

## The Existence of Business Entities as Instruments of the Caliph: An Ontological Approach to Organizations in Islam

Rahmawati Umar<sup>1</sup>, Wahyuddin Abdullah<sup>2\*</sup>, Sumarlin<sup>3</sup>

<sup>1</sup>Sekolah Tinggi Ilmu Ekonomi YPUP

<sup>2,3</sup>Universitas Islam Negeri Alauddin

**Corresponding Author:** Wahyuddin Abdullah, [wahyuddin.abdullah@uin-alauddin.ac.id](mailto:wahyuddin.abdullah@uin-alauddin.ac.id)

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### ABSTRACT

This study proposes an ontological approach to organizations based on Islamic principles, which positions business entities as instruments of human caliphate on earth. Through qualitative-conceptual methods and Islamic epistemological approaches (bayani, irfani, and burhani), this study examines the Shari'ah Enterprise Theory (SET) and Waqf Entity Theory (WET) as alternative conceptual frameworks. The findings suggest that Islamic organizations function not only economically, but also as a means of worship and public welfare. Value-added statements are proposed to replace conventional income statements to emphasize moral and spiritual accountability. This framework has important implications for the reform of organizational theory, financial reporting, and managerial practices in the Islamic context.

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## **INTRODUCTION**

The development of modern organizational theory is inseparable from the dominance of capitalist values that place organizations as formal legal entities with a primary orientation towards achieving profit and economic efficiency. In this paradigm, business entities are considered as instruments of economic value production that work to maximize the interests of shareholders. However, this approach has drawn widespread criticism, especially from those who believe that organizational structure and orientation should not be separated from moral, spiritual, and social responsibility values.

In the context of Islam, criticism of conventional organizational models has developed in various academic discourses. A number of Muslim thinkers have attempted to deconstruct the dominance of the capitalist paradigm and reformulate the nature of organizational existence based on transcendental values. One of the prominent perspectives in this discourse is the ontological approach that attempts to interpret business entities not merely as a means of economic production, but as an ontological instrument of humans in carrying out the role of the caliphate on earth. (Fry, 2003).

The concept of the caliphate in Islam not only reflects the moral status of humans as creatures of Allah, but also refers to a social and cosmological role that demands collective responsibility to manage the earth in a just, wise and sustainable manner. (Muavia et al., 2022; Pawar, 2008). Therefore, the existence of business organizations must be understood in an ontological framework as an embodiment of human duties and responsibilities as caliphs. This means that organizational activities are not only assessed based on efficiency and profitability, but also based on their contribution to social welfare, environmental sustainability, and obedience to Divine law. (Fry et al., 2017).

This approach gained strong theoretical legitimacy through the thinking of Iwan Triyuwono who introduced the concept of Shari'ah Enterprise Theory (SET). SET is an accounting and organizational paradigm built on sharia principles with the aim of integrating transcendental values into the structure and function of business entities. (Nurlasera, 2019). This concept was born from criticism of conventional entity theory which is based on the principles of individualism, egoism, and profit orientation alone. (Sugiarta et al., 2023). Through the metaphor of trust and zakat, SET places the organization as a forum for carrying out responsibilities to Allah, to fellow humans, and to the universe. (Muavia et al., 2022).

Thus, organizations from the SET perspective are no longer understood as tools to maximize economic profits, but rather as spaces of service that function to realize social justice and ecological sustainability. (Cunha et al., 2004; Jones & Solomon, 2013). This idea is in line with the principle of maqashid sharia which is the main pillar in Islamic law, namely protection of religion, soul, mind, descendants and property. (Sugiarta et al., 2023). In the context of an organization, this maqashid directs business entities to always maintain a balance between economic efficiency and the sustainability of spiritual and social values. (Fry, 2003).

The development of the SET concept also encouraged the birth of a further theory called Waqf Entity Theory (WET). This theory was developed by Luayyi Sri and his colleagues as a response to the need for an organizational model that is not based on the capitalist logic of ownership and profit. Within the WET framework, business entities financed through waqf funds are not obligated to provide returns to capital providers, because the wakif is not positioned as a capital owner in the capitalist sense, but rather as an implementer of the values of worship and devotion to Allah.(Laar, 2022). This places the waqf business organization as a social entity that purely functions to distribute the welfare of the community, not as a tool for accumulating personal wealth.

