

Unrevaling Sharia Compliance



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ABSTRACT

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This qualitative study is aimed at obtaining an in-depth explanation and understanding of the phenomenon of sharia compliance in an Islamic financial institution, Baitul Maal wat Tamwil (BMT) from the perspective of the management and costumers of the BMTs assisted by the LKSI. There were nine respondents of the two BMTs that have been interviewed. The Rational Choice Theory and Bounded Rationality Theory are the two theories that used as an interpretation anchor and applied for analyzing the data. This study found that the choice of Islamic thought and lack of knowledge about muamalah made some people choose the interpretation of muamalah which they believed would provide them with comfort. So that each group will follow the style of sharia compliance taught by their central figure.

1. INTRODUCTION

Financial sector institutions play an important role in providing capital for the real sector. Their role has been felt for a long time in Indonesia through the banking concepts, both conventional (based on capitalist and socialist views) and based on the *sharia* principles (Sunyikno, 2008). In the microfinance sector, certain community members who are aware of said concept have made actions through their individual groups that are able to generate and lend the capital needed by SMEs. These individuals are often known in the general public as moneylenders (Sudarsono, 2015). However, moneylenders do not provide benefit to the community. Many people are entangled with debt due to the high interest

rates, policies, and activities imposed by loan sharks that are detrimental to one party and are contrary to religious teachings. As if responding to the above phenomenon, the microfinance institution *Baitul Maal Wat Tamwil* (BMT) emerged.

BMT is a form of microfinance institution that operates on the principle of profit sharing. It is developed in order to raise the degree and dignity of these businesses (micro and small businesses) and to defend the interests of the poor (Muljadi, 2017). As a *Shari'a* financial institution, BMT must adhere to the *Shari'a* principles. Faith becomes the foundation for the belief to be able to grow and develop. In mid-1990s, the number of BMT had reached 3000 units and was growing. However, in December 2005, the number of active BMT was estimated to be 2,017 units. There were many factors that caused problems for BMTs, one of which was the economic condition of their customers who have weak economic standings, such as small traders. Furthermore, customers tended to have difficulty in paying their installments. Hence, when customers were asked for billed by the BMTs, many did not pay in their installments (Pratama, 2016).

The large number of losses experienced by BMTs has the potential to prompt bankruptcy as the BMTs were no longer able to pay the saving funds from the community. (Zulkifli, Hamzah, and Hamzah 2018; Ubaidillah, 2021) The inability of parties in paying their members' funds would damage public confidence of BMTs in the country and eventually cause the bankruptcy of BMT institutions (Suaidi, 2019). BMTs have spread and existed in several cities, in which some are the members of *Lembaga Keuangan Syariah Indonesia* (LKSI) (the Indonesia *Shari'a* Financial Institution). While the number of the establishment of BMTs in Indonesia was bit lower in the past decade (Sakti 2013), the BMT that assisted by LKSI were claimed able to survive (Ittihad n.d.; PEMKO 2021). The LKSI is an association of Islamic financial institutions founded by several BMTs and financial institution companies at the initiation of a *Shari'a* Business Consultant. The aim of the LKSI is to create a place to conduct transactions based on the *sharia* and develop those transactions into ones larger transactions as well as providing supervisions over SOPs and contracts that are purely *shari'a*.

The phenomenon surrounding *sharia* compliance in Islamic financial institutions began to emerge in recent years. Several researchers have described the results of their research in this matter. Research related to *sharia* compliance revolves around the

institution's compliance towards regulations related to the implementation of Islamic *sharia*, both internal and external regulations such as Bank Indonesia. This kind of research is mainly related to the products and services of Islamic financial institutions (Yenti et al. 2021). In previous researches, the researchers focused on BMT transaction contracts such as Aniyah (2019), Khudori (2018). In addition, there are problems related to the structure of the *sharia* supervisory board and the relationship between the *sharia* supervisory board and *sharia* compliance (Arsyianti,2010; Nurhisam, 2016). Meanwhile, from the personal aspect, (Akhirul and Lutfinanda 2014) confirmed that there was a positive influence between attitudes and beliefs on *sharia* compliance.

Several studies on *sharia* compliance above illustrate that *sharia* compliance is very important in the management of Islamic financial institutions. In addition, research on *sharia* compliance carried out in the last decade is more likely to focus on the question of whether the institution under study is in accordance with *sharia* rules and values both in terms of products and services. However, in this study the researchers tried to explore it from a different perspective. This study is not focusing on procedural aspects of *shari'a* compliance but on the perspective of the customers or members and administrators of BMTs. This study also reveals motives and explores the background of understanding the *sharia* compliance of the actors.

