

Developing Sustainable Islamic Boarding Schools Economic Model: A Case Study from Indonesia



Ayus Ahmad Yusuf¹, Didin Nurul Rosidin², Asmiyati Khusnul Maryam³

^{1,2,3}IAIN Syekh Nurjati Cirebon & Cirebon-West Java-Indonesia

ABSTRACT: Islamic boarding schools as educational institutions as well as social institutions have a strategic role in building community independence. In reality, people often underestimate the role of Islamic boarding schools, assuming that Islamic boarding schools can only produce thinkers in traditional sciences, religionists and/or preachers. The aim of this research is to describe the role, economic activities, economic role and economic model of Islamic boarding schools in Indonesia. The analytical method used to achieve several research objectives is the descriptive method. It is stated that the descriptive method is a method for examining the status of a group of people, an object, a set of conditions, a system of thought or a class of events in the present. The aim of this research is to create a systematic, factual and accurate description, picture or painting of the facts, properties and relationships between the phenomena being investigated. The results show that Islamic boarding schools have a very important role in people's lives in Indonesia. Islamic boarding schools have educational, social and economic roles. In the economic field, Islamic boarding schools have a significant role in creating jobs, increasing people's income, welfare and quality of life in the form of education and health. Some Islamic boarding schools have their own economic models that can be adopted and used as Islamic boarding school economic models that create independence.

KEYWORDS: Islamic Boarding Schools, Economic Development, Business Development

I. INTRODUCTION

Islamic boarding schools or also known as *Pesantren*, as both educational and social institutions, play a strategic role in fostering community independence. Despite their historical perception as institutions primarily focused on producing traditional scholars, religious leaders, and *da'i* (preachers), Islamic boarding schools have evolved significantly over time (Sulaiman et al., 2018). Contemporary developments illustrate that these institutions are not only enhancing their educational frameworks but are also actively participating in the economic sector through *Sharia*-compliant ventures (Sulaiman et al., 2022). This shift aims to promote self-sufficiency and enhance the prosperity of the community, thereby broadening their impact beyond traditional academic and religious spheres.

Recently, Islamic institutions have notably expanded their roles and influence. Historically, these institutions have been renowned for producing distinguished scholars who have made significant contributions both nationally and internationally. Prominent figures such as Sheikh Nawawi al-Bantani, Sheikh Hasyim Asy'ari, KH. Wahab Hasbullah, Prof. Nurcholish Madjid, and KH. Abdurrahman Wahid, exemplify the profound impact these institutions have had on the development of Islamic civilization in the Nusantara region. Traditionally, these scholars have played pivotal roles in shaping Islamic thought and practice. However, with the progression of time, these institutions have increasingly engaged in various empowerment initiatives. In contemporary settings, they are actively involved in a range of economic ventures, from small-scale enterprises to larger business ventures, further demonstrating their evolving role and impact in the socio-economic landscape (Irhas et al., 2023).

Islamic boarding schools such as Pondok Modern Gontor, Sidogiri, and Daarut Tauhiid are renowned for their impressive economic enterprises, with revenues and assets reaching trillions of rupiah. The extensive role of these Islamic boarding schools is underscored, contemporary Islamic boarding schools fulfill at least five significant roles: they serve as centers for serious religious studies (*tafaqquh fi al-din*), develop secular knowledge through various models and levels of educational institutions, act as cultural institutions, function as agents of socio-economic change, and advance excellence in vision, mission, and community needs through the application of science and technology.

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This research is motivated by the phenomenon of reform marked by an era of openness for expressing aspirations and opinions in the form of demands or suggestions. Among the various opinions, a key concern is the suspicion that the economic activities of Islamic boarding schools are not yet effectively managed or beneficial to the community. This study aims to provide an overview of the management of Islamic boarding school economies in Indonesia. It also seeks to find empirical evidence and design an ideal economic model for Islamic boarding schools applicable in Indonesia. The research is grounded in the concepts of Islamic boarding school economics, empowerment, and the alignment of sectoral development with the economic development of Islamic boarding schools.

This research is guided by the following initial question: Do Islamic boarding schools in Indonesia have a sustainable economic management model? To address this question, the study focuses on: (1) An overview of the role of Islamic boarding schools in Indonesia, assessed through their roles in religious, educational, economic, and socio-cultural aspects; (2) An overview of the economic activities of Islamic boarding schools in Indonesia, evaluated through their economic activities in terms of production, distribution, and consumption of goods and services, as well as the management of resources; (3) An overview of the economic role of Islamic boarding schools in Indonesia, measured by the economic impact of these activities on the development of the schools and the community; and (4) An overview of the economic model of Islamic boarding schools in Indonesia, assessed by the models of economic management employed.

