

## **CORPORATE CULTURE AND FINANCIAL RISK MANAGEMENT IN ISLAMIC SOCIAL ENTERPRISES (INDONESIA EVIDENCE)**

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### **Abstract**

*This research aims to investigate the implementation of corporate culture and financial risk management in Islamic social enterprises. The methodology in this research is qualitative descriptive that using manager self-assessment questioner in Islamic social enterprises. The sample in this research is 24 respondents from the total 100 respondents that we distribute in Jakarta and Java Island. The results are financial risk management has an average score above 80 that reflect it has implemented well in Islamic social enterprises but for corporate culture still need improvement implementation.*

**Keywords:** *Corporate Culture, Financial Risk Management, Islamic Social Enterprises*

### **1. Introduction**

Islamic Developing countries are countries with low average income, inadequate infrastructure, and a lack of human development index compared to developed countries. Therefore, compensation for these conditions, developing countries have various kinds of problems that still need to be addressed such as social problems. Social issues in developing countries such as Indonesia are one of the priorities to be addressed by all stakeholders and especially by the government. The emergence of social problems due to problems in meeting the needs of life that must be met while there is a scarcity of sources of fulfillment so that competition is needed to meet these basic needs (Hilgartner & Bosk, 1988).

Meanwhile, according to Soetomo (2011), the causes of social problems arise because there is something wrong in social life, and is a complex social reality, so the source of the problem is also complex. Therefore, the source of the causes of social problems can come from individual and collective levels (Hilgartner & Bosk, 1988; Soetomo, 2011). Furthermore, the main social problems in developing countries are poverty (Glewwe & Van der Gaag, 1990; Coleman et al., 2001). The concept of poverty is very diverse, ranging from the inability to meet basic consumption needs, lack of opportunities to work, to a broader understanding that includes social and moral aspects. According to Suryawati (2005), the occurrence of poverty is due to inadequate development in developing countries so that there are still many low-income people who have not been able to meet their minimum living needs. Efforts to overcome and resolve these social problems required social policies, especially those derived from policymakers of a country, namely the government (Kingdon & Thurber, 1984). To overcome the problem of poverty in need of a method or strategy, namely by increasing investment, savings, and depreciation. The more investment and savings, then development will also increase so that it has an impact on the welfare of the community. Governments in developing countries have tried various kinds of efforts to overcome poverty through policies and mechanisms, one of which is direct cash assistance. However, this mechanism does not solve the problem and even opens up opportunities for

irregularities in the use of funds, causing social conflicts (Pattinama, 2009). Besides the government, there are non-governmental organizations that have the same vision and mission in overcoming social problems. The organization is not only aimed at making the profit, but more than that is making social values embedded in their business activities (Zahra et al., 2009; Rostiani et al., 2014; Arafah et al., 2018) that commonly referred to the social enterprises.

The phenomenon of social activities in Indonesia over the past ten years has grown significantly. This growth is due to the growing awareness and knowledge of the public of the importance of balance in social life but also supported by the development of Islamic financial institutions, especially Islamic banking, whose growth exceeds the growth of conventional banking (aNugroho et al., 2017). The growth of Sharia financial institutions has a contribution to the growth of social enterprises because there are portions of profit Islamic financial institutions that are not distributed to shareholders or owners will be a source of funds for social enterprises to be distributed to those who are entitled such as zakat, infak and shodaqoh (Hassan & Syafri Harahap, 2010; Aribi & Gao, 2010). Also, Islamic banks also have the principle of profit sharing as well as cooperatives and carry out business activities with transparency and accountability principle so that according to Defourny & Nyssens (2010) and Cornee & Szafarz (2014) Islamic banks can be included in social enterprises category.

Further understanding of social enterprises is a company or organization whose vision and mission are established social objectives (Rostiani et al., 2014). Also, this social company has been proven to be able to assist the government in overcoming social problems such as poverty alleviation, improving public health, increasing education levels and improving the quality of life (Seelos et al., 2006; bArafah & Nugroho, 2016). However, according to Hudon & Périlleux (2014) and Hudon et al., (2018) social enterprises are companies that enter social missions through commercial activities.

