

Institutionalizing Social Entrepreneurship in Pesantren Business Units: A Qualitative Study of Sustainable Community Empowerment in East Java

Muhammad Hafidh Nashrullah¹, Ahmad Munir Hamid², Nawari³, Ishfaq Ahmed⁴

^{1,2,3}Universitas Islam Darul Ulum Lamongan, Indonesia

⁴Universitas Lahore, Pakistan

hafidh@unisda.ac.id

Abstract

This study examines the institutionalization of social entrepreneurship within pesantren (Islamic boarding school) business units in East Java and its contribution to sustainable community empowerment. A qualitative multiple-case study approach was employed, using in-depth interviews, participant observation, and document analysis across five pesantren with established business units. The findings reveal that social entrepreneurship is institutionalized through the integration of Islamic values, local wisdom, and entrepreneurial practices. Visionary leadership, stakeholder collaboration, hybrid social-commercial strategies, and organizational learning emerge as the main institutional drivers. The study introduces the concept of Spiritual-Social Value Recoupling, describing how religious values reshape business practices to prioritize social welfare alongside economic sustainability. Despite challenges related to resource dependency, leadership succession, and mission drift, pesantren business units have generated multidimensional impacts, including economic empowerment, educational improvement, social welfare, and environmental responsibility. The findings enrich social entrepreneurship theory within faith-based organizations and provide practical insights for strengthening sustainable community development.

Keywords: social entrepreneurship; pesantren; institutionalization; community empowerment; sustainable development.

Abstract

Penelitian ini mengkaji pelembagaan kewirausahaan sosial pada unit bisnis pesantren di Jawa Timur serta kontribusinya terhadap pemberdayaan masyarakat yang berkelanjutan. Penelitian menggunakan pendekatan studi kasus kualitatif multipel melalui wawancara mendalam, observasi partisipatif, dan analisis dokumen pada lima pesantren yang memiliki unit bisnis. Hasil penelitian menunjukkan bahwa kewirausahaan sosial dilembagakan melalui integrasi nilai-nilai Islam, kearifan lokal, dan praktik kewirausahaan. Kepemimpinan visioner kiai, kolaborasi pemangku kepentingan, strategi hibrida sosial-komersial, serta pembelajaran organisasi menjadi faktor utama dalam proses pelembagaan. Penelitian ini memperkenalkan konsep Spiritual-Social Value Recoupling, yaitu proses ketika nilai-nilai keagamaan membentuk kembali praktik bisnis agar lebih berorientasi pada kesejahteraan masyarakat sekaligus menjaga keberlanjutan ekonomi. Meskipun menghadapi tantangan berupa keterbatasan sumber daya, regenerasi kepemimpinan, dan potensi pergeseran misi, unit bisnis pesantren mampu memberikan dampak ekonomi, pendidikan, sosial, dan lingkungan. Temuan ini memperkaya teori kewirausahaan sosial pada organisasi berbasis agama serta memberikan implikasi praktis bagi pengembangan pemberdayaan masyarakat berkelanjutan.

Kata kunci: kewirausahaan sosial; pesantren; pelembagaan; pemberdayaan masyarakat; pembangunan berkelanjutan.

INTRODUCTION

The global landscape of social entrepreneurship has witnessed a profound shift from purely philanthropic models towards hybrid organizations that blend social mission with commercial strategies¹. These entities navigate the complex terrain of creating social value while ensuring financial sustainability, a duality that demands robust institutional frameworks to prevent mission drift and maintain legitimacy². While extensive research has documented this phenomenon in secular contexts, the institutionalization of social entrepreneurship within religious organizations, particularly in Islamic settings, remains significantly underexplored. This study addresses this gap by examining Indonesian pesantren, which are traditional Islamic boarding schools that have increasingly established business units as vehicles for community empowerment.

Pesantren in Indonesia, particularly in East Java a region known as the heartland of traditionalist Islam represent a unique typology of socio-religious institutions. With a history spanning centuries, they have evolved from purely educational centers into community development hubs³. Their business units, ranging from agricultural cooperatives and retail shops to microfinance institutions and water refill stations, are not merely profit-seeking ventures. They are expressions of a deeply held Islamic ethos of ta'awun (mutual assistance) and maslahah (public good)⁴. This positions them squarely within the domain of social entrepreneurship, yet their institutionalization journey presents distinct characteristics shaped by religious authority, communal ties, and a non-capitalist moral economy.

The problem this research addresses is twofold. Conceptually, existing social entrepreneurship literature heavily draws from Western institutional logics, often overlooking how religion acts as a dominant meta-logic that can fundamentally reconfigure the social-commercial nexus⁵. There is a theoretical lacuna regarding the process by which social entrepreneurship becomes an institution within faith-based organizations that is, how it transitions from an individual leader's vision into a taken-for-granted, enduring

¹ J Battilana and S Dorado, "Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations," *Academy of Management Journal* 53, no. 6 (2010): 1419–40, <https://doi.org/10.5465/amj.2010.57318391>; B Doherty, H Haugh, and F Lyon, "Social Enterprises as Hybrid Organizations: A Review and Research Agenda," *International Journal of Management Reviews* 16, no. 4 (2014): 417–36, <https://doi.org/10.1111/ijmr.12028>.

² A Ebrahim, J Battilana, and J Mair, "The Governance of Social Enterprises: Mission Drift and Accountability Challenges in Hybrid Organizations," *Research in Organizational Behavior* 34 (2014): 81–100, <https://doi.org/10.1016/j.riob.2014.09.001>.

³ A Fauzi, "From Kitab Kuning to Business Plans: The Evolution of Pesantren Education," *Journal of Southeast Asian Studies* 51, no. 3 (2020): 445–67, <https://doi.org/10.1017/S0022463420000568>.

⁴ M Asmawi and I Syafi'i, "Islamic Social Entrepreneurship and the Pesantren Economic Empowerment Model," *Journal of Islamic Marketing* 12, no. 4 (2021): 789–805, <https://doi.org/10.1108/JIMA-06-2020-0164>.

