



Stakeholders' Perceptions of Fraud in Indonesian BMT Islamic Cooperatives

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Dedication Page

This thesis is dedicated to

My Late Father, who passed away during my PhD study
(Bapak **Sumiyono**)

This PhD is for you Dad!

My Mother
(Ibu **Sunaryati**, B.A.)

For their endless love, sacrifice, encouragement and prayers

My Mother and Father-in-law
(Ibu **Sri Suwartinah** and Bapak **Dharono**)

My Husband
(now Dr. **Dharendra Wardhana**)
For supporting each other during our PhD journeys

My Daughter
(**Wrahasraya Anglia Wardhana**)
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PhDs

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(**Melinda Puspitasari** and **Maya Setya Dewi**)

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Abstract

Indonesia's *Baitul Maal wat Tamwil* (known as BMT Islamic cooperatives; henceforth BMTs), are an important phenomenon in Indonesia due to their rapid growth (i.e. numbers, assets, members) and spread across the nation. BMTs are seen as organisations that fill a gap in the market by catering for small-micro-sized enterprises (SMEs) by which because of their size find it difficult to obtain access to the usual financial intermediaries such as banks. BMTs also have an important social role of contributing to poverty alleviation, since SMEs are perceived as vehicles through which wealth and prosperity can be improved. However, in contrast to what we would expect from organisations espousing Islamic values, in recent years there have been a number of frauds involving BMTs which both socially and economically has had a detrimental effect on society. This contradiction merits examination. Therefore, the purpose of this study is to examine stakeholders' perceptions of fraud in BMTs.

The research is comprised of three main stages: a critical literature review, an archival media analysis, and semi-structured interviews; followed by an analysis of the findings using stakeholder theory as an analytical tool. The literature is explored on three main issues: corporate governance, non-traditional organisation, and fraud. This research utilises the narrative case study method and content analysis. The narrative case study is adopted to gain in-depth understanding of fraud problems such as rigorous examination of stakeholders (i.e. managers, members, employees, authorities, society).

This study finds that the fraud incidents in BMTs as a systematic failure as all stakeholder groups have their responsibilities on these failures. There are overlapping values between micro (individual) values and macro values (especially Islamic and cultural values) which enabled fraud to occur. This study contributes to the theory and literature by emphasises the importance of cultural and religious aspects to the analysis of corporate governance theories. This study also contributes to the practice of BMTs and mutuals by provide relevant insights and guidelines to policymakers and practitioners for the future development of BMT governance in Indonesia, particularly the fraud prevention strategies.

Keywords: Indonesia, BMT Islamic Cooperative; Corporate Governance; Fraud; Stakeholder Theory

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Glossary of Terms

ABSINDO:	Asosiasi BMT Indonesia (The Association of BMT in Indonesia; one of BMT associations in Indonesia)
BI:	Bank Indonesia
BKK:	Badan Kredit Kecamatan (District Credit Institutions)
BKPD:	Bank Karya Produksi Desa (Production Village Bank)
BMT:	<i>Baitul Maal Wat Tamwil</i> (Islamic Cooperative)
BPR:	Bank Perkreditan Rakyat
BPRS:	Bank Pembiayaan Rakyat Syariah (<i>Shari'ah</i> Rural Bank)
BPS:	Biro Pusat Statistik (Statistical Central Bureau)
BRI:	Bank Rakyat Indonesia
ICMI:	Ikatan Cendekiawan Muslim Indonesia (The Association of Indonesian Muslim Scholars)
IDR:	Indonesian Rupiah
Inkopsyah:	Induk Koperasi Syariah (Centre of <i>Shari'ah</i> Cooperatives and BMTs; one of BMT associations in Indonesia)
KIK:	Kredit Investasi Kecil (Small Investment Loan Programme)
KUR:	Kredit Usaha Rakyat (Credit for People's Business)
NGO:	Non-Government Organisation
NPO:	Non-Profit Organisation
PBMT:	Perhimpunan BMT, one of the leading BMT associations in Indonesia
PNM:	Permodalan Nasional Madani
PINBUK:	Pusat Inkubasi Bisnis Usaha Kecil (Center for Micro Enterprise Incubation; one of the BMT associations in Indonesia)
PUSKOPSYAH:	Pusat Koperasi Shari'ah (The Center of <i>Shari'ah</i> Cooperatives; provincial levels of cooperatives groups)
RoSCA:	Rotating Savings and Credit Association (<i>Arisan</i>)
SHG:	Self Help Group
SME:	Small Medium Enterprises
OJK:	Otoritas Jasa Keuangan (Financial Service Authority) of Republic of Indonesia
MoC:	Ministry of Cooperatives and Small Medium Enterprises of Republic of Indonesia

CHAPTER 1: INTRODUCTION

1.1. Overview

Although research on fraud has increased, the occurrence of fraud in not-for-profit, membership-based and value-based organisations has been ignored in literature, such as, in criminology, sociology, and business ethics (Holtfreter, 2008). Much research is arguably more focused on fraud incidents in market-listed companies (Power, 2013, p. 526; Cooper et al., 2013, p. 441; Lynch, McGurrin, and Fenwick, 2004, p. 390-391). In fact, fraud remains a serious issue in corporate governance for both traditional organisations (such as corporations) and non-traditional organisations (such as not-for-profit, membership-based and value-based organisations), as they have a strong impact on their stakeholders; not limited to shareholders, members, beneficiaries, and communities. Moreover, in terms of an organisation size, some membership-based and value-based organisations are also quite large (i.e. in total assets, numbers of branches). For instance, Crédit Agricole Group, the largest mutual and cooperative group in the world (Co-operative News, 2014) has a total revenue of €32.1Bn, 52 million customers, and more than 11,000 branches across 49 different countries. Hence, they also need strong corporate governance as in corporations.

Membership-based organisations (henceforth MBOs) such as cooperatives exemplify the values, ethics, and commitment to collective action to change the condition of their members. Value-based organisations (henceforth VBOs) such as faith-based organisations emphasise particular values (such as religious ethics) in their activities including corporate governance mechanisms. Both MBOs' and VBOs' governance structures are different from those in traditional organisations; however, any misconduct (i.e. fraud) in these types of

organisations remains a serious issue as it impacts greatly on their stakeholders who are usually the poor and other vulnerable groups.

Indonesian *Baitul Maal Wat Tamwil* (henceforth BMT) Islamic cooperatives are an example of both VBOs and MBOs; which are also under threat of fraud. There have been a number of serious frauds in Indonesian BMTs. The widespread nature of frauds in BMTs has emerged since 2006 and has been covered by both local and national media. These incidents result in serious losses. For example, the 11 biggest BMT frauds in Indonesia cost the Indonesian economy more than Rp1,143.69billion (£60.51million) a year – equating to 12.69 per cent of the SMEs' Contribution to Indonesian Gross Domestic Product (GDP) (MoC, 2013) or more than 63.54 per cent of the assets of BMT Usaha Gabungan Terpadu (UGT) Sidogiri in East Java (the largest BMT in Indonesia with more than Rp1,800billion (£95million) assets spread across the country (Republika, 2016)). The fraud costs also equate to more than Rp36,000 or £2 lost per second every day; while more than 28.5 million people, or 11.1 percent of Indonesia's population, earned an income considered to be below the poverty line at Rp11,494 or £0.60 per day (Jakarta Globe 2016; World Bank 2018)¹. Therefore, BMT fraud are important particularly for the Indonesian microfinance environment.

Additionally, these fraud cases have attracted considerable local and national media attention (newspapers, television, and social media). The authorities, the Ministry of Cooperatives and SMEs of Republic of Indonesia (MoC) and Otoritas Jasa Keuangan (OJK, Financial Service Authority), also published a few press releases to raise stakeholders' awareness of the fraud incidents in some BMTs

¹ Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population) (World Bank 2018). Year 2011 is the latest Indonesia PPP Survey.

(MoC, 2017; OJK, 2016). One headline in national media such as *Republika* (see below) underlines the extensive media exposure of the incidents in Indonesia.

“BMT Bermasalah di DIY Capai 10 Persen [Fraudulent BMTs reach 10 per cent of total BMTs in Special Region of Yogyakarta]” (Republika National Newspaper, 2011).

Moreover, *Kompas*, one of the leading national newspaper in Indonesia, covers the widespread nature of fraud cases quite often. Below are some of their headlines of frauds involving BMTs that highlight the important nature of fraud and its potential impact on vulnerable stakeholders.

“Akibat Kredit Macet, Lembaga Keuangan Syariah di Kabupaten Semarang Bangkrut [Due to Bad Credit, Islamic Financial Institutions in Semarang-Central Java Bankrupt]” (Kompas National Newspaper, 2015)

“Cirebon Jadi Tempat Investasi Ilegal, Warga Rugi hingga Lebih dari Rp 1 Triliun! [Cirebon–West Java Became Illegal Investment Venue, Fraud Costs Citizens More Than Rp1billion!]” (Kompas National Newspaper, 2016)

“Dua BMT Syariah Himpun Dana Masyarakat Tanpa Izin [Two BMT Islamic Cooperatives Illegally Collect Fund from Communities]” (Kompas National Newspaper, 2016)

“Kemenkop dan UKM Awasi 12 Koperasi Bermasalah [The Ministry of Cooperatives and Small Medium Enterprises/MoC Monitors 12 Problematic Cooperatives]” (Kompas National Newspaper, 2017)

BMTs are becoming a phenomenon in Indonesia due to their rapid growth spreading across the nation. They play an important role for their stakeholders, particularly members, as they are promising non-bank financial intermediaries. As Islamic cooperatives, BMTs offer a microfinance system that allows the unbanked (who have no access to banking institutions) and the underbanked (who have limited access to banking institutions) to meet their financial needs, and they have played a significant role in poverty reduction in Indonesia (Panjaitan-Drioadisuryo, 1999). Not only they are beneficial for the poor, but BMTs also provide financial support for marginalised entrepreneurs who have

limited access to banks due to strict administrative procedures. For instance, the Ministry of National Development Plan (*Kementerian Negara PPN/Bappenas*) set policies and poverty alleviation programmes by micro credit provision through banks and other types of financial assistance including BMTs (Bappenas, 2011). Another study in Bangladesh also shows that microfinance programmes deliver financial services (both savings and credit) to the poor, especially women, at very low loan default rates (Khandker, 2005). These studies suggest a positive impact of microfinance programmes, improving the poor's social and economic status, self-reliance, and reducing poverty rates in the country. In line with Islamic values and objectives (*Maqasid Sharia*), which are adopted by BMTs, the welfare of the poorest members of society is a core value of the Islamic system.

In addition, BMTs survived the global financial crisis in 2008 while many banks collapsed (Wardiwiyo, 2012; BMT Center, 2009). In fact, BMT managed to increase their financing percentage during the crisis by 81 percent from Rp436.7billion to Rp792.5billion (BMT Center, 2009). Yet, Seibel (2008) stated that surprisingly, 65 percent of BMT financing was distributed in the form of joint venture contracts which are considered very risky. This suggests that BMTs were not influenced by the global financial crisis. In addition, the severe economic crisis in 1997 also did not significantly impact on BMT stability (Wardiwiyo, 2012).

Most banking systems are less concerned about the difficulties affecting the poor since they usually have no collateral, making them a riskier investment (Beck and Demirguc-Kunt, 2006; Beck et al., 2008; Yunus, 1999). Meanwhile, as they have no collateral, the poor need to acquire trust from investors. Consequently, poor people are usually compelled to work harder once trusted by institutions in

order to maintain their trust (Yunus, 1999). The Islamic microfinance systems, like BMTs, manage this demand by providing small-scale financial services to the poor by giving them such banking facilities as loans, savings deposits, and credit units (Seibel, 2004). Hence, Islamic microfinance helps to sustain financial inclusion for marginalised sections of society who lack access to financial institutions.

The economic system in Indonesia has been dominated by small industries, with 98.9% micro businesses² (BPS, 2014). Particularly for the poor, microfinance appears to be a solution to poverty as it provides financial support for them such as micro-savings, micro-credit, micro-insurance (Seibel and Uben, 1997; Ahmed, 2004; Ahmed, 2007; Chapra, 2008). Hulme and Mosley (1996) and Montgomery (1996), however, state the opposite that micro-enterprises are unlikely to help the poorest to increase their income, even though the micro enterprise is wide open and growing rapidly. They argue that the enterprise only covers material poverty, and does not substantially reduce the vulnerability of borrower groups to sudden falls in income; moreover they suggest that it produces few benefits for the poorest or 'core poor' (Hulme and Mosley, 1996, p.132).

In an atmosphere characterised by strong Islamic values and motives not purely linked to profit, it is worthwhile to further study particularly the causes of why trust is betrayed by fraud³. Compared to other organisations, such as VBOs,

² This study uses the criteria of micro enterprises from Article 6, Chapter IV of the Act of The Republic of Indonesia No. 20 of 2008 on Small Medium Enterprise: "The criteria of Micro Enterprises shall be as follows: a) having maximum net assets of Rp50,000,000.00 (fifty million Rupiah), exclusive of land and building of their place of business; or b) having maximum annual sales proceeds of Rp300,000,000.00 (three hundred million Rupiah)."

³ Fraud defined as untrue representation about facts or events which have caused the victim (the person who relies and acts upon representation) severe damage (economically and/or socially) as a result of the deception by another party. This study refers to fraud as occupational fraud, which is defined as "the deliberate misuse of one's occupation for personal enrichment through the

BMTs rely more heavily on the trust of the public, particularly of members (including Islamic and non-Islamic communities). Wilhelm (2006) and Zack (2003) state that not-for-profit organisations tend to lose more monetarily as well as reputation wise when fraud is revealed. Therefore, this study examines stakeholders' perceptions of frauds in Indonesian BMT Islamic cooperatives.

This study seeks to fill the research gaps on corporate governance mechanisms in non-traditional organisations such as BMTs in Indonesia. A huge amount of literature exists on corporate governance implementation within traditional organisations (i.e. stock-listed companies). However, there is limited literature on non-traditional organisations such as the microfinance industry. Most of corporate governance literature on non-traditional organisations is based on developed countries with organisational characteristics that differ considerably from emerging economies such as Indonesia. The limited study of corporate governance in less-developed countries is important because the dynamic development of non-traditional organisations is diversely constructed in heterogeneous environments.

This study is also motivated by the poor governance conditions in Indonesian BMTs, in contrast with their ethical and religious values as well as potential roles in poverty alleviation programmes for their members and stakeholders (i.e. poor and vulnerable groups). Therefore, this study may contribute to developing better corporate governance for Indonesian BMT Islamic cooperatives.

misapplication of the employing organization's resources or assets" (Association of Certified Fraud Examiners 2008, p. 6).

1.2. Outline of the Problem

This research focuses on governance issues in Indonesian BMTs and is motivated by the identifiable number of frauds which are considered to be caused by a number of factors related to misgovernance; the lack of regulation, government assistance, monitoring, and enforcement; limited financial support for customers; and moral hazards (see Riwayatanti, 2013). On the other hand, as an Islamic organisation, this Islamic cooperative is supposed to be fulfilling part of its key function in service of the poor, in line with traditional Islamic values. Considering the impressive growth of BMTs in Indonesia, such frauds significantly affect stakeholders both socially and economically.

BMTs are arguably an important phenomenon as compared with other microfinance institutions, since they are cooperatives but with Islamic principles, acting like a bank but voluntarily registered with the authorities. Moreover, there is rarely research in this field that is specific to BMT Islamic cooperatives.

In the Indonesian context, BMTs are financial institutions that provide alternatives for unbanked and underbanked people. They usually have minimal education and mainly work in the informal sector in the micro industry (World Bank, 2010). However, it is worth noting that BMTs are still not banks as they are usually formed as a cooperative or self-help organisation (Seibel, 2007).

The micro industry sector plays an important role in the Indonesian economy for four main reasons. First, it consists of 98.79% of the total number of Indonesian enterprises (Badan Pusat Statistik/Statistics Indonesia, 2014). Second, it contributes 57% of the total Indonesian GDP and offers more than 60% of all job opportunities (Bank Indonesia, 2015). Third, it contains the highest number of employees with 97.16% of the total national labour force (Ministry of

Cooperatives, 2013). And fourth, cooperatives and small medium enterprises (SMEs) are widely spread across the whole of Indonesia, as opposed to big industries (Ministry of Cooperatives, 2013). Therefore, the microfinance sector is one of the key engines of job creation and economic growth in Indonesia.

Therefore, with minimum collateral and fewer administrative prerequisites, BMTs offer convenient financial access for a relatively marginalised group of entrepreneurs who initially face difficulties in accessing banking services. Their mushrooming growth is also supported with limited regulation on BMTs; hence, their growth is loosely monitored by the authorities (Riwajanti 2013). Consequently, BMTs face some governance problems and challenges, e.g. minimum support from the government and conflicts of interest.

This study particularly focuses on misgovernance as a part of Islamic cooperative failures, particularly on how frauds frame stakeholders' perceptions of BMT practices. There are no clear governance structures and regulations for Islamic cooperatives in Indonesia; mostly they adopt conventional cooperative structures which may (or may not) be applicable due to different values and characteristics. Government regulations and enforcement in Islamic cooperatives are still minimal. There is no standardisation for Islamic cooperative governance. This unregulated environment, along with minimum stakeholder education, caused multiple interpretations from the managers, particularly on how to govern Islamic cooperatives in Indonesia (e.g. unstandardized leadership boards, composition for the boards, remuneration schemes, how the boards operate, number of meetings, performance evaluation for the boards, committee appointments). The Ministry of Cooperatives and SMEs (henceforth MoC) treats BMTs and conventional cooperatives similarly, yet government assistance, monitoring, and enforcement are still minimal. BMT stakeholders—for instance

managers, employees, members, and beneficiaries—mostly rely on scholars, associations, and clerics, on how to govern the BMTs, who also have limited knowledge of Islamic banking and finance. Hence, some recent Islamic cooperative failures are said to have been associated with misgovernance, unregulated environments, less-educated stakeholders, and mixed interpretations of governance mechanisms (Riwajanti, 2013; Seibel, 2007).

1.3. Aims, Objectives, Data, and Methodology

1.3.1. Aim

To assess BMT frauds in Indonesia

1.3.2. Objectives

1. Examine the causes of fraud by collecting evidence and understanding the impact of fraud on stakeholders
2. Underline the theoretical gaps in the literature on non-traditional organisations (Islamic cooperatives) through a systematic literature review
3. Contribute to corporate governance mechanisms in non-traditional organisations such as BMT Islamic cooperatives

In order to achieve the research objectives identified above, this study aims to answer the following key research questions:

What are the underlying causes of fraud within BMTs?

How does fraud frame stakeholder perceptions of BMT practice in Indonesia?

1.3.3. Data and Methodology

There is limited quantitative data which can be extracted from the BMTs' annual reports, because they have no standards or reporting obligations and therefore this study uses a qualitative approach to data collection. The study uses focus

group discussions, interviews, documents and media writings for gathering stakeholder perceptions of fraud in BMTs in particular and BMTs practise in general. This research utilises the narrative case study method and content analysis. The narrative case study is adopted to gain in-depth understanding of fraud problems such as intensive examination of individual persons (i.e. the fraudsters, victims, members, employees) and communities (i.e. authorities, society) for investigation.

1.4. Structure of the Thesis

This thesis consists of seven chapters, outlined as follows.

Chapter I: Introduction to the Thesis.

Chapter II: A Review of the Literature: Corporate Governance in Non-Traditional Organisations. The chapter summarises the key literature related to corporate governance in both traditional (“corporate”) and non-traditional (“non-corporate”) organisations. It examines four main topics: governance, corporate governance in both traditional (i.e. corporations) and non-traditional organisations (i.e. cooperatives), and fraud. The reviews highlight gaps in the literature concerning governance in Indonesian BMT Islamic cooperatives.

Chapter III: Understanding the Research Setting: Indonesia and BMT Profiles. This chapter explores the contextual background of BMTs in Indonesia as the case study for this research. It highlights key facts on the socio-political and economic conditions that influence BMTs, such as the socio-political and economic environment in Indonesia, the country’s legal and regulatory frameworks concerning the development of the microfinance industry. This chapter also covers the BMT identity (i.e. definition, establishment process, internal control issues, and governance mechanism) and the role of BMT

stakeholders (i.e. Islamic leaders, organisations, and BMT associations) in its development.

Chapter IV: Theoretical Framework and Research Methodology. This chapter discusses stakeholder theory as the analytical tool to analyse frauds in BMTs. The reasons underlying the choice of stakeholder theory that is most suited to the problem/research questions of the study are outlined. This chapter also considers the research methodology employed in this research to answer the key research questions. It focuses on research methods including the nature of research and research strategy. It also covers research paradigms, data required for research, sampling, ethical considerations, data collection procedures, and data analysis methods.

Chapter V: Perceptions of Stakeholders of Causes of BMT Fraud. This chapter focuses on answering the first key research question (What are the underlying causes of fraud within BMTs?); including its sub-research questions (Who conducted the frauds? How do frauds happen? (The process, time, related parties, place, and so on.) and What is the typology of frauds in BMTs?). Both chapters 5 and 6 examine the results of fraud incidences based on two main data sets: 1) the primary data (i.e. semi-structured interviews) of 38 BMT stakeholders; 2) the secondary data (i.e. document review and website content analysis). Both chapters reflect on the findings of this research and contextualise the findings in the literature.

Chapter VI: The Interplay between Micro and Macro Values on BMT Stakeholders' Perceptions. This chapter is devoted to answer the second main research question (How does fraud frame stakeholder perceptions of BMT practice in Indonesia?) and its sub-questions (What are the values that influence

stakeholder's perceptions of BMTs? What is the interplay between fraud and those values for stakeholders? and To what extent can the conflicting values lead to fraud?); as well as discuss both micro and macro values that influence stakeholders' perceptions of BMT practices including its governance. The discussions are based on the evidence from both documentation and interview analysis.

Chapter VII: Conclusion and Recommendations. This chapter concludes the research by providing a summary based on the research findings. It also highlights practical and policy recommendations for certain stakeholders, such as the authorities. The final section of this chapter presents the limitations and reflections of the research as well as recommendations for future research.

1.5. Contributions of Research

The contributions of this research will be twofold.

First, the thesis contributes to the theory and literature: 1) the study adds cultural and religious aspects to the analysis of traditional corporate governance theories; 2) the study indicates that stakeholder theory should explore non-traditional organisations further in emerging economies, such as Indonesian BMT Islamic cooperatives; 3) this thesis contributes to advancing the research agenda on the subject of fraud in cooperatives.

Second, the thesis contributes to the practice of BMTs and mutuals: 1) the study provides insights regarding how to deter fraud in BMT Islamic cooperatives and similar organisations; 2) the study emphasises the need for sharing and maintaining knowledge among stakeholders; and 3) the study provides recommendations on the need to ensure updated regulations and improved supervision by the authorities.

CHAPTER 2: A REVIEW OF THE LITERATURE: CORPORATE GOVERNANCE IN NON- TRADITIONAL ORGANISATIONS

2.1. Overview

The question, “How has fraud internalised the perceptions of stakeholders?” is to be framed within the context of existing literature. This chapter serves the purpose and presents a detailed and systematic review of the existing literature from an empirical point of view. The theoretical perspective will be covered in Chapter IV: Theoretical Frameworks and Research Methodology.

This chapter aims to highlight the key literature related to corporate governance issues in general and in both traditional and non-traditional organisations including Islamic and non-Islamic microfinance institutions. It also discusses corporate governance practises in emerging countries like Indonesia.

This chapter is organised as follows: Section 1 discusses corporate governance in general; Section 2 explores corporate governance practice in traditional and non-traditional organisations; Section 3 examines corporate governance practice in both Islamic and non-Islamic microfinance institutions; Section 4 reviews definitions of fraud; Section 5 highlights gaps in current research; and lastly, Section 6 provides conclusions.

2.2. Corporate Governance

The term ‘corporate governance’ has developed over the last fifty years. The classic definition comes from the UK Corporate Governance Code which was produced by the Cadbury Committee (Financial Reporting Council, 2016, p.1,

paragraph 2, 2012, p.4, paragraph 2.5) and is the most established and widely adopted. It states that:

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in a general meeting.

Another definition is provided by Chapra and Ahmed (2002). They argue that corporate governance should uphold three main values: fairness, accountability, and transparency. Whilst these principles are important, corporate governance systems cover a range of issues (including social, political, economic, and cultural issues) and are not only driven by these values but many more, including responsibility and independence (Darmadi, 2013; Vaughn and Ryan, 2006; Rossouw et al., 2002; Bank Indonesia, 2013), professionalism (Government of Indonesia, 2008b), and discipline (Vaughn and Ryan, 2006).

Definitions of corporate governance can be extended to include all institutional forms without any restrictions over whether they are for profit or non-profit organisational purposes. The concept of corporate governance as a system, by which organisations are controlled, directed, and monitored, can be considered in either a narrow or broad way as Allen (2005) suggests. The narrow definition is concerned with shareholders' interests and protection within the firm, while the broad definition is concerned with the efficiency of society's resources and the contribution of firms to the overall economy (Allen, 2005; Claessens and Yurtoglu, 2013; La Porta et al., 2000).

2.3. Corporate Governance Practice in Traditional & Non-Traditional Organisations

2.3.1. Defining Traditional and Non-Traditional Organisations

An organisation can be divided into several types based on many classifications; for instance, on the basis of size (large, medium, and small organisations); ownership (public, private organisations); coverage areas (regional, national, international); and so on, including traditional and non-traditional organisations. Handy (1995, p.350) points to the traditional assumption that organisations are led through a hierarchical command, derived mainly from classical and scientific management principles. Handy defines the basic structure of a traditional organisation as one with a linear, segmented, and hierarchical framework. This design, however, has been modified into a complex, multi-layered structure (Mabey et al., 2001; Mullins, 1993; McMillan, 2002), though accompanied by fears that such a structure would not last long, given the flexibility required to adapt organisations to a rapidly changing world.

A new organisational paradigm emerged and influenced the definition of non-traditional organisations used in this study. Delaying, downsizing, and de-structuring were part of the new business re-engineering (Mabey et al., 2001; Coulson-Thomas and Coe, 1991). Major shifts were seen from the old/traditional factors thought to achieve success (including size, role clarity, specialisation, and control) to new success factors (including speed, flexibility, integration, and innovation) (Ashkenas, 1995, p.7). Structural integrity, functionality, sustainability, and aesthetic appeal were also adopted in the non-traditional organisational approach (Pascale, 1999; McMillan, 2002). This re-engineering,

however, carried the risk that it may fail if not carefully prepared and supported by organisational resources (Mumford and Hendricks, 1996).

Travica (1998) points out that usage of information and technology appears to be the key feature of a non-traditional organisation, moving away from the centralisation and formalisation of traditional approaches. Harte and Krone (2001) also prioritise technology and innovation as being at the heart of non-traditional organisations. Corporations therefore need to be quick to adapt to these changes by utilising their resources effectively. Adaptability and capacity to learn and change are the keys to success and sustainability (Allen, 2001). Re-engineering the processes by which businesses operate may also remove bureaucratic structures and improve efficiency (McMillan, 2002).

Social enterprise organisations, i.e. non-governmental organisations (NGOs), cooperatives, and non-bank financial institutions are also considered to be non-traditional organisations as they have less bureaucratic, highly innovative, and flexible characteristics. These types of organisations function as a complete dynamic entity. Their organisational forms are fundamentally simple, yet complex in character. Cooperatives, family-owned groups, and other social enterprises are also defined as non-traditional organisations due to their small size, non-centralised ownership structure, and focus on social innovation (Defourny and Nyssens, 2008).

Alexander and Weiner (1998) analyse several non-profit organisations that have adopted combined corporate governance models due to pressures such as highly competitive and financially challenging environments. For instance, non-profit organisations also compete with one another for donations, membership, clients, and sales (Steinberg, 1987). Since some donors have adopted the traditional

corporate governance models, they prefer their non-profit beneficiaries to adopt similar models to ease the monitoring and controlling processes. Such circumstances pose limitations for non-traditional organisations, encouraging them to adopt corporate governance models different from those that are more traditional.

2.3.1.1. Traditional and Non-Traditional Microfinance Institutions

Microfinance is a key sector responsible for advancing the economy and reducing poverty. However, Mersland (2011) points out that recent literature on the subject struggles to identify the corporate governance mechanisms that influence the performance of microfinance institutions (MFIs). Due to many MFIs being usually engaged with those in the lower economic strata such as agrarian, impoverished populations, often living in institutional voids (Chakrabarty and Erin Bass, 2014), they are quite unique compared to other financial institutions. MFIs hold dual goals which entail the pursuit of social as well as economic benefits. Therefore, Mair and Martí (2006, p. 36) state that MFIs play the part of a social catalyst that addresses “important social needs in a way that is not dominated by direct financial benefits”.

On the other hand, Hossain et al. (2012) provide a lengthy discussion on the criticisms of microfinance. For instance, Hossain and Knight (2008) underline a range of factors that negatively impact the effectiveness of microfinance provision such as high repayment of loans (Christen, 1997; Dignard and Havet, 1995; Brau and Woller, 2004); high interest rates in the non-Islamic microfinance institutions (Mallick, 2002; Dehejia et al., 2005; Moll, 2005); unchanging poverty levels (Mallick, 2002); exploitation of women (Mallick, 2002); a mission drift from the poor customer segments (Mersland and Strøm, 2009). However, Yunus (2001)

and Hossain (2002) state that microfinance has had a positive impact on underprivileged females in rural development, enabling them to escape poverty.

MFIs are comprised of four main actors: borrowers, depositors, investors, and donors (Mersland, 2011). The organisations are engaged in charitable activities and fundraising (Beisland et al., 2013) with both challenging and highly diverse governance structures (Mersland and Strøm, 2009). The performance measurements of MFIs are unusually complex to categorise (Christen et al., 1995; Manos and Yaron, 2009) due to being quite different to other traditional financial institutions such as banks.

With more than 200 million members worldwide, the microfinance industry is growing rapidly (Mae and Reed, 2012). Christen et al. (2004) mentions that at the present time, there are more than 500 million poor families using microfinance services by having a savings account. Moreover, Lloyds (2012) suggests that more than 135 million poor families have some kind of micro insurance policy. These figures depict the strategic role of microfinance, particularly for both creditors and investors. Hence, corporate governance studies on the interrelationships between each organisational element (i.e. creditor, investor, and borrower) in micro finance institutions are important. Therefore, it is essential to assess and implement mechanisms of control and accountability in the microfinance industry (Hartarska, 2009).

Societal and organisational characteristics, whether in developed or developing countries, also affect corporate governance structures. However, non-traditional organisations in the microfinance industry, particularly in developing countries like Central Europe, Eastern Europe, the Newly Independent States (Hartarska, 2005) and other emerging economies (Claessens and Yurtoglu, 2013), have more

complicated corporate governance frameworks due to their dynamic societal and organisational characteristics. Hartarska (2005) and Campion (1998) also firmly assert that microfinance institutions are themselves quite diverse in terms of organisational types, including NGOs, banks, credits, cooperatives, and nonbank financial institutions. Campion (1998) furthermore classifies microfinance institutions into non-governmental and formal financial institutions. Other managerial aspects, including organisational ownership, also affect corporate governance mechanisms.

2.3.1.2. Value-Based and Membership-Based Organisations (VBOs and MBOs)

MBOs and VBOs are usually categorised into many domains: social enterprises, third sector organisations, or NGOs. Chen et al. (2006) define MBO as those in which members hold the power to elect their leadership board through a democratic process (i.e. general assembly). A cooperative is one of the examples of classic MBOs (Birchall, 2012). VBOs usually focus on specific objectives, well-intentioned under particular values (i.e. religious dimensions, politics) and under contractual obligation to serve their members. Political parties and religious organisations are examples of classic VBOs.

Chen et al. (2006) argues that there is another subset of the MBO which is MBOP or Membership-based Organisations for the Poor in which governance is structured in response to the needs and aspirations of their members, who are usually the poor, in order to achieve equitable growth and poverty reduction. However, Clarke and Jennings (2008) argue that any NGOs, whether following any (religious) values or not (secular), now play a key role in supporting the poor in many communities, and continue to be a primary and essential unit of social

and political organisation in the lives of the poor. This suggests that many MBOs also share a commitment to change the condition of their poor members.

Indonesian BMTs are an example of the combination of MBO and VBO. As an Islamic cooperative, the BMT not only has contractual obligations to their members, but also need to follow Islamic values in their practice. BMTs are also part of the MBOP since they mainly provide financial services to micro enterprises which face difficulties in accessing bank finance. Crowley et al. (2006) identifies criteria for organisations to be included as MBOP: 1) the majority of members are the poor, 2) membership is voluntary, 3) work collectively towards objectives, 4) develop decision-making structures such as general assembly, 5) and provide financial or in-kind contributions as a condition of membership.

MBOs, including BMTs, adopt democratic governance as their core element and basic distinction from other non-traditional organisations' corporate governance. The democratic governance is structured to provide internal accountability (by democratic election for leadership boards) and external accountability (by keeping leadership accountable to the general membership) (Chen et al., 2006)⁴.

Failing to meet the key internal and external factors of democratic governance structures as above, may lead to the probability of fraud, particularly in the Indonesian BMT contexts. For instance, weak members' participation in general meetings can cause the leaders to be loosely monitored and less accountable to members; managers' incapacity (i.e. lacking skills and knowledge) to run the organisation can weaken BMT performance and compliance with their values (organisational and Islamic values); a weak internalisation of "code of moral conduct" can misguide the stakeholders' actions in the organisation; and

⁴ BMT organisational structure is presented in Chapter 3.

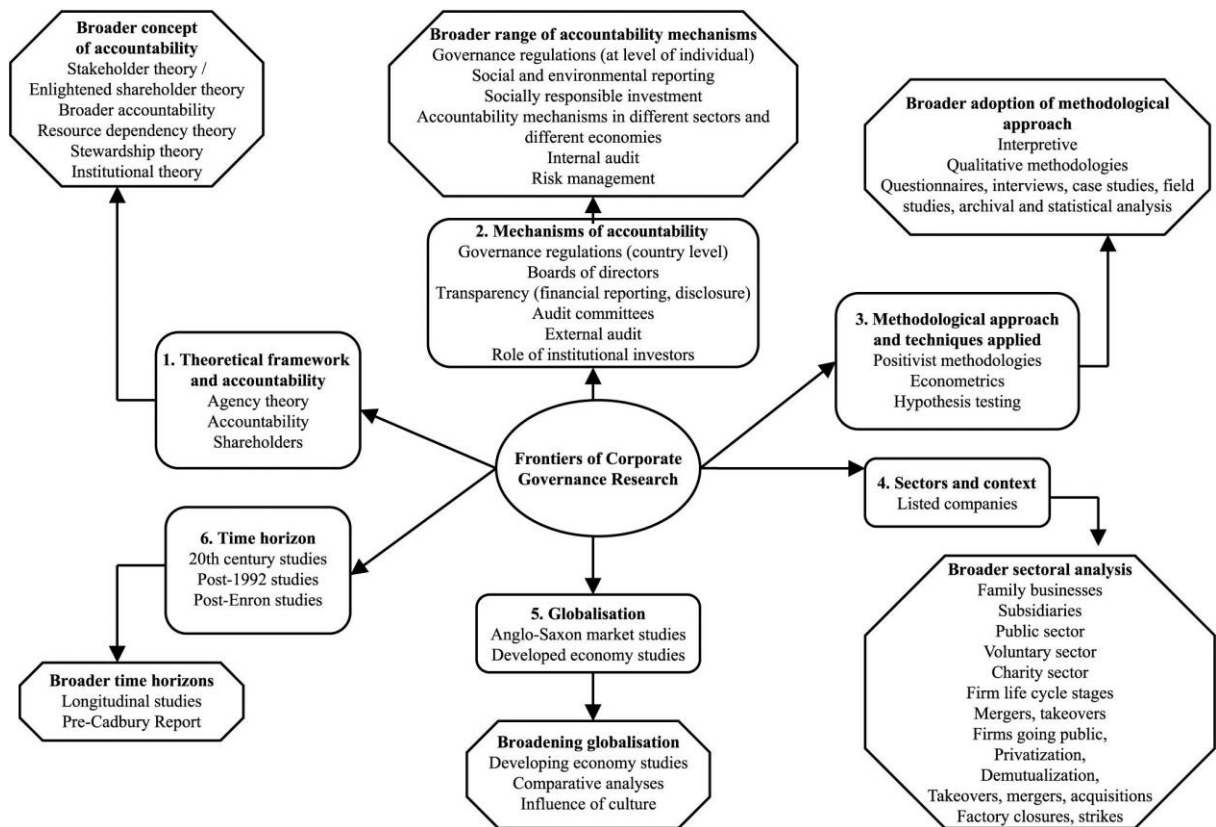
unsupported regulations can weaken the BMT position compared to other microfinance institutions (see Seibel, 2007).

2.3.2. Corporate Governance Research on Traditional Organisations

Filatotchev et al. (2006) points out the absence of longitudinal data studying corporate governance changes over the life cycle of firms. Traditional corporate governance research is dominant in both the accounting and finance domains (Shleifer and Vishny, 1997; Barca and Becht, 2002; Bolton et al., 2002; Huse, 2005). It uses mainly large cross-sectional datasets so the researcher may analyse the development of conceptual paradigms over time as well as the historical roots of corporate governance systems around the world.

The existing research covers various aspects such as accountability, transparency, adopted theories, methodologies, stakeholders or shareholders' domination, minority stakeholders' protection, national specificities, and so on. Traditional corporate governance has mainly adopted the agency theory approach which focuses on agency problems (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Eisenhardt, 1989a). Mersland (2011, p.332) states that board composition, board size, management remuneration, ownership, and regulation are also part of traditional corporate governance mechanisms. Board performance, non-executive directors, ownership and managerial board separation, are the dominant traditional corporate governance approaches (Byrd and Hickman, 1992; Dahya et al., 2002; Ezzamel and Watson, 1997; Ferris et al., 2003; Hermalin and Weisbach, 1991; Kirkbride and Letza, 2005; Kaplan and Reishus, 1990 cited in Brennan and Solomon, 2008).

Figure 2.1 Corporate Governance Research Frontiers in Accounting and Finance



Source: Brennan and Solomon (2008)

Researchers are preoccupied with certain approaches to traditional corporate governance research, for example engaging with particular corporate governance theories, issues, methodological approaches, contextual backgrounds, and time horizons. Several horrendous corporate failures and frauds—Polly Peck, WorldCom, Enron, and many more—have also been widely investigated. Some studies have also examined the relationship between corporate governance mechanisms and the probability of corporate fraud (Beasley, 1996; Beasley et al., 2000; Agrawal and Chadha, 2005). Clark (2004), however, argues that the nature of corporate governance failures is cyclical, which revolves around the enduring agency and stewardship dilemmas of governance. He added that governance issues related to fraud are mainly rooted in the concern of corporations to

generate wealth, rather than to ensure governance mechanisms (Clark, 2004, p. 153).

Brennan and Solomon (2005) also point out that the traditional and dominant approach to conducting corporate governance research has been to adopt quantitative, positivist methodologies, including the application of econometric techniques. They add that corporate governance research has been mainly conducted in the corporate sector, particularly on listed companies. Moreover, the Cadbury Report publication stimulated more research on code adaptation across the world. However, Parker (2007, 2008) and Jegers (2009) argue that there is potential for conducting corporate governance research beyond traditional organisations, such as the unique governance context of non-profit organisations.

In addition, Peng (2000) points out that any research findings from developed countries may not be equally applicable to developing countries. Traditional western corporate governance systems have developed based on factors particular to western society, including their historical background and philosophical approaches. Therefore, corporations in any country must be adaptive, flexible, and innovative when made relevant to different contexts. For instance, Denis and McConnell (2003) argue that each country's differing legal system affects the structure and effectiveness of corporate governance differently—legal systems play a substantial part in defining national corporate governance mechanisms.

However, in terms of adopting western modes of corporate governance, some less-developed countries which rely upon international donors, are under pressure to adopt international norms. Tsamenyi and Uddin (2008) point out the influence of western countries on economic reforms within emerging economies. Developing

nations have often been pressurised to implement corporate governance systems of high income countries, through the influence of international donors (Uddin and Choudhury, 2008; Tsamenyi and Uddin, 2008; Tsamenyi et al., 2007; Liew, 2008; Vaughn and Ryan, 2006; Okike, 2007).

The international context has also been preoccupied with corporate governance research, particularly with regard to implementation of the Cadbury Report in emerging economies. Likewise, corporate governance research trends are also moving from traditional to non-traditional organisations. Any related traditional organisation approaches, such as the shareholder-oriented approach, are being adapted in order to fit non-traditional organisational characteristics (stakeholder-oriented). Brennan (2008) states that there has been a change of emphasis, namely a shift from the traditional Anglo-Saxon models which were more shareholder-centric, towards a more stakeholder-oriented approach to corporate governance. Governance issues have been growing from ownership and management separation into broader theoretical frameworks which incorporate members of other outside organisations (Parker, 2007).

2.3.2.1. Corporate Governance Research in Microfinance

Labie (2001) and Mersland (2007) point out the growing corporate governance research on MFIs. They argue that corporate governance holds strategic roles within MFIs to improve both financial and social performance. Compared to other traditional organisations, however, Mersland (2011) states that there is limited literature on corporate governance mechanisms, particularly on MFIs.

Mersland (2009) and Seibel (2004) classify microfinance into commercial banks or non-bank financial institutions (including non-profit organizations or formally registered, member-based organizations such as savings and credit cooperatives).

This classification is general but comprehensive. It should be noted that these organisations are influenced by a dynamic society, yet the main values such as those in self-help organisations are quite similar. Therefore, the governance of MFIs is unique. Not only do they embrace the conception of social, political, and economic micro-financing but they also serve the collective values of ethics and have aims beyond financial profits (Green and Griesinger, 1996; Jeavons, 1994; Alexander and Weiner, 1998; Low, 2006). Particular approaches and theories should be adapted to embrace sectors beyond for-profit institutions, such as social entrepreneurship and NGOs.

A distinctive aspect of microfinance institutions as compared with other traditional organisations is their ownership structure. The microfinance organisation is financed by donors and investors. It is likely that both aspects influence its governance structure (Mersland, 2009) and quality (Rochet, 2008; Tate, 2007). Mersland and Strøm (2009) point out that the microfinance industry tends to have weak corporate governance. Information asymmetries between managers and investors, with donors as capital providers, tend to cause agency problems (Hartarska, 2009). This condition highlights the need for tailored corporate governance mechanisms for microfinance organisations. As several authors point out, MFIs must have corporate governance systems that are suited to the complexities of business (Fama and Jensen, 1983; Demsetz, 1983).

Regulation also plays a key role in the governance of microfinance. A number of authors argue that microfinance institutions under formal banking supervision, upon which regulation can be imposed, tend to have higher audit quality and better financial performance (Mersland, 2011; Arun, 2005; Hardy et al., 2003;

McGuire, 1999). Local authorities also have the power⁵ to enforce rules and regulations as well as raise microfinance governance awareness.

2.3.3. Corporate Governance Research in VBOs

Corporate governance research on non-traditional organisations is gaining considerable attention. Researchers employ broad analytical techniques which are not solely associated with traditional organisational perspectives, such as positivist, econometric, and hypothesis-testing approaches, but with a more interpretative methodological approach (Brennan, 2008). Brennan (*ibid*) also mentions that more and more studies on non-traditional organisations are using in-depth interviews (Parker, 2007; Parker, 2008), case studies (Matthews, 2005), questionnaires and surveys (Fitzgerald, 2001; Vermeer et al., 2006).

Specific organisational characteristics, namely religious dimensions, also play an important part in non-traditional corporate governance frameworks. Religious elements define the identity and purpose of an organisation (Unruh and Sider, 2005). Sider and Unruh (2004) and Bielefeld and Cleveland (2013) classify organisations into six based on religious characteristics: faith-permeated, faith-centred, faith-affiliated, faith-background, faith-secular partnership, and secular. Religious values at times affect the behaviour of organisations, such as

⁵ Hardy (1994, p.220) as cited in Heidhues & Patel (2012, p.84) equated power with a force that influences outcomes. She classified the dimensions of power into three main groups: Instrumental power, symbolic power, and systemic power. Instrumental power is defined as an ability to secure preferred outcomes in the face of competition and conflict (Hardy, 1985, p. 388). This category is represented by the authorities, political actors, and any individuals who usually have structural position and own control of access to critical resources. Symbolic power is defined as the ability to secure preferred outcomes by preventing conflicts from arising; for instance, the use of symbols, languages, rituals, and myths, to influence stakeholders' attitudes toward outcomes. Lastly, systemic power is defined as unconscious acceptance of the values, traditions, cultures, and structures of a given institution or society. Disciplinary power is included in this group. Hardy established the frameworks based on the work of Foucault.

Christian charity organisations, Islamic endowments, and so on. This kind of organisation usually has particular features, like a religious advisor, for example.

Corporate governance for non-traditional organisations should have a flexible hierarchy and be able to respond to culture (Child and Rodrigues, 2003), have creativity, initiative and be a boundary-spanning cooperation (Merton, 1940). Uddin and Choudhury (2008) also underlined the needs of further research on corporate governance issues in non-traditional settings, which should take local peculiarities and culture into consideration. Child and Rodrigues (2003, p.347) argue that non-traditional organisations present a potential trade-off between their advantages, in terms of decision-making and innovation, and the new challenges they pose in terms of control and governance. It is necessary for corporate governance mechanisms in non-traditional organisations to be adaptive (Pramuka, 1998). Aguilera and Jackson (2010) argue that current traditional corporate governance mechanisms are most often of a universalist nature, but they neglect other variables such as institutional, legal, and cultural environments in which non-traditional organisations are embedded.

Corporate governance values per se are quite similar in both traditional and non-traditional organisations. These include a broader range of accountability (Brennan, 2008); internal control mechanisms influenced by culture (Patel, 2003); environmental, social and governance considerations in institutional investment (Freshfields Bruckhaus Deringer, 2005); transparency and stakeholder-orientation (Gray et al., 1987, 1993, 1996; Gray, 1992; Unerman et al., 2007). These broader orientations are induced by non-traditional organisational characteristics, which are more dynamic and innovative. The studies of Friedman and Miles (2001), and Solomon and Solomon (2006) also highlight more socially responsible investment and stakeholder-inclusive

corporate governance mechanisms. Brennan (2008) argues that in non-traditional organisations, not only is the theoretical framework extended by adopting a broader stakeholder approach, but it also analyses different governance mechanisms.

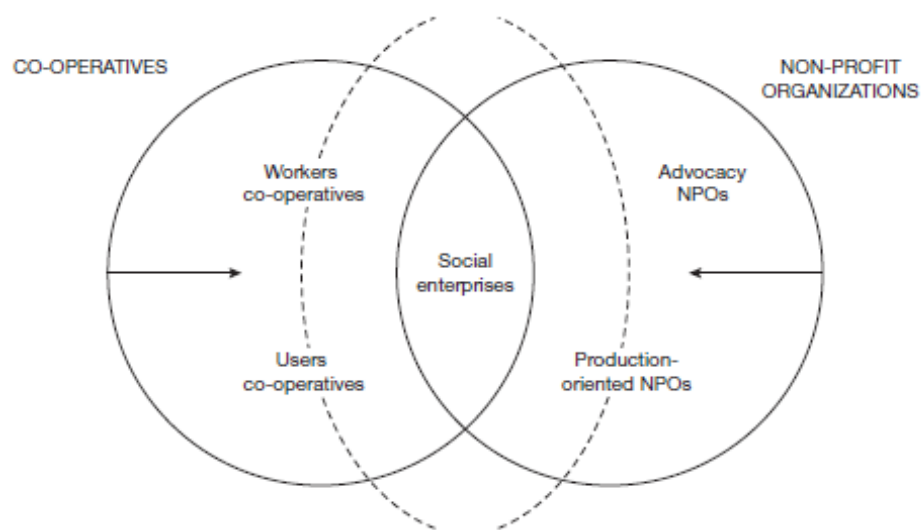
2.3.3.1. Corporate Governance Research in Social Enterprises

Another non-traditional microfinance organisation is the social enterprise. A cooperative is also categorised as a social enterprise as they purposely serve both the organisation and community. The UK Department of Trade and Industry (2002, p.2) defined social enterprise as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” Therefore, in the UK, 'social enterprise' covers a wide range of organisations, including co-operatives, credit unions, trading charities, community businesses, social firms and housing associations (Spear et al., 2009).

Yeoh (2012) states that legal forms of social entrepreneurship are purely commercial ventures that may adapt similar governance mechanisms. Both social entrepreneurship and social entrepreneurs are attributed several core principles: behaving as a non-profit organisation; fighting for fairness, equality and social justice; building sustainability through innovation; maintaining accountability; working for public benefit; adding value; and transforming resources for the better (Zahra et al., 2009; Leadbeater, 1997; Dees, 1998; Thake et al., 1997; Reis, 1999; Fowler, 2000; Brinkerhoff, 2001; Mort et al., 2002; Drayton, 2002; Alford et al., 2004; Harding, 2004; Shaw, 2004; Tan et al., 2005; Mair and Martí, 2006; Peredo and McLean, 2006; Martin and Osberg, 2007).

On the other hand, Defourny and Nyssens (2006) argue that social enterprise bridges the gap between cooperatives and non-profit organisations since social enterprise characteristics lie somewhere between private, for-profit and government sectors, yet blur the boundaries between these different types of companies and organisations (figure as below) (see Defourny and Nyssens, 2008; Galera and Borzaga, 2009; Spear et al., 2009).

Figure 2.2 The Boundaries between Cooperatives and Non-Profit Sector



Source: Borzaga and Defourny (2001, p.22)

Cornforth (2001a, 2001b) underline that theories of corporate governance can be extended to help understand the governance of social enterprise, including co-operatives and mutual organisations. Jegers (2009) stated that the word corporate in corporate governance is no longer restricted to corporations or for-profit organisations. However, Cornforth (2001) and Uddin et al. (2017) also points out that governance mechanisms (i.e. boards) in non-profit organisations are quite complex, dynamic, inherently difficult and problematic activity. Many criticisms emphasise the need to move beyond narrow theoretical frameworks in corporate governance for social enterprise, particularly in how organisational

factors, such as organisational size influence the nature of what boards do (Mowday and Sutton, 1993; Rousseau and Fried, 2001; Cornforth, 2001; Rochester, 2003; Otto, 2003).

As Mersland (2011) argues, corporate governance of non-profit MFIs may enhance their performance. However, the governance of MFIs is different to other non-profit organisations since best practice governance mechanisms in other regular non-profit firms as well as donor organisations do not generally have much influence on the performance of the MFI itself (Hartarska and Mersland, 2012; Hartarska, 2005; Mersland and Strøm, 2009; Alexander and Weiner, 1998). Most MFIs are incorporated as non-profit organisations which are international donor-sponsored or member-owned cooperatives (Mersland, 2009; CGAP, 2006; Helms, 2006). Consequently, their corporate governance mechanisms may have been adopted from international donor organisations.

