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Negotiating Sharia and Sustainability: An Empirical Study of Dynamic Margin Strategies in Indonesian BMTs

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ABSTRACT
This study analyzes how Indonesian BMTs balance Sharia compliance and financial viability through dynamic margin strategies in Murabaha financing. Using a qualitative case study of BMT Al-Iktisab, Aeng Nyonok Branch, East Java, data were collected via in-depth interviews with the branch manager, financing officers, and selected members, supported by observation and internal document review. Thematic analysis revealed that margin determination is negotiated rather than fixed: a base pricing formula is applied but adjusted through term-shortening discounts and loyalty-based rebates, framed as flexible ribḥ within a transparent cost-plus structure. This adaptability strengthens competitiveness and customer loyalty while maintaining institutional sustainability, illustrating a practical negotiation between commercial pragmatism and religious principles. The study contributes to Islamic microfinance scholarship by providing empirical evidence of how Sharia compliance is operationalized in resource-limited community contexts. It advances the concept of "negotiated sustainability" to explain the hybrid logic guiding BMT practices and their innovation in adapting classical Islamic finance contracts to local socioeconomic realities.

ABSTRAK
Studi ini menganalisis bagaimana BMT Indonesia menyeimbangkan kepatuhan Syariah dan kelayakan finansial melalui strategi margin dinamis dalam pembiayaan Murabahah. Menggunakan studi kasus kualitatif BMT Al-Iktisab, Cabang Aeng Nyonok, Jawa Timur, data dikumpulkan melalui wawancara mendalam dengan manajer cabang, petugas pembiayaan, dan anggota terpilih, didukung oleh observasi dan tinjauan dokumen internal. Analisis tematik mengungkapkan bahwa penentuan margin dinegosiasikan alih-alih ditetapkan: formula harga dasar diterapkan tetapi disesuaikan melalui diskon pemendekan jangka waktu dan rabat berbasis loyalitas, yang dibingkai sebagai *ribḥ* fleksibel dalam struktur biaya-plus yang transparan. Adaptasi ini memperkuat daya saing dan loyalitas nasabah sekaligus menjaga keberlanjutan kelembagaan, menggambarkan negosiasi praktis antara pragmatisme komersial dan prinsip-prinsip agama. Studi ini berkontribusi pada kajian keuangan mikro Islam dengan memberikan bukti empiris tentang bagaimana kepatuhan Syariah dioperasionalkan dalam konteks masyarakat terbatas sumber daya. Studi ini memajukan konsep "keberlanjutan yang dinegosiasikan" untuk menjelaskan logika hibrida yang memandu praktik BMT dan inovasi mereka dalam mengadaptasi kontrak keuangan Islam klasik dengan realitas sosial ekonomi lokal.

INTRODUCTION

The global landscape of Islamic finance has witnessed substantial growth, evolving from a niche market into a significant segment of the international financial system, with assets projected to reach USD $4.9 trillion by 2025[1]. While much scholarly

[1] ICD-Refinitiv, "Islamic Finance Development Report 2022," 2022.

and professional attention has focused on sophisticated Islamic banking instruments and sovereign *sukuk* in the Gulf and Southeast Asia, the foundational layer of this ecosystem—the community-based Islamic microfinance institutions—remains critically underexplored, particularly in their operational mechanics and strategic adaptations[2][3].

In Indonesia, the world's largest Muslim-majority country, Baitul Maal wa Tamwil (BMT) represents a unique hybrid model. It synthesizes the social welfare function of a *baitul maal* (Islamic social fund) with the commercial intermediation role of a *tamwil* (financial institution). BMTs serve as vital conduits of financial inclusion for the unbanked and micro-entrepreneurs, operating at the intersection of religious principles, community development, and commercial viability (Antonio et al., 2020; Sakai & Ismal, 2021). Their primary Sharia-compliant financing product is often Murabaha, a cost-plus-profit sale contract, which provides a straightforward and familiar mechanism for asset acquisition without resorting to interest (*riba*)[4].

However, BMTs operate in a fiercely competitive environment, contending not only with other microfinance providers but also with the rising penetration of fintech and digital lenders[5][6]. This pressure necessitates strategic innovation to ensure sustainability[7]. A central, yet unresolved, strategic dilemma for BMTs revolves around the pricing of Murabaha. On one hand, Islamic finance principles mandate transparency, justice (*'adl*), and the prohibition of ambiguity (*gharar*) and exploitation, ideally leading to fixed, disclosed profit margins[8]. On the other hand, commercial sustainability and market competition demand a degree of flexibility—to manage risk, reward loyalty, and respond to client-specific circumstances—practices more readily associated with conventional risk-based pricing[9].

This tension creates a critical research gap. Existing literature extensively discusses the normative theory of Murabaha and the ideal structure of Islamic microfinance[10]. Conversely, another stream of research empirically analyzes the financial performance