In the concept of Islam eradicating poverty is part of jihad fi sabilillah. Eradicating poverty and ignorance is one of the essential points stressed by al-Shaykh al-Nawawi that poverty and ignorance are conditions that endanger humans so that alleviating poverty and increasing the level of education is also in the category of jihad (Nurcholis, 2013). Therefore, the philosophy of social enterprises has in common with the Islamic concept of empowering people to improve their welfare based on the principle of help (ta'awun) and its financial resources can be derived from zakat, infaq and shodaqoh (Reginald & Mawardi, 2015; Sukmadilaga & Nugroho, 2017). Some Quranic verses relating to the importance of creating prosperity through the alleviation of poverty and ignorance and the obligation of Muslims to carry out Zakat, infaq, and shodaqoh, among others, in Q.S. An-Nisa verse 9 which means: "And let those [executors and guardians] fear [injustice] as if they [themselves] had left weak offspring behind and feared for them. So, let them fear Allah and speak words of appropriate justice." Referring to the above verse, we can conclude that worries about a weak generation are representations of poverty, which is the opposite of welfare, the verse encourages humans to avoid poverty by working hard is an effort and trusts in Allah.

Furthermore, for Muslims who are able to be materially in accordance with certain conditions, paying zakat is an obligation as stated in Q.S Al-Baqarah verse 83: "And [recall] when We took the covenant from the Children of Israel, [enjoining upon them], "Do not worship except Allah; and to parents do good and to relatives, orphans, and the needy. And speak to people good [words] and establish prayer and give zakah." Then you turned away, except a few of you, and you were refusing." Based on Q.S Al-Baqarah verse 83, then humans are obliged to do good and help one of them is to carry out zakat. In Indonesia, there are social enterprises based on religion, such as Islam which have a mission to alleviate poverty, eradicate ignorance, improve health and preserve nature. Of course, so that the social enterprise gets the trust of the community, it requires cultural values in the company and the risk of financial management. Therefore, this study aims to determine the implementation of corporate culture and the application of risk of financial management in social enterprises based on Islamic religion so that the research questions in this study are as follows:

- How the Implementation of Corporate Culture in the Islamic Social Enterprises?
- How the Implementation of Financial Management Risks in Islamic Social Enterprises?

## 2. Literature Review

### *2.1 Social Enterprises and Islamic Social Enterprises*

The According to Kerlin (2012), there are still debatable perceptions among researchers, mainly from America and Europe, related to the definition of social enterprises. There is a broad and unclear definition related to social enterprises in America which consider that social enterprises are companies that carry out market-oriented economic activities that also serve social purposes. Whereas Europe has the perception that social enterprises are organizations or companies that have social objectives that are explicitly stated in their vision and mission to provide benefits to humans or people. Furthermore, according to Shaw & Carter (2007), there are three business formats of social prices which include: social enterprises that are purely social aims, social enterprises that seek profits, and social enterprises that combine profit and social missions (hybrid types). Whereas the business structure of social enterprises can be an independently owned operation or can be in the form of a public-private partnership (O'Hara, 2003; Shaw & Carter, 2007; Hynes, 2009). However, based on the research of Rostiani et al., (2014) which conducted on eight types of social enterprises that are distinguished based on their social objectives as follows:

- Donation for the poor, socialize the alms habit
- Environment-friendly lifestyle
- Street children care
- Education funding for underprivileged, high potential children
- Vegetarian healthy lifestyle
- Disabled children care
- Organic agriculture and fair trade, organic lifestyle
- Organic agriculture

The eight types of social enterprises, there are similarities in the mission, namely aiming at purely achieving social performance even though it can be distinguished based on the motivation established, which includes personal values, religiosity, and social norms. Furthermore, there are also similarities related to the characteristics of social enterprise which its activities always consider aspects of sustainability in achieving their social goals. Whereas in carrying out its activities, company growth is not the main goal, but this growth is due to the impact of the implementation of social activities. Nevertheless, the going concern of social enterprises relies on social networks such as friends, relatives, and colleagues to support and disseminate the activities information. Meanwhile, to achieve its goals, social enterprises not only have the right program but also must have creativity and innovation that embedded with their social activities to attract the donors.

