

Application of the Principles of Islamic Civil Law in Small and Medium Business Partnerships

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Abstract: Partnerships in Small and Medium Enterprises (SMEs) in Indonesia often encounter challenges in adhering to Islamic principles such as *syirkah* (partnership), justice, transparency, and social responsibility. Therefore, there needs to be a commitment from the government, financial institutions and business actors to encourage the implementation of Islamic law values in business practices. This study aims to find solutions in implementing these principles in Small and Medium Enterprise partnerships in Indonesia. The methods employed include a qualitative approach, utilizing in-depth interviews and case studies to gain a deeper understanding of current practices and the challenges faced. The research results show that although Islamic legal principles have great potential to form fair and sustainable partnerships, their implementation is often not optimal. The principles of *syirkah* are often not applied fairly, justice in the distribution of profits is often hampered by power, transparency is often ignored, and social responsibility is often given little attention. The conclusion of this research is that to increase the application of Islamic legal principles in Small and Medium Enterprise partnerships, greater efforts are needed in regulatory reform, increased education, and support from sharia financial institutions. This approach aims to promote fairer and more sustainable business practices while ensuring that the principles of Islamic law are effectively implemented within the context of Small and Medium Enterprise partnerships.

Introduction

Partnerships between Small and Medium Enterprises (SMEs) and larger entities have become a key focus in efforts to strengthen the economy and empower local communities (Nugraheni, 2020). These partnerships are not only seen from an economic perspective, but also from a legal perspective, including Islamic law which has its own principles in regulating business relationships (Zia, 2020). In this context, the study of Small and Medium Enterprises partnerships based on the perspective of Islamic law becomes very relevant, especially in countries with a Muslim majority population such as Indonesia. Meanwhile, the interest of Indonesian people in implementing sharia business is relatively high (Maulidiana & Famulia, 2023).

Islamic law offers a comprehensive concept in regulating business partnerships, known as *syirkah* or partnership. *Syirkah* in Islamic law includes various forms of business cooperation that aim to achieve mutual

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benefits based on the principles of justice, transparency, and responsibility (Khalidin et al., 2023). These principles are crucial in ensuring that partnerships are mutually beneficial, supporting not only the interests of larger entities but also fostering the growth and sustainability of small and medium enterprises as vital contributors to the economy (Putri, 2020).

Today, many small and medium enterprises (SMEs) face numerous challenges, such as limited access to capital, insufficient technological resources, and increasingly competitive markets. Partnerships with large companies or financial institutions are often seen as a solution to address these challenges. However, without a clear and fair legal framework, such partnerships can become unbalanced, with the stronger party dominating the weaker party. In this case, Islamic law offers a solution by emphasizing the importance of equality, justice, and protection of the rights of all parties involved. The principle of *syirkah* emphasizes that each party in the partnership must have a clear role and contribution, both in terms of capital, manpower, and expertise. In this context, it is important to ensure that the contributions of Small and Medium Enterprises are valued fairly and equally. Islamic law also emphasizes the importance of transparency in business management, where each party must know and understand all aspects of the partnership, including the sharing of profits and risks. This approach aims to prevent injustice and protect Small and Medium Enterprises (SMEs) from potential exploitation (Fakhirin et al., 2023).

Additionally, Islamic law emphasizes that profit distribution in partnerships must be conducted fairly and proportionally, based on the contributions made by each party. This principle differs from some other legal systems that may allow for disproportionate profit sharing, where the stronger party can get a larger portion of the profit even though their contribution is not comparable. In Islamic law, justice in profit sharing is one of the main pillars that must be upheld (Mahmud & Ab Rahman, 2018; Hafid et al., 2024). Not only that, Islamic law also emphasizes the social responsibility of the parties involved in the partnership. This is in line with the concept of *ta'awun* or mutual assistance in goodness and piety, where business partnerships are not only seen as a tool to seek material gain, but also as a means to improve the welfare of society as a whole. In this context, partnerships between Small and Medium Enterprises (SMEs) and larger entities should also take into account their impact on the surrounding community, ensuring that the outcomes of the partnership generate widespread benefits and contribute to social welfare (Zahra, 2021).

