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Article

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MAQĀṢID ENTREPRENEURIAL FINANCE: AN ISLAMIC APPROACH TO SMALL BUSINESS CAPITAL STRUCTURE THEORY

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ABSTRACT

Purpose — This research aims to develop a novel construct, *maqāṣid* entrepreneurial finance (MEF), based on an Islamic perspective to measure small and medium enterprises' (SMEs) capital structure.

Design/Methodology/Approach — The MEF construct was developed using indicators based on *maqāṣid al-Sharīʿah* (the objectives of Islamic law) and entrepreneurial finance. A series of empirical studies were conducted to develop and validate an instrument to capture the MEF and its parameters. The development stages involved two steps: the item development and scale measurement stages.

Findings — The results of the factor analysis showed that five factors make up the MEF. These factors are generating and distributing profit, interest-free source of capital, distribution of income for the payment of zakat (compulsory alms) and *ṣadaqah* (optional alms), the provision from income for reinvestment, and avoiding haram (prohibited) investment.

Originality/Value — The paper's overarching contributions are: first, it contributes to the development of the capital structure theory based on the Sharīʿah perspective; second, it contributes to the advancement of the capital structure theory for SMEs; third, it provides policy input to stakeholders in the SME field; and fourth, it provides practical guidelines relevant to SMEs.

Practical Implications — This research provides insight to academicians and managers on how MEF is constituted. For SME owners, the results of this study confirmed that *maqāṣid al-Sharīʿah* can be integrated into the capital structure decision of SMEs.

Keywords — Islamic capital structure, *Maqāṣid* entrepreneurial finance (MEF), Small and medium enterprises (SMEs)

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INTRODUCTION

Islam offers a coherent view to understanding economic and financial problems to protect humankind (Chapra, 2008; Laldin & Furqani, 2013; Soualhi, 2015). The Sharīʿah perspective in this study adopts the concept of *maqāṣid al-Sharīʿah*, which is the end goal of Islamic law serving mutual interests (*maṣlahah*) (Dusuki & Bouheraoua, 2011). Sharīʿah is a framework that encompasses everything that exists to support human existence by providing principles and all the means necessary for human well-being. These principles represent a significant pillar in the formulation of Islamic economic law (Laldin & Furqani, 2013). *Maqāṣid al-Sharīʿah* means Sharīʿah goals that encompass the protection of religion, life, family, intellect and wealth (Ibrahim *et al.*, 2014). *Maqāṣid al-Sharīʿah* is an indispensable framework for macroeconomic policies, banking, finance and other microeconomic theories in Islam. Research on developing the concept of *maqāṣid al-Sharīʿah* with regard to entrepreneurship and investment theory is still sparse and needed (Shehu *et al*., 2015; Shinkafi *et al*., 2017).

The current global finance practice does not align with the principle of *maqāṣid al-Sharīʿah* (Zaman, 2019). Existing literature emphasises the capital structure of corporate companies and overlooks compliance with Sharīʿah principles (Cheema *et al.*, 2017; Husaeni, 2018; Yildirim *et al*., 2018; Rifin *et al.*, 2019; Kahya *et al.*, 2020; Nizam *et al*., 2020; Raghibi & Oubdi, 2021). Research on *maqāṣid al-Sharīʿah* in the context of the new corporate capital structure revealed that *maqāṣid al-Sharīʿah* could be linked to the theory of capital structure (Zaman *et al.*, 2019).

In recent years, research on the capital structure of small and medium enterprises (SMEs) has also become a focus of attention because SMEs play a critical role in promoting economic growth, particularly in less developed countries (Daskalakis *et al*., 2017; Ullah, 2020). However, SMEs' role in accelerating the economy is subject to long-term funding availability (Dowling *et al*., 2019). Fund access is one of the significant costs impeding SME growth. Such constraints, frequently attributed to inadequate collateral, perceived illiquidity, information asymmetry and agency problems, highlight that finance is at the heart of SMEs' entrepreneurship (Block *et al*., 2018).

There is a big difference between the capital structure of SMEs and large companies. Therefore, many studies focus on the peculiarities of SMEs' capital structure. Research has also proven that the theory of corporate capital structure can only be applied in a limited way in SMEs (Daskalakis *et al*., 2017). Conventional capital structure theory has failed to explain managers' preferences and norms in SME funding decisions (Al-Balushi *et al*., 2018). In Indonesia, Muslim entrepreneurs still face problems related to financing (Fathonih *et al*., 2019). Al-Balushi *et al*. (2019) state that determining the level of debt and equity is a function of the company's characteristics and its owners. In SMEs, the owner is also a manager, so the characteristics of the SME owner will determine the choice of capital sources. For SME owners who are Muslims, Islamic characteristics will have an impact on their capital structure decisions.

Debate on the prominence of religion in financial decision-making is evolving. The prevalence of religion in financial decisions is evidenced by a growing number of publications acknowledging the role of religious values in decision-making (Roof, 2015; Mohamed & Ruth, 2016; Adawiyah & Pramuka, 2017; Yildirim *et al*., 2018). Available literature reveals that SMEs rely more on their own money as a source of funds due to religious motives on the alleged prohibition of bank interest or usury (Malmström, 2014; Rita & Muharam, 2018). Businesses are given a place of honour in Islam (Adi & Adawiyah, 2018). Islam provides guidelines for the followers to do business to seek profit and not to be involved in usury. Instead of using bank debts, religious people use close connections and informal partnerships, such as family and friends, as their business funding sources (Adomdza *et al.*, 2016).

