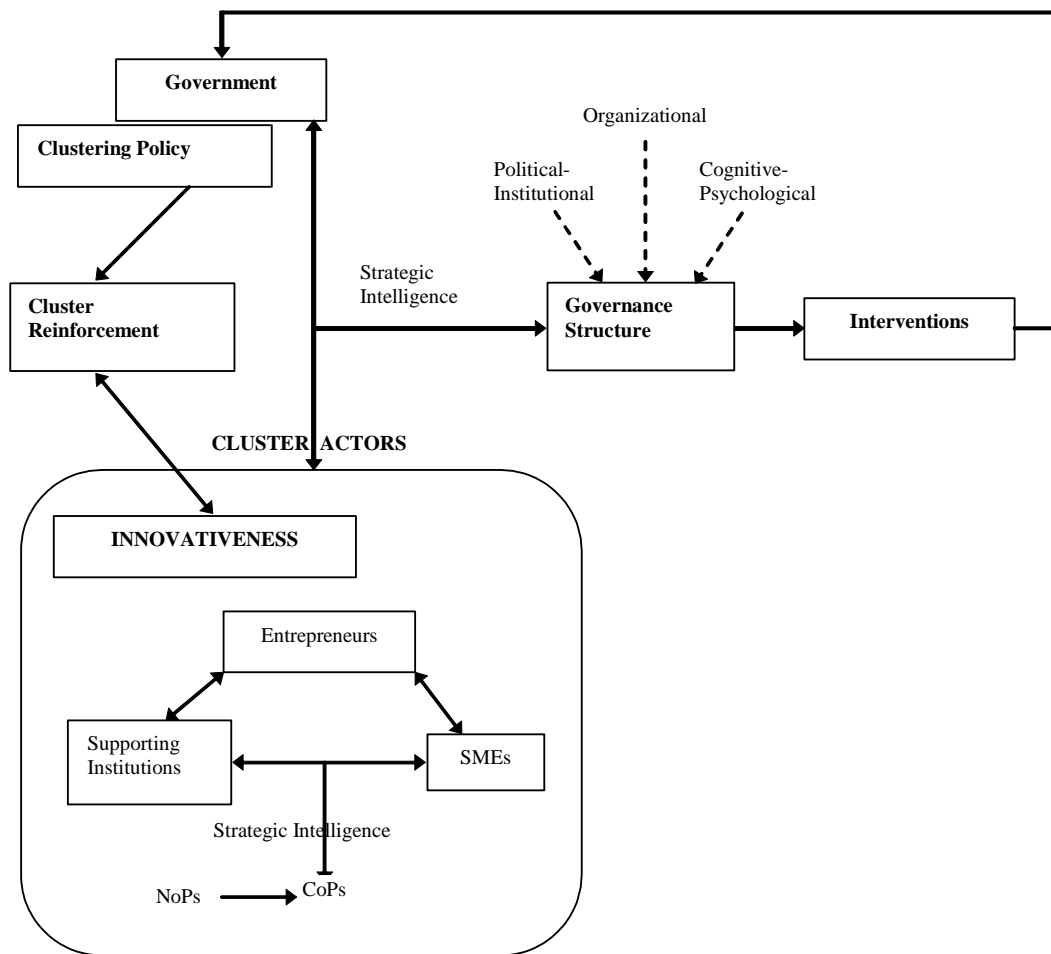
It is important to note that participation of the local government in CoPs to achieve strategic intelligence is undesirable. This is because CoPs basically function as innovation environments. The local government should focus its attention on tackling obstacles in the cluster environment that hinder the cluster actors' innovativeness by establishing the conditions under which key actors in the innovation system can engage in a self-organized process of social and interactive learning. As depicted in Figure 3, the position of 'cluster policy development' underneath the government-box and the position of 'innovativeness' above the cluster actor-box reflect this stance.

Shortly, strategy to empower SMEs through clustering can be a useful model if strategic intelligence and strategic learning emerge in the cluster. To do so, mutual trust and social capital among the cluster actors should be improved while the local government acts as an agent that focus on tackling obstacles in the cluster environment that hinder the cluster actors' innovativeness.

Islamic Social Entrepreneurship

Referring to the Islamic vision and the models of strengthening the supporting institutions mentioned above, it is made in clarity that strategies to empower SMEs should consider the balance of economic and social aspects of business. At this juncture, the notion of social entrepreneurship can be proposed as an instrument in achieving such objectives.