Therefore, given their dynamic characteristics, there is no consensus on the ideal governance of NPOs and social enterprises. Bradshaw (2007) lists four basic models of governance: the policy governance model, the entrepreneurial model, the constituency/representative model, and the emergent cellular model. On the other hand, Wellens and Jegers (2014) propose the stakeholder model for NPOs concerning governance involving diverse stakeholder groups. The stakeholders are comprised of government, beneficiaries, private donors, board members, management, volunteers, and non-managerial staff members. Assessing corporate governance for social enterprise falls under the stakeholders' model. This is due to a key characteristic of a social enterprise whereby it is theoretically owned by the community, for the benefit of the community, such that community-based assets are locked into the stakeholders' theoretical paradigm (Pearce, 2003;

Dunn and Riley, 2004; Iecovich, 2005; Suchman, 1995; Abzug and Galaskiewicz, 2001).

Social enterprise governance frameworks have been adapted to embrace sectors beyond for-profit, such as social entrepreneurship and non-profit organisations/NPOs. Low (2006) states that replacing 'corporations' with 'organisations' allows for wide-ranging definitions in governance.

Corporate governance in social enterprises and NPOs differs from many other organisations. The structures and mechanisms of for-profit organisations are neither a feasible nor desirable solution for NPOs (Alexander and Weiner, 1998). However, as these organisations are under competitive pressures, some of their practices are becoming business-like in form (Alexander and Weiner, 1998; Fine, 1990; Steckel and Simons, 1989; Unterman and Davis, 1984; Weiner et al., 1996). For instance, in some social enterprises, the managerial boards with business backgrounds may also attempt to use asset-maximisation in their decision-making.

In terms of corporate governance failures in the non-traditional microfinance organisation, such as cooperatives, Kramper in Battilani (2012) states that basically there are three schools of thought on what causes the cooperative to fail or underperform: (1) the adverse political environment (for instance cooperatives in West Germany during Nazi dictatorship), (2) organisational inefficiencies which resulted from a changing economic environment (for instance on the beginning of the supermarket concept and revolution in Germany and the United States that fundamentally changed a shop viz. consumer cooperative into a more efficient structure), and (3) supply-side factors such as value differentiation and social milieu (for instance the rise of mass consumption and retailing revolution

gave competitive pricing to cooperatives particularly in Scandinavia and Southern Europe). Chaddad and Cook (2004) added that the structural changes in agricultural cooperatives in the United States also caused a number of large cooperatives to file for bankruptcy or convert to investor owned businesses to remain financially viable. Therefore, non-traditional microfinance organisations, particularly cooperatives with their unique characteristics, remain under threat of failure.

2.3.3.2. The Case of Indonesia

Few reviews of corporate governance in BMT Islamic micro-finance exist in emerging economies such as Indonesia, excluding studies concerning introductory concepts and definitions (Seibel, 2004, 2008; Martowijoyo et al., 2005; Martowijoyo, 2007; Chapra and Ahmed, 2002; Thornton et al., 2012) or comparative studies of conventional and Islamic microfinance practices (Abu-Tapanjeh, 2009; Riwijanti, 2013; Masyita and Ahmed, 2013). Previous reviews, notably Obaidullah and Latiff (2008), Sakai and Marijan (2008), and Masyita (2013), focus on enhancing Islamic financial services, contracts and products for micro- and medium-sized enterprises, only touching on BMT issues. Wardiwiyo (2012), Adnan et al. (2003), Hadisumarto and Ismail (2010) and Ismail and Condro (2008) focus on internal control mechanisms, efficiency, effectiveness, and the sustainability of BMTs.

As a non-traditional organisation, however, BMTs have unique characteristics by which they are classified into not-fully-for-profit organisations and are therefore included as social enterprises. BMTs are arguably categorised into the not-fully-for-profit organisations as they aim to get a 'reasonable profit' rather than 'maximum profit'; yet in practice, some BMTs are still more focused on gaining profit than benefiting the community. Hence, BMT needs a specific corporate

governance approach differing from the governance of traditional organisations (Labie, 2001; Hasan, 2009, 2012).

Corporate governance research on social enterprises and organisations such as credit unions, NGOs, and charity organisations are needed due to the small number of reviews specifically of BMT Islamic cooperatives in Indonesia. These types of organisations need particular governance mechanisms as they have different characteristics as well as more dynamic environments than the traditional microfinance organisations. Previous reviews have explored these particular organisations (Labie and Périlleux, 2008; Chakrabarty and Erin Bass, 2014a; Hartarska 2005; Hartungi 2007). Other studies focus on governance and the performance of MFIs in countries such as the Mediterranean, Eastern Europe and the Newly Independent States, Russia and Ukraine, as well as some Latin American and Asian countries (Borzaga and Defourny, 2004a; Hartarska, 2005; Bassem, 2009; Mersland, 2011; Beisland et al., 2013; Mersland and Strøm, 2009; Hartarska and Mersland, 2012; Demidenko and McNutt, 2010).

As a social enterprise, BMTs have emerged as a result of social movements addressing needs in the social economy (Idris and Hijrah Hati, 2013; Mair and Martí, 2006; Alvord, 2004). The social economy is defined as that part of the economy that is not controlled by either private or public sectors (Haugh, 2005). It includes non-profit organisations such as associations, co-operatives, mutual organisations, and foundations.

The first social economic movement organisation in Indonesia also took the form of a cooperative (Abdullah, 2006);⁶ followed by other religious organisations like

⁶ Raden Wira Atmaja established the cooperative in 1895 as a social movement in response to Dutch colonisation. It was a considerable organisational influence in the Indonesian call for independence.

Nahdatul Ulama and Muhammadiyah (see page 94). Idris and Hijrah Hati (2013) propose an Indonesian social entrepreneurship growth model which consists of a degree of economic empowerment, Islamic identity, and social activism. Given that in Indonesia, 86.1% of the population is Muslim, the influence of Islam tends to emerge within any social movement, not only in a social context, but also in economic and political issues.

Indonesian society is indeed dynamic and diversified. Geertz (1956, 1963) analysed the economic and social change occurring over two years in Modjokuto, a town in the eastern part of Central Java, Indonesia, which captured both rural and urban development. He describes that social movements in this area were determined by social structure, culture, and traditional patterns such as in the family, religion, and other traditional political arrangements (Geertz, 1984). As an anthropologist, Geertz (1984, p.512) states that “the established religious beliefs, especially the Islamic dimensions of them; family structure, especially extended family structure; co-operative work practices in agriculture; traditional market institutions of various sorts—all were assessed in terms of their potentiality for stimulating social transformation in Indonesia.” Geertz (1962, p.241) pointed out the rotating credit association practices of that time in Modjokuto, which proved in fact “to be an *intermediate* institution growing up within peasant social structure, to harmonize agrarian economic patterns with commercial ones, to act as a bridge between peasant and trader attitudes toward money and its uses.” It is an important fact that non-traditional microfinance practices have been part of society for decades. This suggests that they are an essential social movement in which local beliefs and values play a key role in

The cooperative was the pioneer of Bank Rakyat Indonesia (BRI), the oldest bank in Indonesia which focuses on micro finance.

controlling social economic development as well as contributing to institutional change.

2.4. Corporate Governance Practice in Religious-Based Organisations

In some emerging economies with a Muslim majority population, such as Indonesia, Islamic values have been essentially adopted into several organisations including the microfinance sectors. As an Islamic cooperative, BMT is one of the examples of this value-based microfinance organisation as well as membership-based organisation. These religious and ethical values influence the implementation of the corporate governance model. Mansour et al. (2010) argue that the Islamic economics principles are now regarded as the unique features in financial intermediary.

Discussions on the typology of religious characteristics, particularly in MFIs viz. BMTs, social enterprises and NPOs, have recently gained prominence. Previous research, notably Abu-Tapanjeh (2009) compares the principles of the Organisation for Economic Co-operation and Development (OECD) corporate governance to Islamic perspectives. Jayasinghe and Soobaroyen (2009) focus on accountability mechanisms in Buddhist and Hindu religious organisations. Sider and Unruh (2004) focus on the role of faith-based organizations in addressing social problems. Monsma (1997), Monsma (2002) and Jeavons (1997) discuss religious practices and several 'religious' dimensions of organisations, including faith-based/integrated and faith-based/segmented organisations. Smith and Sosin (2001) point out behaviours regarding faith based on organisational values and characteristics. Grassa (2013) states that Islamic governance gives additional value to the existing corporate governance structure. Those studies demonstrate that there are interrelationships between organisations' corporate

governance mechanisms (i.e. accountability practice, organisational elements) and their values.

The Islamic Financial Services Board (IFSB) defines Islamic governance as an organisational set of frameworks overseeing *sharia* compliance in aspects of an Islamic financial institution's (IFIs) products and services (Hasan, 2010, 2012; IFSB, 2006). This definition emphasises the need for efficient Islamic governance to ensure *sharia* compliance in all financial institutions' activities.

Additionally, in order to maintain *sharia* compliance, the main characteristic of Islamic governance is an efficient *sharia* supervisory system (Islamic monitoring board). This system is known as the Sharia Supervisory Board (SSB or in-house religious advisers), which has a key role as the organisational *sharia* gatekeeper (Rahajeng, 2011). The SSB, as a religious board, has two main responsibilities, both externally and internally. Externally, the SSB is responsible for ensuring that all IFT's products and services comply with *sharia* by issuing certified reports as an integral part of the annual IFT's report (Grais and Pellegrini, 2006). This annual report should mention IFT's *sharia* compliance. Internally, the SSB should maintain an IFT's internal activities in accordance with Islamic conduct, by certifying permissible financial instruments through fatwas⁷, verifying transactions, calculating and paying alms/*zakah*⁸, disposing of non-*sharia* earnings, and advising income distribution among shareholders and investment-account-holders (IAH⁹) (Grais and Pellegrini, 2006).

⁷ A fatwa is defined as a religious edict or opinion, commentary, a reply to a legal question, verdict, or action of approval which has been given by an expert (*mufti*) (Ramadan, 2006, p.14). In Indonesia, a fatwa is given by the Majelis Ulama Indonesia (MUI), the national clerics council.

⁸ Zakah in Arabic literally means 'the purification of wealth', and is obligatory upon every adult Muslim, male or female, and entails giving 2.5% of one's wealth to the poor each year.

⁹ IAH is defined as depositors rather than shareholders alone; the ownership structure of Islamic banks also consider the IAH (Hasan, 2009, p.288).

SSB is an independent board. They work with the chairman of BMT and are responsible to the stakeholders in annual general meetings (see Chapter 3 on BMT Organisation Structure). The SSB is the main characteristic of Islamic corporate governance (Darmadi, 2013; Safieddine, 2009; Seibel, 2004; Hasan, 2009; Foster, 2010a, 2010b).

The table below shows the roles of governance bodies in Islamic financial institutions (Chapra and Ahmed, 2002):

Table 2.1 Governance Organs in Islamic Financial Institutions

Governance Organ	Role
Board of Directors	<ul style="list-style-type: none"> • Set and approve overall policy and strategy • Monitor progress toward corporate objectives • Ensure accountability of management • Protect shareholders and investment depositors' rights
Sharia Supervisory Board	<ul style="list-style-type: none"> • Set <i>sharia</i>-related rules and principles • Provide a clearance of <i>sharia</i> compatibility of all products • Oversee compliance and its verdict to create confidence with respect to compatibility with <i>sharia</i>
Internal Control	<ul style="list-style-type: none"> • Ensure management oversight • Recognize and assess risks • Detect problems and correct deficiencies
Internal Audit	<ul style="list-style-type: none"> • Ensure that the policies set by the board are followed by the management
External Audit	<ul style="list-style-type: none"> • Ensure the accuracy of the quality and quantity of information • Ensure that financial statements are prepared according to accepted reporting standards • Ensure that profit has been derived without violating the teachings of <i>sharia</i>
Audit Committee	<ul style="list-style-type: none"> • Review and supervise financial reporting • Provide oversight of internal and external auditors
Compensation Committee	<ul style="list-style-type: none"> • Monitor the compensation policy of senior management and key personnel
Nomination Committee	<ul style="list-style-type: none"> • Provide assessment of the Board of Directors' performance • Replace board members

Source: Chapra and Ahmed (2002)

In practise, not many BMTs have dedicated SSB as part of their governance mechanisms as there are no binding regulations for it. As a cooperative, MoC only regulates the monitoring board in BMT to the general managerial monitoring committee. Some BMTs optimise the function of audit committees to oversee BMT compliance with Islamic laws; otherwise, the function of SSB is distributed to a consultation unit in each BMT associations. Black (2013) argues that there

are few key concepts in the Islamic governmental system: *shura*, judiciary, and *dar-al-ifta*. BMT follows the principle of *shura* as a consultation process with the people (particularly with members of the *shura* council) in matters related to public affairs; and the *dar-al-ifta* (literally, the house of fatwas) which usually refers to the Majelis Ulama Indonesia (MUI, *Indonesian Ulama Council*) for the related fatwas on BMT products and services.

Corporate governance has more established and well-conceptualized frameworks than *sharia* governance. In terms of the applied corporate governance model, *sharia*-compliant businesses adopt a stakeholder model (see Grassa, 2013, p.335; Iqbal and Mirakhor, 2004). Hence, this study adopts stakeholder theory in the analysis (see Chapter 5).

2.4.1. Islamic Governance Concepts

The BMT adopts Islamic governance concepts which according to Islamic economics principles, have the objective of working not only for the shareholder's benefit but also for stakeholders (Muneeza and Hassan, 2013, p.122). The BMT follows the epistemology of Islamic governance which acknowledges the duty of humankind to God regarding the rest of the living environment (viewing humans as God's vicegerent on earth). This paradigm also encourages humankind to gain goodness in the hereafter by behaving well in this life, in accordance with *sharia*, since in Islam our affairs are not limited to this world only. In other words, *sharia* works in a circular motion where everything begins from God and ends with God. These are part of the culture and context in which BMTs operate. In fact,

The BMT follow Islamic laws which is derive from the Quran and Hadith; the Quran describes that human beings were created to be leaders with responsibilities in the world (*khalifa*) (QS 2:30). Individual interests matter less

than social ones. The interests of creation at large ensure that Islam is a religion of laws which conveys how to structure relations of accountability concerning every single aspect of the world including political, economic, social and so on.

In the organisation analogy, being *khalifa* is the equivalent of being an agent, a vicegerent, a trustee, or (in organisational terms) a managing director. God's trust (*amanah*) in human beings is comparable to an owner's trust in their management. Humans (as the managers) are fully responsible for taking care of God's trust, including the trust of other people. As agents, humans are responsible for the whole earth, which means not conducting harmful activities that endanger any entities. These entities include a company's stakeholders. Therefore, humankind, as responsible agents (*khalifa*) in corporate governance terms, are responsible for every living community—including stakeholders.

2.4.2. Similarities and Differences: Islamic and Non-Islamic Cooperatives

Both non-Islamic (conventional) and Islamic cooperatives share similar characteristics as financial intermediary institutions particularly for unbanked people who have no access to the banking institutions, and the underbanked who have limited access to the banking institutions. Both institutions offer services where their members can deposit funds and withdraw them on demand or under certain conditions, depending on the contract. Both organisations emphasise the roles of members in the organisation's democracy: one member, one vote.

The difference is, in the context of Islamic entities like BMT Islamic cooperatives, that governance follows Islamic governance terminologies, which include:

- Following Islamic teachings in their business. Similar to Islamic banking practices, Islamic cooperatives also need to avoid the elements of interest

or usury (*riba*), speculation or gambling (*maysir*), and excessive uncertainty (*gharar*) (Haniffa and Hudaib, 2002; Safieddine, 2009; Government of Indonesia, 2008b; Riaz et al., 2016; Al-Muharrami and Hardy, 2013; Lewis, 2005). Minor *gharar* is acceptable, serious *gharar* should be avoided (Foster, 2010a). The Islamic values also avoid any business that may cause harm for others (*dzalim*), since as a social enterprise, the purpose of Islamic cooperatives is for benefiting both the organisation and society. This includes paying fair wages to their employees and charging reasonable prices from their beneficiaries. These are the main differences between the Islamic and conventional cooperatives.

- From the business perspective, Islamic cooperatives also operate similarly to conventional ones, but with a few restrictions on their services and products as stated above. However, as categorised as a not-for-profit organisation, Islamic cooperatives cannot seek to maximize profit, but instead aim for a reasonable profit. They adopt the profit-loss-sharing (PLS) principle in their operation; therefore, they cannot offer fixed profit, but mechanisms to share the profit or loss based on each contribution. Islamic cooperatives emphasise fairness in their operations, therefore, any loss occurring in the partnership which is not caused by mismanagement and human error should also be fairly shared by all parties based on the predetermined percentage/proportion as stated in the contract.
- The range of products is similar to conventional cooperatives (i.e. saving, loans, financing); but the terminologies and mechanisms are different since they use Islamic contracts (*akad*) such as partnership-based

instruments (i.e. *mudarabah*, *musyarakah*), sale-based instruments (i.e. *murabah*) lease-based instruments (i.e. *ijarah*), savings instruments (i.e. *wadiah*). The Islamic cooperative also should avoid engaging in restricted businesses which involve alcohol, intoxicants, adultery and pork products.

- Islamic cooperatives also offer *Qard Hasan* products, a form of charitable microcredit without any profit-sharing or mark-up and the only type of unsecured lending permitted under Sharia (Seibel, 2007). *Qard Hasan* is financing for social and non-commercial use, therefore customers only need to return the principal at their goodwill. *Qard Hasan* and PLS mechanisms are BMTs' basic principles as Islamic microfinance institutions.
- The Islamic cooperatives' leadership boards act as the agents or leaders (*khalifa*) who are expected to be able to establish, maintain, and develop the stakeholders' trusts and the Islamic cooperatives' values (*amanah* roles). As the *khalifa*, managers' interests matter less than members'; managers should not seek personal gain. As a cooperative, similar to the conventional cooperatives, the Islamic cooperatives also adopt the main over-riding principle: from members, by members, and for members. Moreover, as a cooperative, they are also responsible to their stakeholders, namely beneficiaries and communities. Their values cover ethical values as well as Islamic values.
- Islamic cooperatives have Islamic monitoring boards, the Sharia Supervisory Board, to supervise and monitor their products and activities to stay lawful in compliance with Islamic teachings. In the BMTs, this board could be part of the internal auditing board, or as a separate unit, or separate agency from the organisations (external sharia supervisors).

Both Islamic and non-Islamic financial institutions share similarities with conventional ones, the difference being that it operates in accordance with the rules of *sharia*, known as *Fiqh al-Muamalat* (Islamic rules on transactions such as avoiding gambling of any kind (*Maisyir*), avoiding any doubtful matters concerning material transactions (*Gharar*), and avoiding interest/usury (*Riba*)) (Dakhlallah and Miniaoui, 2014; Chapra, 2008). The basic difference is in its underlying laws and regulations. IFIs implements Islamic laws and regulations (*sharia*) in its practical aspects; however, conventional financial institutions, operating within a system of capitalism and materialism, implement non-Islamic laws/regulations, while *sharia*¹⁰ is the basis of an alternative to the capitalist model. Yet many critics also argue that IFI, including BMT (discussed in the following section), still remain functionally indistinguishable from its conventional counterpart (see Khan, 2010).

2.4.3. Business Ethics among Religions

Wilson (1997) provides a lengthy discussion on the relationship between economics, ethics and religion particularly from the Judaic, Christian and Islamic point of views. He points out that “an understanding of religious teachings helps put ethical issues, including those involving economic relations, in a fuller perspective” (Wilson, 1997, p.1). The epistemology that humankind is God’s vicegerent on earth is also common in all three religions. This includes social responsibility to help the poor, not only through charity, but also through other

¹⁰ Islamic law has four sources, the primary sources of the Quran and the Prophet's teaching (*sunna/hadith*), and the secondary sources of independent reasoning (*ijtihad*) and consensus (*ijma'*). Islamic rules are based on three main principles which are law (*sharia*), theology (*aqidah*), and ethics (*akhlaq*) (Antonio 1999, cited in Ismal 2013). *Sharia* is the underlying regulation for Islamic economic contracts and rules concerning two main human activities: The worship of God (*ibadat*) and social interaction (*muamalat*). Thus, Islamic banking and finance also apply Islamic law and banking provisions in a system of Islamic economics.

socio-economic reconstruction programmes. Hence, each religion acknowledges the importance of sharing as part of the ethical values in society.

With regards to *riba* and risk sharing, both Christianity and Islam are unequivocal in condemning interest/usury (Wilson, 1997, pp.82–85). Thomas Aquinas (1225-1275; an early Catholic moral theologian and philosopher) in Wilson (1997, pp. 84) states that:

“It is legitimate for the investor to obtain a reward for risk taking, but the moneylender faces no risk on his return, apart from the risk of payments default. If a borrower fails to repay due to difficult financial circumstances, the lender should be charitable. If the default is due to fraudulent dealings, this is a matter for God to judge, not the moneylender.”

Religions also share similar moral teachings: fairness, honesty, trustworthiness, and so on, but depend on its macrosocial context such as economic, political systems, institutional and cultural background. Islamic law has ethical values that would be universally acceptable to both the Muslim and non-Muslim population in Indonesia. These universal ethical values seek fairness and justice for the entire society (Knight, 2006). All religions advise their followers to do good deeds and act fairly towards all humanity (there are many verses on this in both the Holy Quran e.g. Surah Al-Ma'ida 5:8 and the Holy Bible e.g. Psalm 106:3). Both the Quran and the Bible also prohibit interest/usury (*Riba*) in any economic transaction since this harms others, e.g. Psalm 15:5, Surah Al-Baqarah 2:275.

There have, however, been criticisms of the way Islamic businesses and the economy operate in practice. For instance, Kuran (in Wilson 1997, p. 161) argues that Islamic societies share many of the characteristics of their Western counterparts. He states that there are universal traits in human behaviour, including the presence of moral and immoral conducts in any society. He points

to the corruption in many Muslim societies, abuse of power by the authorities, and individuals or groups who may seek to take advantage of the efforts of others.

Religion is a normative way of life that seeks to improve the behaviour of human beings towards an ideal; it does not claim to represent the current state, mortal and flawed, of its followers. As critics point out, in practice, the net profit in Islamic financial intermediaries is usually no different from conventional intermediaries (Dusuki, 2007; Asutay, 2007). This creates suspicion amongst unconvinced Muslims and non-Muslims as well as other critical reviewers. Additionally, some Islamic cooperatives or banks determine their regular margin based on various variables such as current interest rate in the conventional cooperatives or banks; it is arguable that they need to keep their margin competitive with those conventional intermediaries otherwise the latter would become more attractive to users and potential users. Some BMT Islamic cooperatives have a fixed return on investments or savings which is not permissible. Therefore, these non-conformance practices, no matter what the motives are, do not reflect the actual teachings of Islamic practices.

2.5. Fraud

Many terms relating to frauds are often used interchangeably, such as defalcation, irregularities, white-collar crime, deception, and embezzlement (Singleton and Bologna, 2006, p.42). No two terms are identical, yet they have some common elements. Simmons (1995) and Bologna and Lindquist (1995) describe the common elements required for an activity to be classified as fraud. An activity constitutes fraud if it concerns untrue representation (Cascarino, 2012), about facts or events which have caused the victim (the person who relies and acts upon the representation) severe damage (economically or socially) as a

result of the deception by another party; this definition is adopted by this study as it covers the main issues in BMT fraud in Indonesia.

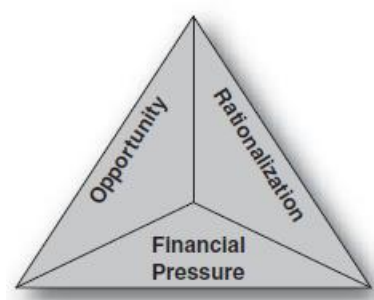
There are many categorisations of fraud, such as occupational fraud (Holtfreter, 2005), consumer fraud, criminal fraud, civil fraud, and contractual fraud (Bologna and Lindquist, 1995). The Association of Certified Fraud Examiners (2002, p. 2) define occupational fraud as the use of occupation for individual enrichment through the deliberate misuse or misapplication of the employing organisation's resources or assets. Occupational fraud comprises four mutually exclusive categories: false accounting (Harrison, 2009; Lampland, 2010; Petrucelli and Peters, 2017, p.121), asset misappropriation, corruption, and fraudulent statements (Button et al., 2014; Rezaee, 2005). Each category shares common elements, such as individual enrichment, violation over the organisation's regulations, and clandestine activity.

Fraud is also commonly defined as lying, cheating, stealing, or possessing something illegally, or misconduct due to moral hazard behaviours. Fraud could be perpetrated by anyone including owners, managers, employees, customers, investors, and government authorities (Hollow, 2014). Baker (1996) defines moral hazard behaviour such as bad character or habits of personnel, financial embarrassment, and poor business practices; in leadership, character matters (Bass and Steidlmeier, 1999). In the organisational setting, fraud perpetrators are not restricted to top-level managers, but may be at all levels of an organisation, including middle and low-level managers as well as non-management employees. There are also arguably possible connections between gender and the willingness to engage in unethical business behaviour (Betz et al., 1989). Therefore, frauds are seen as personal acts and products of motivation and opportunity (Duffield et al., 2001).

The motivation may vary, for example for economic reasons; psychological, physical, social, or vocational disorders; or for the lack of regulatory controls. This study mainly refers to frauds that entail occupational fraud, as it mainly involves conflict of interest issues at the managerial levels that have caused frauds. Among many definitions, this study uses Boatright's (2008, p.46) definition of conflict of interest: "A conflict of interest occurs when a personal or institutional interest interferes with the ability of an individual or institution to act in the interest of another party, when the individual or institution has an ethical or legal obligation to act in that other party's interest".

A framework known as the 'Fraud Triangle' or 'Cressey's Triangle' was constructed in order to properly understand, detect, respond to, and prevent fraud (see Singleton and Bologna, 2006; Bell and Carcello, 2000; Reinstein et al., 2006; Dellaportas, 2013). The Fraud Triangle describes three elements important to the incidence of fraud: opportunity, rationalisation, and financial pressure (see Figure 2.3).

Figure 2.3 Fraud Triangle



Source: Singleton and Bologna (2006, p.45)

Pressure refers to an incentive or a motivation to commit fraud, which is usually rooted in some financial distress. The pressure that exists in the organisational environment is influenced by internal and external factors (Elliott and Elliott,

2009). Both factors, internal and external, are most likely related to financial matters, like boosting the company's financial performance, achieving earning objectives, or meeting sales targets. Rationalisation or attitude is the perpetrator's justification for committing fraud under particular circumstances, e.g. that stealing hurts no-one, that they are administering fair treatment for themselves since they believe they deserve a better salary, or that they are stealing for social or charitable purposes. An opportunity provides the circumstances which make fraud possible. Thus, weak internal control and the fraudster's knowledge of an organisation's systems enable the fraud to take place. Other factors, such as inefficient audit functions (Reinstein et al. 2006) and CEO duality (Goldschmidt, 2004; Razaee, 2002) provide opportunities for individuals to commit fraud.

However, there are many critics of the fraud triangle and the validity of its application to fraud. For instance, Huber (2017), one of strong critics of the fraud triangle, states that the complex phenomena of fraud and other financial crimes cannot legitimately be reduced to simple geometric representations. He points out that "there are n-dimensions of fraud and financial crime that must be accounted for in any model that attempts to explain, predict, prevent, deter, detect, and prosecute financial crimes, of which fraud is merely a subset" (Huber 2017, p. 32). Most critics underline Cressey's significant lack of substance and originality within his model (Schuchter and Levi, 2016); problems with its accuracy and validity (Skousen et al., 2009; Albrecht, 2014; Donegan and Ganon, 2008); and applicability (Trompeter et al., 2013; Lokanan, 2015).

There have also been many attempts to expand or modify the fraud triangle. For instance, by placing incentive, opportunity, and rationalization on the sides instead of at the vertices of the triangle (Huber, 2017); and expanding the shape

into a fraud diamond (or fraud square) with the fourth vertex (or side) representing “capability” (Wolfe and Hermanson, 2004). The “Dyad Reciprocal Model” represents the recruitment process of individuals into organisations, showing those involved in financial fraud schemes (Albrecht, 2009); a “MICE Model” represents the modifications of pressure and motivation into Money, Ideology, Coercion, and Ego (Kranacher et al., 2011); a meta-model adds the act, concealment, and conversion of individual elements in the fraud triangle (Dorminey J. et al., 2012); and the A-B-C model depicts the interplay of individual, cultural, and societal factors to fraud (Ramamoorti et al., 2009). These studies suggest that the fraud triangle model is far from sufficient to represent fraud phenomena, yet has remained popular for the last 60 years.

Nevertheless, the idea of the fraud model, which has been popularised by Cressey’s fraud triangle, needs to be acknowledged in terms of an attempt to frame fraud issues in organisations. Corporate governance is one of the mechanisms to prevent fraud. By expanding the idea of the fraud triangle model, organisations can construct a framework of sound corporate governance that suits organisational characteristics. Literature on the fraud triangle emphasises that strong governance and adequate internal control are necessary to prevent fraud.

2.5.1. Frauds and Failures in Cooperatives and Mutuals

Unlike the banking literature, the literature on the causes of frauds and failures in cooperatives and mutuals has yet to be documented, compared to the banking failures literature (Kirkpatrick and Maimbo, 2002). This is due to the failure of microfinance institutions that do not present systemic risks for other financial intermediaries, hence do not attract immediate widespread public concern.

Small businesses are also under threat of fraud. Doig (2006) argues that small businesses usually deal with internal fraud by their employees. Cooperative failures are due to various reasons namely management failures, IT failures, capital inadequacies, deviation from their main principles and ethical values, tight credit markets (Teixeira and Bautzer, 2017; Collinson, 2017). A study by Singleton and King (2003, p. 88) show that insufficient internal controls are the main cause of fraud. Caers et al. (2006) also argue that mismanagement can be caused by the different values from manager as, unless the commitment is perfect, differences in personal characteristics can still stimulate managers with a strong commitment to behave differently and to suboptimally pursue the organisational goals.

Hence, more ethical activities in an organisation, such as a cooperative which preserves ethical values as its main characteristic, do not necessarily deter fraud (Singleton, 2003). Hence, a membership-based organisation remains under threat of fraud. Strong internal controls are the primary deterrent as one of the attempts to create a “perception of detection” in the organisation.

As a membership-based organisation, members’ participation in a cooperative is crucial. The principle of democracy is the core element in cooperatives, yet in practice, the implementation of members’ democracy is quite problematic particularly in large cooperatives in diversified business (Österberg et al., 2007). Democratic engagement has emerged as the weak point of many cooperatives. Battilani (2012) uses the concept of degeneration or demutualisation to refer to the process that could lead cooperatives to lose their democratic characteristics. The concept of degeneration or demutualisation is used in this thesis to classify one of the main causes of BMT failures. Battilani (*ibid*, p.10) also states that a

lack of democratic practices is a long-term threat to all cooperatives; as it infers weak governance in the organisations. A cooperative is a combination of both democratic engagement and enterprise, hence members' participation is the essential element in cooperative governance and acts as a control mechanism over the organisation, particularly during annual general meetings. Without effective democratic engagement of members, cooperatives cannot properly serve the interests of the members, thus failing to uphold their core business values.

2.5.2. Stakeholders' Power Differentials and Accountability Issues

Power differentials are part of the underlying causes of frauds in many types of organisations (both traditional and non-traditional, including cooperatives). These are due to imperfect information in a principal-agent relationship (between stakeholders and managers); and the imperfect information is subject to moral hazard behaviours (Holmstrom, 1979). Holmstrom (*ibid*, p. 74) also states that the source of this moral hazard is an asymmetry of information among individuals that results because individual actions cannot be observed and hence contracted upon. Collier (2008) states that there is an absence of accountability towards stakeholders, particularly shareholders due to asymmetry of information. The absence of accountability in organisations with multiple stakeholders such as cooperatives with differing interests and power arguably affect their governance sustainability.

Jensen (1993) suggests that in traditional organisations such as public-listed companies, corporate governance has an important role to play in balancing the competing stakes of capital markets, the regulatory system, and the product/factor markets in which an organisation operates. The role of corporate governance to balance the power and interests of multi-stakeholders is also

applicable in the non-traditional organisations such as cooperatives. Sound corporate governance is helping to alleviate fraud in organisations.

2.6. Conclusion

This chapter has extensively discussed the empirical literature pertaining to the corporate governance implementation and fraud incidents in non-traditional organisations such as cooperatives and mutuals particularly in emerging economies. Most studies focus on corporate governance implementation in traditional organisations and in developed countries, yet to some extent inapplicable to the non-traditional organisations in emerging economies and developing countries due to its dynamic organisational characteristics (see Vaughn and Ryan, 2006; Okike, 2007; Tsamenyi, Onumah and Enninful-Adu, 2007; Liew, 2008; Tsamenyi and Uddin, 2008; Uddin and Choudhury, 2008). Fraud studies on MBOs and VBOs in emerging economies are also woefully under-researched compared to the similar cases in corporations in developed countries (see Kirkpatrick and Maimbo, 2002; Doig, 2006).

Therefore, this study attempts to address the gaps that there is a need for rigorous examination on the underlying causes of fraud in VBOs and MBOs in emerging economies (which addressed by the first key research question of the study: What are the underlying causes of fraud within Indonesian BMTs?); as well as understanding the stakeholders' perceptions of corporate governance practises and fraud incidents in MBOs and VBOs (which addressed by the second key research question of this study: How does fraud frame stakeholder perceptions of BMT practices in Indonesia?).

CHAPTER 3: UNDERSTANDING THE RESEARCH SETTING: INDONESIA AND BMT PROFILES

3.1. Overview

The purpose of this chapter is to put the emergence and development of BMT governance in Indonesia into context. Understanding the context is essential in order to understand the microfinance system in general and BMT governance in particular. The chapter is organised into two main sections. The first section provides a brief profile (economic, socio-political, and institutional) of Indonesia. The second section provides a detailed account of BMTs as part of the inter-institutional system of Indonesian microfinance. Overall, this contextual account will be helpful in providing a better understanding of the governance of Indonesian BMT Islamic cooperatives and, in particular, will help the interpretation of empirical findings reported later in subsequent chapters.

3.2. Profile of Indonesia

A brief geographical account of Indonesia is required to depict the social conditions which later support the analysis. Indonesia is known as the biggest archipelagic country in the world with 17,508 islands, and has a population of approximately 250 million people, consisting of 34 provinces from Sumatra (10), Java (6), Kalimantan (5), Sulawesi (6), the Maluku Islands (2), Nusa Tenggara (3), and Papua (2). Indonesia has a rich tapestry of diverse and multicultural ethnicities, religions, traditional languages, dances, clothing, and so on. This diversity is captured in Indonesia's national motto of *Bhinneka Tunggal Ika* (Unity in Diversity) that is stated in the Indonesian state emblem, *Garuda Pancasila*.

Though the Javanese is the dominant ethnic group, ethnic tension and conflicts are not a major problem in Indonesia. However, there is a distinction in individual characteristics between the Javanese and other ethnic groups. For instance, the character of Sumatrans is usually more straightforward while expressing their opinions (i.e. direct phrases, higher tones, plain gestures) compared to the Javanese (i.e. indirect phrases, flowery language, low tones, full of smiles). Each reaction sometimes creates misunderstandings; for example, even though a Javanese smiles, it does not mean that the person is happy or agrees on something as it usually has the opposite meaning (i.e. disagreement, unhappiness, disapproval). Likewise, if a Sumatran speaks loudly, it does not mean that the person is angry about something as it usually is their normal reaction. The ethnicity issue is important to point out since it helps the analysis of stakeholders' perceptions of fraud in BMTs, given that in this study the interviewees are mainly Javanese.

Java enjoys the highest level of economic development of any region in Indonesia, and its contribution to the Indonesian economy is significant, comprising 59% of the gross domestic product (GDP) (Kusharjanto and Kim, 2011). However, this causes regional development disparities as Java with only 6.8% of Indonesia's land area but 56.7% of its population, account for 25% of the classified road network (World Bank, 2012). Inadequate capacity and poor connectivity inhibit economic growth and distribution. This infrastructure deficiency particularly in outer Java and Bali also influenced the spread of BMTs in Indonesia as they are mainly located in Java and Sumatra due to the availability of facilities (i.e. infrastructure, communications). However, half the population and most BMTs are located in Java, moreover 49% of Java and Bali's population work in SMEs (Mourougane, 2012); any frauds in BMTs can severely socially and economically

damage the SMEs, which in turn also can potentially affect the Indonesian economy as SMEs contribute 57% to the national GDP (Bank Indonesia, 2015).

The socio-political and economic environment in Indonesia is shaped by its history. The following section thus considers the extent to which changes in the socio-political and economic spheres in Indonesia have had an influence on governance, particularly on the development of microfinance institutions and BMTs.

3.2.1. Socio-Political Profile

Indonesia has the fourth biggest Muslim population in the world, with 87.2% Muslim citizens; even so, law in Indonesia is based on civil law, not Islamic law (*sharia*). Islam and its logic are also dominant but it used selectively in Indonesia¹¹ (i.e. mainly used while worshipping). However, Pepinsky et al. (2018) argue that there is growing piety in Indonesia which gains considerable media attention. The attention has also derived from the blasphemy case of Basuki Tjahaja Purnama, nicknamed Ahok, former Governor of DKI Jakarta in early May 2017 (Purnama and Costa, 2017; France-Presse, 2016; Lamb, 2017, 2016). Protests and rallies led by some Islamic leaders demanding that Ahok be charged with blasphemy under article 156a of the criminal code (Lamb, 2017), stirring public opinion on the respect for Islamic laws and values in aspects of daily life, with consequences for financial organisations such as BMT Islamic cooperatives. The protesters later established a new BMT, named ‘Koperasi Syariah 212’¹² taken from the date of the rally on December the 2nd, as

¹¹ Aceh is the only province in Indonesia that has authorised to implement Islamic law (Sharia) (Bureau of Democracy Human Rights and Labor 2011).

¹² This organisation is not part of the sample in this thesis, as this study focuses on fraud in Indonesian BMTs. This BMT is mentioned to show the emergence and development of BMTs in Indonesia.

a symbol of Islamic movement towards Muslim independence from non-Muslim economic expansionism. The blasphemy cases and growing phenomenon of piety are relevant to understand the growing interest and motivation of people joining, supporting, and conveying loyalty to BMTs, particularly in the cases of fraud. Fealy and White (2008, p.208) argue that this growing morality “manipulates altruistic sentiments and ideals found in both marginal and mainstream Islamic discourse and takes advantage of gaps in state power to gain economic and political concessions.”

David Cameron, the former Prime Minister of United Kingdom, had offered a salutation to Indonesia as a stable democratic model across the Muslim world that has ensured prosperity and religious freedom for the many other diverse groups in Indonesia. However, he added that nothing was problem-free in democracy, not least regarding diverse cultural backgrounds (Sidel, 2012). Jusuf Kalla, the current Vice President of the Republic of Indonesia, stated that moderate Islam in Indonesia has become a strong foundation for the harmonious growth of democracy (Tempo News, 2017). Joko Widodo, the current President of the Republic of Indonesia, also shares similar views, that Islam in Indonesia is moderate and any religious issues, for instance in previous gubernatorial election in Jakarta, were mainly politically motivated (Al Jazeera, 2017; Chalmers and Danubrata, 2017).

Money politics and party cartels (David Cameron on Sidel, 2012) are still prevalent, following a shift from a centralised authoritarian democracy to a decentralised one (Nasution, 2016). In addition, the perceptions of corruption in Indonesia remain far above those in other democracies, puzzling since high levels of corruption persist despite the increased electoral leverage that the general

public has over government officials who can control corruption (Keefer, 2002). Not only corruption, but collusion is also part of ‘cartel politics’ which has enabled politicians to serve their individual interests or those of their parties while ignoring the needs of the people who voted them into office (Pasandaran, 2009). This conflict of interest, particularly motivated by politics, is important to understand as it also applies in the BMT fraud context.

3.2.2. Economic Profile

PricewaterhouseCoopers (2013) and Neill et al. (2005) predict that Indonesia is to become one of the biggest economies in the world by 2050 (position 7 of 11 in the Next-Eleven country rating). Together with Mexico as an emerging market, in 2030 Indonesia is predicted to be stronger than UK and France in PPP¹³ (purchasing power parity) terms. Indonesia’s economic growth can be attributed to various factors including demographic dynamics and social indicators.

As a predominantly agrarian economy (Hill et al., 2008), most Indonesians over 15 years of age, which is 35% of the population, work in farming, plantation, forestry, hunting, and fishery (Badan Pusat Statistik, 2014). Hence many cooperatives, including Islamic cooperatives, serve these domains (i.e. agricultural cooperatives). The second biggest employment sectors are commerce, restaurants, and transportation services, which make up 22% of the population. The rest of the over-15 population are work in social services, industry, construction, communication, financial intermediaries, mining, and the energy sector. However, this number is shifting from mainly farming to manufacturing, commerce and services-related industries. Hence, BMT services are also shifting

¹³ PPP estimates adjust for price level differences across countries. It provides a better measure of the volume of goods and services produced than GDP at current market exchange rates (PricewaterhouseCoopers 2013).

from the agricultural sector (i.e. fertilizer banks, rice banks/*Lumbung Desa*) to industry, construction, communication, and demand-oriented financial services (i.e. building property, selling telephone credits, ticketing, facilitating utility bill payments) (Seibel, 2005).

This economic growth has twofold consequences. Indonesia with its massive population is the best potential market, but growth also encourages its people to adopt a luxurious consumer lifestyle. The percentage of poor people in Indonesia has increased incrementally to 11.47% in 2014 (Badan Pusat Statistik, 2014b), having been 11.37% the previous year. This number also indicates that the gap between the poor and non-poor is significantly widening. Inequality has been the main concern in Indonesia's socio-economic development. These paradoxical conditions have triggered many social problems, e.g. unemployment, corruption, collusion, criminality, and so forth. These social problems are perceived as "normal consequences" of poverty (Ganie-Rochman and Achwan, 2016). There are also many asymmetric conditions that have occurred because of the way many industries have developed; for instance, minimum regulations governing the development of Islamic microfinance including Islamic cooperatives (Seibel, 2007; Riwajanti, 2013).

The economic structure in Indonesia has been dominated by small types of industries. It consists of 98.79% micro business, 1.11% small business, 0.09% medium business, and only a 0.01% fraction of big business (Badan Pusat Statistik, 2014). The government of Indonesia (2008a) defines micro, small, and medium industries/SME (*Usaha Mikro Kecil Menengah*, UMKM) based on capital. SMEs are based on nine main principles: they entail kinship or community self-help traditions, economic democracy, togetherness,

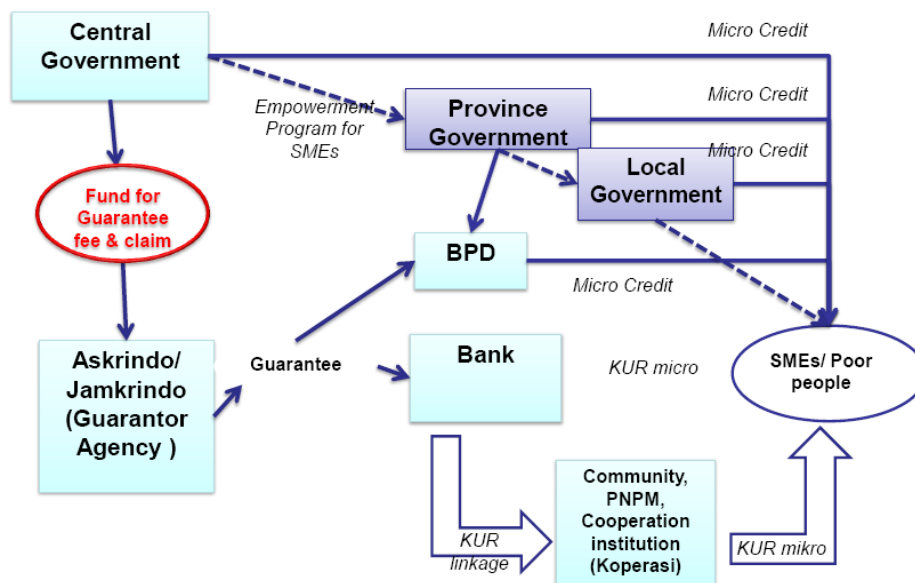
sustainability, are fair and efficient, society-based, self-reliant, and they seek to improve the balance of national economic unity (Government of Indonesia, 2008a).

Contributing around 57% of the total GDP and offering more than 60% of Indonesia's job opportunities (Bank Indonesia 2015), SMEs hold a strategic role in the Indonesian economy. SMEs also employ the highest number of employees with 97.16% of the total labour force (microenterprises 90.12%, small enterprises 4.09%, medium enterprises 2.94%, and big enterprises with only 2.84%). Cooperatives and SMEs are also widespread across different parts of Indonesia, compared to big industries. Therefore, with the size of cooperatives and SMEs and as an alternative route to financial access, both cooperatives and SMEs are important to the economic growth in Indonesia.

As a productive economic activity, the government of Indonesia supports the development of SMEs by providing assistance and mentoring programs in order to improve their competitiveness. The assistance covers governmental financial support through bank and non-bank financial intermediaries, and cooperatives under Islamic and non-Islamic law. One of the programmes is National Program for Community Empowerment or *Program Nasional Pemberdayaan Masyarakat/PNPM*, which is designed to empower SMEs and provide financial stability through poverty alleviation and long-term planning (figure of PNPM as below). PNPM was claimed to be successful as it supported the establishment of a number of business groups ran by marginalized groups, including women (Sunjoyo, 2013). Cooperatives, including BMTs, are part of this scheme. They are an important catalyst for community development as they distribute government

funds (i.e. Microcredit Programme or *Kredit Usaha Rakyat/KUR*) to the SMEs (i.e. poor people).

Figure 3.1 Program Nasional Pemberdayaan Masyarakat (PNPM)



Source: The Indonesian Institute of Sciences (Lembaga Ilmu Pengetahuan Indonesia/LIPI) (2007)

Within the Indonesian economic structure, which has been dominated by micro industries, the need for financial services is essential. Micro industries are mainly utilised by a segment of society with lower levels of education and capital, which characterises the micro industry as a modest business sector. On the other hand, there is limited financial access for those operating in the micro industry, and they are often classified as underbanked. Most of the formal financial intermediaries like banks need collateral and sufficient administrative prerequisites before supplying their banking products and services. Micro industry entrepreneurs often fail to meet these, thus affecting their ability to access banking financial support. Therefore, through Presidential Regulation No. 7/2005, the Indonesian government has committed to paying considerable attention towards supporting micro, small and medium-sized enterprises. In

addition, some policies and programmes from the MoC (i.e. traditional-market revitalisation, SMEs-Cooperatives mutual partnerships, street-vendor restructuration programmes), are encouraging SMEs to utilize cooperatives as part of their non-bank financial services.

Microfinance frameworks in Indonesia are divided into three sectors: formal, semi-formal, and informal (Seibel, 2004). State-owned-banks like Bank Rakyat Indonesia/BRI¹⁴, rural banks like *Bank Perkreditan Rakyat*/BPR, and Islamic rural banks like *Bank Pembiayaan Rakyat Syariah*/BPRS are classified as formal microfinance institutions. *Baitul Maal wat Tamwil*/BMT has become a semi-formal institution because some of its units are registered as cooperatives under the Ministry of Cooperatives and Small and Medium Enterprises (Adnan et al., 2003). Informal microfinance institutions are classified as unlicensed or private organisations, such as usurers and individual money lenders, channelling groups (credit unions, rotating savings and credit associations/RoSCAs), and household credit (*Arisan, ijon, mindring*) (Adnan et al., 2003; Martowijoyo, 2007; Seibel, 2004). This thesis uses the Seibel (2004) classification as the main microfinance framework. However, additional microfinance organisational models from Adnan and Martowijoyo (2003) complement the definition of microfinance.

Both Islamic and non-Islamic microfinance provide small-scale financial services to marginalised people by giving them banking facilities such as loans, savings-deposits, credit units, etc. (Seibel, 2008). Islamic and non-Islamic microfinance

¹⁴ Bank Rakyat Indonesia (BRI) is the largest microfinance institution in the world; it plays a strong role in microfinance development (Martowijoyo, 2007). Since its creation 116 years ago, BRI has specialised in SME customers and has become the most successful rural microfinance institution, with more than 4000 units nationwide. BRI has provided micro credit from the very beginning. The institution was originally a mosque-based association, whose function was to manage and disburse trusted funds to communities in a very simple scheme (Bank Rakyat Indonesia, 2014). BRI survived during the crisis of 2007 due to well-managed credit.

follow the basic difference between Islamic banking and conventional (non-Islamic) banking which is its underlying laws and regulations. The main difference between the two is the permissibility of interest/usury in non-Islamic microfinance and the Profit-Loss Sharing (PLS) mechanism for Islamic microfinance. The PLS mechanism depends on business conditions, but credit interest remains whether or not a business is profitable. Thus, in the PLS mechanism, business risk is being shared by both banks and SMEs. Any profit and/or loss is fairly distributed based on agreed margins (*nisbah*). The PLS mechanism helps SME businesses survive in difficult business conditions better than in the interest model. As a result, both Islamic and non-Islamic microfinance make a contribution towards sustaining financial inclusion for the poorer classes, but Islamic microfinance, by sharing risk, is more ethical than non-Islamic practices. In addition, however, fraud is not part of any business risk or difficult business condition. Fraud is arguably considered to be due to the ignorant behaviour of certain individuals in the organisations, as it impacts other stakeholders.

3.2.3. Institutional Profile

The legal and regulatory framework of a country is a key factor in the development of corporate governance. The institutional structures in Indonesia have been shaped by the desire to address economic development, and to promote public accountability and good governance. Indonesia upholds its citizens' rights and welfare through governmental institutions and non-governmental organisations (NGOs), and their efforts to pursue socio-economic development.

The number of Indonesia's non-governmental institutions varies each year. The Ministry of State Apparatus and Bureaucratic Reform mentions 30 non-

governmental institutions including the Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*, KPK) (Government of Indonesia, 2009b). The KPK supports sound corporate governance. It has the responsibility for law enforcement, particularly any form of corruption that involves law enforcement officers and/or civilians with a minimum national loss of Rp1billion (£48,105) from fraud, misuse of authority, enriching personal/institutional wealth where it causes national loss, blackmailing, criminal chartering, and any criminal gratification (Government of Indonesia, 1999a, 1999b, 2002). Yet KPK can directly serve Indonesian citizens' complaints hence no intermediaries are needed to submit the protests, they limit the complaints only to any fraud cases in governmental institutions. Any fraud issues in non-governmental institutions, such as BMTs, are excluded, even though the value of frauds committed is more than Rp1billion.

In Indonesia, supervision and regulation for banking and financial services are split between three main institutions: Bank Indonesia as the Central Bank, the Ministry of Finance, and the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) (Government of Indonesia, 1992). Each of them works together and reports directly to the president in respect of their different responsibilities. Since 2011, all banking activities in Indonesia are currently administered by the OJK, it was supervised by Bank Indonesia (Berenbach and Churchill, 1997). The OJK is a transformation of Indonesia Capital Market Supervisory Agency (*Badan Pengawas Pasar Modal dan Lembaga Keuangan/Bapepam-LK*). It was established as a strict and sophisticated new institution with the authority to regulate, supervise, and monitor all financial services, e.g. banking, investment, and non-banking institutions, apart from the authority of Bank Indonesia as the Central Bank and Ministry of Finance. Thus, with this division, Bank Indonesia

focuses on monetary and macro prudential activities, and the OJK focuses on micro prudential activities (Setiawan, 2012). Bank Indonesia has one main responsibility: to maintain rupiah stability. The Ministry of Finance has responsibility over fiscal and budget policy.

