International Journal of Economics, Management and Accounting 31, no. 1 (2023): 127-151

THE ROLE OF *MUSAWAH* (SYMMETRIC) INFORMATION PARTNERSHIP ON FINANCIAL PERFORMANCE OF *SHARĪʿA* BPR

Sukamto[a*], Widiyanto bin Mislan Cokrohadisumarto[b], Riawan[c], and Mohamad Sodikin[d]

[a]*Department of Management, Faculty of Economics, Universitas Muhammadiyah Semarang (UNIMUS), Semarang, Indonesia. (E-mail: sukamto@std.unissula.ac.id)*

[b]*Department of Management, Faculty of Economics, Universitas Islam Sultan Agung (UNISSULA), Semarang, Indonesia. (E-mail: widiyantopunt@hotmail.com)*

[c]*Department of Management, Faculty of Economics, Universitas Muhammadiyah Ponorogo (UMPO), Ponorogo, East Java, Indonesia. (E-mail: riawan13awan@gmail.com)*

[d]*Institute of Ekonomi Science Cendekia Karya Utama, Semarang, Indonesia. (E-mail: msodikin@std.unissula.ac.id)*

ABSTRACT

Asymmetric information is still a significant concern in the profit and loss sharing financing in *Islāmic* banking, including *Sharīʿa* Rural Banks (*Bank Pembiayaan Rakyat Sharīʿah/Sharīʿa* BPR) in Indonesia. This study aims at building a model that can reduce asymmetric information in profit and loss sharing financing by including the *musawah* information partnership variable to improve sustainable financial performance of s*harīʿa* BPRs. This study used 115 *sharīʿa* BPRs in Indonesia as its sample. The results show that *musawah* information partnership has a strong correlation with financing risk, whereby the higher the *musawah* information partnership, the lower the financing risk would be. This means that *musawah* information partnership can help reduce asymmetric information and, eventually, minimize financing risk and improve financial performance. Information quality, *musawah* information partnership, and financing risk also strongly influenced financial performance both separately and collectively on implementation of profit and loss sharing mechanism in

*Corresponding author: *sukamto@std.unissula.ac.id*

Sharīʿa BPRs. This research has its own theoretical contribution. First, it provides new insights into the value of *tawḥīd* as the basis for equal, mutually supportive and mutually beneficial partnerships, ease of access to information and reliable and objective information sharing. Second, the *musawah* information partnership concept adds a new partnership characterized by *Islāmic* equality values. Third, this research enriches the literature on application of *Islāmic* values, especially the values of *musawah* in partnership.

JEL Classification: D14, D82, E00, G21, G32

Key words: Profit and Loss sharing, *Musawah* Information Partnership, Financial performance, Financing risk

Submitted: 07/04/2022 Accepted: 20/10/2022 Published: 28/06/2023

1. INTRODUCTION

In Indonesia, *sharīʿa* rural banks (*bank pembiayaan rakyat sharīʿah* / *sharīʿa* BPR) are part of the national banking system as regulated in Law No. 21 Year 2008 article 18 concerning *sharīʿa* banks. *Sharīʿa* Bank is a financial business institution based on *sharīʿa* principles. The principles of *Sharīʿa* Bank operationally prioritize justice, transparency, partnership, and universality. *Sharīʿa* banks consist of *Sharīʿa* commercial banks and *sharīʿa* BPRs. Unlike commercial banks, *Sharīʿa* BPRs do not provide services in payment traffic.

One of the contracts these BPRs use to run their financing business is profit and loss sharing. This kind of contract consists of *mushārakah* and *muḍārabah* contracts. *Mushārakah* is equity participation in joint venture, wherein each party can be involved in the management and the profit is divided as per agreement and the loss is borne by each party based on their respective equity participation (Ghani, 2020). Meanwhile, a *muḍārabah* contract means a collaboration between two parties for a particular business. The bank provides all the capital (*saahib al-mal*) and the manager (*mudarib*) serves as the second party. The agreement also sets the business earning between parties (Sam, Hasanudin, and Hakim, 2014). According to Ghani (2020) *muḍārabah* is a passive partnership in which one party provides capital while the other acts as a manager or provides expertise, and the profits are divided according to a fixed ratio agreed upon by the parties and losses are borne by the capital owner. Profit and loss sharing is a contract that shares risk for the parties, in contrast to interest where the risk is

borne only by customers (Gholami, Abdul-rahman, and Faizah, 2021).

In agency theory, the cooperative relationship between capital owners and managers explains that capital owners delegate authority and mandate to agents to make decisions and manage the company (Jensen and Meckling, 1976). In principle, such delegation to agents is bound by formal agreements on their rights and obligations. Both the principal and the agent aim to get as much utility as possible. Accordingly, the principal-agent relationship will be aligned when their interests match. This is only possible, however, if the agency has information more than just the principle or asymmetric one. With regard to information distribution, it is imperative that the principal obtain extensive and complete information from the agent. In reality, however, the information received by the principal is incomplete. Based on *Islāmic* view, asymmetric information is classified as *gharar* (i.e., ambiguous) and *Islām* forbids its followers from gaining benefits from others using ambiguous, manipulated, and exploited information (Jayaprawira and Abdussalam, 2019). The *gharar* (caused by asymmetric information) in economic activities leads to market instability and loss for investors or *saahib al-mal* (Tatiana, Igor, and Liliya, 2015). Therefore, in *Islām*, it is ordered to clarify or ask for an explanation (*tabayyun*) when obtaining information or news to verify it.