The reasons behind the implementation of social entrepreneurship into the empowerment strategies of



Source: Ebbekink (2010)

Figure 3: Model of Clustering Governance in SMEs Setting

SMEs are many. But, the interest in this field is mainly caused by its imperative signals to drive social change, and it is that potential payoff, with its lasting, transformational benefit to society, that sets the field and its practitioners apart. In views of Harding (2006), the important role of social entrepreneurship is that it contributes to an economy by providing an alternative business model for enterprises to trade commercially in an environmentally and socially sustainable way, and it also provides an alternative delivery system for public services.

One of the best examples of the implementation of social entrepreneurship is given by Mondragon Corporation Cooperative. It is a unique cooperative, located in the Basque region of Spain that becomes

one of the biggest and most successful cooperatives in the world. Founded in the early 1950's by Jose Maria Arizmendiarieta with the help of five of his students, nowadays, around 68,000 workers are owners of one of the most unique corporations in the world. Rolland (2006) stated that the uniqueness of this company is that they view the primary purpose of the company in producing jobs and value to the communities, and not to shareholders' profitability. Meanwhile, the success of Mondragon is attributed to professionalism, accountability, and efficiency based on new technology; continuing education, and the willingness of people to work together (Rolland, 2006).

The success of Mondragon is absolutely fantastic as it proves the viability of the co-op model on a large

scale of a market economy. The Cleveland Foundation (2008) shows that the Mondragon cooperatives are now becoming the 7th largest business group in Spain. They comprise an interconnected group of some 87 industrial cooperatives organized in 11 industrial groups with 71 subsidiaries in Spain and 69 plants abroad; a major grocery and retail cooperative which is the 2nd largest retail in Spain; and a financial group that includes credit union or bank and a mutual insurance company.

All cooperatives in the Mondragon have the same unique basic structure, and are driven by the same policies and responsibilities. The mechanism of Mondragon operations can be depicted in figure 4.

In the context of empowerment strategies for SMEs, the implementation of social entrepreneurship is directed to achieve two main goals, they are; societal and business development work concomitantly. These goals are clearly in line with Islamic tenets as Islam emphasizes on the balance between the both as commanded in *Surah al-Maidah* (5: 2) saying that: “.....*Help ye one another in righteousness and piety, but help ye not one another in sin and rancour: fear Allah: for Allah is strict in punishment.*”

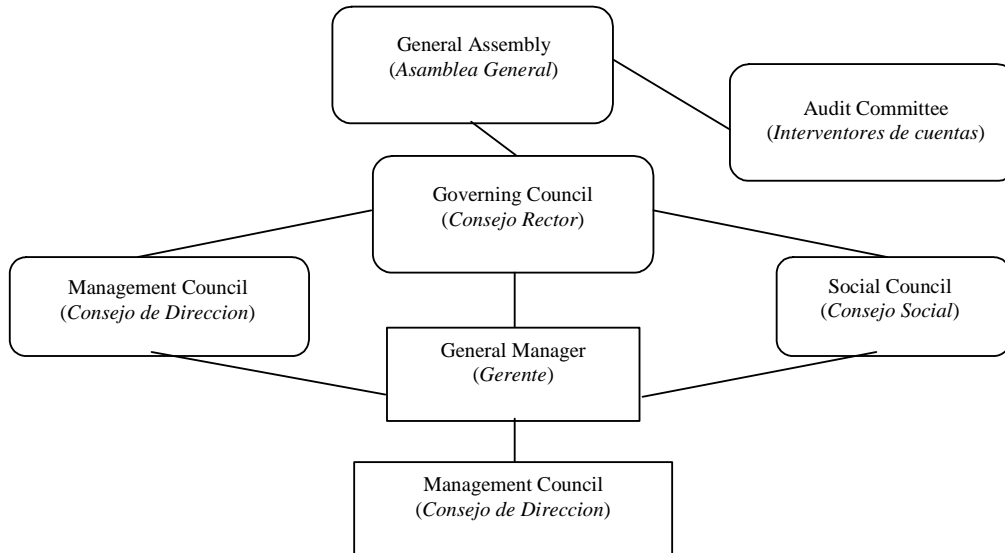
Hence, the implementation of social entrepreneurship to empower SMEs within Muslim

circumstances is much supported. In this regard, Muslim entrepreneurs will be driven by a double bottom line namely a virtual blend of financial and social returns. Of course, profitability is still a goal, but it is not the only goal, and profits are re-invested in the mission (*da’wah* or Islamic propagation) rather than simply being distributed to shareholders as indicated in the Holy *Qur’an Surah al-Hashr: 7* saying that:

“*What Allah has bestowed on His Apostle (and taken away) from the people of the townships –belongs to Allah– to His Apostle and to kindred and orphans, the needy and the wayfarer; in order that it may not (merely) make a circuit between the wealthy among you.....*”

Taking all models discussed above into consideration, to make Islamic social entrepreneurship as an instrument in empowering SMEs in Muslim countries such as in Indonesia and Malaysia is a beneficial way that will come in existence. The mechanism of this instrument is described in figure 5.

Figure 5 shows that to empower SMEs in Islamic settings, Islamic social capital should be a basis of empowerment strategies. Internally, Islamic social capital influences the behavior of Muslim entrepreneur and then affects the initiatives in making networking or clustering of SMEs. The broken line circling Islamic



Source: Rolland (2006)

Figure 4: Structures of the Mondragon Corporation Cooperatives

social capital shows its salience in strengthening the relationships among SMEs based on Islamic spirits. Once this mechanism works well, it will influence the betterment of the *ummah* or society in general. To tailor this mechanism tightly (depicted in Figure 5 by dash line), Islamic social entrepreneurship takes its contribution in strategy implementation of SMEs empowerment.

CONCLUSION

SMEs are now faced with an increasingly firm competition caused by globalization and trade liberalization. In the case of CAFTA (China ASEAN Free Trade Area), for example, the invasion of low cheap products made in China has threatened the prospect of SMEs in ASEAN countries. For SMEs in Muslim countries, the threat needs to be faced by implementing Islamic principles and values in operating the business.

To this end Islamic social entrepreneurship is proposed as a model in empowering SMEs to operate in a Muslim society. Basically, this model utilizes a stock of Islamic social capital and cooperation among Muslim entrepreneurs that are very commonly found in the Holy *Qur'an* and the *Sunnah* of Prophet Muhammad (p.b.u.h). The primary purpose of SMEs to operate within Islamic social entrepreneurship is producing jobs and value to the communities, not to shareholders' profitability. In addition, this should be accompanied

by professionalism, accountability, and efficiency based on new technology; continuing education, and the willingness of people or related agents to work together. Consequently, every Muslim entrepreneur and related supporting agent must change their old vision into the new one that they should work more productively and share their contribution not only to their own interest but also to the betterment of the *ummah*.

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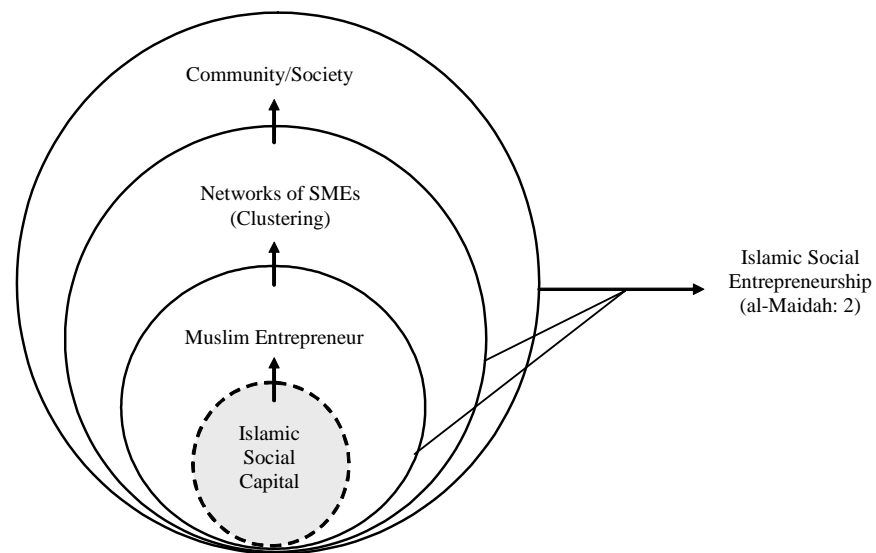


Figure 5: Islamic Social Entrepreneurship for SMEs Empowerment

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