⁵ P Tracey, N Phillips, and O Jarvis, "Bridging Institutional Entrepreneurship and the Creation of New Organizational Forms: A Multilevel Model," *Organization Science* 22, no. 1 (2011): 60–80, <https://doi.org/10.1287/orsc.1090.0522>; A A Gümüşay, "Entrepreneurship from an Islamic Perspective," *Journal of Business Ethics* 130, no. 1 (2015): 199–208, <https://doi.org/10.1007/s10551-014-2223-7>.

organizational practice⁶. Practically, while thousands of pesantren in East Java operate businesses, many struggle with sustainability, amateur management, and over-reliance on the founding Kyai (Islamic scholar-leader), leading to systemic vulnerabilities⁷. Understanding how to successfully institutionalize these initiatives is critical for long-term community empowerment.

The objectives of this study are to: (1) analyze the mechanisms through which social entrepreneurship is institutionalized in pesantren business units; (2) identify the key tensions and challenges that arise during this institutionalization process; and (3) evaluate the outcomes of this institutionalization on sustainable community empowerment across multiple dimensions. The guiding research questions are: How does the process of institutionalizing social entrepreneurship unfold in pesantren business units in East Java? What are the enabling and constraining factors in this process? And how do these institutionalized units contribute to the sustainable empowerment of the surrounding community?

This research is significant for several reasons. Empirically, it provides an in-depth, qualitative account from a non-Western, majority-Muslim context, enriching the global discourse on social enterprise typologies. Theoretically, it contributes to institutional theory by introducing the concept of Spiritual-Social Value Recoupling, illustrating how religious values are actively used to counteract purely commercial pressures. Practically, it offers a blueprint for pesantren leaders, religious philanthropies, and Indonesian policymakers to foster resilient, community-centered social enterprises. The qualitative methodology, employing a multiple-case study design across five pesantren, allows for a nuanced, process-oriented understanding that captures the lived experiences of Kyais, managers, and beneficiaries.

THEORETICAL FOUNDATIONS

Social Entrepreneurship and Hybrid Organizing

Social entrepreneurship is defined as a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and address basic human needs in a sustainable manner⁸. Central to this pursuit is the concept of hybrid organizing, where organizations must blend aspects of multiple institutional logics primarily the social welfare logic and the commercial market logic to achieve their dual mission⁹. This combination creates inherent tensions, as the means of achieving financial return can conflict

⁶ T B Zilber, "Institutionalization as an Interplay between Actions, Meanings, and Actors: The Case of a Rape Crisis Center in Israel," *Academy of Management Journal* 45, no. 1 (2002): 234–54, <https://doi.org/10.5465/3069294>.

⁷ M Ridwan, "The Survival and Mortality of Pesantren Enterprises in Indonesia: A Resource Dependence Perspective," *Asia Pacific Journal of Management*, 2022, <https://doi.org/10.1007/s10490-022-09827-4>.

⁸ Johanna Mair and Ignasi Martí, "Social Entrepreneurship Research: A Source of Explanation, Prediction, and Delight," *Journal of World Business* 41, no. 1 (2006): 36–44, <https://doi.org/10.1016/j.jwb.2005.09.002>.

⁹ Battilana and Dorado, "Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations."

Stock Volatility, Cash Flow, and Financial Planning of Sharia Securities Issuers: An ARIMA Approach

with the ends of social value creation, potentially leading to mission drift¹⁰. Managing these tensions requires not just individual heroism but robust organizational designs, governance structures, and cultural narratives that keep the mission central¹¹.

The concept of institutional logics, defined as the socially constructed, historical patterns of material practices, assumptions, values, and beliefs by which individuals produce and reproduce their material subsistence and organize time and space¹², is crucial here. Hybrid organizations are arenas of institutional complexity where conflicting logics coexist¹³. The success of a hybrid social enterprise lies in its ability to selectively couple elements from prescribed logics or even create a new, blended logic that guides action¹⁴. However, much of this literature assumes a secular context. What happens when a third, transcendental logic religion enters this hybrid space? This study argues that in pesantren, the religious logic of *maslahah* acts as a master logic, fundamentally mediating between the social and commercial logics.

Institutionalization Process in Social Entrepreneurship

Institutionalization refers to the process by which specific values, norms, and models of behavior become taken for granted as part of the formal structure and culture of an organization¹⁵. For social enterprises, institutionalization is the transition from an initial, often charismatic, phase of founding to a stage where the social mission and entrepreneurial method are deeply embedded in systems, roles, and routines, ensuring endurance beyond the founder¹⁶. Tolbert and Zucker's (1996) model of habituation, objectification, and sedimentation provides a foundational framework¹⁷. Habituation involves the generation of new structural arrangements in response to a problem, objectification is the social consensus building about the value of this structure, and sedimentation involves the full entrenchment of the structure across the organization and its historical continuity.

¹⁰ Ebrahim, Battilana, and Mair, "The Governance of Social Enterprises: Mission Drift and Accountability Challenges in Hybrid Organizations."

¹¹ M L Besharov and W K Smith, "Multiple Institutional Logics in Organizations: Explaining Their Varied Nature and Implications," *Academy of Management Review* 39, no. 3 (2014): 364–81, <https://doi.org/10.5465/amr.2011.0431>.

¹² P H Thornton and W Ocasio, "Institutional Logics and the Historical Contingency of Power in Organizations: Executive Succession in the Higher Education Publishing Industry, 1958–1990," *American Journal of Sociology* 105, no. 3 (1999): 801–43, <https://doi.org/10.1086/210361>.

¹³ R Greenwood et al., "Institutional Complexity and Organizational Responses," *Academy of Management Annals* 5, no. 1 (2011): 317–71, <https://doi.org/10.1080/19416520.2011.590299>.

