

Religion and Economy: How the Act of Rational Economy Dominates Muslim Entrepreneurs

Dede Nurohman, Evi Muafiah

IAIN Tulungagung, Indonesia

IAIN Ponorogo, Indonesia

de2nur71@gmail.com, evimuafiah@iainponorogo.ac.id

Abstract

This research aimed to explore the motives that encouraged Muslim entrepreneurs to make business decisions in running businesses, and also to examine the effects of their religions as well as the business logics they used toward their trading behaviors. The subjects of this research were the Muslim entrepreneurs running the business of apparel convection in Botoran, Tulungagung. This research used qualitative method with phenomenological approach. The data extracting technique was conducted by documentation, observation, and interviews. The results showed that Muslim traders based their business behaviors on the consideration of rational choices. Such behaviors were manifested in the forms of: choosing to partition their houses as the place of production (home factory); choosing to procure capital through the Chinese; choosing temporary sewing workers; choosing to replace the procurement of computer embroidery machines; *dun-dunan rego* (decreasing the costs); *nembak* (lighting); and reluctant to establish a cooperative to accommodate them. Meanwhile, religion, morals, and other values are not considered by them in running their business. The implication of the findings is that religious and economic motives always appeared in a person's business processes. The dominance of one of them was determined by the environment and experience. Sharia financial institutions in the vicinity, such as Sharia Banks and BMT (*Baitul Mal wa Tamwil*, a sharia-based microfinance institution or cooperative), as well as Islamic organizations, with the right kinship approach, were required to be present to pay attention to business development and community empowerment.

Keywords: Rational Economy, Moral Economy, Muslim Entrepreneurs.

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Introduction

The enthusiasm of the apparel industry entrepreneurs in Indonesia is very high, making the textile industry sector a reliable export commodity. The export value has annually increased. In 2017, it reached US\$3.45 billion; in 2018, it rose 10.12% to US\$3.79 billion; and in 2019, it rose another 29.19% to US\$4.94 billion in the first quarter of 2019 (Antaranews, n.d.). Among the textile commodities, 86% are dominated by textiles in the form of apparel or convection (Katadata, 2018). This spirit is maintained considering that apparel commodity are a business segment that is a basic human need, regardless of age and genre (Moudry & Thaichon, 2020). This product also does not know the exact season. This product is always in demand by the market in all segments and circles of society.

Passion and the right ways to manage a business are the pillars of business success. The right way to manage a business is when entrepreneurs work professionally, that is, separating business matters from non-business matters. Business success is determined through well-executed business strategies that win every competition, both among small, medium, and larger industries (Umar et al., 2018). In this context, the working aspect is the dimension of their rationality in business. The dimension of business rationality delivers some considerations that based on rational choice in the forms of calculability, focusing on efficiency, ensuring predictability, replacing human technology with non-human technology, and exercising control over various uncertainties (Ritzer, 2011). These actions are an inevitability. Everyone who does business (a businessman) must be a rational person, that is, the one who is always looking for profit (Popkin, 1979).

Another important factor in business success is the actors' internal push. The most dominant internal aspect that influences business success is religion. Weber, in his book, records that religion can be a trigger for a person's business success (Weber, 2001). According to Scott, the moral or religious dimensions with their teachings and belief systems can make business actors act in other ways outside of rational choices (Scott, 1976). A moral or religious value system shapes people to believe that their actions are guided by ideas of right and wrong. For instance, the economic moral in

the form of mutual trust between fellow business actors within one partnership framework can form trust, not only for the members, but also for business actors outside the partnership (Kudrats et al., 2019). This moral and belief system is assumed to determine or influence the behavior and choices made by humans (Wilk & Cliggett, 2018).

Several researches related to the religion determination in business or vice versa have been widely conducted. Saidi, in his research conducted on the Morro Filipino Muslim market traders who always carry prayer beads, showed independence and a symbol of resistance to the state (Saidi, 1999). Qodir, in his research conducted in Pekajangan, Pekalongan, found that well-managed religious organizations can encourage the economic sector through increasing the community's trade ethos (Qodir, 2002). Similarly, a dissertation by Abdullah showed that the success of Muslim traders in Jatinom, Klaten, was due to religion's role in directing Muslim traders in renewing their thinking, even influencing the way people accepted trading activities with economic principles as part of their life. Religion shapes the social basis that enables economic activity to take place (Abdullah, 1994). In another paper conducted, in Madura, religious and economic motives take turns giving encouragement. The economic ethos is shown for being able to go on hajj and attain the "hajj" title. The "hajj" title is used to access economic resources in society (Effendy, 1999). In Iran, academics working in industries are based on the motive of the need to understand God. They make it happen through working well (Babakhan et al., 2020). Religion influences people to pay taxes, however, when there are practices of injustice, religion is unable to restrain the behavior of people avoiding taxes (Khalil & Sidani, 2020).

