

Business Model in Islamic Perspective: Practising of Baitul Maal Wattamwil (BMT) UGT Sidogiri East Java Indonesia

Achsania Hendratmi^{1*} and Mega Ayu Widayanti²

^{1,2}Universitas Airlangga, Jl. Airlangga 4, 60288, Surabaya, Indonesia

ABSTRACT

Objective – The purpose of the research is to explore, to investigate, and to develop a business model in Islamic perspective in microfinance BMT UGT Sidogiri Indonesia.

Methodology/Technique – The research developed by qualitative research with a single case study. The content analysis used as the method to analyze the data describes analytic, intuitive, interpretative, textual and strict textual analysis approaches.

Findings – The main finding that the framework Islamic business model in perspective Islam proposed previously can be well understanding and applied in BMT UGT Sidogiri. The result showed that there three main building in developing of an Islamic business model consist of the business foundation, business design, and business development.

Novelty – The model can be used to optimize the potential business model of Islam in BMT UGT Sidogiri and other microfinance in Indonesia in the future.

Type of Paper: Empirical

Keywords: Islamic Business; Business Model; Islamic Business Construct; Islamic Business Aims; Baitul Maal Wattamwil (BMT).

JEL Classification: K20, M21.

1. Introduction

The most developed Islamic business in Indonesia nowadays is financial sector (valued USD 1.7 trillion) from the total volume of sharia business in 2014-2015 entirely reached at approximately USD 2.4 trillion (Republika, 2015). Islamic cooperative has been encouraged the growth of Islamic business and spread amounted to 200,808 units with a market share of 18% and larger than other microfinance institutions (Ministry of Cooperatives and Small and Medium Enterprise, 2015). One of Islamic microfinance institution is cooperative, particularly Islamic cooperative known as Baitul Maal Wattamwil (BMT). BMT UGT Sidogiri Indonesian is one of the BMTs (Islamic cooperative) with high achievements in Indonesia. BMT UGT Sidogiri

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* Corresponding author:

E-mail: chsania.hendratmi@feb.unair.ac.id

Affiliation: Universitas Airlangga, Indonesia.

has obtained an achievement as “The Best Islamic Microfinance” in 2014 with total asset more than fifty billion rupiahs from Karim Consulting Indonesia.

Nowadays, the challenges faced by Islamic business especially BMT consist of theoretical, operational and implementation aspects based on Islamic perspective. The limitations are the lack of knowledge about the business concept in Islamic perspective, lack of applying sharia compliance and the emergence of various perceptions on the ground/field as a result of differences interpretation of the business concept. There is a gap between business formula and Islamic perspective in real business practice presently, the cause is that the knowledge about Islamic business concept is still limited, the lack of obedience in applying religion, and there are many understandings in interpreting many business concepts (Oukil, 2013; Wilson, 2006). However, exploration to build a formula for business in Islamic perspective highly needed attention (Ahmad, 2009; Heck & Carlemange, 2006).

The business model is the logic of the overall business which is applied to its relation with the customer, chain of values, resources, operational management, income or profit generation, and the sustainability of the business entity (Osterwalder et al., 2005). The business model can be defined as the conception of a set of elements which possible an enterprise to apply its business logic in a one company architecture with its network (Amits & Zott 2001). Askarullah & Hendratmi (2016) proposed business model based Islamic perspective that business model shows the concept of how a business organization can create values such as economic, social or the other values and actualize them in the whole business. The concept explains, how the organization able to create values (economic, social, ethics, and religious) and actualize them in the business activity.

In order developing framework Islamic model business by the case at Islamic microfinance particularly at BMT. The research purpose of improving the Islamic business model framework by exploring and analyze business model that practiced by BMT Sidogiri with five element of Islamic business model arranged by Askarullah & Hendratmi (2016) from previous research, obtain business method on creating value through financial or non-financial to apply the implementation of business model in Islamic perspectives and to build further framework of model business. In terms of value, BMT inseparable from the values of Islam in all of its all aspect in business operations and activities.