It is believed that profit and loss sharing can reduce income inequality and promote economic stability (Gholami et al., 2021). Mohamed and Fauziyyah (2020) argue that *Islāmic* microfinance institutions are the best tool for reducing poverty. In this case, *Sharīʿa* BPRs serve the cause perfectly, as they focus on micro, small, and medium enterprises. This profit and loss sharing contract, however, has not been practiced too much. *Sharīʿa* banks do not choose *muḍārabah* or *mushārakah* products (Febianto, 2012). One reason for this is the lack of market transparency in which *sharīʿa* banks operate. In addition, when the profit and loss sharing contract suffers a loss, both the banks and the investors owning the *muḍārabah* account will receive lower returns Abdul-Rahman, Abdul-Majid, and KJ, 2019). Data from the Financial Services Authority (OJK) in March 2020 showed that only 16.97% of the total financing used *muḍārabah* and *mushārakah* contracts at *sharīʿa* BPRs. Benamraoui and Alwardat (2018) found that asymmetric information is relevant to *muḍārabah* and *mushārakah* contracts and directly affects the income calculation for *sharīʿa* banks and *sharīʿa* business unit banks. Likewise, Siddiqui's (2008) study reveals that

sharīʿa banks face financing risk due to asymmetric information in profit and loss sharing contracts (*muḍārabah* and *mushārakah*) where banks do not have access to information on the proposed project and the obtained profits.

Furthermore, research results that contradict Yousfi (2013) show that *muḍārabah* can reduce moral hazard problems and direct managers to provide the best level of effort. El Fakir, Fairchild, and Tkiouat (2019) also discuss asymmetric information in the form of adverse selection and moral hazards in profit and loss sharing financing. It can be reduced by theory and simulation evidence using mechanism design theory and incentives for high-type companies. These different findings indicate that asymmetric information issue still needs to be resolved because leaving it unchecked might negatively affect *sharīʿa* BPR financial performance. Therefore, this study aims at building a model that can help reduce asymmetric information in profit and loss sharing financing by including *musawah* information partnership (MIP) variable to improve the sustainable financial performance of *sharīʿa* BPRs. It is expected that the study can contribute to development of financial management, implementation of profit and loss sharing transactions, especially regarding the agency theory, namely the discussion of information partnership in financial performance. This article consists of five parts; the first part gives the background of the research; the second part is literature review and formulation of hypotheses. The third part is the research methodology, followed by the results and discussion. Finally, the last section contains conclusions that discuss the study's limitations and suggestions for future research.

2. LITERATURE REVIEW

2.1 FINANCIAL PERFORMANCE AND MEASURE

Financial performance is an important measure of banking institution performance. It can be seen from bank ability to earn profits as reflected by profitability. It compares profit after tax with core capital or profit before tax with the bank's total assets in a certain period (Pandia, 2012). The profitability ratio measures the bank's effectiveness in obtaining profits. This ratio is also used to measure financial health. Adequate profit, however, is needed to keep the bank capital sources flow.

Siamat (1993) stated that this profitability analysis technique involves the relationship between certain items in the income

statement to obtain measures to be used as indicators. This is to assess the bank efficiency and ability in earning profits. The first component of profitability is return on assets (ROA), or the ratio between profit (before tax) and bank's total assets. This ratio indicates the asset management efficiency level of a bank (Pandia, 2012). Airout and Airout (2017) used ROA and return on equity (ROE) to evaluate the financial performance of *sharīʿa* banks in Jordan. Likewise, Sulub and Salleh (2019) applied the two measurements to analyze bank financial performance in Malaysia. In other words, measuring banking financial performance using ROA and ROE is a common practice in various places.

2.2 INFORMATION QUALITY

Information results from useful data processing organized by its users (Chussing, 1996). According to Jogiyanto (2005), information is data that has been processed to make it meaningful and of value for the recipient and for making current or future decisions. Meanwhile, quality is understood as meeting the specifications, expectations, or even exceeding them (Kahn, Strong and Wang, 2002). According to Ong, Day, and Hsu (2009), information quality is a measurement of the information system quality. Negash, Ryan, and Igbaria (2003) argued that the quality of information is a function concerning the value of the information generated by the system. Kahn et al. (2002) suggested that information quality dimensions include accessibility where information is available, correct, and credible, and can be accessed quickly and objectively. The information is neither biased, discriminatory, nor impartial.

Information can also be conceptualized as a service by the experienced parties to be used or consumed. The process of converting data into information has distinctive characteristics. It often involves customized and personal interactions between information technology staff and users. Furthermore, quality of information from the product dimension takes the form of accuracy, completeness, and freedom from error (Kahn et al., 2002). Good information quality affects the precision of decisions taken. In other words, poor quality information will negatively affect user satisfaction.

When the information provided is of good quality, it helps avoid asymmetric information. In *Islām*, it is forbidden to hide the truth that people need to know and confound true news with false news (*Qurʾān* 2: 42 and 146). It is also commanded to state that a

truth is true, and falsehood is indeed falsehood (*Qurʾān* 8: 8) besides ensuring that the information conveyed does not favor just one party (*Qurʾān* 49: 9). Accordingly, when unclear information is received, the parties need to clarify the information receive with the main source, or even some other sources that they think can provide new information (*Qurʾān* 49: 6). This way, the information they receive can be impartial. Eventually, it will allow the information recipient to take a fair attitude toward it (*Qurʾān* 49: 9).