Islam is an inherent part of every Muslim's work behaviour, making it highly relevant for discussion. However, there is a dearth of inquiries that incorporate Islamic values with entrepreneurial finance. It is worth looking at why limited research has been done in the two areas. Such a review will illustrate the uniqueness of the issue and provide a new direction for future research. Islamic finance offers a practical solution to economic problems among societies (Laldin & Furqani, 2013). However, Yildirim *et al.* (2018) argued that the theory of capital structure from a Sharīʿah perspective is still deficient.

Therefore, this study will build a theoretical concept that connects *maqāṣid al-Sharīʿah* with the capital structure of SMEs whose owners are Muslims. The theoretical concept of capital structure used here is based on the theory of entrepreneurial finance. This theory answers the question of how much capital must be obtained and collected, when to obtain it, from whom it can be obtained, what is a fair assessment of the new venture, how to make a funding contract, and so on (Denis, 2004). The entrepreneurial finance research landscape has been continuously evolving in recent years. Despite its phenomenal growth, the academic literature that discusses entrepreneurial finance theory is still in the infancy stage. Past research on entrepreneurial finance has been hindered by the lack of a more comprehensive yardstick covering a broader range of human life aspects, including religion. Therefore, there is much room for further investigation and a high need for specific new trends in entrepreneurial finance from both practical and theoretical perspectives.

The paper's overarching contributions are: first, this research adds to the development of the capital structure theory based on the Sharīʿah perspective; second, it contributes to the advancement of the capital structure theory in addressing SME funding issues from the demand side because the theory of entrepreneurial financing from the recipient's perspective has not been studied much (Moghaddam *et al*., 2017; Rita & Muharam, 2018); third, this research provides policy input to stakeholders in the SME field; and fourth, this research provides practical guidelines relevant to SMEs through the advancement of the capital structure theory.

The paper is organised as follows: the second section reviews the existing literature on entrepreneurial finance and *maqāṣid* entrepreneurial finance (MEF). The third section discusses the research methodology used in developing indicators for MEF measurement. The fourth section discusses the results using factor analysis MEF. The last section concludes with some recommendations for future research.

LITERATURE REVIEW

Entrepreneurial Finance Development and Current Issues

Entrepreneurial finance theory that combines finance and entrepreneurship has become a new stream in the financial literature (Moghaddam *et al*., 2017; Rita & Muharam, 2018). However, developing the entrepreneurial finance theory was difficult at its initial stage because entrepreneurship was isolated from finance (Mitter & Kraus, 2011). The development of entrepreneurial finance research is like two sides of a coin (Cumming & Vismara, 2017; Murzacheva *et al.*, 2020). One side offers the universal model based on the two basic financial theories, i.e., pecking order and trade-off, while the other side discusses more on the funding gap issue. This paradox can be resolved by undertaking more research from a religious theory perspective, which is currently lacking.

Existing literature on entrepreneurial finance focuses on different types of funding sources available for SMEs across nations (Denis, 2004; Cumming *et al*., 2019). However, existing studies on entrepreneurial finance research are still segmented (Cumming & Vismara, 2017) and tend to focus on particular sub-topics of financing (Moghaddam *et al.*, 2017), such as financial contracts, financial gaps, capital availability, public policies, international differences in institutions, and culture (Lins, 2016), angel finance or partnerships (Harrison & Mason, 2000; White *et al*., 2017) and venture capital (Bellavitis *et al.*, 2014; Alsharif, 2015; Burchardt *et al.*, 2016; Klonowski, 2016; Anwer *et al.*, 2019; Glücksman, 2020; Iyer, 2020). The most developed dimensions of entrepreneurial finance research relate to the supply side, such as venture capital, banks and angel investment (Block *et al*., 2018). The demand side funding process, such as entrepreneurs' characteristics and preferences, is slightly overlooked (Moghaddam *et al*., 2017).

Until 2020, there was an absence of research in entrepreneurial finance that examines religion's role in funding decisions. Enriching the literature on the interaction of religion and finance is critical because the religion embraced by the vast majority of a country's population can determine a company's financial decisions (Díez-Esteban *et al*., 2018). Indonesia is a Muslim-majority country. Indonesians uphold religious values in their lives, making it inseparable from the community's life (Fathonih *et al*., 2019).

The growing importance of religion in business life raises the need for developing an entrepreneurship financial stance from an Islamic perspective (Gümüsay, 2014). Hence, theoretically, this study offers some new insights by examining the role of Islamic values (read *maqāṣid al-Sharīʿah*) in funding decisions. According to Kholish *et al*. (2020), *maqāṣid al-Sharīʿah* offers solutions to economic and financial problems.