II. LITERATURE REVIEW

Islamic boarding schools serve at least three primary functions: first, as centers of excellence for the training of religious thinkers; second, as institutions dedicated to producing human resources; and third, as organizations with the capacity to empower communities as agents of development (Sulisno & Abdullah, 2019). Islamic boarding schools are indeed involved in all forms of social change amidst ongoing transformations. Today, Islamic boarding schools are recognized as significant forces, not only due to the large number of students but also because they have evolved into substantial economic entities. The development model of Islamic boarding schools, based on local wisdom, aims to optimize the potential of both the schools and local communities by integrating them into various productive business models, thereby creating significant economic and social impacts (Sulaiman et al., 2018).

Several studies, both in the form of reports and articles, have explored the general role of Islamic boarding schools (Jallow, 2023; Kholifah, 2020; Malik, 2024; Sahmawi et al., 2018). These studies predominantly focus on the non-economic aspects of Islamic boarding schools, such as their roles in character education, moral education, fostering civil society values, political involvement, and responding to global challenges and social-religious issues. While there is research related to economic aspects, it has primarily addressed job creation (Irhas et al., 2023; Sulaiman et al., 2018). However, this does not imply that research on the economic roles of Islamic boarding schools is lacking. However, specific research addressing the application models of Islamic boarding school economics and their impact on the development of the Islamic boarding schools and the enhancement of community economies remains lacking. This gap has motivated the researcher to investigate and discuss the economic models of Islamic boarding schools in Indonesia.

III. METHODOLOGY

This research employs a qualitative approach utilizing case study and literature review methods. These methods are considered the most effective for investigating complex real-world issues. The case study method is deemed appropriate for examining contemporary phenomena (Patnaik & Pandey, 2019). Meanwhile, the literature review is adopted by the researchers through the use of various written sources (books, articles, and documents) relevant to the study. Both methods are used to depict the role of Islamic boarding schools, their economic activities, their economic impact, and the models of economic engagement within these Islamic boarding schools.

IV. DISCUSSION

Economic Potential and Role of Islamic Boarding Schools in Indonesia

The establishment of an Islamic boarding school in a region endows it with a strategic role that can contribute to the area's development. The strategic role of Islamic boarding schools encompasses their involvement in the economic, social, and political spheres (Ryandono, 2018). There are two reasons why Islamic boarding schools can be pioneers in community-based economic development. First, students (*santri*) are highly committed to their religion. This religious commitment can positively influence the economic activities undertaken by the students. Second, the focus of Islamic boarding schools on Islamic studies enables them to drive the development of Islamic economics in the community while also fostering young entrepreneurs with an Islamic ethos (Muttaqin, 2011).

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The optimal use of all resources available to Islamic boarding schools can create a significant economic force if managed effectively. For example, in terms of assets, boarding schools can utilize their extensive land holdings for agricultural activities. The labor for these agricultural activities could be performed by the students (*santri*) on a rotating basis or by employing local community members as farmers to manage the land. The proceeds from the harvest can then be sold to fund the operational activities of the boarding school.

Additionally, Islamic boarding schools can leverage other assets they possess for economic purposes. The utilization of these assets must be accompanied by effective asset management by the boarding schools to ensure optimal use. Furthermore, in terms of human resources, students (*santri*) can be equipped with entrepreneurial skills to enable the boarding schools to establish business entities that support the economic activities of both the students and the surrounding community (Adnan, 2018). Many boarding schools have formed Joint Entrepreneurial Groups (*Kelompok Wirausaha Bersama*) both among themselves and in collaboration with local communities.

In addition, the establishment of the Forum for the Development of People's Economy (*Forum Komunikasi Pengembangan Ekonomi Kerakyatan*, FKPEK) has also been initiated, although this institution is still in its early stages (Muttaqin, 2011). Beyond entrepreneurial skills, Islamic boarding schools can also provide creativity training to their students, enabling them to develop creative products for sale or create tools that assist in alleviating the workload of the surrounding community. The economic potential of boarding schools can be significantly enhanced if they establish *Cooperative* or *Baitul Maal Wa Tamwil* (BMT). *Cooperative* and BMT are part of the Sharia Microfinance Institutions (*Lembaga Keuangan Mikro Syariah*, LKMS) sector.

The role of LKMS in the community and boarding schools includes: (a) Bringing the practice of Sharia economics closer to the community and introducing it through socialization, making LKMS an effective tool for advancing the economic conditions of boarding schools while educating the community; (b) Providing support and funding for Micro, Small, and Medium Enterprises (MSMEs) established by the community, which can invigorate the economy by offering capital and business development assistance to those lacking resources; (c) Reducing community dependence on *rentenir*, thereby allowing individuals to gradually free themselves from high-interest loans that hinder economic growth; (d) Ensuring economic justice by promoting equitable distribution of funds and avoiding favoritism towards specific groups (Alhifni & Huda, 2015).