According to the experts (Ong et al., 2009; Jogiyanto, 2005; Khan et al., 2002), it can be inferred that the quality of information is the result of a specific, reliable, objective, and easily accessible data processing.

2.3 *MUSAWAH* INFORMATION PARTNERSHIP

A partnership might include a wide range of different concepts and practices and it describes various types of relationships in various circumstances and locations (McQuaid, 2000). Meanwhile, according to Notoatmojo (2003), a partnership is a formal cooperation between individuals or groups of individuals and organizations to achieve certain goals. Sulistiyani (2004) observed that one form of partnership is mutualism partnership. It is the cooperation of two or more parties who understand the importance of partnering to obtain better results and benefits or to achieve optimal goals.

In mutualism partnership, the parties share information about business conditions, decisions taken, and profit level. In profit and loss sharing products, *sharīʿa* BPRs need information for making decisions on distribution of agreed business profits (ratio).

Problems can arise if asymmetric information is present between the bank and the *mudarib* or manager. Furthermore, it can result in injustice in profit distribution. Husted (2007) demonstrated that despite the incomplete information, it is still possible for it to be symmetrical when both parties share knowledge by having a dialog and learning the lessons. *Islām* teaches to make *tabayyun* or clarification when obtaining information. *Islām* also forbids the *su'u al zhan* or prejudice against information and the one providing it. As referred to in the *Qurʾān*, *Surah al Hujurat* verse 6, believers need to examine and check the truth of information (news) so as not to cause calamity and regret. Symmetric information will positively affect the partnership and decision-making of the parties. Therefore, when combined with high level of informal control, symmetric information

reduces the possibility of cost increases caused by negative behavior (Rodrigues-Lopez and Comesane, 2016).

The criticisms directed at the agency approach by Dess (1992), as reflected in Bowie and Freeman (1992), explain the relationship between principal and agent. First, this relationship ignores the principal's obligation to the agent. Second, it always describes the agent negatively. Third, it fails to consider the role of justice. Finally, it does not consider solutions under ethical norms. Based on Dess's criticism, the principal always becomes the uninformed party and the victim, while the agent is the lucky party (Dess, 1992). From the *Islāmic* perspective, the parties in a partnership hold the same position. Such equality in position is known as the principle of *al-musawah*. The profit and loss sharing product is a partnership between *saahib al-mal* (bank) and the manager (*mudarib*) and it also uses a capital cooperation model (*shirkah*) between banks and customers as partners and, thus, they have equal rights and obligations.

Musawah literally means equality. The term equality means togetherness and respect for fellow humans as creatures of God. Equality believes that all human beings are equal in value and dignity, regardless of gender, race, or ethnicity. A human being is only valued based on his or her righteousness, and the judgment and the level of which only Allāh *ʿazza wa jalla* knows. As stated in *Surah Al Hujurat* verse 13, God created mankind and made them into tribes and nations where one is equal to others, while the measure of their nobleness is the level of their righteousness. This verse emphasizes the unity of human origin by showing the equality of human beings, regardless of their gender or ethnicity. They are the same in the sight of Allāh *ʿazza wa jalla*, and there is no difference from one another based on equality and togetherness, and respect for fellow humans as creatures of Allāh *ʿazza wa jalla* (Shihab, 2002). The purpose of *al musawah* is to achieve *tawazun* (balance). The significance of *tawazun* comprises balance in such aspects as material and spiritual, private and public, financial and real, business and social, and utilization and preservation. A company's profit is not a priority in *sharīʿa* transactions because it only benefits certain parties such as owners (shareholders). In *Islām*, the benefits are enjoyed not only by shareholders but also all parties involved in the economic activity. Based on the description, the proposition of *musawah* information partnership can be formulated. It is the quality of partnership based on values such as equality, balance, mutual benefit, and the ease of access to reliable and objective information

related to business progress, profit, risk, and decision making. Eventually, it will realize a high-quality financial performance.

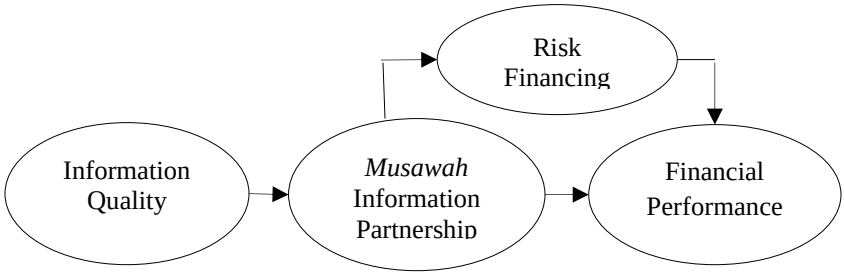
2.4 FINANCING RISK

Financing provides funds or equivalent claims in profit sharing transactions, lease transactions such as service leases, buying and selling, and lending and borrowing transactions. It is based on an agreement or between *sharīʿa* banks and other parties that require the party being financed and/or given a fund facility to return the funds after a certain period in exchange for *ujrah*, without compensation, margin, or profit-sharing (Law Number 21 on Sharia Banking, 2008). Meanwhile, Uteli (2001) defined risk as an event (both internal and external) resulting from actions or inactions that have negative consequences. In conclusion, financing risk is defined as the potential for partners to fail to honor their obligations under the agreed terms (Febianto, 2012). Risk of the partner's failure to meet obligations is in the form of late payments, payment errors, decreased customer ability to pay part of the obligation, even inability to pay at all, or loss.

