

# THE ROLE OF ISLAMIC BANKING AND E-COMMERCE FOR THE DEVELOPMENT OF MICRO, SMALL, AND MEDIUM ENTREPRENEUR BUSINESSES

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## Abstract

The growth of online business transactions and people's behavior in the digital era has had an impact on bank business. The Islamic banking industry is one industry that is currently experiencing rapid development in Indonesia. Also, the micro, small, and medium business sector (MSMEs) is the backbone of Indonesia's economic growth. Therefore the purpose of this study is to (i) analyze the influence of Islamic banking services on business improvement from MSMEs, (ii) analyze the effect of e-commerce on business improvement from MSMEs, and (iii) analyze the influence of Islamic banks and e-commerce on business improvement from MSMEs. The research method used is quantitative statistical software version 18 with multiple linear regression statistical methods. The results of this study are Islamic banks have a significant effect on increasing MSMEs business, and e-commerce has an insignificant impact on increasing MSMEs' business. However, e-commerce is an added value of Islamic bank services in improving MSMEs' business. The contribution of this research is to provide information, both to practitioners of Islamic banks and stakeholders related to the needs of the community, primarily entrepreneurs in the MSMEs segment for digital services that can facilitate them with online business transactions.

**Keywords:** Business Enhancement, E-Commerce, Islamic Bank, MSMEs

**JEL Codes:** L25, M11, M19

## 1. INTRODUCTION

The banking industry is an agent of development and an agent of change in the economy of a country, the bank's function as an intermediary in collecting and distributing funds in the community encourages investment for promoting the growth of the real sector. The impact of an increasing the real sector is the optimal economic growth. Thus the welfare of the people in the country can also increase. However, high economic growth may not necessarily have an optimal impact on people's well-being. There needs to be equity in the economy to reduce social inequalities that occur in a country. Also, the function of the bank is expected not only as a place to place funds or seek capital, but it is expected that the bank can provide financial consulting services for the public to manage their business and finances on target. As is known, the banking industry in Indonesia does not only consist of the conventional banking industry, but there is also an Islamic bank industry. Furthermore, Islamic banking is a bank that aims not only to seek profit but also to carry out social functions and care for the environment in running its business (Elmelki & Mounira, 2009; Nugroho, Husnadi, Utami, & Hidayah, 2017). The function of social services and products and environmental care, of Islamic banks, is shown from the services and products owned by Islamic banks such as zakat, infaq, shodaqoh, and waqf (Ahmed, 2004). The social function of Islamic banks can contribute to balance uneven economic growth or in other words, can reduce social inequality that occurs in society (Choudhury, 2010; Choudhury & Hoque, 2013).

The existence of Islamic banking in Indonesia has experienced a significant development after the existence of Law Number 10 of 1998 concerning amendments to Law Number 7 of 1992 concerning banking, which is more accommodating and provides opportunities for the development of Islamic banking. Furthermore, the law was further strengthened by the existence of Law Number 21 of 2008 concerning Islamic banking, which expressly recognizes the existence of Islamic banking and distinguishes it from the conventional banking system. The optimal growth of Islamic banking can contribute to financial system stability and the national economy. Therefore, the government needs to

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realize an Islamic state-owned bank in Indonesia as the power of Islamic finance in Indonesia by uniting the potential power of the existing Islamic Bank. For example, Bank Rakyat Indonesia (BRI) is a conventional bank that is eligible to switch to Islamic banks because BRI is the largest retail bank in Indonesia, and will have a significant impact on the community, especially for low-income people living in rural areas. Furthermore, BRI will join BRI Syariah to become a Syariah Bank, and the next step will be to acquire all Islamic banks owned by conventional state-owned banks (Bank Mandiri Syariah, BNI Syariah, and BTN Syariah) (Nugroho, Utami, Sukmadilaga, & Fitrijanti, 2017).