2. Literature Review

2.1. Baitul Mal Wattamwil (BMT)

Islamic Cooperative is an intermediary institution that receiving deposits and disbursing financing with Islamic Sharia compliance covenants only to members of the cooperative. As a business organization that is also social institutions, Islamic cooperatives can receive and distribute zakat, sadaqah and infaq, as well as manage the waqf property. Islamic Cooperative in Indonesia adopted the concept of the *Baitul Maal wa tamwil*, which as a business institution (*baitul tamwil*) and social institutions (*Baitul Maal*)

Baitul Maal Wattamwil as a center of Islamic business conducted business in accordance with Islamic law which serves various types of savings, financing and other financial services and the provision of financing should be defined as capital injections are temporary and stimulation. In addition, financing should be able to boost/enhance production to small businesses. Increased production can be interpreted as an increase in income and welfare of members. BMT is not regulated by Bank Indonesia as banking in general but under the Ministry of Cooperatives and SMEs (Antonio, 2017). BMT has provided funding activities with the agreement *mudaraba*, *murabaha* and *wadi'ah* by its members with the principle of profit sharing (Ministry of Cooperatives and MSEs, 2014). Islamic principles intended are the principles of Islamic law in the activities of cooperative efforts based on the fatwa issued by the National Sharia Board of the Indonesian Ulema Council (DSN-MUI). Thus, the entire operations of cooperatives should be in accordance with the sharia fatwas National Sharia Council MUI.

2.2. Business Model

One of the elements of business in real practice perspective is the business model, the business model is a whole business logic applied in a relationship with customers, chain of value owned, resources, operational management, up to earning designs or profit and business entities' continuity (Osterwalder, 2004, p. 14). The business model is a concept on how a business organization creates certain value. The value may in form of economic value, social value or other forms of values and this value must be implemented in entire business activities (Zott & Amit 2010).

Furthermore, there is no consensus yet about the definition of a business model that universally accepted. There are different views regarding its definition and also its elements. This condition shows there is a possibility and opportunity to evaluate a business model by adaptation, revision, and reformulation (Morris et al., 2005). It is possible to bring order to the various perspectives.

2.3. Business in Islamic Perspective

El-Askher (1987) stated that business management is based on the concept of the human as *khalifah* (leader) which are governed by the God (Allah) to create a prosperous world. Islam also sets business principles in the study of the science of *fiqh muamalah*. Every economic activity must be based on sharia principles and consider the aspect of humanitarianism by fulfilling the obligation of paying *zakat* or other social activities such as infaq, *shadaqah* and *waqaf* (ZISWAQ) (Nyazee, 1998). El-Ashker (1987) depicted that every business activities done as a trusteeship holder on this Earth had two escalation purpose, such as: 1) Economic Development and 2) Social Justice. In general, business activities had two purposes: financial benefits/profits and fulfils human needs; 3) Growth; 4) Sustainability.

2.4. Islamic Business Model

Islamic business model is an idea of comprehensive scheme about business model in Islam based on the thought of Askarullah & Hendratmi (2016) described at Figure 1 stated as integral conception of a set of components which is connected and integrated then illustrates the Islamic values and business logic developed from the architecture of Islamic business framework. The value sources of Islamic business are the main foundation which are: 1) *Tawhid* foundation that is later manifested within moral and sharia elements.; 2) Transaction/*Akad* Construct; Sharia Fundamental prohibition Construct; Islamic Ethical construct and *Ukhuwah* construct become main elements that build basic characteristics from all business aspects including production, marketing, human resource and financial management; 3) All business activities that consists of production, marketing, resource management and financial aspects which are performed to achieve the business aim; 4) Business aims are economic development, social and *da'wah* benefits, as well as the benefits of religiosity.