One of these financing risks is reflected in non-performing financing (NPF), or the ratio of non-performing financing to total financing. NPF reduces bank profitability and involves possible losses on productive assets or risk reserves. Likewise, Nara Hari (2007) affirmed that credit risk results in a decline in the portfolio of microfinance institutions, decreased income, and increased operational costs. Hence financing risk is the risk of non-performing financing in substandard, doubtful, and bad financing conditions.

Based on integration of the propositions regarding the *musawah* information partnership and financial performance, risk financing, and information quality, an empirical research model as shown in Figure 1 is formulated.

FIGURE 1
Empirical Research Model



2.5 RESEARCH HYPOTHESIS

Based on the literature review, research framework and empirical model, the research hypotheses are formulated as follows:

Hypothesis 1: If the Information quality (IQ) improves, the *musawah* information partnership will improve.
Hypothesis 2: If the *musawah* information partnership (MIP) is higher, the financing risk (FR) will be lower.
Hypothesis 3: If the financing risk (FR) is lower, the financial performance (FP) will be higher.
Hypothesis 4: If the *musawah* information partnership (MIP) is higher, the financial performance (FR) will be higher.
Hypothesis 5: Financing risk (FR) mediates the relationship between *musawah* information partnership (MIP) and financial performance (FP).
Hypothesis 6: *Musawah* information partnership (MIP) and financing risk (FR) mediates the relationship between information quality (IQ) and financial performance (FP).
Hypothesis 7: *Musawah* information partnership (MIP) mediates the relationship between information quality (IQ) and financial performance (FP).
Hypothesis 8: *Musawah* information partnership (MIP) mediates the relationship between information quality and financing risk (FR).

3. METHODOLOGY

3.1 TYPES OF RESEARCH

This research applies "explanatory research", which emphasizes the relationship between research variables (causality) by testing the hypothesis. It contains description, but the focus lies on the relationship between variables (Ghozali, 2016). The variables include information quality, financing risk, information partnership consultation and financial performance.

3.2 TYPES OF DATA

This study used primary data directly taken from respondents, namely the heads of *sharīʿa* BPRs in Indonesia. The primary data in

this study were respondents' responses to the research variables of information quality, information partnership consultation, financing risk and financial performance.

3.3 DATA COLLECTION METHOD

The data were collected by distributing questionnaires directly and asking the respondents a list of questions. The questionnaire was distributed via a Google form and the link to it was sent online to all respondents in Indonesia. The respondents immediately filled in the form, and the data were automatically stored and documented; hence it was kept confidential. The questions asked were open- and closed-ended. Open-ended questions gave the respondents freedom to answer based on what crossed their mind. Meanwhile, closed-ended questions are ones where responses are limited by the researcher. Therefore, these do not allow the respondent to answer based on their personal opinion but to choose from a given set of choices.

3.4 SAMPLE

This study involved 163 *sharīʿa* BPRs in Indonesia, spread in East Java, Central Java, Special Region of Yogyakarta (DIY), Special Capital Region of (DKI) Jakarta, West Java and other provinces with *sharīʿa* BPRs (FSA, 2020). The respondents were the directors and executive officers of *sharīʿa* BPRs.

The sampling method is purposive sampling technique. The sampling considered the area where the *sharīʿa* BPRs were located and a minimum of 3-year operation. According to Hair, Anderson, and Black (2013), the number of samples shall be the number of indicators multiplied by 5 to 10 or at least 100 respondents. To optimize generalization, the sample of this study consisted of 115 respondents.

3.5 VARIABLE MEASUREMENT

This study used four variables consisting of information quality, financing risk, information partnership consultation and financial performance. The measurements (indicators) of each variable were as follows. The information quality indicators include believability, accessibility, and objectivity of information (Kahn et al., 2002).

The financing risk indicators consisted of non-performing financing with substandard, doubtful and non-performing financing,

based on the *sharīʿa* banking statistics published by the Financial Services Authority (FSA, 2020). Meanwhile, for *musawah* information partnership, the indicators are the equality value, mutual benefit, easy access to information, reliable and objective information (Sulistiyani, 2004; Shihab, 2002). In comparison, the financial performance indicators involved ROA and ROE (FSA, 2020; Pandia, 2012). These variables were measured by a questionnaire using a Likert scale with an answer scale from 1 to 5, representing ratings from strongly disagree to strongly agree.

4. RESULT AND DISCUSSION

4.1 DESCRIPTIVE STATISTICS

Descriptive statistics generally consist of average, median, maximum, minimum, standard deviation, and total data/respondents. This research, however, focused more on the average value of the data from the respondents' answers.

In the descriptive analysis, the studied respondents' perceptions could be measured using the range criteria with the formula for the maximum value of the scale used being subtracted by the minimum value of the scale used, then divided into 3 types of interpretation (low, medium, and high) (Sugiyono, 2015). The calculation of the range in this study was as follows: (5 – 1): 3 = 1.33. Hence the interpretations that can be made are:

TABLE 1
Range Interpretation

Range	Description
1.00 – 2.33	Low
2.34 – 3.67	Medium
3.68 – 5.00	High

4.1.1 DESCRIPTION OF INFORMATION QUALITY VARIABLE

This study used 115 respondents as its sample. The information quality (IQ), *musawah* information partnership (MIP), financing risk (FR) and financial performance (FP) variables in this study were reflected in each of the four (4) indicators or constructs shown in Table 2.