¹⁴ A C Pache and F Santos, "Inside the Hybrid Organization: Selective Coupling as a Response to Competing Institutional Logics," *Academy of Management Journal* 56, no. 4 (2013): 972–1001, <https://doi.org/10.5465/amj.2011.0405>.

¹⁵ J W Meyer and B Rowan, "Institutionalized Organizations: Formal Structure as Myth and Ceremony," *American Journal of Sociology* 83, no. 2 (1977): 340–63, <https://doi.org/10.1086/226550>; W R Scott, *Institutions and Organizations: Ideas, Interests, and Identities*, 4th ed. (Thousand Oaks, CA: Sage, 2014).

¹⁶ Tracey, Phillips, and Jarvis, "Bridging Institutional Entrepreneurship and the Creation of New Organizational Forms: A Multilevel Model."

¹⁷ Tracey, Phillips, and Jarvis.

A key element in this process is legitimacy¹⁸. A new practice, like a pesantren business unit's dual mission, must gain cognitive and moral legitimacy internally (from students, teachers, and the Kyai family) and externally (from the community, suppliers, and regulators)¹⁹. Isomorphic pressures coercive, mimetic, and normative also play a significant role as pioneering pesantren inspire others, creating a field-level standard for modern pesantren development²⁰. However, in the pesantren context, this is not just mimicry of commercial best practices but a re-appropriation of them through a spiritual lens. The role of the institutional entrepreneur, typically the Kyai, is critical. They engage in institutional work the purposive action of individuals and organizations aimed at creating, maintaining, and disrupting institutions²¹. We explore how Kyais perform theorization, education, and identity work to build a new institutional logic of spiritualized commerce.

Pesantren as a Socio-Religious Institution

Pesantren, the oldest indigenous education system in Indonesia, is characterized by its five basic elements: Kyai, santri (students), mosque, dormitory (pondok), and the study of classical Islamic texts (kitab kuning)²². Historically, pesantren have been centers of community life, with the Kyai acting not only as a spiritual guide but also as a socio-economic patron²³. In recent decades, a new generation of pesantren, often termed pesantren modern or entrepreneurial pesantren, has emerged, integrating general education and business training into their curricula²⁴. This shift is a strategic response to the demand for economic self-sufficiency and the desire to provide relevant skills for santri to thrive post-graduation without relying solely on religious vocations.

The business units of these pesantren are diverse. They include Kopontren (pesantren cooperatives), agricultural and livestock farms, mini markets, bottled water companies, and even sharia-compliant savings and loan cooperatives (BMT). What distinguishes them from purely commercial SMEs is their foundational philosophy. The profit is not an end in itself but a means to support the pesantren's core mission of tafaqquh fi al-din (deepening religious understanding) and serving the ummat (community). Asmawi and Syafi'i (2021) argue that pesantren economic empowerment is a manifestation of fiqh muamalah (Islamic commercial jurisprudence) that prioritizes justice, transparency, and community welfare²⁵. However, the

¹⁸ M C Suchman, "Managing Legitimacy: Strategic and Institutional Approaches," *Academy of Management Review* 20, no. 3 (1995): 571–610, <https://doi.org/10.5465/amr.1995.9508080331>.

¹⁹ R Dart, "The Legitimacy of Social Enterprise," *Nonprofit Management and Leadership* 14, no. 4 (2004): 411–24, <https://doi.org/10.1002/nml.43>.

²⁰ P J DiMaggio and W W Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48, no. 2 (1983): 147–60, <https://doi.org/10.2307/2095101>.

²¹ T B Lawrence and R Suddaby, "Institutions and Institutional Work," in *The Sage Handbook of Organization Studies*, ed. S R Clegg et al. (London: Sage, 2006), 215–54.

²² Z Dhofier, *The Pesantren Tradition: The Role of the Kyai in the Maintenance of Traditional Islam in Java* (Tempe, AZ: Arizona State University Press, 1999).

²³ H Horikoshi, *Kyai and Social Change: A Study of a Pesantren in West Java* (Jakarta: P3M, 1987).

²⁴ Fauzi, "From Kitab Kuning to Business Plans: The Evolution of Pesantren Education."

²⁵ Asmawi and Syafi'i, "Islamic Social Entrepreneurship and the Pesantren Economic Empowerment Model."

literature also points to significant failures: many units are project-based, lack professional management, and collapse when donor funds dry up or when the founding Kyai dies²⁶. This highlights the problematic of institutionalization the vision must be translated from a personal, charismatic form of leadership into an organizational, systemic, and enduring one.

Sustainable Community Empowerment: An SDGs Lens

Community empowerment is a process by which people gain increased control over the decisions and resources that shape their lives. It is a multi-dimensional concept encompassing economic, psychological, social, and political domains. The concept of sustainable empowerment adds a temporal and ecological dimension, ensuring that gains are durable and not at the expense of future generations²⁷. This aligns directly with the Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 4 (Quality Education), SDG 8 (Decent Work and Economic Growth), and SDG 11 (Sustainable Communities). Pesantren, deeply embedded in their local communities, often in rural and semi-urban areas of East Java, are uniquely positioned to serve as localized catalysts for these goals. Their empowerment model is not an external intervention but an endogenous, faith-driven development process. Research by Irawan and Syahputra (2021) highlights how pesantren-based agro-businesses have improved food security and provided employment, while Susanto et al. (2020) document health and sanitation initiatives linked to pesantren micro-enterprises²⁸. What remains undertheorized is the institutional mechanism that ensures these empowerment outcomes are not accidental byproducts but intentional, sustained, and scalable results of a social entrepreneurial logic.

The synthesis of these literature streams reveals a clear gap. We have robust theories on hybrid organizing and institutionalization in secular Western social enterprises. We have descriptive accounts of pesantren economic activities. But we lack a theoretically grounded, processual understanding of how the religious meta-logic of Islam actively institutionalizes a form of social entrepreneurship that is distinct, how its agents navigate the inevitable tensions, and how this institutionalized model produces a sustainable form of community empowerment. This study bridges this gap by deploying a qualitative lens to examine the institutional work, logics hybridization, and multi-dimensional impacts within the specific socio-cultural context of East Java.