The OJK independently covers financial supervision including banking, the capital market, insurance, pension funds, financing institutions, and other financial intermediary services for both conventional and Islamic banking based on any form (formal, semi-formal, informal) and any size (Government of Indonesia, 2011). This is arguably too many institutions to be continuously supervised and monitored by OJK, consequently OJK needs extra support (i.e. more officers, more regulations) to cover the work. An insufficient sufficient number of officials may increase the probability of financial misconduct (including fraud).

OJK is responsible for monitoring any business activities by these types of institutions (i.e. giving loans or financing for members and society, providing deposit management, giving consultancy services in business development) (OJK 2018). With regards to MFIs, many of them still do not have legal entity status or business licenses yet (including some BMTs). Law Number 1 of 2013 on MFIs was issued on January 8, 2013 obliging them to gain business licences by registering as an MFI to OJK by January 8, 2016 at the latest (Otoritas Jasa Keuangan, 2018). They may choose to be a cooperative or limited liability company. Therefore, fostering, regulation and supervision of MFIs are carried out by OJK in cooperation with the ministry that administers cooperatives and Ministry of Home Affairs. Fostering and supervision of MFIs are delegated to the regional government (regency/city) or other appointed parties.

Another institution is the Deposit Guarantee Institution (*Lembaga Penjaminan Simpanan/LPS*) (Government of Indonesia, 2009a, 2004b, 1998). The establishment of LPS was motivated by the financial crisis in 1997 which had a severe impact on the Indonesian banking industry. Moreover, there was a crisis of trust following the 17th bank's closure that caused customer bank runs and prompted Bank Indonesia to implement an immediate financial rescue. The LPS has two main roles: bank deposit guarantees for a maximum of Rp2billion (₹96,210) for any types of savings, and banking recovery finalisation (Government of Indonesia, 2004a; Mcleod, 2006). Unfortunately, LPS only serve as a guarantor organisation for any banking collapse, but not for the non-banking institutions such as BMTs. Hence, any BMT collapse due to any reasons, including fraud, is not covered by the government through LPS. The users' money in BMTs is not being protected as the customers' in banks. To date, OJK together with the Ministry of Cooperatives and SMEs, are currently working on LPS-Cooperatives mechanisms to protect cooperative member savings (Government of Indonesia 2013).

Critically evaluate the role of OJK in monitoring and supervising BMTs, without adding extra resources (i.e. staffing), OJK may fail to strike the right balance between prudential supervision and conduct of business supervision. Secondly, regarding stakeholders' protection particularly in BMT fraud cases, there is a need for a separate authority with a mandate for stakeholders' (i.e. members') protection as well as prudential supervision. LPS-Cooperatives mechanisms or an ombudsman agency could be a possibility to cover the non-bank stakeholders in the institutions under threat of fraud. Hence, these independent bodies can likely concentrate their attention on the relationship between individual intermediaries and their customers more than on systemic concerns. OJK should

pay sufficient attention to prudential matters so that it may not follow the FSA failure. In the context of BMT supervision, the role of OJK is central to create strong supervision and monitoring structures over non-bank financial institutions.

3.3. The Organisational Context of BMTs

There is minimal literature on BMTs, particularly in Indonesia. Existing studies include those concerning internal control mechanisms (Ismail and Condro, 2008), issues and challenges in providing financing to the poor (Wulandari and Kassim, 2016), efficiency, effectiveness of Islamic Micro-Financing (Hadisumarto and Ismail, 2010), and sustainability of BMTs (Adnan et al., 2003). Most reviews are published in popular articles and local publications, not in peer-reviewed journals. This implies that there are areas for research and development, as the subject (i.e. BMT) is still under-researched, or it is not considered important compared to other sectors (i.e. banks, corporations).

The following section describes BMT profiles (i.e. characteristics, governance, stakeholders), to understand the socio-political and economic roles of BMTs for their stakeholders, as well as deepen the analysis of BMT fraud incidents in Indonesia.

3.3.1. Profiles

A *Baitul Maal wat Tamwil* (BMT) is defined as the house of funds (*Baitul Maal*) and the house of business (*Baitul Tamwil*). The concept of BMT has been introduced over many centuries by the last prophet of Islam, Muhammad. As the house of business, a BMT acts as a social business that both makes reasonable profit and benefits society. A BMT is usually defined as a civil society organisation (CSO) or non-governmental organisation (NGO) or a self-help group,

which aims to improve the economic status of low/middle-income groups (Budiharjo 2003; Azis 2006; Rasyid 2001 as cited in Imaniyati 2010). As the house of funds, a BMT collects and distributes social funds from alms, charity, and so on. Seibel (2008) also identifies *Baitul Tamwil Muhammadiyah* (BTM) and Baitul Qirad as part of the form of BMT as well. The only differences are that the BTM is managed under Muhammadiyah (discussed in subsequent sections); and Baitul Qirad is a uniquely Acehnese¹⁵ term for Islamic microfinance cooperatives.

BMTs are categorised as social enterprises as well as community-based institutions. Some scholars, e.g. Obaidullah (2008), classify BMTs as part of non-profit organisations (NPOs) which as NPOs, BMTs are not formed to make profits, rather to maximise the benefit to their members (self-help) (Ward and McKillop, 1997). Yet in reality BMTs are bank-like and profit-oriented (Riwajanti 2013). BMTs were firstly initiated as social development programmes created by local community organisations, educated people and religious leaders such as *ulama*, Islamic boarding schools (*pesantren*; later known as *koperasi pesantren/kopontren*/Islamic boarding school cooperatives), mosques and professional associations, cooperatives, individuals, and Islamic banks. As such, BMTs are likely to be like self-help groups (Bank Indonesia 2011; Ascarya et al. 2007; Sakti 2011). BMT characteristics are unique compared to other formal microfinance institutions. As a social enterprise, they aim to benefit the organisations and contributing to society. They not only provide financial help to the poor and SMEs, but BMTs also provide social development programmes such as entrepreneurial skills and basic knowledge of economics (Sakai and Marijan, 2008; Sakai, 2010). Some practical religious support (i.e. alms funds (*zakah*,

¹⁵ Nanggroe Aceh Darussalam (NAD) is a province with special status in Indonesia. It has been given autonomy in choosing its own legal framework (*Qanun*) and has implemented Islamic law in its routines (Seibel, 2008).

shadaqa, infaq)), are also part of the BMT's routine and main activities involving the implementation of Islamic values.

The total number of BMTs throughout Indonesia is unknown since there is no integrated data between each authority (i.e. OJK, MoC). Most data derived from local and national organisations (i.e. BMT associations) shows increasing numbers of BMTs particularly in West Java, East Java and Central Java (Sakti, 2013). The latest numbers of BMTs are more than 4,500 (PBMT 2015), but only 19 BMTs are registered to the OJK (OJK, 2017). Less than 1% of total BMTs in Indonesia have been monitored by the authorities. This number indicate of the lack of regulative monitoring of BMTs and points out the higher likelihood of BMT fraud cases due to the unmonitored environment.

However, many BMTs are also dormant yet fail to withdraw or revoke their cooperative permits from the MoC. Their inactivity indicates that many Indonesian Muslims are not fully persuaded by organisations like BMTs to help in their financial hardship. This is in line with Sakai and Marijan (2008) who argue that the Indonesian public are still questioning the originality of Islamic products compared to conventional ones. Some of them do not trust the BMTs to be distinctive financial intermediaries alternative to non-Islamic services.

3.3.2. Legal Background

Under the cooperative form, BMTs follow cooperative regulations. Based on the Act of The Republic of Indonesia No. 17 of 2012, a cooperative is categorised into two groups: primary and secondary cooperatives. A primary cooperative is a cooperative that is initiated and joined by individuals (with minimum 20 persons who contribute to the initial capital); a secondary cooperative is a cooperative that consists of a minimum of three primary cooperatives. 'Rapat Anggota

Tahunan' or RAT (annual general assembly) is the highest decision making body in a cooperative.

A BMT has three main legal forms: Islamic Financial Service Unit (*Unit Jasa Keuangan Syariah/UJKS*), Islamic Cooperative for loan and savings (*Koperasi Simpan Pinjam Syariah/KSPS*), and Islamic Cooperative for Other Financial Service (*Koperasi Jasa Keuangan Syariah/KJKS*). This study focuses on the last two cooperative forms: KSPS and KJKS. The UJKS is classified as an Islamic bank and is supervised and monitored by the Bank Indonesia central bank.

As Islamic cooperatives, BMTs aim to bridge financial access to SMEs. As institutions under the MoC, BMTs must meet some legal requirements and financial regulations. However, Ridwan (2014) argues that BMTs may choose to deviate from the specified three legal forms since it is not mandatory for a BMT to be registered as a cooperative. Some BMTs remain under the form of self-help organisations (SHOs), community rotating savings groups, and community self-reliance groups. Consequently, without any legal forms, BMT growth is uncontrollable and loosely monitored by authorities; hence, any misconduct in it can lead to failures that can economically and socially damage their stakeholders. Some BMTs prefer not to choose between three legal forms due to various reasons (i.e. practicality, administrative burden, initial motivations).

Registered at the Ministry of Cooperatives and SMEs, BMTs are required to submit annual reports. Monthly reports are also expected at their regional BMT associations, i.e. Pusat Inkubasi Bisnis Usaha Kecil (PINBUK); however, their compliance is still limited. Moreover, there is no enforcement, monitoring, or supervision from the Ministry of Cooperatives, even for under-performing cooperatives (Seibel 2004). The BMTs' reports are unaudited—therefore, there is

no standardised, valid, and reliable reporting as such. Hence, BMT Islamic financial cooperatives suffer from the same regulatory and supervisory neglect as the rest of the sector (Islamic and conventional banking).

In terms of regulation, KJKS BMTs have a complex legal base. The government of Indonesia has stipulated many regulations for BMTs. The main regulations are the Act of The Republic of Indonesia No. 1 of 2013 on Microfinance Institutions and Act of The Republic of Indonesia No. 25 of 1992 on Cooperatives. The BMTs also use other provisions such as local regulations and Indonesian Ulema Council (Majelis Ulama Indonesia/MUI) Fatwas. The latter cooperative regulation year 1992 had been updated to the Act of The Republic of Indonesia No. 17 of 2012; however, due to political reasons, the latter regulation has been cancelled by the Mahkamah Konstitusi Republik Indonesia (MK, The Constitutional Court of Republic of Indonesia). The Court considered that Law No. 17 of 2012 which is a new cooperative law is not in accordance with the nature of the cooperative. Therefore, the law was cancelled in 2014 and the previous law (i.e. No. 25 of 1992) must be obeyed.

3.3.3. Mission, Vision, and Values

As a cooperative, the BMT Islamic cooperative has no different mission, vision, and values compared to the non-Islamic (conventional) BMTs. BMTs also follow the seven principles of the Rochdale cooperative as adopted by the International Cooperative Alliance (ICA) in 1995 and 2015 (Williams, 2007, p.12; Battilani and Schröter, 2012, p.9). The principles have been adopted in Law of The Republic of Indonesia Number 25 Year 1992 concerning Cooperatives, Article 5: Principles of Cooperatives. Black and Dugger (1981) state that the cooperative provides open membership to all possible members, giving one vote per member, the financial

education of members, and the promotion of thrift. The principle of utmost important in cooperatives which has been adopted by BMTs is democratic member participation (one member, one share, one vote, regardless of the number of shares that the member holds); as not all BMT members are aware of their rights in cooperative governance systems.

However, since the BMT is an Islamic organisation, it also derives its mission, vision, and principles from Islamic (Quranic) teachings; yet the business is available for everyone, no matter their religion. Non-Muslims can be the members of a BMT, yet some BMTs remain strict with their managers being restricted to Muslims. Novkovic (2006) argues that successful co-operatives have used their co-operative values as their marketable points; and this applies to the BMTs which have used Islamic values as their competitive advantage to attract potential members.

There are not many differences in the ethical mission of BMTs compared with other social enterprises. Ridwan (2004) states that the BMT's mission is to develop the community to achieve a fair, prosperous, and better quality of life based upon Islamic teachings. This shows that the BMT is a socio-business organisation, not a charitable one. Therefore, a BMT is not merely a for-profit, but a for-fair-profit organisation, as BMTs have two main purposes: benefiting the organisation and supporting society. Hence, BMTs are expected to gain only reasonable profit rather than the maximum, which contradicts the context of BMT frauds.

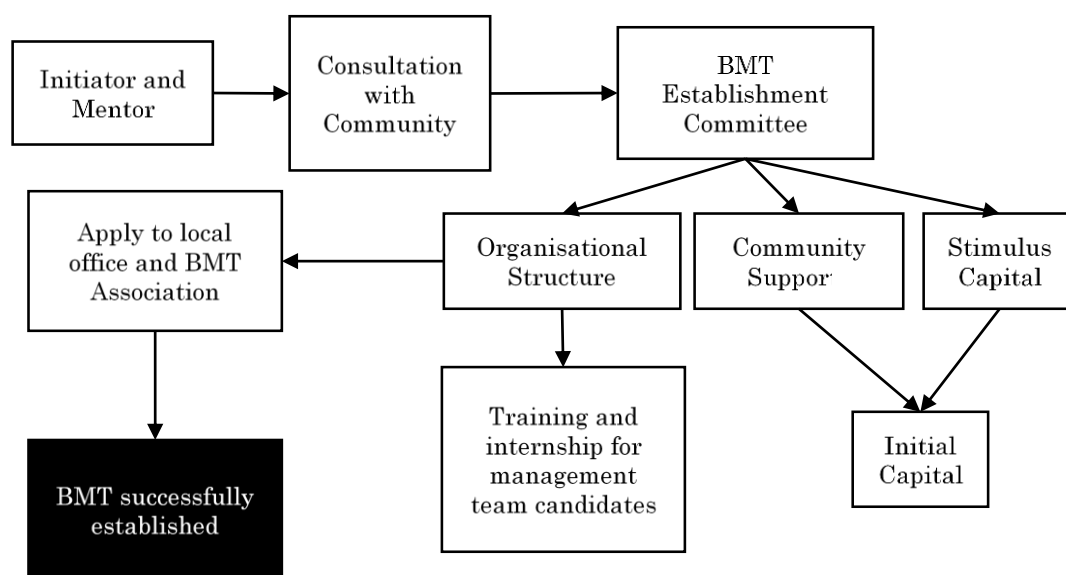
A BMT's vision is to build a professional organisation that implements Islamic values within the organisation's socio-economic activities. This may include worship, observance, practice and Islamic teaching in every BMT activity

(Ridwan 2004). Each BMT may formulate its own vision and this will be highly influenced by its business environment and founding fathers' values. However, Islamic values remain the core principle for all BMT practices.

3.3.4. Establishment Process

The provision of BMT establishment is shown in Figure 3.2 as below:

Figure 3.2 The Current Practice of the BMT Establishment Process



Source: Azis (2006, p.19)

The registration procedures are: 1) the initiators and mentors should read and understand the cooperatives' concepts and principles; 2) obtain support from the community as one of their stakeholders; 3) organise cooperative establishment committee to discuss any documentation needed including name, cooperative charter (Anggaran Dasar dan Anggaran Rumah Tangga/AD-ART), initial funds, leadership boards; 4) certify the documents to notary; and lastly 5) legalise the certified documents to the MoC, then the BMT is successfully established. These steps are considered simple compared to the establishment of banks with Bank Indonesia (Komite Nasional Kebijakan Governance, 2008). With only basic

contribution for less than IDR 50million (GBP 2400), any individual or group may establish a new BMT. Due to the lenient BMT establishment regulations (i.e. limited cost involved), this may motivate the formation of many new BMTs, as is currently happening such that BMTs are mushrooming in Indonesia. This circumstance is highly correlated with the context of BMT fraud.

There is minimum interference or support from the government, in particular the Ministry of Cooperatives and SMEs, in terms of regulation and assistance for BMTs. The regulatory and supervisory framework between MoC and OJK are to some extent intermingled. Cuevas and Fischer (2006) also argue that legal, regulatory and supervisory framework remain problems in the cooperative financial institutions like BMTs. Seibel (2008) states that the overall performance of BMTs has been poor due to several factors, including lack of supervision, unreliable reporting, and bad management. This circumstance is definite considering the convenient establishment process as above which stimulates the spread of BMT, yet limited supervision from the authorities. Some million rupiahs' worth of fraud cases have arisen in some areas in Indonesia, and affected customers due to moral hazard and unfair practices. There has never been much supervision of BMTs (see Sakai and Marijan 2008; Seibel 2007; Riwijanti 2013). Nevertheless, its mushrooming growth is inevitable. Siebel (2007, p.4) argues that at most one-fifth of Islamic cooperatives are in reasonably good health, but the majority are dormant or non-performing; most of the remaining ones exist for the purpose of receiving funds from the government. Hence, this situation is critical as the mushrooming BMTs, without any supervision from the authorities, are vulnerable to fraud which can potentially have a significant impact on the Indonesian economy.

3.3.5. BMT Products and Services

KJKS BMTs mainly offer two financial products such as savings and financing. The most popular financing products are *murabahah* or sale and purchase agreements, and *musyarakah* or PLS financing agreements (Sakti, 2011). The financing platform, however, varies in each BMT; it depends on each BMT's financing capability (i.e. assets) (Sakti, 2011, p. 10), while that most financing transactions are conducted on an individual basis. Most borrowers work in the informal sector, like farmers, food vendors, and small traders. Other products may include safekeeping or custody (*wadiah*) and partnership (*mudharabah*). Other non-financial services provided by BMTs are social empowerment programmes such as training and consultancy. These capacity-building programmes are supported by the local government, NGOs, and donor organisations (Sakai and Marijan, 2008).

Another KJKS BMT product is *qard hasan*/charity funds. As social enterprises with religious (Islamic) values, BMTs should maintain the balance between seeking profit and benefiting others, especially the poor. At times, the poor rely on social support such as *zakah*¹⁶, *sadaqa* (voluntary contributions) and *qard hasan* as their safety net (Obaidullah, 2008). Qard Hasan is financing for social and non-commercial use, therefore members can ask for this type of funding for any non-business proposals. They only need to return the principal at their goodwill, as Qard Hasan is the only legitimate type of financing that is not necessarily backed by any real asset (Sadr, 2016).

Seibel (2004, p.62) states that 61.5% of financing product is Murabahah; Mudharabah has a share of 32.0%, and Qard Hasan at 3.5%. It is common not to

¹⁶ *Zakah* in Arabic literally means 'the purification of wealth', and is obligatory upon every adult Muslim, male or female, and entails giving 2.5% of one's wealth to the poor each year.

charge penalties on late payments. There is no information on the number of deposit accounts.

Dhumale and Sapcanin (1999) also mention that Murabahah, Mudharabah, and Qard Hasan are considered to be the most marketable schemes compared to other products due to their practicality to monitor instalments from borrowers. This reflects stakeholders' (i.e. managers', employees') pragmatism in terms of the practicality of products by Islamic financial intermediaries. This context of stakeholders' preference (i.e. practicality) is important to understand as part of the analysis of fraud.

KJKS BMT financial services are available for both members and potential-members. However, most BMT members require collateral assets, including some savings that represent the maximum amount of financing (usually IDR 50million). They need to provide the similar values of collaterals (and/or including the savings), as they are borrowing the amount from the BMTs. Any additional financing may need additional financial sources and collaboration, for instance, with another BMT. The linkage programmes which establish cooperation between BMTs and Islamic commercial banks are unlikely to offer financing of less than IDR 50million. Under linkage programmes, the BMT's financial performance, including its liquidity, is more transparent and maintained properly by Islamic commercial banks. Therefore, the mutually beneficial cooperation under these fee-based linkage programmes may reduce any probabilities of bad debt.

Another competitive advantage of BMTs is their short duration of evaluation for customers' financing proposals. With only 1-5 days to provide financing decisions, most of the proposals are approved. BMT employees (i.e. Account Officers/AO,

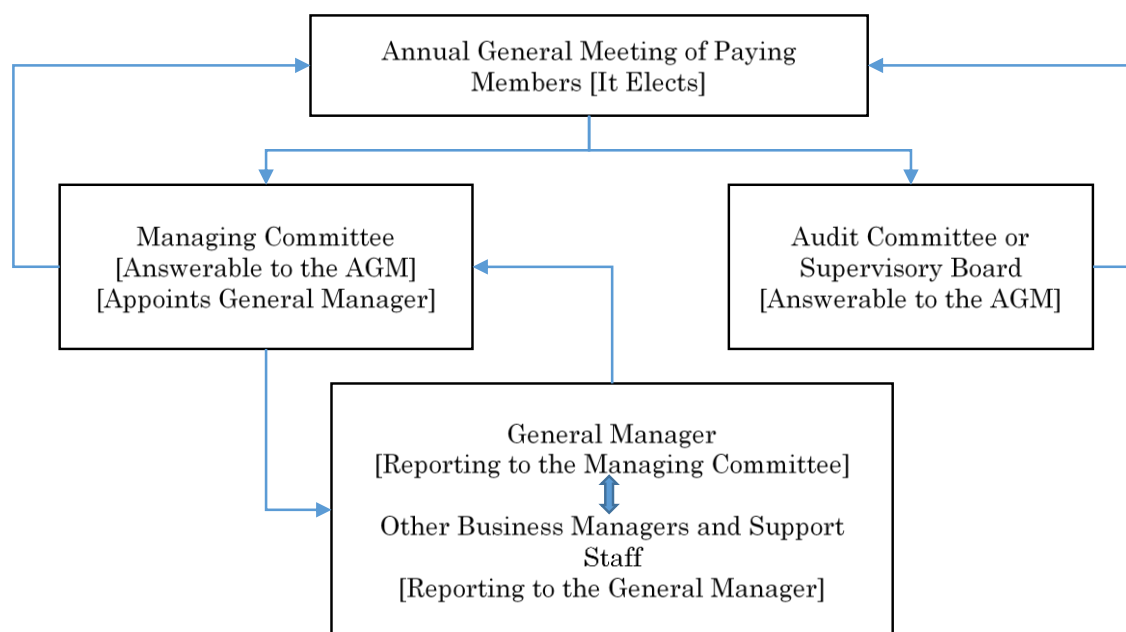
who are responsible to distribute the funds for stakeholders) are usually given targets by their managers. Yet this makes the BMT much more convenient, compared to the evaluation process of commercial banks which may take longer and be more complicated; but there is a probability of bad debts and fraud if there are no selective financing procedures. On the other hand, this convenient BMT service helps micro industries to sustain their daily production cycle, as their service is more flexible in terms of timing than the banks'. The SMEs usually operate within certain micro industries such as agriculture, foods, handicrafts, transportation services. These types of products and services usually need initial capital before starting their production and operation cycle. Therefore, any additional financing through a simple process will be beneficial.

3.3.6. Governance Mechanisms

BMTs adopt a similar organisational structure to cooperatives (Riwajanti, 2013). Chaddad and Cook (2004, p.350) argue that a cooperative is constructed by three main agents: members, patrons, and investors. They argue that in the traditional cooperative, the ownership rights are restricted to member-patrons and the benefits are distributed by the members' patronage proportions. This form is being used by current BMTs.

Prakash (2003) also defines cooperative practice as comprising four main components, namely the members, the employees, the community, and the managerial boards. However, there is no such uniformity in terms of the cooperative's structure—it depends on the organisational characteristics, region, and communities.

Figure 3.3 General Structure of Cooperatives



Source: Prakash (2003)

The MoC produced a ministerial decree¹⁷ which provides governance guidance for UJKS and KJKS. This includes organisational structures, operational guidance for managers, and accounting systems. However, this guidance is arguably complicated for some BMTs (i.e. small BMTs with limited scope of transactions). Hence, they stay with the traditional manual bookkeeping approaches (i.e. non-computerized systems, single-entry accounting systems). Consequently, their progress tends to be more tedious. This group of BMTs is more a self-help organisation than a cooperative (i.e. *masjid* or *mushola*-based organisation¹⁸).

As an Islamic cooperative entity, the BMT can adopt accounting standards called SAK-ETAP¹⁹ (Standar Akuntansi Keuangan-Entitas Tanpa Akuntabilitas

¹⁷ Ministerial Decree of The Republik of Indonesia No.35.2/PER/M.KUKM/X/2007.

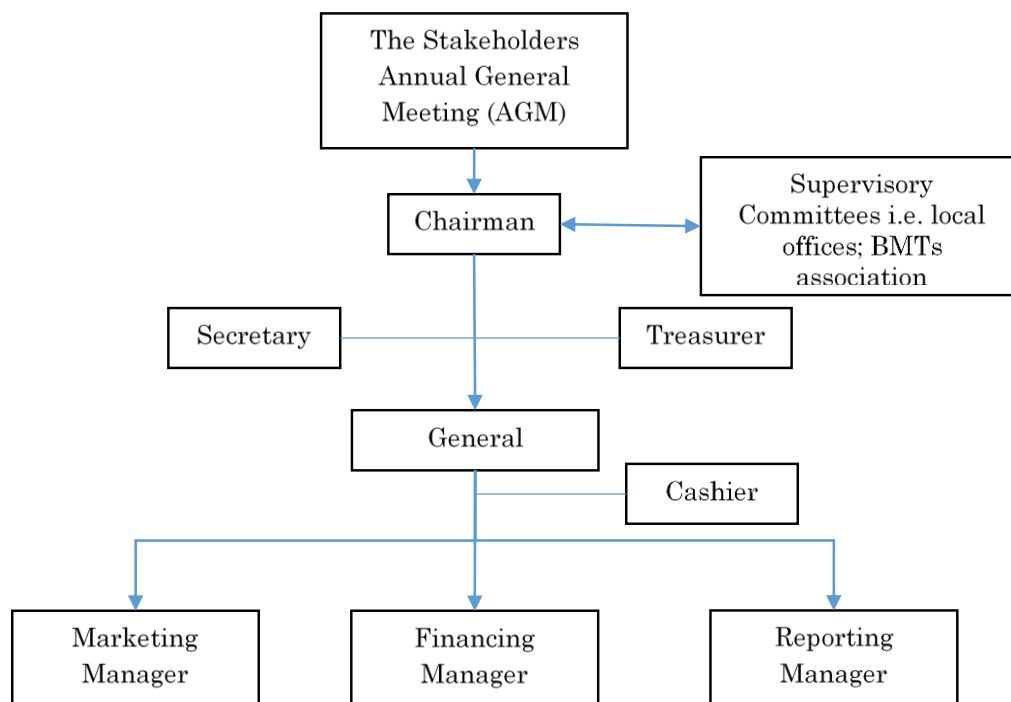
¹⁸ See p. 85.

¹⁹ This standard adopts the IFRS standards for SMEs. SAK ETAP is produced by Dewan Standar Ikatan Akuntan Indonesia (DSAK IAI/Board of Indonesian Accountant Association), Dewan Standar Syariah Ikatan Akuntan Indonesia (DSAS IAI/Islamic Board of Indonesian Accountant Association), and other regulators (i.e. OJK and Bank Indonesia regulations).

Publik/Financial Accounting Standards for Non-Public Accountability Entity). However, not many BMTs are aware of the implementation of this accounting standard, as most of the stakeholders are financially illiterate (Seibel, 2007). Considering their limited educational background, this standard is arguably too sophisticated for them to implement within their organisations. Moreover, there are also limited approaches (i.e. training) on these matters (i.e. reporting standards) from the authorities or related organisations (i.e. Indonesian Accountant Associations).

A BMT's organisational structure depicts the main lines of authority and responsibility. However, its exact hierarchical levels depend on characteristics of the BMT such as size. The BMT's basic organisational structure consists of chairman, supervisory committees, managerial boards, treasury, secretary, and cashiers (see Figure 3.4). As a cooperative, the BMT also has an Annual General Meeting (AGM) which serves particular purposes for the boards. The purpose of internal control is ensuring policies and procedures are properly carried out and it provides assurance to directors when they are managing the organization.

Figure 3.4 BMT Organisation Structure



Source: Azis (2006)

Azis (2006) states that the stakeholder annual general meeting occupies the top-most structural level, acting as the highest decision-making level (i.e. board elections). Yet, in practice, many members are barely aware of their voting power, thus the function of the AGM is perceived only as a regular meeting to distribute the members' patronage proportions (*Sisa Hasil Usaha*/SHU). This situation to some extent encourages fraud incidents, as the AGM is not well-functioning as a BMT internal control mechanism.

The composition of leadership boards in BMT governance is also unclear, yet as stated in the cooperative charter, member's attendance in the AGM is to some extent compulsory. Cornforth (2001a, 2001b, 2004) argues that there are conflicting opinions within organisations on whether different stakeholders should be on the board, due to the fact that board members should be part of, and first elected from, the general membership. Cornforth (2004) also mentions that,

in practice, there is limited participation still from certain groups, e.g. women and youngsters (see Itkonen, 1996). This recommendation is necessary in order to enrich the perspectives of stakeholders on the board.

Siebel (2004) points out that many BMTs distinguish between partnership members with voting rights and members without voting rights. The managerial boards consist of chairman, secretary, and treasurer. Together with the representatives of the BMT's association, members, employees, authorities, and other stakeholders, who act as the supervisory board, the managerial board is answerable to stakeholders in the Annual General Meeting (AGM). The AGM is attended by the founding fathers, members, and other stakeholders. At the AGM, many agendas are resolved, including the BMT's plans and policies, electing the Board and Committees, and appointing officials; yet in practice, the elections are part of symbolic ceremonies as the official candidates have usually been agreed upon in the internal meetings.

The supervisory committee's functions are to oversee the board of directors and general manager activities to ensure good organisational conduct as well as adherence to the BMT's Islamic cooperative values. It should be noted that due to the size of a BMT, there is no requirement to appoint an auditor. However, due to their rapid growth, some BMTs such as BMT UGT Sidogiri in East Java have large assets equal to commercial banks (formal institutions). Therefore, this situation introduces new regulatory challenges in the management and control of large BMTs. The board size and composition of BMTs are not standardised. The average number of managers is three, and a board comprises between three and fourteen members (Seibel, 2004).

Some BMTs also have an internal control body which either meets monthly or on an ad hoc basis (Seibel, 2004). There is a general manager who oversees the BMT's day-to-day activities. The general manager works closely with other managers, e.g. the marketing manager, reporting manager, and financing manager. Both operational managers and staff serve members and customers.

Overall, BMT governance is to some extent sufficient to run the organisations successfully (for instance, BMT UGT Sidogiri in East Java, the largest BMT in Indonesia with more than Rp1,800billion (£95million) assets spread across the country, adopts a similar form of governance²⁰). However, the stakeholders (i.e. authorities) still need to mitigate the threat of fraud as the business and operating environments continue to change dramatically (i.e. larger scope of organisations, higher demands from community). Below are the current issues within BMT internal control.

3.3.7. Internal Control Issues

Performing two functions—collecting funds (*baitul maal*) and distributing funds (*baitul tamwil*)—BMTs are responsible for collecting and managing assets from their members as well as other sources. At times, these two functions may overlap and the overlapping functions can create an internal control issue. For instance, without sound internal control systems, there is a potential of fraud where the directors can authorise funding proposals to their families without any formal application process to become members. This includes illegal authorisation and can be prevented by having strong internal control mechanisms.

The dual tasks of BMTs, as mentioned above, raises some governance concerns regarding monitoring and internal control. There is some confusion in translating

²⁰ Republika (2016).

and implementing general good corporate governance conduct in BMT practices. There are some general governance principles and codes of ethical values—however, since there are few regulations and limited government support, there are no operational and managerial guidelines. The regulations have somehow been established (i.e. cooperatives acts, ministerial decree on operational management standards), but socialization activities initiated by the authorities, to implement the regulations, are minimal. The managerial guidelines are arguably too complicated to be followed by the BMTs.

In practice, some managers lack sufficient skills and knowledge to manage cooperatives, maintaining product standards and quality, moreover understanding Islamic principles in the context of BMTs. There are a limited number of Islamic scholars who have knowledge of both religion and economics. Usually they understand the religious context (i.e. the theory or philosophy of Islamic laws based on the Quran and Hadith/*fiqh*); but rarely understand how the business works based on Islamic laws. Gaining some understanding of Islamic economics is essential for managerial boards in order to be able to conduct day-to-day activities and make strategic decisions. There is a group of Islamic scholars who understand both, but since this is limited, this group usually holds positions in many BMTs as the Islamic supervisory boards. This dual position may jeopardise their objectivity and independence in the organisations, yet the dual positions are not new issues in BMT governance. The labour supply for Islamic cooperatives needs substantial support particularly from the MoC, in terms of training and development programmes.

3.3.8. Current BMT Challenges

An integrated database of BMTs, which contains current numbers and names of active BMTs, is not available, unlike for other formal banking institutions which have been endorsed by the central bank. Any data is therefore not very accurate since there is no official data maintained in the Ministry of Cooperatives. Figures released from BMT associations are rarely updated and are therefore unreliable. PINBUK in Sakti (2011) mentions the increasing number of BMTs from 2005 to 2010. However, it is extremely difficult to arrive at the exact data given that the numbers and names of BMTs are held separately as records in either the MoC or the BMT associations. This is mostly due to the limited resources for collecting data on BMTs in Indonesia—further constrained by their rapid growth. However, at times, data from the MoC and the BMT associations is consistent or complementary.

Eriesudewo (2007) mention two main reasons why it is difficult to determine the number of BMTs in existence. Firstly, BMTs as self-help groups endorsed by the community are spread across the whole of Indonesia—therefore some BMTs are geographically out of reach as internet is also limited in some areas in outer Java and Sumatra. Secondly, due to the ease with which a BMT can be formed, some of them are formed by amateurs and therefore tend to have limited records and are often only in existence for a short period of time. Finally, some BMTs are fictitious entities formed for unscrupulous purposes. Therefore, not only the MoC but also the BMT associations are hardly able to track down the exact number of BMTs.

A major challenge facing BMTs are issues relating to governance. Similar to BPRS, BMTs struggle with management and internal control problems, lack of

skill in operating as Islamic cooperatives, and minimal government support (Seibel, 2008; Wardiwiyo, 2012; Ismail and Condro, 2008). However, notwithstanding these challenges, Ismail and Condro (2008) state that BMTs are still generally profitable and provide social benefits. Therefore, as dynamic institutions with a high demand from SMEs, BMTs may be sustainable, but they need to quickly adapt to a demanding environment. Poor internal control may result in lack of reliable reporting. Seibel (2008) points out the urgency of a total overhaul of the cooperatives system in order to prevent bankruptcy of the system. It is suggested that government support such as effective supervision, monitoring, and regulations, are essential to prevent or reduce the incidence of BMT failures.

The Government of Indonesia, including the MoC, OJK, and Bank Indonesia, together with the associations and BMTs, should provide more in terms of total assets, members, staff, and so on, if they do not have sufficient monitoring and supervision mechanisms. Sakti (2011) points out the importance of sustainable BMTs and healthy micro enterprises. The government should also be able to provide a reliable, integrated BMT database accessible to the public as they are obliged to strengthen the accountability culture, protect their citizens, and build stakeholders' confidence over any financial transactions (USAID, 2018; OECD, 2015). Additionally, the government of Indonesia should pay more attention to BMTs in terms of supporting regulations, sufficient supervision, and regular monitoring.

3.3.9. Stakeholders of BMTs

The existence of BMTs is dependent upon the involvement of its stakeholders. Not only certain groups of stakeholders (i.e. managers, employees, users,

authorities, and communities), but also crucial elements of the environment influence BMT organisational values. It is necessary to point out the related groups that highly influence BMTs, as this study is seen as an interaction among multiple stakeholders, where perspectives are shared and knowledge flows through interaction which brings values of various organisations. There are Islamic leaders, Islamic organisations, and BMT associations.

The following section discusses stakeholder mapping to identify each stakeholder's involvement and their power in BMTs. This is important to understand stakeholders' perceptions of fraud in BMTs.

3.3.9.1. Islamic Leaders or *Ulama*

Religious authority and political power have been bound together in Islamic history and tradition, given that the Prophet Muhammad was seen (more than the prophets before him) as both a religious and political leader, while the authentic *ulama* (lit. people of knowledge) are considered "the heirs of the prophets" (*al; warathat al-anbaya*) (Ichwan, 2005). The *ulama* play a key role in articulating demands for socio-political and economic processes in Indonesia as their opinion is one of the considerations of law-makers in Indonesia. Their leadership has a significant influence on their community (Soelistya and Gamal 2018). Yet, as the Prophet had warned, and as some researchers also argue, some groups of *ulama* can also abuse their power to gain personal interests (i.e. seeking political positions) and have a negative impact on their followers by spreading hate speeches regarding other groups (Chaney, 2013; Woodward et al., 2012).

Religious leaders (*Ulama*) have many followers, mainly in rural Java, where they also run multiple public services (schools, religious boarding schools (*Pesantren/Madrasah*), prayer houses, mosques, libraries, hospitals, orphanages,

universities, and so on) (Porter, 2013; Burhanuddin and Van Dijk, 2013). Loyal members of these organisations also join the Islamic parties that represent organisations in Indonesian elections every five years (the National Mandate Party (*Partai Amanat Nasional*/PAN) for Muhammadiyah, the National Awakening Party (*Partai Kebangkitan Bangsa*/PKB), and the United Development Party (*Partai Persatuan Pembangunan*/PPP) for NU).

The role of the *ulama* in the Indonesian political sphere has become even more significant since the establishment of the Majelis Ulama Indonesia (MUI, the Council of Indonesian *Ulama*) on 26 July 1975. As an independent non-governmental institution, MUI has three main roles: giving advice and opinions concerning religious life, mediating between government and *ulama*, and maintaining networks with intellectuals (Majelis Ulama Indonesia, 2016). Woodward et al. (2012, p. 6) argue that MUI is something of a hybrid in that it is government funded, but not government controlled. MUI does not speak for the government and their fatwas are purely advisory without the authority of power to enforce them. The MUI chairperson is elected periodically by its members, including *ulama*, Muslim scholars from various organisations and backgrounds (ethnicities, schools of thought, and so on), and government and other officials (*zuama*). Their membership includes Muslim scholars from Muhammadiyah and Nahdhatul Ulama (NU), yet MUI is not a supervisory body overseeing these organisations.

3.3.9.2. Islamic Organisations: NU, Muhammadiyah, and ICMI

Muslim organisations in Indonesia can be divided into two main organisations, namely Muhammadiyah and Nahdhatul Ulama (NU). Both have important roles in BMT development in Indonesia. Established by Hasyim Asy'ari in 1926, in

East Java, NU is currently the largest Islamic organisation in Indonesia with more than 40 million members (Hasyim, 2015). The general tendency of NU is traditionalist. On the other hand, Muhammadiyah is the second largest Islamic organisation with more than 30 million members (Hasyim, 2015). It was established by Ahmad Dahlan in 1912, in Yogyakarta, Indonesia. The general tendency of Muhammadiyah is modernist. However, both organisations acknowledge the Indonesian ideology of Pancasila which consists of Five Pillars: divinity defined as belief in one supreme God, humanism, unity, democracy, and social justice. Therefore, even though they adopt Islamic values, both organisations are not supporting any hardline movements²¹ (i.e. those leading to anti-social behaviour with non-Muslims). They support the harmonisation of Muslim and non-Muslim communities. Therefore, both organisations are important for maintaining the social capital of democracy (Black, 2013).

Both organisations are well known for providing financial support, education and health services (Fuad, 2002). They have established many schools, universities, hospitals, special needs schools, kindergartens, orphanages, nursing homes, disability rehabilitation centres, *pesantren*/Islamic boarding schools, mosques, and other business units to support communities including the BMTs or BTMs (Baitul Tamwil Muhammadiyah). Baitul Tamwil Muhammadiyah or BTM is a specific term for BMT under Muhammadiyah, yet the governance mechanisms are similar to the BMT²². BTM is arguably less under threat to frauds than the BMT since, besides the arguably intense monitoring from the MoC, they are also accountable to the Muhammadiyah as their parent-organisation through Lembaga Pengawas Pengelolaan Keuangan or Financial Management and

²¹ Which has been shown in the blasphemy rallies and the establishment of Koperasi 212 (see p. 59)

²² Hence, this study continues to use the term 'BMT' to represent both BMT and BTM organisations.

Supervisory Unit (Fuad *ibid*, p. 140). This unit is one of the organisational structures in Muhammadiyah which is responsible for monitoring their charity and business bodies (Badan Amal Usaha Muhammadiyah).

The Islamic schools, particularly the *pesantren*, are run under the leadership of Islamic leaders (*ulama/kyai*). Many *pesantrens*, approximately 6000 (Black 2014, pp. 50), are spread across Indonesia particularly in East Java as it is the base of NU development. *Pesantren* teach their students (*santri*) to live in modesty. Some of their courses involve learning classical Arabic texts under the tutelage of a *Kyai* (Islamic leaders/*ulama*). One of the *pesantren* in Pasuruan, East Java, named Sidogiri formed a BMT which is called BMT Usaha Gabungan Terpadu (UGT) Madrasah Miftahul Ulum (MMU) Sidogiri. The BMT facilitates its *santri* to practise their understanding of cooperatives. A *Kyai* is the connecting link between the traditional Islamic teachings and its implementation in daily routines (including economic activities).²³

The mosques (including *musholas* or little mosque, lit. place to pray) hold an essential role in Islamic movements (i.e. BMT establishments) particularly in Indonesia (Black 2013). Black (*ibid*) adds that there are no hierarchies in the mosque, unlike in the Catholic churches that define the order or structure of the ministry. Everyone can be the mosque organiser (*takmir masjid*). Apart from being the place of worship, the *masjid* is also the learning centre for communities, namely through religious teachings and speeches (*pengajian*), Quran recitation and studies, informal meetings, and any community empowerment programmes

²³ On the other hand, Black (2014) stated that after the 9/11 terrorist attack, the image of the *pesantren* as a school of terror has emerged in Western media. The author refers to a single *pesantren* led by Abu Bakar Baasyir, the Al-Mukmin boarding school in Ngruki, Central Java. Azra (2007, p.172) also underlines similar issues regarding the concern in Indonesian and Western policy circles about the possible engagement of some of Indonesia's modern Islamic schools (*madrasas*) and traditionalist boarding schools (*pesantrens*) in promoting religious radicalism.

(Pembinaan Kesejahteraan Keluarga/PKK/Family Well-being Development, in which community mothers are usually engaged). The BMT was also pioneered in Masjid Salman, in the area of Institut Teknologi Bandung (ITB, Bandung Institute of Technology), West Java, in 1984. The *mushola* is the extension of mosque activities; hence, in some areas, the *mushola* is more alive with community programmes (i.e. women's leadership workshops, regular meetings of the rotating-saving and credit association (RoSCA)). Some large mosques have strong political power in Indonesia. For instance, the abuse of power of some Islamic leaders in Friday sermons led to demonstrations over the blasphemy case.

Another important organisation for BMT development is the Indonesian Association of Muslim Intellectuals (*Ikatan Cendekiawan Muslim se-Indonesia/ICMI*) which was established in 1990, in Malang, East Java. Bacharuddin Jusuf Habibie, the 3rd President of the Republic of Indonesia after Suharto, was the first Chief of ICMI. Hefner (1993, 1997) and Azra (2006) described ICMI roles in Indonesian politics and culture particularly in the final years of the Suharto era. ICMI was a symbol of Islamic civil movements against the New Order government that ruled Indonesia from 1966 until 1998 which was essentially hostile to Islam. On the other hand, Suharto believed that ICMI was his puppet to gain Muslim majority votes (Hefner, 2000). Hefner (2000) suggests that Suharto intentionally made the ICMI in order to monitor Islamic radicalism among Muslim scholars. Hefner (1993, pp. 75) states that ICMI was not merely a politically neutral cultural organisation, as many of its members declared quite openly that the organisation's primary purpose is to promote the Islamization of the Indonesian state and society. The motive of ICMI was strongly correlated with the long-term transformation of Indonesian politics towards a deeper

Islamisation of society, particularly given that the Suharto regime was in some ways irrevocably committed to *abangan*²⁴ values.

Many ICMI scholars initiate BMT establishments. Hence, the BMT shares ICMI's values and characteristics. Islamic values frame the ICMI's organisational characteristics. Three principles are adopted in their activities: (1) Islamicity and Indonesia-ness; (2) scholarship, expertise, and culture; (3) openness, freedom, independence, and kinship (ICMI 2017). ICMI is expected to be an intermediary institution that bridges Islam, politics, bureaucracy, and policy-making (ICMI 2017). ICMI initiated the Pusat Inkubasi Bisnis Usaha Kecil/PINBUK, or the Centre for Micro Enterprise Incubation, as part of its community development programmes; which is also one of the BMT associations. Many BMT leaders are also trained in PINBUK.

The ICMI's organisational structure consists of Organisasi Satuan (Orsat, Unit Organisation) covering the sub-district level, Organisasi Daerah (Orda, Regional Organisation) covering the district and municipality level, Organisasi Wilayah (Orwil, Provincial Organisation) covering the provincial level, and Organisasi Pusat (National Organisation) covering the national level (ICMI 2017). Any extraordinary event such as BMT frauds which affected many BMTs in Indonesia, then an independent body, would be resolved by the Orwil offices. This independent body is called Badan Otonom (Autonomy Body) or Batom. Batom is coordinated by respective ICMI offices. Although Batom is an independent body, it should be accountable to ICMI.

²⁴ *Abangan* (lit. red) is defined as orthodox Javanist rituals (Hefner 1993; 1985), from a religious culture that owed more to animism and Hinduism/Buddhism than to Islam (Geertz 1960). *Abangan* Javanese are less strict in their performance of Islamic devotional obligations than the so-called santri, practicing or "orthodox" Muslims (Geertz 1960 as cited in Hefner 1993), and are often called nominal Muslims from a Hindu-Javanised milieu (Emmerson 1978, pp. 96; Hassan 1980 as cited in Hefner 1993).

For the fraud cases, the Orwil established a BMT Crisis Centre together with ABSINDO²⁵ and Private Services Ombudsman (*Lembaga Ombudsman Swasta/LOS*). They administered the fraud complaints from the victims, particularly in the Province of Yogyakarta, and together with the police department, investigated the cases (Republika, 2011). The BMT Crisis Centre only provides advocacy services to the victims to be forwarded to the law enforcers. Neither the centre nor ICMI are responsible for any financial losses of the frauds' victims.

3.3.9.3. BMT Associations

Indonesian BMTs are usually under at least one association or more, as their endowment/umbrella organisations (i.e. apex-BMTs). In general, apex-BMTs are expected to act like the “central bank of BMTs” which monitor and supervise BMT development in Indonesia. Although the registration under any association is voluntary, many new BMTs are registered under them due to various reasons; for instance, gaining technical and financial support (i.e. liquidity resorts) as well as networking and innovation opportunities.

Some BMTs are not registered in any associations for various reasons. First, they cannot meet the administrative requirements by the associations. Some associations, for instance PBMT, have more strict prerequisites for the BMT applicants (i.e. only BMTs with certain assets can apply for memberships). Hence, this allows some BMTs to join them. Secondly, some BMTs are geographically separated from the closest associations in the area; nearly all associations are located in Java Island. Even though technology may ease

²⁵ One of leading associations in Indonesia, see subsequent section.

communication, their physical involvement in the associations (i.e. trainings, monitoring) is still limited.

There are several leading national BMT associations in Indonesia, namely PINBUK, Inkopsyah BMT, Puskopsyah, ABSINDO, BMT Centre, Paguyuban BMT or PBMT, and Microfin (Seibel and Agung, 2005). Pusat Inkubasi Bisnis Usaha Kecil/PINBUK, or the Centre for Micro Enterprise Incubation, was initiated by ICMI in 1995. PINBUK was the initial association which was later followed by Inkopsyah in 1998, Microfin in 2001, BMT Centre in 2005, and ABSINDO in 2005. Microfin's main purpose was to channel funds and induce large-sized BMTs to establish Islamic rural banks/BPRS. ABSINDO was initiated during the BMT National Congress and furthermore is expected to be the central BMTs' association and national apex of BMTs. There are also BMT local associations, namely Puskopsyah and ABSINDO local offices.

PBMT is considered a highly established BMT association as compared with others, due to two main reasons. First, they have many subsidiary organisations with particular functions such as PBMT Ventura (for liquidity support), PBMT Travel (for travelling support), PBMT Social Ventures (for philanthropy activities), and PMBT Institute (for research and development purposes). Other associations do not have any subsidiary organisations as such. Secondly, they have international representative offices (in Singapore) to capture international networks. Hence, PBMT is involved in many government programmes collaborating with the MoC.

BMT associations have strategic roles to improve BMT quality (i.e. governance standardisation). They can enhance the accountability of each BMT by conducting regular monitoring and supervision. However, many associations

have experienced economic and political problems such as overlapping coverage areas, liquidity fund issues, and monitoring problems. They tend to compete with rather than support each other (Hendry, 2016). This condition worsens the current BMT situation with its less-supervised attention by the authorities. This may be one of the reasons underlying incidents of BMT fraud.

3.4. Conclusion

The nature of microfinance depends on the outcome of the roles played by the government, financial institutions, and societies. Each plays a role in articulating and legitimising the demands of microfinance. This chapter has examined socio-political and economic development in Indonesia by paying particular attention to institutional structures in the context of the country's diverse and multi-cultural population.

It was also shown that communities play an important role in BMT development. The Muhammadiyah, Nahdhatul Ulama, and ICMI contribute to BMT development through their institutionalised leadership groups, yet some actions are not free from individual motives (i.e. politics). Mosques, Islamic schools, and other Islamic study groups also contribute to BMT development as well as shape people's perceptions on Islamic microfinance.

This chapter also underlined several weaknesses in the microfinance system in general and BMT governance in particular. First, considering the well-established legal and regulatory frameworks (i.e. institutional settings, laws, regulations, policies, programmes) in banking and corporation sectors compared to the cooperatives, it suggests that the attention on cooperatives is still limited. The factor of utmost importance is that there are limited resources (i.e. officials) to monitor and supervise BMTs in Indonesia; whereas BMTs have a significant

contribution towards sustaining financial inclusion for the SMEs particularly the poorer classes. On the other hand, BMTs still suffer in lacking stakeholders (i.e. users and players) with the skill and knowledge to understand BMT practices, manage cooperatives, and maintain product standards and quality. This poor governance of BMTs is worrying and need to be addressed immediately by its stakeholders.

CHAPTER 4: THEORETICAL FRAMEWORKS AND RESEARCH METHODOLOGY

4.1. Overview

The previous chapters provided a critical literature review, conducted at the beginning of the study which examined three main areas: corporate governance, social enterprises including research in low and middle-income countries, and frauds, in order to identify gaps in the literature (Chapter 2); and the research setting of Indonesia and BMT profiles (Chapter 3). This chapter is dedicated to discussing the theoretical framework and methodology which includes the theory used in the study, research paradigm, strategy, methods, process and analysis.