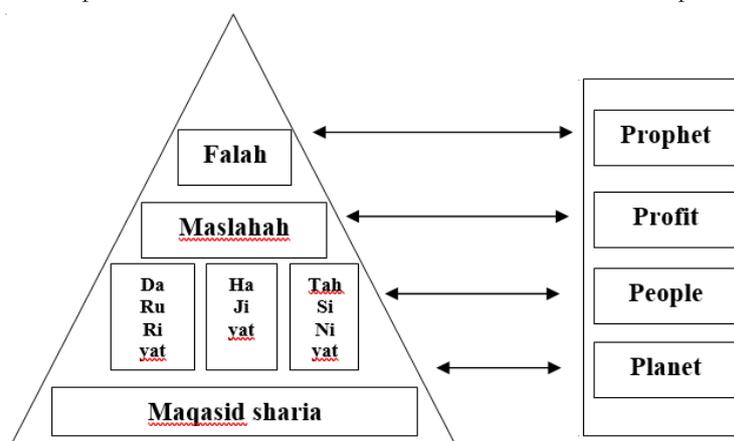
Based on the establishment motivation of social enterprises, religiosity is also a dominant factor because if explicitly the aspects of carrying out religious orders is stated in the mission and vision, then the donors who have the same beliefs will be very interested in investing their funds and even engaging in social activities (Constable, 1983; aArafah & Nugroho, 2016). In Islamic thought creating social-wellbeing is a joint obligation for all people that stated in Al-Qur'an, (QS. Al-Baqarah verse 201) which means "But among them is he who says, "Our Lord, give us in this world [that which is] good and in the Hereafter [that which is] good and protect us from the punishment of the Fire." The essence of the verse is the orientation of human activity is happiness in the world with the ultimate goal is to reach happiness afterlife. In nature, all human activities must be balanced not only looking for material but also helping each other in doing good (social aspects). Furthermore, Islam is a comprehensive religion that regulates all aspects of life so that a Muslim must carry out orders of God and stay away from His prohibitions in daily life or make Islam as a way of life (Dusuki, 2008; bNugroho, 2017). According to Chapra (2001) and cNugroho et al., (2017) prosperity

based on Ibn Khaldun's theory states that welfare will be realized if there is a collaboration of all elements consisting of Government, Development, Community, and Justice.

Furthermore, Islam as a religion that aims to deliver its people towards happiness, both happiness in the world and the hereafter, in other words, Islam is very concerned about the material and spiritual well-being of humans (Sodiq, 2015). Thus, realizing prosperity is a joint obligation of all stakeholders and the community. In the Qur'an, (QS. An-Nisaa verse 9) stated: "And let those [executors and guardians] fear [injustice] as if they [themselves] had left weak offspring behind and feared for them. So, let them fear Allah and speak words of appropriate justice." Based on this verse, concerns about a weak generation are representations of poverty, which is the opposite of welfare. So, the verse encourages humans to avoid poverty by working hard as a form of endeavor and trust in Allah, as the hadith of the Prophet was narrated by Al-Baihaqi "Verily Allah likes someone who does his work diligently and disciplines (professional)" (Qardhawi, 1995: 256).

The concept of sustainable development in the perspective of Islam is an extension of "triple P" to "quad P" (profit, people, planet and prophet), according to Nugroho et al., (2018) Islam is very concerned about the next generation. Therefore, development and all current activities may not threaten or damage the welfare of the people and also environmental sustainability. When described in a pyramid, human activities in the Sharia economy must be based on figure 1.1:

Figure 1. Principles of Islamic Economics Versus the Sustainable Development Concept



Source: Nugroho et al., (2018)

Referring to figure 1.1, maqasid sharia is the basis or foundation of Islamic economics, while the components of Islamic maqasid according to Nugroho et al. (2018) consist of six components, which include (1) Maintaining Religion, (2) Maintaining Soul, (3) Maintain Intellect, (4) Maintain Descent, (5) Maintain Property, (6) Maintain the Environment. Furthermore, the six components must be implemented in community life in meeting basic needs (daruriyat), secondary needs (hajiyat) and tertiary needs (tahsiniyat). Maslahah is the goal of fulfilling these three human needs (Daruriyat, Hajiyat, and Tahsiniyah) in order to stay away from the prohibition of Allah SWT and carry out all the commands of Allah SWT. Therefore, the result of the Islamic economy is to guarantee that all human activities based on the principle of maqhasid sharia will give happiness in the world and the hereafter (Falah). Based on the components of Islamic economics, the Islamic economy is not only intended to gain profit but must also have a positive impact on the benefit of humanity as well as environmental sustainability. More than that, then by carrying out all of His commands and avoiding His prohibition, all human activities should be a continuous activity that has a good impact on other humans and their environment.