More meaningful research was conducted by Essoo, by researching three religions: Hinduism, Islam, and Catholicism; the Research was directed at the consumption behavior of each of these religious followers. The study found that the three religions influenced their economic behavior in shopping (Essoo & Dibb, 2004). In terms of entrepreneurship, religion is a trigger for the emergence of creative ideas for aspiring entrepreneurs (Smith et al., 2019). In the area of the Holy Roman Empire, Protestant ethics

currently contributes to increasing the number of entrepreneurs by 5% (Nunziata & Rocco, 2018). Likewise in Hindu ethics, the Karma-Yoga, as the core of Hindu teaching ethics, motivates its adherents to work to meet worldly needs (Rastogi et al., 2021). Lang also proved that professionally managed places of worship with good marketing strategies can increase the number of visits by worshipers and tourists. The profits obtained from these visits are used for maintenance costs, upgrading of facilities, payroll of employees and managers, meeting activities, and other religious activities (Lang et al., 2005). Kahraman, in his research, found that religion for business people will be treated sensitively if it is related to matters that are not related to company income. On the other hand, religion is insensitively responded to when it relates to company income (Kahraman & Keles, 2019).

This paper wants to show that, although both business and religious motives can influence business development, either simultaneously or separately, the percentages of the two are often unbalanced. There are times when religion is more dominant, and there are times when economic motives determine religion. This paper directs the economic rational actions carried out by entrepreneurs. Actions of economic rationality by entrepreneurs dominate their motives. In fact, other irrational factors in nature become unimportant considerations for them. They put irrational parts such as religious values and social values separately. Meanwhile, they place the act of economic rationality in all stages of the business being undertaken. In particular, this paper examines some of the rational behavior of Muslim entrepreneurs in Botoran, Tulungagung, with high commitment to religious practice, and live in a very strong religious environment in running their garment convection business.

Literature Review

According to Weber, social act is a behavior that is taken into account by other people in society (Weber, 2001). Weber divides social act into four types. First, the traditional act, the one that is not based on thought, but only because of traditions and habits. Second, the affective act, the one that is based on emotions or sentimental motives. Third, the value-oriented act or often called

the value rationality, the one that is goal-oriented, but could be an irrational choice. Fourth, the instrumental rational act, the one that is goal-oriented based on rational choices (Weber, 2001).

In the economic context, the instrumental rational action becomes very systematic. Economic activity which refers to the optimization of profits directs one's act towards rational choices to achieve these goals. This action underlies capitalist economic activity. The capitalist economy spurs people to compete to accumulate capital for commercial activities in order to obtain material benefits (Baharun & Niswa, 2019). In his book, Ritzer reveals that the acts based on rational choices have an orientation to involve calculating means and ends. Some of its characteristics, namely: emphasizing calculability, focusing on efficiency, ensuring predictability, replacing human technology with non-human technology, and exercising control over various uncertainties (Ritzer, 2011). In the economic context, this rational action becomes the basis for a person's act in obtaining benefits for their efforts. The rational act in economics has nothing to do with religion, even apart from any motive. The economic rational act only discusses the economic aspects.

According to Popkin, rational economic act is a business activity that establishes itself in its general dimension or pragmatism that seeks material benefits (Popkin, 1979). Popkin further explained that rational economic act is a person's activity in fulfilling their life's needs by continuously calculating to find the best option for themselves from among many options. In the midst of changing situations, they can still improve their life and welfare or at least maintain the level of life they are enjoying (Popkin, 1979). A rational choice in a business is an option that is considered the most suitable for its capabilities, and is carried out in the most efficient way, both in time and in cost, with the aim of obtaining maximum benefits, and avoiding anything that can reduce the profitability. According to Popkin, basically humans are homo economicus, all their life is spent working and looking for profit (Keyes, 1983). Elster explained that humans as homo economicus are always controlled by the dimensions of economic rationality, triggered by future rewards, adapt to changing conditions, always make improvements, are easily caricatured as independent asocial atoms (Elster, 1989).