TABLE 2
Descriptive Statistics Variables

IQ Variable Indicator/Construct		Mean
X1.1	Correct and reliable information	4.017
X1.2	Fast and easy information	3.868
X1.3	Information objectivity	3.835
X1.4	Detailed information	3.587
MIP Variable Indicator		
Y1.1	Equal partnership relationship	4.430
Y1.2	Mutual support and benefit	4.463
Y1.3	Easy access to information	3.992
Y1.4	Reliable and objective information	3.736
FR Variable Indicator		
Z1.1	Timeliness in fulfilling obligations	3.405
Z1.2	Percentage of delays in fulfilling obligations	3.595
Z1.3	Doubtful collectability	3.818
Z1.4	Collectability loss	3.843
FP Variable Indicator		
Y2.1	Increase in Return on Assets (ROA)	3.810
Y2.2	Revenue sharing	3.843
Y2.3	Increase in *sharīʿa* BPR income	3.545
Y2.4	Increase in net income every year	3.884

Source: SmartPLS 3.2.9 Output

Based on Table 2, the four constructs making up the information quality variable had a high mean value of 3.827. Meanwhile, the four constructs of *musawah* information partnership had a high mean score of 4.155. Financing risk achieved a moderate mean value of 3.665, and the four constructs of financial performance were at a high mean value of 3.771. Thus, in general, the respondents gave a very positive and excellent response to the information quality and each of the other variables to improve financial performance.

4.2 PARTIAL LEAST SQUARE (PLS) ANALYSIS RESULTS

The data of this study were analyzed using the SmartPLS 3.2.9 software program to facilitate data processing. Data analysis using Partial Least Square began with data validity (convergent and discriminant validity) and reliability tests.

4.2.1 UTER MODEL RESULT (MEASUREMENT MODEL)

The outer model analysis aims at assessing the measurement construct of latent variables. This analysis aims at testing the validity and reliability of latent variables making up the indicators. The validity test was conducted to measure the extent to which the research indicators exposed something they measured (latent variables) (Ghozali, 2016). The validity test can be seen at two (2) points: the outer loading and discriminant validity (cross-loading) of the indicators on the latent variables. The first validity test uses the outer loadings table (convergent validity test), as presented in Table 3.

TABLE 3
Outer Loadings

	Information Quality	*Musawah* Information Partnership	Financing Risk	Financial Performance
X1.1	0.885			
X1.2	0.811			
X1.3	0.888			
X1.4	0.830			
Y1.1		0.720		
Y1.2		0.787		
Y1.3		0.893		
Y1.4		0.847		
Z1.1			0.716	
Z1.2			0.878	
Z1.3			0.873	
Z1.4			0.651	
Y2.1				0.740
Y2.2				0.776
Y2.3				0.774
Y2.4				0.692

Based on the convergent validity test, it was found that the indicator that had a loading value of 0.07 had a high correlation value. One indicator of the financing risk and one indicator of the financial performance had values of 0.651 and 0.692. In the development of the indicator scale, the loading value of 0.50 to 0.60 was still acceptable (Ghozali, 2016; Chin, 1998). Furthermore, the indicators were re-analyzed using a cross loading table (discriminant

validity test), and the obtained data were presented in the following Table 4.

TABLE 4
Discriminant Validity (Cross-Loadings)

	Information Quality	*Musawah* Information Partnership	Financing Risk	Financial Performance
X1.1	0.885	0.660	0.434	0.399
X1.2	0.811	0.642	0.332	0.443
X1.3	0.888	0.622	0.436	0.397
X1.4	0.830	0.619	0.357	0.355
Y1.1	0.452	0.720	0.362	0.338
Y1.2	0.492	0.787	0.337	0.332
Y1.3	0.718	0.893	0.390	0.425
Y1.4	0.713	0.847	0.343	0.399
Z1.1	0.434	0.337	0.716	0.395
Z1.2	0.458	0.427	0.878	0.502
Z1.3	0.327	0.333	0.873	0.462
Z1.4	0.144	0.249	0.651	0.231
Y2.1	0.320	0.368	0.388	0.740
Y2.2	0.410	0.409	0.379	0.776
Y2.3	0.396	0.326	0.418	0.774
Y2.4	0.258	0.266	0.387	0.692

Table 4 shows correlation of each construct with its indicators was higher than the correlation of the indicators of the construct with other constructs, hence validity of the indicators of each construct. Based on the results of convergent and discriminant validity tests, all indicators of each latent variable were valid for further analysis processes. The reliability test in Table 5 presents Cronbach's alpha and composite reliability values; it also shows average variance extracted (AVE) value used to show convergent validity.

The data are valid if the AVE value exceeds 0.5. Based on Table 5, the constructs making up the latent variable were valid, and thus the next stage of analysis (i.e., the reliability test), could be conducted. As for the reliability, the test could be seen in the Cronbach's alpha and composite reliability columns. If the latent variable in both categories has a value exceeding 0.7, the data are reliable. The reliability test itself was carried out to measure whether the questionnaire or indicators used in the study could provide consistent or stable results from time to time (Ghozali, 2016).

TABLE 5
Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Information quality	0.876	0.876	0.915	0.730
Musawah information partnership	0.830	0.851	0.887	0.663
Financing risk	0.791	0.831	0.864	0.617
Financial performance	0.734	0.737	0.834	0.557

Source: SmartPLS 3.2.9 Output

Based on Table 5, the data from the four (4) latent variables had Cronbach's alpha and composite reliability values greater than 0.7. In other words, the data was reliable. Thus, based on the outer or measurement model with good results, the data processing could be continued to the next stage, namely analysis of the inner model.