4.2. Theoretical Frameworks

4.2.1. Corporate Governance Theories in General

Hung (1998, p.105) argues that there are few organisational theories, e.g. stewardship theory, institutional theory, a democratic perspective, the managerial hegemony theory, and the resource-dependence theory, which have been widely used to explore the issues related to corporate governance. These theories, therefore, are widely perceived as corporate governance theories. Outlined below is a summary of those theories, including its focus discussion on interests, board members, and board roles; adapted from Cernat (2004), Cornforth (2004), and Hasan (2009):

Table 4.1 Summary of Corporate Governance Theories

No.	Theory	Interests	Board Members	Board Roles	Model
1	Agency theory	'Owners' and managers have different interests	Owner/mandatory representatives	Conformance: - safeguard owners' interests - oversee management - check compliance	Compliance model
2	Stewardship theory	'Owners' and managers share interests	Experts	Improve performance: - add value to top decisions/strategy - partner/support management	Partnership model
3	Democratic perspective	Members/the public contain different interests	'Lay' representatives	Political: - represent member interests - make policy - control executive	Democratic model
4	Stakeholder theory	Stakeholders have different interests	Two-tier board Stakeholder representatives	Political: - balance stakeholder needs, less priority to dividends - make policy - control management	Stakeholder model
5	Resource dependency theory	Stakeholders and organisation have different interests	Chosen for influence with key stakeholders	Boundary spanning: - secure resources - stakeholder relations - external perspective	Co-optation model
6	Managerial hegemony theory	'Owners' and managers have different interests	'Owners' representatives	Symbolic: - ratify decisions - give legitimacy (managers have real power)	'Rubber stamp' model
7	Shareholder theory	Managers should follow shareholders' interests	One-tier board	Political: - maximising shareholders' value - prioritising dividends	Shareholder model

Source: composed by author

The table above shows that corporate governance theories are centralised in the interrelationships between shareholders, stakeholders, owners, and managers.

Christopher (2010) critically reviewed the extant literature on concerns

surrounding the theoretical foundations of governance particularly the limitations of agency theory (Berle and Means, 1932; Jensen and Meckling, 1976) as the sole underlying theory of corporate governance (Aguilera and Jackson, 2003; Aguilera et al., 2008; Eisenhardt, 1989; Hirsch et al., 1987; Perrow, 1986). These early supporters of agency theory (Berle and Means, 1932; Jensen and Meckling, 1976) suggested that there was a logical relationship between the main players of an organisation: shareholders, board of directors and management. They argued about the need for alignment of each player's interests (i.e. shareholders as principal and management as the agents). Eisenhardt (1985), Fama, (1980), and Fama and Jensen (1983) argue that the process of realignment had a cost attached to it (i.e. agency costs) attributable to the control and monitoring activities of the board of directors. According to them, the desire to limit agency costs led to behaviours by firms (agents) that were consistent with owners' expectations (principal), and that there was a higher performance as a result (Eisenhardt, 1985; Fama, 1980; Fama and Jensen, 1983). Consequently, the concept of governance has been typically regarded as an agent vs. principal problem, concerning the development of organisational structure of rights and responsibilities between these players to align their interests (Aoki, 2001).

In terms of framing corporate governance, the principal and agent relationship must be understood thoroughly. Governance mechanisms have been implemented in order to prevent agents maximising their own utility and to minimise agency problems. Davis, Schoorman and Donaldson (1997, p.20) argue that managers' behaviours, such as being individualistic, opportunistic, and self-serving, are derived from characteristics of human nature in the form of '*homo economicus*'. Managers are assumed to pursue their own interests rather than achieve the owners' interests. Jensen and Meckling (1976) state that the manager

behaves as a rational actor who seeks to maximise his/her individual utility. Therefore, the agency theorist prescribes various governance mechanisms such as compensation schemes and governance structures to ensure an agent-principal interest alignment, minimise the agency costs, and protect shareholders' interests.

The implementation of corporate governance theories in organisations should also consider each organisation's context. For instance, agency theory and shareholder theories are mainly utilised to analyse corporations, and focus attention on the importance of a so-called "conflict of interests" between shareholders and managers (Pesqueux, 2005). The situation in non-traditional organisations such as cooperatives and mutual organisations, for instance, is different in terms of shareholders' and managers' main interests. As traditional agency theory assumes that the main objective is to maximise the shareholders' value, shareholders are concerned with designing mechanisms that align managers with this goal. Cooperatives' shares are not traded in the capital market like other companies. Therefore, their goals are not merely about business performance, and good cooperatives are less constrained by market forces than traditional organisations.

The adoptability of corporate governance theories is affected by the increasingly complex environment in which today's organisations operate (Christopher, 2010). Christopher (*ibid*) also argues that the organisations are not only responsible to shareholders or owners, but there are multiple stakeholders and changing social, cultural, and legal constraints have had an impact on the governance paradigm of organizations and complexity of its operations. This is relevant in the BMT context since it serves not only shareholders (i.e. members), but also other stakeholders (i.e. communities, beneficiaries).

Among other theories, this study adopts stakeholder theory, that has been developed by Freeman (1984) as a theoretical and analytical framework for organisational and stakeholder analysis. This is valuable for an explanation of 'how' fraud frames stakeholder perceptions of BMT Islamic cooperatives in Indonesia.

4.2.2. Stakeholder Theory

4.2.2.1. Why Stakeholder Theory?

While the theorisation of corporate governance has become increasingly sophisticated, theories of non-profit governance, social enterprise, and mutual organisations like BMT Islamic cooperatives are relatively underdeveloped (Cornforth, 2004; Cornforth, 2012; Morrison and Salipante, 2007). There is a gap in the literature concerning the governance structures of these organisational types, which this thesis partially seeks to address.

There are four main reasons why this study uses stakeholder theory. Firstly, the use of stakeholder theory may be considered novel in the context of BMTs, particularly when exploring organisational settings relevant to this research. Laplume et al. (2008) point out that several areas in stakeholder theory remain under-investigated; particularly in not for profit entities, small businesses, and family firms. Moreover, a lot of studies are mainly conducted on publicly traded companies, with little attention to small businesses and social enterprises. The current study endeavours to advance the understanding of stakeholder theory analysis and its implementation in small businesses and social enterprises (i.e. BMT Islamic cooperatives in Indonesia).

Secondly, this research will use stakeholder theory to give a more detailed analysis of the organisational context of BMT Islamic cooperatives. Each

governance theory is infused with assumptions of how organisations work and the interests of the diverse parties involved; this remains the case in BMT Islamic cooperatives. Stakeholder theory is needed to capture the relationship of any group or individual who can affect, has been affected by, or may potentially be affected by the organisation (Freeman, 1984). The purpose of this theory is to examine the practices of cooperatives in Indonesia. The use of stakeholder theory is expected to result in a fine-grained analysis that explores the workings of business and ethical values in the practices of BMT Islamic cooperatives.

Third, stakeholder theory will help refine the analysis since it categorises stakeholders into particular groups: internal stakeholder groups (including governing boards (managers), employees, customers, and beneficiaries), and external stakeholder groups (including government bodies and societies).

And lastly, stakeholder theory is an appropriate theory to provide insights into the two key research questions, which are: What are the underlying causes of fraud within BMTs? And: How does fraud frame stakeholder perceptions of BMT practice in Indonesia? For the first key research question, stakeholder theory helps in modelling the BMT's stakeholder groups, compartmentalising the corresponding answers on fraud causes to each group, and analysing the relationship of each group's answers. For the second key research question, stakeholder theory helps in analysing stakeholders' perceptions on BMT practice before and after the incidents of fraud, using the concept of value, since the roots of stakeholder theory are value creation (see section 4.2.2.3.)

4.2.2.2. Stakeholder Terminology

The terminology of 'stakeholder' is not well grounded since it is mainly constructed by working definitions (as follows). Therefore, there is no consensus as such on what constitutes a stakeholder.

Stakeholder theory became widely known after Freeman's book in 1984 entitled *Stakeholder Management: A Stakeholder Approach* (Donaldson and Preston, 1995). Freeman (1984) described stakeholders as a company's supporting groups, such as shareowners, employees, customers, suppliers, lenders, and society more widely. In other words, he defined stakeholders as a wider group or set of individuals who either directly or indirectly contribute to the company including employees, customers, providers, government, banks, and environmentalists. The definition of stakeholders in the BMT context is also adapted from Freeman's.

Much literature has attempted to categorise stakeholder groups (see Clarkson, 1995; Friedman and Miles, 2002; Frooman, 1999; Mitchell et al., 1997). Blair (1995) and Pesqueux and Salma (2005, p. 7) classified the notion of stakeholder into two main groups: the contractual stakeholder and the community stakeholder. They argued that contractual stakeholders were legally-binding groups such as employees, suppliers, governments, and the environment that was directly affected by the company, while community stakeholders comprised other groups outside the company that were indirectly affected by the company's activities, such as the environment and society. This definition is also applicable in the context of BMTs as particularly in the context of fraud, there are two main stakeholder groups: people who are directly and indirectly impacted from fraud. Thus, arguably, stakeholders are defined as all parties related in any way to the organisation; as Freeman defined, a stakeholder is any group or individual who

can affect, is affected by, or is potentially affected by the organisation's objectives (Freeman 1984, p. 46). In addition, Freeman (1984, p. 91–94) distinguishes between five different types of interests or stakes: economic, technological, political, social and managerial. Therefore, this study uses the terminology of stakeholders who are managerially, economically, politically, and socially impacted by fraud incidents.

Several studies also categorise stakeholders into particular groups: internal and external stakeholders (Freeman, 1984); derivative and normative stakeholders (Phillips, Freeman, and Wicks, 2003); cooperative and competitive stakeholders (Freeman 1984); primary and secondary stakeholders (Clarkson, 1995); natural resources (Driscoll and Starik, 2004; Phillips and Reichart, 2000; Starik, 1995); strategic investors, potential customers, and individuals (Cragg and Greenbaum, 2002; Ryan and Schneider, 2003); advocacy groups (Dunham, Freeman, and Liedtka, 2006); strategic networks (Pajunen, 2006); and God as a stakeholder (Schwartz, 2006). The latter category (i.e. God as part of stakeholders) is being adopted in the BMT contexts as the organisation follows Islamic law (*sharia*). As has been discussed in Chapter 2 (see p. 44) BMT implement Islamic corporate governance which in its epistemology acknowledges the duty of humankind to God. This suggests that God is part of stakeholder groups (i.e. the owner of humankind or the agents) in BMT contexts.

This section argues that the definitions or categorisations of stakeholder can be heterogeneous or ambiguous (Phillips and Reichart, 2000; Ryan and Schneider, 2003; Winn, 2001; Wolfe and Putler, 2002). However, stakeholder theory can partially address the over simplicity of the world (for instance in the case of agency theory) as it adds the moral vision of the decision-maker and context (see Buchholz and Rosenthal, 2005).

4.2.2.3. The Root of Stakeholder Theory: Value Creation

The roots of stakeholder theory are value creation, the ethics of capitalism, and the managerial mindset (Freeman, 1984). This study adopts these concepts, particularly value creation frameworks, in order to analyse the fraud incidents in Indonesian BMTs.

Known as ‘the father of stakeholder theory’ (Laplume et al., 2008), Freeman (1984) highlighted the differences between business and environment in terms of value creation. Value is relative and depends on perspective. For instance, business values are different from environmental values. Freeman stated that stakeholder theory is mainly concerned with the problem of value creation and trade (Freeman et al., 2013). People tend to assume that the company's value creation is dominated by economics rather than ethical purposes. Freeman (2013) argues that there is growing awareness of the effects of capitalism in the business arena, and therefore economics dominates business values. People are becoming more critical and demanding that company practices should meet several ethical standards. Ethics are being set in order to integrate both business and societal values. Freeman examines the notion that the ‘ethics of capitalism’ demands a reregulation of business. There have been calls for greater transparency, openness, ethics, sustainability, and social responsibility. These demands influence managerial mindsets which means that managers should look widely, redefine the economics of value creation and thus trade carefully, and conduct business ethically (Freeman et al., 2013). Accordingly, stakeholder theory can create more fine-grained analyses that combine business and ethical values (Freeman, 1994).

From the three main roots described above, Porter (1980) argues that stakeholder theory was concerned with “the joint-ness of stakeholders’ interest,” including

those of communities, customers, suppliers, financiers, employees and governments, rather than solely on the trade-offs that need to be made at some point. As the organisation is composed of multi-stakeholders, then it is not only “the joint-ness of stakeholders’ interests”, but also “the joint-ness of stakeholders’ values”, which is to some extent problematic. This is a theory that discusses how business works at its best and how it could work effectively to create as much value as possible (Freeman et al., 2013).

Seeing “the joint-ness of stakeholders’ interests” is not impossible, yet in practice remains challenging. Each stakeholder group’s interest tends to be conflicting rather than coherent. Ansoff (1984) stated that managing competing stakeholder interests is a primary management function. A consequent challenge is whether managers can successfully balance the competing demands of various stakeholder groups’ interests (Harrison and Freeman, 1999; Frow and Payne, 2011). The context of BMT management is also not free from any stakeholder’s conflict of interests; yet they mainly follow similar values (i.e. Islamic values). Freeman et al. (2013) argue that it is difficult to accommodate all stakeholders’ interests. Therefore, they argue that we need to reframe the stakeholder mindset since, in practice, no stakeholder stands alone in the value creation process of business. Moreover, the stakes of each stakeholder group, e.g. employees, financiers, and suppliers, are inherently connected to each other.

However, in addition to the challenge of “the joint-ness of stakeholders’ interests” as discussed above, accommodating stakeholders’ interests is not merely about developing ethical practices or offering beneficial exchanges for all stakeholder groups—it is also about running a business and gaining profit. Friedman (1970) argued that stakeholder theory can be the basis of a new capitalism since the purpose of business itself is engaging in lawful activities to gain profit and

maximise values. Capitalism is seen as a set of relationships among any related groups that support a company which consists of individuals fully aware of the realm of business and ethics. This is strongly relevant in the BMT fraud context, where that there may be conflicting values in terms of balancing matters of business and ethics. Although a BMT is an Islamic entity, capitalism still emerges in the organisation; its business purposes (seeking for profit) are arguably dominant over social purposes (benefiting society).

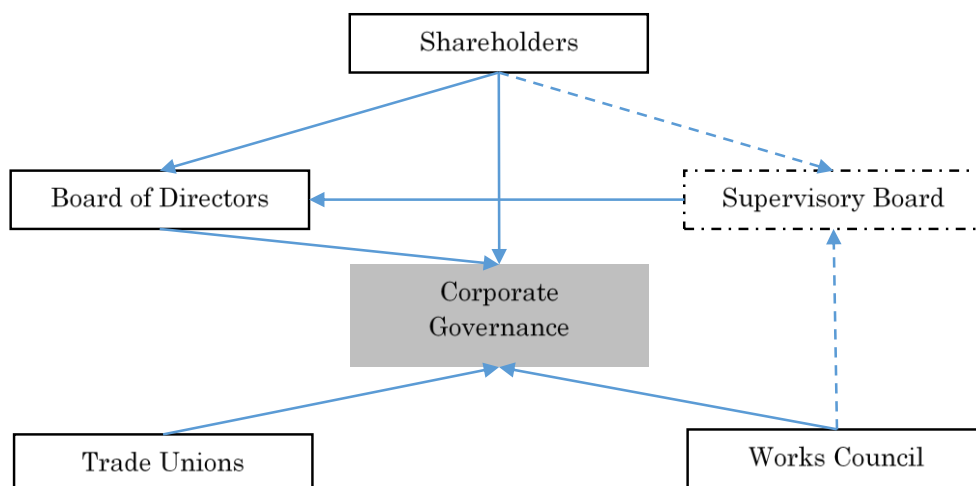
Clarkson (1995) and Donaldson and Preston (1995) claim that stakeholders have intrinsic values and interests which should be maintained by the company. Blair (1995) also agrees that stakeholder theory is a multilateral agreement or contract between the enterprise and the multiple stakeholders which were bonded by both formal and informal rules by governments and the community. Jones (1995 p.404) argues that the company should develop ethical behaviours and mutually beneficial exchanges for its stakeholders, i.e. the suppliers, employees, and customers. These behaviours may support stakeholders in improving their performance and efficiency. These agreements are intended to facilitate the various interests and demands from each group.

4.2.2.4. Stakeholder Model and its Limitations

Among many models, this study adopts stakeholder models from Cernat (2004, p 153) and Donaldson and Preston (1995, p.69). Cernat (2004) mentions that in the stakeholder model, not only are the interests of shareholders important, but also inputs from other relevant stakeholders such as trade unions, the works council, and shareholders (represented by the solid blue line). He argues that in some European countries, employees have the right to appoint or recommend several members to the supervisory board (represented by the dotted blue line). The

figure also shows that the stakeholder model allows for multiple channels to deal with the shareholder-manager agency problem and ensure insider supervision.

Figure 4.1 Two-tier Board System



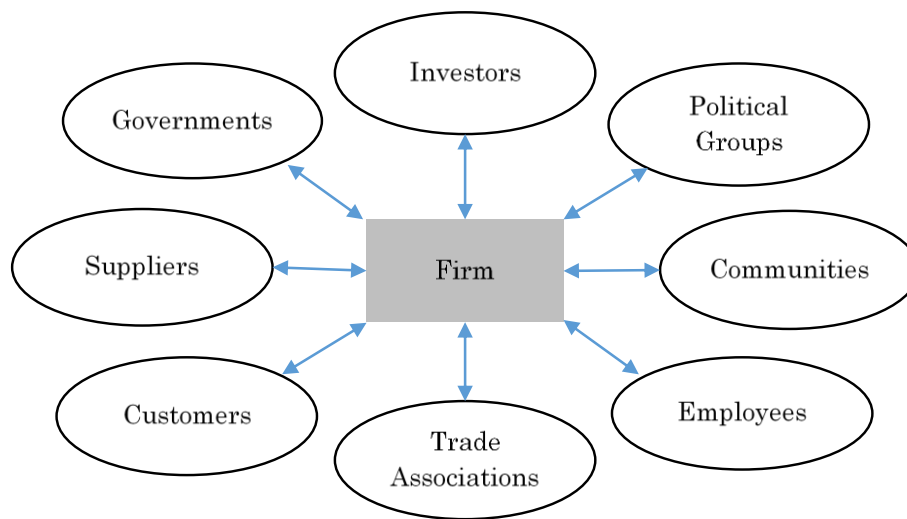
Source: Cernat (2004, p.153)

The Cernat model is adopted to describe the BMT governance mechanisms in Indonesia due to its similar BMT organisational structures (see p. 86). BMTs also have a supervisory board which is composed of external elements of the organisations (i.e. council). Dignam and Galanis (2009 p. 269-274) explain that two-tier boards²⁶ are comprised of supervisory boards of outside directors and separate management boards of executive directors, and these two boards meet separately. Schilling (2001 p. 148) states that the supervisory board is elected by shareholders and employees. It has the authority to elect the management board. Schilling (*ibid*) also mentions that the supervisory board plays a supervising and monitoring role over the management board. Dignam and Galanis (2009 p. 271) argue that the supervisory board members commonly consist of shareholders,

²⁶ This model is mainly adopted in European countries (for instance, in Germany, see Mallin (2007 p. 162)). This is one of Germany's philosophical values. It is different from the shareholder model that only has a one-tier board system, while the stakeholder model operates with a two-tier board system (Monks and Minow, 2008; Goergen, 2012).

trade unions, and council representatives (which in BMT contexts are BMT associations, Islamic scholars' representatives, and stakeholders). Therefore, the governing boards are expected to negotiate and compromise with stakeholders in terms of supporting and coordinating their interests (Hung 1998 p. 106).

Donaldson and Preston (1995, pp.68–69) also explore the corporate stakeholder model, as shown in Figure 4.2 as below. They highlight the equality between each constituent with legitimate interests participating in an enterprise. There are no priorities of one particular constituent's interests and benefits over another's. They depict the model such that all groups are the same size and shape and are equidistant from the "firm" in the centre. The arrows between the firm and its constituents also run in both directions with the same length, which depicts two-way mutually beneficial interactions. These show a fair and balanced treatment (not necessarily equal) between each stakeholder group (see Gioia 1999; Marcoux 2000; Sternberg 2000).

Figure 4.2 Stakeholder Model

Source: Donaldson and Preston (1995, p.69)

Donaldson and Preston's model is adopted to describe the BMT stakeholders in Indonesia as it is arguably sufficient to depict the relations of BMT and its stakeholders. It highlights the interrelations between both external and internal constituents that represent legitimate interests in the BMTs. It includes the members, employees, beneficiaries, associations, communities, governments, and society.

Other literature also defines three general governance categories. The first is the external governance structure that is concerned with aspects external to the organisation, such as regulatory frameworks and authorities. Second is the intermediate governance structure that concerns democratic decision-making processes and other activities. Third is the internal governance structure, namely management, shareholders, committees, other stakeholders, and any parties that help the board achieve their objectives and fulfil responsibilities to their membership (O'Neal and Thomas, 1995; Leighton and Thain, 1997; Spear, 2002; Leggett and Strand, 2002; Fama and Jensen, 1983; Rasmusen, 1988; Davis, 2001; Cornforth, 2003; Cadbury, 1992; Goth et al., 2012; McKillop et al., 2006).

Different treatment and adjustments of stakeholder models are to some extent needed for implementations, due to different organisational characteristics. Donaldson and Preston (1995) emphasise that the situation and characteristics of each organisation are fundamentally different. For instance, government agencies and social programs have different organisational settings from the private sector. The contextual organisation is critical regarding corporate stakeholder issues, both in theory and in practice. Therefore, the implementation of stakeholder models also varies from one organisational setting to another.

In terms of stakeholder theory limitations, below is a summary of stakeholder theory debates in comparison with other theories, adapted from Laplume et al. (2008, p.1170). Laplume et al. (2008) mentions that stakeholder theory has attracted much attention from researchers concerning innumerable corporate governance theories, both complementary and contradictory. The table shows the researcher's interest in stakeholder theory including problems with the theory.

Table 4.2 Summary of Theory Debates

Key Questions	Summary of Theory Debates
What are the normative foundations of stakeholder theory?	<p>Property rights (Donaldson and Preston ,1995)</p> <p>Feminist ethics (Burton and Dunn, 1996; Lampe, 2001; Wicks, 1996; Wicks, Gilbert, and Freeman, 1994)</p> <p>Principles of “fair play” (Cludts, 1999; Etzioni, 1998; Phillips, 1997; Van Buren, 2001)</p> <p>The “common good” (Argandona, 1998), critical theory (Reed, 1999), deontology (Gibson, 2000; Palmer, 1999)</p> <p>Aristotelian ethics (Wijnberg, 2000), libertarianism (Freeman and Phillips, 2002)</p> <p>Kantian ethics (Lea, 2004), organisational justice (Hosmer and Kiewitz, 2005)</p> <p>Islam (Beekun and Badawi, 2005), pragmatism (Buchholz and Rosenthal, 2005)</p>
What are the problems of stakeholder theory?	<p>Stakeholder theory exacerbates agency problems (Heath and Norman, 2004; Jensen, 2002; Sundaram and Inkpen, 2004)</p> <p>Stakeholder theory is not well grounded and fails as a normative theory (Child and Marcoux, 1999; Cragg, 2002; Hasnas, 1998; Humber, 2002; Orts and Strudler, 2002)</p>

	<p>It needs a constraint that requires executives to respect the professional obligations of employees (Carson, 2003)</p> <p>It is under-theorized or under-researched (Stoney and Winstanley, 2001; Sundaram and Inkpen, 2004)</p> <p>Its domain may be too broad (Kline, 2006; Phillips, Freeman, and Wicks, 2003; Trevino and Weaver, 1999)</p> <p>It does not recognise the effects of incentives (Elms, Berman, and Wicks 2002)</p> <p>It is difficult to implement (Gioia, 1999; Kaler, 2006; Kochan and Rubenstein, 2000)</p> <p>Normative and instrumental stakeholder theories diverge (Donaldson, 1999; Donaldson and Preston, 1995; Gioia, 1999; Margolis and Walsh, 2003)</p> <p>It does not apply to small or medium enterprises (Perrini, 2006)</p> <p>It is based on false assumptions (Balmer, Fukukawa, and Gray, 2007; Buchholz and Rosenthal, 2005; Heugens and van Oosterhout, 2002)</p>
Which theories does stakeholder theory contradict?	<p>Stockholder theory (Freeman, Wicks, and Parmar, 2004; Hasnas, 1998; Langtry, 1994; Palmer, 1999; Sundaram and Inkpen, 2004; Velamuri and Venkataraman, 2005; Wagner-Tsukamoto, 2006)</p> <p>Agency theory (Hill and Jones, 1992; Shankman, 1999)</p> <p>Integrated social contract theory (Bishop, 2000)</p> <p>Corporate social performance (Rowley and Berman, 2000)</p> <p>Corporate citizenship (Scherer, Palazzo, and Baumann, 2006)</p> <p>Institutional theory (Luoma and Goodstein, 1999)</p>
Which theories does stakeholder theory complement?	<p>Resource-based theory (Harrison and Freeman, 2013)</p>

Source: Adapted from Laplume et al. (2008, p.1170)

Some literature, as shown in the table, contrast stakeholder theory with shareholder theory. However, stakeholder theory is not opposed to shareholder theory since shareholders themselves are part of the stakeholder group. The shareholder is one of the company constituents who should also be protected and accommodated. Hence, the terminology of interest protection between shareholders and other stakeholders is debatable to some degree. Each company has its own mechanisms (corporate governance systems) and should comply with certain rules and regulations in terms of protecting their stakeholders' interests.

Campbell (1997) argues that the market economy allows each company to set its own definition and deal with its own stakeholders.

From the table, Perrini (2006) argues that stakeholder theory does not apply to SMEs because of its focus on multiple stakeholder interests, hence it is inherently difficult to implement. Much of the literature also shares similar arguments that stakeholder theory may be inappropriate for owner-managed small or medium enterprises, which might be better guided by the theory of social capital (Gioia, 1999; Kaler, 2006; Kochan and Rubenstein, 2000). However, limiting stakeholder theory solely to publicly traded companies would be a mistake (Phillips et al., 2003; Donaldson and Preston, 1995). Stakeholder theory is potentially relevant to many organisational types, including small or family-owned businesses, private companies, partnerships, non-profit and government organisations (Freeman et al., 2013, p.231). The potential richness of stakeholder theory is evidenced by the increasing acceptance of the theory across functional disciplines, organisational strategies, and ethics. Most studies adopt an instrumental approach to stakeholder theory, and therefore mainly focus on the instrumental use of stakeholder concepts and methods in particular organisations, e.g. for their applicability to publicly-traded companies or small businesses. However, stakeholder theory is relevant to many more organisations.

Stakeholder theory is mainly derived from business and social activities; therefore, it is predominantly used in many business research papers. However, as an integrated approach, stakeholder theory cannot be separated from one study to another. It has mixed approaches and disciplines for accounting, management, law, public policy, and environmental policy. It also includes mixed perspectives from many corporate-related parties such as employees, investors, governments, and environments (Donaldson and Preston, 1995, p.67). Hence, as

an integrated study, stakeholder theory could be used as an analytic tool for many social science studies (Donaldson and Preston, 1995; Jones, 1995; Wood and Jones, 1995 cited in Harrison and Freeman, 1999).

For instance, in the BMT context, as a social enterprise, credit unions or cooperatives and mutuals can apply stakeholder theory in their activities since they also consist of formal and informal contracts, trust, and co-operation which are part of the concepts central to stakeholder theory (Amess and Howcroft, 2001). Additionally, a cooperative enterprise is not a firm in the conventional sense but an association of members with different interests (Amelianoff, 1942). Therefore, cooperatives and mutuals may apply stakeholder theory in order to capture the connections of each stakeholder group (members, employees, unions, or community). Moreover, the basic idea of stakeholder theory is that business is seen as an entrepreneurial opportunity (Harrison and Freeman, 2013). Venkataraman (1997) also highlights the connection between entrepreneurship and stakeholder studies, since entrepreneurship is the essence of business. To some degree, therefore, any business could apply stakeholder theory, including BMT Islamic cooperatives.

4.3. Research Strategy and Methods

4.3.1. Nature of Research

Research can be categorised as exploratory, explanatory, descriptive, and policy-oriented studies, which are not necessarily mutually exclusive (see Silverman, 2011). Exploratory research is designed to explore a social phenomenon in order to understand its background. This type of research is a preliminary step before descriptive and explanatory research. Descriptive research aims to provide more details about a social phenomenon which later could be useful in building

hypotheses and data collection. Explanatory research aims to provide more evidence about a social phenomenon, identifying its causes.

As the mission of this study is to examine frauds in BMTs which later could provide insights based on stakeholders' perceptions of better public policy in BMT governance, this study is policy-oriented research. It is designed so that the findings will provide information useful for policy-making in order to offer valuable policy recommendations.

Along the spectrum of research paradigms (as below), this study adopts post-positivism due to two main reasons. Firstly, this study uses qualitative data (i.e. interviews, observation, and documentary analysis), hence post-positivism is considered appropriate as it is fundamentally an interpretive activity. A post-positivist/hermeneutic approach advances the interpretive understanding and reasoning of the phenomenon (i.e. BMT fraud incidents). Secondly, this is policy-oriented research; therefore, due to the fraud incidents which suggest that there are misconducts in the BMT practise, this study aims to criticise the current conditions of BMTs as well as identifying the strategies for fraud deterrence in Indonesian Islamic cooperatives. Many policy-oriented studies also adopt a post-positivist paradigm as it involves an extension of critique from the realm of social action to the realm of science itself (Bernstein, 1976; Fischer, 1998), providing a useful alternative to traditional ways of studying policy, and facilitating a more critical interpretation of policy practices (Doty, 1993).

Table 4.3 Spectrum of Paradigms

Issue	Positivism	Post positivism	Critical Theory	Constructivism	Participatory
Ontology	Naïve realism - reality but apprehendable	Critical realism - reality but only imperfectly and probabilistically apprehendable	Historical realism - virtual reality shaped by social, political, cultural, economic, ethnic, and gender values crystallised over time	Relativism - local and specific constructed realities	Participative reality - subjective - objective reality, co-created by mind and given cosmos
Epistemology	Dualist/objectivist: findings true	Modified dualist/objectivist ; critical tradition/community; findings probably true	Transactional/subjectivist; value mediated findings	Transactional/subjectivist; value created findings	Critical subjectivity in participatory transaction with cosmos; extended epistemology of experimental, proportional and practical knowing; co-created findings
Methodology	Experimental/manipulative; verification of hypotheses; chiefly quantitative methods	Modified experimental/manipulative; critical multiplism; falsification on hypotheses; may include qualitative methods	Dialogic/dialogical	Hermeneutic/dialogical	Political participation in collaborative action inquiry; primacy of the practical; use of language grounded in shared experimental context
Axiology	Propositional knowing about the world is an end in itself, is intrinsically valuable	Propositional knowing about the world is an end in itself, is intrinsically valuable	Propositional, transactional knowing is instrumentally valuable as a means to social emancipation, which is an end in itself, is intrinsically valuable	Propositional, transactional knowing is instrumentally valuable as a means to social emancipation, which is an end in itself, is intrinsically valuable	Practical knowing how to flourish with a balance of autonomy, co-operation and hierarchy in a culture is an end in itself, is intrinsically valuable

Source: Neuman (2007)

The table above also shows other paradigms which can be considered as an alternative and suggestion for future studies. For instance, in the paradigm of

positivism, only analytic and synthetic statements have cognitive significance, and any non-analytic statement is meaningful only if it can be subjected to empirical tests (Caldwell, 1980). Guba and Lincoln (2011, p. 110) also state that reality or phenomena should be constructed as questions and/or hypotheses and subjected to empirical tests to verify them; any possible confounding conditions must be carefully controlled or manipulated to prevent outcomes from being improperly influenced. Positivism relies on quantitative data to be tested, yet in this study, positivism was not used because there is limited quantitative data which can be extracted from the BMTs' annual reports. The BMTs have no such standards or obligations to present any annual report to the public even though they are considered to be public institutions. Therefore, quantitative data would be considered poor and may jeopardize the data validity. Moreover, positivism has also been criticised for being too mechanistic, and for over-simplifying the accounts of human interactions (Schrag, 1992), particularly for the study of stakeholders' perceptions in BMT fraud incidents.

4.3.2. Research Strategy

Good research must define the research strategy and the appropriate research methodology, which must be selected according to the identified research question and the purpose of the research. Both research strategy and research methodology are, however, two terms that are often used interchangeably. Some scholars have defined research methods as certain procedures, practical approaches or techniques for collecting data (see Bryman, 2012, p. 46), and research methodology as perspectives on how research is conducted using a particular paradigm (see Sarantakos, 2013; Jha, 2008). Bryman (2004) considers qualitative and quantitative approaches to represent different research strategies. Additionally, Bryman (*ibid*) also defines several research designs (e.g.

experimental design, cross-sectional design, longitudinal design, case study design, and comparative design) as a set of frameworks for collecting and analysing data.

4.3.3. Research Methods

This study uses narrative case study methods to gain an in-depth understanding of fraud problems. Gilgun (1994) defines narrative case study as a research instrument that is used for the in-depth study of various social issues by understanding the stages or phases of the processes involved, and to investigate a phenomenon within its environmental context. In order to assess fraud, this study undertakes intensive examination of individual persons (i.e. the fraudsters, victims, members, employees) and communities (i.e. authorities, society) for investigation.

This qualitative study uses two research methods: qualitative document analysis and semi-structured interviews. Document analysis extracts from media archives include stakeholders' comments from social media, police reports, photographs, and other evidence of fraud. Three main aspects of fraud assessment are found in document analysis: the causes of fraud, the impact of fraud on stakeholders, and the perceptions of stakeholders regarding fraud. These issues are investigated during semi-structured interviews.

Interviews can provide opportunities to address issues that cannot be observed directly; it can explore more detailed information, collect sensitive information, and control the data collection process (Patton, 2002). Since fraud is likely to require that the researcher elicits sensitive information from victims, the interview appears to be the best technique to collect victims' (stakeholders') perceptions and experiences. By interviewing different stakeholder groups, e.g.

managers, members, societies, and authorities, the researcher is able to carry out data-triangulation to cross-check information and obtain a better understanding from various perspectives. Data-triangulation involves using a variety of data sources within a single study, e.g. interviews and documentary analysis, to help the researcher to generate rich data with high validity (Denzin, 1978). Notwithstanding the fact that data triangulation is likely to be time consuming and costly (for instance by interviewing more stakeholders in various places which generates extra transport costs), it provides the researcher with a powerful way to increase data credibility

Since fraud most likely affects those who are directly involved, observation in face-to-face interviews was also included in the study to capture stakeholders' reactions, emotions, gestures, and any physical changes that may have occurred during the interview. Observation is defined as "the systematic description of events, behaviours, and artefacts in the social setting chosen for study" (Marshall and Rossman, 1989). Face-to-face interviews provide the opportunity to assess body language and tone of voice. The researcher needs to use all her senses to explore any non-verbal expression of feelings as well as interactions and communications with interviewees. Direct observation was adopted to increase the validity of the study. In two months, the researcher expected to establish a rapport with the community (for example by spontaneous conversation, blending in with the community, having an open and non-judgmental attitude, being interested in community activities, being a careful observer and a good listener, and being open to the unexpected in what is learned from the fraud incidents (DeWalt and DeWalt, 1998). The immersion process helps the researcher to have a better understanding of the research context and phenomenon. Stronger

validity is expected due to the use of multiple methods in this study (i.e. interviews and document analysis).

It is possible, however, to adopt another methodology in this study—for instance, by using purely qualitative methods like ethnography. However, this would take longer for data collection since time in the field would be needed to discern both the depth and complexity of social structures and relations (Jeffrey and Troman, 2004; Bryman, 2004). Therefore, within the time limitations of a PhD, the researcher decided not to follow this approach.

4.4. The Data Required for Research

This study uses two main data sources: (1) media archives such as local newspapers, Twitter, Instagram, and so on, posted by stakeholders; and (2) transcripts from semi-structured interviews with stakeholders. The interviews with stakeholder groups are used to confirm or clarify the preliminary findings from the archival analysis and literature review.

4.4.1. Sampling

Data for documentary analysis covers any Indonesian media attention and coverage on fraud cases in BMT Islamic cooperatives from 2006 to 2016 (henceforth ‘the documents’). The documents are the online version of national newspapers only (which were considered sufficient as the news is part of the printed version) and were filtered by using the “kasus BMT Indonesia” or Indonesian BMT fraud incidents as the specific terms. Since early 2006, there have been a number of fraud cases in BMT cooperatives which have severely affected stakeholders. The documents ranging over ten years is still considered insufficient since the media mainly captured the general information from the

fraud cases. Therefore, semi-structured interviews are needed to cross-check information derived from other sources and obtain a better understanding from various perspectives.

Most of the interviews were recorded, although one of the key interviewees from a BMT PSU fraud incident (i.e. the only BMT PSU branch which survived the incidents and is fully operational to date with a different name) refused to be taped due to personal preferences, presumably because of the sensitive information, as he/she mentioned that he/she refused to be interviewed and quoted by any outsiders (i.e. journalists). The researcher also took notes during all interviews and there were no objections from any interviewees to do so. After the tape-recorded interviews were transcribed, the transcripts and notes taken during participant observation were coded using the NVivo11 software package²⁷.

The interviews with stakeholder groups were conducted with four main groups of stakeholders representing the good BMTs (such as in South Sumatra (Puskopsyah Lampung), East Java (BMT Usaha Gabungan Terpadu Sidogiri), Central Java (BMT Bina Umat Sejahtera and BMT Bahtera), and Daerah Istimewa Yogyakarta (BMT BIF and BMT Beringharjo)); and the failed BMTs (such as BMT Perdana Surya Utama (PSU) Malang), Central Java (BMT BSM Wuryantoro, Wonogiri, BMT Dana Bersama Slogohimo), and Daerah Istimewa Yogyakarta (BMT Isra, BMT Hilal, BMT Amratani)). The good BMTs are BMTs that are considered successful in Indonesia, since they have received many awards from the government including the Ministry of Cooperatives and other organisations due to their achievements on certain parameters (size, coverage, governance mechanisms). The samples represent two main BMT development

²⁷ See Data Collection section.

clusters in Indonesia: the Sumatra cluster and Java cluster. These BMTs, particularly BMT UGT Sidogiri, are expected to give a wider perspective on Islamic cooperative practices as well as a benchmark for other BMTs. It is crucial to look at successful BMTs from the same area as fraud cases, as this has an impact on consistencies in socio-political and economic conditions. The objective of examining these two groups of BMTs is to compare their governance mechanisms (including their organisational structures and values).

The total samples are thirty-eight (38) interviews from both BMT groups representing each stakeholder group²⁸ (detailed distribution of interviewees as below). They are selected through referral sampling which was gained from the pilot study²⁹. There is no maximum number of interviewees, although the period over which the study carried out is limited. There is no exact way of determining the sample size required since the study aims to gain in-depth knowledge about frauds and stakeholders' perceptions of fraud. Therefore, the sampling size is determined based on three main factors. First, the information power of the sample that indicates the amount of information the sample holds, relevant for the actual study. Second, data saturation. And third, the sample size is also determined by fair distribution of each stakeholder group and the interviewees' availability.

Many of the studies included references to theoretical or data saturation as described by Glaser and Strauss. Glaser and Strauss (1967, p.65) defined data saturation as the point at which "no additional data are being found whereby the

²⁸ See subsequent sections on Stakeholder Groups.

²⁹ See Data Collection section.

researcher can develop properties of the category and become empirically confident that a category is saturated.”

Strauss and Corbin (1990, p.136) argue that saturation is a "matter of degree" of researcher by familiarise themselves and analyse their data for new information to emerge so that add something to the overall story, model, theory or framework. They conclude that saturation should be more concerned with reaching the point where it becomes "counter-productive" and that "the new" is discovered does not necessarily add anything to the story (Strauss and Corbin, 1990, p.136; Goulielmos, 2004, p.366). Data saturation can be reached by conducted interviews until the last few interviews did not provide new insights (Tallon and Kraemer 2007, p. 145); or “when themes began arising over and over in these interviews” (Fort, Larco, and Bruckman, 2009, p. 54); or when further coding is no longer feasible. There is no statistical demonstration of sample size to reach data saturation; many factors can influence it include quality of dialogue in terms of answering the key research questions, number of interviews per participant, sampling procedures, and researcher experience/judgement (Sandelowski, 1995).

The problems in data saturation are the excess of data by which the researcher may cut it where necessary to shape the analysis (Strauss and Corbin, 1998) as well as the researcher may partially code the data (Dey, 1999).

The researcher reached data saturation point when no new additional data were found in the interviews and documents³⁰. The researcher discovered that the themes began arising over and over in both interviews and documents; no new themes were emerged. Therefore, based on researcher experience/judgement, the

³⁰ see page 288.

researcher determined data saturation point since further coding was no longer feasible.

Table 4.4 Distribution of Interviewees

No	Stakeholders' Groups	Group Code		Interviewees	Locations	Type of BMTs	Notes
A	Governing Boards	MAN	1	Puskopsyah Lampung	South Sumatra	Good BMT	Representing Cluster Sumatra
	Managers		2	Koperasi Syariah BMT Itqan	West Java	Good BMT	
	Employees		3	Koperasi Simpan Pinjam Syariah (KSPS) BMT Bina Ummat Sejahtera Lasem	Central Java	Good BMT	
			4	Koperasi Jasa Keuangan Syariah (KJKS) BMT Bahtera	Central Java	Good BMT	
			5	KSPS BMT Bina Ihsanul Fikri (BIF)	Yogyakarta	Good BMT	2 persons including victim
			6	KJKS BMT Beringharjo	Yogyakarta	Good BMT	Victim
			7	KSPS BMT UGT Sidogiri	East Java	Good BMT	
			8	Koperasi Agro Niaga Indonesia (KANINDO) Syariah	East Java	Good BMT	2 persons including victim
			9	BMT PSU Malang Lembaga Keuangan Syariah	East Java	Failed BMT	2 persons including victims
B	Members	CUST	1	Lecturer A.1.	East Java	Failed BMT	Victim
			2	Lecturer A.2.	East Java	Failed BMT	Victim
			3	Lecturer A.3.	East Java	Failed BMT	Victim
			4	Lecturer B.1.	Yogyakarta	Failed BMT	Victim
			5	Local Book Vendor	East Java	Failed BMT	Victim
			6	Salon Owner	Yogyakarta	Good BMT	Current member
			7	Pedlar	Yogyakarta	Good BMT	Current member
C	Authorities	AUT	1	Ministry of Cooperatives and Small Medium Enterprises (MoC)	Jakarta		Head Office
			2	Bank Indonesia (Central Bank)	Jakarta		Head Office
			3	Financial Services Authority (Otoritas Jasa Keuangan/OJK)	Jakarta		Head Office
			4	Provincial Cooperatives Officer A.1.	Yogyakarta		Local Office
			5	Provincial Cooperatives Officer A.2.	Yogyakarta		Local Office

			6	Provincial Cooperatives Officer A.3.	Yogyakarta		Local Office
			7	Provincial Cooperatives Officer A.4.	Yogyakarta		Local Office
			8	Provincial Cooperatives Officer A.5.	Yogyakarta		Local Office
			9	Provincial Cooperatives Officer B.1.	East Java		Local Office
			10	Provincial Cooperatives Officer B.2.	East Java		Local Office
			11	Provincial Ombudsman Officer	Yogyakarta		Director of BMT Crisis Centre
D	Societies	BEN	1	BMT associations	Jakarta		Inkopsyah BMT
	Beneficiaries		2	Lecturer A.4.	East Java		Independent Auditor
	Communities		3	Lecturer A.5.	East Java		
			4	Lawyer	East Java		Victim's Lawyer
			5	BMT Forum	East Java		East Java BMT communities
			6	Induk Koperasi Kredit (INKOPDIT) Credit Union	Jakarta		Credit Union Indonesia
			7	Center For Micro Enterprise Incubation (Pusat Inkubasi Bisnis Usaha Kecil/ PINBUK Indonesia)	Jakarta		

Source: constructed by author

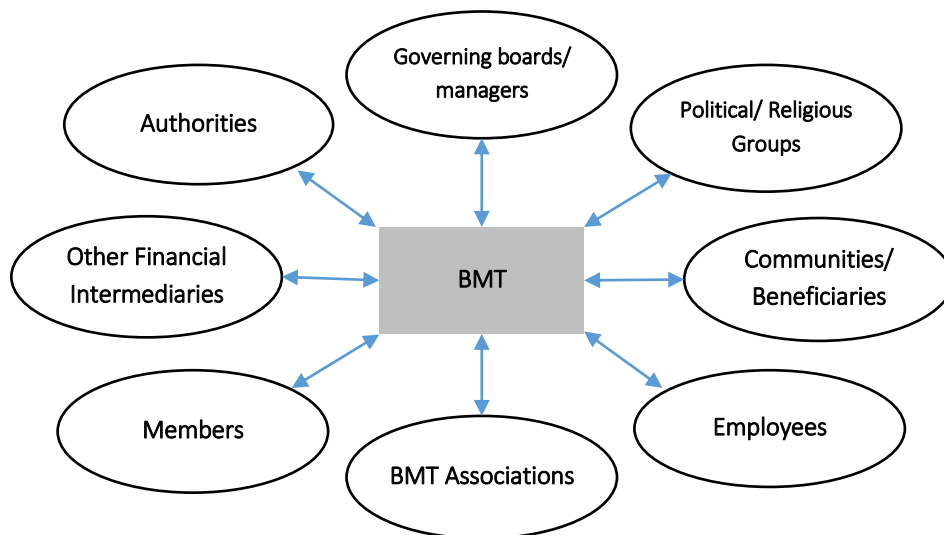
The researcher could not conduct any interviews with the fraudsters due to two main reasons: firstly, the fraudsters who were released from prison or are on trial are difficult to track as nobody knows their whereabouts; and secondly, one fraudster passed away during prison term due to illness.

4.4.2. Defining Stakeholder Groups

Stakeholders consist of any personnel or groups who have legitimate interests, positions, or activities in or with an organisation. These include governing bodies, authorities, competitors, banks, politicians, religious organisations, members, BMT associations, employees, communities, beneficiaries, and so on. Based on

stakeholder theory, this study categorises stakeholders into four groups: managers (including employees), members, societies (including beneficiaries), and authorities. This category is derived from the literature, document review, media writings, website content analysis, and semi-structured interviews. Below is the full BMT stakeholder model incorporating the wider context following Donaldson and Preston's (1995) model. The double-ended arrow represents the relationships (i.e. two-way communication) between stakeholders and the BMT that implies both direct and indirect influence on the organisation (i.e. exchange values).

Figure 4.3 Stakeholder Groups



Source: composed by author, adapted from Donaldson and Preston's (1995) model

Stakeholder Group: Managers

In this study, a manager is defined as any person or group of individuals who are part of the governing board in the BMTs. Managers include the board of directors, the board of commissioners, supervisory boards and employees. They have the power to make strategic decisions and the responsibility to manage an organisation's resources. The employees in this study are categorised as

managers since they have authority in the structure of the organisation as well as in making contributions to the organisation.

Managers consist of ex-managers and current managers, including ex-employees and current employees. The ex-category are personnel who used to have a position in the fraudulent BMTs. If the fraudulent BMTs were still operating, then the managers and employees would be defined as the current managers and current employees. However, none exist in this study, since all the fraudulent BMTs are no longer in existence. Correspondingly, the current-category is personnel who still have a position in the BMTs. Therefore, in this study, the terms ex-manager and ex-employee refer to personnel who worked in the fraudulent BMTs (considered to be the failed BMTs), or who are the victims of fraud; and the current managers and employees are personnel still working in the BMTs (considered to be the successful BMTs). Interviews were conducted with 13 managers in each case study location (East Java, Central Java, and Yogyakarta). The details of interviewees and interviews from both failed and successful categories are as follows:

Table 4.5 Stakeholder Group: Managers

Institution	Group Code	Interviewee Code	Gender	Occupation	Interview Date	Interview Duration
BMT Itqan	MAN	MAN1	Male	Chairman	08 November 2016	00:49:38
BMT Lasem	MAN	MAN2	Male	Chairman and Director	08 November 2016	00:20:42
BMT BIF	MAN	MAN3	Male	Chairman and Director	08 November 2016	01:26:58
Puskopsyah Lampung	MAN	MAN4	Male	Chairman	08 November 2016	00:36:21
BMT Bahtera	MAN	MAN5	Male	Chairman	08 November 2016	00:41:02
BMT Kanindo	MAN	MAN6	Male	Chairman	10 November 2016	00:53:51
BMT PSU	MAN	MAN7	Male	Ex-Branch Manager	10 November 2016	02:18:13
BMT PSU	MAN	MAN8	Female	Ex-Board of Directors	10 November 2016	00:56:37
BMT Kanindo	MAN	MAN9	Female	Director	17 November 2016	01:36:28
BMT PSU	MAN	MAN10	Female	Branch Manager	17 November 2016	00:47:10
BMT Beringharjo	MAN	MAN11	Female	Chairman	14 December 2016	01:31:56
BMT BIF	MAN	MAN12	Male	Marketing Manager	19 December 2016	00:51:09
BMT UGT Sidogiri	MAN	MAN13	Male	Chairman	08 November 2016	01:02:17

Source: constructed by author

Stakeholder Group: Members

In this study, a member is defined as anyone that uses a BMT's product or service. As previously stated, there are distinctive differences between members and customers. Due to the BMT's legal form as a cooperative, BMT users are defined as members. Each term creates different consequences. The customer is mostly a term for the banking user, while the member is a term for the non-banking user (i.e. a cooperative or credit union users); and while a BMT Islamic cooperative is not a bank, some interviewees do not understand the difference. Moreover, most of the interviewees called themselves a customer or a depositor, not a member. This distinction also matters to underline the BMT users' lack of knowledge of financial intermediaries apart from the banks. Hence, arguably the fraud is highly correlated with their ignorance of BMT knowledge which then costs them financial losses due to fraud.³¹ Each definition (i.e. customers,

³¹ See Chapter 5.

members) is tied to different regulations, rights, and obligations, as formal financial intermediaries (i.e. banks) are different to semi-formal financial organisations (i.e. BMTs/Islamic cooperatives).

The category of members, therefore, consists of ex-members and current members. The ex-members are people that used to use services and products from the failed BMTs. These ex-members were the fraud victims as well. The current members are personnel that are still using the successful BMTs' services and products.

Interviews were conducted with seven members (five victims and two current BMT members). The details of interviewees and interviews from both failed and successful categories are as follows:

Table 4.6 Stakeholder Group: Members

Institution	Group Code	Interviewee Code	Gender	Occupation	Interview Date	Interview Duration
University A	CUST	CUST1	Female	Lecturer	10 November 2016	00:40:59
University A	CUST	CUST2	Female	Lecturer	10 November 2016	00:47:47
University A	CUST	CUST3	Female	Lecturer	11 November 2016	00:14:07
Bookstore A	CUST	CUST4	Male	Local Book Vendor	18 November 2016	00:43:22
Street Vendor	CUST	CUST5	Male	Pedlar	19 December 2016	00:17:24
Salon A	CUST	CUST6	Male	Salon owner	19 December 2016	00:10:34
University B	CUST	CUST7	Female	Lecturer	20 December 2016	00:42:40

Source: constructed by author

It should be noted from the table above that even though the interview duration has been set for approximately one hour³² to cover all questions, some interviews were quite short due to the limited time available for the interviewees. Therefore, some of them were contacted by telephone in the following days, for which the durations are not added in the table.

³² See the subsequent section (Ethical Considerations).