According to Article 19 of Law No. 21 of 2008, in carrying out its business activities, Islamic banks provide financing based on the principle of profit-sharing (*mudârabah*), equity participation (*mushâra'ah*), buying and selling goods for profit (*murabahah*), pure rent without choice (*ijârah*), or with the choice transfer of ownership of goods leased from the bank by another party (*ijârah wa iqtinâ*), *salam* contracts, *istithnâ* 'contracts, leases contract that end with ownership (*ijârah al-muntahiya bi-altamlîk*), and other principles that do not conflict with the principle sharia (Sukmadilaga & Nugroho, 2017; Vania et al., 2018). Based on the scope of its business activities, it can be stated that Islamic banking products are more varied than conventional bank products. This allows Islamic banking products to provide broader opportunities to meet the needs of customers and debtors following their real needs. Specifically, in terms of channeling funds to the public, financing schemes can be tailored to customer needs. The backbone of the Indonesian economy is micro, small, and medium scale entrepreneurs, as shown by the number of entrepreneurs on a micro, small, and medium-scale (MSMEs) in Indonesia. Furthermore, the facts also prove that during the Indonesia economic crisis, MSMEs were able to withstand economic shocks (Adrian, 2018; Amah, 2013). In addition to MSMEs that are resilient to the financial crisis, the MSMEs sector also has positive characteristics such as sectors that absorb large workforce, accommodate the role of the poor to work, and contribute to the resilience of economic structures (Adrian, 2018; Rifa, 2013; Tedjasuksmana, 2015).

MSMEs have a vital contribution to the Indonesian economy. MSMEs are spreading out to all sides of the country that revives the potential of each region to improve the welfare of the population in the area. Also, the number of MSMEs in Indonesia continues to increase from year to year. From 2012 to 2017, the development of SMEs reached 13.98 percent. In 2017, the number of MSMEs reached 62,922,617 units. Much more significant than a large business which only numbered 5,460 units. This number is dominated by micro-businesses as much as 62 million (98.7 percent), with small and medium enterprises amounting to 815 thousand units or only 1.3 percent (Suci, 2017). The data of MSMEs in Indonesia show in Table 1.

**Table 1. Amount of MSMEs in Indonesia (2012-2017 period)**

	2012	2013	2014	2015	2016	2017
<b>Micro Entrepreneur</b>	54,559,969	55,856,176	57,189,393	58,521,987	60,863,578	62,106,900
<b>Small Entrepreneur</b>	602,195	629,418	654,222	681,522	731,047	757,090
<b>Medium Entrepreneur</b>	44,280	48,997	52,106	59,263	56,551	58,627
<b>Total</b>	<b>55,206,444</b>	<b>56,534,591</b>	<b>57,895,721</b>	<b>59,262,772</b>	<b>61,651,176</b>	<b>62,922,617</b>

MSMEs also contribute significantly to GDP at current prices, where MSMEs' sales turnover continues to increase from year to year, wherein 2017, MSMEs provided Rp7,704,635.9 billion. Its total contribution to GDP reaches 60 percent of the whole business segment. In detail, the most significant contributor is the micro-segment business by 36.82 percent. It is followed by the medium business segment, 13.57 percent, and the small business segment 9.61 percent (Haryanti & Hidayah, 2019). According to (Akhter, Akhtar, & Jaffri, 2009; Dusuki & Abdullah, 2007), Islamic banks should focus on channeling financing to MSMEs entrepreneurs because it is in line with the *maqashid* concept of sharia, which aims to realize social wellbeing. Also, government programs related to promoting Islamic

finance are in line with the condition of the Indonesian economy, the majority of which are economic entrepreneurs who are MSMEs entrepreneurs. However, there are challenges even though Indonesia is a country with the most Muslim majority. However, there are still many MSMEs that have not been able to apply the Islamic economy to their businesses. As a country with the largest Muslim population, thus appropriate for Indonesia to become a pioneer and center for the development of Islamic finance in the world (Nugroho, Utami, & Doktoralina, 2019; Widagdyo, 2015; Yustati & Handayani, 2017).

The development of technology and the internet in the globalization era has become a necessity. Therefore, the impact of technological developments is that there are no more boundaries between one country and another, also one region with another region. However, referring to Makarim (2014), Mckay (2001), and Nugroho et al. (2020) e-commerce is a business transaction that causes the transfer of goods and services or funds and data through an electronic network or commonly referred to as electronic internet facilities. Furthermore, trading activities through electronic media or internet networks are popularly called electronic commerce or abbreviated as e-commerce (Palladan & Adamu, 2019). Thus, through the development of online trading or e-commerce, then these activities become an integral part of business transactions in the current digital economy era. Digital economic growth is influenced by internet access. In Indonesia, the number of internet users has increased significantly from 42 million in 2010 to 143.26 million in 2018. Thus, the increase has reached more than three times in the last seven years. Furthermore, according to Kasyfi (2018), economic activities carried out by the Indonesian people through internet facilities are as follows: find out the price (45.14 percent), assistance at work (41.04 percent), product and service information (37.82 percent), purchase online (32.19 percent), as looking for job (26.19 percent), banking transactions (17.04 percent), and online trading (16.83 percent). The information of internet users and the purposes in Table 2 below.