METHOD

This study employed a qualitative, multiple-case study design, deemed appropriate for exploring the complex, processual, and context-dependent phenomenon of

²⁶ H S Siregar, "The Failure of Pesantren-Based Microfinance: A Case of Mission Drift?," *Journal of Islamic Accounting and Business Research* 10, no. 6 (2019): 850–66, <https://doi.org/10.1108/JIABR-02-2018-0024>; Ridwan, "The Survival and Mortality of Pesantren Enterprises in Indonesia: A Resource Dependence Perspective."

²⁷ UNDP, "Human Development Report 2020: The Next Frontier - Human Development and the Anthropocene" (New York: UNDP, 2020).

²⁸ H Susanto and et al., "The Role of Islamic Boarding Schools in Community Health and Sanitation: A Social Enterprise Model," *Global Health Action* 13, no. 1 (2020): 1816621, <https://doi.org/10.1080/16549716.2020.1816621>.

institutionalization²⁹. The multiple-case design allows for a replication logic, where findings from one case can be confirmed or contrasted with others, strengthening the external validity of the emergent theoretical propositions³⁰. A critical realist ontology underpinned the study, acknowledging that while the institutionalization process has a real existence, our access is mediated through the interpretations of participants. An abductive approach guided the analysis, moving iteratively between empirical observations and established theory to generate novel conceptual insights³¹.

Purposive, maximum-variation sampling was used to select five pesantren in East Java. The selection criteria were: (1) the pesantren must have operated at least one formal business unit for a minimum of ten years, ensuring a sufficient history for institutionalization to be observed; (2) the business unit must have an explicit social mission related to community empowerment; (3) the cases should vary in size (small, medium, large), type of business (services, manufacturing, agriculture, finance), and geographical location (rural, peri-urban) to capture diverse institutionalization pathways. The selected cases are anonymized as Pesantren A, B, C, D, and E.

Case	Location Type	Primary Business Unit(s)	Core Social Mission Focus	Main Beneficiaries	Key Institutional Characteristics
Pesantren A	Rural, Jember	Agro-cooperative, Coffee Processing	Farmer livelihood improvement, land conservation	Coffee farmers, students, surrounding villages	Strong farmer cooperative network, value-added coffee production, profit-sharing system
Pesantren B	Peri-urban, Malang	Mini-market, Water Refill Station	Affordable basic commodities and clean water access	Local households, students, low-income families	Community-oriented retail services, affordable pricing, student entrepreneurship training

²⁹ Robert K. Yin, *Case Study Research and Applications: Design and Methods*, Journal of Hospitality & Tourism Research, vol. 53 (SAGE Publications, Inc., 2018), <https://doi.org/10.1177/109634809702100108>.

³⁰ K M Eisenhardt and M E Graebner, "Theory Building from Cases: Opportunities and Challenges," *Academy of Management Journal* 50, no. 1 (2007): 25–32, <https://doi.org/10.5465/amj.2007.24160888>.

³¹ A Dubois and L E Gadde, "Systematic Combining: An Abductive Approach to Case Research," *Journal of Business Research* 55, no. 7 (2002): 553–60, [https://doi.org/10.1016/S0148-2963\(00\)00195-8](https://doi.org/10.1016/S0148-2963(00)00195-8).

Stock Volatility, Cash Flow, and Financial Planning of Sharia Securities Issuers: An ARIMA Approach

Pesantren C	Rural, Kediri	Sharia Microfinance Institution (BMT)	Poverty alleviation, MSME financing, financial inclusion	Microentrepreneurs, farmers, women's groups	Islamic financial governance, profit-sharing financing, business mentoring
Pesantren D	Coastal, Probolinggo	Fisheries and Marine Product Processing	Fishermen's income diversification, women's economic participation	Fishermen, women cooperatives, youth	Community-based seafood processing, women's empowerment, local value chain development
Pesantren E	Peri-urban, Pasuruan	Integrated Waste Management, Plant Nursery	Environmental sustainability, green employment, waste reduction	Local communities, youth groups, schools	Circular economy initiatives, environmental education, green entrepreneurship

Data were collected over a 12-month period (2022-2023) using three primary methods. First, in-depth, semi-structured interviews were the core instrument. A total of 65 interviews were conducted with four categories of participants: (a) Kyai/Pengasuh (founders/leaders) (n=8); (b) Managers and staff of business units (n=24); (c) Santri involved in the units (n=18); and (d) Community beneficiaries (n=15). The interview protocol explored the history of the unit, the values driving it, key turning points, critical challenges, organizational structures, perceptions of success, and the nature of community impact. Second, participant observation was carried out at each site for two weeks, involving participation in daily business operations, community meetings, and pesantren religious activities. This provided an embodied understanding of the intertwining of spiritual and commercial logics. Third, document analysis was conducted on financial reports, internal SOPs, annual meeting minutes, pesantren magazines, and social media posts to understand the formalized structures and legitimation narratives.

Data analysis followed a structured thematic analysis procedure (Braun & Clarke, 2006) aided by NVivo 14 software. The first phase was an open coding of all interview transcripts and field notes, generating first-order concepts grounded in participants' language (e.g., profit is not an idol, the business is our new mosque, Kyai is the compass). The second

phase involved axial coding, grouping first-order concepts into second-order themes based on their relationships (e.g., value infusion, leadership transition anxiety, economic agency). The third and most critical phase was aggregate theoretical dimension building, where second-order themes were abstracted and linked to existing institutional theory constructs while allowing for novel dimensions to emerge³². This iterative process, moving between data and literature, led to the construction of a process model of institutionalization. Trustworthiness was ensured through triangulation of data sources, member checking with key informants, and maintaining a detailed audit trail.