According to Qodri (2014) and Baidowi (2016) God created all things in this world, varying in nature, form, and function. This diversity makes one another influence and depends on one another. Therefore, according to Shidiq (2018) the expected relationship is a good relationship and bring prosperity so that humans as the highest creature created by God are also created with a variety of abilities must be able to work together, help each other in order to maintain balance as well as contained in the Qur'an, (QS. Al Qamar verse 49) "Indeed, all things We created with predestination." Also, Allah has created this nature to be used by humans to fulfill their needs and provide welfare for humanity. However, humans must manage these natural resources well. If humans are not able to manage it well and tend to be greedy in exploiting it, then what happens is the opposite is not good, but disaster will befall humans. The human obligation to exploit nature by their needs and its contained in the Qur'an (QS. Al Haj verse 65) "Do you not see that Allah has subjected to you whatever is on the earth and the ships which run through the sea by His command? And He restrains the sky from falling upon the earth, unless by His permission. Indeed Allah, to the people, is Kind and Merciful."

The basic principle of Islam related to the management of natural resources is Rahmatan Lil Alamin, which is giving as much as possible and as optimal as possible for all beings. Thus, if a person controls a resource, then it should distribute it fairly. The owner of the resource can manage it but cannot monopolize it and use it for mutual benefit and may not sell it at an inappropriate price. Humans should realize that every pleasure, comfort, and fortune they possess and that they get to have an impact on the obligation to balance between gratitude and mandate. The implementation of gratitude and trustworthiness is through the use of the possessions it has spent on as much as possible for the good of humanity (maslahat) according to the Qur'an (QS. Ibrahim verse 7) "And [remember] when your Lord proclaimed, 'If you are grateful, I will surely increase you [in favor]; but if you deny, indeed, My punishment is severe.'" Thus, every human being who is given a favor then is responsible for using it to provide well for all beings so that they cannot be complacent with the blessings and fortune that has been given to be used for personal gain.

## ***2.2 Corporate Culture in Islamic Perspective***

The basic concept of corporate activity in Islam is that all business activities must be embedded with social objectives and environmental sustainability called maqashid sharia. Besides that, in Islamic teachings, there are social instruments implemented by social companies to distribute zakat, infaq, shodaqoh, and waqaf to people who deserve it (Doctoralina & Bahari, 2017). Therefore, the company in carrying out activities must get the trust of the people who gave the funds. To get this trust, it must have a good work culture and the application of financial risk management.

There are several concepts related to the definition of corporate culture, according to some previous researchers, corporate culture is a system that instills beliefs and values developed by an organization as a code of conduct for all employees (Keesing, 1974; Denison & Mishra, 1995; Widuri & Paramita, 2007). Also, organizational culture can be defined as a system adopted by members in an organization that distinguishes the organization from other organizations (Peters & Waterman, 1982; Collins & Porras, 2005; Gultom, 2015). However, there is also a definition of corporate culture as part of the identity and reputation of a company (Rossi & O'Higgins, 1980; Jo Hatch & Schultz, 1997). Furthermore, according to Reichers & Schneider (1990), corporate culture can improve company performance and company effectiveness in achieving its goals. Corporate culture can improve performance if the company has a strong culture so that it can affect all employees in the company to carry out agreed commitments aimed at improving company performance. The effectiveness of work culture in achieving company performance according to Denison & Mishra (1995) and Denison et al., (2003) includes the following:

- Involvement; Effective organizations are organizations that can empower their people, build their organizations through a solid team, and enhance the ability of members of the organization at all levels (Riordan et al., 2005; Lawler, 2008). Executives, managers, and employees should be committed to their work and feel part of the organization. Also, people at all levels feel that they are involved in determining decisions that will affect their work (Spreitzer, 1995; Seibert et al., 2004).

- Consistency; Organizations also tend to be effective because they have a very consistent "strong" culture that is well coordinated and integrated (Davenport, 1993; Schlicht, 2008).
- Adaptability; Organizations that can adapt are organizations that are motivated by the needs of their customers, learn from their mistakes, and have the ability and experience to create change (Nadler, 1997; Wang & Huang, 2009).
- Mission; A successful organization is an organization that has clear goals and directives that can define organizational goals and strategic goals and expresses a vision of how the organization in the future (Hamel & Prahalad, 1994; Johnson & Leenders, 2001).