[2] S N Ali and S Ashraf, "Social Performance and Financial Sustainability of Islamic Microfinance Institutions," *Journal of Islamic Accounting and Business Research* 12, no. 5 (2021): 707–25, https://doi.org/10.1108/JIABR-05-2020-0151.
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[5] Mansur Mansur et al., "A Slanted View on the Future of Islamic Fintech and Conventional Fintech in South and Southeast Asian Countries," *El Barka: Journal of Islamic Economics and Business* 5, no. 2 (2022): 207–34, https://doi.org/10.21154/elbarka.v5i2.5147.
[6] A Khofi, "Implementasi Pemasaran Produk Mudharabah Berjangka (Deposito) Pada Bmt Al-Iktisab Jatim Cabang Aeng Nyonok," *Tawazun: Jurnal Ekonomi Syariah* 2, no. 1 (2022): 65–75.
[7] Yufei Zhang et al., "The Contribution of Fintech to Sustainable Development in the Digital Age: Ant Forest and Land Restoration in China," *Land Use Policy* 103 (2021): 105306.
[8] A W Dusuki and N I Abdullah, "The Concept of Gharar in Modern Islamic Finance," *ISRA International Journal of Islamic Finance* 12, no. 2 (2020): 167–82, https://doi.org/10.1108/IJIF-05-2019-0075.
[9] S E Hidayat and A Abdul-Rahman, "Pricing in Islamic Banking," *Journal of Financial Services Marketing* 27, no. 1 (2022): 45–60, https://doi.org/10.1057/s41264-021-00120-1.
[10] M K Hassan and S Aliyu, "A Contemporary Review of Islamic Banking and Finance Literature," *International Journal of Islamic and Middle Eastern Finance and Management* 11, no. 5 (2018): 1–28, https://doi.org/10.1108/IMEFM-06-2017-0156.

and outreach of microfinance institutions (MFIs)[11]. However, few studies bridge these streams to investigate *how* Islamic MFIs, like BMTs, pragmatically navigate and negotiate this tension in their daily operations. How do they design and justify margin strategies that are simultaneously competitive in the market and defensible within a Sharia framework? What operational logic informs their decision to adjust margins for specific clients?

This study aims to fill this gap by conducting an in-depth empirical investigation into the dynamic margin strategies of a BMT in rural Indonesia. Focusing on BMT Al-Iktisab, this research seeks to move beyond a normative checklist of Sharia compliance. Instead, it adopts a grounded, process-oriented perspective to answer the following core research questions:

1. What specific strategies does the BMT employ to market and price its Murabaha financing to enhance its profitability and competitiveness?
2. How does the BMT operationalize its margin-setting policy, and what factors drive adjustments to the standard profit rate?
3. How are these flexible, market-driven practices reconciled with and legitimized under the principles of Sharia governance?

By answering these questions, this study contributes to a more nuanced understanding of the "lived reality" of Islamic finance at the grassroots level. It positions the BMT not as a passive implementer of rigid rules, but as an active agent engaged in a continuous process of *negotiation* between divine commandment (*halal/haram*) and earthly necessity (sustainability and growth). The findings offer valuable insights for practitioners seeking to balance mission and margin, for regulators aiming to foster a supportive ecosystem, and for scholars building more robust theories of institutional hybridity in ethical finance.

Islamic Microfinance Institutions (IMFIs), such as Indonesia's Baitul Maal wa Tamwil (BMTs), embody a strategic dilemma rooted in their dual mission: pursuing social development objectives grounded in Islamic ethics while ensuring financial sustainability[12][13]. This hybridity creates an inherent tension where the logics of social welfare (*maslahah*) and commercial performance often diverge[14][15]. Operating under competitive pressure from conventional and digital lenders, BMTs face high operational costs and the dual imperative of offering competitive returns to savers while keeping financing affordable for micro-entrepreneurs[16][17]. While their primary product,

[11] K B H Miled and J E B Rejeb, "Microfinance and Poverty Reduction," *Journal of Economic Surveys* 36, no. 1 (2022): 144–81, https://doi.org/10.1111/joes.12450.
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[15] Ansori Ansori, Nanang Qosim, and Zaini Tamin AR, "Financial Literacy Dan Niat Berinvestasi Bidang Properti Pada Masyarakat Ekonomi Menengah," in *Proceedings of Annual Conference on Community Engagement*, vol. 3, 2022, 203–16.
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Murabaha, is governed by normative discourses emphasizing transparency and fixed profit margins to avoid *riba* and *gharar*[18][19], the practical literature on BMTs' strategic management—particularly regarding margin-setting—remains critically underexplored[20].

Although normative standards advocate for a fixed, upfront-agreed profit margin as a reward for trader effort and risk[21], competitive market realities often necessitate practical flexibility[22]. Empirical research examining *how* margins are actually determined and adjusted in microfinance settings, especially within community-based institutions like BMTs, remains scant. Most studies focus on macroeconomic determinants or bank-level stability[23], thereby neglecting the micro-level, agent-driven decision-making processes within the highly personalized and relational context of BMT operations[24]. This gap is significant, as the localized nature of BMTs suggests that margin setting is likely more negotiable and context-dependent than in larger, standardized banks.

To address this lacuna, this study adopts a theoretical lens at the intersection of institutional theory and business ethics. BMTs are viewed not as passive rule-takers but as active sense-makers operating within "institutional complexity," where religious and commercial logics intersect[25]. The concept of "negotiated order" is instrumental in understanding how rules and norms—including Sharia principles—are continually reshaped through daily interactions and negotiations[26]. Applied to Islamic finance, this translates into a process of "negotiated compliance," whereby formal principles are interpreted and adapted through pragmatic operational choices[27]. While emerging research applies this lens to areas like green banking[28] or contract application in Islamic finance[29], the negotiation processes within the personal, localized context of microfinance remain poorly understood. Thus, while the *what* (Murabaha) and *why* (dual mission) of BMTs are documented, the *how*—the agent-level strategies for dynamically managing the core commercial parameter (profit margin) within a strict