RESULTS AND DISCUSSION

The findings are structured into three main parts corresponding to the research questions: the mechanisms of institutionalization, the tensions and challenges, and the outcomes for sustainable community empowerment.

4.1 Mechanisms for Institutionalizing Social Entrepreneurship

The analysis revealed a dynamic, multi-faceted institutionalization process driven by four interlocking mechanisms.

Visionary and Transformational Leadership: The Kyai as Institutional Entrepreneur

Across all cases, the process was initiated and sustained by the figure of the Kyai. Far from being mere religious preachers, these Kyais acted as institutional entrepreneurs who skillfully combined three forms of authority: traditional-religious, charismatic-visionary, and rational-professional. A senior manager at Pesantren C explained, 'The Kyai's vision is not just a business plan. It is a religious sermon in action. When he talks about BMT', he quotes verses on *riba* [usury] and social justice. He makes running a cooperative an act of jihad against poverty. This narrative work was a key mechanism of habitualization. The Kyai of Pesantren A, for example, institutionalized the coffee cooperative by embedding it within a grand narrative of liberating farmers from the tyranny of middlemen, a concept deeply resonant with Islamic teachings on oppression (*dhulm*).

This leader-driven institutionalization occurred through specific actions: (1) Theorization: They explicitly defined the business unit's failure or success in terms of its social and spiritual impact, not just profit. (2) Role Modeling: Kyais and their families actively worked in the businesses, performing manual labor to signal that no work was un-Islamic and to dismantle the traditional hierarchy. (3) Boundary Work: They actively shielded the nascent unit from purely commercial pressures, at times injecting personal wealth to preserve the social mission during crises, a practice one Kyai called spiritual capital injection.

Spiritual-Social Value Recoupling and Logics Hybridization

The core institutional logic of a pesantren business is not a simple compromise between social and commercial logics. Instead, it is a triadic configuration where the religious logic of *maslahah* (public good) acts as the dominant, ordering principle. I term

³² D A Gioia, K G Corley, and A L Hamilton, "Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology," *Organizational Research Methods* 16, no. 1 (2013): 15–31, <https://doi.org/10.1177/1094428112452151>.

Stock Volatility, Cash Flow, and Financial Planning of Sharia Securities Issuers: An ARIMA Approach

this process Spiritual-Social Value Recoupling. In secular hybrids, the social mission often risks being decoupled from operational practices under market pressure. Here, the spiritual logic actively re-encodes market practices with social meaning, making decoupling a moral failure rather than just a strategic one.

For instance, the manager of Pesantren B's mini-market, Ustadz Rohman, stated: Our price must be cheaper than the other shop. We can't do predatory pricing like the capitalist, but we must use our joint purchasing power for the benefit of the community. This is the *fiqh* of buying and selling it's not just about halal haram, but about *ta'awun*. The commercial logic of economies of scale was not rejected but recoupled to the religious-social goal of communal affordability. At Pesantren D, the fisheries unit used a profit-sharing system (*mudharabah*) not because it was the most financially efficient but because it was seen as the most spiritually just, distributing risk between the pesantren and the fishermen families. This fusion was formally institutionalized in training modules for all new staff, titled The Spirituality of Business (*Spiritualitas Bisnis*), which used religious texts to explain inventory management and customer service.

Organizational Structuring and Professionalization

The translation of a spiritual vision into enduring systems was a critical mechanism of sedimentation. All five pesantren had moved beyond the initial, informal family-run model to create formal organizational structures with clear divisions between the religious (*ma'had*) and business (*amal usaha*) arms, albeit with a permeable boundary. Pesantren A established a professional cooperative board with external auditors. Pesantren E formed an environmental foundation to manage its waste business, separating its liabilities. Crucially, this professionalization was framed not as secularization but as an implementation of the Islamic value of *itqan* (excellence and meticulousness in work).

A manager at Pesantren C's BMT explained: We use digital accounting and risk scoring for loans, just like a modern bank. But the motivation is different. Our meticulousness is an act of worship. If we are careless, we betray the trust (*amanah*) of the depositors, most of whom are poor. The system is our technical tool to uphold a spiritual trust. This hybridized professionalism included creating SOPs with religiously-framed justifications, hiring professional managers (often alumni) and pairing them with senior religious counselors, and establishing Sharia Supervisory Boards to ensure product compliance. This structural embedding ensured that the model could function, at least partially, independently of the founding Kyai.

Stakeholder Integration and Community Embeddedness

Institutionalization was not a closed, internal process; it required active legitimation from the community, transforming beneficiaries into active co-creators. The objectification phase involved a deep social consensus-building. Pesantren E's waste bank, for example, failed initially because the community saw waste sorting as a lowly, non-religious task. The Kyai launched a pulpit campaign, weaving environmental *fiqh* (*fiqh al-bi'ah*) into his Friday

sermons, quoting verses on cleanliness and humanity's role as stewards of the earth (khalifah). This reframed waste management from a menial task into a religious duty.

This stakeholder integration operated through multiple channels: Pengajian (religious study circles) where business concepts were discussed, annual community meetings (haul and syawalan) used as accountability forums, and a system where community members were not just customers but also shareholders or members of the cooperative. At Pesantren A, a farmer said, I don't just sell my coffee to the pesantren. I feel I own part of this blessing. The Kyai teaches us that praying for the business is part of our investment. This created a powerful normative isomorphism, where the social mission became a deeply held community expectation, making any potential drift towards pure profit-seeking not only organizationally difficult but culturally illegitimate.

4.2 Tensions and Challenges in Institutionalization

The institutionalization path is fraught with persistent tensions that must be actively managed.