Both theories—SET and WET—fundamentally challenge the secular, economic framework of Western organizational thinking. In conventional organizational theory, a business entity is a legal unit separate from its owners, and organizational decisions are guided by principles of efficiency and profit maximization. In contrast, in Islam, organizations are understood as collective moral subjects bound by the values of monotheism, justice, and trust.(David et al., 2023). Business and organizational activities are seen as part of a system of worship, so that all organizational operations must be subject to Divine law and directed towards the welfare of humanity and the sustainability of the universe.(Fry et al., 2005).

Organizations in Islam are also understood as a form of collective responsibility (fardhu kifayah) and a manifestation of the intention of worship.(Pianezzi & Cinquini, 2016). Therefore, the success of an organization is not only measured in terms of market growth and profit size, but also from the extent to which the organization is able to contribute benefits to society, maintain ecological balance, and uphold sharia values.(David et al., 2023). With this approach, it is necessary to redefine the indicators of organizational success from materialistic to spiritual-social.

In response to the limitations of conventional philanthropic models, contemporary studies also raise the concept of Islamic Social Enterprise as a form of organization that combines spiritual, social and economic values in a single corporate action.(Cunha et al., 2004). This model offers a more holistic approach to business management, where the organization is not only financially responsible, but also spiritually and socially.(Fry, 2003). Distribution of surplus is no longer prioritized for shareholder profits, but for broader social interests.(Steen et al., 2011).

Furthermore, the concept of ownership in Islam also provides a very different foundation from the Western approach. In Islamic philosophy, absolute ownership belongs to Allah, while humans are merely trustees of the resources they manage.(Guthrie & Murthy, 2009). This principle requires that all organizational activities, including financial reporting, reflect moral and spiritual responsibility, not just financial information. Therefore, SET and WET propose the use of Value-added Statement as a substitute for conventional income statement, with the aim of showing the distribution of added value to all stakeholders, including groups that are often marginalized such as the poor and the environment.(Chetty, 2011; Fry, 2003).

Finally, the ontological approach to organization in Islam cannot be separated from the foundation of monotheism as a philosophical basis. Monotheism affirms the unity between spirituality and materiality, and rejects the separation between worldly life and the hereafter. (Steen et al., 2011). In the context of the organization, this means that all economic activities must be seen as part of worship and must not be separated from the orientation towards Allah. (Sugiarta et al., 2023). In this way, organizations become not only tools of economic production, but also a means to create a just and afterlife-oriented social order. (Fry, 2003).

## **THEORETICAL REVIEW**

The paradigm of modern organizational theory that developed from the legacy of Western rationalism places business entities as functional units that are detached from moral and spiritual values. Organizations are viewed as legal entities that are independent of their founders, with the main goal of creating economic value through efficiency and profit maximization. This approach is not only secular but also very mechanistic, ignoring the human and transcendental dimensions in organizational practices. (Chetty, 2011; Jones & Solomon, 2013).

In the landscape of contemporary Islamic thought, criticism of the conventional entity framework is growing stronger. The developing alternative thinking rejects the basis of individualism and egoism inherent in Western organizational theory. This criticism is articulated in ideas that place spiritual and social values as the foundation of organizational existence. In this context, organizations are not merely economic entities, but are moral and spiritual entities that have responsibilities to God, fellow human beings, and the environment. (Cunha et al., 2004; Fry, 2003).

One of the important contributions in building an Islamic-based organizational epistemology is the emergence of the Shari'ah Enterprise Theory (SET) developed by Iwan Triyuwono. SET formulates the organization as a vehicle for implementing Islamic values such as amanah, zakat, and tauhid in the context of managing a business entity. (Nurlasera, 2019). This theory criticizes the conventional accounting and management approach which is solely oriented towards profit and gives rise to the logic of exploitative competition. (Sugiarta et al., 2023). Within the framework of SET, organizations are required to submit to Divine law and must be able to provide benefits that are just, socially, ecologically, and spiritually.