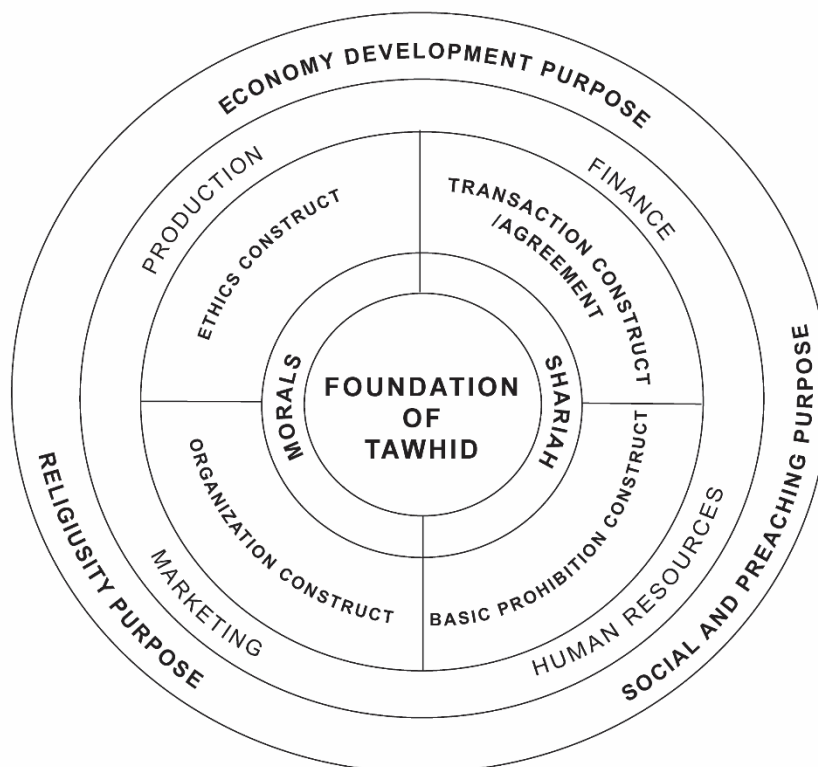


Figure 1. Business Model in Islamic Perspective (Askarullah & Hendratmi, 2016)

3. Method

3.1 Research Types

This research used qualitative approach (Creswell, 2002) with single case study analysis techniques of Yin (2011). The researchers used a purposive technique to determine the informants based on researchers consideration and intuition to select the best persons or groups to be studied and who are capable of providing accurate information. Informants chose by researchers, there are 10 informants: the general director, chief of savings and loan division, member cooperative (BMT), customers and partner of BMT UGT Sidogiri. The general director is the key informant that surely know, master and directly involved in research problems.

3.2. Data Collection Procedure and Data Analysis

Data collecting conducted from FGD (Focus Group Discussions, In-Depth Interview to several informants, and library research. The interview results were subsequently recorded and transcribed. Those transcripts became the objects of discussion (The researchers used content analysis (Cavanagh, 1997), Groeben and Rustemeyer (2014) as a method to analyze the data describes analytic, intuitive, interpretative, textual and strict textual analysis approaches explained that content analysis is a method which flexible to analyze text data. Particular types of data analysis approach selected by the researchers are varied with theoretical and substantive interest. Triangulation of sources and techniques are used to confirm and test the veracity of the information.

4. Result and Discussion

4.1. Analysis Business Model

Based on five component of Islamic business model (Askarullah & Hendratmi, 2016) the researchers explored data by interviewing several stakeholders of the central board of BMT UGT Sidogiri so that obtained some results which can be used as Islamic business model on BMT, the result from the content analysis showed at Table 1.

Table 1. Content Analysis: Interpretation Implementation of Model Business in BMT Sidogiri