In addition to these principles, Islamic law also provides guidelines for resolving disputes that may arise in partnerships, emphasizing fairness, mutual consent, and peaceful resolution through dialogue or mediation. Dispute resolution in Islamic law emphasizes the importance of mediation and peaceful resolution before taking the matter to court. This approach seeks to preserve harmonious relationships between the parties involved while ensuring that the resolution is fair, just, and satisfactory for all stakeholders (Huda & Sumbulah, 2024).

However, the implementation of Islamic legal principles in SME partnerships in Indonesia continues to face numerous challenges. One of them

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is the lack of understanding and consistent application of these principles in everyday business practices. Many business actors prefer to follow the applicable positive law without paying attention to the values of justice offered by Islamic law. Therefore, efforts are needed to socialize and educate business actors about the importance of implementing Islamic legal principles in SME partnerships, as well as providing adequate legal support to ensure that these principles can be implemented effectively. In facing the challenges of globalization and increasingly tight market competition, the application of Islamic legal principles in SME partnerships can also be a competitive advantage (Yolanda et al., 2023). Based on the values of justice, transparency, and social responsibility, SME partnerships that are in accordance with Islamic legal principles can build a good reputation and create high trust among consumers and business partners. Ultimately, this will have a positive impact on the sustainability and growth of SMEs, enabling them to thrive and contribute more effectively to the economy (Amalia, 2020).

Research on the application of Islamic legal principles in SMEs has been conducted, such as the study by Darwis and Saputra (2022), which examines the implementation of *syirkah* principles in SME partnerships in Indonesia. Their findings emphasize that justice and transparency are vital to establishing equitable partnerships that ensure mutual benefits for all involved parties. Similarly, studies by Khalil and Hassan (2021) explored the practical challenges faced by SMEs in applying Islamic principles, particularly in competitive markets. They concluded that partnerships adhering to *syirkah* principles not only foster trust but also enhance sustainability. Additionally, the research of Amirah and Zulkifli (2023) demonstrated how the integration of Islamic legal principles in business collaborations has positively impacted the reputation of SMEs, building stronger relationships with stakeholders and contributing to long-term growth. These findings collectively underscore the relevance of *syirkah* principles as a framework for strengthening SME partnerships in line with Islamic law, especially in predominantly Muslim countries like Indonesia. However, there has been no research that discusses how the principles of Islamic law can be applied to the partnership of Small and Medium Enterprises in Indonesia properly. Therefore, this study aims to explore and analyze this issue in depth.

Overall, the analysis of Small and Medium Enterprise (SME) partnerships from the perspective of Islamic law reveals that Islamic law provides a comprehensive and equitable framework for managing business partnerships, ensuring fairness, mutual benefit, and social responsibility. Principles such as justice, transparency, social responsibility, and peaceful dispute resolution are the main foundations that can ensure that SME partnerships are not only economically profitable, but also provide broad benefits to society and support sustainable economic growth (Ardin & Hidayat, 2020).

In the context of Indonesia, as a country with a Muslim majority population, the application of Islamic legal principles in SME partnerships holds significant potential for further development and widespread adoption. However, this requires commitment from various parties, including the government, financial institutions, and business actors, to jointly encourage

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the implementation of Islamic legal values in daily business practices. Thus, partnerships between Small and Medium Enterprises based on Islamic law will not only be a solution to the economic challenges faced by Small and Medium Enterprises, but will also contribute to the creation of a fairer and more sustainable economy. Therefore, this research seeks to identify effective solutions to ensure the proper application of Islamic legal principles—such as partnership, justice, transparency, and social responsibility—in Small and Medium Enterprise (SME) partnerships in Indonesia.

Method

The research method employed in this study is a qualitative approach using a descriptive-analytical method to provide a detailed understanding and analysis of the subject matter. This approach was chosen to explore in depth the principles of Small and Medium Enterprises (SMEs) partnerships from the perspective of Islamic law. The research relies on both secondary data and primary data obtained through literature study and interviews. Secondary data includes literature on Islamic law, SME partnerships, as well as relevant regulations. This secondary data is gathered through an extensive review of academic papers, books, and official regulations that offer valuable insights into the principles of Islamic law and partnership models in SMEs.