The concept of trust is central to SET, where every asset and resource managed by the organization is a trust from Allah SWT, not absolute human ownership. (Guthrie & Murthy, 2009). Therefore, SET emphasizes the need for fair and responsible management, not only to shareholders, but also to vulnerable groups and the universe as part of the caliph's responsibility.

This theory is further expanded through the idea of Waqf Entity Theory (WET). Departing from the principles of waqf in Islam, WET builds an organizational framework that is not subject to the pressure of profit accumulation. In WET's view, waqf funds are not conceptualized as investments in the logic of capitalism, but as worship and devotion to Allah. Therefore, waqf-

based business entities must function as instruments of benefit distribution, not as a means of individual wealth accumulation. (Laar, 2022).

Both SET and WET present a conceptual basis for building organizations that are not only economically transformative, but also spiritually and socially transformative. Both move organizations away from the exploitative and hedonistic characteristics that characterize the liberal capitalist system. (Nurlasera, 2019), by replacing profit orientation with welfare and justice orientation.

In Islam, organizations are not impersonal structures that are neutral in value. Instead, organizations must have a monotheistic orientation, namely the unity and interconnectedness of spiritual and material aspects. Monotheism is an ontological principle that affirms that all human activities, including those of an economic and administrative nature, must be directed towards achieving the pleasure of Allah. (Sugiarta et al., 2023). Therefore, every decision-making process, financial reporting, and organizational governance must reflect the values of faith, honesty, justice, and usefulness.

The concept of maqashid sharia is an important normative framework in guiding Islamic organizations. The five main objectives of sharia - namely the protection of religion, life, mind, lineage, and property - must be the basis of every business activity. (Fry, 2003; Muavia et al., 2022). The implementation of this maqashid in the context of an organization will create a more inclusive, ethical, and sustainable system. For example, protection of the soul and mind can be translated into organizational practices that avoid exploitation of labor or environmental damage, while protection of property relates to the principle of justice in the distribution of wealth.

In addition, Islam views organizations as part of the collective responsibility of Muslims through the concept of fardhu kifayah, which requires the Muslim community to ensure that the social, economic, and spiritual needs of the community are met. (Pianezzi & Cinquini, 2016). This means that establishing and running an organization is not just a worldly activity, but a concrete form of collective worship. In this framework, the intention of worship becomes an important element that must color all organizational activities, not just a legalistic formality.

Various studies also emphasize the importance of financial reporting that is not only informative, but also reflective of the spiritual responsibility of the organization. Therefore, SET and WET propose the concept of Value-added Statement to replace the conventional income statement. This report aims to show how the value generated by the organization is distributed not only to investors and employees, but also to the wider community and nature. (Chetty, 2011; Fry, 2003). This concept reflects the efforts to decapitalize and humanize accounting, which positions financial reports as a means of moral accountability.

Meanwhile, the Islamic Social Enterprise approach further broadens the horizon of thinking about organizations in Islam. This model emphasizes that organizations do not only aim for financial sustainability, but must also be socially and spiritually responsible. (Cunha et al., 2004). In practice, the surplus

generated by the organization is directed to social purposes, not merely as dividends for shareholders.(Steen et al., 2011).

In order to build a complete theory of Islamic organization, a number of academics suggest a methodological approach that is not merely positivistic and empirical. They offer a combination of bayani (textual), irfani (spiritual and intuitive), and burhani (logical and rational) approaches as a way to explore the existential meaning of organizations that are bound to Islamic values.(Nurlasera, 2019). This approach enriches social science methodology with a transcendental dimension that has been marginalized in modern organizational research.

Overall, this literature review shows that the ontological approach to organizations in Islam has a strong conceptual basis. Various theories such as SET and WET, as well as the principles of maqashid syariah, amanah, and tauhid provide normative and practical frameworks that are able to reform the orientation and structure of modern organizations. Organizations in Islam are not only instruments of production, but also vehicles for devotion and manifestation of the mission of the human caliphate on earth.