Community Empowerment Based on the Economics of Islamic Boarding Schools

Community empowerment consists of two terms: empowerment and community. In Indonesian, empowerment is derived from the root word "*daya*," meaning power. The term "*pemberdayaan*" refers to the act of providing power, enabling individuals or groups to perform tasks or take actions (Sugandi A et al., 2017). Empowerment also originates from the English word "power," which connotes authority or capability. This power is understood as the authority present in the context of social relations among people. Empowerment functions both as a process and a goal. As a process, empowerment involves activities aimed at strengthening the condition of vulnerable groups in society, including the poor. As a goal, empowerment represents the outcome of social change where individuals or communities gain the power, authority, and capability to meet their needs across various aspects of life, express their aspirations, secure employment, participate in social activities, and independently fulfill their life obligations (Nurjamilah, 2017).

The term "community" originates from the Arabic word for society. Society refers to a social unit living together in a specific environment. Society is a group of individuals bound by a system, customs, and living together (Dean, 2010). It can also be understood as a collective of individuals living in groups. Community empowerment as efforts to assist individuals in developing their abilities to make independent decisions. Community empowerment involves assisting the empowered group—typically the marginalized (the poor and destitute)—to gain decision-making abilities and determine actions to improve their lives, including efforts to enhance welfare and eliminate personal and social barriers (Christens, 2019). Islamic boarding schools, as educational institutions closely connected to communities, have significant potential to be pioneers in economic empowerment.

In implementing economic empowerment, boarding schools can utilize a *da'wah*-based system. This approach helps students become more accustomed to *da'wah* (Islamic preaching), resulting in graduates who are proficient in religious and *da'wah* fields. This empowerment through *da'wah* is a strategy aimed at social transformation, avoiding negative stigmas associated with *da'wah* such as coercion, exploitation, or oppression. *Da'wah*-based empowerment emphasizes action over discourse or rhetoric (*tabligh*). Furthermore, *da'wah*-based empowerment is typically conducted by independent institutions without affiliations to other organizations, making Islamic boarding schools well-suited to carry out this type of empowerment (Nurjamilah, 2017) (See Figure 1).

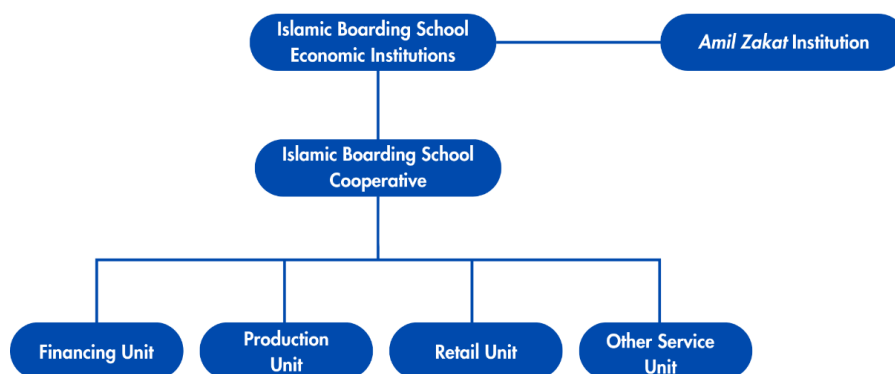


Figure 1. Economic Activities in Islamic Boarding Schools

Source: Prepared by Authors

There are several ways that Islamic boarding schools can contribute to economic empowerment and poverty alleviation, including through job creation, business opportunities, and the establishment of business entities, financial institutions, or social organizations, as well as educating students.

a. Job Creation

Islamic boarding schools continuously strive to enhance the quality of education for their students. To achieve this, they regularly invest in the development of facilities and infrastructure. Such development requires a substantial workforce, leading boarding schools to create job opportunities for the surrounding community. This job creation effort is part of broader community empowerment initiatives. Individuals without employment in the community will benefit from job opportunities provided by the boarding school, thereby improving their livelihood. Additionally, this job creation aligns with the *da'wah*-based empowerment model, as working in a boarding school environment—imbued with Islamic values—may lead employees to become more religious due to their surroundings. Some potential job opportunities offered by boarding schools include roles such as teachers, construction workers, cleaning staff, laundry operators, cooks, security personnel, farm workers for boarding school land, and employees of boarding school enterprises (Sugandi A et al., 2017).