The Rationale of Developing *Maqāṣid* Entrepreneurial Finance

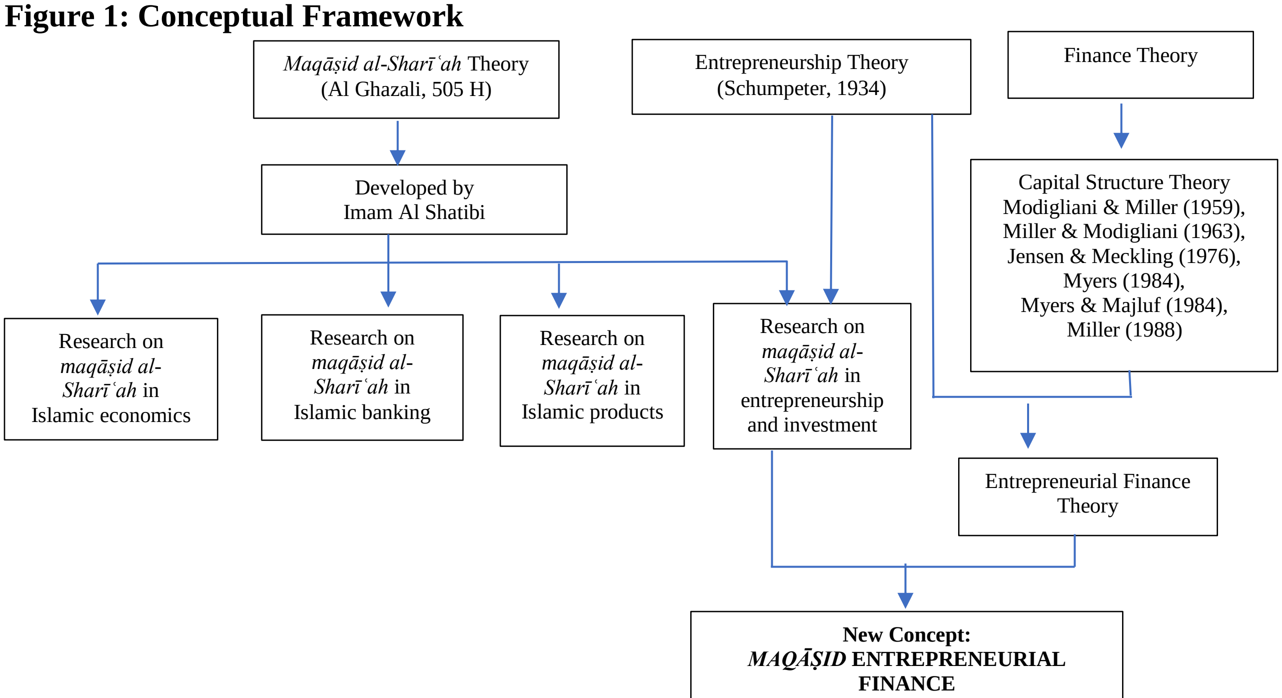
The word *maqāṣid* means goals, purposes or objectives. Sharīʿah, in limited use, refers to Islamic law (Lamido, 2016). In achieving *maqāṣid al-Sharīʿah*, it is necessary to apply *maṣlahah*, which, linguistically, means 'benefit' or 'interest'. It is interpreted to mean what is good, useful and accepted by common sense. *Maqāṣid al-Sharīʿah* aim to realise human benefits by fulfilling the five basic needs of religion, life, family, intellect, and wealth.

MEF, a coherent assessment of *maqāṣid al-Sharīʿah* and entrepreneurial finance, is rooted in three basic theories: religion, finance and entrepreneurship. Entrepreneurial finance can be developed to reflect interdisciplinary subjects of various sciences (Cumming & Groh, 2018). *Maqāṣid al-Sharīʿah* is a relevant concept for entrepreneurship and finance (Dusuki & Bouheraoua, 2011; Laldin & Furqani, 2013; Shehu *et al*., 2015; Shinkafi *et al*., 2017; Zaman *et al.,* 2019). Moreover, research on the advancement of Sharīʿah in Islamic investment management is still very much needed (Shehu *et al.*, 2015; Shinkafi *et al.*, 2017) to safeguard managers from violating Islamic values while in business (Shehu *et al*., 2015).

In the last few decades, research on the application of *maqāṣid al-Sharīʿah* in economics and finance has proliferated. For example, Abdullah and Mikail (2013) investigated how to apply *maqāṣid al-Sharīʿah* as the basis for developing the terms and rules to be applied in businesses by a Muslim entrepreneur. Hudaif and Noordin (2019) explored the espousal of *maqāṣid al-Sharīʿah* as one of the grounds of economic study. A recent paper by Zaman *et al.* (2019) examined tax-saving capital structure theory using Islamic finance experts as respondents. Similarly, Kurniawati *et al.* (2020) attributed success in the performance of SMEs to Sharīʿah values.

This research explores existing literature by offering a more comprehensive concept by integrating three basic theories—*maqāṣid al-Sharīʿah*, entrepreneurship and finance—in a small business context. **Figure 1** illustrates the conceptual framework adopted in this study.

Figure 1: Conceptual Framework



Source: Authors' own

RESEARCH METHODOLOGY

Sample

This research was conducted on 60 SME owners located in Banyumas Regency, Central Java Province, Indonesia. The sample size determination was based on Johanson and Brooks (2010), which suggested a minimum of 30 for scale development sample. Convenient sampling techniques were employed with some inclusive criteria. Only SMEs with Muslim owners and employing a minimum of five workers were included in the study. According to the Indonesian Central Statistics Agency, small businesses employ 5–19 workers while medium-sized businesses have 20–100 employees.

All distributed questionnaires were filled in and returned, making a response rate of 100 per cent. The age of the respondents was between 19–68 years. Based on their business characteristics, the SMEs are categorised into manufacturing, merchandising and services companies. The vast majority of the respondents have been in business for one to 40 years.