The Succession Crisis and Charisma Routinization

The most profound vulnerability identified is the over-embeddedness of the institutional logic in the personal charisma of the founding Kyai. This is the classic Weberian problem of charisma routinization. A manager at Pesantren D whispered, We are all holding our breath. The son is a good person, but he is an engineer, not a 'Kyai of the sea.' He doesn't have his father's fire to wake at 3 AM to check on the boats. The system is there, but the soul is fading. Pesantren C was the most successful in handling this, having transitioned leadership to a professional CEO while the new Kyai focused solely on spiritual supervision. They had institutionalized the soul through a strong organizational culture, codified in a Santripreneur's Creed and intensive value camps. Conversely, Pesantren D showed signs of mission drift and stagnation post-succession, with the new leader prioritizing the financial return of the marine processing plant over the fishermen's welfare program.

Resource Dependency and Mission Drift

A constant tension existed between the desire for full autonomy and dependence on external resources. Pesantren units that partnered with government programs or large corporates for CSR funds faced a subtle but powerful pressure to conform to external metrics of success, often pushing them towards a commercial logic. The manager of Pesantren B's mini-market explained: When we partnered with a national retail chain for their 'Waroeng Pesantren' program, they provided great IT systems. But they also pushed hard for us to drop local, unbranded products to maximize profit per square meter. That's when we had to fight. We said no, those local products are from our neighbors; supporting them is our core mission. We lost the partnership, but we kept our soul. This illustrates a deliberate decoupling from coercive isomorphic pressures that threatened the spiritual-social core. However, not all pesantren had the financial resilience to make this choice, and some, like a case studied but not included in the final five, drifted into becoming a conventional retail outlet.

The Sacred-Profane Tension in Daily Operations

A persistent micro-level tension was the perceptual divide between sacred religious duties (ibadah mahdhah) and profane economic activity (muamalah). Older ustadz and some community members subtly delegitimized the business unit staff, seeing them as less religious. One santri manager at Pesantren E noted, For the first two years, I felt like a second-class citizen in the pesantren. The preachers got all the respect. We were seen as the ‘shopkeepers.’ The Kyai had to constantly, in his sermons, place the businessman who is honest and helps the community on the same high pedestal as the imam of the mosque. The institutionalization, therefore, required not just structural change but a deep cultural battle to redefine what constitutes a noble vocation within the pesantren field. This was achieved through public recognition rituals, awarding the Mujahid Ekonomi (Economic Warrior) title, and integrating the business units’ success stories into the pesantren’s collective identity and historical narrative.

4.3 Outcomes: A Model for Sustainable Community Empowerment

The institutionalized social enterprises have generated a holistic, multi-dimensional empowerment model that moves beyond simple income metrics.

Economic Empowerment and Self-Reliance

The most tangible outcome is economic. Pesantren C’s BMT had provided micro-capital to over 5,000 small businesses, with a 98% repayment rate attributed to the strong social-spiritual collateral (peer monitoring within religious study groups). Farmers of Pesantren A reported a 40% increase in stable income after shifting from selling cherry beans to processing and selling branded specialty coffee through the pesantren cooperative, which captured more of the value chain. Crucially, the community’s definition of economic empowerment was not individualistic wealth maximization. A housewife in the Probolinggo fisheries group said, Before, we only knew income. Now we know about savings, about not being trapped by the boat owner’s loan. We learned financial management from the pesantren sisters. The money matters, but the knowledge and the freedom matter more. The institutionalized unit created economic resilience by embedding financial literacy within a moral economy.

Educational and Human Capital Development

The businesses are a core part of the pesantren’s educational ecosystem. They serve as a living laboratory (laboratorium kehidupan) for santri to learn not just vocational skills but a comprehensive santripreneur ethos. A santri at Pesantren E, who was majoring in environmental science at a local university while managing a composting unit, stated: This is my real thesis. The theory is in the class; the practice and the spiritual meaning are here. My professor can explain the nitrogen cycle, but only Kyai can explain why the cycle is a sign of God’s mercy that we must protect. This creates a generation of community leaders who are religiously literate, professionally competent, and socially conscious. This human capital effect spills over as santri graduate and start similar small-scale social enterprises in their home villages, a scaling-out mechanism far more sustainable than a single central business.

Health, Environment, and Social Cohesion

The empowerment model is demonstrably cross-sectoral. Pesantren B's water refill business dramatically reduced local cases of waterborne diseases, a fact the unit manager used in marketing: Our water is not just cheap; it's a blessing that keeps your children healthy. Pesantren E's integrated waste management transformed a dirty village into a clean, green one that now receives study tours, creating a new source of pride and identity. The most profound underlying outcome is the strengthening of social cohesion. The business unit becomes a new commons, a space for interaction beyond prayer. A village head near Pesantren A noted: Before the cooperative, the farmers were suspicious of each other. Now, they meet weekly for the coffee quality training and religious study as a group. The business is their new gathering ground; it has re-woven our social fabric. This social capital trust, reciprocity, networks is the ultimate guarantee of sustainable empowerment.

Analysis/Discussion

This study set out to understand the institutionalization of social entrepreneurship in pesantren business units and its role in sustainable community empowerment. The findings offer significant theoretical extensions and a novel conceptual framework.

5.1 The Process Model of Faith-Based Institutionalization

The case of pesantren reveals a process of institutionalization that partially aligns with Tolbert and Zucker's (1996) model but fundamentally expands it. The habitualization phase is not just a technical solution to an economic problem but a moral response to a perceived spiritual failure (e.g., community in poverty equals religious failure). This moral urgency, articulated by the Kyai as an institutional entrepreneur, provides a more potent catalyst for action than purely economic or social need. The objectification phase involves building not just a cognitive consensus that this structure is valuable but a theological consensus that this structure is obligatory (*wajib kifayah*). This sacralization of the social enterprise model makes it far more resistant to de-institutionalization pressures because abandoning it becomes an act of religious transgression, not just bad strategy. Finally, sedimentation is achieved not through mere historical continuity but through a full interpenetration of religious and organizational rituals, where annual business meetings are also religious ceremonies, and balance sheets are discussed in terms of spiritual accountability.