Islamic perspective related to work culture is work is part of good deeds practiced by humans to seek blessings from Allah SWT and give goodness to other people (maslahah). Furthermore, the work must be based on good intentions, because everything that gives good results must be based on good intentions as well. Also, the concept of working in Islam is to carry out goodness, prevent damage and carry out the teachings of Islam in totality because work is worship that Qur'an (QS. Adh-Dhariyat verse 56) "And I did not create the jinn and mankind except to worship Me." Also, the holy book of the Qur'an does not provide an opportunity for a Muslim to relax in this life (QS. AS. Sharh verse 7) "So when you have finished [your duties], then stand up [for worship]." Thus, the work culture that is owned by every Muslim must have the ability to make the maximum contribution in creating maslahah.

### ***2.3 Financial Risk Management in Islamic Perspective***

Financial and business activities are one of the main activities of human life to fulfill their needs. Furthermore, in carrying out business and financial activities, it will cause two things, namely profits and losses in the future. Therefore, the benefits and losses caused by current business activities cannot be guaranteed that these activities will provide benefits. Thus, the risk is an inherent component of business activities in human life so that Islam does not recognize risk-free business activities (Wahyudi et al., 2013; Soekapdjo et al., 2018).

Humans in their efforts to find income to meet their life needs are also faced with conditions that are uncertain what will happen in the future. As a human being, we can make plans to anticipate everything that might happen, but we cannot ensure the results of the operations that we will achieve whether profits or losses are stated in Qur'an (QS. Lukman verse 34) "Indeed, Allah [alone] has knowledge of the Hour and sends down the rain and knows what is in the wombs. Moreover, no soul perceives what it will earn tomorrow, and no soul perceives in what land it will die. Indeed, Allah is Knowing and Acquainted."

Also, according to Nugroho et al., (2018) the risks in the perspective of Islam are al al ghunmu bil ghurmi and al kharaj bid dhaman which means that all income will certainly have the risk of the insured, but the risk must be managed responsibly. Also, there is also the principle of la darara wa la dirara which means that humans cannot suffering in weak condition but must try to minimize and avoid the badness, it is also explained In the Qur'an (QS. Al Hasyr verse 18) "O you who have believed, fear Allah. Moreover, let every soul look to what it has put forth for tomorrow - and fear Allah. Indeed, Allah is Acquainted with what you do." Therefore, Islam has put risks as something inherent in every activity so that a comprehensive calculation and planning is needed in anticipation of risks that may occur in the future.

## **3. Methodology**

The methodology used in this study is a qualitative descriptive method. The data used is obtained through self-assessment by filling out questionnaires from the management of Islamic social enterprises. Nevertheless, the research is limited through the following research questions:

- How the implementation of work culture in Islamic social enterprises?
- How is the implementation of financial risk management in Islamic social enterprises?

Furthermore, this research uses questionnaires aimed at the management of Islamic social enterprises located in Jakarta, Central Java, and Yogyakarta. Furthermore, from the 100 questionnaires that we distributed to the managers of Islamic social enterprises, the questionnaires were filled in 24 questionnaires. The categories of Islamic social enterprises are as follows:

- Orphan Foundation
- Health Foundation
- Foundations that distribute zakat, infaq, and shodaqoh

Furthermore, the source of funds from Islamic social enterprises in this study is sourced from donations.

### 3.1 Questionnaire

- Questionnaire of Corporate Culture

Questionnaires submitted to managers of Islamic social enterprises related to corporate culture are as follows:

Table 1. Corporate Culture Questionnaire

No	Corporate Culture	Disagree	Agree
1	My organization upholds the teamwork orientation as one of its culture		
2	My organization encourages the management to be people oriented rather than task oriented		
3	My organization has no information asymmetry between top management and lower level employees		
4	My organization promotes collaborations between other organizations		
5	My organization provides opportunities for employees' professional growth		
6	My organization rewards employees for good performance		

- Questionnaire Financial Risk Management

Questionnaires submitted to Islamic Social enterprises managers related to financial risk management are as follows:

