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Exploring Risk Management Practices and Fiqh Muamalat to Improve the Performance of Islamic Microfinance Institutions

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Abstract

The purpose of this study is to explore risk management practices and fiqh muamalat to improve the performance of Islamic microfinance institutions. This study focuses on BMT UGT Nusantara, one of the largest Islamic microfinance institutions (IMFIs) in Indonesia. Due to the site's unique characteristics, the study design is a descriptive exploratory, single-case study with a holistic approach. Data were acquired using various methodologies, including in-depth interviews with informants, field observations, focus group discussions, and document reviews. The Interactive Model is used to analyze data, which is then tested for validity through the evaluation of credibility, transferability, dependability, and confirmability. This study highlights several substantial findings, including the successful implementation of risk management practices at IMFIs. Risk management involves understanding, identifying, mitigating, and assessing risks. Despite the lack of standards and the perception that risk management is only partial, risk management practices have improved financial and organizational performance. Sharia compliance risk is the most widely acknowledged, while finance and liquidity risk are the most anticipated. The practice of Islamic jurisprudence (fiqh muamalat) is efficiently implemented by integrating Sharia compliance as an operational system and Sharia practices as a work culture, which fosters ethical behavior and is acknowledged as a good risk management practice.

Keywords: Risk Management; Fiqh Mualamat; Performance; Islamic Microfinance Institutions

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1. Introduction

Baitul Mal Wat Tamwil (BMT) is an Islamic microfinance institution in Indonesia that offers Islamic-based savings and loan services through cooperatives (Sakai, 2010; Wijaya et al., 2019). As an Islamic cooperative, BMT is a blend of value-based organizations, characterized by membership, contractual duties to its members, and adherence to Islamic ideals in its governance system (Rahajeng, 2022). BMT can improve household welfare, especially for people who cannot meet bank standards (Smolo & Ismail, 2011; Wafi & Muhammad, 2023). In fact, after taking out BMT loans, household assets increased substantially, demonstrating that saving may help the community even in the face of unstable income patterns (ZahidMahmood et al., 2017). As a result, BMT is considered a significant Islamic financial inclusion strategy that focuses on financing the poor and microenterprises excluded from the commercial banking system to increase welfare.

The presence of BMT in Indonesia has made it an alternative financial service provider. First, BMT was established at the grassroots level, making it easier for prospective clients, particularly MSMEs, to trade and alleviating poverty in the household sector (Adnan & Ajija, 2015; Bin Mislan Cokro Hadisumarto & Ghafar B. Ismail, 2010; Septianingsih et al., 2024). Second, BMT in various Indonesian regions has demonstrated that it has eliminated the practice of usury, or lending money at interest, which is prohibited by Islam (Kamal et al., 2024). Third, as an Islamic microfinance institution, BMT has weathered the crisis and is regarded as an ethical project (Calder, 2020; M. Iqbal, 2020). As a result, BMT has experienced rapid growth over the last three decades (Fianto et al., 2019). According to the Indonesian BMT Association/Absindo (2019), the number of BMTs increased from its inception in 1990 to more than 4,000 over the next three decades (Mawardi et al., 2020). According to data released by the National Economic and Finance Committee in 2018, at least 4,500 BMT units were established. Furthermore, according to data from the Indonesian BMT Association (Absindo), there were 324 BMTs in 2021, with a total of three million members and 1,315 offices. The progressive development of BMT in Indonesia is closely tied to the large number of middle and lower classes. Of the overall population of approximately 265 million people, 40% are classified as middle class, while 20% are classified as lower class (Septianingsih et al., 2024).

According to the Indonesian National Economic and Finance Committee (KNEKS), the widespread growth and distribution of BMT is not matched by effective data management. Furthermore, many BMTs struggle to maintain performance and survival (Septianingsih et al., 2024). Previous research has indicated that BMT's overall performance in Indonesia was poor for several reasons (Rahajeng, 2022; Seibel, 2012). First, authorities paid less attention to BMT than to folk credit banks and commercial banks, both in terms of operational and financial data. Second, because there is no regulation or control, consumers assume a greater risk while saving money in BMT. Third, BMT's human resources lack the necessary skills and experience to understand BMT procedures, manage cooperatives effectively, and maintain high standards of product or service quality. Misalignment of management between short-term deposits and long-term financing raises financing and liquidity risks in BMT (Mutamimah et al., 2022). Although conformity with Sharia has not been fully implemented, it poses a particular risk to BMT. Because sharia compliance is more than just a requirement for a corporate operational system, it must also be a work culture that ensures halal business transactions through the practice of fiqh muamalat (Muhammad, 2020).