According to Hovenkamp, in the context of entrepreneurs, the act of economic rationality is when an entrepreneur is fully aware that their abilities are very capable of achieving the goals they want. This act takes the form of self-readiness and the ability to reach it (Hovenkamp, 1992). Meanwhile, according to Godilier, the act of economic rationality is how they get the maximum benefit. For entrepreneurs, these profits are used in two ways: for investment, which then turns into business capital, and for consumptive needs. They get a very reasonable profit because they have spent their capital (Godilier, 2012).

Religion is a value system. In Weber's typology of social act, religion is included in the value-oriented social act. This act is more goal-directed, and often don't take rational choices into consideration. In the economic context, the Scott's religious value is termed the moral economic act. According to Scott, the moral economic act focuses on what entrepreneurs think and believe about their world, and on the worldview used to understand and explain their acts (Scott, 1976). A person's moral motivation is shaped by certain values and belief systems. Human behavior and the choices they make are believed to be guided by an impulse to do good. This moral value comes from a cosmological perspective, including a culturally patterned religion about nature and the people who inhabit it (Putra, 2003). They have a moral outlook that is based on the way the earth works. They consider that the human moral universe determines or influences the behavior and choices made by humans (Wilk & Cliggett, 2007). With regard to economics, morals and religion, this becomes the control for business activities, thus the consequences that arise do not conflict with moral and religious values. Internalization of religious or moral values in the form of faith, piety, hard work, optimism, patience, independence, honesty, and cooperation will be embedded in oneself and become part of ownership that is always maintained (Prasanti & El Karimah, 2018).

The difference between morality and religion lies in the existence of an eschatological dimension that religion holds firmly. Meanwhile, moral does not address this dimension. Economic acts in religion are not only based on worldly orientation, but also on otherworldly. Meanwhile, moral economic acts are oriented only to

worldly life. However, in the context of economic act, both of them make values the main consideration. Religious and moral values in economic activities have much in common. Both of them prioritize the immaterial dimension for the realization of a harmonious relationship that emphasizes high respect for others and solidarity with others. Both religion and morals want everything to take place in a polite and civilized manner, without the domination of materialistic goals.

According to Weber and Scott, although morals or religion can influence the economic act, this is not the case with Berger. Berger does not fully believe religion can influence the economy. For the acts that occur can be completely different from the basis of values. Ideas, thoughts or minds are very limited in determining the system of act. There is no certainty that there is a straight line between mind and act. What is lived does not always result in the corresponding act (Berger, 1986).

Methods

The research was conducted in Botoran, Tulungagung, with the subject of Muslim entrepreneurs in apparel convection. This region has 440 textile industries, with 25% of them are home industries which is engaged in convection (apparel) and is spread in the Botoran sub-district. These home industries hire 372 employees, both the who are the Botoran community and also outside Botoran (Amin et al., 2019). These home industries are the largest Muslim clothing producer, not only in Tulungagung but also in the former Kediri Residency which includes the regencies of Kediri, Blitar, Trenggalek, Ponorogo, Pacitan, Nganjuk, and Ngawi. With 98% of the population is Muslim, Botoran has one of the largest markets in Tulungagung that operates day and night. This market accommodates as many as 1870 traders (Amin et al., 2019). Muslim fashion products produced by the Botoran home industries are not only marketed in Tulungagung and its surroundings, but spread to Surabaya and big cities outside the province, outside the island, and even abroad.

Several considerations in making the Botoran Village the place of research, among others: (a) Botoran is the center of the home

industry which is engaged in the largest apparel convection in the Mataraman area, and is located in the heart of Tulungagung city which can freely access business needs; (b) Botoran is surrounded by Islamic boarding schools, the Pesantren Mangunsari in the north, and the Pesantren PETA (Pesulukan Tarikat Agung) in the south, and these two pesantren (Islamic boarding school) are very old, exalted, and have a strong influence on the people of Tulungagung; (c) In Botoran itself, there are Pesantren As-Safinah and Madrasah Diniyah (MADIN) whose students always line the main road when going to and from school, and some of the administrators of these educational institutions are successful convection entrepreneurs; (d) The Botoran convection entrepreneurs are devout Muslims, and they participate in religious activities in the community as well as have performed the hajj pilgrimage.