The purpose of this research is to understand and reveal the actors' understanding of *shari'a* compliance and comprehend the motives in carrying out transactions, on the other hand, this research can also contribute to Islamic accounting science, especially in Islamic accounting and behavioral accounting and it is also hoped that it can contribute to the management and practice of Islamic financial institutions, especially BMT. The focus of this research encompasses: why the behavioral of LKSI members towards *sharia* compliance differ from others; and how the perspective of LKSI members on *shari'a* compliance is.

2. LITERATURE REVIEW AND HYPOTHESIS

***Sharia* Compliance**

Baitul Maal Wa Tamwil, as a *shari'a* financial institution or *shari'a* cooperative, in carrying out its business activities must refer to the *sharia* principles. Fulfillment of *sharia*

values (*shari'a* compliance) is an aspect that differentiates conventional and *shari'a* systems. *Shari'a* compliance is an absolute requirement that financial institutions conducting business activities based on the *sharia* must fulfill. It is also the responsibility of the government to provide special criteria and performance measurement system of Islamic bank. (Mifrahi and Fakhrunnas, 2018)

Shari'a compliance is the fulfillment of all *shari'a* principles in an institution that manifest in its characteristics, integrity and credibility. The compliance culture encompasses the values, behaviors and actions that support the creation of compliance. According to Sutedi (2009), the meaning of shari'ah compliance, in operational terms, is the adherence to the Fatwa of the National *Shari'a* Council (DSN) as the DSN's *fatwa* is the embodiment of *shari'a* principles and rules that must be adhered to in Islamic banking.

Shari'a compliance is consistently used as a framework for the Islamic banking system and finance in resource allocation, management, production, capital market activities and wealth distribution. Compliance with *sharia* principles has an impact on all matters in the Islamic banking industry, especially with its products and transactions. *Shari'a* compliance in Islamic banking operations does not only include products, but also systems, techniques, and corporate identity. Therefore, corporate culture such as clothing or uniform, decoration and company image are also of the aspects of *sharia* compliance in Islamic banking which aims to create a collective morality and spirituality, and when combined with the production of goods and services, will sustain progress and growth towards the Islamic way of life (Sutedi, 2009).

Rational Choice Theory and Bounded Rationality Theory

In general, humans choose and perform actions can be divided into four types: rational action with a specific purpose (*zweckrational*); value-oriented rational action (*wertrational*); actions based on emotional or affective motivation; and traditional actions (Weber, 2019). Gilboa (2010) identified that the pillar of rational choice is the dichotomy between feasibility and desirability. Based on that, he said that a behavior is said to be rational for someone if the person feels comfortable with it, and does not feel ashamed of it. In rational choice theory, human action is described as the result of two selection procedures. The appropriate alternative is selected from all the relevant possibilities. Then,

on the basis of his preferences, humans make their choices taking into account the constraints (financial, legal, social, physical and emotional) they face (de Jonge, 2012).

In the discussion of Rational Choice theory and religion, Hechter (2016) stated that humans avoid uncertainty in two ways. The first is to collect information that is expected to reduce uncertainty and risk. The second is to reduce uncertainty by tying themselves to actions that are largely independent of the future state of the world. This reduction in uncertainty can only be provided by religion.

Furthermore, other concept in this study is Bounded Rationality theory. Bounded Rationality Theory, in Warsono (2010), is the theory that states individual rationality is limited by the information they have, their limited cognitive abilities, and the amount of time available to take actions or decisions. Bounded Rationality focuses on the analysis of decision making when the decision maker does not have the necessary cognitive capacity to make optimal decisions because of its complexity (Mallard, 2016). Basov (2016) divided it into two paradigms. First, human behavior can be explained in terms of pursuing self-interest based on perceived opportunity. To make rational decisions in this paradigm, humans use a procedurally structured decision-making process. The second paradigm of finite rationality stipulates that decision makers are equipped with a simple set of heuristic methods, which enable them to make decisions. This method arises because of recurring situations and problems. Gigerenzer (2021) specified three theoretical guidelines for studying bounded rationality. Those are take uncertainty seriously, take heuristics seriously, and take ecological rationality seriously. Under uncertainty, the bounds of rationality could be both inside the mind and outside in the world.