Another aspect is low-income finance, which causes significant knowledge asymmetry. Customers with variable income and no loan guarantees present a set of risk profiles for BMT. As a result, many BMTs cease operations because they are unable to foresee inherent risks in the early phases, particularly those related to financing, liquidity, and Sharia compliance (Mutamimah et al., 2022; Wafi & Muhammad, 2023). Furthermore, BMT operates in delicate and harsh environmental conditions, which pose significant risks. Even concrete facts demonstrate the prevalence of deviations from Islamic standards, including a series of fraud cases among BMTs that cost more than Rp1,143.69 billion (USD 80.54 million) per year (Rahajeng, 2022). This suggests that in Islamic financial institutions, Sharia compliance is viewed as a need for corporate operating processes rather than a work culture. Consider that the practice of fiqh muamalat must not only be contained in a system of company standard norms but must also be incorporated into everyday traditions, creating a habit and even a work culture. The practice of good fiqh muamalat is positively correlated with Sharia compliance, which entails risk mitigation. Given the importance of BMT to the Indonesian economy while confronting significant risks, it is critical to achieve a competitive advantage and improved performance through effective risk management. The primary focus is on the risks of financing, liquidity, and Sharia compliance, which are commonly found in BMTs and have a direct impact on performance. Furthermore, a thorough comprehension of the practice of fiqh muamalat is required to mitigate any potential risk.

To date, little attention has been paid to the practice of risk management in BMT, despite the high rate of performance failure and deviation from Islamic values. Previous research has demonstrated that the risks associated with Sharia compliance, funding, and operational/liquidity issues have a direct impact on financial performance and sustainability (Mutamimah et al., 2022; Wafi & Muhammad, 2023). Other studies focus on the internal control system and the low implementation of authorization and consultation with the Sharia Supervisory Board (Wardiwiyono, 2012), as well as the influence of BMT funding (Adnan & Ajija, 2015; Bin Mislan Cokro Hadisumarto & Ghafar B. Ismail, 2010). Globally, the study of identifying risk in Islamic Microfinance Institutions (IMFIs) in Malaysia encompasses Shariah risk, operational risk, and credit risk (Rozzani et al., 2017), as well as the causes of payment failure among Grameen Bank customers in Bangladesh (Kassim & Rahman, 2018). Even among the most recent literature on Islamic microfinance institutions published in respectable international journals, only 6 publications (8%) of 71 papers address risk management and governance (Rohman et al., 2021). This demonstrates the little interest and attention IMFIs have in risk management methods. Meanwhile, it appears to contradict the practice of risk management, which is dominated by financial institutions or Islamic banks (Al Mustofa et al., 2025; Grira & Labidi, 2021; Mustapha et al., 2021; Riaz et al., 2025; Srairi, 2025).

The study's findings on IMFIs' risk management underline the importance of financial, operational/liquidity, and Sharia compliance risks at the corporate operations level. While the failure and fraud of BMT, which is a risk of non-compliance with Sharia, must be assessed considering the practice of fiqh muamalat, good fiqh muamalat reduces the practice of non-compliance with Sharia, leading to less risk. Previous investigations have provided only a partial analysis of risk management, and none have addressed the use of Islamic law (fiqh muamalat) to mitigate Sharia compliance risk. As a result, this study offers a fresh and comprehensive perspective: the integration of risk management practice and Islamic law (fiqh muamalat) as a risk-mitigation measure, which warrants further empirical research. It is also scientifically proven that effective risk management practices boost firm performance. Consequently, the purpose of this research is to investigate how risk management practice and Islamic law (fiqh muamalat) could assist IMFi in improving its performance. This study also makes a more in-depth contribution by extending academic literature on BMT's risk management and fiqh muamalat practices. This study focuses on BMT UGT Nusantara, one of Indonesia's major Islamic microfinance organizations with a 25-year history. BMT UGT Nusantara currently has total assets exceeding 3 trillion, over 606,000 members, and 298 service branches throughout Indonesia. Interestingly, the managers of BMT UGT Nusantara generally have only a non-formal education, specifically from Sidogiri Islamic Boarding School in East Java, Indonesia. This issue is significant due to BMT UGT Nusantara's involvement in reducing poverty and enhancing family, social, and economic development in Indonesia. As a result, managers at BMT UGT Nusantara must grasp risk management and control to ensure continuity and overcome future uncertainties. The typology of risk management practices and fiqh muamalat serves as a reference for shaping Indonesia's BMT operational environment.