4.2.2 INNER MODEL (STRUCTURAL MODEL) RESULT

The inner model test was conducted using the SmartPLS 3.2.9 software program. The output could be generated from bootstrapping and is presented in Table 6.

TABLE 6
Path Coefficients (Mean, STDEV, t-Values, p-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	*t* Statistics (|O/STDEV|)	*p*-Values
Information quality → *Musawah* Information Partnership	0.745	0.749	0.034	21.852	0.000**
Musawah Information Partnership → Financing Risk	0.438	0.448	0.068	6.480	0.000**

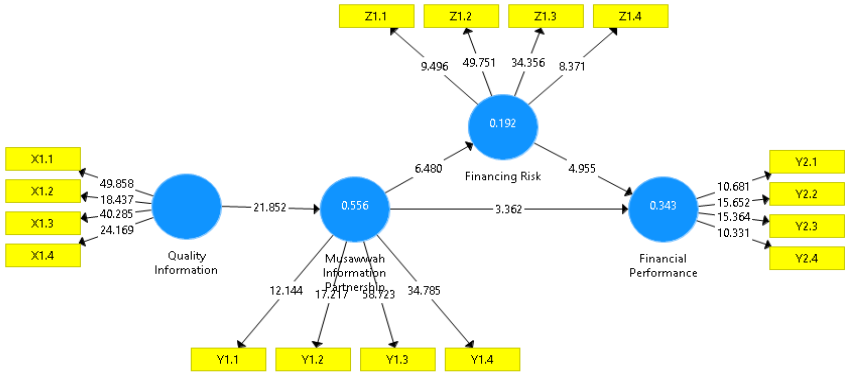
TABLE 6 *(continued)*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	*t* Statistics (|O/STDEV|)	*p*-Values
Musawah Information Partnership → Financial Performance	0.286	0.291	0.085	3.362	0.001**
Financing Risk → Financial Performance	0.401	0.413	0.081	4.955	0.000**

Source: SmartPLS 3.2.9 Output
Note: **significant at $p < 0.01$; *significant at $p < 0.05$

The inner model analysis results present the relationship between latent variables, including the significance of the effect, the regression coefficient or the effect of each exogenous variable on the endogenous variables, and the effect of these exogenous variables on the endogenous variables. These results are shown in *R*-Square numbers. The significance test results can be seen in Figure 2, which presents a model of the results with bootstrapping.

FIGURE 2
Inner Model



Based on the path coefficient of each variable, the structural equation could be determined as follows:

(1) $\eta_1 = 0.745\xi_1 + \zeta_1$
(2) $\eta_2 = 0.438\xi_2 + \zeta_2$
(3) $\eta_3 = 0.286\xi_2 + 0.401\xi_3 + + \zeta_3$

Where:
β = Path coefficient
ζ = Inner residual variable
η_1 = *Musawah* information partnership variable
η_2 = Financing risk variable
η_3 = Financial performance variable
ξ_1 = Information quality variable
ξ_2 = *Musawah* information partnership variable
ξ_3 = Financing risk variable

The model equation is given in Figure 3, which was the result of processing with the outer model. It produced regression coefficient values and included the validity value between variable indicators and latent variables.

FIGURE 3
Outer Model

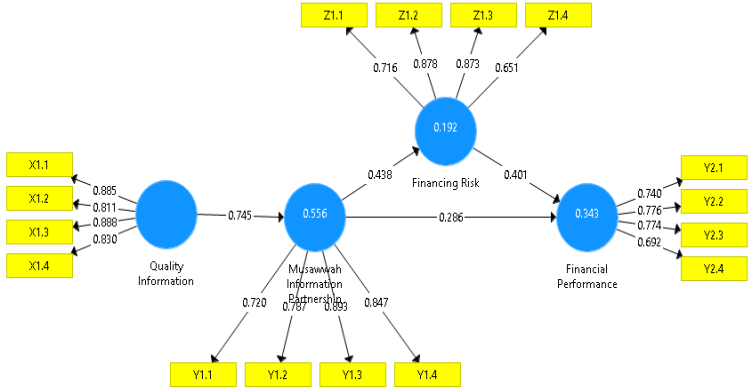


Figure 3 displays the effect of the independent variables on the dependent variable (coefficient of determination). It is also presented in Table 7. Figure 3 and Table 7 explain that the contribution of the information quality variable to the *musawah* information partnership (MIP) was 55.6%. It means other variables not included in this study influenced the remaining 44.4%. Meanwhile, contribution of the MIP variable to financing risk was only 19.2%. Other variables not included in this study accounted for the remaining 80.8%. Furthermore, the contribution of the effect of the information quality, MIP, and financing risk variables on financial performance variable was 34.3%, meaning that other variables not included in this study affected the remaining 65.7%.

TABLE 7
R-Square Results

	R Square	*R* Square Adjusted
Musawah Information Partnership	0.556	0.552
Financing Risk	0.192	0.185
Financial Performance	0.343	0.332

4.3 HYPOTHESIS TESTING RESULTS

4.3.1 INFORMATION QUALITY ON MUSAWAH INFORMATION PARTNERSHIP

Hypothesis 1 (H1) was tested using *t*-test. Based on the calculation results of path coefficients presented in Table 6, the *t*-statistic was 21.852 > *t* table (2.358), and the probability or *p*-value of 0.000 < 0.01 (significance of 1%); hence the result was significant. In conclusion, H1, which reads that information quality significantly affects *musawah* information partnerships, is accepted.