No	Indicators	Analysis
1.	Tawheed Basic: (Core Foundation)	<i>Tawheed</i> can be implemented into sharia and akhlaq where both basics are strongly related with Islamic theological knowledge particularly sharia.
2.	Akhlaq: (based on how to behave) Sharia: (sharia compliance)	Implement Islamic doctrine (<i>Siddiq, Tabligh, Amanah</i> and <i>Fathanah</i>) The sharia is implemented on the whole activities of BMT, both in the transactions and management. The sharia is implemented on the rules of conduct organization
3.	Islamic Business Construct: Aqad/ transaction: b. Ethical construct (business behavior): c. Fundamental Prohibitions construct <i>maysir, gharar, riba,</i> and <i>shubhat</i>): d. Islamic relationship construct (<i>Ukhuwah</i>):	Study the contract (<i>aqad</i>) comprehensively by economic transaction (<i>muamalah</i>) experts from Islamic boarding school (<i>pesantren</i>) based on Al-Qur'an, Sunnah, <i>Ijma'</i> , <i>Qiyas</i> dan books authored by ' <i>Ulama</i> . Propose a new contract before approved by National Sharia Board of Indonesian Ulema Council (DSN-MUI) Provide selected contract and alternative contract to avoid fundamental prohibitions Implement principles of circumspection on transactions. Train the employees to work professionally on administration recording Apply technology to improve accountability for customers Educate customers about correct economic transaction (<i>muamalah</i>) Implement a method of 3S— <i>senyum</i> (smile), <i>salam</i> (regards), and <i>sapa</i> (greet)—to customers Uphold noble characters (<i>akhlaqul karimah</i>) Not applying fine to customers who are late to pay Serve the visitors by providing excellent service Respect woman customers Create special board to study Islamic law/ <i>aqad</i> Design <i>aqad</i> which is easy and applicative Use references from Al-Qur'an, hadith and other supporting references such as books authored by ' <i>Ulama</i> Perform mutual respect among stakeholders Embrace communication with partners to avoid misunderstandings Sharing by helping people who need any help Persuade all employees to have high social awareness
4.	Business Aspects: a. Production	Core Business 60% (savings and loan), Side Business 20% (financial service) and 20% (investments)

<p>(Multi Business and based on customer needs):</p> <p>b. Technology (Centralized online system):</p> <p>c. Management Production (Creating SOM and SOP):</p> <p>d. Human Resources (Empowering students of <i>pesantren</i>):</p> <p>e. Marketing: (Emotional Approach; initiative; institutions/ figure)</p> <p>f. Finance: (Optimalization of funding from members and Third Parties to be distributed for real sector)</p>	<p>Besides serving savings and loan and financial services, BMT also manage business in IT/software, internet networking, palm, property, sharia insurance and others.</p> <p>Develop product appropriate with public needs in each region.</p> <p>Issue Licence to Contract (<i>Surat Izin Mengakad</i>) to maintain quality of service and avoid fundamental prohibitions (<i>riba, maysir, gharar, and tabdzir</i>).</p> <p>Harmonize between contract and practice based on sharia.</p> <p>Establish online system concurrently in 273 branches in Indonesia and it is centralized in central office of BMT UGT Sidogiri</p> <p>Employees must be competent to operate computer properly</p> <p>Create SOM (Standard Operational Management) and SOP (Standard Operational Procedure)</p> <p>Determine target in each branch</p> <p>Assist the branches to achieve the targets that have been determined</p> <p>Establish special division as product developer</p> <p>Perform monthly evaluation to measure business efficiency</p> <p>Recruit employees from IASS</p> <p>Collaborate with IASS in terms of human resources</p> <p>Provide training for employees appropriate with company needs</p> <p>Prioritize students who are truthful and smart</p> <p>Select some students to empower students which usually have image that they are not capable to make contributions in economics and only capable in theological aspects</p> <p>The salary given must corresponds with the highest Regional Minimum Salary (UMR) of East Java Province and valid to the whole employees in all branches.</p> <p>Provide residence facility during first two years</p> <p>Optimize the alumni to share information and have contribution in marketing</p> <p>Optimize potentials of students (<i>santri</i>), student's parents or guardians, relatives, community, people and organization autonomic body to join</p> <p>Utilize brochure, advertising in each office, and collaborate with related institutions</p> <p>Initiative method by coming to small and medium enterprises and traders in several markets</p> <p>Establish office in community economic center (market)</p> <p>Optimize figure/the power of <i>kyai</i> and <i>pesantren</i> which has been aged of 278 years old to attract members</p> <p>Optimize internal family members of <i>pesantren</i> to gain customers trust</p> <p>The largest capital proportion comes from the members</p> <p>The largest funding allocation is on financing and operational</p> <p>Use fundrising method in a region and also manage directly in that region</p> <p>Perform weekly monitoring to every branches to evaluate cashflow</p> <p>Collaborate with banking to meet liquidity and financing</p>
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5.	<p>Business Aims: Economic growth (Assisting MSE's) Social and Da'wa Purposes</p> <p>Religiosity Purposes</p>	<p>BMT UGT Sidogiri has successfully liberated the community from moneylenders and engages people to change into sharia system. It causes the small and medium enterprises which become the members of cooperative can develop their own business.</p> <p>Historically, BMT UGT Sidogiri aimed to help community to be independent from moneylenders and change into right economic transaction (<i>muamalah</i>) system</p> <p>Support the placement funding of teachers on duty to the whole region of Indonesia using LAZ funds</p> <p>Da'wa purposes is realized by collecting zakat, infaq and waqaf managed by <i>Lembaga Amil Zakat (LAZ Sidogiri)</i> and educate people to pay zakat routinely</p> <p>BMT was established to realize "<i>baldatun tayyibatun warobbun ghafur</i>" (a country which is prosperous that blessed by the God Allah SWT) by engaging people to abandon <i>riba</i>.</p>
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Source: Analysis Data