Primary data was collected through interviews with key stakeholders in the SME ecosystem, including SME owners, business consultants, Islamic legal experts, and representatives from Islamic financial institutions. The interviews aimed to gather practical insights and firsthand accounts of how Islamic principles, such as *shirkah*, justice, transparency, and social responsibility, are applied in SME partnerships. The data analysis technique used was content analysis, in which the researcher identified and categorized key concepts relating to Islamic law principles, such as *shirkah* (partnership), justice, and social responsibility. The researcher examined the data from both secondary and primary sources to identify recurring themes and to understand the challenges SMEs face in implementing these principles. Data validity was maintained through triangulation, by comparing and cross-referencing information from various literature sources and interview responses to ensure accuracy and relevance. This triangulation helped validate the findings and ensured that the results reflected a comprehensive understanding of the topic. The results of this analysis were subsequently utilized to assess current SME partnership practices and offer recommendations for the effective application of Islamic legal principles within this context.

Results and Discussion

Application of Islamic Law Principles in Small and Medium Enterprise Partnerships in Improving Business Justice and Sustainability, as well as Islamic Financial Regulations and Institutions

The application of Islamic legal principles in Small and Medium Enterprise (SME) partnerships represents an effort to integrate ethical and moral values mandated by *sharia* into business practices, promoting fairness, accountability, and social responsibility. These principles focus not only on

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financial gain, but also on fairness, transparency, social responsibility, and sustainability. In the context of Indonesia, where the majority of the population is Muslim, the application of these principles in Small and Medium Enterprises (SME) partnerships has great potential to create a fairer and more sustainable business model. However, this application also faces various challenges, both in terms of regulation, understanding of business actors, and support from Islamic financial institutions. This discussion will explore how the principles of Islamic law are applied in Small and Medium Enterprise (SME) partnerships, while also examining the role of regulations and Islamic financial institutions in promoting fairness and sustainability in business practices.

The principle of justice is a fundamental pillar of Islamic law and is highly relevant in the context of Small and Medium Enterprise (SME) partnerships, ensuring equitable treatment and fairness for all parties involved. Justice in partnership means that each party involved in the cooperation must receive their rights proportionally according to the contributions and risks they take (Riswanto & Devi, 2020). In practice, this justice is translated into fair profit sharing, transparent risk management, and inclusive decision making. However, research shows that in many cases, this justice is difficult to achieve, especially when there is an imbalance of power between SMEs and their business partners. For example, in partnerships between SMEs and large companies, often the large company has more control over the negotiation and decision-making process, so that SMEs do not get a share of the profits that correspond to their contribution. This situation reflects an imbalance that contradicts the principle of justice upheld in Islamic law, which emphasizes fairness and equality in all partnerships.

To overcome these challenges, a more inclusive approach is required in managing Small and Medium Enterprise (SME) partnerships, ensuring that all stakeholders are equitably involved and benefit from the collaboration. One approach that can be adopted is the *syirkah* model which has long been recognized in Islamic law as a form of fair cooperation. *Syirkah* is a partnership in which all parties share profits and risks proportionally. This model can provide a fairer framework for Small and Medium Enterprises (SMEs) to partner with larger entities, as *syirkah* encourages a balance of power between the parties involved. However, in practice, the implementation of *syirkah* still faces various obstacles, especially in terms of limited understanding among business actors about how this model can be implemented effectively. Additionally, current regulations do not fully support the implementation of *syirkah* in Small and Medium Enterprise (SME) partnerships. Therefore, further efforts from the government and Islamic financial institutions are necessary to facilitate and promote the adoption of this partnership model.

Transparency is another key principle in Islamic law, closely tied to fairness in partnerships, as it ensures clarity, trust, and accountability among all parties involved. Transparency means that all parties in a partnership have equal access to relevant and important information. This transparency allows for fairer decision-making and reduces the risk of fraud or exploitation (Irwan et al., 2022). However, research shows that transparency is still a problem in many SME partnerships in Indonesia. Many SMEs complain about the lack of access to important information, such as financial data or business prospects,

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which are often monopolized by larger partners. This lack of transparency not only harms SMEs in the short term, but can also damage partnerships in the long term (Rojali, 2019). Therefore, enhancing transparency is a crucial step in ensuring that the principles of justice in Islamic law are effectively implemented in SME partnerships, fostering trust and equitable collaboration.