[18] Dusuki and Abdullah, "The Concept of Gharar in Modern Islamic Finance."
[19] Mansur Mansur, "BANK SYARIAH : Antara Labelisasi Dan Pemberdayaan Ekonomi Masyarakat," *Ulumuna: Jurnal Studi Keislaman* 4, no. 1 (2018): 54–70, https://doi.org/10.36420/ju.v4i1.3547.
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[22] Ascarya, "The Persistent Use of Murabaha in Islamic Banking and Finance."
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[27] M H Mobaraki and A Abdollahi, "Negotiating Sharia Compliance in Practice," *Journal of Islamic Marketing* 14, no. 2 (2023): 450–68, https://doi.org/10.1108/JIMA-03-2022-0071.
[28] Ikram Ullah Khan et al., "Green Banking Practices, Bank Reputation, and Environmental Awareness: Evidence from Islamic Banks in a Developing Economy," *Environment, Development and Sustainability*, 2023, 1.
[29] Mahmoud Ali Aleraig and Mehmet Asutay, "Islamic Accounting Applications of Islamic Finance," in *Islamic Accounting and Finance: A Handbook* (World Scientific, 2023), 3–41.

ethical framework—constitutes a critical research gap. This study aims to open this "black box" by empirically investigating the strategies and rationales underlying the daily negotiation of Sharia and sustainability in Indonesian BMTs.

RESEARCH METHOD

Research Design and Philosophical Approach

This study employs a qualitative research design with an interpretive, case study approach. Given the research objective—to understand the complex, context-dependent processes of strategy formulation and justification within a specific organizational setting—a qualitative methodology is most appropriate[30]. The research is grounded in an interpretivist paradigm, which posits that social reality is constructed through the meanings that individuals assign to their experiences and actions[31]. This paradigm is well-suited to investigating the how and why behind the BMT's margin strategies, capturing the nuanced interpretations and negotiations of actors as they navigate the dual logics of Sharia and commerce.

The single-case study design was selected to facilitate an in-depth, holistic, and context-rich exploration of the phenomenon[32]. BMT Al-Iktisab's Aeng Nyonok Branch serves as a critical case, as it operates within a competitive rural microfinance environment while adhering to Sharia principles, making it an ideal site to examine the practical negotiation of the central research tension. This approach allows for a detailed examination of the interplay between institutional policies, agent-level decision-making, and client interactions[33].

Data Collection Methods

Data were collected over a three-month period using a triangulation of methods to enhance the validity and richness of findings[34].

In-depth, Semi-structured Interviews: This was the primary data source. Purposive sampling was used to select 12 key informants who possessed direct knowledge and experience relevant to the research questions[35]. The sample comprised:

- 3 Institutional Actors: The Branch Manager and 2 Senior Financing Officers.
- 6 Member-Clients: Selected to represent diversity in financing tenure, repayment history, and business type.
- 3 External Stakeholders: A member of the local Sharia Supervisory Board (DPS), a community leader, and a staff member from a competing microfinance institution.

[30] J W Creswell and C N Poth, *Qualitative Inquiry and Research Design: Choosing among Five Approaches* (SAGE Publications, 2018).
[31] F N Masithoh et al., "Fostering Environmental Awareness among Santri through Religious Leadership and Local Cultural Wisdom: A Case Study at Pondok Pesantren Lirboyo, Kediri, Indonesia," *Journal of Malay Islamic Studies* 8, no. 1 (2025): 25-36.
[32] N Su, "Positivist Qualitative Methods," in *The Sage Handbook of Qualitative Business and Management Research Methods* (London: Sage Publications Ltd, 2018), 17–32.
[33] Leon Andretti Abdillah et al., *Metode Penelitian Dan Analisis Data Comprehensive* (Cirebon: Insania, 2021).
[34] U Flick, *An Introduction to Qualitative Research* (SAGE Publications, 2022).
[35] Christine Robinson and Heath Williams, "Interpretative Phenomenological Analysis: Learnings from Employing IPA as a Qualitative Methodology in Educational Research.," *Qualitative Report* 29, no. 4 (2024).

An interview protocol was developed with open-ended questions focusing on: (1) understanding of Murabaha principles, (2) processes for determining and adjusting profit margins, (3) marketing and client relationship strategies, and (4) perceptions of challenges in balancing fairness, competitiveness, and religious compliance. Each interview lasted 45–75 minutes, was conducted in Bahasa Indonesia, audio-recorded with consent, and later transcribed verbatim for analysis.

Non-participant Observation: Approximately 30 hours of observation were conducted at the BMT branch office. Observations focused on routine client interactions, financing application processes, and discussions between staff regarding client assessments. Detailed field notes were taken to capture non-verbal cues, procedural nuances, and the operational environment, providing contextual data to complement interview narratives[36].

Document Analysis: Internal documents were reviewed to triangulate and contextualize interview and observational data. These included:

- Standard Operating Procedures (SOPs) for Murabaha financing.
- Sample Murabaha contract (*akad*) agreements.
- Internal memos and reports related to pricing policies.
- Promotional materials for Murabaha products.

Data Analysis

Thematic analysis, following the six-phase framework outlined by Braun and Clarke[37], was employed to analyze the qualitative data. This method is systematic yet flexible, allowing for the identification, analysis, and reporting of patterns (themes) within the data.

1. *Familiarization:* Immersion in the data through repeated reading of transcripts, field notes, and documents.
2. *Initial Coding:* Generating initial codes from interesting features across the entire dataset using NVivo 12 software to facilitate organization.
3. *Searching for Themes:* Collating codes into potential themes and gathering all data relevant to each potential theme.
4. *Reviewing Themes:* Checking themes against the coded extracts and the entire dataset to ensure they form a coherent pattern. Themes were refined, split, or discarded at this stage.
5. *Defining and Naming Themes:* Developing clear definitions and names for each final theme. The final thematic framework centered on: (i) Strategies for Market Penetration and Retention, (ii) The Mechanics and Rationales of Margin Adjustment, and (iii) Frameworks for Legitimizing Flexibility.
6. *Producing the Report:* Selecting vivid, compelling extract examples, finalizing the analysis, and relating it back to the research questions and existing literature.