5.2 Spiritual-Social Value Recoupling: A New Concept for Hybrid Organizing

The central theoretical contribution is the concept of Spiritual-Social Value Recoupling. Existing literature on hybrid organizing often presents social and commercial logics in a tense, competing relationship that must be managed through compromise, decoupling, or selective coupling (Pache & Santos, 2013). In pesantren, the tension exists, but the primary dynamic is one of recoupling. The commercial logic does not decouple from the social; instead, any threatened decoupling between commercial means and social ends is actively recoupled by a superior, transcendental logic. The religious meta-logic acts as a

Stock Volatility, Cash Flow, and Financial Planning of Sharia Securities Issuers: An ARIMA Approach

master mechanism that re-fuses what the market logic tries to separate. For example, the market logic says, Find the most efficient supplier to maximize margin. The social logic says, Buy from local community members at a fair price, even if it's slightly more expensive, to achieve distributive justice. The religious logic recouples this: Buying from your community member is not a charitable cost; it is an investment in *ukhuwah* (brotherhood) and *barakah* (divine blessing in wealth), whose return is calculated in this world and the next. This recoupling reframes the entire value proposition, making the social mission not an externality but the very source of ultimate value. This provides a powerful answer to the problem of mission drift in social enterprises, as the social mission's guardian is a divine mandate, not just a board resolution.

5.3 Tensions as Sources of Dynamism

The identified tensions particularly the succession crisis highlight a dark side of the faith-based institutional entrepreneur model. The institutionalization is so heavily dependent on the fusion of spiritual and executive authority in the person of the *Kyai* that separation can be traumatic. This aligns with critiques of the 'great man' theory in social enterprise literature. The successful routinization seen in Pesantren C offers a pathway: a conscious and planned decoupling of roles where the new *Kyai* retains the spiritual-symbolic authority but vests executive authority in a professional manager who is spiritually embedded. This creates a dyarchy that can maintain the hybrid logic without requiring a new charismatic all-rounder. This is an empirically grounded solution to Weber's age-old problem.

5.4 Rethinking Sustainable Community Empowerment

The findings compel a re-evaluation of sustainability. In the development literature, sustainability is often conceptualized in environmental and financial terms. Pesantren add a profound dimension of theological sustainability. An empowerment project is sustainable if the community believes that continuing it is a path to God's favor and abandoning it risks divine displeasure. This internal moral sanction is more powerful and enduring than external technical support. The multi-dimensional outcomes show that empowerment is not a project with a timeline but a byproduct of a faithfully executed institutional logic. The community is empowered economically, educationally, and health-wise because they have been integrated into a moral order that demands and enables it. This is a form of deeply endogenous development, powered by a fusion of local culture, religious belief, and pragmatic business acumen.

CONCLUSION

This qualitative study explored the institutionalization of social entrepreneurship within pesantren business units in East Java and its role in sustainable community empowerment. The findings revealed a dynamic, faith-driven institutionalization process anchored by four interlocking mechanisms: visionary *Kyai* acting as institutional entrepreneurs who fused spiritual and commercial logics; a distinct process of "Spiritual-Social Value Recoupling" in which the religious meta-logic of *maslahah* actively re-encodes

market practices with sacred purpose, thereby preventing mission drift; systematic organizational professionalization framed as a form of worship (*itqan*); and deep stakeholder integration that transformed beneficiaries into co-creators of the social enterprise. Despite these robust mechanisms, institutionalization remains threatened by succession crises, resource dependency, and persistent sacred–profane tensions. When successfully institutionalized, these hybrid organizations generate a multi-dimensional empowerment model that extends beyond income to include educational advancement, health improvement, environmental stewardship, and strengthened social cohesion—all underpinned by a theological sustainability that renders the social mission a divine mandate rather than a mere strategic choice. Theoretically, the study extends institutional theory by foregrounding religion as a master logic and offers a novel concept—Spiritual-Social Value Recoupling—that redefines how faith-based hybrids protect their social mission. Practically, it underscores the need to codify charisma through professional governance and deliberate role decoupling to ensure the longevity of these initiatives. Ultimately, pesantren social enterprises demonstrate that enduring community empowerment emerges not from external interventions but from the faithful execution of a deeply held religious–social institutional logic.

ACKNOWLEDGMENTS

The authors wish to express their deepest gratitude to the *Kyai, ustadz*, managers, and *santri* of the five pesantren in East Java who generously opened their doors and shared their experiences, wisdom, and time. We are indebted to the community members and beneficiaries whose voices form the heart of this study. Special thanks to the anonymous reviewers for their constructive feedback and to the editorial team for their guidance. This research was supported by [insert funding body or grant number if applicable; otherwise, “This research received no external funding”]. Finally, we acknowledge the late scholars whose foundational works on pesantren and institutional theory have illuminated our path. May this humble effort contribute to the flourishing of community-rooted, faith-inspired social enterprises.

REFERENCE

- Asmawi, M, and I Syafi'i. “Islamic Social Entrepreneurship and the Pesantren Economic Empowerment Model.” *Journal of Islamic Marketing* 12, no. 4 (2021): 789–805. <https://doi.org/10.1108/JIMA-06-2020-0164>.
- Battilana, J, and S Dorado. “Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations.” *Academy of Management Journal* 53, no. 6 (2010): 1419–40. <https://doi.org/10.5465/amj.2010.57318391>.
- Besharov, M L, and W K Smith. “Multiple Institutional Logics in Organizations: Explaining Their Varied Nature and Implications.” *Academy of Management Review* 39, no. 3 (2014): 364–81. <https://doi.org/10.5465/amr.2011.0431>.
- Dart, R. “The Legitimacy of Social Enterprise.” *Nonprofit Management and Leadership* 14, no. 4 (2004): 411–24. <https://doi.org/10.1002/nml.43>.
- Dhofier, Z. *The Pesantren Tradition: The Role of the Kyai in the Maintenance of Traditional Islam in Java*. Tempe, AZ: Arizona State University Press, 1999.
- DiMaggio, P J, and W W Powell. “The Iron Cage Revisited: Institutional Isomorphism and