The implementation of social responsibility in Small and Medium Enterprise (SME) partnerships is also a key consideration in Islamic law, emphasizing the importance of contributing to the welfare of society and supporting community development. Social responsibility means that business partnerships not only focus on economic profits, but also consider the social and environmental impacts of business activities. In the context of Islamic law, social responsibility includes the obligation not to harm others, protect the environment, and contribute to the welfare of society. However, in practice, research shows that social responsibility is often neglected in SME partnerships. Many business actors prioritize short-term profits without considering the long-term impact on society and the environment (Riswanti & Devi, 2020). This reflects the gap between the principles of Islamic law and the business practices carried out by many SMEs and their business partners. To address this issue, there needs to be a greater push from regulations and public policies to support social responsibility in SME partnerships. The government can play an important role in this regard by establishing regulations that require business actors to pay attention to the social and environmental impacts of their business activities (Hidayat & Andarini, 2020). In addition, Islamic financial institutions can also play a role by providing financing and services that support socially responsible business practices. For example, Islamic financial institutions can offer financing products specifically designed to support projects focused on environmental sustainability or community empowerment. Thus, Islamic financial institutions can play a pivotal role in promoting and enhancing social responsibility within Small and Medium Enterprise (SME) partnerships, ensuring that business practices align with ethical and societal values.

Business sustainability is another critical aspect emphasized in Islamic law, holding strong relevance for SME partnerships. Sustainability in this context means that business partnerships must be designed in such a way that they can survive in the long term, provide sustainable benefits to all parties involved, and do not damage natural resources or social balance (Indrawati et al., 2023). Islamic law encourages sustainable business practices by emphasizing the importance of maintaining balance in all aspects of life, including in business. However, research shows that many SME partnerships in Indonesia still focus on short-term profits without considering long-term sustainability (Imani, 2019). This challenge is primarily attributed to market pressures and the lack of sufficient regulatory support, which hinder the effective implementation of sustainable practices in SME partnerships.

To enhance sustainability in Small and Medium Enterprise (SME) partnerships, a holistic approach is essential. This should encompass all aspects of the business, including effective resource management, ethical practices, environmental responsibility, and fostering strong community relations. Islamic financial institutions can play a key role in this by providing

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financing that encourages sustainable business practices. For example, financing based on the principle of *syirkah* can help create more sustainable partnerships, as this model encourages fair sharing of risks and profits, which can increase business stability and resilience in the long term. Additionally, the government can support business sustainability by formulating regulations that encourage companies to invest in green technologies, adopt efficient resource management practices, and implement environmentally friendly business operations.

Regulation plays a crucial role in ensuring the effective implementation of Islamic law principles in SME partnerships, providing a framework that supports fairness, transparency, and ethical practices. Good regulation can ensure that all parties involved in the partnership follow fair rules and in accordance with sharia principles (Astuti et al., 2024; Hendrawaty et al., 2023; Kusumaningtyas et al., 2022). However, research shows that current regulations do not fully support the implementation of Islamic law principles in SME partnerships. For example, although there are regulations governing sharia partnerships and businesses, their implementation is often ineffective, especially in terms of law enforcement and supervision. Many Small and Medium Enterprises feel that existing regulations do not provide sufficient protection for them, especially when dealing with larger business partners (Hasimi, 2020). To address this issue, a more comprehensive regulatory reform is needed that focuses not only on the legal aspects, but also on the ethics and values underlying Islamic law. The government can work with sharia financial institutions and religious organizations to develop regulations that are more in line with sharia principles and can be effectively implemented in practice. In addition, a stronger law enforcement mechanism is needed to ensure that all parties involved in the partnership comply with existing rules. This includes implementing stricter oversight of partnership agreements and ensuring fair and transparent mechanisms for dispute resolution.