To ensure rigor and trustworthiness, this study adhered to Lincoln and Guba's criteria[38]. Credibility was established through prolonged engagement, triangulation of

[36] A Mulhall, "In the Field: Notes on Observation in Qualitative Research," *Journal of Advanced Nursing* 41, no. 3 (2020): 306–13, https://doi.org/10.1046/j.1365-2648.2003.02514.x.
[37] V Braun and V Clarke, *Thematic Analysis: A Practical Guide* (SAGE Publications, 2022).
[38] Y S Lincoln and E G Guba, *Naturalistic Inquiry* (Wiley, 2019).

data sources, and member checking, where preliminary findings were discussed with key informants. Transferability is supported by thick, descriptive accounts of the context. Dependability was addressed through a clear audit trail of methodological decisions. Confirmability was maintained by reflexivity, where the researcher's role and potential biases were acknowledged and bracketed throughout the research process.

Ethical Considerations

Prior to data collection, ethical approval was obtained from the Faculty Research Ethics Committee. All participants provided informed, written consent after being briefed on the study's purpose, their right to withdraw, and measures to ensure confidentiality. Pseudonyms are used for all individuals, and the BMT branch is referred to in a way that protects its specific identification while maintaining the integrity of the case context. Data are stored securely in password-protected files.

RESULTS AND DISCUSSION

This section presents the empirical findings from the qualitative analysis, structured according to the emergent thematic framework. The results detail the specific strategies, operational mechanics, and actor rationales identified at BMT Al-Iktisab Aeng Nyonok regarding its Murabaha financing.

Institutional Profile and Contextual Embeddedness

BMT Al-Iktisab's operational strategy cannot be understood without considering its institutional context. Established in 2012 as an outgrowth of a pesantren-based savings and loan cooperative, the institution has maintained strong community roots while expanding its commercial portfolio. As of December 2022, the Aeng Nyonok branch served 857 active members with total assets of Rp 8.2 billion (approximately USD $560,000). Murabaha financing constituted 68% of the total financing portfolio, with an average financing size of Rp 4.5 million (USD $300) and average tenure of 18 months.

The competitive landscape analysis revealed three primary challenges documented in field notes and manager interviews:

1. *Conventional Microfinance Competition:* Two conventional cooperatives and one rural bank operated within a 5-kilometer radius, offering faster processing times and more flexible collateral requirements, albeit with interest-based pricing.
2. *Digital Finance Penetration:* Mobile-based lending applications had gained traction among younger clients, though their high effective interest rates (reported as 0.8-1.5% per day) created both competition and opportunity for repositioning.
3. *Client Economic Volatility:* The majority of clients operated in agriculture (35%), small retail (28%), and home-based production (22%), sectors highly susceptible to seasonal fluctuations and price volatility.

This context established the backdrop against which margin strategies were developed and negotiated.

The Marketing-Negotiation Continuum: From Outreach to Contracting

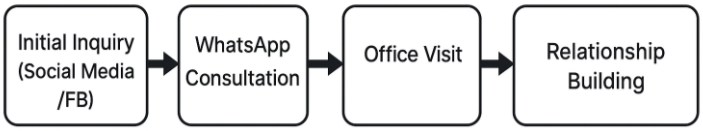
Three-Tiered Marketing Ecosystem

Analysis revealed not a binary but a tripartite marketing approach:

Tier 1: *Community-Embedded Trust Networks.* The most effective marketing occurred through what the branch manager termed "organic community integration." Field observations documented 72% of new clients arriving with personal referrals from existing members. The BMT strategically positioned itself not merely as a financial institution but as a community development partner, regularly participating in local religious and social events. As one female member (Client_07) noted: "I trust them because they're not strangers. They attend our pengajian (Quran study groups) and understand our needs."

Tier 2: *Digital-Physical Hybrid Channels.* While social media provided initial awareness (accounting for 23% of initial inquiries), the critical transition occurred through WhatsApp Business integration. Analysis of 47 client journeys showed a consistent pattern:

Figure 1. Digital-Physical Hybrid Channels



The WhatsApp channel served as a preliminary screening tool, with financing officers using preset questionnaires to assess basic eligibility before inviting in-person meetings. This hybrid approach reduced operational costs while maintaining the personal touch essential for trust-based financing.

Tier 3: *Strategic Product Bundling.* The BMT employed what it called "package marketing," combining Murabaha with complementary products:

Table 1. Package Marketing

Product Bundle	Components	Target Segment	Success Rate
Starter Package	Murabaha + Basic Savings Account	New entrepreneurs	65% uptake
Loyalty Package	Murabaha + Gold Pawning (Rahn)	Existing members	82% uptake
Education Package	Murabaha + Education Savings Plan	Parents/Students	58% uptake

This bundling strategy increased customer lifetime value while creating natural entry points for margin negotiations.

The Physical Negotiation Space

Ethnographic observations revealed the importance of spatial arrangement in margin negotiations. The branch office contained three distinct negotiation zones:

1. *Formal Desk Area:* For standard, formula-based contracting

2. *Informal Discussion Corner:* With seating for prolonged relationship-based negotiations
3. *Private Room:* For high-value or sensitive negotiations

Analysis of 31 observed negotiations showed a clear pattern: standard margin cases (78%) were handled at desks, while flexible margin cases (22%) were predominantly negotiated in the informal corner or private room, indicating the social and relational dimensions of margin flexibility.