2. Literature review

2.1 Basic Risk Definitions

Risk definitions vary significantly depending on the perspective of specific scientific disciplines. In economics and finance, risk refers to the uncertainty of future consequences with a probability greater than one and an unknown result (Bhatti & Misman, 2010), as well as the likelihood of an investment returning less than predicted (Mohd Noor et al., 2018). Risks are also defined as the likelihood of an event resulting in a negative state, allowing the value of income and assets to drop (Manan & Shafiai, 2015). Risk is defined as uncertainty in decision-making and the probability of damage or negative impact resulting from an unanticipated situation (Bouslama & Lahrichi, 2017). Risk definitions also encompass the possibility of losses, injuries, damage, or other adverse events occurring due to external or internal exposure (Akram & Rahman, 2018). As a result, risk will significantly impede the IMFI's ability to achieve its objectives. If a manager fails to handle this risk effectively, it will hurt performance and may lead to IMFI bankruptcy. According to Islamic jurisprudence, there is a proportional link between risks and returns, which is combined with the restriction on producing without obligation (Al-Suwailem, 2012).

IMFIs must sustain a competitive advantage in the face of severe competition and numerous threats by focusing on efficiency and productivity. As a result, IMFIs must continue to define and identify risks that arise during their business operations. Generally, financial institutions face both systematic and non-systematic risks (Yurdakul, 2014). Systematic risk is a business risk that originates from outside sources and cannot be controlled or removed, but must be overcome. Political conditions, the Covid-19 pandemic, market shifts, exchange rate fluctuations, and other macroeconomic developments are all examples. Meanwhile, diversification can help minimize non-systematic risks, such as operational, reputational, and Shariah concerns (Al Rahahleh et al., 2019). All these risks have a detrimental impact on the institution's performance if they are not appropriately managed. Although it does not rule out other sorts of risks, IMFIs confront the most significant risks, which are funding, liquidity, and Sharia compliance. According to Mutamimah et al. (2022), IMFIs always anticipate financing and liquidity risks, as they have a direct impact on financial performance and sustainability. In contrast, Sharia compliance risks are the most common and unique challenges for IMFIs.

2.2 Risk Management of Islamic Microfinance Institutions

Islamic Microfinance Institutions (IMFIs) operate differently from conventional ones, as they employ interest-free systems. IMFIs serve the community by providing various forms of finance, including profit-sharing systems, such as buying and selling, leasing, and interest-free loans (Mutamimah et al., 2022). As a result, IMFIs have a distinct risk profile because the risk is shared by the IMFIs and their clients (Wulandari et al., 2016). The unique qualities and nature of IMFIs, particularly the profit-sharing system approach, significantly alter the level of risk they confront because they deal with various goods that are not available in conventional financial institutions. Furthermore, IMFIs manage risks associated with unsecured loans, such as *Qardhul Hasan*, which carries a significantly greater risk threshold. Indeed, many Muslim clients come from low-income families that seek Islamic financial services (Manan & Shafiai, 2015). The risks in IMFIs, if not managed appropriately, will result in losses that adversely affect health. Because each IMFI has a unique and sometimes severe risk profile, it is critical that they adopt risk management strategies to mitigate any existing risks. Risk management is a key strategy that financial institutions employ to mitigate various forms of risk.

Islamic microfinance institutions play a crucial role in promoting financial inclusion and poverty eradication initiatives. The source of funds for the impoverished presents a significant difficulty for IMFIs. Limited financial access restricts their potential to serve a larger segment of the community that requires financial services (Kassim & Rahman, 2018). Furthermore, the quality of financial performance impacts the long-term viability of IMFIs. As a result, filtering is a crucial aspect of risk management, particularly for individuals from vulnerable areas (Septianingsih et al., 2024). Risk management involves identifying risks, collecting or combining similar risks, assessing them, controlling risks, and monitoring their progress (Manan & Shafiai, 2015). Risk management in financial institutions aims to enhance future financial performance and sustainability (Kiptoo et al., 2021). Long-term sustainability is a challenge for IMFIs since it promotes economic empowerment and boosts community income and welfare (Abdul Rahman & Dean, 2013). The preceding discussion demonstrates the relevance of risk management for IMFIs in improving their efficiency for the benefit of the larger community. Studies on risk management in IMFIs have primarily focused on operational issues (Kassim & Rahman, 2018; Mutamimah et al., 2022; Rozzani et al., 2017; Wafi & Muhammad, 2023) and have not included fiqh muamalat as a risk mitigation strategy. As a result, the focus of this research is on integrating risk management practices with fiqh muamalat in Islamic financial institutions.

2.3 Practice of Fiqh Muamalat in Risk Management

The identity of Islamic financial institutions is said to be a unique financial system, using at least five religious features that distinguish them from conventional financial institutions: the prohibition of usury, paying attention to illicit, *halal*, *gharar* (speculative), or *maysir* (gambling), implementing zakat (the prescribed purifying alms), and the existence of the Sharia Council (Sharia Board) (El-Gamal, 2006; Lewis & Algaoud, 2001). The operating premise of these Islamic financial organizations is to promote a just society, minimize exploitation, and emphasize the principles of collaboration and brotherhood. This laudable goal can only be achieved by adhering to the strict Sharia norms and applying fiqh muamalat (Z. Iqbal & Mirakhor, 2011). From another perspective, the purpose of Sharia in the Islamic financial system is to direct humans away from the homo economicus style, which is synonymous with obtaining material benefits, and toward the homo islamicus, which is based on morals and ethics and avoids greed and consumerism (Audretsch et al., 2007; Gümüsay, 2015; Mohamed Aslam Haneef, 1995).