Researchers also consulted experts and practitioners who work in Islamic financial management, Islamic accounting, Islamic economics and SMEs to test the items' content validity. Five academics were involved in the focus group discussion (FGD), representing each study field from two well-known universities in Indonesia. Other FGD participants were practitioners from Islamic financial institutions and SME owners/managers, with a minimum of 10 years of experience.

Material

A survey was employed to operationalise and measure MEF as the variable of interest. MEF is a capital structure based on *maqāṣid al-Sharīʿah*.

This research improves indicators based on careful evaluation of existing literature (see, Chapra, 2008; Budiman *et al.*, 2015; Shehu *et al.*, 2015). The 12 *maqāṣid al-Sharīʿah* indicators used in this study represent the five mandatory Islamic jurisprudence goals: protecting religion (*dīn*), life (*nafs*), family (*nasl*), intellect (*ʿaql*) and wealth (*māl*). Question items number 11 and 12 represent the purpose of preservation of *dīn*. Items number 9 and 19 measure the purpose of preservation of *ʿaql*. Item number 16 shows the purpose of keeping *nasl*. Item number 10 shows the purpose of preserving *nafs*, while preservation of *māl* is shown in question items number 8, 13, 14, 15, 17 and 18.

Meanwhile, the seven entrepreneurial finance items developed in this study were adopted from Harrison *et al*. (2004) concerning loan guarantees. Rita and Muharam (2018) identified the other six questions related to funding sources acquisition at the initial and business expansion stages.

Procedure

This study was designed in two phases: item development and scale measurement to ensure valid and theoretically sound instruments. MEF was initiated through a thorough literature review to obtain a rigorous and conceptually clear concept at the first stage. Having a clear concept is crucial in developing a new construct (Adawiyah & Pramuka, 2017). The second stage was about advancing the newly developed concept of MEF into a measurement.

Question Item Development Stage

The authors started by developing a questionnaire containing items related to the novel concept being offered. The developed measure met all the necessary criteria of objectivity, quality, validity and reliability (Sinclair, 1975).

The developing stage begins with an understanding of the novelty concept of the MEF based on the quest for previously developed instruments. Efforts to construct MEF as a new measure should start with a rigorous definition of it. Without valid, theoretically grounded instruments to assess the MEF, it is more difficult for this research to advance in a rigorous and conceptually clear manner. Relating the measurement instrument and a clearly articulated MEF meaning provides an established degree of conceptual clarity among most entrepreneurial finance steps. The multidimensional evaluation of the construct allows for the analysis of more nuanced research problems than the rough unidimensional MEF measurements.

The next step of construct development relates to content validity. Efforts were made to write rigorous items that exclude slang words and are suitable for a broad range of national groups. For the data to be valid when factor analytical techniques are applied, researchers have tried to write a wide-ranging element that excessively sampled the structure to represent the various approaches of describing the construct of MEF.

Initially, the authors proposed nine items to represent MEF. The nine items were conceptualised based on past studies on entrepreneurial finance and *maqāṣid al-Sharīʿah*. The items were then tested for their content validity through the FGD. This stage aims to solicit input from experts and practitioners in Islamic economics, Islamic financial management, Islamic accounting and SMEs regarding the proposed items. Researchers received substantial input during the FGD to develop 19 question items as MEF measures.

Measurement Scale Development Stage

This study uses Likert measurement, a psychometric scale commonly used in psychology and other social science studies employing a questionnaire as a means of data collection. According to Vagias (2006), a Likert scale is a scale in a survey that gives several responses from one extreme to the other.

The next step in validating the measurement was exploratory factor analysis (EFA). This stratagem adheres to Churchill's (1979) opinions, suggesting that the basis for sampling was an infinitely large correlation matrix indicating the degree of relationship among items. The reliability test was performed using Cronbach's alpha. The alpha coefficient is the first measure calculated to assess the quality of the instrument. A low alpha coefficient indicates that a sample item is of poor quality, while a high alpha coefficient indicates a good quality sample item. Factor analysis, the principal component extraction method with Varimax rotation, was used to confirm the validated dimensions (Churchill, 1979).

Confirmatory factor analysis (CFA) was used to assess whether MEF measurements were compatible with an interpretation by previous researchers' existing works. The goal is to assess if the proposed items fit into an MEF measuring model. The main benefit of CFA is the ability to assess the construct validity of the proposed theory test. Construct validity measures the extent to which the indicator measure can reflect its latent theoretical constructs.

RESULTS

Question Item Development Stage

The researchers conducted an exploratory study on literature related to entrepreneurial finance and *maqāṣid al-Sharīʿah*. The study resulted in nine items. Then the researchers consulted five experts for MEF's face validity. The experts suggested ten additional items on top of the existing nine questions, thus totalling 19 items in all, as indicated in **Table 1**. These indicators were then tested using a five-point Likert scale.

Measurement Scale Development Stage

The results of the respondents' answers are presented in **Table 2**.