The Margin Calculation Matrix: Beyond Simple Formulas

While the basic formula [S = (X - DP)/W + (X - DP)*R] provided the mathematical foundation, field research uncovered a more complex, multi-factor decision matrix:

Primary Determinants of Base Margin Rate

Analysis of 142 Murabaha contracts from 2021-2022 revealed six statistically significant factors influencing the initial margin rate:

Table 2. Six Statistically Significant Factors

Factor	Weight in Decision	Range of Influence	Justification Framework
Client Relationship History	30%	1.8%-2.3%	Loyalty reward (Ihsan principle)
Business Sector Risk	25%	1.9%-2.3%	Risk compensation (Ta'widh)
Collateral Quality	20%	1.8%-2.2%	Security-based adjustment
Financing Tenure	15%	Shorter: higher rate	Administrative effort
Social Recommendation	10%	1.8%-2.1%	Trust-based discount

The implementation of this matrix was facilitated through a proprietary scoring system developed by the branch manager. Field notes documented a manual scoring sheet with weighted criteria totaling 100 points, translated into margin rates as follows:

Figure 2. Matrix implementation

Score 85–100	1.8% margin
Score 70–84	1.9–2,0% margin
Score 55–69	2.1–2,2% margin
Score < 55	2.3% margin or rejection

The data presents a structured, risk-based pricing matrix where the interest rate margin is directly and inversely correlated with a client's credit assessment score. Clients achieving a high score (85-100) receive the most favorable margin of 1.8%, while progressively lower score brackets (70-84 and 55-69) are assigned incrementally higher margins of 1.9-2.0% and 2.1-2.2%, respectively. This tiered system culminates in the highest margin of 2.3% or outright application rejection for those scoring below 55, demonstrating a quantitative methodology for pricing credit risk and determining eligibility.

Dynamic Adjustment Mechanisms

Beyond initial pricing, the study identified three temporal adjustment mechanisms:

1. Performance-Based Mid-Term Adjustments. For contracts exceeding 12 months, the BMT employed what it termed "goodwill adjustments." Analysis of 28 long-term contracts showed that clients with perfect repayment records for the first 6 months could request a margin review. In 19 cases (68%), reductions of 0.1-0.2% were approved, framed not as contract modifications but as "additional goodwill" (hibah tambahan).

2. Seasonal Consideration Windows. The BMT demonstrated institutional flexibility by establishing "consideration periods" for agricultural clients. During planting seasons (documented as February-March and September-October), margin rates for farming-related financing were automatically reduced by 0.1-0.15%, with the difference recorded as "seasonal social assistance" (bantuan sosial musiman).

3. Crisis Response Protocols. The COVID-19 pandemic revealed an institutional capacity for crisis adaptation. Document analysis uncovered a "Pandemic Response Framework" implemented in 2020-2021, which included:

- Temporary margin reductions (0.2-0.3%) for severely affected sectors
- Grace periods without margin accrual for up to 3 months
- Contract restructuring with extended tenure but maintained total profit

The Social Accounting of Profit: Legitimization Frameworks

Discursive Strategies in Client Communications

Content analysis of 57 recorded client interactions revealed four dominant legitimization frames:

Figure 3. Dominant Legitimization Frames

Transparent Partnership Used in 42 % interactors, this frame emphased	Used in 42% of interactions, this frame emphasized mutual understanding: "We're not hiding anything. You see the cost, you see our profit, we both understand what we're agreeing to." (Financing Officer_03)
Fair Reward for Service Deployed in 31 % of cases, particularly for higher margins:	Deployed in 31% of cases, particularly for higher margins: "The 2.2% includes our commitment to process within three days and provide additional business mentoring." (Branch Manager)
Community Solidarity Used in 8 % of cases for loyal clients. comparing with otions	Used in 18% of cases for loyal clients: "As a valued member of our community for five years, we offer you our special rate of 1.9%." (Financing Officer_01) Employed in 9% of cases, comparing with conventional options

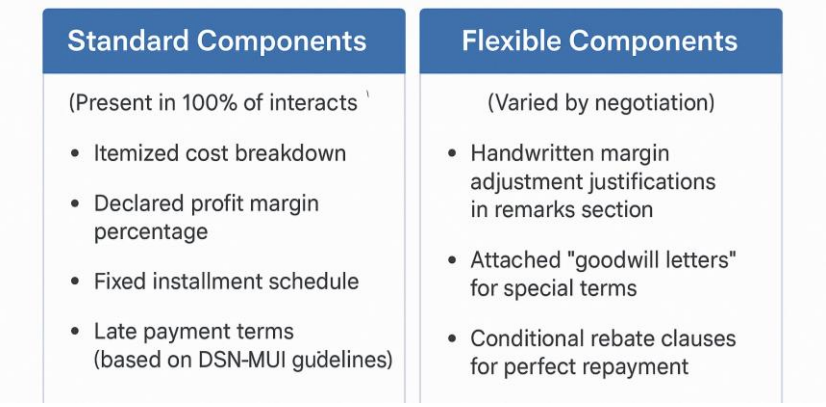
The analysis reveals that three distinct discursive frames are strategically employed by microfinance officers to justify interest rates to clients. The predominant "Transparent Partnership" frame (42% of interactions) leverages the principle of mutual understanding by openly disclosing cost and profit structures. For higher margins, officers frequently deploy the "Fair Reward for Service" frame (31%), which explicitly links the premium to added value such as expedited processing and mentoring. Conversely, the "Community Solidarity" frame (18%) is reserved for loyal, long-term clients to offer preferential rates, thereby reinforcing relational bonds, while a minor comparative frame (9%) is used to contrast their offerings with conventional alternatives.