Islamic financial institutions play a vital role in supporting the implementation of Islamic legal principles in small business partnerships by providing *sharia*-compliant financial products, fostering ethical practices, and promoting equitable collaboration. These institutions can provide financing that is in accordance with Islamic principles, such as *mudharabah* and *musyarakah*, which can help create fairer and more sustainable partnerships.

First Discussion

This study reveals that the principle of partnership in Small and Medium Enterprises (SMEs) from the perspective of Islamic law focuses on justice, transparency, and shared responsibility as its core foundations. Key findings indicate that the concepts of *musharaka* and *mudharabah* form the basis for mutually beneficial partnerships, reducing the risks of uncertainty often faced by SMEs. Furthermore, accountability and clarity in every transaction are emphasized to prevent practices that could harm any party involved in the partnership.

Interviews with several SME entrepreneurs and Islamic law experts revealed valuable insights into the practical implementation of partnership principles grounded in Islamic law. One SME entrepreneur involved in a

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syirkah partnership with a larger company stated: "We believe that the principles of justice and transparency are crucial in partnerships, but often we feel we are not given clear information from our larger business partners. For instance, even though we agreed to share profits, we are not always given adequate access to financial reports, which creates a sense of imbalance and mistrust in the profit-sharing process."

An Islamic law expert added, "The principles of *musharaka* and *mudharabah* represent the ideal partnership models in Islamic law, as they emphasize mutual cooperation, shared risk, and equitable profit distribution based on contributions." In *musharaka*, all parties contribute capital and share both risks and profits, while *mudharabah* allows one party to provide capital and the other to manage the business. An Islamic law expert added, "The principles of *musharaka* and *mudharabah* represent the ideal partnership models in Islamic law, as they emphasize mutual cooperation, shared risk, and equitable profit distribution based on contributions."

Compared to previous studies that only highlight the economic aspect, this study shows that the Islamic legal approach does not only focus on financial gain, but also on ethics and morality in doing business. This is in line with research by (Vijayanti & Murjana Yasa, 2016)) which highlights that *sharia* principles place a strong emphasis on promoting the common welfare and ensuring mutual benefit for all parties involved.

When discussing research results, it is crucial to reference various relevant theories to provide a strong foundation for analysis, ensure contextual accuracy, and enhance the credibility of the findings. Islamic economic theory, for example, states that every form of cooperation in business must be based on the principles of justice and transparency (Iqbal & Mirakhor, 2011). In the context of SMEs, the application of these principles not only fosters healthy and equitable partnership relationships but also plays a significant role in promoting sustainable economic growth.

Furthermore, an interview with a business consultant specializing in SME development emphasized the importance of integrating both economic and ethical aspects into SME partnerships to ensure long-term success and mutual benefit. "We often encounter SMEs that focus more on short-term profits, but Islamic law teaches that the primary goal of partnerships should be mutual benefit and not harm to society or the environment. "Unfortunately, many SMEs do not fully grasp this principle," the consultant noted, highlighting a critical gap in understanding the integration of economic and ethical aspects in partnerships.

From an Islamic legal perspective, *musharaka* and *mudharabah* provide ideal partnership models, emphasizing shared responsibility, mutual cooperation, and equitable profit-sharing. *Musarakah* involves capital contributions from all parties, while *mudharabah* is a partnership in which one party provides capital and the other party manages the business. Both models demonstrate a willingness to share risks and profits, which is especially relevant for SMEs that frequently encounter difficulties in accessing capital and financial resources (Ardiyansyah, 2023).

In addition, the findings of this study reveal significant gaps in the practical application of these principles in the field, highlighting the need for

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better understanding and implementation. Some SMEs still do not understand the legal aspects of partnerships, so they risk getting caught up in practices that are not in accordance with sharia principles. This underscores the need for more intensive education and training on partnership management that aligns with the principles of Islamic law, ensuring better understanding and application among SMEs.

An entrepreneur running a small business who recently started a *syirkah* partnership revealed: "I don't know much about *syirkah* and how it works according to Islamic law. We simply followed what our partner instructed us to do, but over time, we began to feel uncertain about the fairness of the profit distribution".

Overall, this study provides deeper insights into the application of partnership principles in SMEs, as well as the importance of integration between economic and ethical aspects in business. The successful implementation of these principles can enhance the competitiveness of SMEs while fostering more inclusive and sustainable economic growth.