Stakeholder Group: Societies

In this study, a stakeholder in society is defined as anyone or any group, except those classified as managers, members, or authorities, that has legitimate interests, positions, activities related to the BMT or is otherwise affected by the BMT's existence. Societies include the beneficiaries, competitors, associations, politicians, and religious organisations, for both Muslim and non-Muslim community members. Interviews were conducted with seven community members, including law firms (the victims' lawyer), associations, competitors, and academicians. Both Muslim and non-Muslim interviewees were interviewed to get comprehensive views and perceptions.

As the interviewees articulated, strong stakeholders are likely to be found in the community (e.g. religious leaders/*ulama*) and as public figures (e.g. academics, politicians). They are the backbones of their BMT and hold important roles in the BMTs; part of this role includes helping to prevent fraud. This will be discussed further in subsequent chapters. The details of interviewees and interviews from both failed and successful categories are as follows:

Table 4.7 Stakeholder Group: Societies

Institution	Group Code	Interviewee Code	Gender	Occupation	Interview Date	Interview Duration
BMT Association	BEN	BEN1	Male	Director	31 October 2016	01:15:32
University A	BEN	BEN2	Male	Lecturer	10 November 2016	00:32:37
University A	BEN	BEN3	Female	Lecturer	11 November 2016	00:41:50
Law Firm	BEN	BEN4	Male	Lawyer for Victims-Employees	11 November 2016	01:08:44
BMT Forum	BEN	BEN5	Male	Director	17 November 2016	00:13:42
NGO A	BEN	BEN6	Male	Chairman of NGO for Economic Development	29 November 2016	00:54:53
Credit Union A	BEN	BEN7	Male	Supervisory Committee	30 November 2016	02:08:19

Source: constructed by author

It should be noted from the table above that even though the interview duration was set for approximately one hour³³ to cover all questions, some interviews were quite short due to the limited time availability of the interviewees. Therefore, some of them were contacted by telephone in the following days, for which the durations are not added in the table.

Stakeholder Group: Authorities

In this study, an authority or government is defined as any person who has legitimate power and status by the laws and regulations to control and advise the BMT Islamic cooperatives. This includes the Central Bank, the Ministry of Cooperatives (MoC) including the provincial offices, Otoritas Jasa Keuangan (OJK, Financial Services Authority), and the ombudsman. Interviews were conducted with 11 officials representing those bodies.

The details of interviewees and interviews from both failed and successful categories are as follows:

³³ See the subsequent section (Ethical Considerations).

Table 4.8 Stakeholder Group: Authorities

Institution	Group Code	Interviewee Code	Gender	Occupation	Interview Date	Interview Duration
Ministry of Cooperatives and Small Medium Enterprises (MoC)	AUT	AUT1	Male	Assistant Deputy of Islamic Financing	02 November 2016	02:00:00
Bank Indonesia Central Bank	AUT	AUT2	Male	Assistant Director of Department of Economy and Islamic Finance	03 November 2016	0:28:23
Provincial Cooperative Office	AUT	AUT3	Male	Head of Controlling and Monitoring Division, MoC	11 November 2016	01:04:25
Provincial Cooperative Office	AUT	AUT4	Male	Member of Cooperative Monitoring Task Force, MoC	17 November 2016	00:25:07
Otoritas Jasa Keuangan (Financial Service Authority)	AUT	AUT5	Male	Director - Sharia Non-Bank Financial Institutions	29 November 2016	01:35:00
Provincial Cooperative Office	AUT	AUT6	Male	Head of Controlling and Monitoring Division, MoC	16 December 2016	01:38:11
Provincial Cooperative Office	AUT	AUT7	Male	Chief of Monitoring Unit, MoC	16 December 2016	01:38:11
Provincial Cooperative Office	AUT	AUT8	Male	Chief of Organisation and Cooperation, MoC	16 December 2016	01:38:11
Provincial Cooperative Office	AUT	AUT9	Male	Staff of Monitoring Unit, MoC	16 December 2016	01:38:11
Provincial Cooperative Office	AUT	AUT10	Male	Staff of Organisation and Cooperation, MoC	16 December 2016	01:38:11
Provincial Ombudsman Office	AUT	AUT11	Male	Director of Ombudsman	23 December 2016	01:32:26

Source: constructed by author

4.4.3. Ethical Considerations

The main disadvantages of taking part in the study is that some interviewees may find answering certain questions challenging in terms of recalling information or sharing sensitive information. Prior to the commencement of the interview, the interviewees were informed that all information would be confidential.

4.5. Research Process

The research process comprised of three main steps: redefining the key research questions, data collection, and data analysis phases. These are detailed below.

4.5.1. Redefining Key Research Questions

Primary data from the semi-structured interviews is considered an important source of analysis. The interview questions were derived from the key research questions. The secondary data analysis (i.e. document review and website content analysis) helped in firming up the key research questions as knowledge of the media acted as a catalyst for identifying the fraud investigation areas. The analysis of some of the documentary evidence was derived from the literature review. The findings on investigating fraud by having two different sources (i.e. primary and secondary) of information are further substantiated and verified (Easterby-Smith et al., 2008); as the information provided in the interview (i.e. amount of loss) is supported by the evidence found in the documents (i.e. the account statements of the failed BMTs). Likewise, the coverage of fraud and financial damage is substantiated with the quotes from the victims. Therefore, both primary and secondary data appears complementary.

The two key research questions below help to structure the analysis.

What are the underlying causes of BMT frauds?

The objective of this research question is to explore the interviewee's perception and understanding of the causes of fraud. This is an essential research question since it provides background information for the second key research question.

To confirm and explore further, the interview questions for this key research question include the following:

1. Who conducted the frauds?
2. How do frauds happen? (The process, time, related parties, place, etc.)
3. What is the typology of frauds in BMTs?

How does fraud frame stakeholder perceptions of BMT practice in Indonesia?

This research question is designed to gain stakeholders' perceptions of frauds and its influence on the way stakeholders perceived the BMT practice in Indonesia. The sub-research questions, as below, are designed to allow stakeholders to express their feelings of the failures, and to learn how the fraud affects them, or whether there have been any changes in their lives due to BMT failures.

1. What are the values that influence stakeholder's perceptions of BMTs?
2. What is the interplay between fraud and those values for stakeholders?
3. To what extent can overlapping values lead to fraud?

The interviewees were encouraged to share their perceptions of fraud. Hence, the main interview question was: What harm does the fraud bring about? This interview question is classified into a few questions³⁴ which are designed to capture stakeholders' values such as norms, religious values, social

³⁴ See Appendices.

environmental values that may influence their understanding, and action and perception of the causes of fraud. These values are the main keys in the analysis, since stakeholder theory is being employed as the main analytical tool.³⁵ The values are considered important for explaining other observed concepts (e.g. stakeholders' heterogeneity and perspectives by conducting interviews with individuals from various socio-economic and political backgrounds).

However, posing open-ended questions, the interviews are designed to capture not only the interviewee's perceptions of fraud per se, but also their perceptions of BMT businesses and operations. These aspects are essential to explore interviewees' perspectives of the whole situation and to understand their actions.

4.5.2. Data Collection

4.5.2.1. Stage 1: The Pilot Study

The pilot study was initiated not only to pre-test the data collection instruments (such as interviews guide and questionnaires) and data collection feasibility (for e.g. timings, cost); but also, to refine the lines of inquiry and to provide early clarification about issues concerning fraud. The pilot study is important due to three factors: (1) to explore the field in-depth particularly the preliminary version of the interview questions (see Al-Tabbaa, 2013, p.96); (2) to highlight the conceptual framework synthesised from the literature; and (3) to familiarise oneself with the required techniques during data collection (e.g. recoding, taking notes, observing, probing).

The pilot study was conducted with three in-depth interviews with the Director of BMT associations in Indonesia, BMT user, and MoC officer. The details of the

³⁵ See p. 172.

pilot interviews are given below. The sample size of the pilot study is based on the nature of the study.

Table 4.9 Distribution of Interviewees in Pilot Study

Date	Place of Interview(s)	Stakeholder Group(s)	Title of the Interviewee(s)	Duration of the Interview(s)
31 October 2016	Jakarta, Indonesia	Beneficiaries	Director of BMT association	75 min
1 November 2016	Yogyakarta, Indonesia	Members	Street Vendor (both victim and current BMT users)	30 min
1 November 2016	Yogyakarta, Indonesia	Authorities	Provincial Cooperative Officer	95 min

Source: constructed by author

The rationale for conducting the pilot interview with the Director of the BMT association is twofold. First, the interviewee had adequate knowledge and skills regarding the Islamic cooperative industry. He owns a BMT, works with BMT-related industries, and currently directs one of the BMT associations in Indonesia. Therefore, his experience is critical, particularly in the pilot interviews, to provide inputs on the interview questions and updates on the current BMT situation. Secondly, he is one of the key persons to provide details of other interviewees. Therefore, building rapport with him through the pilot study is essential.

The rationale for conducting the pilot interview with one of the BMT users is twofold. First, the interviewee had experience on using both failed and successful BMTs. He was the victim of a failed BMT, but he still believes in the BMTs as a financial intermediary, hence he moved to another BMT due to one of the community leaders' recommendations. Therefore, his perceptions of the BMT are important to prepare for the main data collection. And secondly, the interviewee

is one of the SME players; therefore, his experience is essential to provide insight on BMT circumstances as a microfinance organisation.

The rationale for conducting the pilot interview with one of the regulators is to update current MoC activities (i.e. monitoring, supervision, regulatory matters) for BMT development in Indonesia.

4.5.2.2. Stage 2: The Main Study

The interviews were conducted by phone or face-to-face. The interview durations vary from 15 to 60 minutes. Each participant will be given the opportunity to read the interview guidelines (see Appendix 1A). The interview will be conducted in Bahasa Indonesia and Javanese. After each participant has agreed to take part in the research, they will be asked to sign (or approve verbally) a consent form (see Appendix 1B).

The interviews are recorded, transcribed, and regarded as confidential. Confidentiality will be ensured by using participant codes throughout the data analysis process, which are only known to the researcher. The interviewees had the right not to be recorded; when the interviewee did not want the interview taped, the researcher took copious notes. However, taping gives many advantages such as helping the researcher to concentrate on the interview and follow-up (probing) questions. Moreover, the provision of the transcript to the interviewee gives them the opportunity to correct any misconceptions. The researcher will protect the confidentiality and anonymity of the interviewees. Any information retained by the researcher will be kept in a secure place within the researcher's safety box.

The participants were identified and recruited based on prior information from media archives, e.g. contact numbers published on Twitter or other media

accounts and office addresses in newspapers. A referral sampling (snowball sampling) technique is used to identify potential interviewees, and by the researcher's judgment, interviewees will be selected if they meet the interviewee criteria, e.g. being able answer the questions and fulfil the research objectives.

4.5.3. Data Analysis Phase: Creating the Codes

The process of creating codes is divided into two sections: (1) initial coding which depicts the nodes (term for codes in NVivo11 software package) used in the document review and website content analysis; and (2) compiled coding which depicts the combined nodes in all data, including the interviews.

4.5.3.1. Initial Coding Scheme

This coding scheme³⁶ is extracted from the initial reading of the documents. This allows the researcher to organise the materials into broad topic areas which had been defined based on a priori knowledge of BMTs, key research questions, theoretical frameworks, or emerging themes. Some nodes also emerged from the related literature. This process allowed the identification of important themes and any recurring themes were categorised into some groups of terms (i.e. causes of frauds, impacts of frauds, fraud locations, and groups of stakeholders). Any related terms were put under these groups, for example the newspapers state that there was no monitoring and supervision, hence these terms were added under the group of 'causes of frauds'; the court rulings state that a certain amount of money was lost during the fraud incidents, then the terms 'loss of capital' was added under the group 'impacts of frauds'. Although the initial codes were still too general, these codes³⁷ were essential in constructing the interview questions;

³⁶ See Appendices.

³⁷ See Appendices.

as the questions need to be constructed in order to seek confirmation and opinions on the preliminary findings from the documentary analysis. The more detailed codes (the compiled coding scheme) were constructed after the interviews.

4.5.3.2. Compiled Coding Scheme

This coding scheme³⁸ is adapted from the initial coding, but with additional coding from the interview transcript analysis. The compiled coding is arranged into many levels (in this study, from 1 to 5) in order to show the detailed categorisations. Similar to the process for initial coding, any relevant and/or recurrent themes were grouped under respective categories. The table below shows small parts of codes for group ‘causes of fraud’ in response to the first key research question: What are the causes of BMT frauds? The researcher added more levels and/or groups of themes following the extracted information from the transcripts. For instance, an interviewee stated that fraud was caused by changing lifestyle of the directors, then the researcher considered categorising ‘changing lifestyle’ under ‘moral hazard’ group as it influences the individual’s conduct of moral hazard behaviour. Another example is when an interviewee stated that there was no supervision for BMTs; hence the researcher put the information as a new theme under the ‘weak governance’ category.

³⁸ See Appendices.

Table 4.10 Part of Codes in Compiled Coding

Codes/ Themes	Level of Coding
Causes of Fraud	1
Moral Hazard	2
Politics	3
Impious (Lack of Religious Spirit/ <i>Ghirah</i>)	3
Superiority	3
Lifestyle (Capitalistic Direction)	3
Reckless	3
Greedy	3
Over-Trusted	3
Ambitious	3
Taking Risky Investment	4
Weak Governance	2
Powerless RAT (Annual Meeting)	3
Weak Employees	3
Poor Supervision	3
Bad System	3
Accounting System	4
Joint Account - Owner and BMT	5
Weak SOP	4
Lacking Teamwork	5

Source: constructed by author

4.6. Conclusion

As the chapter has discussed, this research is comprised of three stages of data analysis: (1) a critical literature review and theoretical framework; (2) the websites and media archives analysis, which examines any Indonesian media attention and coverage on fraud cases in BMT Islamic cooperatives from 2006 to 2016; and (3) collection of data (i.e. interviews and the documents) that is followed by an analysis of the findings which are discussed in the following two chapters. The discussions concern stakeholders' perceptions of fraud as well as their criticism of Indonesian BMT Islamic cooperative governance.

The first stage of data analysis involves a critical literature review in three main areas: corporate governance, VBOs, MBOs, and fraud, in order to find the research gaps; following the initial idea of the research (which involved an iterative process). The theoretical framework covers corporate governance theories including stakeholder theory.

The second stage of data analysis involves document analysis to examine media archives relating to fraud, e.g. local newspapers, Twitter, Instagram, and so on, posted by stakeholders (i.e. the members, beneficiaries, and authorities). These may contain significant documents such as photographs, police reports, evidence of fraud, and stakeholders' comments. The data is analysed through coding, involving a thematic approach, with content analysis using NVivo11 software.

The third step involves transcription analysis of the semi-structured interviews to confirm the preliminary findings from media archives. The transcripts are analysed using NVivo11 software, based on results or themes from document analysis.

The following chapters discuss the findings relating to the key research questions. Using stakeholder theory as an analytical tool and post-positivism as the research paradigm, perceptions are investigated further to identify tensions, conflicts, hidden interests, ideologies, and values in the BMT which to some extent have created an environment that encourages fraud; for instance, conflicting values between managers and the organisation, and tension between managers, employees, and members. This analytical step is expected to identify a number of 'solutions' and recommendations for strengthening governance mechanisms for Indonesian BMTs. Lastly, the final chapter of the thesis provides a summary, some recommendations and discusses some of the limitations of the study.

CHAPTER 5: PERCEPTIONS OF STAKEHOLDERS OF CAUSES OF BMT FRAUD

5.1. Overview

The empirical chapters (Chapters 5 and 6) examine the results of fraud analysis based on two main data sets: 1) the primary data (i.e. semi-structured interviews) of 38 BMT stakeholders; 2) the secondary data (i.e. document review and website content analysis) related to the fraud cases (i.e. processes). Due to the nature of semi-structured interviews involved in this research which contain open-ended questions, coding analysis using the software package NVivo11 is employed. Chapter 4 has described the data processing phases using this software including the coding stages. The software also helps to extract relevant information from the media archives as the nodes (coding mechanism in NVivo11). These nodes are grouped by NVivo11 into key themes which relate to each key research question. Chapter 4 and 5 both reflect the findings of this research and make sense of the findings in relation to the literature.

This chapter is focused on answering the first key research question (What are the underlying causes of fraud within BMTs?); including its sub-research questions (Who conducted frauds? How do frauds happen? (The process, time, related parties, place, etc.) and What are the typology of frauds in BMTs?). This chapter consists of five main parts. The first part aims to provide the general appraisal of the research processes and findings. The next four sections contain discussion of four themes which are the main causes of BMT fraud incidents in Indonesia. This includes moral hazard, conflicts of interest, mismanagement, minimum attention given to the BMT, and stakeholders' limited knowledge on BMT practice.

5.2. A General Appraisal of the Research Process & Findings

The starting point of this thesis is an exploration of fraud cases in Indonesian BMT Islamic cooperatives based on stakeholders' perceptions. BMTs became a phenomenon in Indonesia due to their rapid growth spreading across the nation. They have a potential role as financial intermediaries particularly for both unbanked people (individuals with limited access to banking services) and the underbanked (individuals with limited access to banking services). Moreover, BMTs are considered to have more convenient services compared to the banks.³⁹ Therefore, the BMT is a promising microfinance institution as well as a financial solution for needy and vulnerable groups. On the contrary, the fraud cases reveal the ugly conditions of BMT governance and these deeply affect stakeholders. Hence, this study emphasises the importance of developing good governance mechanisms as one of the efforts to prevent fraud in BMT Islamic cooperatives.

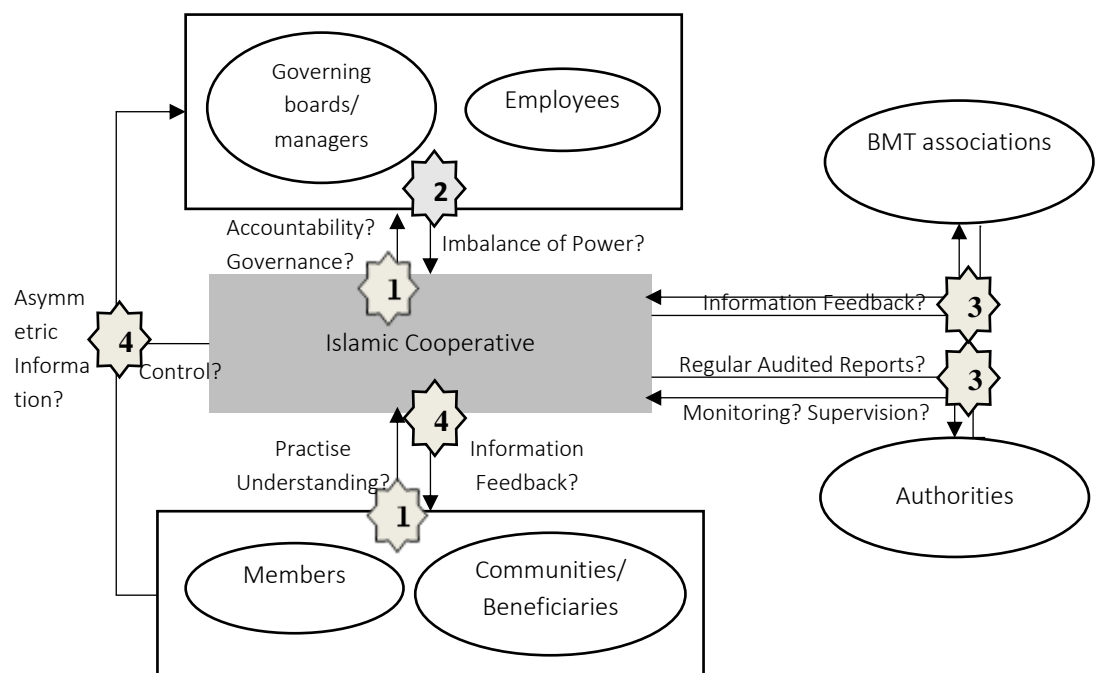
Figure 5.1 (as below) is a skeletal framework which summaries the links and issues between BMT stakeholder groups. This framework is modelled using stakeholder theory (see Chapter 4: Theoretical Frameworks). Based on the evidence, the documents sources⁴⁰ and interviews, the framework shows four main themes as the causes of fraud: 1) moral hazard behaviour; 2) mismanagement (including inappropriate investment; ineffective general assembly; unsound accounting systems; and poor internal control); 3) minimum

³⁹ See p. 75.

⁴⁰ The document sources are not limited to print media, newsletters, and website coverage; but include internet social media platforms like Facebook (i.e. Facebook page made by the victims), Twitter (i.e. Twitter account made by the victims) and Instagram (i.e. Instagram hashtags and accounts of the fraudsters and victims). The documents are analysed using NVivo11 (a qualitative data management software).

attention given to BMTs by the authorities (including limited supervision; limited monitoring; unregulated environment; limited resources; and regular staff rotations); 4) stakeholders' limited knowledge of BMT practice. These main themes are derived from the coding analysis⁴¹ using the NVivo11 software package.⁴² The process of extracting the themes (i.e. coding) is described in Chapter 4 (see p. 105).

Figure 5.1 Skeletal Framework of Stakeholders' Links and Issues



Source: composed by author

The framework shows that the frauds in BMTs are considered a systematic failure of Islamic cooperative governance in Indonesia. All stakeholder groups have a part to play in these failures. They are responsible for these incidents as they have an essential role of stopping fraud before it starts. For instance, at point 1, members could educate themselves on how the organisation works hence

⁴¹ See Appendices for the Coding Books.

⁴² See Chapter 4: Theoretical Frameworks and Research Methodology.

they could be more involved as part of internal control mechanisms. Even though some interviewees confirm that the purpose of BMTs is not only to conduct business but also spread Islamic values, in practice, the business is more dominant than the values (these overlapping values are discussed in Chapter 6). Therefore, understanding the practice is an essential issue for stakeholders. More discussions on each finding are discussed as follows.

5.3. Moral Hazard

Moral hazard is a central part of a legal and economics explanation of how things came to be as they are (Baker, 1996). This concept is widely associated with issues in traditional organisations, such as bankruptcy, welfare, workers' compensation, insurance, and business law. Baker (1996) argues that moral hazard has never been a straightforward, purely logical or scientific concept. Hence, moral hazard issues do not merely occur in particular types of organisations; they could also occur in non-traditional organisations such as cooperatives. Character, or the individual predisposition for fraud or loss, is a dominant concern in the concept of moral hazard. The agents are most likely to be careless or fraudulent, for instance an underwriter in insurance cases (Baker 1996).

Research on fraud and criminality is predominantly focused on executive-led fraud (Piquero, Tibbetts, and Blankenship, 2005; Rossouw, Mulder, and Barkhuysen, 2000; Weisburd, Waring, and Chayet, 1995) which overlooks specific occupational roles (i.e. agents) such as managers. Labie and Périlleux (2008) stated that moral hazard, the conflict between owners and managers, and the conflict between members and their elected board of directors, have been identified as a major constraint to the development of MBOs and VBOs (such as credit unions). This study also points out similar results, that the frauds were

caused by moral hazard behaviours (including asymmetric information, conflicts of interest) carried out by the executive boards (managers). Conflict of interest is the most important issue in corporate governance, not limited to the corporations, but in any organisation (including MBOs, VBOs).

Moral hazard is the main theme in the managers' perceptions that causes fraud. One of the managers from the successful BMTs⁴³ stated that it is more the internal (personal) factors that cause fraud: changing values (lifestyles) and losing the BMT's spirit/motivations (*ghirah*).

"People change their lifestyle. When they started, they just had a small amount of money, but when the BMT grew and became so huge, they changed their way of life. Secondly, they don't have good religious background, no amanah (upholding trust). They made BMT for personal benefits, not for the organisation. The BMT's spirit was not there." (MAN3)

The statement above underlines conflicts of interest between the individual and organisation. The fraudster aimed for personal benefits and neglected the organisation's benefit. Greed was the motivation of the fraudster to commit fraud. Based on the fraud triangle, greed is perceived as the financial pressure which justifies the perpetrator's behaviour to claim stakeholders' money as his own. Braithwaite (1992) claims that greed is 'socially constructed as insatiable wants' (p. 80) that 'can never be satisfied' (p. 84) as it is rooted in the individual characters. This issue, overlapping individual and organisational values, is discussed in Chapter 6.

An interviewee from another successful BMT also shares similar perceptions that in the BMT PSU case, the general manager (GM) was not keeping the BMT's aim

⁴³ The definitions of good and bad/failed BMTs have been described in Chapter 6, in the section on Sampling.

to be a social and non-profit organisation. MAN10, who was part of the failed BMT, states that the profit-seeking motivation was still dominant.

“They [BMT PSU Headquarters] always ask us to do more and more funding! [vs. lending/financing, usually from people’s savings]. We don’t have extra cash in our office as we deposit the money to them. In return, they give our daily allocation in the morning, the amount is not fixed. So, there’s no such balance check or training for us. It’s always about funding and funding.” (MAN10)

As stated above, using the fraud triangle framework, it can be seen that the fraudsters also perceived financial pressures such as the continuation of the business. Hollow (2014) states that financial pressures play a hugely significant role in motivating employees and managers to commit fraudulent offences at work. Therefore, this finding also echoes previous studies on fraud motivations.

MAN10 also underlined the ambitions of the general manager (GM) in the PSU headquarters to collect funds from their members, but abandoned other responsibilities such as distributing the funds, providing assistances to local branches, offering training for local managers. She added that once the local managers deposited the funds, e.g. cash to the headquarters, they were not getting it back. If there is any shortfall in future lending, she (and other local managers) should cover it by themselves in any way. In fact, apart from the PSU GM, nobody knows the records of the deposited funds. Lately, while the fraud case was being exposed, they eventually knew that the funds were being distributed to GM’s colleagues and often off-book.

Zahra et al. (2007) argues that society, industry, and organisation serve as serious pressures that increase the incidence of top management fraud. However, they added that at a fundamental level, the motivation to commit fraud might be deeply embedded in top managers’ personal ambitions, histories, and complex personality structures (Zahra et al., 2007, p. 124).

Another manager also underlined similar perceptions (see below), that the manager's personality in the fraudulent BMT had changed as he was previously known as a trustworthy individual, but later changed due to his growing BMT.

"I knew him (the director) as a good man, intelligent, active in many organisations, activist, and visionary. He managed this BMT from zero until he succeeded with a hundred customers and billion assets. Nobody replaced him for almost 30 years! But then, he was losing faith and becoming greedy, arrogant, like now. Too bad."
(MAN7)

As additional point taken from the statement above, which relates to the next section (Mismanagement of BMT), is that the manager had not been replaced for some years, which could be prevented if the BMT had good control mechanisms such as effective members' monitoring through RAT. Through an effective RAT, any leaders' domination could be prevented as the meetings may demand a new leadership board.

Based on stakeholder theory, managers are the strong stakeholders in fraud incidents, as they are the 'driver' of BMTs. On the other hand, one of the interviewees from the successful BMT stated that fraud was simply a consequence of the misconduct of individuals as well as bad governance of the BMTs.

"It's simple. It's either the man or the system that is not doing it right." (MAN1)

The above statement shares similar principles with Jensen's (2003) study. He underlines that people have the tendency to manipulate systems, and by doing so, they actually destroy the organisation's values. There would not be any sound systems if the person was fraudulent. Both the man and the system should be right. Hence, the key lies in changing the way people think by re-framing individuals' values to be aligned with organisational values. Further discussion about values will be described in Chapter 6.

5.3.1. Political Factors

There is a fine line between fraud and political pressure. However, most studies refer to fraud and political factors as part of electoral fraud (i.e. clandestine and illegal efforts to shape election results) (Lehoucq, 2003). This thesis positions itself in the fraud and politics literature by sharing a similar finding, which is that political motives trigger conflicts of interest that lead to frauds in the failed BMTs.

MAN7, one of the interviewees who was part of the managerial boards from the failed BMT, stated that the general manager was misusing the BMT funds for sponsoring his relative's participation in elections for government positions. His statement was:

“Based on employees’ observations, they sense unrecorded transactions that only the general manager has access to. We suspected his brother since he was part of the BMT founders, had been in the managerial boards, and was a customer (nasabah) too. From there, we believe that the GM was being used by his brother for his interests (to win the parliamentary elections).” (MAN7)

The statement above infers that the motivation underlying fraud can also be rooted in the influence of another person, not merely the fraudsters themselves. In the fraud triangle, the general manager's motive was rooted from the perceived pressures of others (i.e. family influence). He could refuse his brother's will if he strongly upheld the governance principles (i.e. transparency). However, the above statement suggested that there were unrecorded transactions. This infers that the general manager presumably gained benefits from this illegal transaction. In the fraud triangle framework, he rationalised his behaviour since he perceived that he had only borrowed his BMT's money and he believed he would pay it back (for instance when his brother repaid the borrowed fund after elections). The general manager (the fraudsters, in this study) perceived that

nobody would be damaged by this transaction since they would presumably fix the books by returning the funds (zero-sum game⁴⁴); members were not losing their money. However, things did not run as planned, as the media exposed the fraud first before he presumably managed to return the members' money.

5.3.2. Individual Characteristics

Holtfreter (2005) describes that individual characteristics, which are categorised into four main factors: age, gender, education, and position, are strongly correlated with white-collar crime. In terms of age, Hirschi and Gottfredson (1983) state that the distribution of the rate of crime based on age typically peaks between the ages of eighteen to twenty-five, and then declines over time (an aging out effect). In terms of gender, education, and position, the perpetrator is often described as a highly educated male in the upper ranks of his organisation, who commits a one-time criminal act (Holtfreter, 2005, p.354). Many previous studies described that the lower an individual's level of education, the more likely they were to participate in criminal activity (Loeber and Dishion, 1983; Thornberry, Lizotte, Krohn, and Jang, 1991). Yet, Holtfreter (2005) argues that no research has examined how the frauds committed by lower-level employees might differ in nature from the frauds of executives.

Anecdotal information in this study from the interviews, website analysis, and media archives, however, to some extent echoes the arguments in the more recent literature above. Brief information from the demographic profiling of interviewees is given below (see appendices for the complete table) and shows that the age-crime distribution in BMT fraud cases did not peak between the ages

⁴⁴ One principle in game theory when the net change of benefits is zero; no wealth is created or destroyed (Morrow, 1994).

of eighteen to twenty-five, but forty to fifty. Most stakeholders including the fraudsters were also highly educated.

Table 5.1 Demographic Profile of Interviewees⁴⁵

Criteria	Across Gender	N Samples	Notes
Gender	Males	29	76.3%
	Females	9	23.7%
Age	Males		The average interviewees' ages are: <ul style="list-style-type: none">• 49 (both male and female)• 46 for female• 50 for male
	<30	0	
	31-40	2	
	41-50	14	
	51-60	9	
	>60	4	
	Females		
	<30	0	
	31-40	1	
	41-50	7	
51-60	1		
>60	0		
Academic Degree	Bachelor	14	11 Males, 3 Females
	Master	14	11 Males, 3 Females
	Doctoral	6	3 Males, 3 Females
	N/A	4	All Males
Victims	Yes	10	2 Bachelors 5 Masters 2 Doctors 1 N/A
	No	28	12 Bachelors 9 Masters 4 Doctors 3 N/A
The Fraudsters in the Failed BMTs (as analysed from the websites and media archives)	MAN Males		As informed in the secondary data (i.e. newspaper), the average fraudsters' ages are: <ul style="list-style-type: none">• 46 for female• 50 for male
	PSU	1	
	Wonogiri	3	
	Isra	2	
	Hilal	N/A	
	Amratani	1	
	MAN Females		The court documents state that some fraudsters have college degrees.
	PSU	0	
Wonogiri	N/A		
	Isra	N/A	

⁴⁵ The table shows a range and variety of demographic measures, in an attempt to make the sample as robust as possible with regards to the qualitative nature of the data collection method chosen.

	Hilal Amratani	N/A 2	
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Source: constructed by author

However, echoing previous literature, the perpetrators are also mainly males in the upper ranks (general managers) of failed BMTs, yet there were also female fraudsters in one of the failed BMT samples in the study. One interviewee from the victims of BMT Amratani, Yogyakarta perceived that women tend to influence the possibility of frauds as they are more vulnerable to hedonism (i.e. changing lifestyle).

“Maybe because there are too many women there. Their styles changed, from a modest to glamorous life. Ms Luluk, Ms Santi, they’re women⁴⁶. All defendants are women. The only male was Mr Winoto⁴⁷, but behind him is his new wife.” (CUST7)

This finding supports the study of Betz et al. (1989), who argued that there are possible connections between gender and the willingness to engage in unethical business behaviour. Tifferet and Herstein (2012) also describe that women have higher levels of hedonic consumption and impulse buying. Friedrichs (2002) argues that there is universal agreement that many cases of white-collar crime occur in organisations either by individuals for personal advantage, or by individuals on behalf of the organisation.

The theme of changing lifestyles is reoccurring in this study. This suggests that changing lifestyle, which to some extent motivates managers to abuse their power, can lead to moral hazard; and moral hazard can trigger frauds.

MAN7, a manager from a failed BMT, stated that the general manager betrayed their stakeholders’ trusts. As he describes below, his reputation was damaged

⁴⁶ The names are not necessarily being anonymised as they were not part of the interviewees; it has been published in the government documents as well.

⁴⁷ As above.

since even though he was not one of the fraudsters, the members of his branch perceived that he stole their money.

He was not amanah (fulfilling promises). After the case was exposed to the media, all of us, I and other employees, entered into his house to ask for an explanation! We were all panicking! The customers were running to us asking for their money. On the other hand, we had no idea of the situation at times.” (MAN7)

In the typology of fraud, conceptualizing occupational fraud (Friedrichs, 2002) includes a violation of trust. This definition permits a comparison of individual and organisational characteristics for each fraud type (Shapiro, 1990).

The above statement infers that fraud is mostly rooted in the individual's changing character. Previous discussions in the earlier sections also indicate one main cause: greed. Smith et al. (2004) state that the motivations for rule-breaking such as fraud have not changed greatly because they arise from human nature. Hence, much fraud research is usually rooted in the individuals' morality (i.e. moral hazard of the organisation's strong stakeholders). Smith et al. (2004) state that offenders are motivated by passion, greed, revenge, curiosity, need, abnormal perceptions of themselves or society, or just plain evil. Some fraudsters even enjoy the challenge of manipulating the system and not being caught. Sometimes, rules are broken because they are not appropriate to the people, the place or the time to which they purport to apply.

Overall, all the interviewees' statements in this section convey that the fraud incidents were started from the headquarters where most strategic decisions were made. It means that the fraud, in BMT PSU Malang for instance, was rooted in the moral hazard of its manager. Likewise, in other failed BMTs, the fraudsters were mainly the internal elements of organisations (i.e. employees). The general manager (who was in the headquarter office) was struggling to balance headquarters-subsidary relations. Hence, this motivated him to commit

fraud as he tried to use the subsidiary's assets to balance the headquarters' accounts, using the headquarters' money for his benefit.

Anecdotal information from the interviews, website analysis, and media archives as shown in the table above suggest that there is no known demographic pattern as to where fraud will be committed. Frauds occur in any neighbourhood, with equal incidence in areas of high or low socioeconomic indicators and high or low educational backgrounds. All victims also come from a variety of backgrounds. There is no discernible pattern has been identified that can convey authoritatively the conditions under which fraud thrives best.

5.4. Mismanagement of BMT

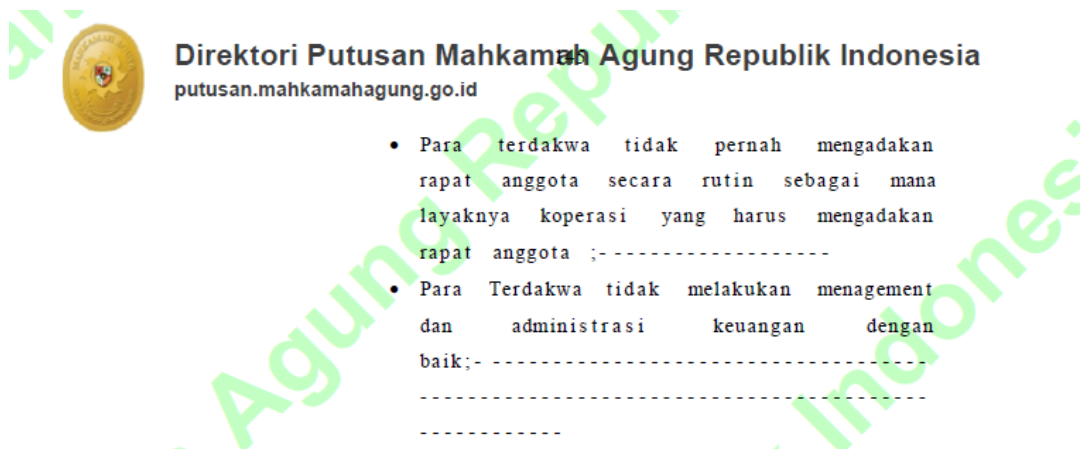
Mismanagement is when people manage or control situations poorly (Petrucelli and Peters, 2017). Mismanagement is usually interrelated with abuse of power by people who own control any aspect of an organisation; in this study, they were the managers and employees. Although not all cases of financial mismanagement involve fraud, much research on organisational misconduct is strongly related to fraud (Cascarino, 2012). Data analysis regarding three main mismanagement factors is presented in the following sections.

5.4.1. Insufficient Internal Supervision and Control

As suggested by Singleton and King (2003, p. 88), insufficient internal control is the main cause of fraud. In this thesis, the data analysis also shows that most interviewees agreed that internal control in the failed BMT was very poor due to an ineffective general assembly and weak supervisory board. The supporting evidence from the Court Ruling on Criminal Offense of BMT Amratani⁴⁸ Case, as

⁴⁸ One of the samples of failed BMT (see p. 94).

seen below, stated that defendants were convicted of fraud due to abuses of power as managers.



Source: Sleman District Court (2011, p.145)

The first paragraph of the evidence above translates as “the defendants did not appropriately conduct the regular cooperative general assembly (*Rapat Anggota, Rapat Anggota Tahunan/RAT*) which is mandatory for a cooperative.” The second paragraph states that “the defendants did not manage the cooperative well and failed to provide good financial administration.”

The Court Ruling provides evidence that there were flaws in internal monitoring, inspection and accountability; the general assemblies which are part of internal control were not functioning properly. Such an environment may undermine stakeholders’ rights, as the annual general assemblies (i.e. *Rapat Anggota Tahunan/RAT*) are one of the governance mechanisms for the managers to be held accountable to stakeholders. Chaddad and Iliopoulos (2013) state that the general assembly is a mechanism for members to exercise their roles in decision control.

Based on stakeholder theory, the power of members in the cooperative is definitive. Hence, members should be involved in any strategic decision-making

processes during BMT activities, as members should be the key and strongest stakeholders in BMTs. However, on the contrary, in this study, managers were the key stakeholders rather than members, and were not involving their members in any decision-making processes. In a cooperative, strategic decisions should be confirmed in the general assembly, which is supposed to be the highest decision-making level that gets members' approval. In the failed BMTs, the managers misused their power to maintain their opportunistic strategies (i.e. undisclosed strategic information, such as investment plan for members' fund⁴⁹, which led to information asymmetry; see Figure 5.1).

The absence of the regular general assembly (or RAT in BMTs) could also be an indicator that a BMT is in trouble. As covered in the leading local newspaper in East Java (Jawa Pos), an authority (local MoC in Malang District, East Java) stated that the BMT should conduct the RAT in the first quarter. A missing RAT is a signal of a possible financial problem.

“The local MoC in Malang has expected that the BMT PSU was in trouble as they didn't conduct any RAT for quite a period; which they actually should do in the first three months of the year. The BMT PSU is registered as a cooperative with us. If a cooperative didn't conduct a RAT, it could be concluded that they have financial problems.” (Jawapos.com 2015)

Ineffective RATs demonstrate that, as cooperatives, BMTs were underperforming. RAT is the essence of establishing a cooperative democracy. Democracy is the essence in a cooperative; missing the implementation of this concept threatens the existence of cooperatives. RAT is also the most important element of stakeholders' participation in the BMT. As stated below, one of the interviewees (MAN2 from BMT Lasem⁵⁰) also perceived that RAT is just a formal procedure of the MoC as some members attend it for ceremonial purposes (i.e.

⁴⁹ Inappropriate and unintended investments are discussed in the following section.

⁵⁰ Part of successful BMTs in Indonesia

dividend and bonus distributions), not governance-related purposes (i.e. approval of strategic plans, managers' hearings).

“RAT is only a formality! People only attend the RAT for the ceremony, but leave immediately after they get the incentive [of attending the RAT] and the shared-dividends. Most of them skip the main agenda. They still don't get the message of RAT urgencies.”
(MAN2)

The statement above shows that the members were not aware of the function of RAT as the highest decision-making level in a cooperative. Moreover, they were not aware of their actual power in a cooperative through the RAT. As a democratic organisation, RAT is the ultimate power in the decision-making process in a cooperative. Any strategic plans should be confirmed in the RAT. The Cooperative Societies Act 1992 Article 23 states that the RAT shall determine: Article of Association; general policies on management organization and businesses of cooperatives; selection, appointment, termination of management and supervisor; working plan, financial plan of cooperatives, and legalisation of the financial statement; legalisation of management's accountability in implementing his/her duties; distribution of remaining incomes; and merger, liquidation and termination of cooperatives. Ensuring regulation, RAT is crucial for a BMT and every member should be involved and expected to be active in the discussions and decision-making process.

Spear's (2004) study supports this finding. He states that the low levels of member participation and managerial entrenchment are part of MBOs' weaknesses. Hence, not only for BMTs, but most cooperatives and mutuals also struggle with similar issues; including the ones from developed countries (i.e. cooperatives in the UK were the sample in Spear's study). Spear (2004) underlines that democratic establishment in MBOs is still weak, hence without members' participation in the general assembly (i.e. RAT in BMTs), the

organisation is losing their internal control. Without good internal control, the managers can misuse their governing power to only pursue their own best interests rather than members' interests.

One interviewee (MAN8, as below), who was part of the leadership board in the failed BMT, admitted that the internal control in her BMT was missing. She added that this gap was seen as an opportunity by the fraudster (i.e. the general manager) to misuse his power over the organisation.

“There was no such internal control at all from anyone, including the supervisory board. He [the general manager/the fraudster] totally dominated the board and never listened to us [other directors].” (MAN8)

CUST7, the victims of BMT Amratani, also added that the supervisory board in the BMT was also weak. There was no control system to prevent abuse of power in the BMT Amratani. Hence, there were also opportunities to commit fraud in the organisation due to lacking internal control.

Under the fraud triangle framework, which has been discussed in Chapter 2, the ineffectiveness of RAT can be seen as an opportunity for fraud. Dellaportas (2013) states that an opportunity grants the means to follow through with the intention to commit fraud. The weak internal control in BMTs (one of which is through the efficient general assembly) is perceived as the break of BMT governance and signal to the fraudsters to continue the misconduct. In this thesis, the managers in failed BMTs saw themselves as superior to other elements in the organisation; no one could control him, including other directors, supervisory boards, or members (through the general assembly). The weak RAT also perceived the stakeholders' inability to judge the quality of the leadership boards' performance. The low levels of members' participation in the RAT was also considered a

consequence of stakeholders' ignorance of the organisation as well as showing their incapacity to detect fraud.

In their study of UK consumer cooperatives, Davies and Donaldson (2001) state that even larger organisations tend to have lower participation levels among members. Their findings are similar to this study, as most of the failed BMTs were growing organisations (i.e. growing office numbers and assets). For instance, BMT PSU Malang in East Java and BMT Isra, BMT Hilal, BMT Amratani in Yogyakarta; all of them opened many branches in other provinces in Indonesia. However, on the contrary, the largest BMT in Indonesia, BMT UGT Sidogiri which is also part of the successful BMT samples, arguably continues to have sound governance (i.e. high members' participation levels ⁵¹). Therefore, further analysis is needed (covered in Chapter 6) to underline the factors of sound BMT governance that can be learnt particularly from the successful BMT groups, so that frauds can be prevented in the future.

5.4.2. Inappropriate and Unintended Investment

Another cause of fraud was due to inappropriate investment of BMTs in a risky business; and this type of investment is not Islamic since it could be considered a form of gambling or speculation. Both gambling and speculation are strictly prohibited by Islamic law. Intentionally misleading stakeholders' investments (particularly investors, or members in cooperatives) is not the sole problem of frauds in VBOs; indeed, this issue is an industry-wide problem (particularly in the banking sector) (Dellaportas, 2013).

⁵¹ Kelana in Republika (2018).

As informed in the local leading newspaper in East Java, JawaPos, as below, BMT PSU Malang-East Java invested their members' fund in property, which was allowed in Islamic law. However, this property is considered a risky business since the BMT is financially unqualified to engage in long-term investment such as in property;

"The GM of BMT PSU, Anharil Huda, mentioned that his cooperative owns a property which uses the customers' deposit funds. If this property investment problem could be solved, then he believed that BMT PSU could repay their debts to customers." (Radar Malang Jawa Pos Online 2015)

The statement above underlined manager's incapability to channel stakeholders' fund in appropriate investment. Even though, most victims of this failed BMT states that the investment (property) was actually bought for the community (as below).

"He [Anharil Huda] bought the property to build an Islamic Al-Markazy. So, it could be a centre for Islamic learning in East Java" (MAN7)

The statement above underlined the manager's incapability to channel stakeholders' funds in appropriate investment. Even though most victims of this failed, the BMT states that the investment (property) was actually bought for the community (as below).

"He [Anharil Huda] bought the property to build an Islamic Al-Markazy. So, it could be a centre for Islamic learning in East Java" (MAN7)

The statement above shows the good intention of the fraudster (i.e. Anharil Huda) to build an Islamic learning centre called 'Islamic Al-Markazy'. From Cressey's fraud triangle, his good intention was perceived as the rationalisation to commit fraud. Dellaportas (2013) describes rationalisation as reasoning to justify fraudsters' behaviours and ease misgivings. In this case, the fraudster's rationalisations were that it is for good purposes, for everyone's benefit, and he

was only borrowing the money to buy the property and would pay it back; yet in fact, he never paid the money back to his members. BMT PSU's general manager was known as an ambitious individual,⁵² and people who are extremely ambitious and obsessed with power and control are more likely to engage in risky behaviour that could lead to fraud (Duffield et al., 2001).

MAN3, who is a manager in a successful BMT, also shared similar views. He stated that BMT Hilal and BMT Isra in Yogyakarta also wrongly invested their members' funds in real sectors (as below). Yet, in this case, he believed that it was for business not social purposes.

"They're [BMT Isra and BMT Hilal, Yogyakarta] not only playing in property, but also in other real sectors such as restaurant business, coal mining business, etc. They were reckless by taking high-cost deposits, invested in real sectors, hoped for high returns. As we know, real sectors usually give you high returns for about 10%, so they thought that giving 2-3% for their customers is still manageable. But in the end those projects failed as well as the customers' deposits." (MAN3)

Investing in property is one of the most common reasons why fraud occurs in BMTs. BEN1, the Director of BMT association in Indonesia, stated that many BMTs were attracted to invest in property, but many of them collapsed due to failing to return members' money.

"Most of them were not successful in property business. We [BMTs] are part of small medium enterprises (SMEs), we work on a short term-basis, maximum five years. So, if you bought a house or land, it would be more than 5 years, long-term investment, and it's not an SME investment. They [PSU] wanted to get rich fast. It was the same reason with the fraud case in BMT Isra, Yogyakarta. They also wanted to get rich fast, so they took the long-term government programme in property to manage 1 million houses for the poor with 5% government subsidy. They thought it was cool, simply found the buyers which were quite easy since the requirement was also simple. But it ended up [that] they sold the property to the rich too, as not many of the poor groups were meeting the requirement. Hence, they lied to the government by manipulating the report, by saying that subsidy programmes had been distributed to the poor only." (BEN1)

⁵² This is also part of moral hazard which is discussed in the subsequent sections.

Additionally, investing in property was also considered a long-term investment in which it was inappropriate to channel members' savings as they are considered short-term funds. Hence, long-term investment is to some extent unmatched with the domain of BMT investment (i.e. short-term investments).

All cases were rooted in the presence of ambitious individuals, as they spawned a sense of mastery and excitement in meeting and overcoming challenges (Duffield et al., 2001). The managers' misleading investment behaviours jeopardized the integrity of the organisation. Hearit and Brown (2004) argue that this behaviour is considered an outrageous betrayal of stakeholders' trust and a shocking abuse of the system, perverted to produce greater revenue. In the context of BMTs, the way they channelled their stakeholders' fund (i.e. risky/speculating business) already deviated from their main values as Islamic organisations (i.e. avoid speculation and gambling business). Hence, they disregarded their own identity as VBOs (Islamic cooperatives) and turned into profit-oriented organisations (corporations).⁵³ Discussion of greed as a motive for conflict has mainly arisen in the context of fraud, discussed in the following sections.

Based on Cressey's Fraud Triangle, the managers' misleading behaviour of inappropriate investment of stakeholders' funding are either due to perceived pressures or incentives, which motivate an individual to engage in illegal activity (Dellaportas, 2013). Duffield et al. (2001) suggest that the types of pressures faced by offenders vary and depend on individual circumstances. In the BMT context, the misleading investment was due to the manager's ego and ambitions. This includes egocentric motivations and a desire to possess more than one can

⁵³ These contradicting values (Islamic values and economic values) are discussed in Chapter 6.

afford (Dellaportas, 2013; Duffield et al., 2001). Rezaee (2005) defines egocentric motivations as any pressures that fraudulently enhance personal prestige. The fraudsters tend to achieve higher functional authority in their employing organisation (Rezaee, 2005).

5.4.3. False Accounting

False accounting appears to have been widespread in some branches of the economy and at certain periods of time (Harrison, 2009; Lampland, 2010). Shenfield (1983) argues that false accounting is likely to be the tip of an iceberg of undetected crime. False accounting can also be seen as the misrepresented accounts from an individual or organisation so that they do not reflect their true value or convey the financial activities of that organisation. False accounting is also part of the main theme of this study, yet this is not a stand-alone issue as it relates to other fraud factors as well (i.e. stakeholder's limited knowledge of BMT governance practice).

One of the interviewees who was the lawyer of the victims of BMT fraud was surprised by the fact that the managers of the fraud BMTs were woefully under-informed about basic financial, cooperative, and accounting concepts. He stated that the assets between the owner (i.e. the general managers) and the BMT was mixed; whereas in accounting entity principles, the owner and company's accounts should be recorded separately. This condition caused serious implications for business planning, controlling, managing, and other decisions.