## **METHODOLOGY**

This study uses a qualitative-conceptual approach rooted in in-depth literature study. This approach was chosen because the object of study - namely the existence of business entities from an Islamic perspective - requires philosophical and normative exploration, not just empirical observation. In other words, this study does not attempt to measure organizational phenomena quantitatively, but rather examines and interprets the ontological construction of organizations based on Islamic values.

Methodologically, the approach used refers to the Islamic epistemological framework which integrates three types of approaches: bayani, irfani, and burhani.(Nurlasera, 2019). The bayani approach is used to explore the meaning and values of Islam through the study of normative texts such as the Qur'an, hadith, and classical and contemporary Islamic literature. In this context, the concepts of caliphate, amanah, and zakat are understood based on textual foundations that have been established in the Islamic tradition.

The irfani approach is applied to capture the spiritual and intuitive dimensions that often cannot be explained logically or empirically. This aspect is important in understanding organizations as instruments of worship and devotion to Allah, as proposed in the Shari'ah Enterprise Theory (SET) and Waqf Entity Theory (WET). The irfani approach allows researchers to reach the spiritual meaning of concepts such as tauhid, sincerity, and intention, which are the spiritual basis of the existence of Islamic organizations.(Sugiarta et al., 2023).

Meanwhile, the burhani approach is used to construct logical and systematic arguments in reconstructing organizational theory from an Islamic perspective. In this approach, rational reasoning is used to link various normative Islamic concepts with contemporary organizational practices. For example, how the concept of tauhid can be articulated in the organizational governance system, or how amanah is translated into financial reporting policies such as value-added statements.(Chetty, 2011; Fry, 2003).

The data sources used in this study come entirely from secondary literature, namely journal articles, scientific books, and relevant previous research results. The main focus is on works that discuss SET and WET theories, as well as Islamic organizational discourse in relation to maqashid sharia, waqf, and collective responsibility. Among the main sources referred to are the writings of Fry (2003), Nurlasera (2019), Laar (2022), and Muavia et al. (2022), which elaborate on the relationship between spiritual values and organizational practices comprehensively.

The analysis process is carried out by means of thematic synthesis, namely identifying key themes from existing literature, then compiling them into a complete theoretical framework. Themes such as the caliphate, spiritual accountability, maqashid sharia, and waqf management are analyzed in relation to the structure, objectives, and functions of the organization. Each theme is considered integrally in building a narrative that business entities in Islam cannot be separated from the Divine purpose of creating humans as caliphs on earth.

Thus, the methodology in this study not only upholds scientific validity in the form of logical arguments, but also upholds value validity, namely the conformity between the results of the study and the basic values of Islam. This approach is not intended to replace the positivistic approach, but to provide a wider space for Islamic epistemology in the construction of social sciences, especially organizational theory which is full of spiritual and ethical dimensions.

## RESULTS AND DISCUSSION

### *Ontology of Organization in Islam*

In the ontological approach, the fundamental question asked is not what the organization does, but why and for what purpose the organization exists. In the context of Islam, the existence of organizations is not understood neutrally, but is rooted in the concept of human existence as a caliph on earth. The ontology of organizations in Islam thus cannot be separated from the concept of tauhid - namely the unity between spiritual and worldly aspects, between devotion to God and service to humanity. (Fry, 2003; Sugiarta et al., 2023).

Different from the Western approach that positions organizations as autonomous and rational legal entities, Islam views organizations as collective moral subjects whose existence is not value-neutral. In the Islamic view, every organizational activity is part of worship, so it cannot be separated from divine law. In other words, organizations cannot be considered as mere technical tools, but as a means to fulfill the mandate of the caliphate that Allah has assigned to humans. (Muavia et al., 2022; Pawar, 2008).

This view is the starting point for a critique of the capitalist paradigm that has long dominated modern economic and organizational thinking. Capitalism tends to reduce organizations to profit-making machines, without considering the social, spiritual, and ecological impacts of business activities. (Cunha et al., 2004; Jones & Solomon, 2013). In this framework, human values are reduced to profit figures, and social relations are commodified for the sake of economic efficiency.