This is a qualitative field research (Denzin, NK, 2000). This research used phenomenological approach, in which researchers not only collected data in quantity and quality, but also made interpretations of the data, and revealed the meaning behind the phenomena found. In the context of this research, the data in question were in the forms of thoughts and opinions of research subjects, in this case, the Botoran apparel convection entrepreneurs including the reasons for the behavior they did and the motives that pushed them to take such act.

This research demanded a variety of data collection techniques. This technique required researchers to get the right data source that could help researchers understand the problem or research question, either from the informants or from the website (Creswell, 2009). Therefore, this research used three data mining techniques: interviews, observation, and documentation. This research also checked the validity of the data (triangulation). The checking was carried out through interviews with local residents, customers, Heads of villages, and the department of industry and trade. This was important not only as a material for checking the validity of the data, but also as a means of exploring deeper into existing information.

The data analysis technique used the method recommended

by Miles and Huberman, namely data reduction, data presentation, and drawing conclusions or verification (Miles & Huberman, 1994). In detail, the data analysis was carried out following Creswell's suggestion which was carried out in the following order: (1) collecting raw data in the forms of transcripts, fieldnotes, pictures, and so on; (2) organizing data through data classification according to their respective themes; (3) reading the data thoroughly; (4) coding the data; (5)) linking the data in the form of themes or descriptions, and; (6) interpreting the meaning of these themes or descriptions (Creswell, 2009).

Results and Discussion

Based on extracting data in the field, this research found several behaviors and acts of the Botoran convection entrepreneurs that were based on rational considerations, including: (1) Using their own houses as the production centers; they did this to reduce production costs, especially related to the land; they, in this case, preferred to partition their house in several rooms, i.e., for families and for production; they did not choose to look for rental houses because, according to them, it would increase the production costs. (2) Choosing external tailors; they preferred to leave their works to those tailors rather than hiring workers; if they hired workers, they had to provide sewing machines; according to them, this could cut the production costs. (3) Purchasing computer embroidery machines; the entrepreneurs preferred to buy computer embroidery machines rather than handing them over to manual embroidery workers; according to them, with the computer embroidery machines, the customers' design needs could be fulfilled perfectly and could be done quickly.

Apart from that, several behaviors or acts of the entrepreneurs were also found that were not based on considerations of religious values or social morals, among others: (1) Establishing cooperation to provide capital with Chinese-owned shops using the *ngalap nyaur* system; they did not choose the Islamic financial institutions as the capital partners, such as Sharia Bank and *Baitul Mal wa Tamwil* (BMT) that were around them; according to them, the financial institutions were too rigid and formal. (2) They did the *dun-dunan rego*, competing with other entrepreneurs by lowering

each other's prices to below what they should have been; this was done when the situation forced them to pay off their dependents immediately, or because a competitor started to drop the price of their product below the market price. (3) They did *nembak*, imitating products that were in demand in the market; they imitated the products exactly, not only the model but also the brand trade; they did this because they didn't want to bother making models that didn't necessarily sell well in the market. (4) They did not want to be invited to establish associations or cooperatives that covered them; they thought that the association had no benefit for their businesses, and was only a waste of their business time.

The economic acts of the Muslim entrepreneurs of Botoran showed that their acts were influenced by considerations of rational choices. The behavior of those who chose to partition their houses for production space, chose sewing workers from outside, and chose to buy computer embroidery machines, illustrated that their dimension of rationality works was to support their economic activities. The rationality dimension works direct the actors to ways of doing efficiency at each stage, calculating profit and loss, ensuring predictability, replacing human technology with non-human beings, and controlling all uncertainties (Ritzer, 2019).

Efficiency in setting up production houses was done by not choosing a rental house, but at the expense of their private dimension with their families. The efficiency was also carried out by selecting external sewing workers (non-permanent tailors) who worked according to orders. The presence of tailors could still increase the production costs such as regular payroll, provision of work space, and provision of sewing equipment. Likewise, in the case of replacing manual embroidery with computerized embroidery. By predicting and calculating the advantages and disadvantages, they chose the more efficient computer embroidery machines. With these machines, they could meet consumers' desires in a variety of designs that were difficult to do manually. Through these machines, consumers' orders can also be done quickly. This dimension of efficiency was believed by entrepreneurs as a way to maximize profits. Their awareness of the importance of this efficiency also made them decide the best choices in changing situations in order

to improve their welfare, at least to maintain the survival they were enjoying (Popkin, 1979).