“They called themselves a BMT, but as far as I know they don’t work like a BMT. I don’t know, and I’m quite speechless since their governance mechanisms were messy. For instance, they mixed between the GM’s personal account and the BMT’s. If the customers agreed with the product, with their limited knowledge, they simply transferred the money to his account. And that’s it. Deal. And when they were about to sign the contract the next day, the employee asked

the director: ‘Sir, where is the money?’ The director just replied: ‘It’s on me.’ Also, no further questions from the employee! They continued business as usual by issuing the akad (Islamic contract). The employee continued to explain to the customers: ‘so this is the akad, the nisbah (profit-loss sharing ratios) is X amount, equivalent to the interest in Y amount, sign here.’ Here, I don’t like these terms. It means even the employee didn’t even understand the Islamic transaction; there is no such thing as ‘equivalent to the conventional bank’s interest.’ But the bottom line was the money was never transferred to the BMT’s account. The director managed it by himself.” (BEN4)

The quote suggests that besides the general manager, no one had sufficient knowledge on accounting;⁵⁴ the BMT also had no sound accounting system that could back up any unauthorised transactions as such (i.e. mixed entities between owners and the organisation). If the accounting and information systems were reliable, then when the users (i.e. employees) missed feeding the transaction details into the merchant database and failed to do the authentication, the missing numbers (i.e. unrecorded transactions) would be stated in the BMT’s annual reports. Therefore, if the reports were reviewed or audited properly (by the authorities or the auditors), they would flag up the potential of fraud and could do some prevention for it. If the general manager was not too dominant, then the employee might be able to flag the missing numbers in the routine meetings. If the internal control was reliable, then the routine meetings would be able to control the domination of the general manager. Hence, this incident had causes interlinked to one another; yet having sound accounting may have mitigated the threat of fraud.

The entity principle is basic in accounting, which any business players (including cooperative managers) are expected to understand. Hendriksen and Van Breda (1992) describe the entity concept in accounting in terms of ‘ownership equities’. They categorise six separate entity theories: 1) proprietary (the proprietors of the

⁵⁴ Lacking knowledge is also one of the causes of BMT fraud discussed in subsequent sections.

entity are deemed to own its assets and liabilities); 2) entity (the entity is deemed to be separate from its ownership); 3) residual equity (a form of entity theory which concentrates on the most junior ownership group in the entity); 4) enterprise (the entity is deemed to be a social unit acting for several interested groups in the community); 5) fund (the entity being regarded as a user of funds of assets); and 6) commander (the emphasis being on managerial stewardship of entity resources). In this study, the failed BMT breaks the second theory category that the owner's entity should be separated from the organisation's entity. BMTs adopt the entity theory as they are categorised as a public enterprise that is intended to serve some larger social good; not merely a private enterprise created for the purpose of personal enrichment (Boatright, 2008, p.382).

Failing to comprehend the basic accounting concepts signals the weak support given to BMT players (i.e. trainings, assistance) from the related parties (i.e. authorities, associations). This will be discussed in the following section: Minimum Attention to BMTs.

5.5. Minimum Attention to BMTs

This study also points out authorities' roles in BMT fraud incidents as most interviewees agree that there was minimal attention given to BMTs compared to other sectors (such as banks). The minimal attention is evidenced by the insufficient regulations, limited monitoring and supervision, and few allocated resources to the BMT sector. Guinnane (1994) also states that minimum supervision is part of the weakness in credit cooperatives.

Based on the observation of their reactions, the authority was to some extent detached and less passionate about addressing fraud cases compared to the manager's reactions in the previous section. As articulated by the interviewee

who was the Assistant Deputy of Islamic Financing, BMT sectors are considered less prestigious organisations compared to other sectors like banks.

“Many officers are not interested in BMT as it is not as prestigious as the banking sectors. Hence, they reluctantly supervised and monitored them.” (AUT1)

5.5.1. Insufficient Regulations

Regulations have been part of governance discussions in MBOs such as credit unions and cooperatives. Black and Dugger (1981) describe that non-traditional organisations such as credit unions have unique characteristics, thus they need different and unique regulations and supervisory agencies. However, this type of organisation remains neglected compared to other sectors such as banking.

Limited monitoring and supervision are also part of the causes of fraud, a theme that reoccurs in most of the datasets (both documents and interview evidence). However, as confirmed in one of the leading online media in Indonesia, Detik.com, monitoring and supervision programmes have just been started in 2013. This means that the government has started to strictly supervise the cooperatives only recently. This suggests that previous incidents before 2013 (since this study uses secondary data from before 2006 to date)⁵⁵, the frauds were facilitated by limited supervision and monitoring programmes from the government (i.e. the MoC, OJK, and the Ministry of Home Affairs). Regulators are currently under pressure to elaborate licensing legislation for microfinance institutions (Kirkpatrick and Maimbo, 2002). This issue is confirmed by the authority during interviews.

“The OJK/Financial Services Authority, Ministry of Home Affairs, and the MoC collaborated to make a Memorandum of Understanding (MoU) for the enforcement of the Act of The Republic

⁵⁵ March 2018. The period is extended in order to obtain updated information from the coverage of fraud.

of Indonesia No. 1 of 2013 on Microfinance Institutions. So that fraud causes in cooperatives like these could be prevented” (Detik Finance 2015)

The first BMT establishment year in Indonesia (in 1984) was eight years earlier than the regulation (the law for BMT operationalisation came into force in 1992; namely the Act of The Republic of Indonesia No. 25 of 1992 on Cooperatives). This shows the gap in BMT regulations for 8 years, which infers that there were no regulations before 1992. Therefore, as there are no regulations before 1992, there is also no supervision and monitoring towards BMT growth, and no enforcement action on any misconducts. The government is also part of BMT organisations; therefore, they have equal rights and responsibilities toward the BMT. Respectfully, the government have the right to be informed of BMT progress; on the other hand, they have the responsibility to monitor and supervise the organisations.

The BMTs critically need the regulations which support them, given that the organisations have been unregulated for eight years since the first establishment, and moreover the current regulation, after amendment, is now obsolete (26 years behind). One interviewee, a manager in a successful BMT, also confirmed this situation; MAN3 stated that the regulations should be updated along with BMT growth.

“The current cooperative regulations are incapable of catering for BMT growth. You could imagine BMTs with dynamic growth and the regulations that are rarely updated, once amended, but end up being cancelled. And we have stuck with current insufficient regulations.” (MAN3)

Most of the interviewees pointed out that regulation is one of the key ways to establish sound BMT governance. Current regulations are considered insufficient to cover rapid BMT development and unique BMT characteristics. Another

interviewee from the successful BMT groups points out that the authorities should construct new regulations to cover BMT and mutuals:

“In my opinion, there should be particular acts and rules for the cooperative for loans and savings for both Islamic and non-Islamic institutions. Just like in Bank Indonesia [central bank] and OJK. So, the MoC could issue the permits and the OJK could supervise the operations. Consequently, they [the BMTs] should follow and be treated like a bank... this is possible when the regulations are ready” (MAN2)

From the statements above, it appears that many stakeholders, particularly the managers who are the directly impacted groups of any regulation updates, have concern regarding the lack of regulations for BMTs.

Chapter 3 gave a lengthy discussion on the BMT's legal background, but one urgent issue that we need to re-address is that there are also political factors in BMT regulation establishments. The cooperative regulation year 1992 had been updated to Act of The Republic of Indonesia No. 17 of 2012; however, due to public objections on this regulation's compatibility with BMT and Islamic cooperative characteristics, the latter regulation was cancelled by the Mahkamah Konstitusi Republik Indonesia (MK, The Constitutional Court of Republic of Indonesia). The Court considered that Law No. 17 of 2012 which is a new cooperative law is not in accordance with the nature of the cooperative. Therefore, the law was cancelled in 2014 and the previous law (i.e. No. 25 of 1992) must now be obeyed. Public objections were due to fundamental changes in 17 articles in the new law (Act of The Republic of Indonesia No. 17 of 2012): amendment in BMT legal forms, which were perceived by the cooperative to look more like a corporation than a cooperative. Stakeholders' arguments, which are covered by the national newspapers, stated that the newest regulation changed the terms 'gotong royong' or mutual assistance and 'kekeluargaan' or kinship values in the articles into corporate values (profit oriented) (Sahbani, 2014).

As articulated by the interviewees below (BEN6), the BMT's legal form as a cooperative was to some extent poorly fit for the organisation's characteristics. There are many factors shaping BMT characteristics. Firstly, their dual purposes benefit both the organisation and society. The BMT still needs to gain some profit for their operations, but on a reasonable basis, not for a profit maximisation purpose like a corporation. Therefore, the BMT is not a non-profit organisation, but more a non-business collaboration (NBC) type of organisation. Second, a BMT adopts Islamic values. It is argued, therefore, that its values go beyond other values, since for Muslims, following Islamic values is essential and is a part of their worship. Islamic values are the main foundation of their lives. One interviewee, BEN6 from one of the leading BMT associations, stated that the BMT is still finding its most appropriate legal forms (i.e. to try to fit into the cooperative form or find an alternative that suits its perceived distinctive characteristics).

"Honestly, the BMT form as a cooperative is not ideal, since it contradicts BMT characteristics. For instance, the BMT role is bridging between the Shohibul Maal (fund providers) and Mudarib (skill/expertise and management providers). From there, it's not like a member-based organisation, but more a community-based organisation. Hence, BMT may suit a LKM/microbanks form, as they can serve non-members (customers) as well." (BEN6)

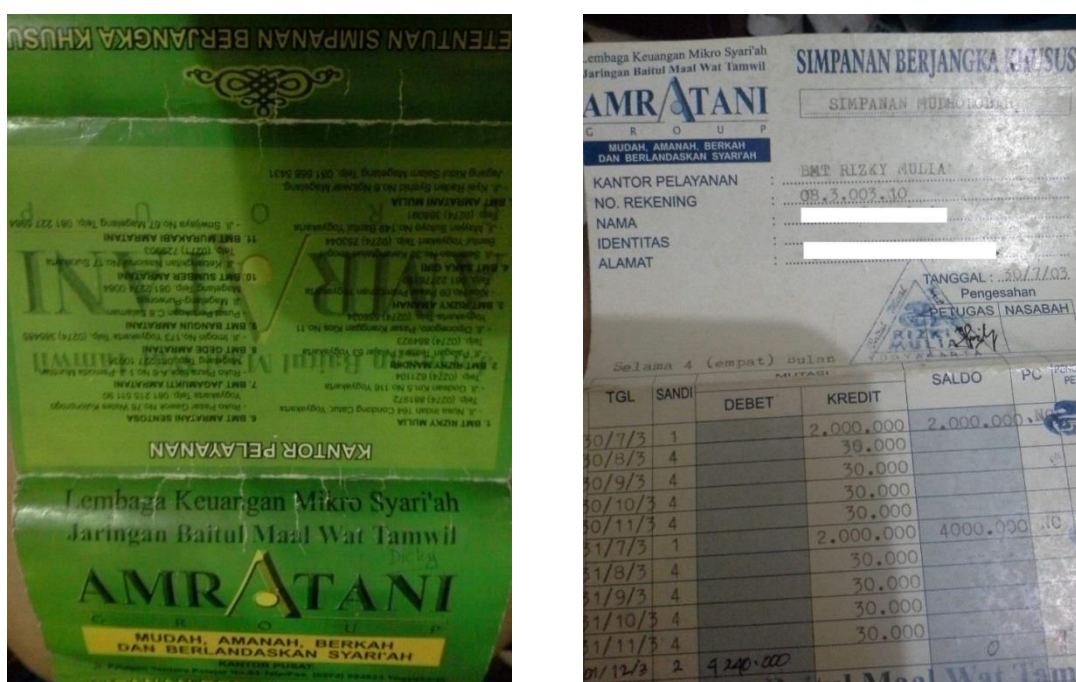
The lack of clarity in the BMT's legal status is to some extent contributing to fraud, since the interviewees admitted their confusion as to whether the BMT is a cooperative, LKM/microbank, rotating-saving and credit association (RoSCA), NGO, or other. They stated that they were unsure how they see their ownership rights assigned contractually to the organisations, since the BMTs had not informed their members of their membership status.

"BMT, cooperatives, and LKM (Lembaga Keuangan Mikro/ Islamic micro-banks) are different. The laws only cover the cooperative and LKM form of organisations. BMT tends to be like LKM, but was accidentally put into cooperative form. Even so, BMT's 'sex' [the

respondent literally stated this to underline his annoyance on what the BMT actually forms] does not exactly suit a cooperative. But, yeah, that's the fact. We usually joke by saying: if a cooperative is truly following the laws, it would not be as big as now; a growing cooperative is the one that disobeys the law [grinning].” (MAN3)

The confusion was not only experienced by the members, but even the organisations themselves. The documents below were shared by one of the victims of BMT Amratani, Yogyakarta (the failed BMTs), which showed the organisation's confusion regarding its BMT form.

Book Account of BMT Amratani, Yogyakarta



Source: CUST7

The above documents are translated as: One fraudulent BMT (see the title of each page: Amratani), called themselves a 'Lembaga Keuangan Mikro Syariah' (or LKMS, Islamic microbank, see green page). If the BMT is under LKMS form, they were supposed to be monitored by the OJK, yet this BMT introduced itself as a BMT (an Islamic cooperative) and registered under the MoC, not the OJK. Their account book picture on the right also stated that they were LKMS (see top left in picture). Therefore, these documents confirmed the ambiguousness of the BMT's identity.

Another fraudulent BMT, BMT PSU in Malang, East Java, also clearly stated that they were a ‘Lembaga Keuangan Syariah’ or LKS⁵⁶ in their main logo (upper picture), both in their headquarters and on the letter heading (lower picture).

Logo of BMT PSU Malang, East Java as a LKS



Source: composed by author

However, based on the media coverage, BMT PSU is registered as a cooperative.

“The local offices of MOC (Dinkop-Dinas Koperasi) will help to settle the BMT PSU case. This is because they are officially registered to Dinkop, Malang. They used to routinely report their activities including the general meeting/Rapat Umum Pemegang Saham (RUPS). But they stopped reporting in 2015 while this case was exposed to the public.” (Masfmmalang.com 2015)

Overall, there is a lack of clarity on the BMT’s legal status and a lack of regulations on its practice, yet on the other hand, BMTs are needed by their

⁵⁶ LKMS and LKS are interchangeably, both referring to the micro-banks.

stakeholders, putting BMTs in an utterly difficult situation. The regulations gap is seen as an opportunity for impostors to commit fraud. The unregulated BMT should be reformed in order to overcome its problems. Adams (1999, p. 49) argued that “when credit unions are mobilising significant amounts of deposits and handling other public funds, they should also be prudentially regulated by an agency that is capable of doing so.” This is also applicable to the BMT, as the BMT also handles public funds, moreover significant amounts from vulnerable groups. Therefore, the BMT should also be well-regulated by the respective authorities.

This finding is echoed in previous research. For instance, Sakai (2010) states that cooperative movements in Indonesia could be regarded as a failed case if the governance systems (including its regulations) are not improved immediately. Seibel (Seibel, 2008) also points out that there is a need for a total overhaul of the BMT governance system. He asserts that BMT regulation and supervision are one of the most urgent steps in BMT governance reformation.

5.5.2. Insufficient Supervision and Monitoring

Berenbach and Churchill (1997) describes the challenge for supervisory bodies in monitoring and supervising microfinance institutions as the organisations have very unique features compared to formal banking institutions. In Indonesia, BMT suffers from insufficient supervision and monitoring by the authorities. One interviewee, MAN8 who was part of the managers in the fraudulent BMT, also stated that there was no supervision at all from the regulators. It shows that the regulators have lost control over BMTs.

“OJK should have tools to handle non-bank financial institutions like this [BMT PSU Malang]. So that they [OJK] could monitor them [the BMTs] on a regular basis. So far, there are no control activities by them.” (MAN8)

Discussions below underline two main factors were perceived by the authorities as the barrier to providing sufficient supervision and monitoring for BMT developments.

5.5.2.1. Limited Resources (Human Resources and Budget)

Most authorities confirm that the insufficient supervision and monitoring of BMT is due to limited human resources and government budget. Another cause of fraud is the lack of power of authorities to monitor the BMTs. Following the documentary analysis results, a lack of supervision and monitoring was found to be one of the main weaknesses of the authorities related to fraud. As articulated by the interviewees from the authority group as below, this condition was due to monitoring personnel being outnumbered in the face of the growth of BMTs.

“We [Cooperative Monitoring Task Force, MoC, East Java] only have 25 staff, but the ones with accounting degrees are only two maximum! And we are the task force for checking the cooperatives’ health at the provincial level [respondent expressed his irony].” (AUT4)

Another MoC officer in a different province, AUT6, confirmed that they cannot cover all supervision and monitoring activities for each BMT in their region due to limited government budget.

“We couldn’t cover all BMTs in our region, as the budget is limited and there too many BMTs in the area. Our monitoring tool is their annual reports to the MoC” (AUT6)

The above information depicts understaffed conditions for the auditing function in the MoC Provincial Office. This condition caused ineffective monitoring and supervision. The respondent showed his frustration that this condition occurred at the provincial level; he inferred that the understaffed conditions could be more severe in the MoC municipal or district offices. He added that the fraud in the BMT PSU East Java was under MoC municipal offices which were independent

institutions from the provincial offices due to local government decentralisation.⁵⁷ Hence, this understaffing as well as authority distribution severely impacted the quality of monitoring and supervision from the local MoC offices, particularly on auditing activities.

Many organizations have grossly understaffed and underbudgeted the auditing process (Tarantino, 2015). The findings in this thesis echo Tarantino's (*ibid*) study who found that even billion-dollar organisations with several operating divisions are staffed by only two to five auditors.

Cuevas and Fischer (2006) argued that in the long run the supervision costs could be covered increasingly by the system itself, but in the development stages a substantial subsidy may be needed. They argue that cooperatives are a public good, moreover, a cooperative service to the poor; therefore they should be supported by the government (Cuevas and Fischer, 2006). Therefore, in the BMT context, the government may allocate a subsidy to support the BMT's supervision and monitoring by the respective institutions (i.e. MoC, OJK).

Additional supporting evidence to underline the limited human resources in monitoring and supervision activities, extracted from documentary analysis, is that the rotating staff within the government (MoC) to some extent indirectly caused fraud in BMTs. One of the statements below underlines the importance

⁵⁷ Since 1999, Indonesia implemented the decentralisation programme to distribute power from the central to the local governments. This programme aimed to reduce the strongly centralised power of government and improve local government accountability on budget spending. Nasution (2016) states that the reforms gave greater authority, political power, and financial resources directly to regencies and municipalities, bypassing the provinces. He added that the powers transferred included those of executing a wide range of responsibilities in the areas of health, primary and middle-level education, public works, environment, communication, transport, agriculture, manufacturing, and other economic sectors. Much of the literature argues that the decentralisation vis-à-vis fiscal decentralisation was an attempt to establish good corporate governance and a democratic environment.

of dedicated units to monitor and supervise BMTs as well as enforce the laws and regulations.

“Yani, as the new head of the local MoC office in Malang, East Java, stated that with or without upper leaders’ instructions, she will handle this fraud case. But, she needs time as she was just one month being the head of the MoC offices. The investigation also needs time to collect all the evidence.” (Jawa Pos Radar Malang 2017)

The statement above indicates that the MoC (and other ministries) are regularly rotating their staff to other ministries. As a civil government officer, everyone should be prepared for secondment to other government offices in Indonesia. They can be assigned under the same department with similar tasks, but the secondment is usually inter-departmental in different ministries. Therefore, in the BMT cases, the person who is currently working on BMT issues (i.e. the monitoring and supervising committee) can be rotated into a new position and leave the ongoing task. Their successor may continue the programmes after adaptation, or simply change the focus to another issue (political situations also take part in this matter – see further discussion on political motives for Value Creation and Differentiation in Chapter 6). This issue, of rotating officers weakening the function of the committee in the MoC, was also raised and confirmed during an interview with the representative of the MoC provincial office in East Java (see next sub-chapter on significant findings from interviews).

Therefore, rotating officers can delay the progress of any BMT development programmes. For instance, the delay on fraud investigation could delay the implementation of the investigation outcomes (i.e. changes in regulations), by which the idle time during the process could allow the frauds to occur as there are currently insufficient prevention mechanisms. Hence, the policy to rotate

officers among government institutions is to some extent contributing to BMT fraud.

As summarised from the interviews with the authority groups, this reaction was perceived due to three main factors, namely: (1) the interviewees are not well-connected to the BMTs, who mainly work at the provincial and local levels, and have no power to take more strategic decisions, such as amending the regulations that are more supportive to BMTs, or hiring new employees to improve monitoring and supervision activities, as these decisions are taken at the national level; (2) with regards to the decentralisation issue, which has been mentioned in the causes of fraud, the corresponding authorities (both from provincial and local levels) have a limited budget to allocated to monitoring and supervision programmes; and (3) the corresponding authorities (at both provincial and local levels) cannot influence staff rotation decisions between ministries, as this decision is made by the national office in Jakarta, Indonesia.

In stakeholder theory, all stakeholders share equal rights and responsibilities of an organisation. Therefore, it is expected that the regulators should also pay equal attention to the fraud issues in BMTs as if they occur in the banking sectors. However, in practice, some stakeholders (i.e. some authorities) are a peripheral stakeholder and somewhat distant from an individual BMT. They perceive that the BMTs' failures do not present systemic risks for other financial intermediaries; hence they do not attract public concern. This finding echoes Kirkpatrick and Maimbo's (2002) study which pointed out the limited literature on the failures of microfinance organisations.

5.6. Stakeholders' Lack of Knowledge of BMT Practice

Financial capability is defined as incorporating skills, behaviour, and knowledge of individuals in five main subjects: staying informed, choosing products or services, making financial decisions, maintaining financial records, and future planning (Johnson and Sherraden, 2007; Atkinson et al., 2006; UK Financial Service Authority, 2005; SEDI, 2004). Each stakeholder is expected to be financially capable whilst using any financial intermediaries including non-traditional microfinance organisations like BMTs. BMTs users are expected to be financially capable and understand BMT profiles, practices, products, and services. Lacking financial capability may put stakeholders under financial threats such as frauds.

Financial incompetency (including financial illiteracy and ignorance) is fundamental cause of fraud beyond the weak governance mechanism explanations (see previous sections), focusing on the ideological, individual, and cultural thread that binds all these upheavals (see Chapter 6). Financial incompetency (or ignorance) is the root cause of fraud. The MoC argues that stakeholders' awareness of 'Anggaran Dasar dan Anggaran Rumah Tangga' (the co-operative charter) is still limited. The charter usually contains co-operative values, mission, and vision. Stakeholders tend to ignore reading and understanding the charter since they argue that they would not understand the cooperative's terminology.

"It has been ruled on the Peraturan Menteri UMKM Nomor 10 (Ministerial Decree of Cooperative and SMEs No.10) and the cooperative charter itself. And the managers are expected to understand it since that's like the agreement with members; but only few managers, supervisors, moreover members fully understand the meanings. So, they simply said we don't read it, so we don't understand it whereas they are supposed to know at least the outline, otherwise it could be deviated from." (AUT7)

Most of the media (i.e. online and offline newspapers on fraud coverages) state that frauds were mainly caused by limited knowledge of their stakeholders. One of the interviewees stated that many members did not care about the BMT's practices such as code of conduct, which is described in the cooperative charter.

"We gave them the books [of co-operative charters]. But many of them did not understand or were even aware of this." (MAN11)

The lack of diligence in their failure to read the charter is a form of ignorance among stakeholders, particularly members of the BMT as an Islamic cooperative. Without paying attention to the cooperative charter, for instance, stakeholders may not be aware of their rights (i.e. stay informed of the BMT's activities) and responsibilities (i.e. monitor the manager's actions through the RAT) toward the organisations.

Stakeholders' lack of knowledge or to some extent ignorance regarding BMT practice also can be seen from their interactions with the organisations. One of the interviewees, AUT7 from Chief of Monitoring Unit, MoC stated that the BMT user simply cannot distinguish between BMT as an Islamic cooperative or BMT as another financial intermediary.

"Our society is hardly differentiating between a BMT and a cooperative. BMT is purely business, and it's not in our [MoC] watch. But if a BMT is a cooperative, let's say 'Koperasi BMT ABC' (ABC BMT Islamic Cooperative), that's in our authority to monitor and supervise it. So, we need to understand it first that BMT has no legal form, unless it is a cooperative. The cooperative is being ruled in the Acts such as Presidential Decree, Ministerial Decree, and so on, taking care of the cooperative form. So, we need to standardise and agree on this." (AUT7)

The users cannot differentiate whether they are members or customers. A customer (*nasabah*) is the term for a person who utilises banking services and products, yet a member (*anggota*) is a specific term for any person utilising cooperative (credit union and mutual) services and products. As articulated above

by AUT7, there is a distinct difference between customer and member since each has its unique characteristics and consequences.⁵⁸

During data collection, most people refer to a cooperative user as ‘a customer’, not ‘a member’. One of the interviewees from the MoC confirmed the confusion in the field.

“Please note that we called our people as a member (anggota), not as a customer (nasabah). Because we are cooperatives, not banks. It’s totally different terms.” (AUT6)

This finding echoes Spear’s (2004) study in Japan on the relationship between customers and members in retail consumer cooperatives. Spear (2004) states that in some cooperatives, all customers are members, and vice-versa; however, nowadays many cooperatives have some members who are no-longer the costumers due to various reasons (i.e. moved away, passed away); and vice-versa, some costumers are no longer the members of cooperatives due to lacking interest in their services. Spear’s (2004) study suggests that there the identities differ between the two; this identity principle still applies in the case of most financial cooperatives and mutuals, including credit unions. Therefore, similar to BMT cases, the usage of both terms is different and not only represents different interpretations of users in banks and cooperatives, but the misuse of both terms infers the lack of diligence of stakeholders in the practice of BMTs.

Based on stakeholder theory, each group of stakeholders hold equal rights to gain information from the BMT; the BMT was also responsible for disclosing and sharing necessary information (i.e. financial reports and business plans) with their stakeholders. Therefore, the government as the stakeholder should also join information exchange platforms through annual meetings (i.e. the RAT) or

⁵⁸ This study use ‘a member’ to refer to the cooperative’s users.

trainings/workshops. The government should share the responsibility of stakeholders' (particularly users') lack of knowledge as the information exchange should also involve other stakeholders.

The authorities, which are also stakeholders, have equal responsibility to understand the organisations in order to be able to conduct supervision and monitoring properly. However, in this study, as articulated by MAN3, the inadequate monitoring from the government appears to result from the government monitoring officers having limited knowledge of BMTs.

“The MoC local office doesn’t have the ability to do the supervision, for instance do the financial audits. They are elderly officers; they don’t have the basic knowledge of economy, finance, or shariah even more. That’s the problem. So, we cannot rely on them. There’s no chance to rely on them. [Local MoC office]” (MAN3)

MAN3 perceived that the managers, particularly from the successful BMTs, are more reliable than the local authorities since they have better understanding of BMT practice than the regulators. This perception was confirmed by MAN13, a director in the largest BMT in Indonesia. He stated that the MoC asked them how to analyse their financial reports, since they have limited knowledge of BMTs.

“The MoC local officer asked us instead how to read our annual reports” (MAN13)

These statements show that the authorities lack knowledge of BMT practice, hence to some extent contribute to the frauds as they fail to detect the misconduct in BMT annual reports. Managers' statements have also been confirmed by the MoC in East Java (as on p.171). The officers confirmed that they are lacking personnel who have the relevant degrees to assess the BMT activities (i.e. examine the annual reports).

Berenbach and Churchill (1997) argue that the regulation and supervision for microfinance organisations by the government remains unclear. Hence, based on

the study from Barenbach and Churchill, the issues of stakeholders' limited knowledge, particularly of regulators, is relatively common in Latin America, Africa, and Asian countries, including Indonesia. In Indonesia, this was arguably due to the challenge to adjust to the unique features of MFIs including simplifying and standardising the supervision process (Barenbach and Churchill, 1997, p.10).

From Cressey's fraud triangle perspective, stakeholders' lack of knowledge and ignorance to understand BMT practice is an opportunity for fraud to occur. The inability of authorities to judge the quality of BMT performance is an opportunity to conceal fraud. However, Johnson and Sherraden (2007, p.123) argue that the capability approach is not purely individualistic in the sense that it takes into account the external environment and array of opportunities open to a person, as well as that person's internal capabilities. This could be true for internal reasons (such as physical or intellectual ability), or external reasons (such as cultural barriers, racial or gender discrimination) (Robeyns, 2005). BMT stakeholders may face some barriers whilst attempting to improve their financial capability (i.e. limited platforms on BMT education such as workshop, training, and other education channels from the respective authorities).

5.7. Conclusion

This chapter provided a skeletal framework which summaries the links and issues between BMT stakeholder groups. With the help of primary data, the framework depicts the fraud incidents in BMTs as a systematic failure as all stakeholder groups have their part on these failures. The framework underlined four main as the causes of fraud: 1) moral hazard behaviour from managers and

employees; 2) misgovernance; 3) little attention on BMT from the authorities; 4) stakeholders' lack of diligence of BMT practise.

The above analysis suggests that the BMT organisations' business motives still dominate the social benefits. Even though the organisation adopts Islamic values and its logic, but its implementation on the organisation activities is still not optimal. For instance, some BMTs adopt Islamic governance systems by having an Islamic supervisory board only to meet the establishment prerequisite, yet in practice, the board is weak and lacks internal control. Government monitoring is very weak, due to various issues. There is a lack of awareness and participation of other stakeholders, particularly members and communities, to be more involved in monitoring and other BMT practices. The demand for Islamic financial intermediaries is emerging in Indonesia but is still very much unregulated and lacks attention from the respective stakeholders.

Responsible leadership is the key in any organisation including BMT Islamic cooperatives. The issue of leadership within BMTs remains particularly crucial; likewise, so is responsible leadership in any organisation. Stakeholder theory helps to analyse the influence of strong stakeholders in the organisation (which in this study are managers and members) including the balance of power between them.

The next chapter will discuss value creation and the differentiation of each stakeholder by examining the interplay between each value. As a recurring theme, values are central to fraud investigation. The next chapter will underline stakeholders' value discrepancies and their relation to fraud.

CHAPTER 6: THE INTERPLAY BETWEEN MICRO AND MACRO VALUES IN BMT STAKEHOLDERS' PERCEPTIONS

6.1. Overview

This study aims to assess cases of fraud in Indonesian BMT Islamic cooperatives and gain a deeper understanding of its stakeholders' perceptions. The perceptions represent multiple stakeholders' opinions on BMT practice, from managers, employees, members, and authorities, in order to understand their value propositions (i.e. value creation and co-creation, overlapping and conflicting values) particularly after the fraud incidents. By understanding stakeholders' perceptions, this study will provide insights for practitioners and policy makers to build fraud deterrence systems in the future.

Values are significant recurring themes in Chapter 5 and arguably the roots for causes of BMT fraud incidents. Therefore, a dedicated chapter to discuss values is needed. Value creation is also the fundamental concept in stakeholder theory. Stakeholder theory provides an appropriate lens for considering a complex perspective of stakeholders' value.

This chapter is devoted to answer the second key research question (How do frauds frame stakeholder perceptions of BMT practice in Indonesia?) and its sub-questions (What are the values that influence stakeholder's perceptions of BMTs? What is the interplay between fraud and those values for stakeholders? And to what extent can the overlapping values lead to fraud?); as well as discuss both micro and macro values that influence stakeholders' perceptions of BMT practices including their governance. The discussions are based on the evidence

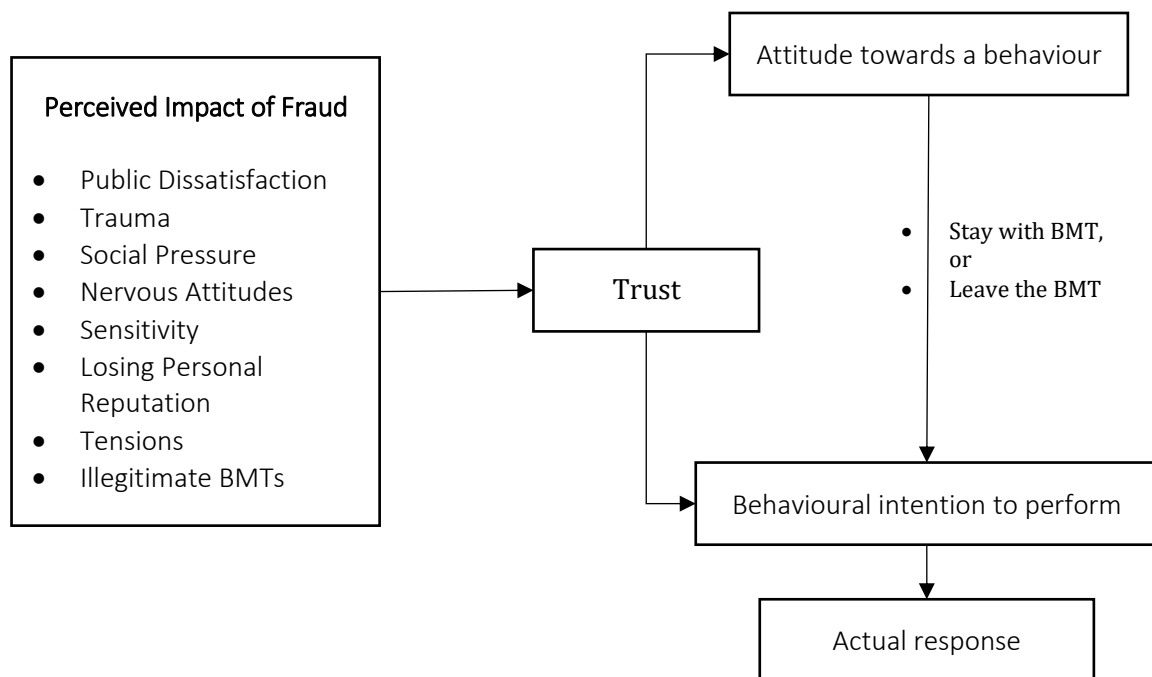
from both documentary and interview analysis, based on the data analysis phases which have been described at length in Chapter 4.

This chapter consists of four main parts: general appraisal of the findings, and discussions on micro as well as macro values; the last part aims to conclude the discussion by reflecting on BMT governance.

6.2. A General Appraisal of the Findings

Nearly all the respondents stated that the fraud had mentally and financially harmed them. This could be seen from their reactions during interviews (summarised in Figure 6.1 below).

Figure 6.1 The Model of the Perceived Impact of Fraud on Stakeholders



Source: composed by author

Adapted from the literature, Figure 6.1 demonstrates the perceived impact of fraud on stakeholders and the main implication for BMT practice after fraud incidents (i.e. undermining trust). The model uses three constructs: attitude

toward behaviour, behavioural intention to perform, and actual response. Attitude toward a behaviour (i.e. trust) means an individual's positive or negative feelings about performing the behaviour (i.e. on whether or not to trust and use BMT services and products in the future). The behavioural intention to perform is to examine the willingness of an individual's intention to perform a specified behaviour (i.e. keeping the BMT's membership/account and seeking support from the other stakeholders or closing and finding the other financial intermediaries' options). Actual response refers to an individual's actual actions or plans of the situation (i.e. recovering BMT image by developing better BMT governance and building fraud prevention systems, or distancing from BMT and staying with the alternatives). These constructs are influenced by stakeholders' value propositions which are describes further in this chapter.

Most of the victims (i.e. ex-members) are not willing to use BMT products and services in the future as they typically prefer to use banking services even though these are not Islamic banks. The reputation of the BMT Islamic organisation is partly damaged due to the occurrence of frauds.

Interestingly, even though some stakeholders (victims) for instance lost quite a lot of money, there was no public show of emotional expression such as being teary-eyed, crying, sobbing, and so on. Most of them were smiling, even though they were hopeless and resigned. These reactions were unexpected and intriguing since considering the fraud damaged, it is understandable if the victims showed their agony. Therefore, the victims' opposing reactions invite further analysis as it may be related to their personal values, beliefs, or culture, which will be discussed in this chapter.

Despite the widespread perception that the role of authorities has been inadequate in the growth of BMT movements, genuine motivation and passion continue to thrive in some individuals who still believe in the BMT movement's spirit. This infers that both BMT and many of its stakeholders uphold certain values such as religious values and personal preferences that influence their perceptions of BMT practice. The interplay between each value may, however, positively or negatively influence stakeholders' perceptions of using BMTs as their financial intermediaries, particularly after the incidents of fraud.

Based on the interview analysis, some BMT supporters also share their views on preserving the organisational, social, ethical, and religious values of the BMT. They have faith that the BMT is a cooperative espousing Islamic values and positively contributing to society by helping the poor (by being the financial intermediaries for those who are unbanked and underbanked), supporting the vulnerable (by giving the Qard al-Hasan⁵⁹), and sharing Islamic teaching (*da'wah* or revitalisation movements which are essential in their life for seeking reward and pleasing God). These shared values, legitimate motivations, and internal passions go beyond the negative perceptions of BMTs due to fraud. These factors are somehow able to maintain the BMT's survival as a financial organisation.

However, after the fraud incidents, the perceptions of many BMT stakeholders were reframed. Their values were challenged by other values. Fraud indeed damaged the BMT's perceived values as there were other values which were being priorities over ideal BMT values. For instance, in this study, the fraudster-manager put his individual values first (i.e. economic motives; wanting to gain as much profit as possible) and put BMT values second (i.e. religious values;

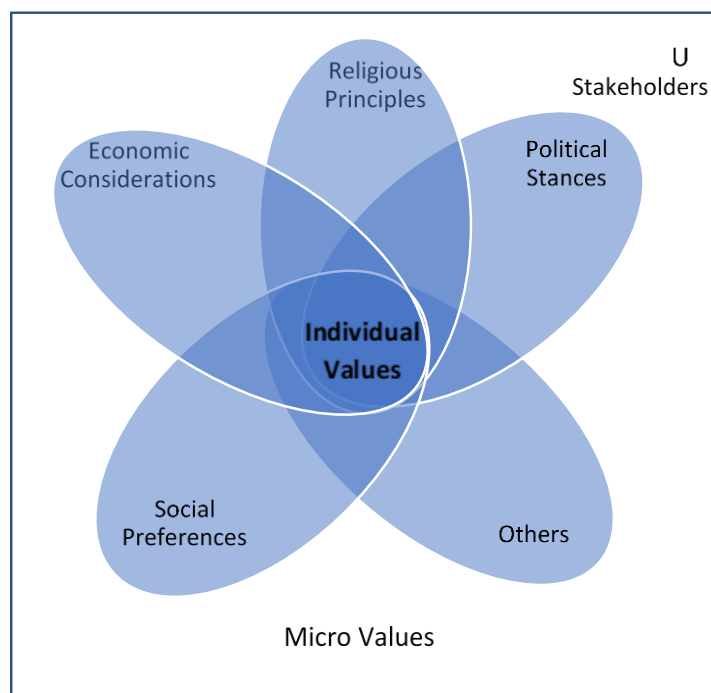
⁵⁹ A form of charitable microcredit without any profit-sharing or mark-up and the only type of unsecured lending permitted under Sharia (Seibel, 2007).

following Islamic principles in any activities). Therefore, the BMT supporters, some of whom are arguably religious and perceive that religious (Islamic) values should be the utmost priority in the organisations, were shocked due to the fact that the manager prioritised his/her individual and economic values (ambitious, profit maximisation) over religious values (fairness, reasonable profit) in the organisations. Therefore, it can be inferred that there is an expectation gap in BMT practice. The expectation gap is due to conflicting values between stakeholders; the expected and perceived values of members and society are different from the actual values implemented in the BMTs by managers and employees. In addition, there are also other factors such as the cultural, socio-political and legal systems prevailing in Indonesia by which these factors may enable or to some extent influence frauds to occur. Therefore, this chapter discusses the expectation gaps between stakeholders due to overlapping (or conflicting) values.

There are two main groups of stakeholders' values which are overlapping: micro values (the internal factors, which is the individual values) and macro values (the external factors including cooperative values, organisational values, cultural values, and BMT values). Micro and macro values are integral, thus, there are stakeholders' value propositions which include value creation and co-creation as well as overlapping values. Hence, understanding value interactions and their influence on stakeholders' perceptions can depict their links with factors that enable BMT frauds. In practice, the findings of this research echo Frow and Payne's (2011) study which describes that stakeholder value propositions provide enhanced opportunities for value co-creation and can assist managers in aligning values with stakeholders and stabilising relationships within an organisation's value networks.

The overlapping micro values among stakeholders are depicted in Venn Diagrams as below. Figure 6.2 summarises the interplay of micro values among individual stakeholders. Based on the evidence, the document sources⁶⁰ and interviews, the figure shows five main values that influence stakeholders' perceptions of BMT practice: 1) Religious principles; 2) Political stances; 3) Social Preferences; 4. Economic motives; 5) Other factors (i.e. pragmatism).

Figure 6.2 The Interplay of Micro Values among BMT Stakeholders



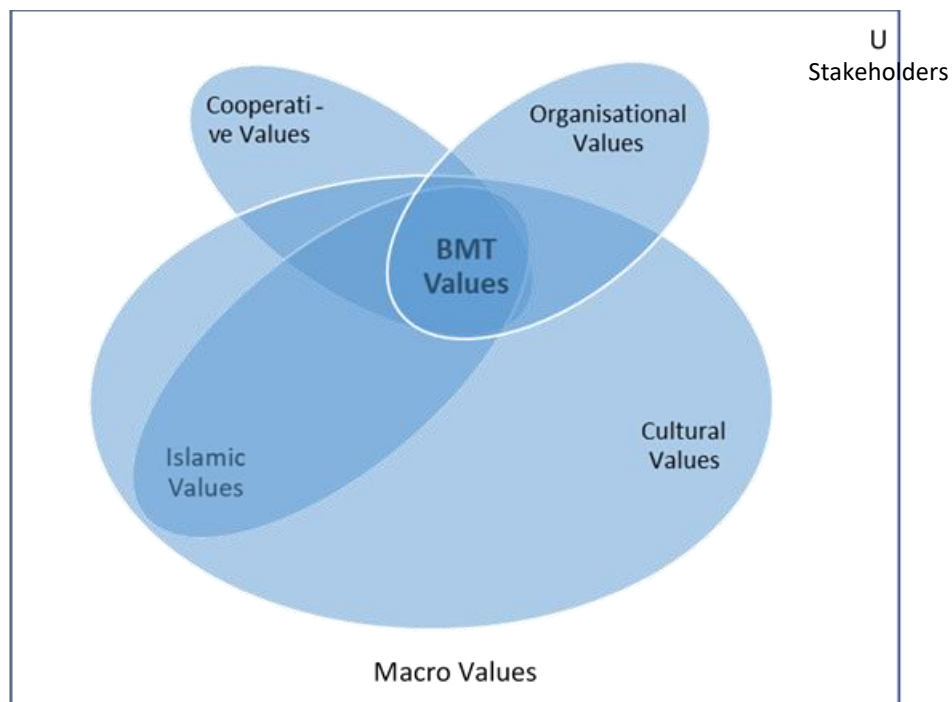
Source: constructed by author

Figure 6.3 (as below) is a Venn diagram which summarises the interplay of macro values of BMT stakeholder groups. Based on the evidence, the figure shows four main external values that influence both individuals and the BMT: organisational values, cooperative values, and cultural values (including Islamic

⁶⁰ The document sources are not limited to print media, newsletters, and website coverage; but include internet social media platforms like Facebook (i.e. Facebook page made by the victims), Twitter (i.e. Twitter account made by the victims) and Instagram (i.e. Instagram hashtags and accounts of the fraudsters and victims). The documents are analysed using NVivo11 (a qualitative data management software).

values). BMT values are at the intersections between these values, as organisational values are influenced by all these factors. The size of each circle represents the domination of each value in the BMT organisations. The cultural values are perceived as the most influential factors for BMTs as they consist of religious values, socio-cultural situations, and demographic characteristics.

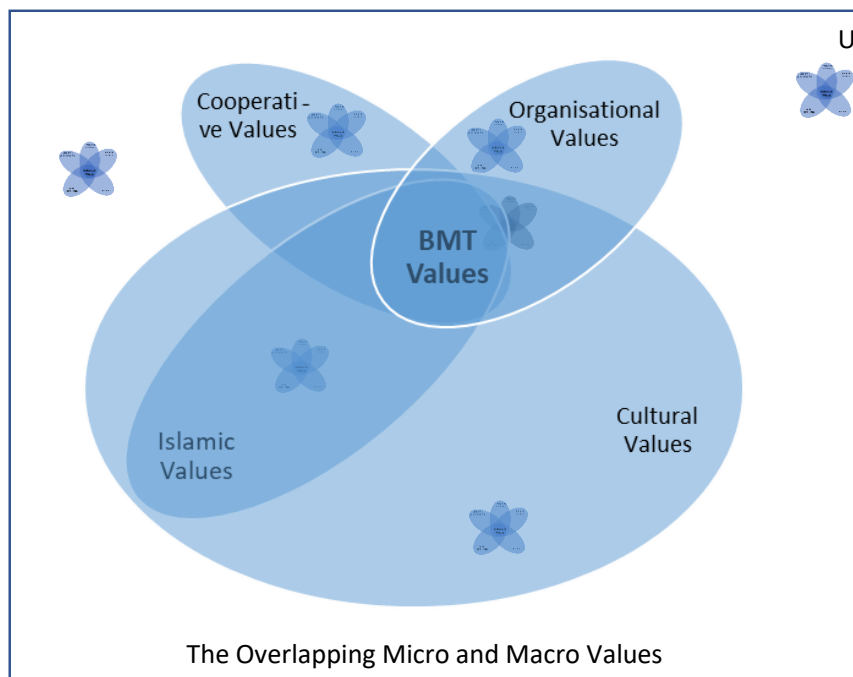
Figure 6.3 The Interplay of Macro Values among BMT Stakeholders



Source: constructed by author

From Figures 6.2 and 6.3, it can be inferred that BMT values are influenced by both micro values (individual values) and macro values (cooperative, organisational, cultural, and Islamic values). Stakeholders' perceptions are shaped by the interplay between these values, which includes value creation and co-creation, as well as supporting and conflicting values. The combination (overlapping values) of both micro and macro values is perceived as potentially enabling BMT frauds to occur. Figure 6.4 (below) depicts the overlapping values in the BMTs.

Figure 6.4 The Overlapping Micro and Macro Values for BMT Stakeholders



Source: constructed by author

These overlapping values are perceived as causing stakeholders' expectation gaps. The key expectation gaps that came out of the analysis of interviewees' perceptions of BMT frauds are summarised as follows:

- Stakeholders have confidence in the potential benefit of the BMT in Indonesia particularly its expected value added as an Islamic financial organisation, considering the great number of conventional financial intermediaries. But they cannot detach the human aspect within the organisation that directly influences the BMT systems.
- In the fraudulent BMTs, stakeholders, particularly members, are not actively involved in the BMT governance process (i.e. annual meetings/RAT). They only rely on the information given by the managers and employees which is usually limited (i.e. through informal meetings).

- Stakeholders, particularly members, beneficiaries, and communities, are unaware of the potential problems of a big BMT in their local areas. For instance, members and beneficiaries assess BMT legitimacy based on physical appearance (i.e. many branches, strategic locations, luxury buildings, familiar users, hospitable services, displayed legal permits from local notary, and moreover under an Islamic label). However, these factors do not imply anything about the quality of management or whether the organisation is a good investment. The BMT stakeholders have arguably failed to perceive that there is no such ideal financial institution; even an Islamic organisation.
- Based on the observation during data collection, stakeholders know that any Islamic label or the use of Arabic terms in the label namely *Baitul Maal wat Tamwil* (BMT) Islamic cooperative does not provide absolute assurance of the implementation of Islamic values in their practice. In Indonesia, some groups of stakeholders still correlate any Arabic terms with Islamic values since the religion arose in Arabia. Some people in Indonesia idolise Arab cultural and spiritual values (Ghoshal, 2010). They blindly adopt the cultures such as language, clothes, and any Arabic sensibilities; even though in some contexts those are simply not applicable within Indonesian culture. Therefore, because of the Arab connection, individuals are more trusting as some of them believe that both concepts, Arabic terms and Islamic values, are strongly linked. Hence, with the case of BMT, some fraudulent BMTs are intentionally putting Arabic names aimed to offer more sellable features, particularly for uneducated stakeholders. They are aware of the selling point of Islamic products and services for the supporters of BMT.

To build stronger governance as part of fraud deterrence, the organisations' and other values need to be aligned in some way, such as by being defined and agreed to, and then committed to organisational goals. A change in the arrangement among stakeholders is needed in order for fraud to be deterred. Further discussion on expectation gaps, value discrepancy, and overlapping values is as follows.

6.3. Micro Values of Stakeholders

The micro values are the individual values that shape the perceptions of stakeholders on BMT governance (see Figure 6.2 The Interplay of Micro Values among BMT Stakeholders). This leads to discussion on ideology that influences BMT practice, including the overlapping values that possibly create pressures on BMT practice. Among other values, individual values are the most influential values for stakeholders. Yet individual values are somehow created by other aforementioned values: religious principles, social preferences, economic motives, and so on). Individual values are also mutually dependent on external values (see next section: Macro Values of Stakeholders). The external values also shape individual values. Therefore, it is necessary to examine the interplay between each value that emerges internally and externally since the interrelationship of these values (i.e. conflicting values that the BMT does not fully follow Islamic values) may enable frauds to occur.

The relevance of discussing individual values in this BMT fraud context is to understand stakeholders' perceptions of BMT practice after the fraud, and how stakeholders' perceptions are reframed by the fraud.

Values are central in stakeholder theory. Stakeholders' interests, perspectives, attitudes, responses, and activities are influenced by a set of values. This includes

beliefs, traditions, habits, routines, and interests. The set of values also derive from many factors: religious, environmental, socio-political, economic, cultural, codes of ethics, norms, principles, moral standards, and so forth. The set of values is being internalised through BMT activities and interactions with their stakeholders. Internalisation, as a process of accepting and integrating values between the BMT as the organisation and its individual stakeholders, will not always satisfy everyone as there would be conflicting values which create pressures for one or both parties.

6.3.1. Religious Principles

Most stakeholders use BMT as their financial intermediaries due to religious motives. As a comparison, in the UK context, Mansour et al. (2010) point to the importance of religious orientation in choosing financial institutions; in the Malaysian context, Wan Ahmed et al. (2008) also describe that the most religious customers (i.e. those whose religiosity index is high) are more likely to choose an Islamic bank. Therefore, some research suggests that there is an impact of stakeholders' religiosity with their financial intermediaries' choices.

Echoing the previous studies, in the Indonesian context, some interviewees also firmly articulated their personal preferences for joining BMTs (e.g. their sense of responsibility) as a Muslim to utilise Islamic institutions such as a BMT Islamic cooperative. The interviewees' statements are as below:

“I felt that this is our responsibility as a Muslim to promote and utilise the BMT as one of the Islamic institutions. If not us, then who else?” (CUST2)

This reaction reflects values of solidarity or empathy as a Muslim with Islamic organisations. Such stakeholder's perceptions are related to some intrinsic

motivations, motivations coming from the heart and thus related to the core values of individuals.

Based on the empirical evidence acquired by direct observation, most BMT samples and interviewees show their appearance of religiosity at many levels: they dress modestly (all women wearing hijabs and most men wearing ankle-length pants), most of them greet others (i.e. their members, colleagues, guests) in Islamic ways (i.e. saying '*Salaam*'), they limit inter-gender interactions unless necessary (some people lowered their gaze and avoid shaking hands with the opposite gender), and cite many spiritual terms during conversations (i.e. *insha Allah* or God willing, *masya Allah* or God willed it). Terry and Hogg (1996) state that norms are important for people who highly identify with the group. This includes the highly religious identifiers who tend to want to conform to the group prototype and therefore the norms (Hayward and Elliott 2009, 2011). They attempt to fit into the predefined image of how Islamic the BMT is. This suggests that both individuals within the organisation and the BMT organisation *per se* strongly uphold Islamic values in their activities; Islamic values, it might be said, are their priority. It seems that there are no conflicting values since the BMT values, Islamic values, and individual values are aligned. Through their appearance, they shape an Islamic image to their stakeholders. This infers that any non-Islamic conduct such as fraud in BMTs is perceived as an extraordinary occurrence and beyond one's control.