Table 1: Question Indicators

No.	Statement	References
1	At the first stage of establishing a business, we use an interest-free loan from a financial institution (e.g., bank, cooperative).	Harrison *et al*. (2004); Chapra (2008); Budiman *et al*. (2015); Shehu *et al*. (2015); Rita & Muharam (2018)
2	At the first stage of establishing a business, we use equity to make a halal investment.	
3	At the first stage of establishing a business, we use capital from friends or family with a profit-sharing system following Sharīʿah.	
4	In the stage of business development, we avoid debt from financial institutions (e.g., banks, cooperatives) that contain interest.	
5	In the stage of business development, we take an interest-free loan from the family.	
6	In the business development stage, we invest by buying new assets for the company.	
7	We have to provide collateral when applying for financing under a profit-sharing scheme.	
8	In investing, we always consider the risks that will be accepted by the company's capital owners.	
9	We use technology to manage company capital effectively.	
10	In a company, there is a clear allocation of profits and losses.	
11	We always pay attention to the element of fairness in the distribution of company profits.	
12	We always maintain the trust of those who provide the company's capital.	
13	We always pay attention to effectiveness in the use of company capital (avoid wasteful spending).	
14	We always try to maintain the stability of the company's revenue.	
15	We always set aside the company's income to make zakat payments and give donations.	
16	We distribute zakat and *ṣadaqah* to educational institutions.	
17	We avoid company revenue that comes from fraudulent activities, hoarding and bribery.	
18	Some of the company's profits are retained for reinvestment in halal activities to meet future needs.	
19	Some of the company's profits are set aside for research and development of the company's products.	

Source: Authors' own

Table 2: Respondents' Answers

No.	Statement	Frequency of Respondents' Answers					Average
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
1	At the first stage of establishing a business, we use an interest-free loan from a financial institution (e.g., bank, cooperative).	18.3	58.3	1.7	16.7	5.0	2.31
2	At the first stage of establishing a business, we use equity to make a halal investment.	0	16.7	3.3	28.3	51.7	4.15
3	At the first stage of establishing a business, we use capital from friends or family with a profit-sharing system following Sharīʿah.	11.7	61.7	1.7	16.7	8.3	2.48
4	In the stage of business development, we avoid debt from financial institutions (e.g., banks, cooperatives) that contain interest.	5.0	30.0	6.7	31.7	26.7	3.45

Table 2: Respondents' Answers (Cont.)

No.	Statement	Frequency of Respondents' Answers					Average
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
5	In the stage of business development, we take an interest-free loan from the family.	15.0	53.3	1.7	21.7	8.3	2.55
6	In the business development stage, we invest by buying new assets for the company.	1.7	18.3	10	45	25	3.73
7	We have to provide collateral when applying for financing under a profit-sharing scheme.	5	28.3	38.3	18.3	10	3.00
8	In investing, we always consider the risks that will be accepted by the company's capital owners.	0	10.0	26.7	41.7	21.7	3.75
9	We use technology to manage company capital effectively.	6.7	40.0	6.7	30	16.7	3.10
10	In a company, there is a clear allocation of profits and losses.	0	48.3	20	16.7	15	2.98
11	We always pay attention to the element of fairness in the distribution of company profits.	0	28.3	21.7	31.7	18.3	3.40
12	We always maintain the trust of those who provide the company's capital	0	1.7	18.3	51.7	28.3	4.06
13	We always pay attention to the effectiveness in the use of company capital (avoid wasteful spending).	0	13.3	18.3	35	33.3	3.88
14	We always try to maintain the stability of the company's revenue	0	30.0	10.0	25.0	35.0	3.65
15	We always set aside the company's income to make zakat payments and give donations.	0	11.7	3.3	43.3	41.7	4.15
16	We distribute zakat and *ṣadaqah* to educational institutions.	6.7	45.0	6.7	30.0	11.7	2.95
17	We avoid company revenue that comes from fraudulent activities, hoarding and bribery.	3.3	1.7	3.3	40.0	51.7	4.35
18	Some of the company's profits are retained for reinvestment in halal activities to meet future needs.	3.3	13.3	6.7	41.7	35.0	3.92
19	Some of the profits obtained by the company are set aside for research and development of the company's products.	0	38.3	6.7	40.0	15.0	3.32

Source: Authors' own

After obtaining the respondents' answers, the next step is to clear the measurement. This step is carried out by factor analysis. Hair *et al*. (2014) state that factor analysis examines the correlation between several variables by grouping highly related variables called factors. Factor analysis can use explanatory and confirmatory analysis.

Exploratory Factor Analysis

EFA is useful for exploring data and providing information to researchers about the factors needed to represent data. In this study, EFA testing was carried out using the Keiser Meyer Olkin (KMO) test. This study uses two methods to determine the suitability of factor analysis. The first method is the value of Bartlett's Test of Sphericity. The significant test results show that the correlation matrix has a significant correlation between several variables. The second method is by looking at the measure of sampling adequacy (MSA) values. MSA values which are ≥0.80 indicate very good predictions; values ≥0.70 are a good prediction; values ≥0.60 reflect moderate predictions; values ≥0.50 are bad predictions; and values <0.50 are very bad predictions (Hair *et al.*, 2014).

This study tests the reliability analysis using Cronbach's alpha method (Sinclair, 1975). Cronbach's good neglect value is more than 0.70. However, for exploratory research, Cronbach's alpha value of 0.60 is still allowed (Hair *et al.*, 2014).

The KMO test results are shown in **Table 3**. The KMO value shows a number of 0.568 and Bartlett's test value of 337.729 (significant at the 1 per cent level, P-value = 0.000), which means that factor analysis can be continued.

Table 3: KMO Testing Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.568
Bartlett's Test of Sphericity	Approx. Chi-Square	337.729
	Df	171
	Sig.	0.000

Source: Authors' own

This study has tested the statement items used. The test uses Cronbach's alpha method of reliability analysis. The test results show a figure of 69.5 per cent. Factor analysis uses the principal method of component extraction with varimax rotation.