b. Creation of Business Opportunities

The target for business opportunities within the boarding school environment includes MSMEs in the surrounding area. Local residents can sell their products within the boarding school premises or consign their products to the boarding school's business entities (such as Islamic Boarding School Cooperative). These business opportunities are quite promising, especially if the products offered are in demand and needed by the students and other staff members of the boarding school. The products can range from food and beverages to various other goods (Sugandi A et al., 2017).

c. Establishment of Islamic Boarding School Business Entities

Another initiative that Islamic boarding schools can undertake is the establishment of business entities and financial institutions. Islamic boarding schools can set up business entities such as Cooperative, or financial institutions like Baitul Maal Wa Tamwil (BMT), as well as social institutions such as *zakat* organizations. These three types of institutions play a crucial role in supporting the economic development of the boarding school community. Cooperative can assist the community's economy by providing loans for business capital. Additionally, community members who have produced goods can consign their products to be sold through Islamic boarding school cooperative. BMT can also offer loans for business capital and, in addition, provide a savings facility where community members can deposit their funds. *Zakat* institutions, on the other hand, allow community members to channel their *zakat* contributions through the organization, which then distributes the collected *zakat* to those in need. The establishment of these three types of institutions aligns with the concept of *da'wah*-based empowerment, as they operate under *Sharia* principles. This initiative also serves an educational purpose, introducing the community to *Sharia*-compliant financial systems and practices. The presence of these institutions helps educate the public about *Sharia* financial systems and reduces reliance on interest-based financial systems, promoting a more equitable and blessed economic environment (Sugandi A et al., 2017; Sulaiman et al., 2022).

d. Entrepreneurship Skill Education

Early entrepreneurship education for students (*santri*) is aimed at fostering independence. This approach indirectly contributes to economic empowerment. While traditional Islamic boarding school graduates are typically expected to become religious

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leaders such as clerics, scholars, or teachers, not all graduates follow this path. Increasingly, many graduates are venturing into business. Therefore, entrepreneurship training is essential. Such training should adhere to Islamic principles, ensuring that students interested in business are well-prepared with the necessary knowledge. These students can then create job opportunities, contributing to the economic empowerment of the community. Additionally, they can further educate the public by offering entrepreneurship training to the wider community. This approach aligns well with the da'wah-based empowerment model, integrating business education with Islamic principles.

e. Islamic Boarding School Economic Networking

According to data from the Ministry of Religious Affairs, there are over 30,000 Islamic boarding schools spread across Indonesia. If each Islamic boarding school establishes an economic institution such as *cooperative* and these institutions collaborate, a significant and robust economic network could be formed. This network has the potential to create a supply chain for essential goods needed by students and the surrounding community, including rice, sugar, oil, soap, clothing, and more. Additionally, there is a demand for services such as transportation, laundry, and other necessities. As economic activities expand through the production of goods and services by these institutions, there will be an increase in factors of production. This includes a rising need for capital, which financial institutions like cooperative or BMT can address, along with a growing demand for labor and raw materials. Economic cooperation among boarding school institutions is crucial for achieving economies of scale and generating substantial multiplier effects. Therefore, it is vital to foster economic cooperation by establishing secondary cooperatives that oversee primary cooperatives at the Islamic boarding school level (see Figure 2).

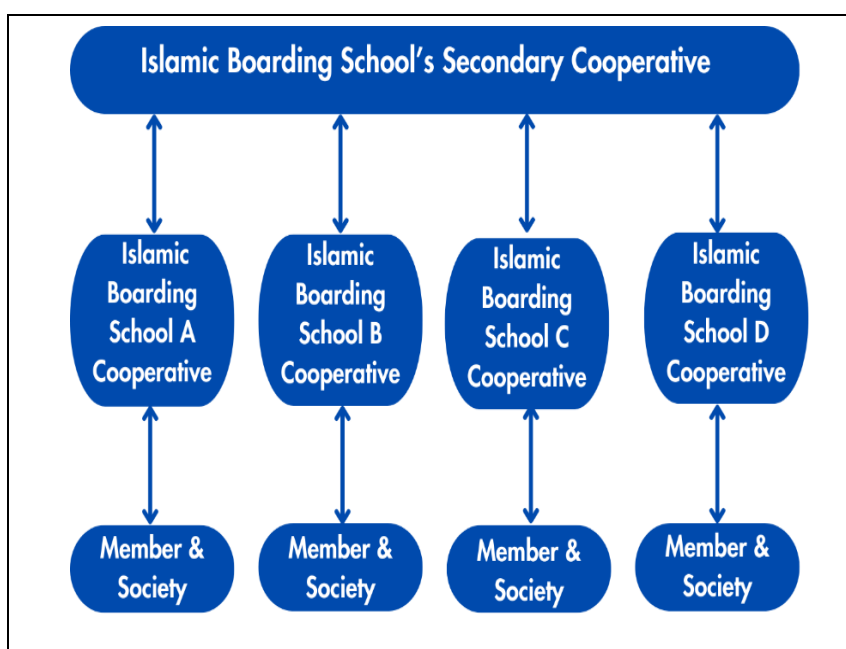
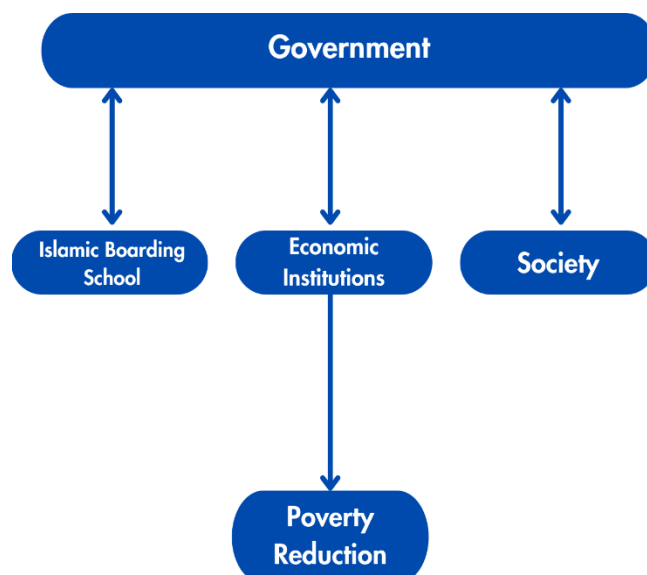