Second Discussion

This study examines the application of Islamic legal principles in SME partnerships in Indonesia, with a focus on four key principles: *syirkah* (partnership), justice, transparency, and social responsibility. The results of the study show that although these principles are recognized as a strong ethical framework for building fair and sustainable partnerships, their implementation in practice still faces many challenges. The study explores how these principles are applied in the field, as well as identifying various barriers that hinder effective implementation. The principle of *syirkah* is one of the main concepts in Islamic law that regulates partnerships (Ulfyana, 2022). *Syirkah* is a form of cooperation in which two or more parties join together to achieve a common goal, by sharing profits and risks proportionally according to their respective contributions. In the context of SME partnerships in Indonesia, *syirkah* has strong relevance because it allows small business actors to partner with large companies or other entities without losing control over their businesses (Muazaroh & Subaidi, 2022). However, the study found that the implementation of *syirkah* in SME partnerships is often not optimal. In many cases, Small and Medium Enterprises that partner with large companies feel that they are not being treated fairly, especially in terms of profit sharing. Often times, larger companies have stronger negotiating power, so profit sharing does not always reflect the contribution made by SMEs. This has led to dissatisfaction among Small and Medium Enterprises (SMEs) and highlights a significant gap between the partnership principles mandated by Islamic law and their practical implementation in the field.

The principle of justice is a central focus of this study. Islamic law underscores the significance of justice in all aspects of life, including business partnerships, to ensure fairness and equity among all parties involved (Ayu, 2023). Justice requires that the profits obtained from the partnership be shared fairly according to the contribution of each party, without anyone feeling disadvantaged (Rojali, 2019). However, the results of the study show that justice in profit sharing is often difficult to achieve in Small and Medium

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Enterprise partnerships in Indonesia. Many Small and Medium Enterprises feel that they receive a disproportionate share of the profits, especially in partnerships with larger entities. This imbalance is usually caused by an imbalance of power in negotiations, where the stronger party tends to take greater advantage. In addition, in some cases, partnership agreements are made with terms that are more advantageous to the larger party, thereby reducing the sense of fairness on the part of Small and Medium Enterprises. This highlights the need for regulatory and educational interventions to ensure that the principles of justice outlined in Islamic law are effectively implemented in Small and Medium Enterprise (SME) partnerships.

Transparency is another critical principle in Islamic law, yet research reveals that it often poses a significant challenge in SME partnerships, hindering trust and fair collaboration among stakeholders (Faizah et al., 2022). Transparency means that all parties involved in the partnership have equal access to relevant and important information, which allows them to make informed and fair decisions. Transparency is also important for building trust between the partnering parties. However, in practice, research finds that transparency is often neglected, especially in partnerships where there is an imbalance of power between SMEs and their business partners (Muazaroh & Subaidi, 2022). For example, in some cases, the larger party in the partnership tends to hide important information that the SME should know. This information may include financial data, business prospects, or even risks faced by the partnership. This lack of transparency can lead to mistrust between the partners and can damage long-term relationships. In addition, lack of transparency can also lead to suboptimal decisions, where SMEs do not have enough information to participate in important decision-making (Kharisma et al., 2021). Therefore, the study underscores the need for enhanced efforts to improve transparency in SME partnerships. This includes implementing stricter regulations and providing education for business actors about the critical role transparency plays in building trust and ensuring fairness in business practices.

Social responsibility is another key principle emphasized in Islamic law, and research has highlighted its particular relevance in the context of SME partnerships in Indonesia, where businesses are expected to contribute to community welfare and societal development. Social responsibility in Islamic law requires that business partnerships not only focus on financial gain alone, but also consider the social and environmental impacts of their business activities (Fakhirin et al., 2023). This principle demands that partnerships must provide benefits to the wider community and not cause harm or exploitation to any party. However, in practice, research finds that social responsibility is often neglected in Small and Medium Enterprise partnerships. Many SMEs and their business partners focus more on short-term profits without considering the long-term impacts of their business activities on society and the environment. For example, in some cases, SME partnerships engage in practices that are environmentally damaging or unfair to workers, which are contrary to the principles of social responsibility in Islamic law (Thoharul Anwar, 2018). This shows that there is still a gap between the principles of Islamic law and practices in the field, and that greater efforts are

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needed to integrate social responsibility into the business strategies of SME partnerships. The study also emphasizes the crucial role of government and Islamic financial institutions in promoting social responsibility within SME partnerships. This can be achieved through incentives and regulations that encourage sustainable, ethical, and fair business practices.

