

Chapter 14

Value-Based Intermediation: The Islamic Social Capital Perspective in Baitul Maal Wat Tamwil Institutions (BMTIs) in Indonesia

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ABSTRACT

This study investigated the implementation of value intermediation by strengthening the Islamic social capital (ISC) information in Indonesia's Baitul Maal Wat Tamwil institution (BMTI) activities. ISC dimensions are considered an intangible resource that reinforces BMTI and plays a crucial role in its development in Indonesia. ISC consisted of four categories: networking, norms, trust, and spirituality. Thus, this chapter aimed to examine the stakeholder's perception of the importance of ISC as value intermediation in Indonesia's BMT. The study found that the respondents perceived ISC as valuable information for decision-making in BMT activities. Additionally, the mean for the importance of spiritual information is higher than that of networking, norms, and trust. The findings of the ANOVA revealed that the perceptions of spiritual, networking, norms, and trust confirmed the significance in the importance perception of the four categories.

1. INTRODUCTION

The economic crisis, i.e., in 1998 and 2008, impacted corporations and small institutions, including groups such as employees, customers, and communities, where the company is located or conduct operations. The economic crisis calls for social participation to handle the economic downturn (Zizumbo-Colunga et al., 2010). Accordingly, increasing intermediation capital may incentivise community social participation (Meyer, 2004). Social capital is the value of intermediating social and financial mitigation (Kamukama & Natamba, 2013). Value intermediation may reduce the risk of losses from unethical behaviours by other parties (Meyer, 2004).

DOI: 10.4018/978-1-6684-7519-5.ch014

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Meanwhile, social capital is the method of building trust, networking, and norms that force operating nations to erode (Bridger & Luloff, 2001). It is a moral element with social relationship value, presenting the ability to generate positive outcomes (Ayios et al., 2014). The concept has strong links with the family business ethics territory such as reciprocity, stakeholder relationships, community engagement, trust development, and social cohesion (Ayios et al., 2014). An established Islamic microfinance institution (IMF) in Indonesia is the *Baitul Maal Wat Tamwil* (BMT). The *Baitul Maal* (*Bait* = House, *al Maal* = Wealth) collects and distributes charity funds (e.g., *Zakat*, *Infaq*, *Shadaqah*). Meanwhile, the *Baitul Tamwil* (*Bait* = house, *at Tamwil* = finance) operates based on commercial or economic activities and the deposits are mobilised to productive investments (Holloh, 2001).

BMTI, also known as Islamic cooperative, are based on ownership as they are a cooperative institution owned by members who are shareholders and associated members (Nasution, 2013). Sustainability is recognised as a pillar of the International Co-operative Alliance's (ICA) (Birchall, 2004; Deng & Hendrikse, 2014). The Least Development Countries (LCDs) aims for sustainable development, designed to assist the international community, decreasing poverty and oppression in the planning action for triple P: people, planet, and prosperity (Gicheru, 2016). There are seventeen sustainable development (SDGs) goals in Indonesia that are expected to be achieved by 2030. These goals focus on increasing the level of people (no-poor people) and enhancing the sustainability of communities, quality of education, and partnerships for goals.

In terms of the economic recession and crisis may further erode social and environmental values that impacts society because of behavioral, moral, and cultural, which could be solved by social capital (Correa-Ruiz & Abadia, 2011). (Zizumbo-Colunga et al., 2010) highlighted that financial crises are linked to attitudes and behaviours. Furthermore, the networks of trusting people are critical to a healthy democracy and politics. Therefore, organisations must emphasise the role of the social context to enhance sustainable development activity (Bebbington et al., 2009). Hence, strengthening social capital is critical in achieving sustainable development objectives providing financial and non-financial services to stakeholders.

Social capital is a valued intermediary that confers advantages, reduces costs, monitoring malfeasant behaviour, and enforces sanctions that allow them to operate and cooperate with ventures efficiently (Meyer, 2004). Social capital is essential for landscape management and the provision of environmental services since, in many situations, the area concerned surpasses the parcel or farm, and the players present in the landscape must coordinate to ensure proper management (Meyer, 2004). Few Islamic Microfinance Institutions (IMFIs) focus on creating social capital aspects in their activities (Dieter & Seibel, 2000), and thus most well-established institutions collapse due to the insufficient social capital function (Dowla, 2006). Social capital presents a significant relationship with MFIs (Dieter & Seibel, 2000). In line with Dowla (2006), (Abdullah & Ismail, 2014) asserted that social capital strengthens these institutions.

A study examined the activities to enhance social capital values such as regular meetings, group meetings among members, management and members followed by regular attendance (Dowla, 2006). Thus, staggered and accelerated lending appears, creating the norm of transparency in financial transactions in the meeting. In this process, the group chairperson, a position that regularly rotates to prevent distrust, collect repayment from members and staff. The group chairperson participated in the development process and was in charge of expanding the organization's capacity through the employment, management, and training of technical and community consultants (Gittell & Vidal, 1998).

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