Figure 2. Economic Empowerment Model for Communities Through Strengthening Islamic Boarding School Cooperative

Source: Prepared by Authors

There are two principles offered by the *Quran* as references for community economic empowerment activities: the principle of *ta'awun* and the principle of *syura*. The principle of *ta'awun* refers to cooperation and synergy among various parties. These parties include the boarding schools, the local community, and government institutions. All three parties must collaborate harmoniously to achieve comprehensive and holistic economic empowerment of the community. Islamic boarding schools can develop programs aimed at enhancing the local economy. The community can participate in these programs, while the government can monitor and support the initiatives undertaken by the Islamic boarding schools (See Figure 3).



Gambar 3. Collaboration Between Government, Islamic Boarding School, and Community in Empowering Society

Source: Prepared by Authors

The principle of *Shura*, which refers to consultation or mutual deliberation, emphasizes the importance of dialogue between the government and relevant institutions involved in economic empowerment programs. This principal advocates for the government to engage in discussions with Islamic boarding schools regarding the programs they develop. The government can play a dual role as both facilitator and regulator in these empowerment programs, guided by the outcomes of the consultations. Such a collaborative approach ensures that programs are well-aligned with both governmental policies and local needs. Through this cooperative process, Islamic boarding school can effectively contribute to poverty alleviation in Indonesia (Arifah & Zaki, 2020).

The Economic Model of Islamic Boarding school: Best Practice from Sidogiri Islamic Boarding School

Sidogiri Islamic boarding school, one of the oldest Islamic boarding schools in East Java, has a history spanning several centuries. According to a manuscript by KA. Sa’doellah Nawawie written in 1971, Ponpes Sidogiri was established in 1745. This year is commemorated as the founding date of Sidogiri Islamic boarding school.

The initial activities of this Islamic boarding schools began with *Ma’hadiyah* education. In 1938, *Madrasah* Miftahul Ulum was founded, offering educational levels from *sifir* (preparatory) and *ibtidaiyah* (elementary) and later adding *tsanawiyah* (middle school) in 1957 and *aliyah* (high school) in 1983. *Ma’hadiyah* education is the traditional Islamic boarding school education that has been continuously upheld. This form of education produces Muslim cadres aimed at forming individuals who belong to the *khairu ummah* (the best community).

The *madrasah* or classical education includes *ibtidaiyah*, *tsanawiyah*, and *aliyah* levels, while *ma’hadiyah* education focuses more on supplementary education and training to ensure that students become exemplary members of the *ummah*, emphasizing *akhlakul karimah* (noble character) in their activities. Additionally, various activities further enhance the skills of the students, which will be beneficial when they return to society. Since 1961, KA. Sa’doellah Nawawie, the head of Sidogiri Islamic boarding school, has pioneered the establishment of a cooperative as a platform for learning independence, entrepreneurship, and service among the students. The initial business activity involved setting up a store and small grocery shop within the Islamic boarding school to meet the daily needs of the students. Since then, Cooperative of Sidogiri Islamic boarding school, has continued to thrive and remains active to this day. It has even earned the title of “First Entrepreneurial Pesantren” (Republika, November 1, 2002). Although Cooperative of Sidogiri was established in 1961, it was legally formalized on July 15, 1997, with registration number 441/BH/KWK.13/VII/1997. Currently, Cooperative of *Sidogiri* has 256 branches across various regions in East Java, including Pasuruan, Madura, Probolinggo, Bondowoso, and Banyuwangi. Moving forward, Cooperative of Sidogiri aims to continue innovating and leading in retail business. Since 2013, Cooperative of Sidogiri has developed the “BASMALAH” brand infrastructure, with the “BASMALAH SHOP” retail outlets under the motto “A Good Place to Shop.” Of the 256 branches, 22 have adopted the “BASMALAH” brand.