4.2. Analysis Business design of BMT UGT Sidogiri

Based on field research by In-depth Interview and result analysis data, showed:

- a. Business in Islamic perspective could conducted completely, and BMT Sidogiri conducted business based on Islamic business construct : transaction follow *aqad*, practicing ethic business and high appreciation in *ukhuwah* (network based brotherhood in Islam).
- b. Business activities aspect consist of production, marketing, maintaining human resources and financing showed that BMT conducted those activities strike to the Islamic business construct, however in the other side BMT pointed out to develop from microfinance business institution-traditional approach into modern business entity that applied Islamic value.
- c. As a business entity BMT Sidogiri has been supporting the community to be independent from moneylenders. Beside the effect of its business, BMT also supports economic growth by its zakat distribution. Social fund management on BMT has been delivered to *Amil Zakat Board (LAZ)* of Sidogiri. They often make some collaboration on social activities such as *zakat maal* and *zakat fitrah* distribution. Amounted to 50% of social fund received by LAZ Sidogiri comes from BMT UGT Sidogiri.
- d. Another interesting program is that BMT distributes some of their profits amounted to 5% for Islamic boarding school and 3% for Sidogiri teachers placement program to teach Islamic school (*madrasah*) and boarding school (*pesantren*) on 16 provinces in Indonesia. The placement of those 700 teachers spent at approximately 1.4 trillion of social funds.

4.3. Business Acceleration of BMT Sidogiri

Based on field research by In-depth Interview and result analysis data, showed:

- a. Islamic Organization system in BMT UGT Sidogiri managed separately with *pesantren* (Islamic boarding school), however, organization structure, a span of control and management has conducted in a professional way. In order to manage a large number of a member organization, the cultural approach still being used dealing with the *kyai* (charismatic leaders) influence, and brotherhood culture.
- b. Based on business activities showed:
 1. Production activities, besides serving savings and loan and financial services, BMT also manage a business in IT/software, internet networking, palm, property, sharia insurance and

others. Establish online system concurrently in 273 branches in Indonesia and it is centralized in central office of BMT UGT Sidogiri;

2. Marketing activities focus on establishing office in community economic center (market), optimize figure/the power of kyai and pesantren which has been aged for 278 years old to attract members and optimize internal family members of pesantren to gain customers trust;
3. Finance activities, largest capital proportion comes from the members and funding allocation and Collaborate with banking to meet liquidity and financing;
4. Dealing with those main business activities BMT Sidogiri arrange Business strategy to accelerate business. Business strategy BMT consists of long term planning to expand in property, and land planting. Short term planning BMT is product development, market penetration. Based on field observation showed that ukhuwah (Islamic Brotherhood Network) are used as approach to expanding the range of market and to duplication system with opening the new branch.