The use of fiqh muamalat in Islamic financial institutions must adhere to Islamic law in numerous ways (Muhammad, 2020). First, the law governing the marketed product must be based on Sharia (*al-Muamalah al-Madiyah*); second, the transaction procedure must also be based on Sharia (*al-Muamalah al-Adabiyah*); and third, the purpose must be Sharia-compliant (*al-Maqashid al-Sharia*). Compliance with Sharia in various instances ensures that every financial transaction adheres to Sharia principles, thereby lowering risk. Sharia compliance is not only required for company operational processes in Islamic financial institutions, but it must also be ingrained in the workplace culture. That is, fiqh muamalat must be observed in daily traditions as well as organizational habits, rather than only being specified in the company's standard rules framework. Practicing fiqh muamalat correctly and ethically ensures that business transactions are halal and avoids the possibility of deviations in Sharia compliance and value. As a result, IMFIs have an interest in maintaining the simultaneous practice of fiqh muamalat and risk management since they mutually support one another.

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3. Methodology

3.1 Research Design

This study aims to describe the practice of risk management and fiqh muamalat in Islamic microfinance institutions through a series of in-depth inquiries. The descriptive exploratory technique is utilized to capture the breadth of individual backgrounds (Brink & Wood, 1998; Merriam, 2009). We employ a holistic single-case approach (Yin, 2014) to explain the practice of risk management and fiqh muamalat, while focusing on a narrow yet in-depth site to arrive at a specific notion. Furthermore, the case study approach is ideal for capturing the wealth of individual backgrounds that are too complex to investigate through surveys or studies. The research locus must be unique to meet the parameters required for case study research (Yin, 2014). Therefore, the focus of this study was on BMT UGT Nusantara, Indonesia, because it fulfills these criteria. First, BMT UGT Nusantara is one of the largest Islamic Microfinance Institutions (IMFIs) in Indonesia, with 298 units and offices nationwide. Second, BMT UGT Nusantara is run by students and alumni of Sidogiri Islamic Boarding School and other Islamic boarding schools who do not have university education qualifications. Third, BMT UGT Nusantara was named the pilot and referral IMFI for Islamic boarding schools in Indonesia.

3.2 Data Collection

We collect primary data through in-depth interviews using previously prepared interview protocol guidelines, field observations, focus group discussions, and document reviews (Sekaran & Bougie, 2016; Yin, 2014). We conducted in-depth interviews with informants to obtain complete information about risk management practices and fiqh muamalat. We purposefully selected key informants based on the established criteria. Other informants were chosen using the snowball method based on the main informant's suggestions. All possible informants were selected based on their expertise and qualifications in management and fiqh muamalat. We conducted in-depth interviews with 16 informants to gather critical information across various functions, with face-to-face sessions lasting between one and three hours (Table 1). We began the conversation by assuring the informant that her identity and all information provided would be kept private and would not be revealed in the publication. We then recorded the interview using an appropriate digital recording device to ensure data security. This investigation was conducted from February to December 2024. Following that, we created a transcript of our recorded emic data to facilitate systematic management and analysis of textual data, as well as the extraction of significant information (McLellan et al., 2003). The informants are summarized in the table below.

Table 1. Summary of Interviews

No	Informant's Status	Length of Work (Years)	Number of Hours	Office Affiliation
1	Chairman	23	2	BMT UGT Head Office, Pasuruan
2	Sharia Supervisory Board Member	14	3	BMT UGT Head Office, Pasuruan
3	Finance Manager	12	2	BMT UGT Head Office, Pasuruan
4	Risk Control Manager	14	3	BMT UGT Head Office, Pasuruan
5	Head of Financing Division	16	1	BMT UGT Head Office, Pasuruan
6	Branch Office Head	18	1	BMT UGT Klampis, Bangkalan
7	Branch Office Head	11	1	BMT UGT Pringsewu, Lampung
8	Branch Office Head	15	1	BMT UGT Malang, Kota Malang
9	Branch Office Head	10	1	BMT UGT Riam Durian, Kalteng
10	Branch Office Head	12	1	BMT UGT DKI, Jakarta
11	Branch Office Head	17	1	BMT UGT Glenmore, Banyuwangi
12	Branch Office Head	11	1	BMT UGT Denpasar, Bali
13	Branch Office Head	17	1	BMT UGT Pamekasan, Madura
14	Branch Office Head	17	1	BMT UGT Ambulu, Jember
16	President Director	8	2	PT USID, Vendor IT BMT UGT