In contrast, within the Islamic framework, organizations are viewed as collective trusts – that is, the result of shared responsibility in meeting the needs of society and maintaining a just and sustainable life. The concept of *fardhu kifayah* provides a normative basis that building beneficial organizations is not an option, but rather an obligation for the Muslim community. (Pianezzi & Cinquini, 2016). Therefore, the existence of organizations must always be directed towards the welfare of the people, not for the interests of elite groups or mere accumulation of capital.

Furthermore, Islamic organizations must internalize the values of *maqashid sharia* as the main operational principles. The main objectives of *sharia* - protection of religion, life, mind, descendants, and property - become the main parameters in assessing the policies and practices of the organization. (Fry, 2003; Sugiarta et al., 2023). For example, a company that destroys the environment or exploits workers is clearly contrary to the protection of life and property, even if it is considered financially successful. Therefore, the success of an organization in Islam is not only judged by its revenue growth, but also by its contribution to social stability, distributive justice, and the preservation of the ecosystem.

In a spiritual context, monotheism serves as a foundation that rejects the dichotomy between the world and the hereafter. Business activities should not be interpreted in a secular way, but as part of a spiritual journey towards Allah SWT. (Steen et al., 2011). Therefore, the orientation of organizational goals in Islam is not only to meet market needs, but also to get closer to God through honest, fair and trustworthy service. (Sugiarta et al., 2023).

This aspect is very important in explaining why Islamic organizational theories such as SET and WET emphasize more on intentions, goals, and value structures, rather than just on procedures and end results. SET, for example, does not separate economic responsibility from spiritual responsibility. In its theory, the values of monotheism, trustworthiness, and *zakat* are used as the basis for establishing organizational accountability. (Nurlasera, 2019). Organizations are seen as actors who are spiritually responsible for their actions, both to God, fellow human beings, and the environment.

With this ontological perspective, the existence of organizations in Islam is a concrete expression of the mission of the human caliphate. It exists to fulfill the divine mandate in managing the earth with justice and wisdom, not to exploit resources for short-term profit. Organizations are microcosms of the order of life based on monotheism, and therefore must always be directed to create a balance between the spiritual and worldly aspects in carrying out their functions.

Thus, the ontological approach to organizations in Islam does not merely offer a theoretical alternative, but also proposes an ethical-spiritual model that is relevant in responding to the challenges of the modern world. In the midst of the moral, social, and ecological crises caused by the global capitalist system, this approach opens up space for the reformulation of organizations as moral entities tasked with bringing blessings to the entire universe.

### ***Reconstruction of Theory Through SET and WET***

The need to reform organizational theory from an Islamic perspective is not only a critique of capitalism, but also an effort to build an alternative theory

that is more in line with the values of monotheism, justice, and sustainability. In this context, two important theories emerged as pioneers in the construction of modern Islamic organizational theory, namely Shari'ah Enterprise Theory (SET) and Waqf Entity Theory (WET).

SET, developed by Iwan Triyuwono, is a direct response to the weaknesses of conventional entity theory based on the principles of individualism and shareholder interests. SET rejects the basic assumption that organizations are solely aimed at maximizing financial profits, and instead positions organizations as a medium for carrying out spiritual and social responsibilities. (Nurlasera, 2019; Sugiarta et al., 2023).

This theory is built on three main pillars: monotheism, trust, and zakat. The monotheism pillar emphasizes that all organizational activities are a form of worship and devotion to Allah SWT. The trust pillar places the organization as the holder of moral responsibility for the resources it manages. Meanwhile, the zakat pillar emphasizes the importance of distributing values to the wider community, especially weak and marginalized groups. (Muavia et al., 2022). Thus, SET presents a framework that not only focuses on accountability to humans, but also to God and the universe (Fry et al., 2005).

The practical implications of SET are extensive. In terms of financial reporting, SET replaces the focus on profit with the concept of value-added statements, which are reports that show how the economic value created by an organization is distributed to various parties, including employees, government, society, and the environment. (Chetty, 2011; Fry, 2003). This model marks a shift from ownership-based reporting to benefit-based reporting, reflecting the maqashid syariah orientation and distributive justice.