Previous Studies

According to Lubis, (2016), who conducted research on the BMT Mitra Simalem Al Karomah, stated that the empowerment was done through: financing, which included *mudharabah* financing, *musyarakah* financing and *qardh al-hasan* financing. *Mudharabah* financing is a type of financing that is more widely used, because the interest of customers in this type of financing is much greater; guidance, carried out especially for customers experiencing problems with repaying their loans (financing); training, which had not shown maximum results because the form of training held was still oriented towards developing customer insights about the BMT, not developing customer capacity in managing their

business; and social activities, carried out by the BMT Mitra Simalem Al Karomah had unintentionally touched the *da'wa* aspect and become one of the empowering elements.

Furthermore, the research conducted by Iswanto in 2012, which aimed to determine the effect of *mudharabah* financing on the income of its customers had obtained results showed that *mudharabah* financing had a strong influence on the income of its customers. Sahany (2015), analyze the effect of *murabahah* and *mudharabah* financing from the BMT El Syifa Ciganjur on the development of micro, small and medium enterprises (SMEs) run by the members. The results obtained from the data processing indicated that *murabahah* and *mudharabah* financing had a positive influence on the development of SMEs customers of the BMT El Syifa. Previous researches have discussed more about the financing agreement given by the BMT and its influence on the community.

However, the industry is still trapped in several issue related to governance matters. Some of the problems that occur in the BMT environment in Indonesia are fragile risk management and weak supervision from the government (Susilo & Hakim, 2012). In her research, Nurdany (2019) found that religiosity has no positive effect on the use of Islamic financial institutions. Amerieska (2012) stated that in general the management of BMT has not prioritized the dimensions of accountability to God and the public; and is still oriented towards accountability to higher management in the institutional hierarchy.

Several studies on *sharia* compliance have focused on the implementation of *sharia* compliance in Islamic financial institutions. This is as done by H Sukardi (2012), Mulazid (2016) and Masni (2019) in Islamic banking to obtain information on whether the banking product is protected from elements of usury, *gharar*, *maisir* and other unlawful things and is properly supervised by the *Sharia* Supervisory Board. On the other hand, research (Sula 2014) shows that *sharia* compliance audits are very important to ensure the implementation of *sharia* rules and values. This is also because *sharia* compliance in the practice of *sharia* banking in Indonesia is a set of rules that are binding and force to be obeyed (Adi Astiti and Tarantang, 2020). Therefore, the existence of *sharia* supervisors who guarantee the implementation of *sharia* rules and values is important for the sustainability of *sharia* financial institutions (Nurhisam, 2016). In addition, some researchers found that *sharia* compliance has a positive impact on Islamic financial institutions. Mayes and Alqahtani (2015) found that *Shariah* compliance significantly reduces underpricing in Saudi Arabia

and also helps reduce the uncertainty and consequences of limited information attached to IPOs. Guizani (2019) indicated that *sharia* compliance reduces the requirement of firms on internally generated funds; reduce conflict of interest between managers and investors; and decreases the propensity of companies to undertake inefficient investments. From several studies on *sharia* compliance, Fauzia, Lestari, and Suryani (2020) conducted a slightly different study. They explore the notion of *sharia* compliance in some Muslim businessmen. The research with a different paradigm above underlies this research to conduct research to reveal the understanding of *sharia* compliance from a more limited and uniform social scope. This social scope is BMT which is bound in LKSI.

3. RESEACH METHOD

In this study, two types of data were used, namely primary data and secondary data. Primary data were obtained from field research with in-depth interviews with BMT administrators, LKSI administrators, and the community as BMT customers or members who had contracts with LKSI-assisted BMTs. While secondary data is in the form of standard operating procedure documents, organizational structures, contracts and other documents from the research object institution. The analysis technique used was triangulation, which is a technique of checking the validity of a data set using a comparison to perceive the results of interviews upon the object of research (Moleong, 2004). Furthermore, according to Nasution (2003), in addition to checking the correctness of the data, triangulation is also carried out to enrich the data. In qualitative writing, there is no single approach to data analysis. The choice of method really depends on the research questions, research strategies and theoretical framework (Glaser and Strauss, 2006; Bryant and Charmaz, 2007; Strübing 2019). To perform an analysis, the writer needed to capture, record, interpret and present informations.