Stock Volatility, Cash Flow, and Financial Planning of Sharia Securities Issuers: An ARIMA Approach

- Collective Rationality in Organizational Fields.” *American Sociological Review* 48, no. 2 (1983): 147–60. <https://doi.org/10.2307/2095101>.
- Doherty, B, H Haugh, and F Lyon. “Social Enterprises as Hybrid Organizations: A Review and Research Agenda.” *International Journal of Management Reviews* 16, no. 4 (2014): 417–36. <https://doi.org/10.1111/ijmr.12028>.
- Dubois, A, and L E Gadde. “Systematic Combining: An Abductive Approach to Case Research.” *Journal of Business Research* 55, no. 7 (2002): 553–60. [https://doi.org/10.1016/S0148-2963\(00\)00195-8](https://doi.org/10.1016/S0148-2963(00)00195-8).
- Ebrahim, A, J Battilana, and J Mair. “The Governance of Social Enterprises: Mission Drift and Accountability Challenges in Hybrid Organizations.” *Research in Organizational Behavior* 34 (2014): 81–100. <https://doi.org/10.1016/j.riob.2014.09.001>.
- Eisenhardt, K M, and M E Graebner. “Theory Building from Cases: Opportunities and Challenges.” *Academy of Management Journal* 50, no. 1 (2007): 25–32. <https://doi.org/10.5465/amj.2007.24160888>.
- Fauzi, A. “From Kitab Kuning to Business Plans: The Evolution of Pesantren Education.” *Journal of Southeast Asian Studies* 51, no. 3 (2020): 445–67. <https://doi.org/10.1017/S0022463420000568>.
- Gioia, D A, K G Corley, and A L Hamilton. “Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology.” *Organizational Research Methods* 16, no. 1 (2013): 15–31. <https://doi.org/10.1177/1094428112452151>.
- Greenwood, R, M Raynard, F Kodeih, E R Micelotta, and M Lounsbury. “Institutional Complexity and Organizational Responses.” *Academy of Management Annals* 5, no. 1 (2011): 317–71. <https://doi.org/10.1080/19416520.2011.590299>.
- Gümüşay, A A. “Entrepreneurship from an Islamic Perspective.” *Journal of Business Ethics* 130, no. 1 (2015): 199–208. <https://doi.org/10.1007/s10551-014-2223-7>.
- Horikoshi, H. *Kyai and Social Change: A Study of a Pesantren in West Java*. Jakarta: P3M, 1987.
- Lawrence, T B, and R Suddaby. “Institutions and Institutional Work.” In *The Sage Handbook of Organization Studies*, edited by S R Clegg, C Hardy, T B Lawrence, and W R Nord, 215–54. London: Sage, 2006.
- Mair, Johanna, and Ignasi Martí. “Social Entrepreneurship Research: A Source of Explanation, Prediction, and Delight.” *Journal of World Business* 41, no. 1 (2006): 36–44. <https://doi.org/10.1016/j.jwb.2005.09.002>.
- Meyer, J W, and B Rowan. “Institutionalized Organizations: Formal Structure as Myth and Ceremony.” *American Journal of Sociology* 83, no. 2 (1977): 340–63. <https://doi.org/10.1086/226550>.
- Pache, A C, and F Santos. “Inside the Hybrid Organization: Selective Coupling as a Response to Competing Institutional Logics.” *Academy of Management Journal* 56, no. 4 (2013): 972–1001. <https://doi.org/10.5465/amj.2011.0405>.
- Ridwan, M. “The Survival and Mortality of Pesantren Enterprises in Indonesia: A Resource Dependence Perspective.” *Asia Pacific Journal of Management*, 2022. <https://doi.org/10.1007/s10490-022-09827-4>.
- Scott, W R. *Institutions and Organizations: Ideas, Interests, and Identities*. 4th ed. Thousand Oaks, CA: Sage, 2014.
- Siregar, H S. “The Failure of Pesantren-Based Microfinance: A Case of Mission Drift?” *Journal of Islamic Accounting and Business Research* 10, no. 6 (2019): 850–66. <https://doi.org/10.1108/JIABR-02-2018-0024>.
- Suchman, M C. “Managing Legitimacy: Strategic and Institutional Approaches.” *Academy of Management Review* 20, no. 3 (1995): 571–610. <https://doi.org/10.5465/amr.1995.9508080331>.

- Susanto, H, and et al. "The Role of Islamic Boarding Schools in Community Health and Sanitation: A Social Enterprise Model." *Global Health Action* 13, no. 1 (2020): 1816621. <https://doi.org/10.1080/16549716.2020.1816621>.
- Thornton, P H, and W Ocasio. "Institutional Logics and the Historical Contingency of Power in Organizations: Executive Succession in the Higher Education Publishing Industry, 1958–1990." *American Journal of Sociology* 105, no. 3 (1999): 801–43. <https://doi.org/10.1086/210361>.
- Tracey, P, N Phillips, and O Jarvis. "Bridging Institutional Entrepreneurship and the Creation of New Organizational Forms: A Multilevel Model." *Organization Science* 22, no. 1 (2011): 60–80. <https://doi.org/10.1287/orsc.1090.0522>.
- UNDP. "Human Development Report 2020: The Next Frontier - Human Development and the Anthropocene." New York: UNDP, 2020.
- Yin, Robert K. *Case Study Research and Applications: Design and Methods*. *Journal of Hospitality & Tourism Research*. Vol. 53. SAGE Publications, Inc., 2018. <https://doi.org/10.1177/109634809702100108>.
- Zilber, T B. "Institutionalization as an Interplay between Actions, Meanings, and Actors: The Case of a Rape Crisis Center in Israel." *Academy of Management Journal* 45, no. 1 (2002): 234–54. <https://doi.org/10.5465/3069294>.