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Revival of the Islamic Economic

The establishment of Cooperative of Sidogiri marked the beginning of the revival of the Islamic economy in Sidogiri. After successfully developing *Cooperative*, in mid-1997, the management of *Cooperative* and several teachers from *Madrasah Miftahul Ulum (MMU)* at Sidogiri Islamic boarding school initiated the creation of a multipurpose cooperative focusing on *sharia*-compliant savings and loans, named Cooperative *Baitul Maal wa Tamwil Masalahah Mursalat lil Ummah*, abbreviated as Cooperative BMT MMU Sidogiri. They founded Cooperative BMT MMU Sidogiri in response to concerns about the community becoming increasingly involved in usurious economic practices, such as loan sharking, which had reached even the villages surrounding Sidogiri. Despite the fact that the managers, particularly the MMU teachers, were more accustomed to traditional religious studies and felt they were entering a different world by engaging in *sharia* finance, they successfully developed Cooperative BMT MMU.

Since its establishment in 1997, Cooperative BMT MMU has shown significant progress in terms of assets, cash receipts (revenue), and net profit (SHU). Its service units are spread across various locations in East Java. On September 25, 2009, Cooperative BMT MMU Sidogiri expanded its membership area to the entire East Java province, resulting in a change of oversight from the Cooperatives & MSMEs Department of Pasuruan Regency to the *Dinas Koperasi dan UMKM* of East Java Province, as reflected in SKPAD No. 518.I/PAD/BH/XVI/66/103/2009.

Additionally, since 2013, Cooperative BMT MMU Sidogiri has been renamed Cooperative BMT Masalahah. After successfully developing Cooperative BMT MMU Sidogiri in Pasuruan Regency, its managers initiated the establishment of Cooperative Usaha Gabungan Terpadu (UGT) Sidogiri. On June 6, 2000, they founded Cooperative UGT Sidogiri in Surabaya, which became its first branch. Cooperative UGT Sidogiri has seen substantial growth in assets, revenue, and net profit, and has gained increasing trust from the community. Today, Cooperative UGT operates 227 service units across East Java, West Java, North Jakarta, and outside Java. Although Cooperative UGT Sidogiri was established three years after Cooperative BMT MMU Sidogiri, it has rapidly developed and become one of the largest BMT in Indonesia in terms of assets.

Beneficial Impact on the Community

As the growth of the three cooperatives within Sidogiri Islamic boarding school has accelerated, their benefits to the community have also increased significantly. The *zakat* contributed by these three cooperatives has exceeded Rp 5 billion. To optimize the management of *zakat* funds from these three cooperatives, they collaborate with *Laziswa* Sidogiri. Cooperative BMT UGT Sidogiri partners with *Laziswa* Sidogiri to distribute *zakat* funds. The distribution of these *zakat* funds includes: consumptive *zakat*, productive *zakat*, and scholarships. The growth in *zakat* and social funds has seen a sharp annual increase. The *zakat* and social funds provided by Cooperative of Sidogiri, BMT MMU Sidogiri, and BMT UGT Sidogiri have collectively surpassed Rp 15 billion.

Analysis of Market Development Concept

In the business process developed by Cooperative of Sidogiri, there are two market segments encountered: the professional market and the emotional market. These two segments have an interdependent relationship. This occurs because Sidogiri alumni maintain an emotional connection with their alma mater, leading them to consistently purchase Sidogiri products regardless of their location or the price. These alumni represent the emotional market segment. Their purchasing decisions influence the professional market segment, impacting its buying decisions to meet its needs.

The number of consumers transacting at the retail stores owned by Cooperative of Sidogiri Islamic Boarding School, such as Basmalah Shop, promotes the consumption of halal and blessed products and enhances brand image. The increased sales revenue of Basmalah Shop contributes to the improved welfare of the surrounding community, as most of them are business partners of Basmalah Shop. This creates a process of community empowerment. Basmalah Shop's empowerment concept involves applying the principle of supporting and uplifting local stores and small businesses around it, embodying the principle of collaboration for mutual benefit.