This study uses a qualitative method with an interpretive exploratory paradigm. A qualitative approach can increase understanding broadly and openly, as well as helps understand the behavior, beliefs, and assumptions that are built (Sugianto et al., 2017). Qualitative research is a research method that emphasizes in-depth understanding of a problem rather than seeing the problem as a source for research and usually tends to use in-depth interviews in the analysis techniques (Muhyiddin et al., 2017). The process carried

out in this study was in-depth exploratory interviews with BMT administrators, LKSI administrators, and the community as BMT customers who made contracts with the LKSI-assisted BMT. In-depth interviews were conducted by documenting interviews via video and recording devices. Information analysis was done by direct observation of phenomena that occur in the object of research. The interpretation process was carried out by reducing the recorded research data through video and recording devices. The final step was to conclude the research results by assessing behavior from the point of view of maqasid *sharia* or compliance with *sharia* principles. Then, using Rational Choice Theory and Bounded Rationality Theory as analytical tools the results were further examined. In this study the results are interpreted by assigning them into a related theory which was then concluded as research results.

4. RESULT AND DISCUSSION

Respondent Description

Respondents in this study were supervisors from the LKSI, management from the BMT that assisted by the LKSI, and customers from the BMT. In addition to the LKSI itself, there are two BMTs that are the object of this research, namely the BMT Ash Siddiq located in Jakarta and the BMT Inaya located in Bogor. These two BMTs were used as objects according to the direction of the LKSI. While the respondents in this study consisted of one person from the LKSI, four people from the BMTs' management or administrators, and four people from the BMTs' customers. Interviews were conducted at the offices of each institution; both the LKSI and the BMTs. Respondents were interviewed with semi-structured questions to explore respondents' perspectives, understandings and motives regarding *sharia* compliance. The researcher used a voice recorder and the recordings were transcribed verbatim.

LKSI was formed

LKSI is an association of Islamic financial institutions founded by several BMTs and financial institution companies on the initiative of a *Shari'a* Business Consultant. The aim of LKSI is to provide the members' a place to conduct transactions as per the *sharia* and develop those transactions into larger transactions, as well as providing supervisions in the implementation of standard operating procedures and contracts that are purely *shari'a*.

The association was initiated by Erwandi Tarmidzi Associate, a *shari'a* consulting agency that has been carrying out consulting activities for several companies. Then, a *shari'a* financial institution called LKSI was formed with the first objective of implementing *sharia* standards and the second to provide a forum for BMTs in carrying out their activities in the financial sector, supported by the real sector.

Based on various experiences of the LKSI administrator in the real industry, who then switched to the *shari'a* financial institutions as consultants, the LKSI aims to provide useful knowledge for the members to then develop. The LKSI administrators would apply a new pattern in the BMT development, such as the process of implementing the financial business to penetrate into the sectoral business. LKSI-assisted BMTs (member of LKSI) do not only expect customers to come but are also encouraged to create real company organizations. The LKSI forums made were then made into a real sector business, for instance, PT. LKSI Property Sector, PT. LKSI Agro Sector, PT. LKSI Trading Sector and PT. LKSI Eye City Sector. From these several real sectors, the PT. LKSI will be able to facilitate the BMT in carrying out their activities. This is intended so that these BMTs can avoid the consumptive transactions routine. LKSI, in relation to the real sector facilities, also aims to make it easier for the BMTs to fulfill the demand for customer transactions and serves as their competitive power. As stated by Suwidi, as the LKSI supervisor and also the ETA director:

“I myself have a background in the real sector, then I was in charge of Islamic financial institutions as a consultant, so the first thing we see as a consultant is not what we can take from our clients, but what we can give to our clients. So thus the old pattern BMT never thought about how they were doing real business. So they prefer to wait for customers to come and the customers who come must be consumptive customers. Then when we encourage them to create a formal company organization in the real sector, they are limited in some things, especially human resources and others. That's why ETA created this LKSI organization to be their forum. Then from that container, we divide them into different real sector businesses. So we call it PT. LKSI (LKSI co ltd) Property Sector, Agro Sector, Trading Sector and others. Well, all of that with the hope that later the existing BMT can take advantage of it and thank God it

has been running for 2 years. Then what happen? then BMT can actually do real business through the organization created by LKSI. This is useful so that BMT comes out of two things that are not good in the BMT business. The first is detached from consumptive transaction routines. Then the second, this is a solution related to the lack of ability or real business facilities at BMT. So with this facility, they can do things that were previously impossible for most BMTs."

From the results of the interview above, we can conclude how LKSI was formed and the purpose of establishing LKSI as a forum that shelters its members (the BMTs) so that they could develop, supported by sufficient facilities and a business strategy based on *sharia* values.