The study also delves into the various challenges encountered in implementing Islamic legal principles in Small and Medium Enterprise (SME) partnerships, highlighting obstacles such as limited understanding, inadequate regulatory frameworks, and inconsistent application of these principles in practice. One of the main challenges identified is the lack of understanding of Islamic legal principles among business actors. Many SMEs and their business partners do not fully understand what is meant by *syirkah*, justice, transparency, and social responsibility in the context of Islamic law. This is often due to a lack of adequate education and training on Islamic law in business. As a result, many business actors run their partnerships in a manner that is inconsistent with these principles, either due to ignorance or by following more common conventional business practices (Muazaroh & Subaidi, 2022). In addition, the study found that existing regulations do not sufficiently support the application of Islamic legal principles in SME partnerships. Although there are several regulations designed to support sharia businesses, their implementation is often less effective, especially in the context of Small and Medium Enterprises (SMEs). For example, there is a lack of strong enforcement mechanisms to ensure that the principles of fairness and transparency are followed in business partnerships. This highlights the need for regulatory reforms and the strengthening of law enforcement agencies to effectively support the implementation of Islamic legal principles in Small and Medium Enterprise (SME) partnerships, ensuring adherence to ethical and equitable practices.

Another challenge highlighted in the research is the power imbalance between SMEs and their business partners, which often leads to unequal decision-making and profit-sharing dynamics. In many partnerships, especially those involving large companies, SMEs are often in a weaker position when it comes to negotiations and decision-making. This imbalance can result in unfairness in profit sharing, lack of transparency, and neglect of social responsibility. Research shows that to address this imbalance, greater efforts are needed to strengthen the position of SMEs in partnerships, including through capacity building and support from Islamic financial institutions (Anwar, 2018). Islamic financial institutions have an important role in facilitating fair and sustainable partnerships, by offering products and services designed in accordance with Islamic legal principles. However, the study found that the role of Islamic financial institutions in supporting SMEs remains limited, highlighting the need for greater efforts to enhance SMEs' access to Islamic financial services. This includes providing capital in alignment with the principles of *syirkah* (partnership) and justice to promote equitable and sustainable growth.

The study also emphasizes the importance of dispute resolution in SME partnerships based on Islamic law principles. Islamic law advocates for peaceful resolution methods, such as mediation and deliberation, to address

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conflicts while preserving harmonious relationships between the parties involved in the partnership. However, in practice, the study found that many disputes in SME partnerships are resolved through formal legal channels, which can be time-consuming and costly (Riswantio & Devi, 2020). This is often due to the lack of effective dispute resolution mechanisms that are in accordance with Islamic law principles. In addition, ignorance about the alternative dispute resolution offered by Islamic law is also a factor that hinders the implementation of more efficient and fair dispute resolution. The study recommends developing dispute resolution mechanisms that align more closely with Islamic legal principles. This includes promoting mediation and deliberation as preferred methods, alongside providing better education for business actors on the importance of resolving disputes peacefully to maintain fairness and harmony in partnerships.

In addition, the study explores the impact of globalization on the application of Islamic legal principles in SME partnerships in Indonesia, highlighting both opportunities and challenges in maintaining *sharia*-compliant practices in an increasingly interconnected and competitive global market. Globalization has brought significant changes in the business world, including in the way partnerships are run. In this context, Islamic legal principles such as *syirkah*, justice, transparency, and social responsibility must adapt to these changes. Research finds that globalization has created new challenges for Small and Medium Enterprises, including global competition, regulatory changes, and technological developments. However, Islamic law has the flexibility to adapt to these changes, as long as its basic principles are maintained. Research shows that to face the challenges of globalization, SMEs in Indonesia need greater support, both from the government and Islamic financial institutions, to ensure that they can compete in the global market without neglecting the principles of Islamic law (Marzani et al., 2019). This support can be in the form of increasing access to global markets, developing products and services that are in accordance with Islamic law principles, and regulations that support sustainable and fair SME partnerships.