**Table 2. The Internet User and Purposes**

<b>Purpose of Internet Use</b>	<b>Percentage</b>	<b>Population</b>
find out the price	45.14	64,667,564
assistance at work	41.04	58,793,904
product and service information	37.82	54,180,932
purchase online	32.19	46,115,394
looking for job	26.19	37,519,794
banking transactions	17.04	24,411,504
online trading	16.83	24,110,658
<b>Total Internet User</b>		143,260,000

Under these conditions, rapid and varied technological advances and innovations have influenced the banking industry. To continue to be able to provide the best services and products to customers, banks must be innovative in creating products and services in line with technological advances. Therefore, utilizing the advancement of this technology, customers now prefer that banking services and products are integrated with the digital world. Therefore, banks must innovate in developing digital banking. The purpose of digitizing banking innovation and development is to facilitate customers following the needs and desires of the community. Also, it will provide benefits for banks, one of which is efficiency in operational costs. Muslim transaction value reached USD 107 billion (Rp 1,522 trillion) in 2014 and is estimated to grow 17 percent to USD 277 billion or Rp 4,016 trillion by 2020 (Rohana, 2020). However, this opportunity is still not utilized optimally by financial technology (fintech), especially those based on sharia (Hiyanti et al., 2019). Based on data from the Financial Services Authority (OJK) data as of May 31, 2019, the Fintech Lending company is licensed and registered with the Financial Services

Authority, there are 113 fintech platforms, and only seven fintech platforms that use sharia principles (Otoritas Jasa Keuangan/OJK, 2019). The following platforms are registered with the Financial Services Authority that uses sharia principles, including (Table 3):

**Table 3. Financial Technology (Fintech) Lending with Sharia-Principle Platform**

No	Platform Name	Website
1	Investree	<a href="https://www.investree.id">https://www.investree.id</a>
2	Ammana	<a href="https://ammana.id">https://ammana.id</a>
3	Dana Syariah	<a href="http://danasyariah.id">http://danasyariah.id</a>
4	Danakoo	<a href="http://www.danakoo.id">www.danakoo.id</a>
5	Alamisharia	<a href="http://www.p2p.alamisharia.co.id">www.p2p.alamisharia.co.id</a>
6	Syarfi	<a href="http://www.syarfi.id">www.syarfi.id</a>
7	Duha Syariah	<a href="http://www.duhasyariah.com">www.duhasyariah.com</a>

Source: (Otoritas Jasa Keuangan/OJK, 2019)

Trends in e-commerce and digitalization platforms in trade also have an impact on SMEs in Kemayoran, Central Jakarta. Many business people do marketing strategies with online systems to sell their merchandise. The Akbar Kemayoran Night Market is located in the courtyard of the Akbar Kemayoran Mosque, which is located on Jl. Benyamin Sueb Blok Boeing 9 No. 1 Kebon Kosong, Kemayoran, Central Jakarta, was established in 2014. Economic activity in the Market This only happens at night, which coincides with the time of returning from the office. Also, most of the MSMEs in the Kemayoran Akbar Night Market are Muslims, and also the majority understand e-commerce. Based on the information above, the statement of the problem in this study can be as follows: (i) Does Islamic Banking play a role in e-commerce development for MSMEs at the Kemayoran Akbar Night Market of Kemayoran?; (ii) Does e-commerce affect MSMEs Business Development at the Kemayoran Akbar Night Market?; (iii) Does Islamic banking and e-commerce have a role and influence both directly and indirectly on the development of MSMEs at the Akbar Night Market of Kemayoran?