Source: Authors' elaboration

3.3 Analysis

The data analysis step focuses on identifying patterns and models of relationships between data, as detailed descriptions gathered during the investigation. We analyze data using the Interactive Model (Miles et al., 2014) since the flow of activities and data gathering is an interactive cyclical process. This study consists of four stages: data gathering, data reduction, data presentation, and generating conclusions, all of which are repeated and simultaneous until the data is considered saturated (Miles et al., 2014). To verify that the findings of data analysis are accounted for, we test data validity using four criteria (Morrow, 2005). The four criteria are credibility (achieved through the techniques of extending involvement, continuous observation, triangulation of data sources, peer debriefing, and member checks), transferability (achieved through thick description), dependability, and confirmability (both are achieved through intensive audits, discussions with experts, and focus group discussions).

4. Results

This study focuses on the practice of risk management and fiqh muamalat in Islamic microfinance institutions at BMT UGT Nusantara in Indonesia. The first emphasis is on the practice of risk management, while the second is on the use of fiqh muamalat in risk management. In the next part, we present the findings and describe the study's focus.

4.1 Risk Management Practices

The study's findings on our risk management practices are organized into four categories: risk perception, risk identification, risk mitigation, and risk management impacts.

Risk Perception

We explored how BMT UGT Nusantara managers perceived risk definitions. The next Table 2 summarizes the answers provided by the informants.

Table 2. Risk Perception

Informant	Informant Answer Questions about Risk Perceptions
1,3, 4	• Risk is a shift or difference in unanticipated outcomes.
1,2,5	• Risks, on the one hand, can have negative consequences (*mafsadah*), but they can also create possibilities.
1,2,5,7	• Risk is interpreted as sunatullah, Allah SWT's mandate for creating all that is coupled.
1,3,4,5,8,9	• For every obstacle perceived as a risk, Allah SWT undoubtedly provides a solution.

Source: Authors' elaboration

The informant has a different definition of risk; however, informants' understanding of risk is generally influenced by the financial industry. Some sources define risks as changes or differences in unanticipated results. Risks, on the one hand, have the potential for negative or destructive consequences (*mafsadah*) that must be avoided for a business to succeed; on the other hand, risks can create opportunities and encourage people to generate income. According to informants who are alumni of the Sidogiri Islamic Boarding School, the two potential threats are also viewed as sunatullah, Allah SWT's command for creating all that is paired. The informants also believe that for every obstacle perceived as a risk, Allah SWT provides an easy answer. This concept motivates individuals to look for ways (endeavor) to turn every obstacle they face into a source of achievement and a chance to succeed. Informants' perceptions of the concept of risk contain a broader scope than existing definitions.

Risk Identification

We investigate the types of risks that exist in BMT UGT Nusantara. The informants provide a variety of answers, which are presented in Table 3.

Table 3. Risk identification

Informant	Risk Type	Answer Questions About Risk Identification
1,3,4,5,6 1,3,4,5,8,9 1,2,3,4,5,6, 7,8,9,10	• Business Risk • Financial Risk • Non-Financial Risk	• Business risk (failure or bankruptcy). • Risk financing, non-performing loan, liquidity risk, and profit margins. • Sharia compliance, operational risk, human resource risk, deaths, accidents, information technology, public trust, and market risk or competition.

Source: Authors' elaboration

The findings of the investigation reveal that the risks that develop at BMT UGT Nusantara, in general, are similar to those that occur in other business institutions, namely business risks, financial risks, and non-financial risks. According to the informants, business risks are intimately tied to BMT UGT Nusantara's overall business activity. Financial risks include the risk of failure (bad loans), reduced profit margins, and liquidity risk, whereas operational and human resource risks are non-financial. Other informants mention various risks, including death, accidents, information technology issues, public trust, and market concerns. According to BMT UGT Nusantara managers, such risks are considered both material and short-term. Furthermore, there are major concerns in this business, including Sharia risk. Among the many risks indicated by the informants, three emerged as the most significant: financial risk, liquidity risk, and Sharia compliance risk.

Risk Mitigation

Informants understood that potential risks must be anticipated, necessitating the implementation of strategic and technical precautions. Table 4 presents the informants' responses to risk mitigation.

Table 4. Risk Mitigation

Informant	Steps	Answering Questions about Risk Mitigation
1 1,2,3,4,5,6, 8,9,10,12,16	• Strategic • Technical	• Risk Control Manager. • Customer analysis using the 5 C approach (character, capacity, capital, collateral, and condition); risk reserves for each financing, financing revitalization schemes through rescheduling, restructuring, or collateral takeover, savings withdrawals must be made through tellers during operating hours, withdrawals above Rp. 10 million must be confirmed the day before, control or limitation of cash available at each branch office, collateral binding and legal completeness, standard operating procedures, *takaful* (insurance), internal control unit, public accounting firm audit, fiqh muamalat practice, strengthening the role of the Sharia Supervisory Board (SSB) of BMT UGT Nusantara, each branch head plays a role as SSB, information system training program, contract training, contract certification test and comprehensive managerial system, strengthening spirituality.