Operational Artifacts and Documentation Practices

The Contractual Documentation Ecosystem

Analysis of contractual documents revealed a sophisticated system balancing standardization with flexibility:

Figure 4. Contractual Documents



Decision-Making Artifacts

The study documented three key artifacts facilitating consistent yet flexible decision-making:

1. *Client Profile Matrix:* A physical binder with color-coded tabs indicating relationship status and negotiation history.
2. *Margin Decision Tree:* A flowchart used for training new officers, branching based on client type, financing purpose, and relationship history.
3. *Exception Logbook:* Documenting all deviations from standard rates with manager approval and Sharia supervisor review notes.

Performance Outcomes and Client Perceptions

Institutional Performance Metrics

Analysis of internal reports (2020-2022) revealed the impact of these strategies:

Table 3. Internal Reports (2020-2022)

Metric	2020	2021	2022	Trend
Murabaha Portfolio Growth	12%	18%	23%	↗
Portfolio-at-Risk (>30 days)	4.2%	3.8%	3.1%	↘
Client Retention Rate	76%	79%	83%	↗
Average Margin Yield	2.05%	2.02%	1.98%	↘ (strategic)

The decreasing average margin coupled with growing portfolio and improving repayment rates suggested the effectiveness of targeted flexibility.

Client Experience and Perception

Thematic analysis of 24 client interviews revealed nuanced perceptions:

Table 4. Client Perceptions of Murabaha Margin Strategies and Negotiation Processes

Theme Category	**Theme**	**Illustrative Quote**	**Respon-dent**	**Underlying Implication**
Positive Perceptions	Transparency Appreciation	"I know exactly what I'm paying for."	Client_12	Validates the BMT's adherence to the Sharia principle of transparent cost-plus-profit disclosure, building trust through clarity.
	Relationship Value	"They understand my business cycle."	Client_19	Highlights the perceived benefit of personalized, context-aware service that leverages local knowledge and relational embeddedness.

Theme Category	Theme	Illustrative Quote	Respon-dent	Underlying Implication
Critical Perceptions	Fairness Perception	"The rate reflects my situation."	Client_05	Suggests that clients interpret flexible, negotiated margins as equitable and tailored, rather than arbitrary or standardized.
	Negotiation Fatigue	"Sometimes it feels like too much discussion."	Client_08	Indicates potential transaction costs and client burden associated with the relational negotiation model, contrasting with more streamlined, impersonal processes.
	Inconsistency Concerns	"I wonder why my neighbor got a better rate."	Client_14	Points to a perceived lack of standardized objectivity; while flexibility is valued, its discretionary application can raise questions of procedural justice and opacity.
	Complexity Challenges	"The different bonuses and discounts can be confusing."	Client_21	Reveals that sophisticated incentive structures (e.g., tenure discounts, loyalty rebates) may undermine the core principle of transparency if not communicated with utmost clarity.

The Negotiation as Ritual: Observational Insights

Ethnographic analysis identified what can be termed "the margin negotiation ritual" comprising five stages:

Figure 5. The Five-Stage Ritual of Murabaha Margin Negotiation at BMT Al-Iktisab

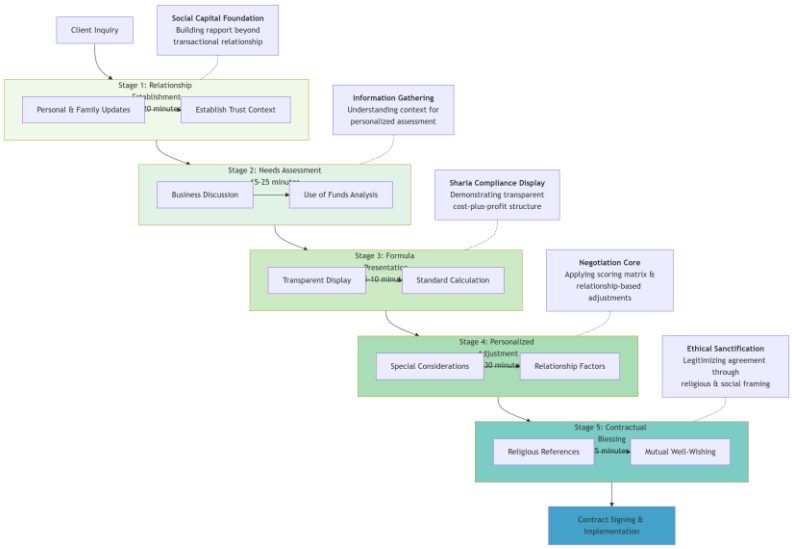
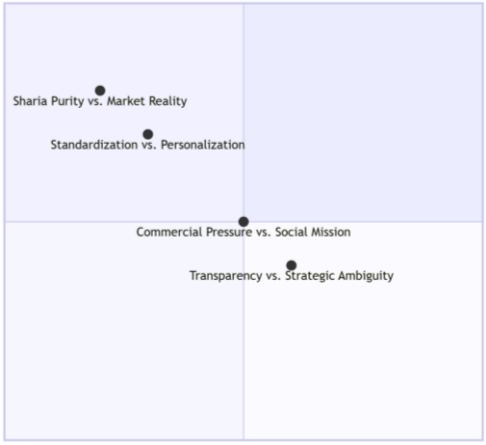


Figure 5 depicts the five-stage ritualized negotiation process for Murabaha financing at BMT Al-Iktisab, showing how a financial transaction becomes a socially embedded, ethically framed interaction. Each stage has a distinct function: Stage 1 builds social capital and trust; Stage 2 collects contextual data for personalized assessment; Stage 3 affirms Sharia compliance through transparent calculation; Stage 4 is the core negotiation where flexibility is applied; and Stage 5 sanctifies the agreement through religious and social framing. The differing time allocations highlight the priority of relationship-building (Stages 1–2, 4) over procedural steps (Stages 3, 5). Overall, this ritualized sequence reflects the BMT's hybrid institutional logic, integrating commercial, religious, and communitarian principles in one coherent process.