Table 4 shows the factor analysis results by showing the value of the loading factor, the Eigenvalue, the percentage of variance explained by the factors, and the cumulative percentage of the variance described. Of the 19 statements, 16 statements can form a factor. Factor analysis testing can form seven factors. The first factor (MEF1) is generating and distributing profit. The second factor (MEF2) is the interest-free source of capital. The third factor (MEF3) is the distribution income for zakat and *ṣadaqah*. The fourth factor (MEF4) is a provision from income for reinvestment. The fifth factor (MEF5) is avoiding non-halal activities investment. The sixth factor (MEF6) is trustworthiness to capital providers. The seventh factor (MEF7) is the use of capital for a new operating asset. The test results showed that 68.743 per cent of the factors formed were able to explain variations in the data.

Hair *et al.* (2014) stated that, in addition to seeing the results of correlation testing between variables, factor analysis must also look at the test results individually. Researchers must look at each variable's factor analysis value and delete the factor analysis, which is 0.5. The factor analysis table above shows that two factors have a value of 0.5, namely the 8th and 12th factors. So, these factors are removed. Furthermore, the researchers conducted a re-analysis with the results shown in **Table 5**.

Table 4: Factor Analysis Test Results

No.	Dimensions of Factor Analysis	Factor Loading	Eigen Value	Percentage of Variance Explained	Cumulative Percentage of Variance Explained
MEF1	**Generating and Distributing Profit**				
M13	We always pay attention to the effectiveness of the use of company capital (avoid wasteful spending).	0.858			
M10	In a company, there is a clear allocation of profits and losses.	0.784			
M14	We always try to maintain the stability of the company's revenue.	0.783	3.751	19.744	19.744
M11	We always pay attention to the element of fairness in the distribution of company profits.	0.705			
M8	In investing, we always consider the risks that will be accepted by the company's capital owners.	0.544			
MEF2	**Interest-Free Source of Capital**				
M5	In the stage of business development, we take an interest-free loan from the family.	0.859			
M4	In business development, we avoid debt from financial institutions (e.g., banks, cooperatives) that contain interest.	0.644	2.267	11.934	31.628
M3	At the first stage of establishing a business, we use capital from friends or family with a profit-sharing system following Sharīʿah.	0.616			
MEF3	**Distribution of Income for Zakat and *Ṣadaqah***				
M15	We always set aside the company's income to make zakat payments and give donations.	0.813	1.640	8.632	40.310
M16	We distribute zakat and *ṣadaqah* to educational institutions.	0.742			
MEF4	**Provision from Income for Reinvestment**				
M19	Some of the company's profits are set aside for research and development of the company's products.	0.773	1.567	8.248	48.558
M18	Some of the company's profits are retained for reinvestment in halal activities to meet future needs.	0.637			
MEF5	**Avoid Non-Halal Activities/Investment**				
M17	We avoid company revenue that comes from fraudulent activities, hoarding and bribery.	0.707	1.366	7.188	55.746
M2	At the first stage of establishing a business, we use equity to make a halal investment.	0.700			
MEF6	**Trustworthy to Capital Providers**				
M12	We always maintain the trust of those who provide the company's capital.	0.575	1.298	6.829	62.575
MEF7	**Use of Capital for New Operating Asset**				
M6	In the business development stage, we invest by buying new assets for the company.	0.749	1.172	6.168	68.743

Source: Authors' own

Table 5: Results of KMO Re-Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.609
Bartlett's Test of Sphericity	Approx. Chi-Square	211.771
	df	91
	Sig.	0.000

Source: Authors' own

Retesting shows a higher KMO value of 0.609 and a significant Bartlett's test of sphericity value at the 0.000 level. The reliability testing results using Cronbach's alpha showed a lower figure of 0.645 or 64.5 per cent. Even though there was a decrease in Cronbach's alpha value, this figure was still higher than 0.6, so the test was still reliable. The results of retesting the factor analysis are presented in **Table 6**.

The result of the re-factor analysis test shows that six factors are formed. MEF6 was removed from the factor analysis because it had a low loading factor. The six factors indicate that 73.419 per cent are formed from factor analysis. This figure shows a higher number than the first-factor analysis.

Confirmatory Factor Analysis

CFA is used to test the multidimensionality of a theoretical construct. CFA can test how well the measured variable represents a small number of constructs (Hair *et al.*, 2014). Structural equation modelling (SEM) is used for CFA testing. Identifying the SEM model is related to the adequacy of the information provided to identify structural equations.

The first test results show that the model is unidentified. An unidentified model means that the model has more parameters to estimate than the variance of the unique indicator variable and the covariance in the observed variance/covariance matrix (Hair *et al.*, 2014). Therefore the researchers removed MEF7, which had only one question indicator. Then for MEF3, MEF4 and MEF5, which have two question indicators, they can be solved by constructing the model. One way to construct the model is by assuming that one parameter has the same value. Hayduk (1987) states that it is better to have the correct model than to estimate and identify the wrong model. The CFA results after the constraint equalisation are shown in **Figure 2**.