Source: Authors' elaboration

Investigations on risk mitigation practices at BMT UGT Nusantara yielded various strategic and technical recommendations. In strategic steps, the Risk Control Manager is primarily responsible for risk management, which is governed by a set of regulations. At the technical level, it refers to the types of dangers that arise. For example, mitigation strategies for financing risks include monitoring client conditions, analyzing the ability to pay on time, assessing the collateral provided, and implementing preventive actions such as evaluating the 5 C's (character, capacity, capital, collateral, and condition). A risk reserve of 0.5% of each loan is established. A financial rejuvenation plan is implemented through rescheduling, restructuring, or collateral takeover. To mitigate liquidity risk, a rule is in place that requires savings withdrawals to be conducted through tellers during business hours, rather than through account officers or field workers. Furthermore, withdrawals above IDR 10 million must be confirmed the day before, either by a person in an officer position, or over the phone. Other mitigation strategies for inter-branch and head office activity include regulating or limiting cash availability at each branch and reporting it to the head office to prevent theft. Sharia compliance risks are fully foreseen. The research also revealed that to enable successful Sharia compliance, the Sharia Supervisory Board (SSB) at BMT UGT Nusantara must perform optimally. In addition to ensuring excellent governance, each branch manager serves as an SSB, which requires technical training and passing contract certification.

The Impact of Risk Management

Good risk management improves the performance of financial institutions. This finding is supported by other informants' responses, as indicated in Table 5 below.

Table 5. Impact of Risk Management Practices

Informant	Risk Management Impact	Answers to Questions about Risk Management Impact
1,3,4,5,8,9 1,3,4,5,7 1,3,4 1,3,5 1,3,4,5,6 3,4,5,14,15 1,2,4,5,7,8 1,2,4,7,9 2,3,4,6,11,12	• Financial Performance • Organizational Performance	• Profitability increases due to operational cost efficiencies. • Liquidity is more stable and well-maintained. • Better prepared to face macroeconomic changes such as pandemics, globalization, and political issues. • Adaptability to developments in information and technology. • Improved organizational governance, ensuring sustainability. • Fraud can be effectively anticipated. • Institutional reputation is maintained, increasing public trust. • Confidence that every problem has a solution increases self-trust. • Be calmer when facing problems.

Source: Authors' elaboration

BMT UGT Nusantara's risk management practices have a favorable impact, benefiting the institution in both the short and long term. This indicates that risk management practices demonstrate good organizational governance, which in turn improves reputation and public trust, thereby contributing to sustainability. Overall, effective risk management practices significantly impact both financial and organizational performance. Risk management assists BMT UGT Nusantara in increasing its profitability, cost efficiency, and liquidity availability. Meanwhile, risk management enables BMT UGT Nusantara to enhancaddress macro and global changes, adapt to information and technology developments, improve organizational governance, anticipate various forms of fraud, maintain the institution's reputation, increase public trust, boost self-confidence, and handle problems more effectively.

Practice of Fiqh Muamalat in Risk Management

The research findings indicate that the practice of Islamic jurisprudence (fiqh muamalat) begins with the implementation of Islamic sharia, which governs living. At BMT UGT Nusantara, Islamic sharia is practiced in several ways, including performing the Duha prayer, reciting the Quran before office hours, and praying the *Dhuhr* and *Asr* prayers in congregation. Additionally, staff members pray together after office hours and conduct weekly religious studies. The findings show that the practice of fiqh muamalat at BMT UGTNusantaran not only focuses on the tangible characteristics of the transactions but also emphasizes the procedure (ethical) and goals of the transaction. The informants, the majority of whom had received religious instruction at Islamic boarding schools, understood the significance of using fiqh muamalat in economic operations. This scenario is unique in that the management of BMT UGT Nusantara had previously obtained their understanding of fiqh muamalat while attending an Islamic boarding school and now practices it. The practice of fiqh muamalat at BMT UGT Nusantara is based on the Quran, Sunnah, and *ijtihad* (a serious legal inquiry). Informants further stated that BMT UGT Nusantara's product contracts include references to fatwas from the National Sharia Council (DSN) and the Indonesian Ulema Council (MUI). Furthermore, the BMT UGT Nusantara Sharia Supervisory Board performs numerous legal studies using DSN-MUI fatwas and traditional Islamic sources, which are published in a contract law guidebook.