The rationality dimension controls entrepreneurs working in a business framework. At the same time, business activities control entrepreneurs to make rational choices. Therefore, entrepreneurs instinctively will always position themselves as *homo economicus*, that is, the individuals who orient their lives for profit (Keyes, 1983). They are triggered by future rewards, adapt to changing conditions, always make improvements, and are easily caricatured as independent asocial atoms (Elster, 1989). This dimension of rationality does not only stop at the benefits of ensuring the family's life needs, but for the benefit of their long-term investment (Godilier, 2012).

The economic behavior or acts of the Muslim entrepreneurs of Botoran, which were influenced by considerations of choices that were not linear with religious values and social morals, showed that consideration of rational choices determined other irrational considerations. Their behavior in favor of partnering with non-Muslim Chinese in procuring capital, *dun-dunan rego*, *nembak*, and reluctant to be invited to establish cooperatives, suggesting that the religious and social moral dimensions had no place in their economic acts. The strong religious environment, the involvement of some of them in the management of religious educational institutions, and the title "Haji" they used, were unable to direct their economic acts in accordance with religious and moral ideals. Although their daily thought patterns and behavior appeared to reinforce these values, according to Berger, it did not necessarily influence their business acts (Berger, 1986).

Partnering with non-Muslim Chinese was preferable to Islamic banks or BMT, showing that the bonds of faith did not automatically bound the entrepreneurs to work together on the basis of religious struggles. Their choice was based more on the flexibility and ease in the loan process as well as a soft tolerance for repayments that were not found in the financial institution system. They also based the economic thinking ratio of relationship marketing, a marketing strategy carried out by maintaining relationships with their partners as distributors that had been established (Dimiyati, 2016). This

condition was seen by the entrepreneurs as the right choice for their businesses. Religion was expected to create a social basis as a foundation for conducting business activities in accordance with religious norms, as the Essoo concept was not found in their production activities (Essoo & Dibb, 2004). Consumption behavior which is Essoo's study allows the actor to follow religious messages because it is directly related to the body. Meanwhile, production activities are more related to the process of business continuity. Likewise, with the research in Jatinom, where the social basis shaped by the Muslim traders in Jatinom was not solely due to religious doctrine, but rather the socio-religious organization of Muhammadiyah which succeeded in shaping its members into highly committed Muslims (Abdullah, 1994). The management of places of worship that generates many benefits found by Lang (Lang et al., 2005), as well as institutions of equality of faith that can organize adherents to generate material benefits found by Bankston (Bankston III, 2002), assert that religion influences business acts when structural forces suppress their business behavior. According to Kahraman, religious factors are handled sensitively by entrepreneurs only on matters that are not related to company income (Kahraman & Keles, 2019). Therefore, capital, which is an important element for the survival of a company, cannot be used as a consideration for the economic act.

Some of the economic behavior or acts of the Muslim entrepreneurs of Botoran related to *dun-dunan rego* and *nembak* showed that their behavior was not driven by moral and religious dimensions. These two behaviors not only resulted in damaging market prices and created unfair competition, but also created social tensions and conflicts. Their choice of these acts, however, was based on the circumstances that demanded it. In the free market, competition for their products was very competitive. They not only competed with competitors from within the country, but also abroad. The intense competition required the entrepreneurs to take quick acts in business so that market share did not decrease, and the business continued. In this situation, the moral and religious fences were nullified. They used economic measures as measured by their own rationality. At the state level, economic motives are prioritized

over social-human motives. In fact, social motives are often shown on the outside to cover up their larger economic motives. Some rich countries do this in offering their assistance (Suzuki, 2020). Therefore, the moral economic action that Scott conceptualizes as the basic motive for the economic action of humans, individuals and institutions, which comes from beliefs and views of life about something that is good and wrong, in certain conditions the motive is not visible or even deliberately set aside (Scott, 1976). Moral and also religion are ideally able to control entrepreneurs in creating social harmony, in tight business situations, these motives are co-opted by the dimensions of rationality that give birth to pragmatism, a perspective that puts the truth of an opinion measured from practical results (Aviva et al., 2020). In a difficult situation, a person cannot be sure what he will do right or wrong (Bankston III, 2002). That's when the rationality dimension comes into play to choose what it thinks is appropriate.