4.4. Business Development of BMT Sidogiri

- a. Leaderships, BMT Sidogiri has developed well fast lead by a director, board director. However, even though as institution separately with the Islamic Boarding School organization, but organization culture based on Islamic value and Islamic brotherhood. Kyai and ulama as a charismatic leader, take the central point influencing ummah and customer.
- b. Duplication system, with the success of BMT UGT Sidogiri grab a large number customer, having Establish online system concurrently in 273 branches in Indonesia and it is centralized in the central office of BMT UGT Sidogiri
- c. Culture Transformation, the existence of BMT UGT Sidogiri become focusing on economic developing for society especially community around and ummah Culture transformation showed that business could conduct by Islamic value as value logic and BMT UGT Sidogiri planned business design (consist of business aspect activities), business acceleration dealing with market expand.

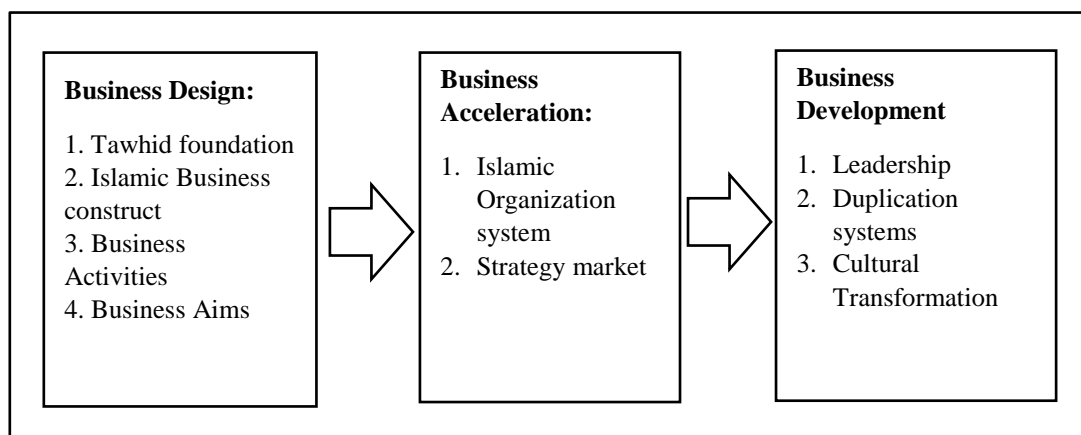


Figure 2. Framework BMT Sidogiri Business Model

Islamic business model as a set of elements which connect, integrate, and illustrate the Islamic values logic and business logic also built on the architectural framework of Islamic business. Islamic value logic conducted by BMT Sidogiri describe stage how a business build overall Islamic value from creating tawhid foundation (intention business for worship), construct business in order to comply Shariah compliance and set business aims in Islamic perspectives (economic development purpose, religiosity purpose and social purpose). However, as a business institution, BMT Sidogiri also build set of element of business logic there are business

acceleration and business development. Business acceleration as a stage where business starts to build organization system and develop a strategy. Business development is the creation of long-term value for an organization from customers, markets, and relationships, BMT Sidogiri creates leadership from ulema characteristic to modern approach. Duplication system by make standardize service for all branches that spread in Indonesia. Cultural transformation showed BMT change traditional management cultural as modern management or modern business.

5. Conclusion

Based on research problem and study results discussion, this study concluded that several points of conclusions resulted as follows:

1. Business Model Perspective Islam BMT Sidogiri is formulated and implemented by applying all the Islamic business construct : 1) Aqd/transaction based sharia; 2) Fundamental prohibitions construct is applied by studying sharia perspective deeply and specifically; 3) Ethical construct is implemented by providing excellent service based on example from the God Messenger PBUH and 4) Organizational/ Islamic relationship construct (ukhuwah) is manifested in social activities and has good relationship with the community. Those constructs well implemented in every business activities such as production, finance, human resources, and marketing.
2. Due to formulated Business Model in order to reach business aims as integral activities, BMT Sidogiri developed business in Islamic perspective that manifested into 1) Business design, 2) Build Business Acceleration with developing Islamic organization system, build transformational culture and extensive strategy and 3) Business Development: 1) Leadership, 2) Duplication system and 3) Culture transformation.

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