

UNDERSTANDING SHARIA COMPLIANCE ACCORDING TO INDONESIAN MUSLIM ENTREPRENEURS AND BUSINESS PEOPLE

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Abstract. *This research aims at understanding the concept of Sharia compliance, according to Muslim business people and entrepreneurs. These people, over the years, believe that their business is in full conformity with Sharia. Using a qualitative approach coupled with an ethnographic analysis, this research finds that their business is in line with Sharia in terms of its meanings, forms, functions, benefits and values. This study also finds that there are similarities between one respondent to others with regard to the underlying meaning of Sharia compliance. However, they have different understanding concerning the meaning of usury and interest in conventional banking.*

Keyword: *Sharia compliance, Businessman, Muslim Entrepreneurs*

Abstrak. *Penelitian ini bertujuan melihat pemaknaan kesesuaian dengan syariah (shariah compliance) menurut para pebisnis dan wirausahawan Muslim. Kelompok ini, selama bertahun-tahun, meyakini bahwa usaha yang mereka jalankan sudah sesuai dengan syariah. Penelitian ini menggunakan pendekatan kualitatif dengan studi etnografi. Selanjutnya, penelitian ini menemukan bahwa para bisnis yang dijalankan oleh responden berkesesuaian dengan syariah dalam hal makna, bentuk, fungsi, manfaat, dan nilai. Ditemukan juga bahwa ada kesamaan pemahaman antara satu responden dengan yang lain terkait dengan pemaknaan syariah compliance. Meskipun demikian, ada perbedaan dalam memahami hukum tentang riba dan bunga pada bank konvensional.*

Kata Kunci: *Sharia Compliance, Pebisnis, Wirausaha Muslim*

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Introduction

The study of sharia compliance is popular among academics, yet the majority of these studies are concentrated in the areas of Islamic banking and finance. Laldin & Furqani (2016, 249-272) states that shari'a has determined the principles and foundations underlying its finances and systems, as the guidelines and frameworks in which the industrial direction is established. There are no many studies that discuss the meaning of Sharia compliance according to the perspective of business people and entrepreneurs. Febianto (2011), for example, once wrote about the sharia compliance model of business entities. He explains that the core of Sharia business management model focuses on five aspects of business entities: management functions, ongoing business processes, corporate culture, corporate governance and corporate social responsibility. However, the subject is much influenced by the principles of modern management with many experts in the field, even though the discussion is then drawn and made a measure in view of the compliance of Sharia a business entity.

Sugandi (2017, 58) states that sharia compliance is part of corporate governance, which manifests the fulfillment of all Sharia principles and institutions. Solihin, in Saramawati & Lubis (2014), states that corporate governance itself is a concept based on agency theory, which is expected to serve as a tool to give investors confidence that they receive the return of the funds they have invested. Sharia compliance, also called Islamic compliance, is sometimes also related to the discussion of the quality management system (Othman, 2016). This confirms that when the level of Sharia compliance is high, it will affect the high quality of management, which includes a business organization.

The study of Sharia compliance in business is monopolized by the study of the compliance of Sharia hotels related to the applicable Sharia rulings. For example, research on the concept and practice of Sharia-compliant hotel conducted by Ahmad et al. (2016). Many studies focus on the "Sharia side" of Sharia hotels or make Sharia hotels as the objects of research, as well as research on Sharia compliance though not explicitly.

Sharia compliance has also often compared with muzakki (Muslim who obliges to pay zakat) compliance in paying zakat. Md Idris et al. (2012), for example, examines the level of a person's piety measured by their obedience in paying zakat. Religiosity has a significant effect on zakah compliance behavior. Sharia compliance begins with a study of how Muslim entrepreneurs behave in the implementation of the principles of Sharia transactions (Fauzia, 2018). It is, then, developed into research on the meaning of Sharia compliance for Muslim entrepreneurs.

In the previous studies, scholars have not found a direct exploration of the meaning of Sharia compliance from business people. The researchers in the present research were challenged to uncover the meaning of Sharia compliance obtained from interviews about the perceptions of business people and entrepreneurs about the issue. The purpose of this research is to find the meaning of Sharia compliance to be utilized by academics as well as business and entrepreneurship practitioners.

