

PHILOSOPHY OF RISK MANAGEMENT IN ISLAMIC BUSINESS

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Abstract: Enterprise risk management is an important aspect in the modern business world, which aims to identify, assess and control risks that can affect the performance and continuity of an organization's operations. The purpose of this research is to find out about risk management in Islamic business. This paper is descriptive qualitative, which explains about risk management. The results of this paper show that risk management has basic concepts, Islamic views, relevance, and urgency.

Key words: Management, Risk, Risk Management

Introduction

Enterprise risk management is an important aspect in the modern business world, which aims to identify, assess and control risks that may affect the performance and continuity of an organization's operations. In the context of Islamic business, risk management is not only an important tool for achieving economic success but should also be consistent with the principles of Islamic teachings that emphasize fairness, ethics, and sustainability.(Arta et al. 2021)

Risk is something that can never be avoided in the lives of all human beings. Risk is inherent to every aspect of human life and activity, personal work, organizations, and government business, from lifestyle issues to illness, from sanity to sleep and more. Experts provide. Different definitions of risk indicate a very broad definition of risk. But in general, risk can be defined in different ways, for example, risk is defined as an adverse event or risk for investment analysts and risk is the deviation of the results obtained from the expected results. Whatever the definition of risk, it includes at least two important aspects, namely probability/possibility and loss/impact aspects. However, what is most popular in the community when hearing about risk, the direction of the general public's understanding is always about loss.(Indrawati et al. 2012)

Literature Review

1. Management

The word management comes from Latin, specifically the words *mantis* meaning hand and *agree* meaning what to do. These words are combined in the verb *managerre* which means manipulation. *Managere* is translated into English as management speech, with the noun management, and manager refers to the person who performs management activities.

Finally, the management part translates into Indonesian as manager or managerial. (Suparmin 2019)

2. Risk

In language, the word risk comes from the English word risk, which means the possibility of loss. In Arabic, the term risk is also known as al khathru or al khasarah. In the large Indonesian dictionary, the word risk means something that is lost as a result of action. (Rikaz, Ulhaq, and Mulyono 2020)

Understanding risk in life has become an option in doing various types of activities. Everyday, social and commercial activities always come with risks. In fact, the risk can lead to the death of the attacker. Associated with commercial and non-profit economic activities. The method varies depending on the business concept it is engaged in. Definition of risk in the Big Indonesian Dictionary which means harming and putting it in a dangerous situation. (Akbar. C et al. 2022)

Risk can be defined in various ways, but the point is that it is not only a potential negative undesirable consequence of an event or occurrence that threatens success (harm), but can also be an opportunity for profit (benefit). (Ridha et al. 2018)

3. Risk Management

Risk management can be understood as managing all risks arising in a community (loss of property, life, finance, business, etc.), either from the point of view of individuals in the community or businesses. In fact, risk management can be closely linked to business functions (finance functions, accounting functions, marketing functions, production functions, human resources functions and engineering and maintenance), as these functions give rise to many of the internal risks of business management. (Akbar. C et al. 2022)

The goal of risk management is, of course, to increase the capacity of the leadership level in business management where managers must be active and progressive by suppressing as little as possible decision making based on intuition and emotion alone, increasing skills precisely using the right analytical tools effectively in risk reduction. (Sri Rahmany 2017)

Method

This research is a qualitative study with a literature research approach, specifically research that includes the collection of scientific articles related to the topic of research discussion and/or the nature of the document, or conducting basic research designed to solve problems mainly based on a critical perspective. study. in depth with library materials and references to other relevant scientific works. The study refers to books and scientific works related to sharia issues.

Result and Discussion

1. Basic Concept of Risk

Vaughan, 2014 in the book Fundamentals of Risk and Insurances states “risk is a condition in which there is possibility of an adverse deviation from a desired that is expected or hoped for” Vaughan adds: (Indrawati et al. 2012)

- Risk is the chance of loss.
Risk is the possibility of loss associated with the probability of a loss occurring. Chance is the chance or risk of a loss occurring, financially it is used to indicate the level of probability that a certain situation will arise. To reduce the likelihood of this happening in the event of a loss, there must be a mentality of avoiding the threat.
- Risk is the possibility of loss

The term possibility means the chance of an event occurring between zero and one. If there is no loss, there must be a profit, so it should be chosen for commercial activities.