The Differences between LKSI BMT Members and other BMTs

The difference between the BMT members of LKSI and other BMTs is that BMT members of LKSI have high standards related to *shari'a* compliance and are very careful in every transaction contract made to their clients. This claimed come from several customers of the BMTs. They feel that their institution is much stricter and disciplined in carrying out *shari'a*. In addition, the BMTs have real sector activities that make it easier for each contract to be free from usury, while other BMTs are only engaged in the financial sector, most of which are consumptive transactions and are assisted by Islamic banks in each of their activities. Arya, an administrator at the BMT Ash Siddiq stated the following:

"We have a firm grip that we must walk according to the rules of the Qur'an and hadith. ... the business must follow the Shari'a. So we seek His blessings."

The BMT Ash Siddiq is one of the BMT members of the LKSI. It provides two conditions for each transaction contract, namely "*goods to be repaid should be basic necessities*" and second, "*customers are made sure to be able to pay*". These two conditions are made in order to reduce consumptive behavior for things that are not basic needs. Then BMT Ash Siddiq only takes 1% per month from each *Murabahah* contract transaction. So, the customers/members can calculate their own ability level in paying the installments which will be accrued at the beginning. In addition, one unique character of the members that the administrator told is that members believe on "*better to lose than to violate sharia*".

The following was stated by Aga, one of costumers of BMT Ash Siddiq in an interview:

“Yes, I was initially surprised, was offered many things that I needed. Masha Allah, this person... is really really... really meant to help. They want to help the people. Yes, well I finally wanted to, because I still need it, so I don't refuse, I'll take it. Yes, thank God, the contract is still running smoothly and the calculations are too.”

“To purify” the *shari'a* contract transaction, when customers/clients want to make transactions in buying certain goods before the contract occurs, initially, BMT Ash Siddiq buys these items. If the customer/client cancel the transaction, the goods that have been purchased will be resold to other parties. It can be said that the difference between the BMT's and other institutions is that the implementation *shari'a* compliance in every transaction and having the real sector activities that make it easier for each contract to be escaped from usury.

Understanding LKSI Behaviorial Perspective Upon *Sharia* Compliance.

Shari'a compliance is the carrying out Islamic law, namely in accordance with the provisions of the Islamic Religion. The BMT have also implemented the principles of *shari'a* compliance in their activities. This was stated by Suwidi as the LKSI supervisor.

"Actually, sharia is easy because the first rule in sharia muamalah means to muamalah through wealth. So actually our religion is easy. The rule is al ashlu fil muamalah al ibahah. So actually what is called sharia is simple ... it's easy, the important thing is not to violate sharia provisions. So please do it as long as there are no sharia provisions that are violated. It means that learning only learns what is forbidden, right? Now this prohibition is divided into three relating to usury, relating to dzalim, relating to gharar. ... So it is related to sharia, as long as there is no prohibition that is violated then syar'i (allowed by sharia). "

One of the BMT assisted by LKSI who has implemented the principles of *shari'a* compliance is BMT Ash Siddiq. They carry out each transaction in accordance with Islamic

law and also follow government regulations set by the Minister of Cooperatives and SMEs. This was explained by Arya as the BMT manager Ash Siddiq in an interview :

“Compliance, according to my current understanding, is how we carry out the rules according to the shari'a which are directly from Allah through his prophet and then through the interpretation and understanding of the prophet's companions. Things that are not in the regulated are then consulted onto islamic scholars concerned in that field.”

Their customers also feel the impact of this *sharia* compliance behavior. Aga, one of the BMT Ash Siddiq's customers said:

“Yes, he really checked... and then according to their Sharia Board,... according to the Council, what is the... part of the business, analyzed. If they are all ok, the core team is also ok, so I just got approved. Their way of contracting is buying and selling.”

In addition, one of the BMT members of the LKSI, namely the BMT Inaya, only serves transactions for females as they do not want to have any *ikhtilaf* (differences in practice) that may occur with males. In serving customers, they instill confidence in the money that their customers have stored in a transparent manner, so that customers who save money with the BMT Inaya believe that their money has been managed according to the Islamic law. The following is stated by Mita as the initiator and administrator of the BMT Inaya :

“In Islamic banks, the banks are Islamic banks. (However) Islamic banks only know what wadiah theory is but in practice they do not know. What is Musharakah? Now, if everything is really done here, even in buying and selling, here, we as customers know and understand. Customers who save can find out where their money is. This is because according to the law we must report the use of the money ... that the money must be transparent, where the money is held and the profit sharing must also be transparent.”