Method

This research uses a qualitative method by using ethnographic analysis. The steps taken are: informants selection and determination; interviews; ethnographic notetaking; asking descriptive questions; ethnographic interviews analysis; domain analysis; asking structural questions; taxonomic analysis; asking contrast questions, component analysis; Sharia compliance analysis; ethnographic writing related to the subject of Sharia compliance. The research object is twenty Muslim entrepreneurs who have been in business for decades, spread all over Indonesia. Prior to extracting the data, the researchers believe that the informants believe they had performed their business in line with Sharia. The determination of the informants was carried out by using the snowball method, which started by researchers' participation in several business forums throughout Indonesia. After months of observations, in-depth interviews and documentation, the researchers determined twenty-five Muslim businesspeople as the respondents in the study.

Validity tests are performed using triangulation of researchers, data sources, methods and theories. Triangulation is checking data from various sources in various ways and times (Sugiyono, 2010). According to Bungin (2011), first, triangulation of researchers validates the data by testing a researcher's honesty. This is done by asking the help of other researchers to validate. Second, triangulation of data sources is (1) comparing observation data with interview result; (2) comparing what people say in public with what is said personally; (3) comparing the results of interviews with the contents of a related document. Third, method triangulation is (1) checking the degree of confidence in the findings of several data collection techniques; (2) checking multiple data sources with the same method. Fourth, triangulation theory is done by describing patterns, relationships and incorporating explanations that emerge from the analysis to find themes and comparative explanations.

Result and Discussion

Etymologically speaking, Sharia is the way to the water as the source of life (Fauzia, 2017). Compliance is obedient to command, rule and discipline. Obedience means submission to doctrine. Kelman (1958) states that human obedience has three qualities: first, one obeys a rule because of its fear of an imposed sanction. Second, the observance of

identification means that one obeys to a rule because of the fear of corruption in good relationships. Third, the observance of internalization means that one is obedient to a rule because it is in accordance with the adopted and believed intrinsic values. In this study, Sharia compliance is internalized by a business person and a Muslim entrepreneur. When researchers entered the field, they find different understandings of the meaning of Sharia compliance from one business person to another. They always want to obey Sharia, the ordinance of how business is performed in accordance with the provisions of God. However, the findings in the field indicate that there are several differences in the perceptions of compliance.

Research on the meaning of Sharia compliance begins with data collection conducted by researchers about the perception of a Muslim business person and entrepreneur about Sharia compliance. Some of these perceptions are well explored through in-depth interviews, observation and documentation. The researchers had studied the behavior of respondents in business and entrepreneurship for the past year in order to see some aspects commonly held by them. The following explains the Sharia compliance perception of Muslim business people and entrepreneurs.

The perception of Sharia compliance among businesspeople and Muslim entrepreneurs was traced from twenty respondents on how to do business in Sharia and how they adhere to Sharia principles in business. An analysis was drawn on how the meaning of Sharia compliance was based on the perception they had built earlier. The analysis of the meaning of Sharia compliance reveals that the respondents' understanding of the meaning of Sharia compliance varies from one respondent to another. When talking about business forms, roles, benefits and values in the Sharia businesses, there is not much difference between one respondent and another. The following table describes the analysis of the meaning of Sharia compliance from 20 respondents.

Table 2.
The Meaning of Sharia Compliance
According to Muslim Businesspeople and Entrepreneurs

| No | Finding | Note |
|----|----------------|--|
| 1. | Meaning | <ul style="list-style-type: none"> a. Implementing all sharia business teaching and avoid all restrictions and prohibited actions. b. Refusing the use of conventional banking because it contains interest and usury. However, some believe that bank interest is not regarded as usury. All agree that sharia businesses contribute positively to society. c. A small number of businesspeople only understand that the most important thing is the notion of halal without paying attention to the aspect of benefits. |