- Risk is uncertainty
Uncertainty can be subjective and objective. Subjective uncertainty is an individual's assessment of a risk situation based on the knowledge and attitudes of relevant people. Objective uncertainty will be explained in the following two definitions of risk.
- Risk is the dispersion of actual from expected results
Statisticians define risk as the degree of deviation of a value around a central position or around an average point.
- Risk is the probability of any outcome different from the one expected
According to this definition, risk is not a probability of a single event, but the possibility of many outcomes differing from what we expect.(Dyarini 2017)

2. Islamic view on risk

Islamic teaching consists of two rules, there are rules of worship and there are rules of muamalah, in terms of worship do not do it unless there is an order. While in terms of muamalah the basic rule is halal and allowed, unless there is evidence that prohibits it, the Islamic perspective in managing the risk of an organization can be studied from the story of Yusuf in interpreting the king's dream at that time. The story of the king's dream is contained in the Qur'an Surah Yusuf: 43

وَقَالَ الْمَلِكُ إِنِّي أَرَى سَبْعَ بَقَرَاتٍ سِمَانٍ يَأْكُلُهُنَّ سَبْعٌ عِجَافٌ وَسَبْعَ سُنبُلَاتٍ خُضْرٍ وَأُخَرَ يَابِسَةٍ يَا أَيُّهَا الْمَلَأُ أَفْتُونِي فِي رُؤْيَايَ إِن كُنْتُمْ لِلرُّءْيَا تَعْبُرُونَ

"The king said (to the leading men of his people): 'Behold, I dreamed that I saw seven fat cows being eaten by seven lean cows and seven green ears of grain and seven dry ears of grain: 'Explain to me the interpretation of my dream, if you are able to interpret dreams'.

While the story of Yusuf interpreting the king's dream is explained in the Qur'an Surah Yusuf: 46-49 as follows:

يُوسُفُ أَيُّهَا الصِّدِّيقُ أَفْتِنَا فِي سَبْعِ بَقَرَاتٍ سِمَانٍ يَأْكُلُهُنَّ سَبْعٌ عِجَافٌ وَسَبْعِ سُنبُلَاتٍ خُضْرٍ وَأُخَرَ يَابِسَةٍ لَّعَلِّي أَرْجِعُ إِلَى النَّاسِ لَعَلَّهُمْ يَعْلَمُونَ

(When the servant met yusuf, he said): "yusuf, O man of great trust, tell us of the seven fat cows which are eaten by seven lean cows, and of the seven green ears of grain and the seven dry ones, that I may return to the people, that they may know.

قَالَ تَزْرَعُونَ سَبْعَ سِنِينَ دَأَبًا فَمَا حَصَدْتُمْ فَذَرُوهُ فِي سُنْبُلِهِ إِلَّا قَلِيلًا مِّمَّا تَأْكُلُونَ

Yusuf said: "That you may plant seven years, as is customary; and what you reap, you shall let it lie fallow, except a little for your food.

ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ سَبْعٌ شِدَادٌ يَأْكُلْنَ مَا قَدَّمْتُمْ لَهُنَّ إِلَّا قَلِيلًا مِّمَّا تُحْصِنُونَ

Then after that there will come seven very hard years, which will consume what you have stored up for them (the hard years), except for a little of what you have stored up.

ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ عَامٌ فِيهِ يُغَاثُ النَّاسُ وَفِيهِ يَعَصِرُونَ

Then after that will come a year in which it will rain (sufficiently) and in which they will press grapes."

From the story described in the Qur'an, it can be understood that in the second seven years there will be a terrible drought. This was a risk that befell the land of Joseph. But with the king's dream which was then interpreted by Joseph, then Joseph had measured and controlled the risks that would occur in the second seven years. Joseph did this by suggesting to the people of the whole country to save some of their crops in the harvest of the first seven years in order to face the famine in the next seven years. Thus, the danger of famine that threatened Joseph's country was avoided. It was a perfect risk management. The risk management process was applied by Yusuf through the stages of understanding risk, evaluating and measuring, and managing risk. (Suseno 2014)

Basically, Allah SWT reminds humans or a society, where there are times when in certain situations they have strong assets and capital, but one day they will experience difficulties. It's just that how to overcome it in the face of difficulties, we must prepare for calculations and a broad view. Philosophically, in order to see the story of Joseph over his land, the truth is that humans will always want a certainty, not a possibility. Humans will always want stability, not fluctuation. And there is only one deity that is all certain and all stable, namely Allah SWT. When humans try to obtain certainty, they are actually heading towards Allah SWT. When humans try to maintain stability, they are actually heading towards Allah SWT. Only Allah SWT is stable, permanent, eternal and certain, absolute. Therefore, when humans try to fulfill everything in risk management, organizing all things related to risk, they are actually fulfilling the call of Allah SWT. (Ramdhan 2006)

In another verse that deals with placing risk management in important considerations, is Surah Lukman: 34

إِنَّ اللَّهَ عِنْدَهُ عِلْمُ السَّاعَةِ وَيُنَزِّلُ الْغَيْثَ وَيَعْلَمُ مَا فِي الْأَرْحَامِ وَمَا تَدْرِي نَفْسٌ مَّاذَا تَكْسِبُ
غَدًا وَمَا تَدْرِي نَفْسٌ بِأَيِّ أَرْضٍ تَمُوتُ إِنَّ اللَّهَ عَلِيمٌ خَبِيرٌ

Verily, Allah, in Him alone is the knowledge of the Day of Resurrection; and it is He who sends down the rain, and knows what is in the womb. and no one can know (with certainty) what he will do tomorrow. and no one can know on which earth he will die. Verily, Allah is All-knowing, All-knowing. (QS. Lukman: 34)