She also added that the *shari'a* compliance they apply to the BMT Inaya is in accordance with the Qur'an and the *sunna* in hopes of receiving the blessings (*ridho*) of Allah. Apart from applying the principles of *sharia* compliance, the contract transaction

process at the BMT Inaya is easy and fast. This is a factor why people choose to be customers the of BMT Inaya. This was conveyed by Indra as a customer of the BMT Inaya:

"First of all, we want to avoid usury so that our motorbikes will be blessed, so we are searching ... one of them is BMT Bintaro which cooperates with Chevron personnel, but because the requirement is to have your own house, then for us the conditions are more difficult at BMT Bintaro. Then we searched again, then we got Inaya's BMT. Inaya makes it easy and special for sisters. So my wife, even though my wife doesn't work, the terms of the contract are fulfilled by the husband's work."

Based on the interview above, it can be interpreted that the respondents assumed that they have implemented the principles of *sharia* compliance based on Islamic law in accordance with the guidance of the Quran and *Sunna* in hopes of blessings for every transaction made.

Understanding How the BMT Assisted by the LKSI Can Develop Rapidly

Suwidi stated that the number of BMTs that assisted by the LKSI grow rapidly is because the BMTs will able to carry out the operation in accordance with *shari'a* compliance and also compliance to the government regulations under the supervision of the LKSI. Respondents claimed that the activities are carried out in respect of two things, namely *shari'a* and business science which are not practiced in other associations but are only applied in the BMTs that assisted by the LKSI. The managements of the BMT assisted by LKSI are given training to help develop the establishment of their respective institution. Through the training on *shari'a* and business, they would later be able to adopt the knowledge gained in their business implementations as per the *shari'a*. Moreover, the BMT possess a certain business strategy. They use tools to simplify every transaction within the BMTs. The business reviews accelerate the adoption process through existing instructions. Suwidi explained that the best software is prepared to assists activities and accommodates each of the available SOPs. Through this, the LKSI members are able to develop rapidly. With a period of less than one year their assets are able to increase significantly.

Also from Suwidi, another factor that triggers the development of the BMT members of LKSI is the attitude of helping out. In this case, BMTs help people to stay away from

usury and practice transactions in hope for blessings. This is explained by Mita as the initiator and administrator of the BMT Inaya:

"Hopefully we are looking for blessings. Seek blessings and must avoid usury. So we help people to stay away from usury. This is because our country has actually fallen into economic problems. This is due to usury. Everywhere is usury. Then we want to help, but it is impossible for us to help the country directly first. We have to help ourselves and the Muslims first."

The existence of an element of transparency in every transaction between the BMTs and their customers is also a factor that drives the BMTs to improve quickly. The following is stated by Indra, one of the BMT Inaya customers:

"Not only at the BMT. So the implementation is correct. Don't be "gray" (unclear), it is pity for the people who don't know, this is already sharia, in fact it is still usury. For those of us who have learned God willing, we can avoid it, but for ordinary people ... they feel they are right but it turns out to be a sin too, so bitter. We hope so. There will be more that kind of BMTs, if possible, because we are still far away in Central Jakarta, in Bintaro."

He explained that customers received an explanation that the BMT has no activities that related to the usury and that their money was indeed managed according to the Islamic law. From this point, it can be said that the driving factors that cause that BMTs assisted by LKSI have a rapid growth in number of costumers is strict *sharia* compliance that has been implemented in every transaction, a business strategy that supports the acceleration of the transaction process, transparency between BMT and customers, and the attitude on helping each other through keeping transactions away from usury (*riba*).

Viewpoint of Rational Choice Theory and Bounded Rationality Theory

Based on the information above, it can be understood that *sharia* compliance practiced by the BMT is inherent with the supervision done by LKSI supervisors and administrators who have their own standards and understanding of business knowledge and religious knowledge (the interpretation on *shari'a*). This is in accordance with one of the

factors of the Rational Choice Theory (Rational Choice Theory) expressed by Weber (2019), namely the Wert rational, which is a rational action that is also based on the belief in certain absolute values, such as; religious, ethical and aesthetic values or other values that are here. In this case, the supervisors and members of the LKSI emphasize adherence to Islamic law. It also encourages the BMTs to increase their understanding of Islamic law in business management and *muamalat* (transaction from the view of Islamic jurisprudences).