The economic behavior or acts of the Muslim entrepreneurs of Botoran that were influenced by considerations of choice that were not linear with social values showed that the consideration of rational choices overrode irrational considerations. Their behavior in the form of reluctance to shape a convection entrepreneur community initiated by the government was born from their experience when the cooperative became their umbrella. They basically understood the function of cooperatives as a means of communication. Cooperatives accommodate the common interests of all members into one family based on joint work and contributions. Its members avoid conflict and favoritism that destroy togetherness (Sulaiman et al., 2018). However, they considered that the existence of a cooperative did not have positive implications for business progress. In fact, they considered it interfere with concentration of effort, both in time and energy. Even though, cooperatives can be a force for training with the government. The relationship between entrepreneurs and the government can create business sector innovation (Tian et al., 2019). There was a cooperative in Botoran, which lasted several years and finally disbanded. This experience became their consideration in deciding there was no need for a community to accommodate them. The social harmony, which is the goal of moral

economic act, was obscured by past experiences. This experience was present and became a consideration when they were invited to form an organization. This experience became the basis of act for rational thinking. They considered the organization to have no impact on their businesses. Their choice led to an attitude of reluctance to establish community. The dimension of rationality that appeared as the basis of reason was disruption of concentration in business and reducing opportunities for profit. To them, it seemed that a community could be accepted if it was in line with business goals, namely to make a profit. According to Keyes, humans are homo economicus in nature, creatures who always spend their lives working and looking for profit and avoiding themselves from something that might reduce their profit (Keyes, 1983). This character was strengthened by the bitter experiences they had experienced. In situations like this, human nature is clearly depicted as Elster states, as being pushed from behind by a quasi-inertial force, insensitive to circumstances, clinging to determined behavior even though new options are available (Elster, 1989).

The Muslim entrepreneurs of Botoran are independent individuals. Although the religious dimension is close to and inherent in them, they are not under the power of the institutional religious and social structures that control them. Weber, in his thesis, stated that religion has an influence on business behavior when religious doctrine explicitly connects business behavior with eschatological life. Wealth and poverty determine the eschatological life of the believer in heaven or hell. The leaders of the Calvinism sect control the economic behavior of the followers of this sect (Weber, 2001). This shows that religion can stimulate economic excitement when there are strong structures and institutions that control them. According to Lang, economic moral or religious motives and actions can work effectively if institutions with their structural mechanisms cover economic activities. Especially if the existing structure in the institution can work professionally (Lang et al., 2005). In other words, Bankston stated that religion, which is professionally institutionalized in business activities, can unite economic actors on the basis of the same bonds of belief and faith (Bankston III, 2002). Therefore, an economic act that is not controlled by an institution

provides an empty space to be interpreted contextually on the basis of the rational subjectivity of business people. Therefore, the Muslim entrepreneurs of Botoran prioritize their rational economic acts rather than economic acts based on moral, social and religious values.

Conclusion

The economic act of the Muslim apparel-convection entrepreneurs of Botoran is based on rational choices. Their choice of this dimension of rationality leads them to override choices that have social, moral, and religious values. Religion, including moral and social, can work effectively to influence the economic act, only when religion is institutionalized as an institution or organization. However, when religion only becomes a belief system that is inherent in its adherents, the rationality dimension takes over religious motives. This can be seen from some of their economic behavior in three ways: first, the purely rational economic act. This behavior is seen when the entrepreneurs choose to partition their houses to be used as the place of production, choose an independent tailor, and replace manual embroidery tailors with computer embroidery machines. Second, the rational economic act that ignores ethics or religion. This behavior appears in their behavior in the forms of choosing non-Muslim Chinese as their capital partners, *dun-dunan rego* and *nembak*. Third, the economic rational act that ignores social values. This behavior appears in the form of their reluctance to establish cooperatives or other communities that accommodate them. Therefore, existing Islamic financial institutions, such as Sharia Banks and *Baitul Mal wa Tamwil* (BMT) as well as Islamic Community Organizations, need to be present to pay attention to business development and empowerment of the community.

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