6.3.2. Social Preferences

Apart from religious preferences, stakeholders are also influenced by social factors in using BMTs as their financial intermediaries. Much research also describes that social benefits are the basis for individuals choosing credit unions,

cooperatives, or mutuals (Ward and McKillop, 1997). MAN12, the employee working in the 'good' BMT, shares his personal motivations to join the BMT. He argued that by working in the BMT, he helped the community, as he perceived that the BMT is a good organisation.

"I applied for the job here because this BMT is widely known in my society, all of them saving their money and lending some funds from here. I believe that the community trusts this BMT, so I'm keen to join this organisation." (MAN12)

Another employee (MAN12) also stated that he was motivated to join the BMT due to getting social benefits by helping the community.

"I don't want to sound sanctimonious as I don't know Sharia that much, but to be honest, it seems like I know it by heart, and then my community followed me to join this BMT. I feel grateful particularly when I could help someone in need, like when they were ill or about to pay for their kids' tuition fee." (MAN12).

Nearly all respondents were proud to contribute to an Islamic organisation since they believed that the BMT was helping them and their society.

Not only formed by the social motivation to choose financial organisations, social preferences also can be influenced by the role of strong stakeholders⁶¹ in the BMTs. One interviewee, CUST5, who works as a street vendor in Yogyakarta, was motivated to be part of the BMTs due to the influence of a strong stakeholder who is the manager of a good BMT in Yogyakarta and its surrounding areas. The manager's values affected the stakeholder's values. CUST5 believes that the manager is always *amanah*/trustworthy for its BMT's members. The manager's characteristics, hence, influenced the BMT's image as a trustworthy financial organisation.

"I know it well that Mr Ridwan [BMT BIF Yogyakarta] is an honest man. He likes to give religious speeches in the Al-Fatah Mosque [local mosque in the area]. He has M.A. degree. 'Majelis Agama' it means he knows about religion [interviewee mistakenly assumed

⁶¹ In this study, a strong stakeholder is defined as a role model or a person whose values are followed by other stakeholders.

that M.A. is Majelis Agama or Religious House, while it is supposed to be Master of Arts]. So, I believe his BMT is an honest BMT too.” (CUST5)

CUST5 also perceived that the manager's values comply with Islamic values, since the manager used to give religious speeches in local communities. This shows that religious values are still important factors that shape stakeholder's perceptions of BMT practice. CUST 5 perceived that the manager is a religious person due to his roles in many religious gatherings (*pengajian*). In this sample, the manager positively framed the BMT image as a trustworthy organisation.

“He is giving many ‘pengajian’ (religious speeches) everywhere! Pengajian is maintaining our faith, our religion, the need to work hard, pray... So, that's why I believe in Mr Ridwan, because he's giving pengajian everywhere.” (CUST5)

Using a modest cart, CUST5 sells traditional fruits and vegetable salads around the city. CUST5 represents the current profiles of BMT's members in Indonesia: SME players with low education level.⁶² With a similar unsophisticated background, they rely on strong stakeholders like the managers, including other leaders (religious, political, and community leaders), to influence their economic decisions like choosing their financial organisations (i.e. BMT Islamic cooperatives). Therefore, they have high expectations and rely on them. They perceived that the leaders have more knowledge and ability than them, thus any fraud possibility was considered minimal. This infers that social values are important to shape stakeholders' perceptions of BMT practice.

However, on the contrary, with the case of BMT PSU Malang, the manager's values (i.e. individual values) were in contrast to BMT values. The manager prioritised his values (i.e. profit maximisation, nepotism) and ignored BMT

⁶² In this study, the definition of education levels (i.e. high or low) follows the Act of The Republic of Indonesia No. 20 Year 2003 on National Education System and Government Regulation No. 47 Year 2008 on Basic Education of 9 years (primary and secondary schools).

values (i.e. trustworthiness, fairness, equality). There was conflict of interest between the manager and the organisation which enabled fraud to occur. One respondent also argued, as below, that fraud was due to the domination of individual interest.

“Somehow in practice, individual motives are more dominant than the organisational essence.” (MAN2)

Human characters are central in the leadership board. Herman and Renz (1997) underlined that the leadership board is a critical asset for every organisation including non-profit organisations. Board characteristics are associated with better organisation performance (Brown 2005; Jackson and Holland 1998). Board characteristics are highly related with human aspects, i.e. individual characters, which are important in shaping organisations' perceptions. One of the respondents (MAN3, manager in the successful BMT) also supported that individual factors are essential in the organisation.

“In my opinion, the individual factors are more substantial in BMTs than the organisational factors. Who can filter good people only when establishing a BMT? No one even guarantees that this person will always be a good person even though he managed to obtain clear letters from the local police office. No one can.” (MAN3)

Bass and Steidlmeier (1999, p.182) describes three main leadership factors, namely moral character of the leader, ethical legitimacy of the leader's values, morality, and social ethical choice of the leader. These factors are important in shaping stakeholders' perceptions over a good manager. Such ethical characteristics of leadership have been widely acknowledged in the literature (see Wren, 1998; Kouzes and Posner, 1993; Greenleaf, 1977; Conger and Kanungo, 1998).

6.3.3. Economic Values

The underlying economic values for selecting a financial institution are presumably to seek reciprocity in sustaining risk-sharing arrangements among essentially self-interested individuals. Many studies interestingly point out that economic values are a priority for some individuals compared to other values, including religious values. El-Bdour (1989) reports that the religiosity of the financial institution is not the most important influence on choosing financial institutions. Mansour et al. (2010) point out that in the UK at least, Muslims are more interested in costs than in whether or not the bank is Islamic in nature. This study opposes previous studies which are described in the earlier section (see p. 180). Therefore, there is a debate in the literature whether religious values are more important than economic values in terms of making economic decisions.

One interviewee also stated that her motivation to join the BMT was due to its competitive rate compared to other financial institutions (banks). She was promised a fixed rate of investment in the fraudulent BMT Amratani Yogyakarta.

“I checked how much I will get if I put my money in the bank compared to the BMT sharia. That was in 2003. In this BMT [Amratani] if I put Rp1mio, I will get Rp25.000 per month. Multiplied by how much we put our money there. Well that’s good then! It could be like my kids’ education insurance! Well, at times my kids were still in the kindergarten and I hate insurance product. My father hates insurance too, but I need to think about my kids’ education fee. That is important. So, this [BMT deposit] could be their savings. So, that was my kid’s first savings. And I never thought it would collapse like this.” (CUST7)

Novkovic’s (2006) study also describes that economic values (i.e. profit) remain the primary goal for individuals within financial institutions (i.e. managers, customers). Another respondent also underlined this finding. As stated below, BEN3 argues that most BMT users were not merely pursuing all Islamic values

in the BMT as they were mainly pursuing their individual values, that is, the benefits from saving with the BMT.

“It’s been confirmed in many research studies that religion is not their [users’] priority whilst choosing financial intermediaries. The most pragmatic reasons are: what are the benefits, whether the location is in a nearby area, whether it’s easy to get soft loans, etc. so merely based on technical practice, what’s my benefit, that’s it. On average, people tend to think pragmatically. Religion is the n-number of factors, not the first.” (BEN3)

The discussion above indicates that there are overlapping values (conflicting values between economic and religious values) among stakeholders that profit is essential for choosing any financial organisations, more so than religious considerations. Hence, this influences the manager’s perceptions that profit is the parameter and BMT selling point. Consequently, managers are more pressurised to make as much profit as possible in order to attract more members. Therefore, based on Cressey’s fraud triangle framework, many managers and employees justify their behaviour to commit fraud.

The finding also echoes similar research in Islamic banks that suggests that the profit criterion will always supersede social obligations in Islamic banks. Asutay (2007) described the internalisation of ‘capitalist’ values into Islamic finance values, whereby the profit criterion would always be the ‘bottom line’. Caers et al. (2006) also stated that motivational differences (i.e. economic motives) can stimulate individuals to behave differently in a nonprofit organisation (i.e. BMT).

6.3.4. Other Values

Besides religious, social, and economic motives, this study also finds that stakeholders are influenced by other values such as psychological reasons. The findings derived from the interview analysis imply that stakeholders appear to still be pragmatic regarding financial intermediaries. There are some groups of

stakeholders who join BMTs based on religious perspectives; however, many stakeholders still join BMTs due to their practicality. As one stakeholder describes:

“I was interested to join this BMT [PSU, Malang, East Java] simply because their service was very good, easy to withdraw some money as they [AO, account office] usually come here, so we don’t need to go to the office, no fees, only admin fees when we open an account, that’s what I like from it [BMT PSU]. In [BMT] Sidogiri, they also have profit-sharing, but not in the PSU.” (CUST4)

The motivations for joining BMTs fall along quite a wide spectrum of answers: from pragmatic (i.e. practical) to idealistic (i.e. personal, psychological) types of answers. Their motivations reflect personal values (i.e. perceptions) and expectations of BMTs. Based on direct observation during interviews, the practical answers were stated first, and almost instantaneously, by many interviewees, before they mentioned the idealistic ones. This implies that stakeholders’ motivations to join BMTs are due to its feasibilities.

6.4. Macro Values of Stakeholders

Apart from being influenced by inherent factors, individual values are also influenced by extrinsic factors (macro values). BMT values are at the intersection of organisational values, cooperative values, and cultural values (including Islamic values) (see Figure 6.3 The Interplay of Macro Values among BMT Stakeholders).

Most of interviewees agree that the BMTs serve noble values to be delivered to the community. One of the interviewees who is the manager in a successful BMT stated that the organisation is devoted to contributing to society by implementing three concepts: (1) relief, by helping the community in their financial difficulties; (2) empowerment, by giving financial support to the needy; and (3) fairness, by giving equal justice to its stakeholders.

“[In our BMT BIF Yogyakarta] we have three values: pembebasan [relief], pemberdayaan [empowerment], keadilan [fairness].”
(MAN3)

In relation to Islamic values and discussion of the Prophet’s character, another interviewee (MAN13) also underlined that BMT values are Islamic values. He inferred that the BMT prioritises the implementation of Islamic values rather than/inclusive of cooperative values in their practice. For instance, some BMTs also provide services to non-members (which is not in accordance with the Act of The Republic of Indonesia No. 25 of 1992 on Cooperatives; Article 44, that cooperative funding activities are from and for members of the concerned cooperatives, or other cooperatives and/or its members.) They argue that serving non-members can help them (which is ethical based on Islamic principles of solidarity, humanitarianism and relief). In fact, most interviewees perceived that the fraud incidents were due to the absence of Islamic (ethical) values being implemented (i.e. due to gambling, speculation) rather than due to a lack of cooperative values (i.e. participatory democracy, internal control). In terms of value propositions, this suggests that there are overlapping values between Islamic and cooperative values, which consequently caused an imbalance of values, weakened the governance systems, and enabled fraud to occur.

6.4.1. Cooperative Values

Under the form of a cooperative, the BMT is expected to adopt six main values: self-help, self-responsibility, democracy, equality, equity, and solidarity. Those values mean that the cooperative is initiated by members, established by members, directed by members, and managed by members. In other words: from, by, and to members. In the tradition of their founders, cooperative members also believe in the ethical values of honesty, openness, social responsibility, and caring

for others (International Co-operative Alliance, 2015). During the interviews, only a limited number of stakeholder groups (i.e. members, managers, authorities) were aware of these principles. For instance, some members failed to exercise their voting power in the general meeting (RAT) due to their absence in the meetings, and managers' dishonesty and domination in the leadership board (see Chapter 5). This infers that some stakeholders' understandings of the organisational form of BMT is still limited, particularly the members of BMTs who mainly have a limited formal education background. This finding, namely stakeholders' lack of awareness of the important principle of democracy, is central to the practice of BMTs.

As they are formed as cooperatives, BMTs should uphold cooperative values in their practices. This includes implementing democratic values as these are central to the cooperative ethos (i.e. maintain the distribution of rights for decision making to all stakeholders, especially members, as well as a high level of participation and democracy within the organisation).

Democracy is the essence of a cooperative. Therefore, as a cooperative, BMTs should maintain democratic principles and practices (e.g. annual meetings/RAT). However, the term '*demokrasi*' is only mentioned two times during the interviews by only two interviewees (MAN1 and AUT5), and not at all in the documentary analysis. In addition, MAN1 and AUT5 were only aware the concept of democracy in the general context: democracy in Indonesia (see the statement as below).

"Cooperative is established by education, managed with education, and supervised using education. That's the ideal phrase to describe how the cooperative should work. Members should be educated to be 'a good member'. Like democracy in our country, if the citizens are being well-educated in politics for instance, the democracy process will be more effective. If not, then it could be like over-doing democracy, free to do everything, which is wrong, democracy, is not like that." (MAN1)

None of the members mentioned anything about democracy in the context of BMTs; yet, the members are the essence of democracy in the BMTs. This shows how the stakeholders and BMTs lack awareness of their core cooperative values such that the organisation also does not do enough to promote their cooperative values (as confirmed by the victims below).

“They rarely invite us for any workshops or trainings on cooperative issues. No such gatherings or talks on what BMT is.” (CUST7)

This finding echoes a previous study by Novkovic (2006) who points out that cooperative members are only vaguely familiar with the values and principles of their organisations.

Most of the interviewees, particularly from the group of members, acknowledged their lack of attention to their actual power as members. In many cases, members were content and did not bother to vote. The unaware members gave an ‘open opportunity’ for managers to do what they want, which particularly in the BMT PSU case, was abused by the managers who decided to demutualise the BMTs. With information asymmetry between members and managers, the fraud managers tend to abuse their power for their own benefit. Novkovic (2006) describes that a large proportion of members do not vote to elect the governing body of a cooperative; especially in the consumer and financial cooperatives like BMTs.

Unfortunately, not all victims (i.e. ex-members) were aware whether their BMTs are cooperatives or not. This confirms the previous discussion in Chapter 5, that most BMT members were not aware of the BMT’s legal forms (see p. 159: Book Account of BMT Amratani, Yogyakarta). One of the respondents stated that she did not pay attention to whether the BMT is a cooperative, as she thought it was like the usual financial intermediaries.

“I know them [BMT PSU Malang] as an Islamic financial institution; not as a cooperative. It was clearly stated in my account-book and on their building too.” (CUST1) - The aforementioned evidence is shown in Chapter 5.

This issue of being aware of the BMT's legal form makes it difficult to adopt organisational values (i.e. cooperative values), without being aware of the legal form of the BMT. Without knowing this, the stakeholders cannot fully understand their rights and obligations concerning the organisation.

The discussion shows that stakeholders seriously lack diligence regarding cooperative values. This ignorance confirmed whether BMTs share cooperative values, but if the individual's (stakeholder) values are still dominant in the BMT, then overlapping values are unavoidable and enable fraud to occur.

For instance, the manager of the BMT is also an individual who experienced overlapping values between individual and cooperative values. As Novkovic (2006) describes, profit is still seen as the primary goal and measure of his/her success in managing the cooperative. This matter is also found in the BMT fraud context, as most managers (and employees) seek profit. Hence, these overlapping values (see Figure 6.3) enable fraud to occur and arguably are the most significant factor supporting fraud. Making profit the measure of success indicates the widespread use of inappropriate measures of cooperative success.

6.4.2. Organisational Values

Chapter 3 described the role of BMT stakeholders such as the two biggest Islamic organisations (NU and Muhammadiyah), ICMI, and Islamic leaders/*ulama* from local to national levels. Most BMTs in Indonesia are members of NU, Muhammadiyah, and/or under the endowment of one or two BMT associations. Most BMTs leaders (including managers, supervisory board members) are also

members of those organisations/institutions. This means that those organisations/institutions (NU, Muhammadiyah, ICMI, BMT associations) are key stakeholders in BMTs since their norms, attitudes, beliefs, and values are being adapted in the practice of BMTs.

However, considering the important role of Islamic organisations like NU and Muhammadiyah in religious life and socio-politics in Indonesia (Fealy and White, 2008), one of the interviewees from the manager group (MAN3) argued that there is no such involvement of these organisations in the BMT.

“No, there is no such relationship between fraud in the BMT and Muhammadiyah.” (MAN3)

Another interviewee also stated a similar point, that even though he is a member of Muhammadiyah, he can be the manager in the BMTs endowed by NU.

“I’m a Muhammadiyah member, but now I’m working with the NU-BMT. Even when I mentioned it to the Kyai, he said it [organisational membership] didn’t matter.” (MAN7)

These interviewees show that even the two biggest Islamic organisations in Indonesia have no significant role in controlling and/or monitoring the BMTs. In the context of BMT frauds, however, their involvement in BMT governance may potentially mitigate the probability of fraud.

With regards to community leaders, they arguably have important roles in the BMT. They have charisma that can influence the stakeholders’ perceptions of BMT practice. Bass (1985, 1998), Bass and Avolio (1993) describes four leadership components such as charisma or idealised influence (attributed or behavioural), inspirational motivation, intellectual stimulation, and individualised consideration. Followers identify with the charismatic leaders’ aspirations and want to emulate the leaders. Shamir, House, and Arthur (1993), Conger and Kanungo (1988, 1998), Kanungo and Mendonca (1996) conceive of the

same components as all falling under the category of charismatic leadership. For the community, they are expected to be able to lead their followers towards good deeds.

However, in these cases of fraud, several fraudsters were also the followers of religious leaders. This paradoxical situation suggests that even though the community leaders (who are members of Islamic organisations) uphold positive values (i.e. doing good deeds), the person (who held a position in the BMT) still plans to commit fraud (i.e. abuse power to steal money). This conveys overlapping values (organisational values vs. individual values) which enable frauds to occur.

The East Java province is one of the fraud locations in this study. One of the biggest Islamic organisations, NU has a significant influence in this province. The biggest BMT in Indonesia, BMT Sidogiri, is also located in this province. Their clerics/*kyais/ulama* hold important roles in the BMTs (i.e. their voice is heard by the BMTs' governing boards). One of the interviewees described the strong influence of the *ulama* and their potential roles as the BMT supervisors.

“Clerics (Ulama) hold a very important role in BMT! We asked one of the Kyai in Sidogiri [East Java]: Ustadz [nickname for male Ulama], if there were unpaid instalments, then how do you deal with it? And he said: we warn them. If they are still stubborn, we isolate them as if they do not exist. Later they will think, what’s wrong with me, why they [Ulama and people] isolate me, ignore me. Finally, if they are still not paying, one of the Kyai will come for a visit and ask for their news. What happened to you? This is the strongest warning for them.” (AUT2)

In East Java, the clerics (*kyai/ulama*) are at the centre of the society including the BMT. The *Kyais* are the founders, directors, and gate-keepers; all members are devoted to them. Anecdotal information suggests that in some areas, the *Kyai* even have more power than the regulators. People tend to follow *Kyai* rather than the government officers. Therefore, it can be concluded that the *Kyais* truly play an important daily role in many lives; their role as BMT supervisors can arguably

be one of the key fraud prevention mechanisms. In the BMT fraud context, the Kyai who were part of the failed BMTs (for instance the members of sharia board) were part of the governance failure; they were to some extent responsible for the incidents, since they actually had power to monitor and supervise the activity of their surroundings, especially noting the size of BMT PSU, one of the biggest BMTs in East Java.

In BMT Sidogiri and most BMTs in East Java, members have less power than the *Kyai*. However, in the fraudulent BMT, BMT PSU Malang, which is also located in East Java, there were different issues since they presumably have no clerics or religious leaders or anyone respected by the top managers. The manager was too dominant, while the internal control was also ineffective (see p. 140). Therefore, there is no balance of power between respective stakeholders: managers, members, and communities (through the Kyai).

Another influential organisation for BMT practice is ICMI (*Ikatan Cendekiawan Muslim Indonesia*, The Indonesian Association of Muslim Intellectuals). The ICMI has a strong influence during BMT development. It is the initiator of PINBUK (see page 89) and in this fraud case, it is the initiator of the 'BMT Crisis Centre' which provides support on fraud enquiry. They have conducted many activities concerning victim support, fraud investigation, and BMT vindication. Moreover, they worked with the media to 'balance' the reporting by publishing good news about BMTs in contrast to the fraud coverage. Using their network (i.e. personal connections), they tried to stop the fraud (negative) stories and publish some positive news about BMTs in Indonesia (i.e. BMT growth). ICMI's reaction towards the fraud indicates the urgency in maintaining Islamic cooperatives' legitimacy since, as articulated by the interviewees, the fraud cases not only affect some individuals, but also the greater community. One role of

ICMI is to maintain the legitimacy of BMTs; if their legitimacy is questioned then this results in a loss of trust and this can be fatal, more so if it is a religious institution. Therefore, ICMI has a significant role for maintaining stakeholders' perceptions of the BMT as a legitimate Islamic cooperative.

Even though ICMI has a significant role in Muslim leaderships (Azra, 2006; Hefner, 1993, 1997), but their role in the BMT activities is still minimal. ICMI is arguably lacking in action concerning BMT fraud prevention. Even though the BMT Crisis Centre was considered helpful since there were no other institutions or authorities who specifically established a dedicated BMT fraud crisis centre, knowing their roles in the Muslim leadership networks, ICMI arguably could have made more effort (i.e. construct BMT fraud prevention system, support for BMT regulations) apart from their normative support for the BMT (i.e. as a BMT supervisory body).

It can be concluded that the BMT, NU, Muhammadiyah, and community leaders are separate entities, unless the BMT is established by the corresponding organisations. Even though those organisations are attached to BMTs, the BMTs usually follow their own organisational values (i.e. organisational charter). Those organisations have potential roles to be part of fraud prevention mechanisms. For instance, NU and Muhammadiyah can play active roles as BMT controllers through MUI certification programmes for the potential BMT supervisory board members (see Appendices). The certification is part of information flow control that can help to select, educate, and verify the credibility of supervisory board members. The certification programmes are arguably able to maintain the quality of BMT supervisory board, therefore can mitigate any potential fraud risks through sound internal control mechanisms.

6.4.3. Cultural Values

It is difficult to detach contextual values such as socio-cultural situations in this study, as location brings a certain set of cultural backgrounds. The cultural background influences the way of thinking of stakeholders, including their responses to fraud (i.e. opinion, gesture, attitude, and so on). The relationships with each cultural factor strongly influence stakeholders' perceptions.

In this study, nearly all interviewees were Javanese. By employing observation and ethnography, it is argued that the Javanese character and personality is usually described as '*nrimo*' (Javanese, which means accepting condition), putting up with life's difficulties with wry good humour, highly tolerant, patient, conflict-avoidant, and a tendency towards shame (*isin*) (Geertz, 1959; Keeler, 1986; Magnis-Suseno, 1997). Therefore, showing frustration or being emotional, like crying, is not well regarded. It is considered ill-mannered or uneducated to confront someone in public. Interpersonal conflict, anger and aggression are repressed or avoided in Javanese society. In Java, it is hard to express differences of opinion. Direct criticism, anger and annoyance are rarely expressed. Therefore, most of the interviewee's reactions to their experience with fraud are quite surprising findings, as hardly any of the victims suggested that they were psychologically damaged due to fraud.

On the other hand, Javanese languages are also full of euphemism and vagueness. Therefore, their comments may imply another or opposite meaning. For instance, when they said they were accepting of their condition, it might have meant that they accepted it only partially. This was shown in the documentary analysis (i.e. Facebook comments on BMT Amratani Victims' page; as below) that

even though they accept their condition (i.e. losing money), they still demand fair justice from the court or justice from God in the afterlife.



Source: Facebook (compiled by author)

The above evidence is translated as follows. The writer used one particular Javanese term '*nglokro*' which is defined as the powerless condition of somebody due to something devastating. This specific term is being used as an ultimate expression of devastation in Javanese culture. The second snapshot from the victim's Facebook page (see below: lower left picture) is another Javanese expression ('*jengkel*') as the ultimate expression of being upset with somebody for any annoying situation. Another snapshot (see next page: right picture) captured the expression of disbelief that the victim's (Prastawa Adi's) money was truly lost ("*Duit kita bener-bener ilang ya??*"). However, the response from another victim (Tien Aminatun) was more accepting of the condition that their money was gone. She believed that God will return their money in a better form as well as judge and punish the fraudsters ("*InsyaAllah diganti oleh Allah SWT dengan rizki yang lebih banyak dan barokah....menghukum mereka yang bersalah...*"). Therefore, the perceptions of fraud are diverse since cultural values are quite dominant in terms of shaping stakeholders' perspectives on BMT incidents. Many

victims perceived their fraud experience as a test or trial (from God) and they believed that they should be patient about it, and so have acceptance, but still take action for justice in this life as a response to the test.

The above evidence shows that Islamic values strongly influenced stakeholders' perceptions. Stakeholders perceived that fraudulent BMTs were an outlier and are not going to affect the pre-existing image of BMTs as trustworthy Islamic financial organisations.

Most of the interviewees believed that the BMT upholds Islamic values and is part of the Islamic movement. One interviewee, BEN6 who is the director of BMT associations, emphasised that the BMT maintains Islamic values in their daily activities, for instance, through routine religious meetings (*pengajian*). BMTs also used this activity to invite potential members to their organisation.

"We maintain religious meetings such as pengajian to be a reminder to keep doing goodness in our [BMT] activities." (BEN6)

It can be concluded that apart from adopting cooperative values, BMTs also implement Islamic teachings as part of their values. Moreover, Islamic values may have more impact on the BMT than the cooperative's values. As articulated by interviewees, BMTs aim to adopt Prophet Muhammad's character in their values (e.g. *amanah*/upholding trust, *tabligh*/fulfilment of a mission, *fathonah*/intelligence, and *siddiq*/honesty).

"So, the real BMT management system is actually the fulfilment of four of the Prophet's characteristics, namely having siddiq [honesty], amanah [trustworthiness], fathonah [intelligence], and tabligh [delivering Islamic values to the society]. Those values are the real values that should be adapted by the BMT. So, the siddiq and amanah values are necessary to BMT human resources including the directors, supervisors, and so on. Then the [BMT] systems should be tabligh and fathonah. Tabligh means transparent and professional. Ah, so the main fraud factors are the violations of siddiq and amanah. If the [BMT] systems were managed under those four principles plus responsibility, I believe it

would be unbreakable. But people are losing their honesty and integrity.” (MAN13)

One of the interviewees also pointed out that Islamic values accommodate the values of corporate governance such as transparency, accountability, responsibility, responsiveness, independence, fairness, and honesty.

“I think all Islamic values are there [in the BMT]. Transparency, accountability, responsiveness, fairness, integrity and honesty” (MAN1)

This finding echoes the previous literature on Islamic governance (see Chapter 2, section on Islamic Corporate Governance). This finding implies that the stakeholders understand the main concepts in governing BMTs, which means that they are capable of building stronger BMT governance to prevent fraud. One interviewee, as below, also underlined that if Islamic values were strongly held in the BMT, he believed that there would not be such incidents like fraud.

“I believe that if the BMT including the managers, people, are truly amanah with their [Islamic] principles, no fraud would happen.” (BEN3)

BEN3 perceived that if the Islamic (ethical) values were truthfully adopted by the BMT including its managers, for instance by doing good conduct (e.g. demonstrating their leadership values, maintaining the organisation’s accountability, practising ethically), and preventing them from bad conduct (e.g. easing misgivings, stealing money, abuse of power), then the potential of fraud would be minimal. Islamic values are believed to uphold similar values to other religions (see Chapter 2).⁶³ Islamic law has ethical values that would be universally acceptable to both the Muslim and non-Muslim population in Indonesia.

⁶³ Chapter 2 discusses at length the business ethics among religions. All religions share their condemnation of unfair practises such as fraud, while many Islamic organisations are susceptible to criticism for their social failure.

6.5. Reflections on BMT Governance: Board-Stakeholder Relationships

There were overlapping values which created tensions during the fraud incidents. This includes the relationships between the board and employees, board and members, and among board members. One argument is that there is a large degree of information asymmetry associated with the related parties (i.e. managers and employees usually have more information than members and society; the authorities are also considered to have limited knowledge on BMT practice than the managers or employees). This condition allows opportunistic behaviour which leads to the failure to disclose any relevant information to other stakeholders.

In the BMT fraud context, the fraudulent BMTs failed to disclose the value relevant information such as board processes and financing arrangements to their stakeholders, particularly during the annual general assembly (Rapat Anggota Tahunan/RAT). Even though there are some BMT financial reports, these were still considered inadequate and artificial as they were unregulated (unstandardized reports) and arranged only to meet the administrative enquiries from the MoC (as the BMT should submit financial reports regularly). On the other hand, the stakeholders (some members, authorities) were also lacking in knowledge which prevented them from fully understanding BMT practice (i.e. hardly understood either financial or governance reports, organisation profiles, or board activities). Therefore, there were pressures between the board and stakeholders due to information asymmetry particularly during the fraud cases (when frauds were exposed by the national media).

This finding echoes Cornforth (2003, p.14) who states that there is possible ‘tension’ between the board’s controlling and partnering management (employees, members). BMT stakeholders (the fraud victims) perceived that the board left them uninformed of what was happening in the organisation. They expected that the board would to some extent disclose relevant information on practice updates.

6.6. Conclusion

This study shows that fraud had mentally and financially harmed BMT stakeholders. This could be seen from the model of the perceived impact of fraud on stakeholders, which demonstrates the main issue on BMT practice after fraud incidents (i.e. trust). The model shows that stakeholders are losing trust on BMT and preventing themselves from using the products and services.

This chapter argues that there are overlapping values between micro (individual) values and macro values (especially Islamic values and cultural values). These values are extracted from the primary data. Among all values, individual values are the most influential factors in framing stakeholders’ perceptions. No matter how strong other values are (especially the Islamic, cooperative, cultural values), if the individual’s values are not aligned particularly with BMT values, then it could be hard to control any conflicting values or interests. The cultural background also highly influences the way of thinking among stakeholders, including their responses to fraud (i.e. opinion, gesture, attitude, and so on).

Whatever the values may be, fraud is considered a threat to the organisation. Islamic values, in particular, condemn fraud, as do other religious values. All religions condemn unfair practices. However, most Islamic/religious organisations are susceptible to being criticised for their social failure.

This chapter also underlines the notion that community leaders ought to play a major role in developing empowering BMT practices in Indonesia. They should have an enlarged role in governance mechanisms to reduce the possibility of fraud in BMTs. They could act as supervisors, particularly for business compliance to Islamic laws. They could act as the community watchers for any misconduct in their surrounding organisations. Additionally, they could also support inter-cultural understanding and communication amongst scholars and practitioners of BMTs.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1. Research Overview

This study aims to examine fraud in Indonesian BMT Islamic cooperatives, as in recent years there have been a number of frauds involving BMTs which both socially and economically damaged their stakeholders, including members, beneficiaries, and society as a whole. Moreover, the frauds have been attracting significant media attention, and have impacted the individuals and groups directly and indirectly involved in the organisations, as well as the wider environment.

As an organisation espousing Islamic values, BMT is expected to fulfil its dual functions: to embody the Islamic values that emphasises solidarity, fairness, equality, trustworthiness, resourcefulness, and so on; and to contribute to poverty alleviation as micro-sized enterprises that are a vehicle through which wealth and prosperity can be improved. The BMTs are seen as organisations that fill a gap in the market by catering to the need for these micro-sized enterprises. Therefore, BMTs are considered promising microfinance institutions as well as a financial solution for the needy.

7.2. Summary of Key Findings

The governance of Indonesian BMT Islamic cooperatives remains incomplete, leaving space for further development. In this study, BMT fraud is considered a systematic failure of Islamic cooperatives in Indonesia. The cases depict the ugly conditions of BMT governance as well as the lack of knowledge of stakeholders, their understanding, and concern for Islamic financial institutions.

The key findings are summarised in table as below:

Table 7.2 Summary of Key Findings

Key Research Questions	Key Findings
What are the underlying causes of BMT frauds?	<ul style="list-style-type: none"> • Four main causes of fraud: 1) moral hazard behaviour from managers and employees; 2) misgovernance; 3) little attention on BMT from the authorities; 4) stakeholders' lack of diligence of BMT practise. • The fraud incidents in BMTs is a systematic failure as all stakeholder groups have their part on these.
How does fraud frame stakeholder perceptions of BMT practice in Indonesia?	<ul style="list-style-type: none"> • There are overlapping values between micro (individual) values and macro values (especially Islamic values and cultural values). Individual values are the most influential factors in framing stakeholders' perceptions. • No matter how strong other values are (especially the Islamic, cooperative, cultural values), if the individual's values are not aligned particularly with BMT values, then it could be hard to control any conflicting values or interests. • The cultural values highly influence the way of thinking among stakeholders, including their responses to fraud (i.e. opinion, gesture, attitude).

Source: composed by author

This study also shows that fraud has mentally and financially harmed BMT stakeholders. Fraud has reshaped stakeholders' image of the BMT as an Islamic institution; it damages the positive image of the BMT as a trustworthy financial organisation. Both primary and secondary data reveals the micro and macro values that reframe stakeholders' perceptions. There is a gap in expectation in

BMT practice due to a discrepancy and conflicting values between micro (individual) values and macro values (especially Islamic values and cultural values). Individual values are the most influential factor in framing stakeholders' perceptions. The overlapping values create an environment that encourages fraud to occur. Therefore, the alignment between values (micro/individual and macro values) is essential to mitigate the probability of fraud in the future.

Most factors were rooted in stakeholders' financial illiteracy particularly regarding BMT practice. These incidents can, however, be prevented through building stronger corporate governance and stakeholder involvement in fraud prevention activities. This reformation of corporate governance needs strong participation from all stakeholder groups including managers, employees, members, beneficiaries, communities, and authorities. The primary data reveals that community leaders play a major role in preventing fraud as well as enabling empowering BMT practices in Indonesia. They should have an enlarged role in governance mechanisms such as being the BMT supervisors, community watchers, as well as mediators between scholars and practitioners of BMTs. Consequently, these roles would urge them to become more educated to improve their knowledge, skills, and awareness of BMT practice.

7.3. Empirical Contribution

The empirical contributions of this thesis can be seen in two dimensions:

Firstly, based on the key findings as summarised in Table 7.2., this research contributes to knowledge that failures in Indonesian BMTs (as part of VBOs and MBOs in emerging economies) were caused by the unaligned stakeholders' values (individual values) which can stimulate individuals to behave differently. Although in BMTs, stakeholders are bounded by its organisational, cultural, and

religious values, but the individual values are dominating which allow values deviation. This finding adds the previous studies such as Caers et al. (2006), Collinson (2017), and Teixeira and Bautzer (2017) from the new perspective (the non-traditional organisations) as they stated that failures in traditional organisations can be caused by many factors such as deviation from their main principles and ethical values.

Additionally, this study adds to knowledge that in BMTs, stakeholders are individuals as well as institutions are isolatable units that have well defined boundaries, can be considered as separate from their surroundings, and are not an integral part of the community or society in which they function. Therefore, even though BMTs' stakeholders are comprised of many groups of stakeholders, but everyone in the groups has boundaries which define their unique values, characters, and interests.

7.4. Theoretical Contribution

This research is motivated by gaps in the literature (see Chapter 2), particularly concerning studies in cooperative governance in emerging countries like Indonesia, and by the real-world problem of poor governance of BMT Islamic cooperatives in Indonesia (see page 24). This research is also inspired by the social reality of poverty, yet it is not merely the poor that have been affected by fraud; but everyone in Indonesian society. The purpose of this thesis, therefore, is to advance the theory on the governance of Islamic cooperatives by assessing the cases of fraud, analysing stakeholders' perceptions, and formulating possible solutions for preventing fraud in the future.

The theoretical contributions of this thesis can be seen in many dimensions:

Firstly, the study has raised and addressed a salient gap, not only in governance literature, but also in BMT Islamic cooperative literature as well. There is a paucity of research on Islamic cooperatives in emerging countries like Indonesia. This thesis also contributes to traditional corporate governance theories by adding cultural and religious perspectives to the analysis (see Beekun and Badawi, 2005). Therefore, along with other literature such as Abu-Tapanjeh (2009), Kirkpatrick and Maimbo (2002), Laplume (2008) which also shaped this thesis (see Chapter 2), this study advances corporate governance theories.

Secondly, this study has indicated that stakeholder theory should explore further the relationships ongoing within organisations, since some organisations are complex in character and work beyond classifications. However, stakeholder theory is considered sufficient to model the interests of all respective stakeholders (e.g. managers, employees, authorities, societies, and so on). Therefore, this study contributes to the literature on the application of stakeholder theory in Islamic cooperative frameworks such as BMTs. It is argued that stakeholder theory should expand its horizons by concerning itself not only with a stable organisation such as a corporation, but also a dynamic organisation such as a cooperative, a non-profit organisation, and so on. Therefore, this study echoes Laplume's (2008) argument which states that several areas in stakeholder theory remain under-investigated; particularly the non-profits, small businesses, and family firms.

Thirdly, it is evident that the cooperative sector has engaged with other values, such as culture and religion. This finding follows previous studies, for instance: Islamic corporate governance (see Abu-Tapanjeh, 2009), local peculiarities and culture in corporate governance implementation in non-traditional organisations (see Uddin and Choudhury, 2008). In addition, it has expanded the cooperatives'

fundamental values and their dual nature from which they represent their core being, mission and identity. Even though the BMT is an Islamic entity, it remains under threat of fraud, due to various reasons, and at the same time, society remains pragmatic towards their options regarding financial institutions. Hence, the findings of this study echo previous research (see Cornforth et al., 1988; Jussila et al., 2008; Anderson and Henehan, 2003) which states that cooperatives have been accused of abandoning their original mission of benefiting members and should not aim at profit maximisation.

Fourthly, it is evident that the fraud incidents in cooperative sector has engaged with dynamic aspects (i.e. institutions, individuals). Therefore, this study supports the argument to expand or modify the fraud triangle as the complex phenomena of fraud especially in non-traditional organisations cannot legitimately be reduced to simple geometric representations (see page 58).

7.5. Implications for Practitioners

This study is expected to provide evidence that can be convincing for practitioners from the academic point of view. Hence, the input could help in strengthening the knowledgebase within BMT Islamic cooperative organisations.

Firstly, the findings reported in this study, including the detailed discussion of fraud causes, stakeholders' perceptions of fraud, and stakeholders' recommendations on preventing fraud, are particularly useful to authorities in this sector. These findings can be useful in making policies as well as developing strategies, by providing insights regarding how to deter any fraud in BMT Islamic cooperatives and similar organisations.

Secondly, the findings point out that people need to raise their own awareness of financial products and services as well as learn from failures. Frauds could be prevented if people are aware of the importance of financial literacy. Therefore, this study emphasises the need for sharing and maintaining knowledge among BMT stakeholders.

Thirdly, the findings show the interest and potential demand for BMTs, as semi-formal Islamic microfinance organisations, due to the void left by cooperatives, Islamic rural banks, and conventional banks, by which BMTs enable micro industry players and other disadvantaged entrepreneurs to gain financial access. Even though the objectives are similar, from a business perspective, the label of Islamic cooperative is more marketable in Indonesia compared to the non-Islamic cooperative label. However, this condition should be followed by updated regulations and improved supervision from the authorities.

7.6. Limitations of the Study

It has been argued that there is no such thing as a perfectly designed study (Marshall and Rossman, 1989), especially if the study is related to human interaction, as humans per se are characterised as complex. Therefore, capturing all dimensions is very challenging, if not impossible. Reflecting on several factors such as methodology, there are three key limitations which have been identified, and should be considered while evaluating the overall contribution of this thesis.

The first limitation regards the nature of the research approach, which is qualitative research. A deeper understanding is possible by adopting this method. However, some insights might be missed as a consequence in this study. This is due to the interview time constraints since, for instance, most interviewees were only available to be interviewed for a maximum of two hours. Hence, even though

the researcher, with the help of the supervisor, carefully examined the interview questions in order to ask the most relevant questions, some follow-up questions could still not be covered. Moreover, as a sensitive issue, talking about fraud itself was quite a challenge, especially for the researcher. This required the trust of interviewees, and trust cannot easily be built within one to two hours. Therefore, the researcher was pressured to build rapport from the very first contact with interviewees.

With the help of good references from colleagues, most interviewees were welcoming and open to discuss their fraud experience. However, the researcher also experienced some rejections from interviewees, since one of the stakeholder groups unfortunately believed that this thesis was part of a western conspiracy to steal local wisdom. Another weakness of adopting a qualitative method was the diversity of the themes identified. Some selectivity has been shown by the researcher when selecting the relevant and most interesting themes (Seale, 2003), and therefore this might have caused some themes to be overlooked. Therefore, it is impossible to be fully confident that the study has covered all related aspects of fraud investigation and prevention, which implies that the study contribution to policy might be incomplete.

Secondly, given that this study has used the interview technique, collecting information from face-to-face interviews will suffer from the possibility that some information has been influenced by a social desirability bias. The pervasive tendency of interviewees to present themselves in the most favourable manner relative to prevailing social norms and mores has threatened to compromise research findings (King and Bruner, 2000).

Thirdly, given that this study interviewed and investigated a relatively small number of cases and interviewees, it is therefore a challenge for generalisability (Eisenhardt, 1989b). However, this study aimed to develop an in-depth understanding of the phenomenon under investigation. Hence, this limitation might arguably be mitigated by viewing generalisability issues through a theoretical lens, rather than a statistical one. Moreover, this study has been prepared with some rigor, including the attempt to cover all stakeholders' opinions and investigate the frauds from any possible sources (e.g. websites, social media, archives, interviews, and observations), that these efforts may serve to offset some of the criticisms of qualitative research.

Fourthly, this study hardly escapes from the subjective experience of the researcher, since it has sought to maintain its humanity throughout the research process. This humanity has informed and led the researcher throughout the process, in the form of intuition. Speaking about the world of human experience requires extensive commitment in terms of time and dedication to process, as well as an intuitive sensitivity; however, the word intuition is often dismissed as 'subjective' and regarded with suspicion (Myers, 2000).

Below are some suggestions to address the above limitations in future research.

7.7. Recommendations for Future Research

The study has provided several theoretical contributions relating to the subject of fraud investigation in BMT Islamic cooperatives, yet it still paves the way for further research. This section aims to highlight five main recommendations to suggest new potential research inquiries.

First, using quantitative data would be necessary to test the statistical generalisability of the study. For instance, the researcher can use questionnaires in a survey to capture the samples of BMT groups in Indonesia. The questionnaires can use the themes which have been developed in this study so that some testable hypotheses can be constructed. The questionnaires can be classified into the stakeholders' groups (managers, members, authorities, and society) which may give valuable insight into how each actor is involved in the organisational structure. However, qualitative data would still be considered necessary to confirm the relevant factors which have been extracted from the survey's findings.

Second, given that this study has adopted interviews and media archive analysis, adopting other methods such as ethnography may expand the views and give an in-depth exploration into how stakeholders' values are being created. By employing the ethnographic method, the researcher may allocate more time in the field, thereby allowing a more in-depth ethnographic approach, for instance, by interviewing more actors and focusing on the strong stakeholders in each region. By considering these views, further insights into the issue of fraud can be reached.

Third, in conducting this thesis, the stakeholders' groups have been classified into four categories only: managers, members, societies, and authorities, and in some contexts, these are overlapping and inappropriate. However, there are other categories which would be worth investigating, such as politicians and other financial intermediaries (the banks). As informed by the analysis, regulation is one of the main causes of BMT failures and politicians hold an important role in preventing frauds by supporting new regulations or amending current regulations. Therefore, knowing politicians' perspectives will also provide

valuable insight, particularly on how they are involved in law-making and in developing a regulated environment for BMTs. Other financial intermediaries such as Islamic and conventional banks could also give insights on how Islamic cooperatives are governed and how fraud has occurred in BMTs.

Fourth, as an extension to the previous point on fraud prevention, a new direction of research can be established to assess the effectiveness of some recommendations such as a new form of cooperative, by developing models to test the feasibility of current forms of cooperatives and the new forms of cooperative in practice.

And lastly, future research can use other corporate governance theories on data analysis. For instance, institutional theory may give another perspective particularly in the framework of organisations.

7.8. Final Reflections

In conclusion, there is a gap in expectations from BMT organisations. BMTs should be encouraging their people to have a self-governing mindset and a morally correct attitude. However, there are some issues of power and authority within the BMT and in interactions with the education system, the economy, religion and other social institutions, that prevent this mindset from developing in the social system. In other words, everyone is seen as being responsible for developing his or her own knowledge before taking any financial decisions. Fraud detection does not depend on highly complex formulas or theories. Deterring and detecting fraud requires people who can look at things from different perspectives, and move away from traditional paradigms (Petrucelli, 2013). Essentially, rules will not always deter fraud. Involving the public in the process is necessary. However, principles, rules, and regulations are needed to provide

structure and governance, to ensure an organisation's survival and accountability, and to maintain stakeholders' trust. Overall, it can be concluded that even though the BMT has much potential and plays a strategic role in the Indonesian economy, it needs serious commitment from its stakeholders.

Most fraud studies are commonly associated with moral hazard as a result of dishonesty, greed, incompetence, and so on. Even if the fraud was conducted by an Islamic institution, the results are expected to be similar to non-Islamic institutions. So, what makes this study unique as compared with other research?

This perception, that fraud is usually related to human faults, namely moral hazard, is not inaccurate. However, this study is expected not to be another moral hazard study, since it enriches previous research and contributes to the latest issues concerning the subject.

This study has examined the way in which fraudulent Islamic organisations, namely BMTs, could shape the perceptions of stakeholders regarding the organisation in general. It has argued that while regulations are fundamentally important for the development of BMT Islamic cooperatives, values are even more so. The sources of stakeholders' values in BMT Islamic cooperatives in Indonesia are very complex, derived from various religious, socio-economic, cultural, and political circumstances. Different forms of deprivation add more pressure to this context: vulnerability, financial exclusion, illiteracy, an insensitive milieu, and unregulated political and administrative environment. The relationships between factors are always changing incrementally due to the media, and sociocultural and institutional pressure. Internalisation, as a process of accepting and integrating values of the BMT as an organisation and as its stakeholders, will not always satisfy everyone.

In the end, BMT frauds have been caused by systematic failures of the microfinance system: unregulated areas, institutions of lower prestige, less supervised organisations, less educated users, less skilled managers, and less attention from the communities. All stakeholders share equal responsibility for this. Therefore, considering the potential role that BMTs can play in alleviating poverty in Indonesia, by filling the void left by the banks, it is essential to enable micro industry players and other disadvantaged entrepreneurs to get financial access on their terms. In order to do so, BMTs need to seek full support from their stakeholders. Good corporate governance needs to be a concern for everyone.

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APPENDICES

Appendix 1A

Interview Questions (in English)

The interview will be conducted in Bahasa Indonesia and Javanese.

Key

(Ex) MAN: Ex-Managers or Current Managers

(Ex) EMP: Ex-Employees or Current Managers

(Ex) CUST: Ex-Customers or Current Customers

(Ex) BENF: Ex-Beneficiaries or Current Beneficiaries

AUTH: Authorities

SOC: Societies

Interview Questions		Stakeholder Groups					
		(Ex) MAN	(Ex) EMP	(Ex) CUST	(Ex) BENF	AUTH	SOC
RQ1	What are the causes of BMT frauds?						
1	What factors cause a BMT to commit frauds? For instance: Misgovernance Limited stakeholder education and knowledge Minimal regulations Limited monitoring and evaluation Moral hazard	v	v	v	v	v	v
2	How do frauds happen? I.e. process, time, related parties, place, etc.	v	v	v	v	v	v
RQ2	What are stakeholder's perceptions of frauds?						
3	How does fraud harm you (and your family)?			v	v		v
4	How does fraud harm your organisation/group?	v	v			v	
RQ3	What are stakeholder's recommendations to prevent frauds?						
5	Following previous incidents of fraud, what will you do to prevent frauds in the future? For instance: Misgovernance: Which governance structure is best to prevent fraud?	v	v	v	v	v	v

		Misgovernance: Which governance structure failed to prevent fraud?					
		Limited education: What should we do to enhance information access for the stakeholder?					
RQ1		What are the causes of BMT frauds?					
		How do the corresponding stakeholder's values condemn or support fraud?					
6		Do you follow any particular set of value systems, e.g. religious, ethical, community, founding father?	v	v	v	v	v
7		Do your organisation follow any particular value system, e.g. religious, ethical, community, founding father?	v	v	v	v	v
8		If yes, what values?					
9		If no, how do you or your organisation determine your value base?					
10		Do you think these values condemn or support fraud?	v	v	v	v	v
RQ1		What are the causes of BMT frauds?					
11		Is your voice being heard by the BMT?		v	v	v	
12		If yes, how? If no, why not?		v	v	v	
RQ3		What are stakeholder's recommendations to prevent frauds?					
		How does stakeholders' heterogeneity influence the governance structure?					
13		Do you feel you have sufficient representation in the BMT, i.e. in the governing boards, AGM?		v	v	v	v
14		If yes, why? If no, why?		v	v	v	v
N/A	15	Anything you would like to add?	v	v	v	v	v

Interview Guideline

Interview Target:

- Stakeholders' groups of failed BMTs i.e. Ex-Managers, Ex-Employees, Ex-Customers, Ex-Beneficiaries, Authorities, and Societies
- Stakeholders' groups of successful BMTs i.e. Managers, Employees, Customers, Beneficiaries, Authorities, and Societies

Interview Guide:

- Introduction
- Thank interviewee for taking part
- Introduce myself
- Introduce the nature of the study
- Read and sign confidentially agreement
- (Fill in the demography information sheets)
- Explain that interview may be recorded, and ask for consent
- Interviewee Background Information
- Can you say a few words about yourself?

Prompts:

- Name
- Where are you currently living?
- Age
- Marital status (if applicable)
- Occupation
- Starting questions
- Can tell me about the BMT you are/were part of?
- What was/is your role within the BMT?
- What are/were the strengths of this BMT?
- What are/were the weaknesses of this BMT?
- Do you remember what happened at the time of the incident of fraud?
- Have there been other incidents of fraud of which you're aware?

Ending question

- Is there anything you think I have left out or is there anything else you would like to tell me?

Appendix 1B

Informed Consent Form (in English)

By signing this form, I am attesting that I have read and understand the information below and I freely give my consent to participate in the research entitle **The Governance of Islamic Cooperatives in Indonesia: Case Study of BMT Islamic Cooperatives in Yogyakarta, Central Java, and East Java**, conducted by **Dian Kartika Rahajeng**.

I understand that:

1. The aims, methods, anticipated benefits, and possible risks of the research study, have been explained to me.
2. My participation is voluntary and that I am free to withdraw and discontinue participation at any time without (or with) reasons.
3. The researcher will not identify me by name in any reports using information obtained from this interview, and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals.
4. Neither the names of my colleagues nor the names of any organization mentioned during this interview would be made public.
5. The findings of the research will be used for research purposes and may be reported in academic journal.
6. I have the right to allow the interview to be audio recorded and to request for the interview transcript, if necessary.

I agree that [*Please cross as appropriate]

I DO/ DO NOT* require an opportunity to check the factual accuracy of the research findings related to the organisation.