2. **Form**
 - a. All business activities are halal in zahir (the obvious), as long as no forbidden products sold, and the transactions are built on the principles of *taradhin minkum*, avoiding *gharar*, *maysir*, *ghisy*, *ghabn*, *tadlis*, *ikrah*, and so forth.
 - b. With regards to the notion of usury, there were differences in the respondents' opinions. Some of them argued that their interaction with conventional banks would not change the degree of sharia compliance in their businesses. They provide excellent service and sell the best products.
 3. **Role**
 - a. Issue zakat, alms, infaq and waqf to empower people; have social foundations and education; and contribute to nature.
 - b. Empower resellers, employees and those involved in the business.
 4. **Benefit**
 - a. Their compliance with sharia strengthens their 'senses'. So they are always aware and careful in searching for income.
 - b. Compliance with sharia also enhances altruism, so they are able to work in the social and educational spheres.
 5. **Values**
 - a. The value of Islam means self-dedication to Allah SWT by worshipping to be successful in the world and the hereafter.
 - b. Value of hard work implies the obedient to sharia means having and keeping the work ethic well in order to succeed in business and become professional.
 - c. The value of ukhuwah (brotherhood) to maintain friendship can lead to businesses to have a strong network.
 - d. The value of good deeds is indicated by many entrepreneurs who have social and educational institutions following their business life.
 - e. The value of learning means that the adherence to sharia makes the businessperson and entrepreneurs accustomed to seek knowledge of the business from any sources.
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A. The Meaning of Sharia Compliance

This research finds out that there are differences in the understanding of the Sharia compliance notion among the respondents. The majority of respondents explained that Sharia compliance means to carry out all the teachings of Sharia in their businesses and stay away from various restrictions. However, they understand the meaning of "carrying out all the Sharia teachings in their businesses" in different ways. Some of them thought that interest offered by conventional banks is usury and forbidden. Thus, Muslim should avoid interaction with conventional banks. Some others, on the other hand, believe that the interest in the conventional banks is not usury. Therefore, the interaction with conventional banks is not a

problem, if they do not have another choice. This happens, for example, when they find problems in Sharia banks, and they feel more comfortable with a conventional bank. For more detail explanations, see the interview with entrepreneur MH from Jombang:

“I cannot escape from a conventional bank. I once tried to take a loan to a Sharia Bank X, but when I paid the first installment, my wife and I were confused. My wife even cried because we are confused. It was expensive. Whereas at the beginning there was a cut and there was no reasonable explanation from the bank officer. “

Some Muslim business people and entrepreneurs who claim that they are consistent with Islamic banking are usually those who have complete capitals. They are business owners with billions of Rupiah in turn. This group also includes those who have a business with a turnover of tens of millions. At the same time, these people a good understanding of religion, especially the understanding of usury. The following is an interview from an entrepreneur from Gresik, with the initials HZ:

“Being entrepreneurs, we have to obey the rules of God. So I try to live with all the existing Sharia. I am always careful in all matters and also things that support my business. For example, one thing that I hold is that I try to avoid usury. So, I will always focus on using Sharia bank for my business. By using a Sharia bank, then I will be comfortable running my business. I am more calm and comfortable in worship. Why should (I) use the haram if there is the halal. Why do you have to commit adultery if there is a marriage? “

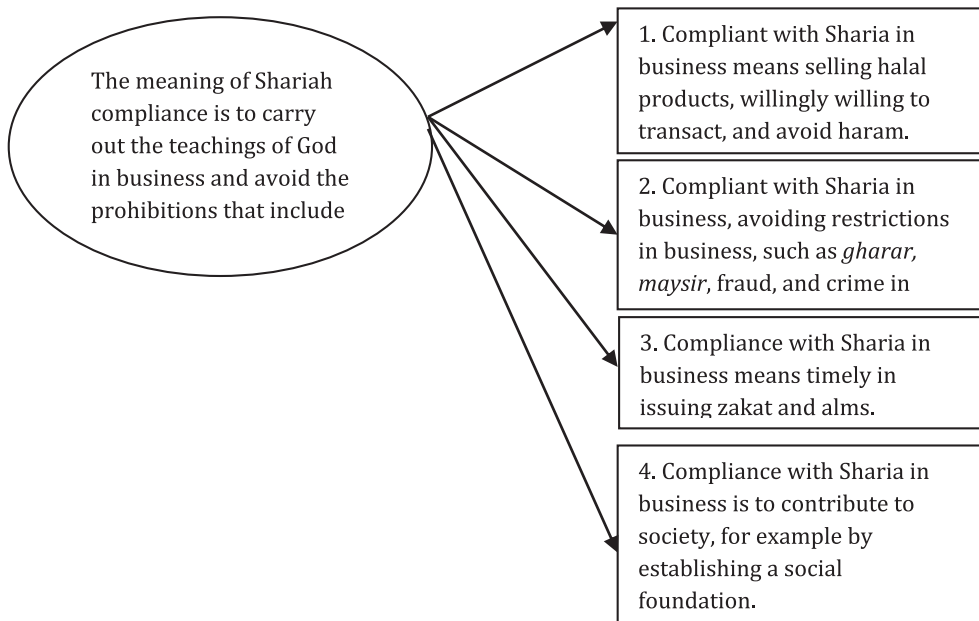
The understanding of Sharia compliance can also be indicated by the existence of an agreement that Sharia businesses should contribute to the development of society. Another form of Sharia compliance, according to the respondents, is that Sharia businesses must strictly maintain halal products trading, even though a small number of them - according to the author - have a business that is not in accordance with the *Maqashid al-Shariah*, especially the notion of *maslahah* (public benefit).