5. Discussion

Financial institutions' performance suffers when risks are not appropriately managed. Furthermore, excessive financial losses threaten the futures of financial institutions (Al Rahahleh et al., 2019). However, if the risk can be foreseen, it can be used as a positive motivator to improve performance and increase the likelihood of profit (Harland et al., 2003; Holton, 2004). As a result, BMT UGT Nusantara's management must be aware of the risks. Understanding risks will enable the manager of BMT UGT Nusantara to select the best approach and implement actions to mitigate them. In general, UGT Nusantara's BMT manager's grasp of risk definitions is consistent with those of prior studies (Akram & Rahman, 2018; Bouslama & Lahrichi, 2017; Manan & Shafiai, 2015). They state that risk is the uncertainty associated with business activities and the likelihood of an incident affecting the organization's objectives. Thus, the management of BMT UGT Nusantara understands the importance of developing a strategy to mitigate potential risks.

Informants identified financial risk as critical. BMT UGT Nusantara's contribution to poverty eradication and economic growth is directly felt by the community through credit distribution. Customers with variable incomes and little loan collateral, on the other hand, fall into a variety of financing risk profiles. Informants also said that, in addition to financial risk, liquidity risk is critical to BMT UGT Nusantara's operations. They argued that IMFIs would lose client trust if they were unable to provide money when withdrawals were made. As a result, liquidity risk management is conducted to maintain a healthy financial circulation. In addition to these two main dangers, the risk of Sharia compliance is a major problem. They explained that each product offered must adhere to the contract, and any variation will result in non-halal transactions. As a result, increasing the practice of Islamic jurisprudence (fiqh muamalat) at BMT UGT Nusantara is essential. This evidence supports the concept that, in addition to Sharia compliance, halal responsibility must be introduced into the workplace culture (Hassan & Mollah, 2018; Muhammad, 2020).

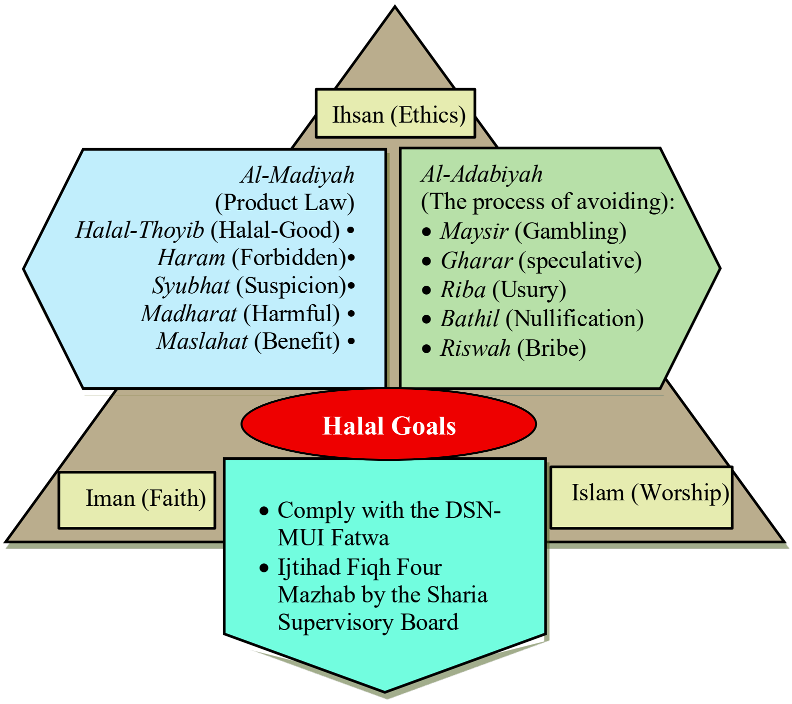
According to the research findings, risk mitigation practices at BMT UGT Nusantara are mostly focused on financial risks such as financing and liquidity. Non-financial risks, such as those associated with Sharia compliance, are also a concern in fiqh muamalat practice. BMT UGT Nusantara utilizes an information system to support risk mitigation and collaborates with PT USID as an information system (IS) service provider. Informants further stated that a variety of IS training programs, contract training, contract certification tests, and managerial processes have been established to enhance human resource expertise. Our findings also revealed that IS has arranged for profit-sharing installments. This practice supports the previous finding that information technology and risk management are critical for every organization that wants to survive (Mayer et al., 2019). Furthermore, the use of IS is a significant predictor of successful risk management (Saeidi et al., 2019; Wafi & Muhammad, 2023). This finding is consistent with previous research, which has revealed that information systems play a crucial role in ensuring Sharia compliance (Ayedh et al., 2021). Additional studies suggest that IS can influence organizational characteristics and performance (Dewett & Jones, 2001). As a result, aligning information systems with Sharia principles and existing norms will reduce overall risk while providing effective internal control for organizations.