The case studies analyzed in the Research also provide deeper insights into how Islamic legal principles are applied in SME partnerships. One of the case studies examined is a partnership between SMEs and large companies in the agricultural sector (Pangke et al., 2021). This study shows that although the principles of *syirkah* and justice are recognized by all parties, their implementation in the field still faces many obstacles. For example, when it comes to profit sharing, Small and Medium Enterprises often feel that they are getting an unfair share, even though their contribution to the partnership is quite significant. In addition, transparency in terms of financial information and business prospects is also an issue, with SMEs often not having full access to the information they need to make informed decisions. This case study shows that despite awareness of the importance of Islamic legal principles, practices on the ground often do not reflect these principles (Suyadi & Suryani, 2018). Therefore, increased efforts are essential to ensure that these principles are effectively integrated into daily business practices, fostering ethical and sustainable partnerships in line with Islamic legal principles.

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The research also evaluated various initiatives and programs aimed at supporting the implementation of Islamic legal principles in Small and Medium Enterprise (SME) partnerships, assessing their effectiveness in promoting ethical, equitable, and sustainable business practices. For example, several Islamic financial institutions have developed products and services specifically designed to support SMEs, including in terms of financing that is in accordance with the principles of *syirkah* and justice. However, research finds that these initiatives are still limited in scope and impact. Many Small and Medium Enterprises still do not have access to these services, either due to lack of information or other constraints. In addition, existing regulations do not fully support the development of sharia financial services that are in accordance with the needs of small and medium enterprises (SMEs) (Prastika, 2023). This shows the need for improvements in regulations and support from the government to ensure that Small and Medium Enterprises can optimally utilize sharia financial services. The study also recommends enhancing education for Small and Medium Enterprises (SMEs) about the importance of Islamic legal principles in business. This includes providing guidance on how SMEs can access available services and resources to support their partnerships and align their practices with *sharia* principles.

Overall, the findings of the study demonstrate that Islamic legal principles, including *syirkah*, justice, transparency, and social responsibility, hold significant potential to promote fair and sustainable SME partnerships in Indonesia, fostering ethical business practices and long-term growth. However, to realize this potential, greater efforts are needed to overcome existing challenges, both in terms of regulation, education, and implementation in the field. This research makes a valuable contribution to understanding how Islamic law can be applied within the context of Small and Medium Enterprise (SME) partnerships. It also offers practical recommendations to enhance the implementation of these principles in business practices across Indonesia, fostering ethical, equitable, and sustainable economic growth.

Conclusion

This study has explored the application of Islamic legal principles—*syirkah* (partnership), justice, transparency, and social responsibility—in Small and Medium Enterprise (SME) partnerships in Indonesia, providing insights into their practical relevance and potential impact. While these principles provide a solid ethical foundation for creating fair and sustainable partnerships, their implementation in practice still faces significant challenges. The principle of *syirkah*, which emphasizes the proportional sharing of profits and risks, is often not optimally applied in SME partnerships, especially when large companies control the negotiations, resulting in unfairness in the distribution of profits. Fairness, as a key principle of Islamic law, is difficult to achieve in many partnerships due to the imbalance of power between SMEs and their larger business partners. This reflects the need for improvements in regulation and education to ensure that the principles of fairness are implemented effectively. Transparency, which is crucial for building trust and making fair decisions, is often overlooked, with many Small and Medium Enterprises (SMEs) lacking access to essential information that

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impacts their business decisions and overall success. This indicates the need for increased regulation and education regarding transparency. Meanwhile, social responsibility, which requires attention to the social and environmental impacts of a business, is often neglected, with many business actors focusing more on short-term profits without considering long-term impacts. This study emphasizes that to effectively implement Islamic law principles in SME partnerships, significant efforts are required in regulatory reform, capacity building for business actors, and increased support from Islamic financial institutions. These steps are crucial to realizing fairer and more sustainable business practices.

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