The actors involved in the BMT are also given sufficient training so that they can run the program in their own BMT in accordance with the vision and mission of the LKSI in enforcing *shari'a* in *muamalat*. Every contract is grasped from the need of members. It also does not only expect any material benefits that might be gained from contract but also overall welfare that can be achieved, world and the hereafter. This practice helps in educating customers/clients of the BMT Ash Siddiq to not be consumptive and materialist. They also take a profit margin of one percent per month for each purchase agreement with term payments. This small margin makes it easy for consumers to make installments. It also can help customers/clients determine their level of ability to pay. At the BMT Inaya, they simplify administrative matters for transactions. It is in line to what was stated by Indra (one of the BMT Inaya's customer). Indra believes that the behavior is in accordance with the concept of *ta'awun*, namely helping with the hope of making it easier for customers to make transactions based on the *shari'a* to avoid usury transactions.

The manifestations of the behaviors of the actors above shows that rational thinking based on absolute values, namely the religious law, directs the behaviors to not only think materially but also drives the behaviors to be practiced in hope of blessing in the activities within the business process carried out. The BMTs provide a solution for people who want to have transactions in accordance with the provisions of Islamic law. Furthermore, they can be a solution for society in avoiding usury. Saptasari and Haji (2020) stated that religiosity coupled with product knowledge and perceived quality can have a positive impact on customer intentions to use Islamic financial products. It is also supported by research by Praswati and Prijanto (2017) which concludes that religion plays a very important role in making purchasing decisions from the Indonesian Muslim community. The BMT carry out activities not only in the financial sector (non-real) but also activities in

the real sector to avoid money exchange transactions for money with profit (usury). They can carry out a real buying and selling process that cannot be carried out by banks as financial institutions which is limited to financial transactions only. At least religiosity will be able to minimize fraud that appears along with rationality and pressure (Pebruary et.al. 2019).

The behavior of management and customers at the BMTs assisted by the LKSI towards *sharia* compliance is different from other BMTs due to differences in references in terms of religious understanding. Hechter (2016) argues that one of the rational choices for humans to reduce a sense of uncertainty in the future is to adhere to and practice religion. Religion is seen as a factor that can reduce the sense of uncertainty in social action. This concept also explains why the management and customers of the BMT assisted by the LKSI have views and behaviors that they claim are different from the management and costumers of BMTs outside the the LKSI. Although they both carry *sharia* as jargon and operational guidelines, the LKSI claims that the operations of the BMTs they foster reflect better *sharia* values and rules. The main initiator of the LKSI is Erwandi Tarmizi (ET) who is known by some Islamic community groups as an expert in Islamic business and finance. The existence of ET, who is also a business consultant, is seen by some as having more expertise in Islamic finance than other Islamic scholars, sometimes even compared to the National *Sharia* Council of the Indonesian Ulema Council (DSN MUI). In the realm of Islamic finance, some of the views and fatwas expressed by ET are contrary to the MUI DSN but are considered as stronger *sharia* opinions by certain community groups (Aristama, Pane, and Ja'far 2022) (Yuana and Satria 2020) (Rahmawati and Kusumastuti 2019). Of course, this must be further proven by scientific mechanisms and by the rules of law-making in Islam. Those who believe and follow the fatwas issued by ET are those who choose religion as a rational choice to avoid uncertainty, as other Muslim groups prefer the opinion of the MUI DSN. They view that ET has a stronger *sharia* argument than that used by the MUI DSN. It also illustrates that their choice is a choice oriented to religious values in one particular view. The view of religion in Muslim society is much influenced by the thoughts of certain religious figures and also the background of these figures. The Muslim community chooses a view that they think can provide spiritual comfort. This choice is seen as a rational choice. It is also defined by Gilboa (2010) as a rational choice. According to Gilbao, rational choice is a choice that gives the actor a sense of comfort. In the case

above, the comfort comes from the process of entrusting the choice of one religious view. For those who adhere to the ET view, there are some things that make that view stronger than others in their minds. The first thing is the educational background of ET who comes from a university in the Middle East which is now Custodian of the Two Holy Mosques, in Mecca and Medina. For some people, education in the Middle East, especially close to the two holy cities, is a selling point in Islamic society. They are seen as people who learn directly from the source, although the word "directly from the source" is debatable. The second thing is that ET often uses references to *sharia* standards from AAOIFI which are considered by some parties to have the strongest argument so that those who do not refer to or contradict AAOIFI can be said to be wrong or not *syar'I* (contradict to the Islamic Law) (Tarmizi, 2015; Tarmizi, 2018). In fact, the problem of fiqh is a matter of *khilafiah* (different opinions) between Islamic thinkers or between the DSN MUI fatwa and individual Islamic thinkers in interpreting the AAOIFI fatwa. In addition, the AAOIFI fatwa is not an absolute thing if in a country there is already a fatwa institution that is a legal reference in Islamic business. This was explained by Setiawan Budi Utomo in seminar program with ET (Bintaro, 2013). But in the end, some of the things above can be the basis for someone to choose one of several views on the interpretation of religious law, especially when it is associated with uncertain things in the future. Things that are the actor himself have no knowledge of, such as the hereafter, heaven and hell.