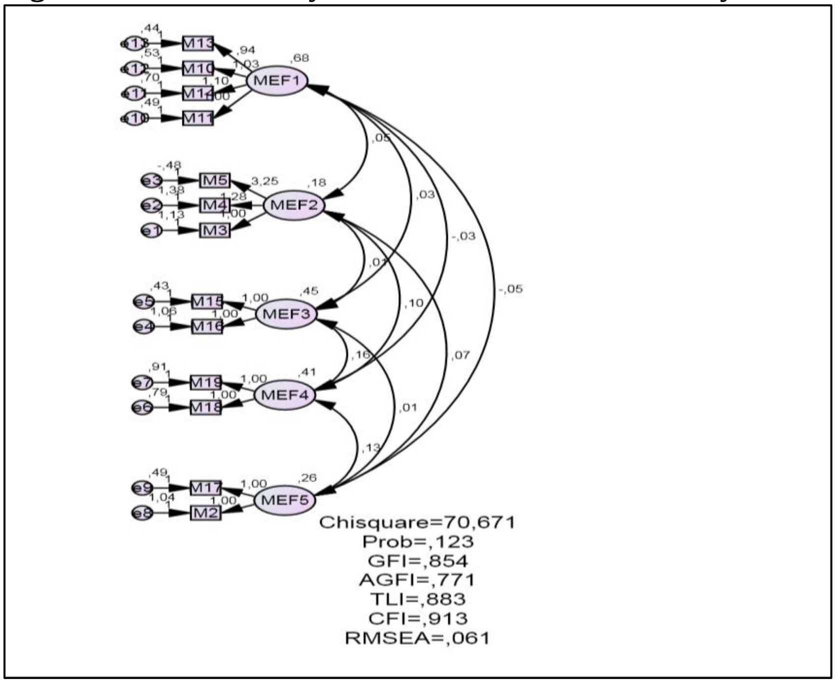
The CFA test results showed that Chi-square obtained the number 70.671 with a probability of 0.123 (greater than 0.05) and RMSEA of 0.061 (smaller than 0.08). Based on these results, the model has met the model fit.

Table 6: Retesting the Factor Analysis

No.	Dimensions of Factor Analysis	Factor Loading	Eigen Value	Percentage of Variance Explained	Cumulative Percentage of Variance Explained
MEF1	**Generating and Distributing Profit**				
M13	We always pay attention to the effectiveness of the use of company capital (avoid wasteful spending).	0.840	2.997	21.409	21.409
M10	In a company, there is a clear allocation of profits and losses.	0.835			
M14	We always try to maintain the stability of the company's revenue.	0.812			
M11	We always pay attention to the element of fairness in the distribution of company profits.	0.771			
MEF2	**Interest-Free Source of Capital**				
M5	In the stage of business development, we take an interest-free loan from the family.	0.854	2.189	15.639	37.048
M4	In the business development stage, we avoid debt from financial institutions (e.g., banks, cooperatives) that contain interest.	0.736			
M3	At the first stage of establishing a business, we use capital from friends or family with a profit-sharing system following Sharīʿah principle.	0.591			
MEF3	**Distribution of Income for Zakat and *Ṣadaqah***				
M15	We always set aside the company's income to make zakat payments and give donations.	0.830	1.513	10.806	47.855
M16	We distribute zakat and *ṣadaqah* to educational institutions.	0.777			
MEF4	**Provision from Income for Reinvestment**				
M19	Some of the company's profits are set aside for research and development of the company's products.	0.803	1.366	9.758	57.612
M18	Some of the company's profits are retained for reinvestment in halal activities to meet future needs.	0.712			
MEF5	**Avoid Non-Halal Activities/Investment**				
M17	We avoid company revenue that comes from fraudulent activities, hoarding and bribery.	0.764	1.153	8.233	65.845
M2	At the first stage of establishing a business, we use equity to make a halal investment.	0.655			
MEF7	**Use of Capital for New Operating Asset**				
M6	In the business development stage, we invest by buying new assets for the company.	0.920	1.060	7.574	73.419

Source: Authors' own

Figure 2: Confirmatory Test Results for Factor Analysis



Source: Authors' own

DISCUSSION OF RESULTS

The outcome of the factor analysis yields five distinct factors. The primary component contributing to the explanation of 21.409 per cent of the MEF is the generation and distribution of profit. According to Budiman *et al.* (2015), the act of safeguarding wealth involves the implementation of financial management strategies, the prevention of unnecessary expenditures and the encouragement of saving behaviours. The first factor is derived from a set of five statements, encompassing the efficacy of capital utilisation, the distribution of profits, the stability of income, the equity of profit-sharing, and the assessment of investment risk. These elements are associated with the concept of MEF1, which pertains to the generation and distribution of profit with the objective of safeguarding the value of wealth. In order for SMEs to utilise capital resources obtained from loan money, as well as from friends and family, it becomes necessary for them to implement profit-sharing mechanisms that align with the principles of Sharīʿah. In the realm of Islamic finance, the principle of risk-sharing or profit-sharing entails that the entities participating in a transaction are obligated to assume the associated risks in proportion to their respective capital contributions. In contrast, in the context of profit-sharing, investors possess the prerogative to engage in negotiations on the distribution of profits. This is primarily due to the prevalence of investors with greater expertise, hence justifying a proportionately elevated allocation of profits (Kaakeh, 2018).