Meanwhile, WET is present as a theoretical development that focuses more on waqf-based business entities. WET states that organizations funded by waqf funds are not obliged to provide financial returns to capital providers, because the wakif is not an investor in the capitalist sense, but a servant who offers his wealth for the welfare of the people as a form of worship. (Laar, 2022). In this theory, waqf-based organizations become pure instruments of benefit distribution, not accumulation of personal wealth.

By adopting the spiritual and social values of the waqf system, WET provides an alternative organizational system that is structurally and operationally free from market pressures and profit demands. This is particularly relevant in the modern context where market pressures often push organizations to sacrifice ethical and sustainable values for short-term profits. (Nurlasera, 2019).

The main strength of WET lies in the institutionalization of the spiritual non-profit principle. The organization is not just a social institution, but also a collective worship space. This concept distinguishes WET from conventional philanthropic social institution models that continue to operate within a capitalist framework, despite having a social orientation. (Cunha et al., 2004; Steen et al., 2011).

In modern organizational theory, there is often a separation between spiritual and operational dimensions. However, both SET and WET reject this dichotomy. Both theories unite the spiritual and operational missions of the

organization in a complete and interrelated value system. SET emphasizes the existence of spirituality in every managerial activity, while WET places spirituality at the core of the organization itself.

These two theories also provide a basis for compiling indicators of organizational success that are different from conventional capitalist measures. Organizational success is not measured by market expansion or net profit increases, but by the level of social welfare generated, the environmental sustainability maintained, and adherence to sharia values implemented in every line of organizational activity. (David et al., 2023).

Thus, the reconstruction of organizational theory through SET and WET not only presents a normative alternative, but also offers a practical framework that can be applied in the management of contemporary organizations, both in the commercial and social sectors. These theories propose a repositioning of business entities as instruments of the caliphate that are subject to divine values, rather than as value-free economic growth engines.

Furthermore, the development of SET and WET theories shows that Islamic epistemology is not only able to provide criticism of the existing system, but also able to build a new system that is more ethical, spiritual, and just. This is the ontological contribution of Islam in the world of organizational theory - namely rebuilding the values, structures, and goals of the organization by making it a means of devotion and a path to God.

### ***Redefining Ownership, Accountability, and Reporting***

One of the fundamental differences between conventional organizational theory and the Islamic approach is the understanding of ownership. In a capitalist system, ownership is directly associated with absolute rights to control and profit. Shareholders are positioned as the main owners of the organization, so that the orientation of organizational activities is directed at providing maximum value to them. This model makes profit the highest measure of success and negates the moral, social, and spiritual dimensions of organizational activities. (Jones & Solomon, 2013).

But in Islamic philosophy, true ownership belongs only to Allah SWT. Humans, including the organizations they form, are only trustees of the wealth, resources, and power entrusted to them by Allah. (Guthrie & Murthy, 2009). This concept theologically shifts the nature of ownership from absolute to transcendental and accountable. Humans do not have full authority over such ownership, but are obliged to manage it according to the principles of justice, honesty, and social responsibility.

The implications of the concept of ownership as a mandate are very significant in the structure and function of the organization. First, it eliminates the exclusive orientation towards shareholders as the only party entitled to receive the results of the organization's activities. Instead, business results must be allocated fairly to all parties involved and affected, including employees, the community, and even the environment. This is the basic principle that is the foundation for the birth of the concept of reporting based on value-added statements as proposed in the SET and WET theories. (Chetty, 2011; Fry, 2003).

Value-added statement is a form of reporting that attempts to reflect the distribution of value as a whole, not only to the internal parties of the organization, but also to the wider community. In conventional reporting, the income statement only shows the calculation of income minus expenses, all of which are intended to determine the level of profit. Meanwhile, in the Islamic approach, financial statements must be able to reflect moral and social accountability, including how the organization fulfills its obligations of zakat, social contributions, and environmental preservation. (Fry et al., 2005).

In addition, accountability in Islam is not only horizontal - namely to human stakeholders - but also vertical, namely to Allah SWT. This means that every action of the organization will be held accountable before God. This dimension demands seriousness in designing a reporting system, supervision, and organizational governance that not only avoids violations of worldly laws, but also violations of ethics and sharia values. (David et al., 2023).