In the Qur'an Surah Lukman verse 34 Allah SWT explicitly states that, no one in this universe can know with certainty what he will do tomorrow or what he will get, so with this teaching all humans are ordered to invest as a provision for the world and the hereafter. As well as being obliged to try so that unexpected events do not have an impact on fatal destruction against him (mitigating risk). (Arta et al. 2021)

The Hadith also tells the story of one of the Prophet's companions who left his camel without tying it to something, such as a tree, bollard, etc., and then left it. He (s.a.w.) asked: "Why did you not tie it up?" He replied: "I have put my trust in Allah." The Messenger of Allah (s.a.w.) could not agree with this man's way of thinking, so he said, "Tie it first and then put your trust in Allah." In short, tawakkal without prior effort is wrong and erroneous in the view of Islam. The meaning of tawakkal, which is commanded by the religion, is to surrender to Allah after making efforts and trying and working accordingly. For example,

putting a bicycle in front of the house, after locking it, and then making tawakkal. This means that if after being locked it is still lost, for example stolen by someone, then in the view of religion the person is not guilty, because he has made efforts so as not to be lost. This meaning of tawakkal is defined as risk management.(Riva'i and Fauzi 2015)

Islam provides teachings to manage risk positions as well as possible, as the Qur'an and Hadith teach to carry out activities with very careful calculations in the face of risk. In trying to make a living, a Muslim is faced with uncertainty about what will happen. We may plan a business activity or investment, but we cannot be sure what we will get from the investment, whether profit or loss. This is sunnatullah or Allah's provisions as conveyed to the Prophet Muhammad PBUH.(Sukoco and Azmi 2022)

3. Relevance Of Risk Management

According to Godfrey (1996), there is a risk relevance that needs to be known and identified as the first step in handling risk, which is as follows:(Suparmin 2019)

- Political. Examples: Government policies, public opinion, ideological changes, regulations, chaos (war, terrorism, riots).
- Environmental. Examples: Pollution, noise, permits, public opinion, internal/organizational policies, environmental legislation, environmental impacts.
- Planning. Examples: Permit requirements, policies and practices, land use, social and economic impacts, public opinion. Perencanaan (Planning).
- Marketing (market). Examples: Demand (forecast), competition, obsolescence, customer satisfaction, fashion.
- Economic. Examples: Financial policy, taxation, inflation, interest rates, exchange rates. Administrator Leadership Training Risk Management Module
- Financial. Example: Bankruptcy, profit, insurance, risk share.
- Natural. Examples: Unexpected ground conditions, weather, earthquakes, fires and explosions, archaeological site findings.
- Project. Examples: Definition, procurement strategy, performance requirements, standards, leadership, organization (maturity, commitment, competence and experience), quality planning and control, work plan, manpower and resources, communication and culture.
- Technical (Technic). Example: Design comprehensiveness, operational efficiency, reliability.
- Human. Examples: Errors, incompetence, negligence, fatigue, communication skills, culture, working in the dark or at night.
- Criminal. Examples: Lack of security, vandalism, theft, fraud, corruption.
- Safety. Examples: Regulations (occupational health and safety), hazardous substances, collisions, collapse, flooding, fire and explosion.(Siregar et al. 2023)

4. the urgency of risk management

Based on the description of the explanation of the concept of risk and risk management, risk management has a complex urgency in the implementation of such management. Based on this, the urgency of risk management is as follows: (Rohmaniyah and Cecep 2023)

- Infrastructure

The preparation of infrastructure that supports risk management, both soft and hard infrastructure, is one of the important things that must be done in order for risk management to be ready. a. Non-hardware support systems When it comes to the preparation of soft infrastructure for risk management, there are several issues to

consider, including the following: cultivation of a risk awareness culture among members of the organization, and support from management.

- **Responsibility and Commitment**
Unwavering and persistent dedication on the part of the organization's management is required for the conception and work done to implement effective risk management.
- **Risk Management Policy**
Management's commitment to the implementation of risk management and the objectives to be achieved by the implementation of risk management should be clearly articulated in the risk management policy.
- **Management Resources**
Organizations must set aside sufficient funds to successfully implement risk management. It is imperative that consideration is given to, among other things, the following:
 - a) Staff members with sufficient experience, skills and abilities, and an appropriate number of staff;
 - b) Additional resources required for the completion of each stage of risk management implementation
 - c) The methods and procedures, as well as the documentation system, are thoroughly documented
 - d) Information system and management of knowledge (management of knowledge system).(Sebayang 2020)

Conclusion

Every activity of the company always contains risks that may occur. The risk will relate to the level of loss, or profit obtained. Therefore, every risk must be identified immediately so as not to have a greater impact. This requires good risk management. Adequate resources need to be devoted to the measurement and identification of risks and the development of risk management techniques. In this regard, there is an urgent need to combine a solid understanding of Shariah aspects with a strong knowledge of modern risk management techniques so as to develop innovative risk mitigation.

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