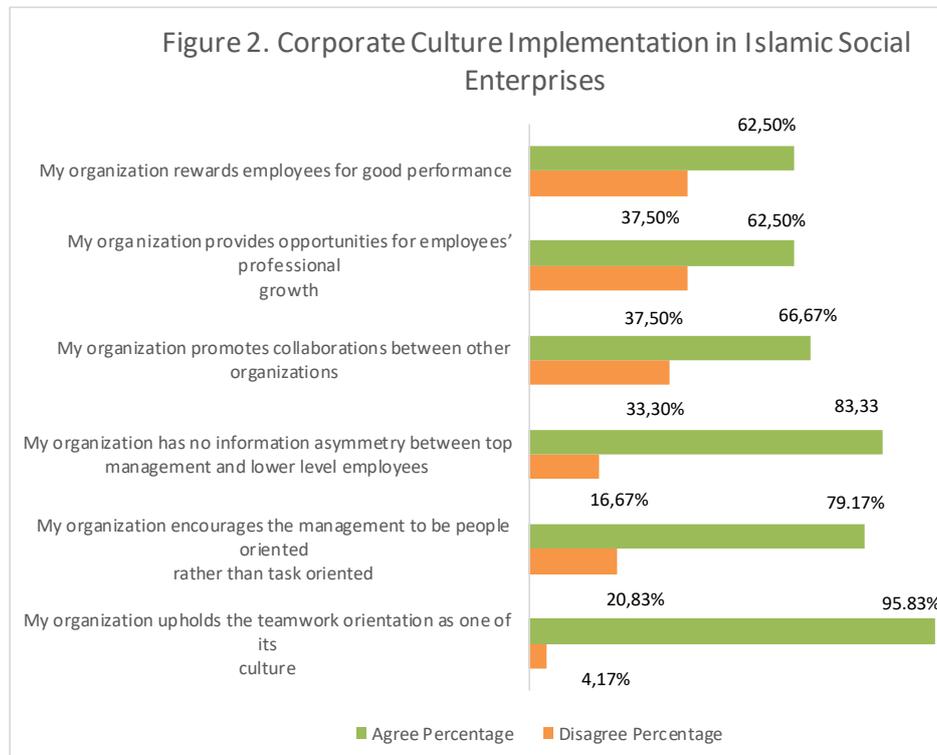
Table 2. Financial Risk Management Questionnaire

No	Financial Risk Management	Disagree	Agree
1	My organization has a comprehensive annual budget which includes all sources and uses of funds for all aspects of operations.		
2	My organization has written policies and procedures for fiscal operations, including procedures for processing payroll, purchases etc.		
3	Resources are distributed and programs developed based on the budget plan.		
4	The board of trustee establishes an investment policy that guide investment and financial decisions		
5	All financial transactions are recorded and documented		
6	A financial statement is produced annually		
7	The board of trustees reviews the financial statement carefully		

#### 4. Discussion And Results

##### 4.1. The Implementation of Work Culture in Islamic Social Enterprises

The results of the questionnaire from Islamic social enterprises management related to work culture can be seen in figure 2. below:

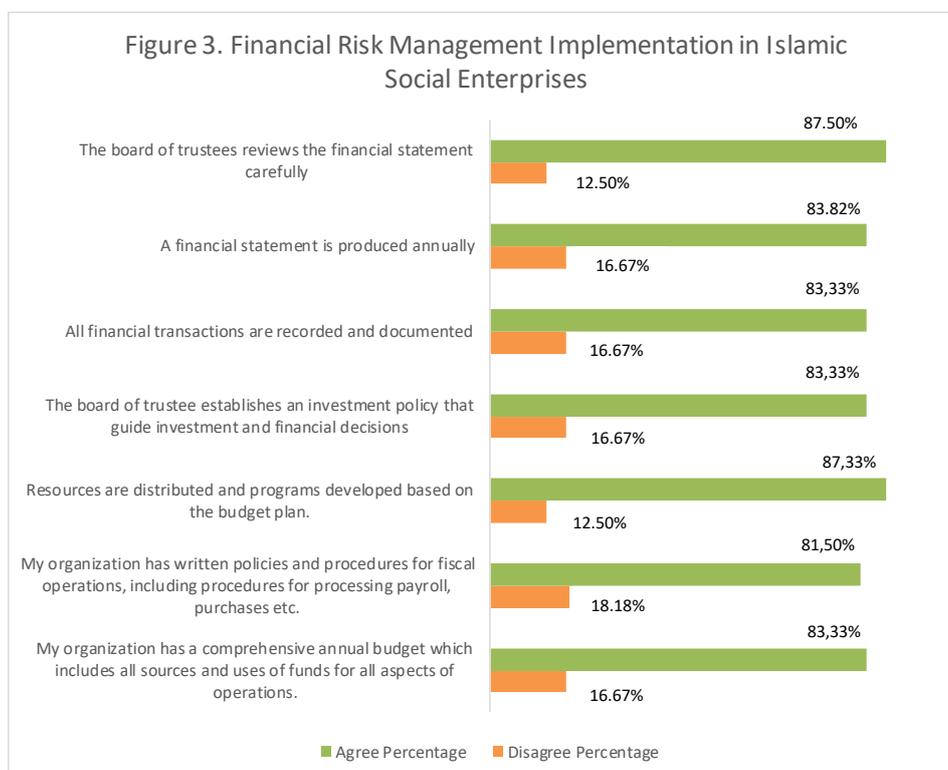


Based on Figure 2 above, it can be seen that the Islamic social enterprises Organization upholds teamwork orientation as a culture with a value of 95.83%, however the rewards given to employees who perform well are still low, indicated by a value of 62.50 % so that the impact on Islamic social enterprises is not yet the choice of place for a career with a value of 62.50%. According to Sarker (1999), organizations based on Islamic principles should have good teamwork especially in Islamic organizations that have social goals. The motivation to carry out good teamwork in sharia-based organizations in accordance with Qur'an (QS. Al Maidah verse 2) "O you who have believed, do not violate the rites of Allah or [the sanctity of] the sacred month or [neglect the marking of] the sacrificial animals and garlanding [them] or [violate the safety of] those coming to the Sacred House seeking bounty from their Lord and [His] approval. However, when you come out of ihram, then [you may] hunt. Moreover, do not let the hatred of a people for having obstructed you from al-Masjid al-Haram lead you to transgress. And cooperate in righteousness and piety, but do not cooperate in sin and aggression. And fear Allah; indeed, Allah is severe in penalty." However, because this organization aims to carry out social activities, then profit is not the main objective so that the impact on compensation received by workers is not large enough so that the motivation of workers in a career in Islamic social enterprises becomes low. Islamic social enterprises still treat their employees with a task approach so that they do not consider employee self-development as indicated by a score of 79.17%.

Also, Islamic social enterprises also have not cooperated with other organizations much, which is indicated by the value of 66.67%. Furthermore, Islamic social enterprises have had transparency in conveying information with a value of 83.33%. Transparency on sharia principles is found in Qur'an (QS. Al Baqarah verse 143) "And thus we have made you a just community that you will be witnesses over the people and the Messenger will be a witness over you. And We did not make the qiblah which you used to face except that We might make evident who would follow the Messenger from who would turn back on his heels. And indeed, it is difficult except for those whom Allah has guided. And never would Allah have caused you to lose your faith. Indeed Allah is, to the people, Kind and Merciful." The meaning of Al Baqarah verse 143, explains that Muslims are made righteous people in obtaining and conveying choices, as they will be witnesses to the deeds of the deviant ones of the truth both in the world and hereafter.

#### ***4.2. The Implementation of Financial Risk Management in Islamic Social Enterprises***

The results of the questionnaire from Islamic social enterprises management related to financial risk management can be seen in figure 3. below:



According to figure 3, all items in financial risk management in Islamic social enterprises have values above 80%, thus indicating the implementation of financial risk management has been going well. This is in line with Islamic principles in anticipation of future risks in accordance with the hadith narrated by Ibn Abbas "Take care of five things (i) Take care of your youth before your old age, (ii) Keep your healthy days before your illness, (iii) your time before your poor period (iv) keep your time before your busy time, (v) keep your life before your death." Taking into account and anticipating things that haven't happened is important because we need to make good plans. The importance of a good plan is to anticipate future risks so that in the event of a failure can be minimized so that there is no sense of disappointment that causes despair, and so that people always try and pray that failure does not happen to them.

## 5. Conclusion

The implementation of financial risk management in Islamic social enterprises is good enough because the management that manages the organization has an awareness of the importance of managing risk in anticipating future conditions. However, the implementation of corporate culture in the Islamic social enterprise needs to be improved, especially about compensation and improvement of employee career levels.

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