For example, one respondent has an online gaming business, in which many parents complain about this business. However, the respondent stressed that *“it’s too bad to close the business because it has been running well and profitable.”* Meanwhile, the respondent has had other bigger businesses and has generated more significant profits from those businesses compared to the online game business. The online game business has given him only 1% out of the total profits.

The business owned by the respondent can be *halal*, but he is not aware of the direct or indirect impacts that can occur from the business. *Maqashid al-Shariah* is the objectives of sharia set by God to achieve human welfare (Raysuni: No Year, 45). Sharia objectives can be obtained by means of which benefits can be realized, and damage can be eliminated (Al-

Ghazali: 1971, 159 & Izz al-Din: 1996, 40). Humans will be well if they have fulfilled their primary needs (*dharuriyat*), by maintaining their religion, soul, mind, descent and wealth. After the primary needs are fulfilled, human beings can cultivate themselves also to meet secondary (*hajiyyat*) and tertiary (*tahsiniyat*) needs (Fauzia, 2017, 43). The Ulama agreed that Sharia was revealed to build human welfare in the world and the hereafter, in line with realizing social welfare among human beings (Fauzia: 2016, 90). For more details about the description of the explanation above, see the following picture 1:

Figure 1. Meaning of Shariah Compliance



The picture above shows that Sharia compliance means trading halal products and services. Business must also be carried out by avoiding restrictions that can lead to damage in business. Compliance in paying zakat is also an indicator of Sharia compliance, as it can contribute to the people empowerment.

B. *The form of Shariah Compliance*

The interviews with twenty respondents regarding their understanding of Sharia compliance indicate that their compliance to sharia manifested in their choice of halal products, and their commitment to developing their business upon the principle of public benefits. For example, an interview with a shoe manufacturer from Bandung, with the initial GI reveals the following:

“Alhamdulillah, my product is in accordance with sharia because it does not violate the law; the transaction process also does not violate the law. We always emphasize ‘an taradhin minkum’, which means the goods are refundable for cancelation of a transaction, with or without reason. 100% of funds will be refunded consumers except for shipping costs.”

There are businesses operated according to Sharia, including in its process from A to Z. However, many are still very dependent on non-Islamic banks. GI, the shoe manufacturer from Bandung, continued:

“For capital, in fact, I do not want to borrow (money) from the bank. I have long tried using the mudharabah scheme, but I have not succeeded in that way. I was rejected. So I still use credit cards and borrow (money) from the Bank. It’s just that I never speculated, so InshaAllah credit cards and credit from banks have all been measured, planned and analyzed in terms of opportunities and threats. Some of my friends faced bankruptcy due to the banking debt without proper speculation.”

C. The Role of Shariah Compliance

Muslim business people and entrepreneurs who adhere to Sharia play a significant role in empowering society. Often Muslim entrepreneurs and business people participate in building the community. The majority of them have social foundations as well as educational foundations. AF from Jombang maintained:

“Doing business with God is carrying out the commands of Allah. I am thankful that I have issued zakat every month and year. And I also build educational institutions to be able to contribute to the community. Alhamdulillah, for alms business, I have also tried to practice it well.”