Product Development Concept

In its market penetration and scale-up efforts, Cooperative of Sidogiri has established Sidogiri Corporate as its Holding Company. Sidogiri Corporate manages three subsidiaries that are interconnected in the distribution of products to Basmalah Shop. These subsidiaries include: PT. Mandiri Utama, PT. Pandu Utama, and PT. Sidogiri Mitra Utama. PT. Mandiri Utama focuses on manufacturing and supplies essential products for Basmalah Shop, serving as the primary supplier owned by *Cooperative*. PT. Pandu Utama specializes in human resources, providing staff from all levels, including supervisors, for Sidogiri Corporate, and manages human resources for Basmalah Shop. The products from these two companies are directly supplied to PT. Sidogiri Mitra Utama, which distributes them to Basmalah Shop. Additionally, Cooperative of Sidogiri operates a private label through PT. Sidogiri Mandiri Utama, which produces items such as Santri Bottled Drinking Water (AMDK), Muslim attire, *songkok*, *sarung*, Sidogiri rice, sugar, soy sauce, and more.

With its mission to serve as a model for Islamic boarding school cooperative, Cooperative of Sidogiri also provides training to underdeveloped *sharia cooperative* using the Basmalah brand. This training aims to enhance the management and growth of

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these cooperative. For instance, Cooperative of Sidogiri has collaborated with 212 Mart branches, applying the business management system used by Basmalah Shop. The implementation of this business training benefits all parties involved. Cooperative of Sidogiri Islamic boarding school does not receive profit-sharing or financial gain from these collaborations but is provided with travel accommodations. This approach adds value to Cooperative of Sidogiri Islamic boarding school's reputation by helping other Islamic boarding school cooperative develop their *sharia*-based businesses.

Regional Development Concept

The Sidogiri Alumni Association (*Ikatan Alumni Sidogiri*, IAS) is pivotal in accelerating the regional development process for establishing new Basmalah Shop branches. IAS provides *Cooperative* with data on Sidogiri alumni, which facilitates the identification of target areas for expansion. The regional development strategy of *Cooperative* for Basmalah Shop includes categorizing regions into Ring 1 and Ring 2. Ring 1 refers to areas within Pasuruan itself, while Ring 2 encompasses Basmalah Shop locations outside Pasuruan. This segmentation aids *Cooperative's* management in overseeing business activities through area managers. The primary focus for expanding Basmalah Shop is on the northern, eastern, and southern regions of East Java. Madura stands out with the most extensive regional development, boasting around 57 Basmalah Shop units across the island, underscoring the strong influence of Sidogiri alumni in Madura. The substantial number of Basmalah Shop units in Madura has led the management to consider further business expansion through the establishment of Drop Centre (DC).

Transaction Structure Identification

In conducting business activities according to the principles of Islamic teachings, specific contracts (*akad*) are essential. Cooperative of Sidogiri employs several contracts in the operation of Basmalah Shop, namely *ijarah*, *mudharabah*, and *musyarakah*. These contracts are utilized in the establishment of new Basmalah Shop branches across various regions. Among these, *mudharabah* and *musyarakah* are the most frequently used in *Cooperative's* business operations. The *mudharabah* and *musyarakah* contracts involve profit-sharing arrangements that have been agreed upon between investors and the managers of Basmalah Shop. The implementation of these contracts and profit-sharing systems reflects *Cooperative's* commitment to applying *Sharia* principles effectively, as outlined in theory (Hendra, 2016: 120). In a *Sharia* cooperative, profit-sharing is applied such that if a business incurs losses, both parties share the risk. Conversely, if the business is profitable, the gains are distributed according to the pre-agreed percentage. The profit-sharing ratio used is 65% for the investor and 35% for the manager.

Cultural Acculturation Concept

Sidogiri, located in Pasuruan, exhibits a blend of Javanese and Madurese cultures. The Madurese, known for their distinct business practices and emphasis on familial values, align closely with the cooperative principle of family-like relationships. The substantial Madurese presence in Pasuruan influences local Islamic boarding school, including Sidogiri Islamic boarding school, one of the largest in the region. Many Pasuruan residents are proficient in both Madurese and Javanese, facilitating effective business communication between the two cultural groups. Numerous alumni from Sidogiri Islamic boarding school hail from Madura and are spread across Indonesia, contributing positively to Basmalah Shop's expansion. The daily use of *sarung* and Muslim attire by Madurese people mirrors the appearance of Basmalah Shop employees, creating a consistent and culturally coherent image across branches. This uniformity enhances the appeal of Basmalah Shop by fostering a sense of nostalgia for Madurese culture among shoppers.