## 2. LITERATURE REVIEW

### 2.1. Banking Industries and Digital Growth

The definition of a bank as an intermediary financial institution that functions to raise funds from the public, and then channels it back to the community, has developed even further. In the current era where internet access has become a basic human need, and the need to access information has an impact on changes in people's behavior in the fulfill the needs of business and financial transactions (Joyce, 2015). Public consumption behavior and the pattern of business transactions at this time in big cities have changed to be online-based, where they do not recognize regional limits and time limits (borderless and timeliness). Therefore, with the change in consumer behavior, the impact on banking services at this time is no longer relying on physical service outlets (Chiou & Shen, 2012). The phenomenon of queuing at bank branch offices in big cities and areas that have good internet network coverage is no longer visible. At present, people rarely come to the bank to save and withdraw money through physical networks or branches. Therefore the existence of physical offices in big cities must be considered their effectiveness by the bank's management. The phenomenon of business transactions with cashless has become a habit and custom for residents who live in the capital. Online business growth in Indonesia, aside from being quite rapid, also has good prospects. All business sectors today have used the internet as a transaction medium. Furthermore, changes in the trend of public business transactions using online media have an impact on the banking industry. Therefore, the banking industry is currently also starting

to rely on transaction automation, such as the use of ATMs, mobile banking and internet banking (Widiyanto & Prasilowati, 2015).

The optimization of information technology infrastructure contained in the internal bank aims to meet the needs of information technology development. Also, the need for e-commerce transactions is vital for the bank to be able to keep pace with the growing community that uses these rapidly growing online business transactions. Furthermore, the impact of proper information technology owned by banks will contribute to the increase in Fee-Based Income through transaction-based services and technologies such as ATMs, e-Channels, and cash management. Furthermore, it can also reduce the risk of banks that was initially focused on the credit business exposed to credit risk, turning into a focus on fee-based products such as Trade products, Bank Guarantees, and pawn products on Islamic banks. Also, the conventional banking industry and Islamic banks should be able to improve IT systems to support business growth, such as:

- Electronic Data Capture (EDC) Acquirer, the development of EDC Acquirer that makes it easy for merchant bank customers to accept shopping transactions through EDC. Benefits for banks are to improve service to customers/merchants, increase fee-based income and increase merchants or bank partners, and increase bank awareness as a bank that applies modern technology. The benefit for customers is to make it easy for merchants/bank partners to accept payment transactions through EDC;
- Syariah Payment Feature, an online debit service that can serve e-commerce payments from bank customers. Benefits for banks are to improve service to customers, increase fee-based income, and increase merchants/bank partners, increase bank awareness as a bank that applies modern technology. The benefit for customers is to make it easier for bank customers to make payment transactions through e-commerce;
- Zakat, Infaq, Shodaqah, and Waqf Payment Services through Virtual Accounts are virtual accounts provided by banks as tools to help and facilitate customers who want to give zakat, infaq as shodaqah and Waqf. The benefit for banks is to improve the corporate image of the bank as a bank that is concerned with the successful distribution of public social funds. Benefits for customers are convenience in the distribution of Zakat/Infaq/Shodaqoh and Waqf to Nadzir chosen by the Customer by sharia principles;
- Customer on board is the process of acquiring bank customers through a digital process mechanism. Benefits for banks are increasing market share and providing fast services to get new customers. The benefit for customers is to make it easier to access banking and become a bank customer.

## **2.2. Islamic Bank and Micro, Small & Medium Entrepreneurs**

The existence of Islamic banking as a bank that cares about social problems, and is able as a solution for micro and small entrepreneurs in finding capital to improve their financial capacity and income. The impact of Islamic banks is a bank that is pro micro, small, and medium enterprises (MSMEs) is that each Islamic bank must have financial products that are pro MSMEs. (Nugroho, 2014). Furthermore, according to Ayyagari et al., (2011) and Nugroho & Tamala (2018) The MSME sector has a major contribution to the economy of all countries in the world and even becomes the backbone of the economy. The contribution of MSME to a country's economy is not only in developing countries but also in developed countries, MSME contributes 43.5% of workers globally so that the MSME sector is a business sector that can create jobs to reduce unemployment. On the other hand, the MSME sector has significant challenges in finding capital to develop its business (Beck & Demirguc-Kunt, 2006). MSMEs have limited access to finance because of the high risk of the business and also the lack of collateral used as collateral so that banks reject their loan applications. Islamic banks, as banks that are pro to the MSMEs sector, should be able to provide financial products and services that meet their needs. Thus the more focused, Islamic banks in the MSMEs segment, it will have an impact on the increase in revenue and performance of Islamic banks. It takes effort and support from all stakeholders because