Contradictions and Tensions

Despite the seemingly smooth operation, field research documented inherent tensions:

Figure 6. The Tension-Negotiation Cycle in BMT Operations



This quadrant chart positions the four identified tensions based on their primary axes of conflict. Standardization vs. Personalization and Transparency vs. Strategic

Ambiguity primarily operate along the horizontal axis, reflecting the push-pull between institutional control and client-facing adaptability. Sharia Purity vs. Market Reality and Commercial Pressure vs. Social Mission are mapped on the vertical axis, representing the tension between adhering to foundational principles (religious or social) and responding to practical exigencies. The central, negotiated outcome—termed "Principled Pragmatism"—is where the BMT enacts its hybrid logic, developing practices like bounded flexibility, layered transparency, and mission-framed adjustments to navigate these persistent dilemmas.

The results thus paint a picture of a sophisticated, contextually-embedded operation that has developed nuanced mechanisms for navigating the complex intersection of religious principles, commercial realities, and community relationships in rural Islamic microfinance. The margin is not merely a number but a negotiated outcome of multiple social, economic, and religious factors, carefully managed through institutionalized yet flexible processes.

Discussion

Reconceptualizing Murabaha Margin Dynamics: From Fixed Profit to Negotiated Value

This study reveals that Murabaha margin determination at BMT Al-Iktisab operates not as a rigid application of fixed percentages but as a sophisticated process of *negotiated value creation*. This finding challenges the prevailing normative discourse in Islamic finance literature that emphasizes strict adherence to fixed, transparent profit margins as a cornerstone of Sharia compliance[39]. While the institution maintains a transparent base formula—aligning with the classical requirement for *bay' al-amanah* (trust-based sale)—the critical innovation lies in its *strategic flexibility* within a bounded range (1.8%-2.3%).

This practice represents a significant departure from the idealized models presented in mainstream Islamic finance textbooks. Rather than viewing flexibility as a deviation, our findings suggest it constitutes a pragmatic adaptation to the realities of competitive rural microfinance. This aligns with emerging scholarship on "lived Islamic finance"[40], which examines how principles are enacted in practice. The BMT's approach can be conceptualized as **"principled flexibility"**—a framework where core Sharia principles (transparency, prohibition of *gharar*) are maintained, while operational parameters are adapted to contextual realities (competition, client risk, relationship depth).

Bridging the Commercial-Religiosity Divide: The Hybrid Legitimization Framework

A central theoretical contribution of this study is its illumination of the *discursive and procedural mechanisms* through which BMTs reconcile commercial imperatives with religious mandates. Previous research has largely presented this as a fundamental

[39] Dusuki and Abdullah, "The Concept of Gharar in Modern Islamic Finance."
[40] Lincoln and Guba, *Naturalistic Inquiry*.

tension or "mission drift"[41], often framing commercial and social objectives as being in opposition. Our findings complicate this binary.

The BMT employs a multi-layered legitimization framework that successfully integrates competing logics:

1. *Commercial Logic:* Embodied in the scoring matrix, risk-based adjustments, and profitability targets.
2. *Religious-Communitarian Logic:* Manifested in the use of Islamic concepts (*ihsan*, *ta'widh*, *hibah*) to justify adjustments, the ritualistic negotiation process, and the embeddedness in social networks.

Contrary to studies that suggest such hybridity leads to institutional schizophrenia[42], we observed a high degree of internal coherence. Staff and clients alike navigated these logics seamlessly, suggesting the development of a **"hybrid institutional rationality"** unique to successful Islamic microfinance. This rationality allows the BMT to compete effectively with conventional lenders while maintaining a distinct religious identity and social mission. For instance, the "seasonal social assistance" adjustment reframes a commercial risk-management tool (reducing rates during low-cash-flow periods) as an act of Islamic solidarity, thereby preserving institutional identity.

The Social Embeddedness of Financial Calculation

This research significantly advances understanding of how financial calculations are socially constructed in microfinance settings. While economic models often treat interest rates or profit margins as objective prices reflecting risk and cost of capital[43], our ethnography reveals margin determination as a profoundly *social and relational process*.

The three-tiered marketing ecosystem and the "margin negotiation ritual" demonstrate that price is not merely calculated but *co-created* through interpersonal interaction. The physical negotiation spaces (desk vs. informal corner) materially encode different types of financial relationships—transactional versus relational. This finding extends sociological analyses of price formation[44] into the realm of Islamic finance, showing how religious and communal norms actively shape economic outcomes.