The last part of the paragraph above also answers the question how the perspective of management and BMT customers assisted by LKSI towards shari'a compliance is. There is no knowledge, can't predict the future, feels guilty, wants to be better, wants to clean up, wants to stay away from things that will harm the actor at the hereafter. For most Muslims, matters related to the law and details of the Islamic religion are things that are not common to learn and understand. The factor of religious education at the family level as well as at the level of formal education, schools and campuses, has never made a Muslim person understand Islamic law completely and well, even though it is only the basics. A complete and in-depth Islamic religious education belongs only to the part of the Muslim community who understands the importance of Islam in their lives, both in this world and in the hereafter. Therefore, most of the Muslim communities, especially in Indonesia, are Muslim communities who do not understand their own religious law, even foreign to it. Then when they are faced with the problem of uncertainty in the future, they take it very seriously

(Gigerenzer, 2021) by returning to religion and this is a rational choice because real rationality is choosing something that has the most comfortable impact on the actor. This choice makes the actor must be better than before. Especially in the realm of economics and business, the actor must move from business practices that are not in accordance with his religion to business practices that are in accordance with his religion. The actor also has to move from a business world that is filled with prohibitions by his religion, to a business world that is blessed according to his religion. Although what is being done is in order to satisfy personal interests, both economic and religious interests, as well as both worldly and *ukhrowi* interests (the hereafter) (Putri and Firdaus 2018), for Basov (2016) this is a manifestation of the existence of the concept of bounded rationality. In addition, in order to pursue the above interests, the actor who does not have knowledge of religion and does not have complete information about what is needed (Warsono, 2010) tries to find that information. Unfortunately they are faced with the complexities of Islamic law, particularly muamalah, and their lack of capacity on it. Therefore, according to Mallard (2016), the lack of knowledge about religious knowledge, especially *muamalah*, makes the actor choose which views of Islamic economic thinkers to follow. In relation to the BMT assisted by the LKSI, managers and customers choose to follow ET as a role model because it is seen as more syar'i or it could be because he appears more in many events and certain social media opportunities (Hanifawati, Ritonga, and Puspitasari, 2019; Wirga, 2016). With all the reasons above, the perspective of managers and customers of the BMT assisted by the LKSI will follow how *sharia* compliance is defined by the central figure, namely ET. This provides an illustration of how religious rational choices and bounded rationality exist in the aspect of *sharia* compliance from institution to institution.

5. CONCLUSION

The behavior of management and customers at the BMTs assisted by the LKSI towards *sharia* compliance is different from other BMTs due to differences in references in terms of religious understanding. Religion is seen as a factor that can reduce the sense of uncertainty in social action. This concept also explains why the management and customers of the BMT assisted by the LKSI have views and behaviors that they claim are different from the management and members of BMT outside the LKSI. Even though they both carry *sharia* as operational jargon and guidelines, the LKSI claims that the operations of the BMTs they foster reflect better *sharia* values and rules.

In the realm of economics and business, the actor must move from business practices that are not in accordance with his religion to business practices that are in accordance with his religion. The actor also has to move from a business world that is filled with prohibitions by his religion, to a business world that is blessed according to his religion. What is done is in order to satisfy personal interests, both economic and religious interests, both worldly and *ukhrowi* interests. This is a manifestation of the concept of Bounded Rationality. The lack of knowledge about religious knowledge, especially *muamalah*, makes the actor choose which view of Islamic economic thinkers to follow. The perspective of managers and customers will follow how *sharia* compliance is defined by the central figure.

6. LIMITATIONS AND SUGGESTIONS

This study only portrays *shari'a* compliance from the perspective of actors who are *sharia* microfinance activists at BMTs that are members of the LKSI group. The actor's point of view recorded during the study is interpreted from the perspective of Rational Choice Theory and Bounded Rationality Theory. The special point of view and the interpretation of the two theories that surround the analysis resulted in the depth and uniqueness of the actors' understanding of *sharia* compliance. However, the uniqueness and depth may be different in content when faced with different actors and contexts. Here the qualitative approach has given its prize which should then be used as material for further research. This can be done either by using the same approach but with different actors and contexts, or by using a different philosophical and technical approach – a quantitative approach. Especially in the quantitative approach, this is expected to be able to provide the power to generalize the research results.

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