4.3.2 *MUSAWAH* INFORMATION PARTNERSHIP ON FINANCING RISK

Hypothesis 2 (H2) was tested using *t*-test. The calculation results of path coefficients in Table 6 found that the *t* statistic was 6.480 > *t* table (2.358), and the probability or *p*-value was 0.000 < 0.01 (significance of 1%). Thus, the result was significant. Accordingly, H2, which states that *musawah* information partnership significantly affects financing risk, is accepted.

4.3.3 FINANCING RISK ON FINANCIAL PERFORMANCE

Hypothesis 3 (H3) was tested using *t*-test. According to the calculation results of path coefficients presented in Table 6, the *t* statistic is 4.955 > *t* table (2.358), and the probability or *p*-value is 0.000 < 0.01 (significance of 1%). Therefore, the result was significant. As a result, H3, which suggests that financing risk significantly affects financial performance, is accepted.

4.3.4 *MUSAWAH* INFORMATION PARTNERSHIP ON FINANCIAL PERFORMANCE

The calculation result of path coefficients in Table 6 shows hypothesis 4 (H4), as tested using *t*-test. The *t* statistic was 3.362 > *t* table (2.358), and the probability or *p*-value was 0.001 < 0.01 (significance of 1%), thus the result was significant. Consequently, H4, that *musawah* information partnership significantly affects financial performance, is accepted.

4.4 INTERVENING TEST RESULTS

The intervening variable in this study was financing risk which mediated the relationship between the *musawah* information partnership on the financial performance. The MIP mediated the relationship between information quality and financing risk and financial performance. Based on the significance test in the inner model sub-section, it was found that MIP and financing risk had a significant effect on financial performance. As a result, function of the MIP and financing risk variables as mediators could be tested further. Results for indirect effect test using *musawah* information partnership and financing risk as mediating variables on the dependent variable can be seen in Tables 8 and 9.

TABLE 8
Total Indirect Effects (Mean, STDEV, *t*-Values, *p*-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	*t* Statistics (|O/STDEV|)	*p* Values
Musawah Information Partnership → Financial Performance	0.175	0.185	0.048	3.657	0.000**
Information Quality → Financial Performance	0.344	0.358	0.064	5.384	0.000**
Information Quality → Financing Risk	0.326	0.336	0.057	5.731	0.000**

Source: Smart PLS 3.2.9 output.
Note: **significant at $p < 0.01$; *significant at $p < 0.05$

TABLE 9
Specific Indirect Effect (Mean, STDEV, t-Values, p-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t Statistics (|O/STDEV|)	p-Values
Musawah Information Partnership → Financing Risk → Financial Performance	0.175	0.185	0.048	3.657	0.000**
Information Quality → *Musawah* Information Partnership → Financing Risk → Financial Performance	0.131	0.139	0.038	3.439	0.001**
Information Quality → *Musawah* Information Partnership → Financial Performance	0.213	0.219	0.066	3.217	0.001**
Information Quality → *Musawah* Information Partnership → Financing Risk	0.326	0.336	0.057	5.731	0.000**

Source: SmartPLS 3.2.9 output
Note: **significant at $p < 0.01$; *significant at $p < 0.05$

Testing the indirect effect of *musawah* information partnership on financial performance through financing risk could be conducted by comparing the regression coefficient directly with the regression coefficient indirectly. The regression coefficient between the MIP on the financial performance through financing risk was 0.175. This value could also be obtained from the regression coefficient between the *musawah* information partnership and the financing risk multiplied by the regression coefficient for financing risk on financial performance (0.438 x 0.401 = 0.175). The regression coefficient was lower than the *musawah* information partnership regression coefficient on financial performance directly at 0.286 with a *p*-value of 0.000 < 0.01 (significance of 1%); hence the result was significant. All things considered, financing risk could become a partial mediating variable (because its effect was decreasing) between the *musawah* information partnership on the financial performance. Thus, the fifth hypothesis (H5), stating that financing risk can mediate the *musawah* information partnership and financial performance relationship, is accepted.

The indirect effect test between the information quality on the financial performance through the *musawah* information partnership and the financing risk was conducted by comparing the regression coefficient directly with the regression coefficient indirectly. The regression coefficient between quality information on financial performance through the *musawah* information partnership and the financing risk was 0.131. This value was from the regression coefficient between the information quality on the *musawah* information partnership multiplied by the regression coefficient on the *musawah* information partnership on the financing risk. Furthermore, it was multiplied by the regression coefficient for the financing risk on the financial performance (0.745 x 0.438 x 0.401 = 0.131). The regression coefficient was lower than the regression coefficient for the information quality on the financial performance directly at 0.344 with a probability or *p*-value of 0.001 < 0.01 (significance at 1%), thus the result was significant. Therefore, the *musawah* information partnership and the financing risk could be a partial mediating variable (because the effect was decreasing) between the information quality and the financial performance through the MIP and the financing risk. The sixth hypothesis (H6), stating that the *musawah* information partnership and the financing risk can mediate the relationship between the information quality and the financial performance, is accepted.