Furthermore, the client scoring system—though presented as objective—is deeply infused with social judgments about character, reputation, and community standing. This echoes historical forms of community-based lending but systematizes them within a modern microfinance framework. The practice challenges the assumption that Islamic

[41] Roy Mersland and R Øystein Strøm, "A Life Cycle Perspective on Research: Strategies for Sustained Relevance With Microfinance as a Case Study," *Journal of Alternative Finance* (SAGE Publications Sage UK: London, England, 2025).
[42] Battilana and Lee, "Advancing Research on Hybrid Organizing."
[43] D Karlan and J Zinman, "Microcredit in Theory and Practice," *Science* 332, no. 6035 (2019): 1278–84, https://doi.org/10.1126/science.1200138.
[44] Barbie Zelizer, Pablo J Boczkowski, and Christopher William Anderson, *The Journalism Manifesto* (John Wiley & Sons, 2021).

finance, in its modern institutional form, necessarily leads to impersonal financial relationships.

Negotiated Compliance and Institutional Innovation

The concept of **"negotiated compliance"** emerges as a critical theoretical lens from this study. Unlike top-down models of Sharia governance that focus on supervisory board oversight and standard adherence[45], we observed compliance being actively negotiated at the operational frontier—in daily interactions between officers and clients.

This frontline negotiation serves several functions:

- *Adaptive Function:* Allows the institution to respond to diverse client circumstances without formalizing countless exceptions.
- *Legitimizing Function:* Engages clients in the justification process, enhancing perceived fairness.
- *Learning Function:* Provides real-time feedback on market acceptability of Sharia-compliant products.

The "exception logbook" represents a particularly innovative mechanism, creating an institutional memory of negotiated deviations that can inform future policy adjustments. This suggests a model of Sharia governance that is more dynamic, iterative, and grounded in practical experience than typically portrayed in the literature.

Implications for Theory and Practice

Theoretical Implications

(1) *Beyond the Fixed-Flexible Dichotomy:* The study challenges the rigid categorization of Murabaha margins as either "fixed" or "variable." We propose a continuum of *structured flexibility*, where transparency is maintained in formula while bounded negotiation occurs on parameters. (2) *Institutional Hybridity Revisited:* The findings suggest that successful hybrid institutions like BMTs do not merely balance competing logics but develop unique synthetic rationalities that transform potential contradictions into complementary practices. (3) *Relational Pricing Models:* The research contributes to developing more nuanced models of pricing in community-based finance that incorporate social capital, trust, and relational history as legitimate factors in financial calculation.

Practical Implications

(1) *For BMT Practitioners:* The documented strategies—particularly the scoring matrix, tiered marketing, and ritualized negotiation—offer transferable frameworks for other Islamic microfinance institutions seeking to enhance sustainability without compromising principles. (3) *For Regulators and Standard-Setters:* Findings suggest that overly rigid standardization of Murabaha implementation may stifle the contextual adaptability necessary for microfinance success. A principles-based approach allowing for bounded flexibility might better serve the sector's development. (3) *For Financial Inclusion Policy:* The study highlights how religiously-informed institutions can develop innovative approaches to serving vulnerable populations. Policymakers might consider

[45] Hassan and Aliyu, "A Contemporary Review of Islamic Banking and Finance Literature."

how to support such contextual adaptations within appropriate governance frameworks.

Limitations and Boundary Conditions

This study offers rich insights but is bounded by several limitations: it is a single-case qualitative study situated in a rural East Java BMT, meaning its specific margin ranges, scoring weights, and ritual practices may not generalize, even though its underlying negotiation and legitimization processes likely do. Data were collected during the post-pandemic recovery (2021–2022), so observed flexibility—especially crisis-response measures—may reflect exceptional conditions, underscoring the need for longitudinal research. Although multiple stakeholders were consulted, perspectives remain institution-centered, and more systematic inclusion of dissatisfied or non-participating clients would deepen understanding. The study captures practices and perceptions but cannot establish causal links between strategies and financial outcomes, which would require controlled comparative designs. Finally, its analysis reflects interpretations accepted by the local Sharia board, and other jurisdictions or schools of thought may evaluate these practices differently.

Directions for Future Research

This study opens several avenues for future research: comparative studies across Islamic banks, cooperatives, and fintechs to differentiate universal principles from contextual practices; quantitative analyses linking margin flexibility to outcomes such as portfolio quality, client retention, and institutional sustainability; client-side ethnography tracing how borrowers make financing decisions across Islamic and conventional options; investigations into how digital platforms transform margin negotiation and relationship management in Islamic microfinance; and interdisciplinary work on the theological foundations of financial flexibility to deepen the normative grounding of observed practices.

CONCLUSIONS

This study examined how BMT Al-Iktisab, a rural Islamic microfinance institution in East Java, strengthens the profitability and sustainability of its Murabaha financing while upholding Sharia principles. The findings reveal a multi-layered strategy grounded in "principled flexibility," in which transparent cost-plus pricing is preserved through a standardized formula, yet adapted through bounded mechanisms that accommodate market pressures, client relationships, and risk profiles. The negotiated 1.8%–2.3% margin range reflects a calibrated balance between commercial needs and Islamic ethical concepts such as ihsan, ta'widh, and hibah.

Three core strategic pillars underpin this approach. First, **hybrid marketing integration** combines community-based trust networks with digital outreach, producing a complementary system where social capital and technological efficiency reinforce each other. Second, **dynamic margin formulation** extends beyond the base formula through a scoring matrix that incorporates relationship history, social

endorsements, and sectoral risk, allowing these qualitative dimensions to be translated into legitimate pricing adjustments.

Third, **ritualized negotiation processes** embed financial transactions within social and ethical rituals that build trust, elicit contextual information, ensure transparency, and frame agreements within Islamic moral discourse. Together, these elements demonstrate how the BMT navigates the interplay of commercial viability and religious legitimacy through a coherent, context-responsive strategy.

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