Indonesia has a great opportunity, whereas a country with the most Muslim majority, but there are still many MSMEs that have not been able to apply the Islamic economy to their businesses. As a country with the largest Muslim population, it fits for Indonesia to become a pioneer and a center for the development of Islamic finance in the world. This is not an "impossible dream" because of Indonesia's potential to become a huge global player of Islamic finance (Alamsyah, 2012; Nugroho & Husnadi, 2014; Nugroho et al., 2017). Nevertheless, to support the growth of Micro, Small and Medium Enterprises (MSMEs), financial institutions such as banks play an essential role in bridging working capital needs, especially Islamic banking. The phenomenon that occurs where many micro and small businesses lose because of a lack of capital for business. Conventional banks with interest rates are not able to support the growth of micro and small companies because the amount of returns to be paid is not proportional to the results obtained by MSMEs. Islamic banks should, through the use of a profit-sharing system, be able to meet the needs of working capital for MSMEs.

The Maslahah is the implementation of the six maqashid, or commonly referred to as Dharuriyyah Benefit. The benefit of maqashid sharia is at the top of the list because it is the core or a principle that has been agreed upon. Al-Ghazali (450-505 H / 1057-1111 AD) views maslahah as an effort to provide benefits or reject damage, the reason that Al-Ghazali uses is based on the purpose of Allah SWT to create social well being for entire of Good creator. The maslahah theory in banking as a foundation in the existence of Islamic banking is vital and is an essential requirement. The basic principle that must be considered is the purpose of the existence of Islamic Banking in Islamic economic law is to create a halal transaction and keep away from the system that leads to damage to lives, reason, religion, property, and offspring. If the transaction is carried out illegally, the consequences of the transaction will damage the soul, reason, religion as property and families (Asutay, 2012; Chapra, 2007; Nugroho, Hidayah, & Badawi, 2018). According to Muhammad Umer Chapra (1993), there are several aspects of Islamic economics, including Islamic banks to contribute to sustainable development to realize social welfare, which include focusing on the humanitarian aspect in business activities, focusing on aspects of justice and wealth distribution and reducing social inequality, focusing on equitable achievement of performance that is not only in the aspect of profit but also followed by social aspects as environmental aspects and spiritual aspects.

### **2.3. Islamic Banking and E-Commerce to Enhance the Business of MSMEs**

Previous research conducted by Kara (2013), stated that Islamic banking has a significant contribution to the distribution of funding to MSMEs in the province of Makassar, Indonesia amounting to 14.23%. This is supported by financing contracts used by Islamic banks based on underlying assets so that Islamic bank financing is focused on the real sector. Also, in other cities such as Jambi, Indonesia, Islamic banks have a positive contribution to the distribution of MSMEs financing and also assist MSMEs that aim to use capital effectively (Ferawati & Solihin, 2017). Research conducted by Musfiroh et al., (2017) also states that Islamic banking contributes significantly to the development of MSMEs businesses in the city of Banjarnegara, Central Java, Indonesia.

On the other hand, currently, many MSMEs are helped with the marketing and promotion of their goods using a digital platform. One of the digital platforms now in use is e-commerce. The use of e-commerce can increase sales turnover from SMEs in Pasuruan, East Java, Indonesia (Rosyidi, 2018). That is because the development of the internet makes it easy for MSMEs to communicate through electronic media. Electronic media for trading and buying purposes is through e-commerce platforms. The benefits of e-commerce for MSMEs according to Gunasekaran et al., (2002) include: (i) Sales that are able to reach consumers in various locations; (ii) Facilitate communication with consumers that are not limited by time and place; (iii) Reducing operational costs such as shipping and transportation costs; (iv) Make it easy to monitor customer satisfaction quickly; (v) Knowing the demands and needs of consumers quickly.