This approach is a form of epistemological revolution in accounting and organizational science. If so far accounting has only functioned as a tool for measuring financial performance, then in SET and WET theory, accounting is understood as part of a broader Islamic value system. It is not neutral, but has an educational and normative function: educating organizational actors to be spiritually and socially responsible, and emphasizing the need for transparency in the management of public resources. (Sugiarta et al., 2023).

WET more explicitly shows how the redefinition of ownership can free organizations from the logic of profit. In the waqf framework, the assets given by the waqif do not return to personal ownership, and the manager is not entitled to treat them as capitalization instruments. Thus, waqf business entities exist purely for the purpose of welfare, and the reporting carried out must reflect success in distributing benefits, not just recording financial achievements. (Laar, 2022).

Ownership in Islam, as seen in the SET and WET theories, demands a holistic and spiritual reporting system. Financial reports must not only be accurate and informative, but also reflective, that is, able to show the extent to which the organization carries out its mandate, upholds justice, and honors human and environmental values. In other words, reporting becomes a medium of accountability to Allah, not just to the public or regulators.

In conclusion, the Islamic approach to ownership and accountability provides a new lens through which to view organizations. It not only frees organizations from the exploitative pressures of the market, but also raises awareness that every business activity has a moral and spiritual dimension that cannot be ignored. Through reporting models such as value-added statements, organizations are given the opportunity to reflect the noble values of Islam in an operational and measurable form, while strengthening their role as an instrument of the responsible caliphate.

### ***Islamic Social Enterprise and New Success Indicators***

In the modern organizational landscape, the term social enterprise has developed as a response to criticism of conventional business systems that are

too profit-oriented. This model seeks to combine social goals with sustainable business practices. However, from an Islamic perspective, this approach is still considered inadequate because it has not fully integrated spiritual values and vertical accountability to Allah SWT. Therefore, the concept of Islamic Social Enterprise (ISE) emerged as an organizational model that explicitly combines spiritual, social, and economic dimensions in one corporate action unit. (Cunha et al., 2004; Fry, 2003).

Islamic Social Enterprise not only aims for financial sustainability and social responsibility, but also places sharia compliance and devotion to Allah as the main goal. This model is not just an organization that has "social value", but an organization that totally embodies the principle of monotheism in all aspects of its operations. Monotheism, in this context, means that all forms of business activities must be based on the intention of worship, sincerity, and the awareness that all results and processes are part of the accountability of the hereafter. (Steen et al., 2011).

The characteristics of Islamic Social Enterprise are very different from the capitalist model and even from conventional social enterprise. In ISE, the surplus or profit obtained is not directed to dividends for capital owners, but is distributed for public welfare, such as education, health, economic empowerment of the poor, and environmental preservation. (Fry, 2003; Muavia et al., 2022). Organizations become instruments for equalizing benefits, not tools for accumulating wealth.

With this framework, the indicators of organizational success in Islam must also be redefined. Success is no longer solely measured by profit growth, market expansion, or stock price increases. Instead, measures of success must include improved levels of social welfare, contributions to environmental preservation, and levels of compliance with sharia in business processes. (David et al., 2023). Such indicators bring the approach to organizational evaluation in a more holistic and humane direction.

In addition, Islamic Social Enterprise requires spiritual accountability in organizational decision making. This means that every business decision must consider its impact not only on human stakeholders, but also on human relationships with Allah SWT. This provides a higher moral standard than mere compliance with state legal regulations or customer satisfaction. (Fry et al., 2005).

In practice, this approach demands a transformation of organizational culture. Values such as honesty, sincerity, deliberation, and social responsibility are not just slogans, but are truly internalized in the decision-making system, incentive system, and relationships between members of the organization. (Pawar, 2008). Organizations that adopt these values will not only be socially accepted, but will also have greater resilience to crises, because their moral and social foundations are stronger. (Fry et al., 2017).