The findings of this study show that risk management has various positive effects on the performance of BMT UGT Nusantara, depending on which risk management aspects are addressed. However, it is worth noting that risk management has a positive impact on both financial and organizational performance. This finding is consistent with prior research showing that risk management improves corporate performance and value creation (Chairani & Siregar, 2021; Ghazieh & Chebana, 2021). The findings of this study indicate a significant improvement in the function of risk control managers at BMT UGT Nusantara. This development leads to a stronger supervisory function, particularly an improved internal control system. As a result, companies, particularly Islamic microfinance institutions, perform better when risk management is implemented effectively. Furthermore, the existence of BMT UGT Nusantara to date demonstrates the effectiveness of risk management practices. This suggests that risk management is crucial in times of uncertainty, enabling businesses to respond effectively and correctly, and fostering flexibility and resilience (Settembre-Blundo et al., 2021).

Their dedication to adopting Sharia produces a work attitude that values honesty, integrity, non-arbitrariness, and accountability for assigned responsibilities. The incorporation of Islamic law into company culture is critical for preserving a balance of faith. Understanding Islamic jurisprudence (fiqh muamalat) and adherence to Sharia in Islamic financial institutions, which is based on Islamic Sharia practices and faith in God, will have an impact on the institution's and its workers' ethical behavior (*ihsan*). This will prevent actions that are detrimental to the institution, thus facilitating risk management. Sharia practice, which is part of the work culture at BMT UGT Nusantara, suggests psychological sensitivity as well as work ethics. This informant's statements are consistent with previous research findings indicating that Sharia practices have societal consequences and promote self-actualization (Al-Krenawi & Graham, 2000). The practice of Islamic Sharia strives not only to maximize profits but also to pay attention to moral and ethical principles known in Islam as *akhlaq* (Chapra, 2008; Naqvi, 1994), which lead to a sense of God, or another perspective known as *taqwa*-centric (Dusuki, 2008).

The proper application of Islamic jurisprudence (fiqh muamalat) leads to ethical business operations that are grounded in Islamic law (Figure 1). This remark supports a prior study that Islam prevents individuals from acting at will and justifying any means, such as gambling, cheating, usury (*riba*), and other negative activities, and emphasizes moral responsibility (Sachedina, 2001). Islamic ethics distinguishes between what is allowed and what is not, what is *halal* (permissible) and what is *haram* (forbidden). Strong Islamic jurisprudence (fiqh muamalat) fosters robust business ethics. This effort is carried out by delivering specialized contract education and training to all branch managers who make transaction contract decisions in their respective regions. Lower-level employees also receive general contract education and training using an information system. The purpose is to gain a complete understanding of Sharia-compliant business ethics. A thorough understanding of Islamic jurisprudence (fiqh muamalat) applied in business will mitigate any potential risks. As a result, good Islamic jurisprudence practices integrated into workplace culture embody ethics and are acknowledged as a risk management technique. This study demonstrates that firms that implement a code of ethics in any form can influence risk management practices (Francis & Armstrong, 2003; Luo & Bhattacharya, 2009). The figure below depicts Islamic jurisprudence practices at BMT UGT Nusantara (Muhammad, 2020).

Figure 1. Practice of Fiqh Muamalat



Source: Muhammad (2020)

6. Conclusion

As one of the largest Islamic microfinance institutions in Indonesia, BMT UGT Nusantara is committed to enhancing financial and organizational performance through effective risk management practices and the implementation of Islamic jurisprudence (fiqh muamalat) as a cornerstone of its ethical work culture. The findings of this study support this conclusion. BMT UGT Nusantara, an Islamic microfinance institution (IMFIs), employs effective risk management. The risk management practices encompass recognizing risks, identifying them, reducing them, and understanding the impact of risk management. Despite the lack of standards and the perception that risk management is only partial, these practices have improved financial and organizational performance. Sharia compliance risk is the most widely recognized risk at BMT UGT Nusantara, while financing and liquidity risks are the most anticipated, as both have a direct impact on financial and organizational performance. The practice of fiqh muamalat at BMT UGT Nusantara is well-executed, with Sharia compliance serving as an operational system and Sharia practices as a work culture. This integration encourages ethical behavior and is acknowledged as a method that influences risk management practices.

This research offers beneficial implications for risk management strategies at IMFIs, which can improve financial and organizational performance. Serious efforts are required within IMFIs to develop human resource capabilities, such as technical risk management skills and a comprehensive understanding of Sharia principles. The findings recommend a novel approach to risk management practices, contributing to the body of knowledge in the field of risk management. This research is recognized as a case study, but it could potentially serve as a reference for IMFIs in Indonesia. Developing a multi-case study using an inductive approach, for example, is expected to complement the findings, including a comparison of the risk management practices of IMFIs with those of their conventional microfinance institution counterparts.

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