Additionally, Cooperative of Sidogiri has implemented cultural acculturation by opening two Basmalah Shop branches in West Kalimantan, a region with a significant Madurese population. This strategic move provides a sense of security for Basmalah Shop, leveraging the existing market among alumni. The acculturation also includes integrating the values of tolerance taught at the Islamic boarding school into interactions with other cultural and religious groups in Kalimantan, which includes Malay, Dayak, and Chinese communities. The presence of Basmalah Shop attracts a diverse customer base, including those from various Kalimantan ethnicities, driven by curiosity and familiarity facilitated by Madurese alumni and the local community.

Islamic Business Development Model of Cooperative of Sidogiri

Cooperative of Sidogiri operates an extensive and well-known business network, notably through its retail chain, Basmalah Shop. Basmalah Shop adheres to *Sharia*-based economic principles derived from the teachings of Allah SWT. The development model of Basmalah Shop encompasses five key areas: market development, product development, regional expansion, transactional structure, and cultural acculturation. The strength of alumni is a central asset leveraged in the growth of Cooperative of Sidogiri, including Basmalah Shop. These alumni serve as a vital resource for expanding both market reach and regional presence. Their prior association with Sidogiri facilitates easier business introductions and expansions.

The market development strategy at Basmalah Shop begins with market segmentation, which identifies two primary market types: emotional and professional. This segmentation simplifies the process of regional expansion, as areas with an established market can be targeted more effectively based on their segment. The primary focus for expanding Basmalah Shop includes

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Northern, Southern, and Eastern regions of East Java, where there is a substantial alumni base. The streamlined procedures for opening new branches contribute to rapid business growth.

The use of contracts such as *ijarah*, *mudharabah*, and *musyarakah* significantly accelerates business expansion, as these agreements provide promising returns for both investors and managers. The segmentation of regions also facilitates the provision of in-demand products. Basmalah Shop offers not only factory-produced retail items but also private-label products manufactured by Cooperative of Sidogiri. The extensive network of Basmalah Shop branches supports the efficient distribution of these private-label goods. As the number of Basmalah Shop units grows, so does the demand for private-label products, with a well-established market network simplifying the distribution process. The success of Basmalah Shop in market, regional, and product development is attributed to its principles of collaboration and support, creating a positive impact on the surrounding community. Empowering local businesses and smaller stores around Basmalah Shop contributes to the community's prosperity, enhancing the effectiveness of Islamic branding.

Cultural acculturation is also crucial to the success of Basmalah Shop's expansion. Each new branch opening is accompanied by community engagement activities, such as local study sessions, and promotions by prominent religious figures to attract and connect with local culture. Sidogiri Islamic boarding school, which combines traditional and modern educational methods, including the teaching of classical Islamic texts and the development of conventional schools up to higher education institutions, demonstrates its commitment to both Islamic education and economic empowerment.

Through its *Sharia*-compliant economic development and community empowerment initiatives, Sidogiri creates a harmonious, prosperous, and equitable society. The Islamic boarding school plays a crucial role in shaping individuals and alumni into resilient human capital within a capitalist world struggling with poverty and inequality. The implementation of Islamic economics by Sidogiri offers a more beneficial alternative, contrasting with traditional economic models that often fail to deliver fairness and prosperity. The presence of *zakat*, *infaq*, *sadaqah*, and *wakaf*, managed by the *Lembaga Wakaf* (LKAF) Sidogiri, exemplifies this commitment to equitable economic practices.

Thus, Sidogiri Islamic boarding school stands as a model of civil society capable of maintaining economic independence while adapting to modern changes without forsaking traditional values. It successfully avoids the pitfalls of global pop culture, maintaining economic self-sufficiency through innovative and modern management and educational practices.

CONCLUSIONS

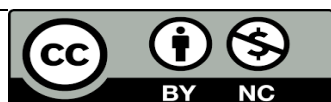
Based on the research findings, the following conclusions can be shown that Islamic boarding schools as educational institutions as well as social institutions have a strategic role in building community independence. Islamic boarding schools have educational, social and economic roles. In the economic field, Islamic boarding schools have a significant role in creating jobs, increasing people's income, welfare and quality of life in the form of education and health. Some Islamic boarding schools have their own economic models that can be adopted and used as Islamic boarding school economic models that create independence. One of the good economic models is found in Sidogiri Islamic Boarding School. Cooperative of Sidogiri Islamic boarding school is an economic institution that oversees three companies, they carry out community-based business development, The businesses developed are community-based. Business scale development is achieved through market expansion, regional growth, product diversification, cultural integration, and *Sharia* transaction structures. Students (*santri*) and the school alumni of Sidogiri Islamic boarding school maintain a mutually beneficial emotional relationship and they are the subjects of empowerment. This school has provided benefits apart from social benefits, education also provides economic benefits for the surrounding community

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