One further determinant that accounts for the phenomenon of MEF is the availability of interest-free capital. This component accounted for 15.639 per cent of the variance in MEF. According to Chapra (2008) and Shehu *et al.* (2015), the preservation of religion entails the worship of Allah (SWT) through the performance of halal actions in accordance with Sharīʿah principles. The second aspect comprises three statements: first the provision of interest-free loans from relatives; second, access of funds from Islamic-based financial institutions, and finally the utilisation of financing based on profit-sharing mechanism. The three statements pertain to the preservation of religious values during the process of formulating the company's capital structure. According to Yazid *et al.* (2015), the concept of *maqāṣid al-Sharīʿah* encompasses principles, legal norms and regulations. Hence, it is imperative to acknowledge that the utilisation of *maqāṣid al-Sharīʿah* must not be employed to engage in activities that are explicitly forbidden, such as partaking in interest-based transactions. The Islamic financial system prioritises the equitable sharing of wealth. Islamic finance is primarily focused on the concept of profit-and-loss sharing as a substitute for the interest-based framework commonly found in conventional finance. According to Fathonih *et al.* (2019), it is possible for capital providers to impose a requirement for enterprises to adhere to Sharīʿah principles.

The third component that impacts the MEF is the provision for the allocation of income for zakat and *ṣadaqah*. This component accounted for 10.806 per cent of the variance in MEF. According to Chapra (2008), the purpose of safeguarding the family in accordance with Sharīʿah can be achieved through the pursuit of education, the promotion of moral development, and the satisfaction of necessities. The third aspect comprises two components: the provision for zakat and *ṣadaqah*, as well as the allocation of funds to educational establishments. According to Hassan (2015), Muslim entrepreneurs generate halal income and profits in order to engage in financial endeavours, including the fulfilment of zakat obligations. According to Budiman *et al.* (2015), the act of giving *ṣadaqah* is seen as a representation of effective wealth management from an Islamic standpoint.

The fourth factor, provision from income for reinvestment, can explain MEF by 9.758 per cent. Budiman *et al.* (2015) state that one of the goals of safeguarding wealth in *maqāṣid al-Sharīʿah* can be achieved by avoiding debt. For companies, one of the main sources of capital besides debt is to use retained earnings. This fourth factor is formed because some of the profits are used for research and development and reinvestment in the company. Myers (1984), through the pecking order theory, states the first choice; the company will use an internal capital source, i.e., retained earnings, to meet its capital needs. The company will be more profitable if it holds more profits. Thus, the amount of debt owed by the company will decrease. Following Budiman *et al.*'s (2015) statement, debt is allowed in Islam but must be taken on carefully and recorded properly. Freedom from debt can make a positive contribution to the measurement of wealth. The source of capital for SMEs, aside from personal savings and family capital, is to use retained earnings. The use of internal capital will reduce the risk to SME owners of business collapse (Urim & Imhonop, 2015). This was also reinforced by Thaker *et al*. (2016), who mentioned that one of the primary sources of SME capital is personal savings and retained earnings. Martinez-cillero *et al.* (2020) find that SMEs with access to non-bank financing have a higher level of investment.

The fifth factor, avoiding non-halal activities/investment, explains MEF by 8.233 per cent. Preservation of wealth can be achieved by developing wealth (Budiman *et al.*, 2015). One way that this can be done is through investing. Shehu *et al.* (2015) explain that *maqāṣid al-Sharīʿah* require us to avoid income from fraud, hoarding and bribery. The fifth factor is formed from the statement about avoiding non-halal income or making halal investments. Lu and Chan

(2012) state that Muslims are less likely to invest in risky investments than other religious communities as Islam requires the avoidance of investments that have excessive risk (*gharar*). Islam also encourages people to become entrepreneurs because entrepreneurship is a way to obtain halal income. Halal companies produce halal products and services, make halal investments, and commit to using Islamic values in their operations.

CONCLUSION

The purpose of this study is to develop and validate a scale to measure MEF. The findings support Yildirim *et al*.'s (2018) claim, arguing that religion plays a pivotal role in financial decisions. This study is based on three basic theories relating to religion, finance and entrepreneurship. It integrates *maqāṣid al-Sharīʿah* principles with entrepreneurial finance theory in developing the proposed scale. Unlike the previous work in entrepreneurial finance, this study considers the influence of entrepreneurs' religious orientation when making financial decisions. The results of the factor analysis show that five factors make up the MEF. These factors relate to generating and distributing profit, interest-free source of capital, distribution of income for zakat and *ṣadaqah*, provision from income for reinvestment, and avoiding non-halal activities/investment.

The introduction of MEF as a new viewpoint on SME capital structures theory is among the contributions of this paper. The new data-collection instrument developed in this study allows the analytical analysis and the general knowledge of MEF to be developed and applied more efficiently. This scale will help verify the relationship between MEF and its effect on several endogenous variables such as small businesses' efficiency and how small businesses deal with environmental changes that affect financial choices. Future research can test the MEF variable as an independent variable, a moderating variable, or a mediating variable in financial research. A range of small business types across nations may gain theoretically and empirically from the insights in this study.

In practice, this paper provides guidance to academicians and managers on how MEF dimensions are constituted by means of the research tool built and validated in this paper. For SME owners, the results of this study confirmed that *maqāṣid al-Sharīʿah* can be integrated into the capital structure of SMEs. SME owners should consider interest-free sources of capital and retained earnings. In addition, in managing their capital, Muslim SME owners must adopt the profit-sharing principle, set aside income for the payment of zakat and *ṣadaqah*, and only carry out halal activities.

However, among the limitations of this study is that the analysis has been carried out in one area in Indonesia, limiting its generalisability across contexts. To ensure its validity, the instruments could be tested in other settings. Moreover, the MEF measurements developed in this study have not comprehensively demonstrated the five objectives of *maqāṣid al-Sharīʿah*. Further research is needed to develop this concept more comprehensively.

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