Consider the information of an informant who is an entrepreneur with the initials ME from Bojonegoro:

“Another key to business is good deeds. Thank God, I always support my business with good deeds. I set up an educational foundation funded by the business that I built. At the core of the strength of a business, one of them is loving the family, Alhamdulillah I respect my wife, and I love my five children. “

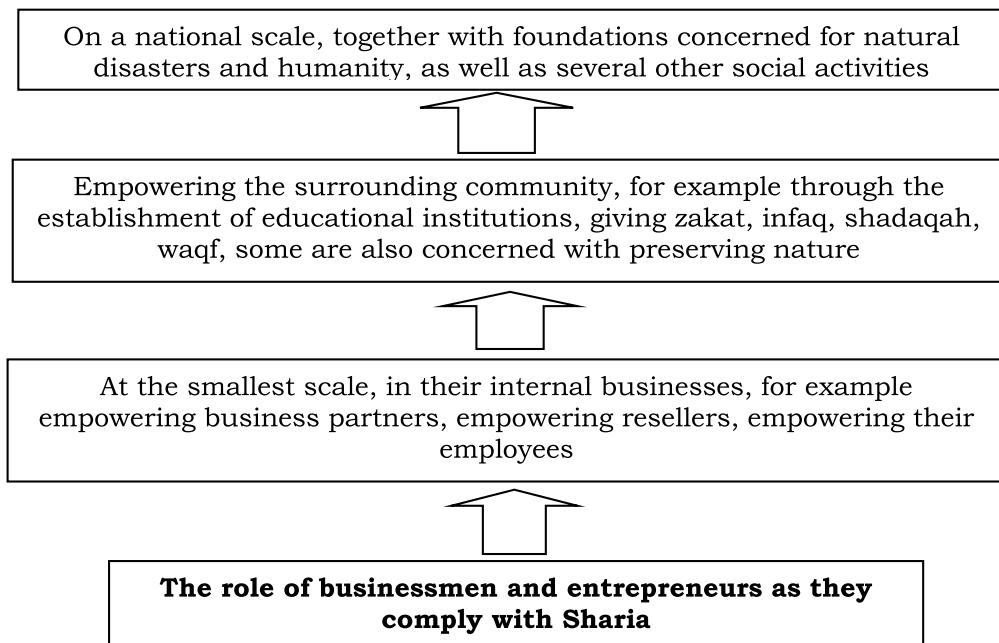
There is even one businessman from Kalimantan with the initials UF who always committed to planting trees if his profits reach a certain value. The following is the excerpts from the interview:

“Frankly, for the capital, I still get from conventional banking, but in procedural, I try to comply with Sharia. I avoid gharar transactions, ghisyy, I have never cheated, I have never betrayed in buying and selling, and I try to keep the mandate well. I also set a target. If my earnings and profit reach a certain value, then I will plant 100 trees. I also concentrate on fostering orphaned children. “

Another role of business people and entrepreneurs in complying with Sharia is to empower resellers, employees and those involved in the business. The following is the excerpts from an interview with JI, an entrepreneur from Sidoarjo:

“I teach my employees a lot so that they can be independent, can open their own business, and initially sell my products.”

For more details, discuss the role of Muslim entrepreneurs and business people when they obey the Sharia in the picture below:



D. Benefits of Sharia Compliance

The benefit of Sharia compliance for Muslim business people and entrepreneurs can be achieved when they are obedient to the sharia. It will make them love others. The business people and entrepreneurs have the basic capital, namely the wealth and skills needed in the empowerment. They also have another capital needed, namely, leadership. Compliance with