### 3. RESEARCH METHODOLOGY

This type of research used in this research is descriptive causality research. Descriptive research is research conducted to determine the value of an independent variable, either one or more variables (independent) without making comparisons, connecting with other variables. This descriptive research is causal, and the causal relationship is a causal relationship which is also useful for analyzing how a variable influences other variables, and is also useful in experimental research where the independent variable is treated in a controlled manner by the researcher to see the impact on the dependent variable directly. The population is a collection of elements that have specific characteristics that can be used to make conclusions. The population in this study was MSMEs guided by the Akbar Kemayoran Night Market, located in the courtyard area of the Akbar Kemayoran Mosque located at Jl. Benyamin Sueb block Boeing 9 No. 1 Kebon Kosong, Kemayoran, Central Jakarta as many as 175 SMEs. Besides the sample is a collection of subjects that represent the population, the sample taken must have the same characteristics as the population and must represent (representative) members of the population. The sampling technique used is simple random sampling with a random sampling, where each subject has the same opportunity to be sampled. Determination of sample size using the slovin formula below:

$$n = \frac{N}{1+N(e)^2}$$

Remarks:

n = Sample/number of respondents

N = Population

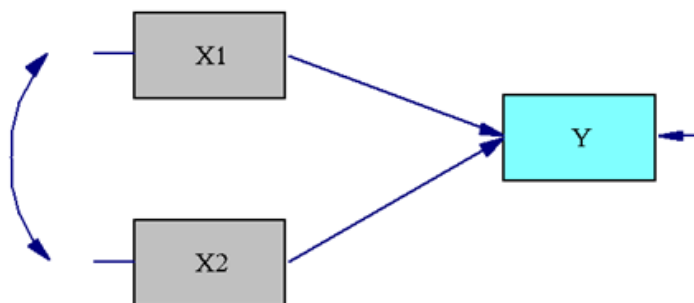
e = Error level 10%

According to the formula above, the sample calculation as follows:

$$n = \frac{175}{1+175(0,10)^2}$$

n = 63,636 ≈ 64 sample

A data analysis tool used in this study is path analysis. Path analysis is a type of multivariate analysis technique used to test the effect of independent variables on more than one dependent variable, in other words, to test the direct and indirect effects of independent variables on the dependent variable determined by the researcher. Based on the relationship between variables, then a path diagram can show the paradigm of the relationship between variables in the study as follows:



**Figure 1. Conceptual Research Framework**

Remark

X1 = Islamic bank role in enhancing MSMEs

X2 = Ecommerce role in enhancing MSMEs

Y = MSMEs Business Capacity

Based on Figure 3 above, this study aims to determine the significance of the influence of exogenous variables on endogenous variables simultaneously. Then hypothesis testing is performed using (1) stat t-test, which is to test the effect of partial or individual independent variables towards the dependent variable; (2) F-stat test, which is to determine the significance of the influence of the independent variables together on the dependent variable.

## 4. RESULTS AND DISCUSSION

### 4.1. Results

The questionnaires distributed in this study were 64 sets for the sample used. Therefore, all questionnaires were filled so they could be processed while the respondent profile is based on age range 25 years old-60 years old, latest education range high school level-bachelor level, religion Moslem, and type of business micro size-medium size. This test is carried out to test the validity of each statement item in measuring its variables. Validity testing in this study was done by correlating the scores of each item statement addressed to respondents with a total score for all items. The correlation technique used to test the validity of statement items in this study is the Pearson Product Moment correlation. If the value of  $r$  count items of the statement item being tested is higher than  $r$  table ( $n=64$ ) 0.204, it can be concluded that the statement item is a valid construct, the results of the validity test (attached). Reliability testing is carried out on items that are included in the valid category. Reliability testing is done by testing the instrument just once, and then analyzed using the Cronbach Alpha method. The questionnaire is said to be reliable if the reliability coefficient is positive and is higher than 0.60, based on the calculation results obtained from the results of the Cronbach Alpha values for the three variables, namely X1, X2, and Y exceeds the value of 0.60 these results indicate that the questionnaire items on each variable reliable to measure their respective variables.

The normality test aims to test whether the variables in the study have a normal distribution or not. Data normality tests can be done using the one-way Kolmogorov Smirnov test. Decision making to determine whether a data follows the normal distribution or not is to assess the significance value, if the sig value  $\geq 0.05$ , then the data distribution is normal.