I EXPECT/DO NOT EXPECT* to receive a copy of the interview transcript

I hereby acknowledge that I have read and understand the explanation provided to me and voluntarily give permission to participate in this study.

Name of Participant

Date

Signature

Informed Consent Form (in Bahasa Indonesia)

Dengan menandatangani surat ini, saya menyatakan bahwa saya telah membaca dan memahami informasi yang diberikan dan saya dengan menyetujui menyetujui untuk berpartisipasi dalam penelitian yang berjudul “Tata Kelola BMT di Indonesia: Studi Kasus BMT di Jawa Timur, Jawa Tengah dan Yogyakarta” oleh Dian Kartika Rahajeng.

Dengan ini:

1. Saya menyatakan bahwa saya telah membaca dan memahami informasi untuk keperluan studi di atas. Saya telah mendapat kesempatan untuk mempertimbangkan seluruh informasi dan mengajukan pertanyaan yang telah dijawab secara memuaskan.
2. Saya memahami bahwa keikutsertaan saya bersifat sukarela dan bahwa saya bebas untuk mengundurkan diri setiap saat tanpa memberikan alasan apapun selambat-lambatnya 31 Desember 2016.
3. Saya memahami bahwa informasi diri dan organisasi saya akan dilindungi dalam bentuk anonimitas data pribadi dan pihak lain tidak dapat mengidentifikasi saya melalui informasi apapun dari hasil wawancara ini. Dan saya mengerti bahwa informasi tersebut akan dikelola sesuai dengan ketentuan Undang-Undang Perlindungan Data Inggris 1998 (UK Data Protection Act 1998).
4. Saya memahami bahwa nama saya dan/atau nama organisasi yang disebutkan selama interview bersifat rahasia dan tidak dapat diketahui publik.
5. Saya memahami bahwa hasil riset akan digunakan hanya untuk kepentingan penelitian dan publikasi di jurnal akademis serta dapat ditinjau oleh individu-individu yang bertanggung jawab dari Universitas dan sponsor untuk keperluan pemantauan dan audit.
6. Saya bersedia untuk direkam suara/gambar saat melakukan wawancara dan meminta transkripsi wawancara jika diperlukan.

Saya menyetujui bahwa [*coret yang tidak perlu]

Saya perlu/tidak perlu* menerima hasil penelitian yang berkaitan dengan organisasi saya.

Saya perlu/tidak perlu* menerima salinan transkripsi wawancara saya.

Demikian lembar persetujuan ini saya tanda tangani dengan kesungguhan hati dan tanpa adanya paksaan dari pihak manapun.

Nama Peserta

Tanggal

Tanda tangan

Appendix 2

The Coding Books

Below are the coding books which been used in the empirical chapters (Chapter 5 and Chapter 6)

1. Initial Coding Scheme

This coding scheme was derived from the secondary data analysis (media archives and websites).

Codes/ Themes
Affecting Stakeholders
Loss of Capital
Loss of Occupation
Social Impact
Barriers
Politician
Victimisation
Causes of Fraud
Limited Monitoring and Evaluation
Limited Regulation
Limited Stakeholder Education and Knowledge
Misgovernance
Moral Hazard
Fraud Locations
Output (Solution and Suggestion)
Education Improvement
Policy Changes
Regulation Enforcement
Perceptions of Frauds
Angry
Hopeless
Sad
Upset
Stakeholders
Directors
Employees
<i>Nasabah</i> (Customers)

The table below shows the list of codes of values to support answering the first main research question:

Codes/ Themes	Level of Coding	Concluding Theme
Values	1	The values described here are the BMT values which are important in the governance processes. Those are mainly derived from the teachings and characters of Prophet Muhammad (pbuh). Other values are adapted from corporate governance principles. These values were also maintained by the strong stakeholders.
Transparency	2	
Accountability	2	
Control	2	
Islamic	2	
<i>Amanah</i> (upholding trust)	3	
<i>Tabligh</i> (fulfilment of a mission)	3	
<i>Fathonah</i> (intelligence)	3	
<i>Siddiq</i> (trustworthy)	3	
Independent	2	
Responsibility	2	
Fairness	2	
Empowerment	2	
Liberation	2	
Responsiveness	2	
Integrity	2	
Honesty	2	

The codes are constructed into many levels of coding in order to show detail categorizations.

2. Compiled Coding Scheme

The codes are constructed into many levels of coding in order to show detail categorizations.

Codes/Themes	Level of Coding
Causes of Fraud	1
Moral Hazard	2
Politics	3
Impious (Lack of Religious Spirit/ <i>Ghirah</i>)	3
Superiority	3
Lifestyle (Capitalistic Direction)	3
Reckless	3
Greedy	3
Over-Trusted	3
Ambitious	3
Taking Risky Investment	4
Lacking Resources	2
Liquidity (Fund)	3
Human Resources	3
Depends on Strong Person (<i>Ulama</i>)	4
Weak Governance	2
Powerless RAT (Annual Meeting)	3
Weak Employees	3
Poor Supervision	3
Bad System	3
Accounting System	4
Joint Account - Owner and BMT	5
Weak SOP	4
Lacking Teamwork	5
Where is Auditing	2
Unhealthy Competition	2
Misconception of BMT Principles	2
Unaware of BMT's Main Purposes	3
Maintaining Focal Point of Islamic Principles	4
Spread Islamic Values (<i>Da'wah</i>)	4
BMT Morale (Spirit/ <i>Ghirah</i>)	3
Business is Business	3
Short Organisation Life Cycle	2
Limited (No) Proper Regulation	2

Regulations Unmatched to BMT Characteristics	3	
Unclear Supervisory Regulations - OJK or MoC	3	
Pro Cons OJK vs MoC	4	
Too Simple (Lacking Details)	3	
Lenient Regulations, tend to be Manipulated	3	
Delayed Regulations	3	
Unclear Procedures	3	
Managerial Problems	2	
Just for Formality	3	
Misgovernance	3	
Leader Domination	4	
Lack of Accountability	4	
Lack of Transparency in Procedures and Processes	4	
<i>Oknum</i> (Bad Players)	3	
Nepotism	4	
Deviation	4	
Poor Managerial Skills	3	
Limited Stakeholder Education and Knowledge	2	
Unaware of BMT Legal Types	3	
Shifting Business Model	4	
Cooperatives, partnership, Lembaga Keuangan Mikro (LKM, microfinance organisations) or Non-Formal - Organisations	4	
Minimum Counselling, Training	3	
Uneducated Members	3	
High Expectation, Low Preparation	2	
Unprepared Government Programme	2	
Wrong Key Performance Indicator/KPI - Budget Expenditure	3	
Limited (NO) Monitoring	2	
Minimum Concern from Associations	3	
Low Quality Supervision	3	
Lack of Funds from State Budget (APBN)	4	
Lack of Personnel	4	
Job Rotation	5	
Outnumbered BMT and Supervisory Authorities	4	
Lack of Staff Skills	4	

The table below shows the summary of codes as well as preliminary analysis of the interviews in response to the second main research question: How does fraud frame stakeholder perceptions of BMT practice in Indonesia?

Codes/ Themes	Level of Coding
Perceptions of Frauds	1
Positive	2
Learning Curve	3
Negative	2
Angry	3
Hopeless	3
Sad	3
Upset	3
Loss of Capital	3
Loss of Occupation	3
Social Impact	3
Loss of Trust	3
Mixed	2
Life Test	3
I'm part of the problem	3
Shock (Speechless)	3
Negotiation	3
Speculation	3
Neutral	2
Does not Affect Me	3

Appendix 3

Demographic Profile of Interviewees

Criteria	Across Gender	n Respondents	Notes
Gender	Males	29	76.3%
	Females	9	23.7%
Age	Males		The average respondents' ages are: <ul style="list-style-type: none">• 49 (both male and female)• 46 for female• 50 for male
	<30	0	
	31-40	2	
	41-50	14	
	51-60	9	
	>60	4	
	Females		
	<30	0	
	31-40	1	
	41-50	7	
51-60	1		
>60	0		
Academic Degree	Bachelor	14	11 Males, 3 Females
	Master	14	11 Males, 3 Females
	Doctoral	6	3 Males, 3 Females
	N/A	4	All Males
Marital Status	Married	38	All Married
	Not-Married	0	
Religion	Islam	30	21 Males, 9 Females
	Non-Islam	1	Male
	N/A	7	All Males
Financial Hardship	Yes	3	Males, 1 victim
	No	32	Males
	Not Sure	3	Mixed
Victims	Yes	10	2 Bachelors 5 Masters 2 Doctors 1 N/A
	No	28	12 Bachelors 9 Masters 4 Doctors 3 N/A
Stakeholders' Groups	Males (Average 19.08%)		28.95% 15.79% 7.89% 23.68%
	AUT	11	
	BEN	6	
	CUST	3	
	MAN	9*	
	*8 from the good BMTs, 1 from the failed BMT		
Females (Average 5.92%)			

	AUT	0	0.00%
	BEN	1	2.63%
	CUST	4	10.53%
		4**	
	MAN	**2 from the good BMTs, 2 from the failed BMTs	10.53%
The Fraudsters in the Failed BMTs (as analysed from the websites and media archives)	MAN Males		77.78%
	PSU	1	
	Wonogiri	3	
	Isra	2	
	Hilal	N/A	
	Amratani	1	
	MAN Females		22.22%
	PSU	0	
	Wonogiri	N/A	
	Isra	N/A	
	Hilal	N/A	
	Amratani	2	

The table portrayed a range and variety of demographic measures, in an attempt to make the sample as robust as possible with regards to the qualitative nature of the data collection method chosen.

Appendix 4: Research Framework

Situation Analysis		Priority Setting	Inputs/Resources	Activities	Outputs	Outcomes	Impacts	
Islamic cooperative failures in Indonesia	Mission	Assessing Fraud	Media archives (i.e. newspapers, crime and other reports)	Contacting the media and politician for extracting the archives in fraud	Policy recommendation	Changes in individuals, groups, societies including the authorities (i.e. public policy)		
	Goals	Investigate the causes of fraud	Social Media for collecting stakeholders' opinions (i.e. Twitter, Instagram, Facebook, other platforms)	Conducting interviews with the stakeholders in order to gain their perceptions, opinions, understanding, and inputs toward the Islamic cooperative practices including its failures	Other solutions/ suggestions			
		Understand stakeholders perceptions (opinions) of fraud and Islamic cooperative practices in general	Interviews with the stakeholders (governing boards, employees, customers, authorities, politicians, and societies)	Contacting the essential contacts (i.e. politicians, authorities, experts) to overcome the barriers when investigating fraud		Learning from the Islamic cooperatives failures	Social, economical, and political actions toward the failures	Improving conditions of Islamic cooperatives
		Understand fraud impact to stakeholders		Composing the recommendation/solution to prevent fraud based on the stakeholders perceptions and literature. For instance inputs from the authorities, experts, and other stakeholders toward governance mechanisms for Islamic cooperatives		Raising awareness towards financial products and services	Analysing the dynamic nature of stakeholder behaviour for the more efficient organisation management	Improving stakeholders' qualities socially and economically
		Codify existing practices in Islamic cooperatives into feasible drafts (rules) for achieving better regulation and sustain financial environment		Discussing the drafts to the related parties including experts and authorities; and seeking for comments and feasibility		Sharing and maintaining knowledge among stakeholders	Learning from the practices for the better public policies	Developing civic engagement in microfinance organisations environment
		Contributing to the governance literature in Islamic cooperatives				Developing attitude towards learning	Managerial policy and decision making	Building the sustainable financial environment
	Objectives	Collecting fraud evidence				Gathering opinions and aspirations on Islamic cooperative practices		
		Underlining the research and theoretical gap in the Islamic cooperatives literature by using systematic literature and theoretical reviews				Building motivations on Islamic cooperatives improvement		
		Drafting policy inputs in particular Islamic microfinance governance based on theories, practices and stakeholders' opinion (including the experts and authorities)						
		Gaining essential access to overcome the barriers						
		Providing stakeholders perceptions (opinions) through many sources						

Appendix 5

REGULATION COMPARISON: MOC AND OJK

The table below shows the comparison between the Ministry of Cooperative and Small Medium Enterprises (MoC) and the Financial Service Authority (OJK) on microfinance regulations.

No	Factors	MoC	OJK
A. Institutional and Legal Aspects			
1	Legal Form	<div><input type="checkbox"/> Primary Cooperative</div> <div><input type="checkbox"/> Secondary Cooperative</div>	<div><input type="checkbox"/> Cooperative form</div> <div><input type="checkbox"/> Company or partnership forms</div>
2	Membership	Stakeholders including members and non-members	<div><input type="checkbox"/> If cooperatives, stakeholders (members and non-members).</div> <div><input type="checkbox"/> If partnership, shareholders and stakeholders</div> <div><input type="checkbox"/> Depends on the legal charter while registered in the Notary or Ministry of Law</div>
3	Operational License	Follow the Local Offices (National, Province, District/Municipality)	National and Regional Offices (Province only)
4	Naming	<div><input type="checkbox"/> If primary cooperative, should clearly state 'Koperasi x'.</div> <div><input type="checkbox"/> If secondary cooperative, should clearly state 'Koperasi Sekunder x'.</div> <div><input type="checkbox"/> At least three words</div>	<div><input type="checkbox"/> Should clearly state 'LKM(S)/Lembaga Keuangan Mikro (Syariah) X'; (Islamic) Microfinance Institution</div> <div><input type="checkbox"/> No secondary institution level like in secondary cooperative</div> <div><input type="checkbox"/> Some regional offices do not recognise the BMT/Koperasi Syariah/KSPPS forms</div>
5	Other Legal Issues	Follow local regulations	
B. Organisational Structures, Human Resources, and Capital			
6	Organisational Elements	<div><input type="checkbox"/> General Assembly/ RAT</div> <div><input type="checkbox"/> Supervisors</div> <div><input type="checkbox"/> Organising Committee</div> <div><input type="checkbox"/> Members</div>	<div><input type="checkbox"/> Depends on the legal forms</div> <div><input type="checkbox"/> Cooperative or partnership forms</div>
7	Election of Organisation Elements	<div><input type="checkbox"/> Elected through the RAT</div> <div><input type="checkbox"/> Minimum 3 organising committee members (Director, Secretary, Treasury) and 3 supervisors</div>	<div><input type="checkbox"/> Elected through the RAT</div> <div><input type="checkbox"/> should meet the “Fit & Proper Test” from OJK</div>

	<input type="checkbox"/> Organising Committee may elect the managers	
8 Sharia Supervisory Board	<input type="checkbox"/> At least 2 members <input type="checkbox"/> Has the MUI Certificate <input type="checkbox"/> Selecting from the internal members if possible <input type="checkbox"/> Maximum 2 years if selected from external parties	<input type="checkbox"/> No certain numbers for the members <input type="checkbox"/> Follows the MUI (Majelis Ulama Indonesia/Indonesian Islamic Scholars Council) regulations
9 Organising Committee and Supervisors	<input type="checkbox"/> Organising Committee elected through the RAT from the members, minimum 2 years membership <input type="checkbox"/> Supervisors are elected through the RAT from the non-members majority <input type="checkbox"/> No duality position with other KSPPS primary cooperatives	<input type="checkbox"/> Elected through the RAT and should meet the "Fit & Proper Tests" from OJK
C Business Activities		
12 Unit Business	<input type="checkbox"/> Many sectors (production, distribution, marketing, service, savings & loans, etc.) <input type="checkbox"/> Both conventional cooperatives (KSP/Koperasi Simpan Pinjam) and unit business (USP/Unit Simpan Pinjam) cannot establish Islamic cooperative (KSPPS/Koperasi Simpan Pinjam dan Pembiayaan Syariah) and Islamic Unit business (USPPS/Unit Simpan Pinjam Pembiayaan Syariah), and vice versa.	<input type="checkbox"/> Only savings, loans, and consulting services <input type="checkbox"/> Similar. LKM cannot establish USPPS. LKM must choose between being Islamic (LKMS) or conventional business (LKM).
13 Coverage	District, Municipal, Province, or National regions	Only in district and municipal regions. Beyond that, LKM must transform to become the rural banks (BPR)
14 Collection and Distribution of Funds	Follow cooperative rules	Follow company and partnership rules
15 Profit-Loss Sharing Mechanism	Follow Standard Operational Management (SOM) from the MoC	Follow OJK regulations and circular letters
16 Maximum Financing Plafond	Follow Standard Operational Management (SOM) from the MoC	5% for individuals or 10% for groups

17	SOM	Guidance issued by the MoC which covers institutional management, financial management, and operational management	No particular guidance, only regulations that cover operational matters
18	Baitul Maal (dedicated agency to manage alms (<i>zakah</i> , <i>infaq</i> , <i>sadaqah</i>) and charity/endowment (<i>waqf</i>))	Part of the operational organisation	No such activities
D Financing			
20	Accounting Standard	SAK ETAP (Standar Akuntansi Keuangan Entitas Tanpa Akuntabilitas Publik) and PSAK (Pernyataan Standar Akuntansi Keuangan) Syariah	
21	Health Check	Follow Standard Operational Management (SOM) from the MoC	Liquidity and Solvability as the main financial ratios
22	Financial Reporting	Financial Statements plus Reports for Baitul Maal	Financial Statements
23	Auditing	Only for the KSPPS and USPPS which has assets more than Rp2.5billion. Otherwise, auditing is not mandatory	Follow OJK regulations and circular letters
E Human Resource Development			
24	Member Protection Scheme	Under consideration to have mutual cooperation with Jamkrindo (Jaminan Kredit Indonesia/ Indonesia Credit Insurance)	Under consideration to have mutual cooperation with LPS/Lembaga Penjamin Simpanan (Deposits Insurance Agency)
25	Association	ABSINDO, PBMT, Microfin, Inkopsyah BMT, Ikosindo, FKKS, Dekoipin, etc.	Not available
26	APEX-BMT	Under consideration	Not available
27	Sanctions	Administrative, rehabilitation, court	Fine, permission revoked, court

Source: Hendry (2016)

Appendix 6

6A. The Documents' Clippings

A. Newspapers

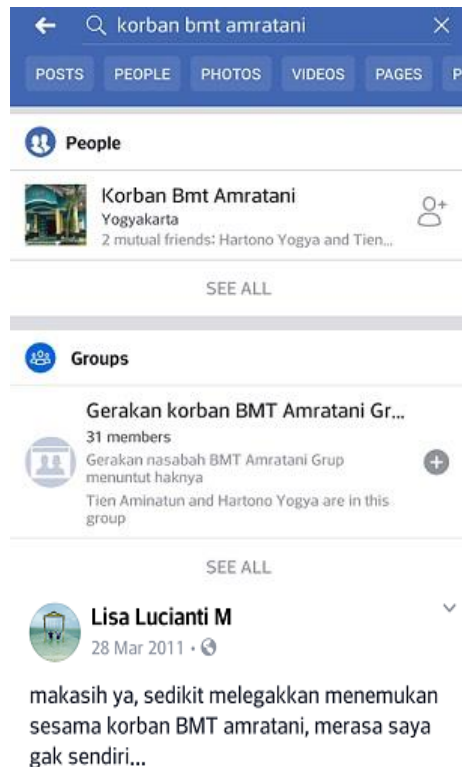


Source: Radar Malang, Regional Newspaper (26 October 2015)
(Translation: left- the MoC may revoke BMT PSU permit; right - Anharil, General Manager of BMT PSU Malang, was intended to withdraw its account receivables)



Source: Radar Malang, Regional Newspaper (26 October 2015)
(Translation: General Manager of BMT PSU Malang, Anharil, promised to pay debts)

B. Facebook



Korban Bmt Amratani **Gerakan korban BMT Amratani Grup**
10 May 2011 · 🌐

Pengumuman penting: telah terbentuk forum silaturahmi kroban BMTAmratani yang akan berjaung bersama menuntut hak kita. Info selanjutnya bisa menghubungi koordinator forum, BApak Joko RAharjo, nomor hp 08124170763. Sudah ada pertemuan anggota dua kali di rumah beliau dan perjuangan kita sudah terstruktur denagn rapih. YAng belum bergabung harap segera bergabung, dan dimohon untuk mengumpulkan fotokopi buku tabungan atau deposito, akan didata sebagai bukti. Sidang pertama para terdakwa sudah berlangsung, sidang ke dua tanggal 10 Mei 2011 pukul 10.30 di PN Sleman. YAng punya waktu harap bisa bergabung untuk menyaksikan dan mensupport Bu JAKsa, karena 3 terdawa didampingi 7b pengacara handal. TErima kasih atas perhatian dan kekompakannya. Semoga perjuangan kiat berhasil. AMin (admin)

Source: Facebook (17 November 2017)

(Translation: left-below – thank you for the groups, bit relieving to meet other victims of BMT Amratani, I don't feel lonely anymore; right – announcement for group contact number, meetings, and court updates)


Korban Bmt Amratani
31 Oct 2011 • 🌐

Info terbaru: ketiga terpidana (winoto, luluk, santi) ternyata telah bebas dari penjara. Wuih, keadilan macam ini????!!!. Dua puluh milyar lebih dana nasabah yang ditilep, hanya dibayar dg hukuman penjara beberapa bulan saja????!!!. Luluk.....suatu saat nanti dirimu harus membayar semua ini dg keadilan Tuhan, ingat itu!

3 comments Seen by 


Korban Bmt Amratani
28 Jun 2011 at 03:02 • 🌐

Bagi teman-teman sesama korban Puskopsyah Amratani, besok minggu tgl 3 Juli 2011 adalah deadline pengumpulan surat pernyataan bergabung dengan KNK PA, setelah itu pendaftaran akan ditutup alias tidak menerima lagi anggota baru.


Korban Bmt Amratani
24 Jun 2011 at 14:25 • 🌐

Perjuangan masih panjang dan penuh liku. Kelelahan fisik maupun pikiran mulai membayang. Emosi, kesalahpahaman, intrik, dan intimidasi pun mulai bermunculan. Semoga teman-teman semua tetap tegar dan istiqomah. Semoga ketulusan niat tetap terjaga, dan semoga tak kan pernah ada penghianatan yang tak termaafkan....

👍 2 1 Comment


Korban Bmt Amratani
19 May 2011 at 16:26 • 🌐

Sidang terdakwa luluk dkk hari Kamis tgl 19 Mei hy berisi pembacaan tanggapan jaksa thd eksepsi pembela. Jadwal sidang berikutnya bsk Senin 23 Mei akan berisi ttg tanggapan tim pengacara. Sidang bsk Kamis tgl 26 Mei justru yg penting kita hadir krn akan mulai dihadirkan saksi dan sdh mulai ada perdebatan. Diharapkan kita bs dtg utk bsk Kamis. Utk slnjtnya sidang akan diadakan setiap Senin dan Kamis.

1 Comment

 Share


Korban Bmt Amratani
14 May 2011 at 04:56 • 🌐

Sidang ke-3 terdakwa BMT diundur bsk Kamis tgl 19 Mei 2011 jam sktr 10.30. Ajak teman2 yg lain utk dtg. Thanks.

Source: Facebook (17 November 2017)

(Translation: left– group updates on court rulings, meetings, and motivational speech for group’s members (i.e. the victims); right – other court updates)



Source: Facebook (17 November 2017)

(Translation: upper– Ifada stated that “BMT Amratani which claimed to be an Islamic values-based organisation, turned out to be a defraud organisation; no uncertainty whether customer might get their money; even the ombudsman give up on this case and forward it to the provincial police office”; below – Gand stated that “be careful with BMT, they got me [fooled me] three times”)



Stepp Pyee Naga

KNK PA itu ap ya mbk?
Saya blm jd anggota, uang para nasab
bs dikemblikn ap tdk?

16 Aug 2011 · Like



Tien Aminatun

KNK PA itu Paguyuban Keluarga
Nasabah Korban Puskopsyah Amratani.
Tapi skrg sdh closing krn sdh mulai
bergerak mau nuntut secara perdata.
Buat grup baru aja n segera bergerak
nuntut perdata jg kalau mau uang kita
kembali. Gak ada yg bisa njamin uang
kita bs kembali apa gak, tp yg penting
berusaha n berdoa memohon pada-
Nya.

17 Aug 2011 · Like



Prastawa Adi

23 Apr 2012 ·

Duit kita bener2 ilang ya??

4 comments

Seen by 38



Like



Share



Tien Aminatun

1 of 4

InsyaAllah akan diganti oleh Allah SWT
dengan rizki yang lebih banyak dan
lebih barokah. Amin. Dan Allah SWT
yang akan menghukum mereka yang
bersalah dengan hukuman yang seadil-
adilnya, karena hukum di dunia penuh
rekayasa...



Mutea Mbokne DarrelQeela

9 Feb 2014 ·

Selamat sianggggg..... Sudah pada iklash kah
smua..... #tettette " ...

#klo sy kok msh berharap uang saya
kembali,klo inget rasanya nglokro bgt....#

3

1 Comment · Seen by 32



Ifada Riawani

Tampaknya pihak bmt memilih
pasang badan (drpd byr nasabah), &
saat ini 3 org pengurus bmt sdh
ditahan di polda..

7 May 2011 · Like



Isnu Progo

iya benar , atau mereka sudah
merampas hak nya orang banyak
.....paling tepat adalah hukuman
MATI saja ...dari pada mereka lepas
lagi .setelah divonis & menjalani
tahanan beberapa bulan sajaatau
mendingan dipotong kedua tangannya
sekalian . aku wis jengkel....

15 May 2011 · Like · 1



Syech Sitijenar

Ya, menurut pendapat saya itulah
yang terbaik buat semuanya.
Sekarang para "korban BMT Amratani"
jiwanya tidak tenang. Tentu saja
kecewa, jengkel, dan marah. Winoto cs
tentu jiwanya juga tidak tenang... lha
wong diuber-uber banyak orang je...
ngubernya juga sambil marah...Dalam
situasi ini yang kemungkinan dapet
untung cuman para pengacara, jaksa,
dan polisi.

11 Feb 2012 · Like



Tien Aminatun

betull...

11 Feb 2012 · Like

Source: Facebook (17 November 2017)

Stakeholders (i.e. ex-members/victims) grievance of their fraud experience
with BMT Amratani, Yogyakarta

C. Twitter



Korban BMT PSU Mlg
 @KorbanBMTPSUmlg
 Kami korban BMT PSU Malang.
 Usut tuntas kasus penyelewengan dana yang merugikan ribuan nasabah di Kota Malang.
 KEMBALIKAN UANG KAMI!!!
 138 Following 42 Followers

Follow

TweetsMediaLikes



K... @KorbanBMTPSUmlg · Mar 16, 2016
 Replying to @rheoad09
 @rheoad09 invite WA 081333177936 nanti kita tambahkan di grup

1








Rheo A Destrika @rheoad09 · 16 Mar
 @KorbanBMTPSUmlg mohon info kontak u koordinasi, ibu teman saya jg korban BMT ini, trm ksh

1







Korban BMT PSU Mlg
 @KorbanBMTPSUmlg
 @rheoad09 invite WA 081333177936 nanti kita tambahkan di grup
 Translate from Indonesian
 5:48 AM · 16 Mar 16


Korban BMT PSU Mlg
 140 Tweets

TweetsMediaLikes



Korban BMT PSU Mlg @Korb... · 26 Oct 15
 Kami ingin kejelasan&titik terang. Bgmn tanggapan OJK? Kok bisa slama ini BMT tdk trdaftar sbgai lembaga keuangan?

Kantor OJK Malang @ojk_malang
 @KorbanBMTPSUmlg @TheBanking @OJKINDONESIA @PemkotMalang Koordinasi telah dilakukan bersama dengan para pihak berwenang yang terkait.







Korban BMT PSU Mlg @Korb... · 26 Oct 15
 Tetap optimis, selalu berpikiran positif, doa terus dan pasrahkan semuanya sama yang diAtas :)

Fajar Rizqi Saputra @Putra_s4ja
 @KorbanBMTPSUmlg masih ga ada cahaya terang nih. :(






Korban BMT PSU Mlg
 29 Likes

TweetsMediaLikes



Korban BMT PSU Mlg @Korb... · 06 Oct 15
 Mirisnya, manager BMT PSU, AH, memiliki background lingkungan yg juga dari kalangan Muhammadiyah







Korban BMT PSU Mlg @Korb... · 06 Oct 15
 TK ABA, SD Muhammadiyah, SMK Muhammadiyah, RSI Aisyiah, Panti Asuhan Putri Aisyiah, merupakan sebagian dari korban BMT PSU





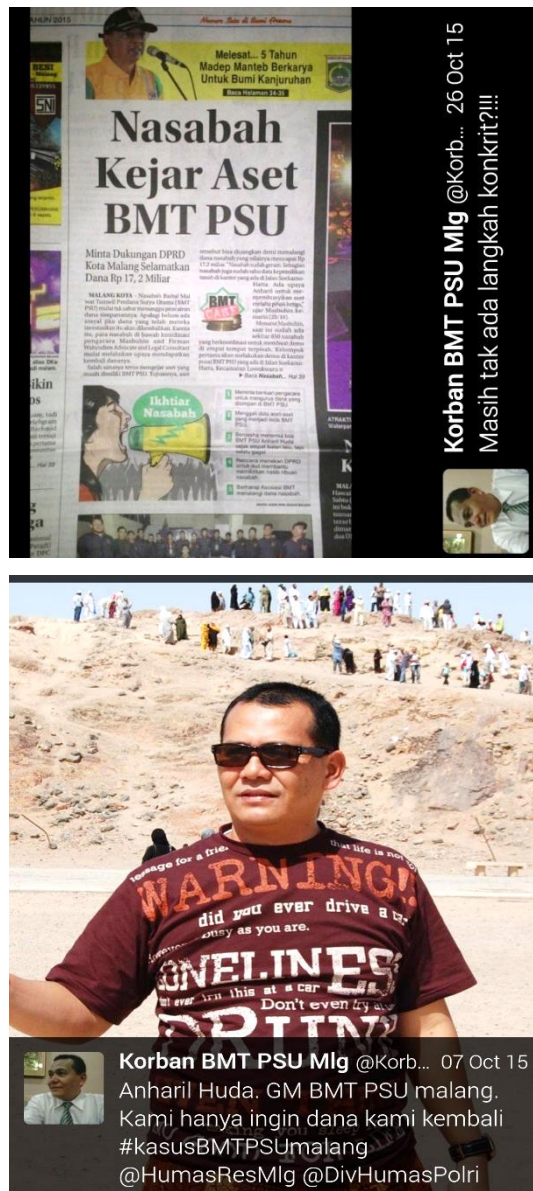


Korban BMT PSU Mlg @Korb... · 06 Oct 15
 Krn merasa tertipu, 21Juli2015 ratusan nsbh BMT PSU melapor ke Polresta Malang. Mayoritas pelapor adlh karyawan RSI Aisyiah Malang



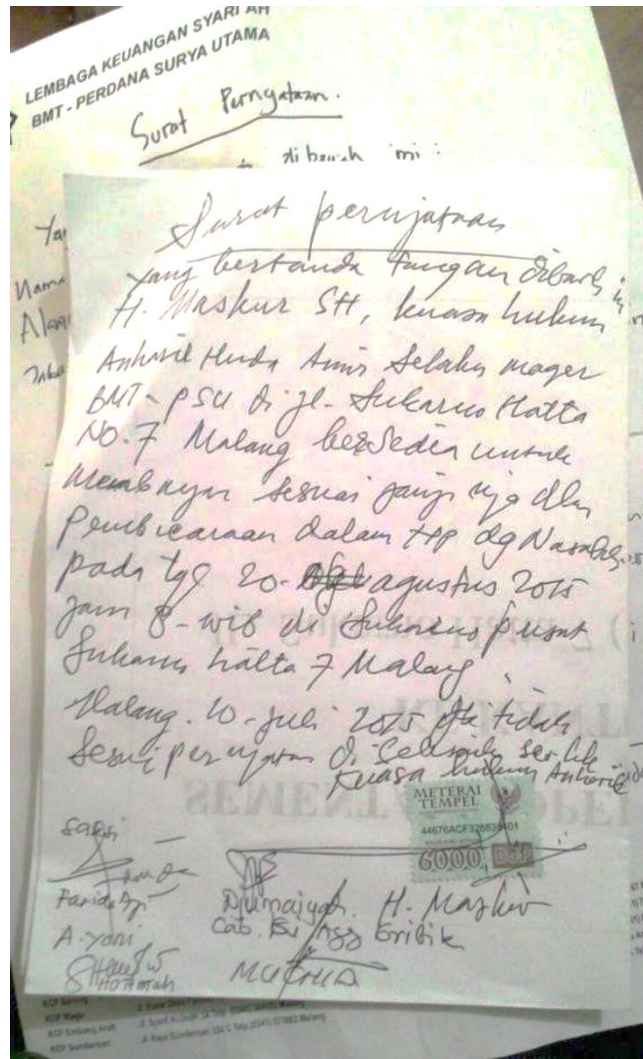


Source: Twitter [at]KorbanBMT PSUmlg (24 March 2016)
 BMT PSU Malang Victims' Twitter Account.



Source: Twitter [at]KorbanBMT PSUMlg (24 March 2016)

D. Others



Source: Twitter [at]KorbanBMT PSUMlg (24 March 2016)

Letter of Statement from the lawyer of General Manager of BMT PSU Malang
(translation: lawyer agreed to repay customer's money in the agreed date)

Source: Twitter [at]KorbanBMT PSUMlg (24 March 2016)
Letter of Statement from Anharil, the General Manager of BMT PSU Malang (translation: he agreed to repay customer's money in 'Siberkah' savings – one of the BMT saving products which perceived to be the most wanted product as it offer various bonuses and gifts for its loyal customers)

Appendix 6B

The Documents' List

Appendix 6.B: The Documents
(Media archives of coverage on fraud cases in BMT Islamic cooperatives)

No	Year	Date	Headline (in Bahasa Indonesia)	Province	Source	Type of Documents	Level	Link
1	2007	05 December 2007	BMT Rawan sebagai Sarang Penipuan	Yogyakarta	Okezone	National news portal	National	https://economy.okezone.com/read/2007/12/05/21/66034/bmt-rawan-sebagai-sarang-penipuan
2	2011	19 August 2011	BMT Bermasalah di DIY Capai 10 Persen	Yogyakarta	Republika	National news portal	National	http://www.republika.co.id/berita/syariah/keuangan/11/08/19/lq5gx4-bmt-bermasalah-di-diy-capai-10-persen
3	2011	05 September 2011	Pengurus BMT Syariah Salah Gunakan Rp.2,4Milyar	East Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2011/09/pengurusbmtsyariahsalahgunakanrp24milyar/
4	2011	08 September 2011	Audit Kasus BMT Syariah Telah Mencapai 70 Persen	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2011/09/auditkasusbmtsyariahtelahmencapai70persen/
5	2011	11 October 2011	Polisi Tetapkan Tersangka Penggelapan BMT Amratani Wates	Yogyakarta	Tribun Jogja	Local news portal	Local	http://jogja.tribunnews.com/2011/10/11/polisi-tetapkan-tersangka-penggelapan-bmt-amratani-wates
6	2011	02 November 2011	Bahaya! OJK tak Awasi Koperasi dan BMT	Jakarta	INILAH.COM (PT Indonesia News Center)	National news portal	National	http://ekonomi.inilah.com/read/detai...perasi-dan-bmt
7	2011	02 November 2011	Pengawasan OJK Bolong di Koperasi dan BMT	Jakarta	Kompas	National newspaper	National	http://bisniskeuangan.kompas.com/rea...perasi.dan.BMT
8	2012	10 September 2012	Koperasi Ngudi Rukun Bangsri Purwanto Diancam Digugat [2]	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/koperasingudirukunbangsripurwantorodiancamdigugat2/
9	2012	10 September 2012	Koperasi Ngudi Rukun Bangsri Purwanto Diancam Digugat [1]	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/koperasingudirukunbangsripurwantorodiancamdigugat1/
10	2012	10 September 2012	Koperasi Ngudi Rukun Bangsri Purwanto Diancam Digugat [3]	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/koperasingudirukunbangsripurwantorodiancamdigugat3/

11	2012	16 September 2012	KSU Ngudi Rukun Mati Suri [1]	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/ksungudirukunmatisuri1/
12	2012	19 September 2012	BMT Syariah Dana Bersama Bermasalah	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/bmtsyariahdanabersamabermasalah1/
13	2012	23 September 2012	KSU Ngudi Rukun Mati Suri [2]	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/ksungudirukunmatisuri2/
14	2012	24 September 2012	KSU Ngudi Rukun Mati Suri [3]	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/ksungudirukunmatisuri3/
15	2012	27 September 2012	Laporan Pengaduan Kasus KSU Ngudi Rukun ke LPKSM Keadilan Nusantara Wonogiri	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/09/laporanpengaduankasusksungudirukunkelpksmkeadilanantarawonogiri/
16	2012	13 November 2012	Pengaduan Kasus BMT Dana Bersama Diserahkan Ke Polisi	East Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2012/11/pengaduankasusbmtanabersamadiserahkankepolisi/
17	2013	28 May 2013	Ratusan Orang Tertipu BMT	Central Java	Joglosemar	Local news portal	Local	http://joglosemar.co/2013/05/ratusanorangtertipubmt.html
18	2013	29 May 2013	Dana BMT Jadi Bancakan Pengurus	Central Java	Joglosemar	Local news portal	Local	http://joglosemar.co/2013/05/danabmtjadibancakanpengurus.html
19	2013	30 May 2013	BMT Catut Nama Wakil Ketua DPRD	Central Java	Joglosemar	Local news portal	Local	http://joglosemar.co/2013/05/bmtcatutnamawakilketuadprd.html
20	2014	11 July 2014	Cegah Penipuan Model Cipaganti, 3 Lembaga Ini Awasi Ketat Koperasi	Jakarta	detikfinance	National news portal	National	http://finance.detik.com/read/2014/07/11/105638/2634210/6/cegahpenipuanmodelcipaganti3lembagainiawasiketatkoperasi
21	2014	14 July 2014	Cegah Penipuan Model Cipaganti, 3 Lembaga Ini Awasi Ketat Koperasi	Jakarta	detikfinance	National news portal	National	http://finance.detik.com/read/2014/07/11/105638/2634210/6/cegahpenipuanmodelcipaganti3lembagainiawasiketatkoperasi
22	2014	29 October 2014	Masyarakat Ekonomi Syariah Minta OJK Awasi BMT	Jakarta	Tempo	National news portal	National	https://bisnis.tempo.co/read/news/2014/10/29/080A6-ojk-awasi-bmt

23	2014	07 November 2014	BMT di Klaten Bawa Kabur Duit Nasabah Miliaran Rupiah	Central Java	Solopos TV Station	Regional TV Station	Regional	https://www.youtube.com/watch?v=IA-94XPzGVM
24	2014	29 December 2014	Nasabah Minta Kasus BMT Diusut Secepatnya	Lampung	Lampung Post	Local news portal	Local	http://www.lampost.co/
25	2015	21 February 2015	Kasus BMT Isra Jateng	Yogyakarta	Radar Jogja	Local news portal	Local	http://www.radarjogja.co.id/berita/utama/14015manajemenbmtisrajanjikembalik-anuangnasabah.html
26	2015	16 March 2015	Dari Bank Pedesaan hingga BMT bakal diawasi OJK, Tapi Kapan Mulainya?	Jakarta	Kabar Bisnis	National news portal	National	http://www.kabarbisnis.com/read/2855...al-diawasi-ojk
27	2015	25 March 2015	Korban BMT PSU Terkecoh Deposito	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/korban-bmt-psu-terkecoh-deposito-30600.htm
28	2015	25 March 2015	Sidang BMT PSU Diserbu Nasabah yang Belum Melapor	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/sidang-bmt-psu-diserbu-nasabah-yang-belum-melapor-29884.htm
29	2015	17 May 2015	Kasus BMT Bermasalah, Penghargaan Koperasi Terbaik Nasional Ternodai	Central Java	Info Solo Raya	Local news portal	Local	http://www.infosoloraya.com/kasusbmtb-ermasalahpenghargaankoperasiterbaiknasionalternodai/
30	2015	17 May 2015	Penyalahgunaan Koperasi (Opini)	Indonesia	Personal Blog	Local portal	Local	http://wahyubudiutami.blogspot.co.uk/2010/12/penyalahgunaankoperasi.html
31	2015	10 June 2015	Surat Pernyataan Direktur/GM BMT PSU	East Java	Twitter	Legal Document	Regional	(see clippings in Appendix 6.8)
32	2015	17 June 2015	Polisi Ambil Alih Kasus Penggelapan Dana Nasabah BMT Alfassalam	Central Java	Kebumen Express; District Police Office	Local news portal; Government Archive	Local	http://www.kebumenekspres.com/2015/06/polisi-ambil-alih-kasus-penggelapan.html
33	2015	19 June 2015	Nasabah BMT Alfassalam Lapor Polisi	East Java	Radar Banyumas	Local news portal	Local	https://radarbanyumas.co.id/nasabah-bmt-alfassalam-lapor-polisi/
34	2015	01 July 2015	Kasus BMT PSU Malang	East Java	JTV (Jawa Pos Media Televisi)	Regional TV Station	Regional	N/A
35	2015	10 July 2015	Surat Pernyataan Nasabah BMT PSU	East Java	Twitter	Legal Document	Regional	(see clippings in Appendix 6.8)
36	2015	23 July 2015	Lembaga Syariah Rugikan Ratusan Nasabah	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/lembagasyariah-rugikanratusannasabah16410.htm

37	2015	23 July 2015	Lembaga Syariah Rugikan Ratusan Nasabah	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/lembagasyariah-rugikanratusannasabah16410.htm/4
38	2015	24 July 2015	Lembaga Syariah Rugikan Ratusan Nasabah Dijanjikan Bunga Tinggi-Umrah Gratis, Uang Miliaran Hilang	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/lembaga-sya%E2%80%A6abah-16410.htm
39	2015	24 July 2015	Lembaga Keuangan Syariah Sejenis BMT Mulai Rugikan Nasabah, Kemana yak OJK?	Central Java	Wavie News	Regional news portal	Regional	http://www.wavienews.com/2015/07/lembagakeuangansyariahsejenisbmtmulairugikannasabahkemanayakojk.html
40	2015	24 July 2015	Kantor BMT Kolaps Tutup, Berganti Jadi Apartemen	East Java	Jawa Pos	Regional Newspaper	Regional	http://www2.jawapos.com/baca/artikel/20644/KantorBMTKolapsTutupBergantiJadidiApartemen
41	2015	25 July 2015	Polisi Buru Pimpinan Lembaga Syariah	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/polisiburupimpinanlembagasyariah16477.htm
42	2015	26 July 2015	Kasus BMT PSU, Afdhal Balik Laporkan Korban	East Java	Malang Express	Local news portal	Local	http://www.malangekspres.com/kabar/kotamalang/2803kasusbmtpsuafdhallalibaliklaporkankorban
43	2015	26 July 2015	Polresta Geledah Kantor Lembaga Syariah	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/polrestageledahkantorlembagasyariah16518.htm
44	2015	26 July 2015	Geledah Kantor BMT Penggelapan Miliaran Dana Nasabah, Polisi Sita Komputer	East Java	Jawa Pos	Regional Newspaper	Regional	http://www2.jawapos.com/baca/artikel/20729/GeledahKantorBMTPenggelapanMiliaranDanaNasabahPolisiSitaKomputer
45	2015	28 July 2015	Satgas Investasi telusuri Kasus BMT PSU Malang	East Java	Bisnis.com	Local news portal	Local	http://bisnis.com/
46	2015	28 July 2015	Dinas Koperasi Dan UKM Kota Malang Terus Pantau 365 Koperasi Kategori Tidak Sehat	East Java	Radio Mas FM Malang	Radio news portal	Regional	http://www.masfmmalang.com/berita6913dinskoperasidanukmkotamalangteruspantau365koperasikategoritidaksehat.html
47	2015	29 July 2015	Dinas Koperasi Dan UMKM Provinsi Jawa Timur Larang Pengelolaan Koperasi Secara Perseorangan	East Java	Radio Mas FM Malang	Radio news portal	Regional	http://www.masfmmalang.com/berita6917dinskoperasidanukmprovinsijawatimurlarangpengelolaankoperasiseocaraperseorangan.html

48	2015	29 July 2015	Dinas Koperasi Kota Malang Akan Lakukan Pendampingan Terhadap Koperasi Yang Tak Sehat	East Java	Radio Mas FM Malang	Radio news portal	Regional	http://www.masfmmalang.com/berita6915dinas-koperasi-kotamalangan-lakukan-pendampingan-terhadap-koperasi-yang-tak-sehat.html
49	2015	29 July 2015	OJK Malang Bantu Pemda Telusuri Kasus BMT PSU Malang	East Java	Radio Mas FM Malang	Radio news portal	Regional	http://www.masfmmalang.com/berita6918ojk-malang-bantu-pemda-telusuri-kasus-bmt-psu-malang
50	2015	30 July 2015	Korban BMT Tembus 1.058 Nasabah	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/korban-bmt-tembus-1058-nasabah-16586.htm/3
51	2015	31 July 2015	Kolaps, BMT Miliki Saham Apartemen?	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/kolaps-bmt-miliki-saham-apartemen-16629.htm
52	2015	31 July 2015	Nestapa Panti Asuhan Putri Aisyiyah, Korban Ambruknya BMT PSU	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/nestapa-panti-asuhan-putri-aisyiyah-korban-ambruknya-bmt-psu-16625.htm
53	2015	01 August 2015	Pengurus BMT Hanya Jadi 'Boneka'	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/pengurus-bmt-hanya-jadi-boneka-16659.htm/4
54	2015	07 August 2015	Sempat Memanas Bahas soal Penggeledahan Kantor oleh Polisi	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/sempat-memas-bahas-soal-penggeledahan-kantor-oleh-polisi-16799.htm/2
55	2015	09 August 2015	Bantu BMT Kolaps, Forum BMT Sepakat Saweran	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/bantu-bmt-kolaps-forum-bmt-sepakat-saweran-16878.html
56	2015	21 August 2015	Asosiasi BMT Bentuk Debt Collector	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/asosiasi-bmt-bentuk-debt-collector-17271.htm
57	2015	26 August 2015	Korban Capai 541 Orang dan Kerugian Rp 12,9 M	East Java	Berita Metro Malang	Local news portal	Local	http://www.beritametro.co.id/malang-graya/korban-capai-541-orang-dan-kerugian-rp-12-9m
58	2015	26 August 2015	Manajer BMT Disangka Gelapkan Dana Nasabah Rp 12,9 Miliar	East Java	Tempo	National news portal	National	https://tempo.co/
59	2015	17 September 2015	Milyaran Uang Nasabah Koperasi Digelapkan Pengurus Koperasi	East Java	CTV NETWORK	Regional TV Station	Regional	https://www.youtube.com/watch?v=Z9fOnCwUUf8
60	2015	25 October 2015	Asosiasi BMT Angkat Tangan	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/asosiasi-bmt-angkat-tangan-sulit-bantu-bmt-psu-dana-puluhan-miliar-milik-nasabah-tidak-jelas-20707.htm

61	2015	25 October 2015	Kasus BMT PSU Bagai Poco-Poco	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/kasus-bmt-psu-bagai-poco-poco-kejari-kembalikan-berkas-perkara-ke-penyidik-polres-malang-kota-20517.htm
62	2015	26 October 2015	Nasabah Kejar Aset BMT PSU	East Java	Twitter	Personal Account	Regional	(see clippings in Appendix 6.B)
63	2015	26 October 2015	Anharil Ada Niat Tarik Seluruh Piutang	East Java	Jawa Pos	Regional Newspaper	Regional	(see clippings in Appendix 6.B)
64	2015	09 December 2015	Bos BMT PSU Segera Diadili	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/bos-bmt-psu-segera-diadili-25713.htm
65	2016	04 January 2016	Nasabah BMT PSU Merasa Kecewa	East Java	Malang Post	Local news portal	Local	http://www.malang-post.com/kriminal/nasabah-bmt-psu-merasa-kecewa-
66	2016	04 January 2016	Sidang Perdana, Nasabah BMT-PSU Luruk PN Malang	East Java	Malang Pagi	Local news portal	Local	http://www.malangpagi.com/sidangperdananasabahbmtpsulurukpnmalang.Html
67	2016	05 January 2016	Anharil Sidang Perdana, Nasabah Tuntut Uang Kembali	East Java	Harian Pagi Memo X Malang	Local news portal	Local	http://memo-x.com/hukum-peristiwa
68	2016	19 January 2016	Di Depan Hakim, Bos BMT PSU Sebut Penyidikan Cacat Hukum	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/di-depan-hakim-bos-bmt-psu-sebut-penyidikan-cacat-hukum-29227.htm
69	2016	26 January 2016	Sidang BMT PSU Diserbu Nasabah yang Belum Melapor	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/sidangbmtpsudiserbunasabahyangbelummelapor29884.htm
70	2016	29 January 2016	Dinas Ancam Ijin BMT Al Furqon Dicabut	Central Java	Info Wonogiri	Local news portal	Local	http://www.infowonogiri.com/baca/wonogirihariini/2011/09/dinasancamijinbmtalifurqondicabut/
71	2016	04 February 2016	Ibu-Ibu Demo Anharil, Minta Pertanggungjawaban Bos BMT PSU	East Java	Radar Malang	Local news portal	Local	http://radarmalang.co.id/ibu-ibu-demo-anharil-minta-pertanggung-jawaban-bos-bmt-psu-30582.htm
72	2016	04 February 2016	Dirugikan Hingga Rp 40 Miliar, Ibu Rumah Tangga di Malang Demo Tersangka BMT PSU	East Java	Radio Republik Indonesia	Radio news portal	National	http://rri.co.id/post/berita/244826/daerah/dirugikan_hingga_rp_40_miliar_ibu_rumah_tangga_di_malang_demo_tersangka_bmt_

73	2016	04 February 2016	Para Korban BMT PSU Malang Terus Mengawal Persidangan Anharil Huda	East Java	JTV (Jawa Pos Media Televisi)	Regional TV Station	Regional	https://www.youtube.com/watch?v=Fqu5O-Dcqq
74	2016	05 February 2016	Korban BMT PSU Terkecoh Deposito	East Java	Radarmalang	Local news portal	Local	http://radarmalang.co.id/korbanbmtpsuterkecohdeposito30600.htm
75	2016	22 February 2016	Uang Rp 8,9 Miliar Dilarikan Bos, Karyawan BMT Lapor Polisi	Jakarta	Detiknews	National news portal	National	http://news.detik.com/berita/864756/uang-rp89miliardilarikanboskaryawanbmtlaporpolisi
76	2017	23 May 2017	Money Game Berkedok Investasi Ada di Sekitar Kita, Waspadalah!	Jakarta	HukumOnline	National news portal	National	http://www.hukumonline.com/berita/baca/lt5923ee9e9d6a5/money-game-berkedok-investasi-ada-di-sekitar-kita-waspadalah
77	2017	17 November 2017	Gerakan Korban BMT Amratani Group	Yogyakarta	Facebook	Group Account	Regional	[at]GerakanKorbanBMTAmrataniGroup
78	2017	17 November 2017	Korban BMT Amratani	Yogyakarta	Facebook	Personal Account	Regional	[at]KorbanBMTAmratani
79	2017	17 November 2017	Korban BMT PSU Malang	East Java	Twitter	Personal Account	Regional	[at]KorbanBMTPSUmlg

Source: Compiled by Author