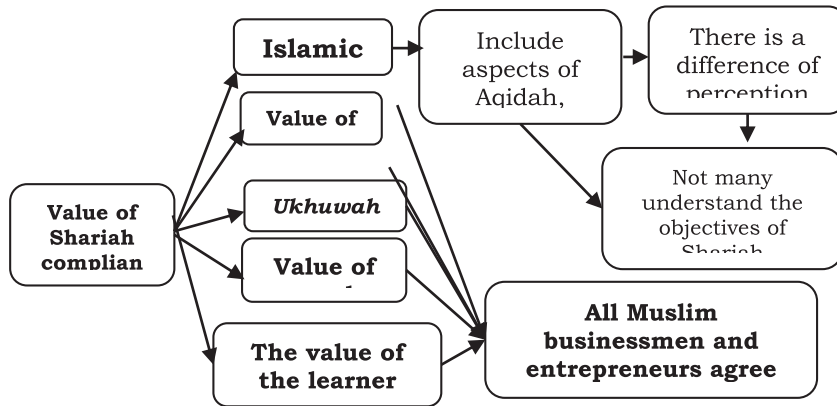
sharia affirms their 'feeling', so they are always aware and careful in generating incomes. Compliance with Sharia also enhances their sense of altruism, a trait where they attach importance to others, and concern for the well-being of others, in the form of voluntary actions. Those people are more concerned with others than themselves, in the sense of some social affairs. However, of the 20 respondents, not all of them have altruistic behavior. The researchers conclude that only 75% of the 20 respondents are altruism-spirited.

E. The Values of Sharia Compliance

There are values determined to cover the Sharia compliance. These values are (1) Values that covers all aspect of life, including business. Islamic values in Sharia compliance consist of two categories: *first*, for business people and entrepreneurs who claim that usury is haram, and they have liberated themselves 100% from conventional banks, they have incorporated aspects of monotheism, Sharia and morals in their business. They are more reliable, more careful and very strict in maintaining their principle based on their beliefs. So it is not uncommon then they create a community—gathered together with colleagues who shy away from conventional banking. Second, for business people and entrepreneurs who claim that they run all the Sharia in business, they obey the Sharia. Except for one thing, that is the belief that conventional banks are not entirely unlawful. According to this second group, when Sharia banks are Sharia then they will be able to leave conventional banks. They have also incorporated aspects of monotheism, Sharia and morals. However, the sharia is limited by some laws, except the subject of usury.

Apart from the different views above, the business people and entrepreneurs have upheld Islamic values for self-service to Allah SWT, by doing business to worship to gain success in the world and the hereafter. (2) The value of hard work means that they are obedient to Sharia by having and keeping their work ethic well, in order to grow their business successfully and to become a professional business person. (3) The value of ukhuwah (brotherhood) means that the value of silaturahmi (maintaining relationship) can benefit for the more reliable networks in business. This research found that all business people, who are the respondent of this research, are very fond of silaturrahmi activities with colleagues. They also get indirect effects from the relationship. (4) The value of good deeds means that obeying Sharia to seek the pleasure of Allah and to change for the better. In this case, the respondents have maintained their significant contribution to the community. This will not take place if the value of good deeds is absent in those business people. (5) Learner value, as found in the interviews, means that the Muslim business people will always educate and teach the community about how to do business. This becomes a phenomenon among those business people. However, the entrepreneurs who are still developing their business will tend to learn a lot to explore knowledge about business from any means and sources. The following figure (3) explains the values in Sharia compliance:

Figure 3. Sharia Compliance Values



The picture above explains that values in Sharia compliance are Islamic values, with the internationalization of aspect of aqidah, Sharia and morality in business; then followed by the value of hard work; the value of ukhuwah; the value of good deeds and value of learning.

Conclusion

In conclusion, this study shows that all the respondents encountered believe that they have complied with Sharia, especially those related to the business and the business they are working on. Their Sharia compliance in business varies from one business person to another. The perception of each business person and entrepreneur about their compliance in doing business is then re-analyzed to get the meaning of Sharia compliance. Data extracted from some of these perceptions result in the meaning of Sharia compliance. This, then, develops to recognize the form, role, benefits and values of Sharia compliance. The limitation of this study is regarding the origin of the respondents. Most of them are from Java island, and only two of them are from North Sumatera and Kalimantan. In fact, each region in Indonesia has distinct local wisdom, which may contribute to people's businesses. Further research is needed to test the theory of Sharia Compliance resulted from this study. The study of Sharia compliance will be able to be well-developed in business and entrepreneurial areas. Thus, the results of existing research can be used by business people, entrepreneurs and academics who have concerned about the issue.

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