**Table 4. Normality Test**

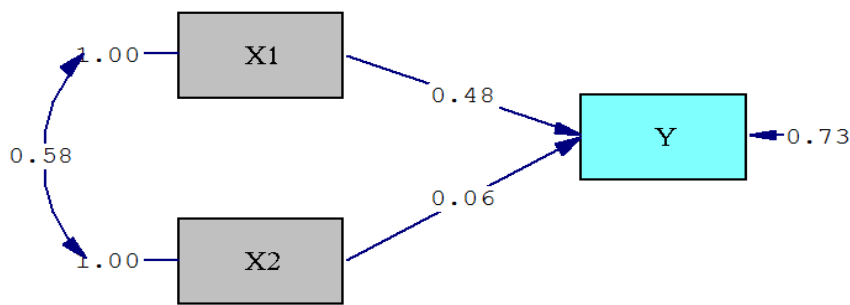
One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		64
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	3.14891255
Most Extreme Differences	Absolute	.152
	Positive	.083
	Negative	-.152
Kolmogorov-Smirnov Z		1.216
Asymp. Sig. (2-tailed)		.104

a. Test distribution is Normal.

b. Calculated from data.

From the results of data processing above (Table 4), it appears that the significance value obtained for all variables is 0.104. This shows that the significance value of  $0.104 > 0.05$  means that the data is normally distributed. Furthermore, based on the results of the calculation of the correlation and inverse correlation matrix (Table 4), the relationship between Islamic bank variables (X1) and e-commerce variables (X2) with an increase in MSMEs business (Y) with the flowchart can be illustrated as follows:





**Figure 4. Path diagram**

The next step is to test the effect of the two independent variables on the dependent variable described by the path diagram equation above (Figure 4). The following hypothesis testing will be presented either simultaneously using the F test or partially using the t-test, as follows:

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	229.386	2	114.693	11.200	.000 <sup>a</sup>
	Residual	624.686	61	10.241		
	Total	854.072	63			

a. Predictors: (Constant), e-Commerce, Islamic Bank

b. Dependent Variable: MSMEs Business Capacity

Based on the SPSS results above it can be seen that the significance value of F-count is 0,000 or lower than 0.05. Thus, the hypothesis can be simultaneously accepted that there is a joint effect of Islamic Bank variables (X1) and e-commerce (X2) on MSMEs Business Capacity (Y), while for partial testing are as follows:

**Table 5. T-count test**

Model		Coefficients <sup>a</sup>			
		Standardized Coefficients		t	Sig.
		Beta			
1	(Constant)			3.233	.002
	Islamic Bank	.483		3.609	.001
	e-commerce	.057		.427	.671

a. Dependent Variable: MSMEs Business Capacity

Based on the results of data processing with SPSS software version 18 (Table 5), it can be seen that the signification value of t-count is 0.001 or smaller than 0.05 for Islamic Bank variables (X1) on MSMEs Business Development (Y). Therefore, there is a significant influence between variables Islamic Bank (X1) Towards MSMEs Business Development (Y). While the results of data processing of signification from t-count for e-commerce variable (X2) the significance value is 0.671 or more than 0.05, it means that the influence of e-commerce (X2) on Business Development (Y) is not significant. The magnitude of the impact of Islamic Banks (X1) and e-commerce on the Development of MSMEs Business Capacity (Y) is 26.8%, as shown in Table 6 below:

**Table 6. Coefficient Determination Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,518 <sup>a</sup>	,268	,245	3,20012

a. Predictors: (Constant), e-commerce, Islamic Bank

Nevertheless, for further analysis related to the direct and indirect effects of each independent variable X1 and X2 on the dependent variable Y, the following are presented the details of direct and indirect effects between these variables:

**Table 6. Direct Effects and Indirect Effects between Variables**

Variable	Direct Effect	Indirect Effect Through Another Variable		Total Effect
		X <sub>1</sub>	X <sub>2</sub>	
X <sub>1</sub>	23.37%		1.57%	24.95%
X <sub>2</sub>	0.32%	1.57%		1.89%
<b>The Effect of Variable X1 &amp; X2 to the Y Variable</b>				26.84%
<b>The Another Variable Effect (e<sub>1</sub>) to the Y Variable</b>				73.16%
<b>Total</b>				100.00%

Furthermore, based on the results of data processing with SPSS software version 18 in table 6 above, the interpretation can be made as follows:

- Islamic Bank Variable (X1) has a significant effect on MSMEs Business Improvement (Y) as presented in the t-test (table 3 and table 5) with a total impact of 24.95%, consisting of a direct effect of 23.37% and an indirect effect of 1.57%;
- E-commerce Variable (X2) has no significant effect on g MSMEs Business Improvement (Y) as presented in the t-test (Table 3 and Table 5) with a total effect of 1.89%, consisting of a direct effect of 0.32% and the indirect effect of 1.57%.