This Islamic Social Enterprise model can also be a bridge between the theoretical approaches of SET and WET with the implementation of organizations in the field. If SET emphasizes transcendental values in financial reports and management, and WET emphasizes the importance of releasing ownership for the sake of *maslahat*, then ISE embodies these values in an

integrated manner in one form of a complete organization - which remains economically productive but is firmly rooted in maqashid sharia and spiritual values.

Thus, Islamic Social Enterprise offers a practical framework that enables modern organizations to transform into more just, sustainable, and spiritual entities. This model is not only a normative solution to the crisis of capitalism, but also a new operational foundation for Islamic organizations today and in the future. It emphasizes that true success is not about material achievement alone, but about how much the organization is able to become a path of worship, a means of distributing justice, and a means of preserving Allah's creation on earth.

## CONCLUSIONS AND RECOMMENDATIONS

This study confirms that the existence of organizations in an Islamic perspective cannot be separated from the ontological framework that originates from the concept of caliphate, monotheism, and maqashid sharia. Organizations are not merely understood as economic entities that aim to make a profit, but as moral and spiritual instruments for humans in carrying out their divine mission on earth. This is a fundamental distinction from conventional organizational theory that is rooted in capitalist values such as individualism, profit orientation, and structural secularism.

Shari'ah Enterprise Theory (SET) and Waqf Entity Theory (WET) are two main approaches that reconstruct modern organizational theory from an Islamic epistemological framework. SET builds an accounting and management system based on the values of tauhid, amanah, and zakat, and proposes value-added statement-based reporting to replace the income statement that focuses on the capital owner. Meanwhile, WET expands the horizon of organizational thinking by building a waqf entity model that is not profit-oriented, but rather functions fully as a distributor of welfare.

Philosophically, this approach rejects the spiritual-material and individual-collective dichotomies that underlie conventional organizational theory. In Islam, the existence of organizations is part of a system of worship that integrates spiritual, social, and economic values as a whole. No activity is value-neutral: both managerial decisions, accounting policies, and governance structures must all be directed towards realizing the values of tawhid and maqashid sharia.

From a theoretical perspective, the novelty of this approach lies in the repositioning of the values of zakat, amanah, and tauhid as the basic structure of organizational accountability. This model replaces the dominant orientation towards profit and ownership, which have been the main parameters in measuring the success of modern organizations. With this approach, indicators of organizational success are shifted towards social justice, environmental sustainability, and sharia compliance, not just economic growth.

The practical implications of this ontological approach are far-reaching. First, it encourages the Muslim business world to adopt the Islamic Social Enterprise model that integrates spiritual values into operational activities consistently. Second, it paves the way for the reform of financial reporting

systems and organizational governance that are more inclusive and reflective of Islamic values. Third, it provides a new framework for thinking in business education and public policy that is more sensitive to the needs of modern Muslim society.

This study also shows that the Islamic epistemological approach - namely through the bayani, burhani, and irfani methods - is very relevant to explore the deepest dimensions of the organization as a moral and spiritual subject. In the academic world, this approach challenges the hegemony of positivism and offers a more holistic, whole, and value-based alternative.

Overall, this article proposes that organizations in Islam are instruments of the caliphate. They are tools for creating and distributing welfare, maintaining ecological balance, and upholding the values of monotheism in social life. Islamic organizations are not just about labels, but about structures, values, and goals. Therefore, theories such as SET and WET are not only important at the academic level, but also become a systemic foundation for contemporary organizational reform that is more just, sustainable, and spiritual.

#### **FURTHER STUDY**

Further research can be focused on empirical testing of the implementation of Shari'ah Enterprise Theory (SET) and Waqf Entity Theory (WET) in real organizational practices, especially in Islamic financial institutions, Islamic cooperatives, and waqf institutions. Comparative studies between value-added accounting models and conventional financial statements are also important to assess their effectiveness in reflecting spiritual and social accountability. In addition, qualitative studies on stakeholder perceptions of the values of tauhid, amanah, and maqashid sharia in managerial decision making will enrich the understanding of the application of Islamic epistemology in modern organizations. Research can also expand the exploration of the integration of these models into Islamic business education curricula and the development of public policies that support organizations based on spiritual values.

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