## 4.2. Discussion

### 4.2.1. Role of Islamic Bank to Enhance the MSMEs Business

Islamic banks in carrying out their business activities have different concepts from conventional banks. The difference is due to the Islamic principles, which must be obeyed by Islamic banks in carrying out business activities in the community. According to Choudhury (2010) and Pratiwi (2016), the concept of Islamic banks based on Tawhid string relationship (TSR) where every aspect of human life, both human social relationships (muamalah) and the human relationship with God (worship) must refer to the Qur'an and other sources of Islamic law such as the Hadith. Based on this concept, Islamic banks have a responsibility not only to stakeholders, but also to ensure that all business activities are following Islamic law. Therefore, all employees of Islamic banks should understand the principles of sharia that are required to be implemented. Also, the main goal of the goal of sharia (maqashid syariah) is to achieve social-wellbeing. Social-wellbeing where the conditions of social welfare have been realized and the impact is civilization's existence where the fulfillment of the intellectual aspects (Tamadun) and spiritual aspects (Tsaqâfah) in social life (Nugroho et al., 2019). Therefore, Islamic banks have a goal not only to be profit-oriented, but also to provide the maslahah (beneficiaries) for the community, especially MSMEs. MSMEs in Indonesia are the backbone of the national economy because the number reaches 99% of the total business operators in Indonesia. Therefore the result of this study is that Islamic banking services have a significant contribution to increasing the business turnover of MSMEs. The influence of Islamic bank services to enhance the MSMEs' business is 24.95%.

#### **4.2.2. Role of E-Commerce to Enhance the MSMEs Business**

The growth of internet users in big cities that are reached by the internet has an impact on changes in people's behavior, including buying and selling activities. Nowadays, online business has become a common thing for people in big cities, the especially millennial generation (Hutagalung, Fitri, & Ritonga, 2019). However, the use of the internet and e-commerce facilities in buying and selling requires specialized knowledge in terms of information technology. On the other hand, MSMEs have low education so that there are difficulties in using e-commerce in their business activities. MSMEs uses social media for entertainment purposes, and they still prefer conventional business transactions such as face to face with their customers, and even use payment with the cash system (Nugroho, 2020; Nugroho & Ali, 2020). Furthermore, in this research, we find that e-commerce has an insignificant effect on improving the business of MSMEs. Therefore the influence of e-commerce on the MSMEs business enhancement by 1.89%.

#### **4.2.3. Role of Islamic Bank and E-Commerce to Enhance the MSMEs Business**

The development of digital technology is currently disrupting the banking industry. Therefore the banking industry must innovate in the field of information technology to keep up with the demands of customers and the public in digital services (Casolaro & Gobbi, 2007; Kholis, 2018). However, Islamic banks, as banks that have a business focus on the retail segment, should have a digital service that connects MSME with e-commerce services. Thus, digital banking services from Islamic banks will provide added value from Islamic banking products. This is consistent with the results of the data processing in this study that Islamic banking services as a bridge for the use of e-commerce will affect the enhance in MSMEs business by 1.89%. Therefore, the influence of Islamic banking services for improving the MSMEs business to 26.84%.

### **CONCLUSION**

Islamic banks as a bank that has a bottom line, which has a concern not only looking for profit but positively contributing to the social aspects and environment conservation. Furthermore, as the bank that has social responsibility focuses, the Islamic bank should focus on the MSMEs'. The results of this study state that Islamic banking services contribute significantly to the development of the MSMEs' business. Beside, technological progress is also a consideration in developing products at Islamic banks. The characteristic of MSMEs is their lack of knowledge so that the results of this study are that e-commerce has no significant effect. Still, it will provide added value to Islamic banking services with the concept of a digital banking platform.

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