Finally, testing the indirect effect of information quality on financing risk through the *musawah* information partnerships could be done by comparing the regression coefficients directly with the regression coefficients indirectly. The regression coefficient between the information quality and the financing risk through the *musawah* information partnership was 0.326. It was obtained from the regression coefficient between the information quality and the *musawah* information partnership multiplied by the regression coefficient of the *musawah* information partnership on the financing risk (0.745 x 0.438 = 0.326). The regression coefficient had the same value when compared to the regression coefficient of the information quality on the financing risk directly at 0.326 with a probability or *p*-value of 0.000 < 0.01 (significance of 1%), thus it had significant results. In sum, the *musawah* information partnership could be a mediating variable between the information quality and the financing risk. The eighth hypothesis (H8), that the MIP can mediate the information quality and the financing risk, is thus accepted.

5. CONCLUSION AND FUTURE RESEARCH

The results show that good quality information will increase the *musawah* information partnership, thereby reducing financing risk and increasing financial performance. The higher the MIP, the lower the financing risk. Results also indicate that information quality, MIP, and risk financing strongly influence financial performance, both individually and collectively, in implementation of profit and loss sharing products in *sharīʿa* BPRs.

This research also introduces the concept of a new partnership model, namely the *musawah* information partnership (MIP), where this partnership is built on the basis of equality based on *tawḥīd*. The dimensions that underlie this concept are the values of *tawḥīd* as the basis for realizing equal partnerships, mutual support and mutual benefit, easy access to information, and reliable and objective information sharing. The theoretical contribution of this study is that it is the first to provide new insights into the concept of equal partnership based on *tawḥīd* values. This way, the partnership orientation is not only toward worldly benefit but also heavenly benefit. Second, the concept of MIP adds a new partnership concept characterized by values of *Islāmic* equality. Third, this research enriches the literature on application of *Islāmic* values, especially the values of MIP.

This study also has managerial implications for *sharīʿa* BPRs. First, it is recommended to choose who the customers are. Good screening will allow *sharīʿa* BPRs to obtain good quality partners with an open attitude in sharing business information. It will create an equal partnership and result in mutually beneficial relationships. Second, it is suggested to build a partnership that prioritizes spiritual attitudes and values that aim for partnership oriented not only toward material benefits, but also spiritual and mutual help with high commitment. Third, adopting the concept of MIP will improve quality of financing based on profit and loss sharing and improve *sharīʿa* BPR financial performance.

This research was conducted on the implementation of profit and loss sharing products at *sharīʿa* BPRs, which nominatively amounted to 16.97% of the total financing portfolio. This research may not be generalizable as it is because it was conducted in *sharīʿa* BPRs in Indonesia. Future studies are expected to expand the research sample to include other *sharīʿa* microfinance institutions in terms of implementing profit and loss sharing products.

REFERENCES

Abdul-Rahman, A., M. Abdul-Majid, and N.F. KJ. "Equity-based Financing and Liquidity Risk: Insights from Malaysia and Indonesia." *International Journal of Economics, Management and Accounting* 27, no. 2 (2019): 291-313.

Airout, R.M., and R.M. Airout. "Evaluation of Financial Performnce of Islamic Banks in Jordan (2001–2010): A Comparative Study." *International Journal of Economics and Finance* 9, no. 9 (2017): 166–74.

Benamraoui, A., and Y. Alwardat. "Asymmetric Information and Islamic Financial Contracts." *International Journal of Economics and Finance* 11, no. 1 (2018): 96-108.

Chin, W. The Partial Least Squares Approach for Structural Equation Modeling. In *Marcoulides, GA (ED) Modern Methode Business Reserach*. Mahwah, NJ: Erlbaum, 1998.

Chussing, B. *Sistem Informasi Akuntansi dan Organisasi Perusahaan* (Ke tiga). Jakarta: Erlangga, 1996.

Dess, J.G. *Principals,Agent and Ethics in Ethics Agency*. (N Bowie and R.E Freeman, Eds.) (25th Edition). New York: Oxford University Press, 1992.

EL Fakir, A., R. Fairchild, and M. Tkiouat. "A Hybrid Profit and Loss Sharing Model Using Interest Free-Debt and Equity Financing: An Application of Game Theory as a Decision Tool." *North American Journal of Economics and Finance* 49 (April) (2019): 352–60.

Febianto, I. "Adapting Risk Management for Profit and Loss Sharing Financing of Islamic Banks." *Modern Economy* 03, no. 1 (2012): 73–80.

FSA. Shariah Banking Statistics (March). Financial Service Autority of Indonesia, 2020.

Ghani, G.M. "Towards a More Socially Inclusive and Sustainable Framework for Islamic Banking and Finance." *International Journal of Economics, Management and Accounting* 28, no. 2 (2020): 361–91.

Gholami, R., A. Abdul-rahman, and F. Faizah. "Profit-Loss Sharing Versus Interest-Based Contract : A Systematic Review." *International Journal of Economics, Management and Accounting* 2, no. 2 (2021): 381–407.

Ghozali, I. *Aplikasi Analisis Multivariate Dengan Program IBM SPSS 23* (28th Edition). Semarang: Badan Penerbit Universitas Diponegoro, 2016.

Hair, J., T. Anderson, and W. Black. *Multivariate Data Analysis A Global Perspective* (7th Edition). New Jersey: Pearson Education Inc., 2013.

Husted, B.W. "Agency, Information, and the Structure of Moral Problems in Business." *Organization Studies* 28, no. 2 (2007): 177–95.

Jayaprawira, A.R., and Abdussalam. "Analysis of the Implementation of the Islamic Contract Principle on Hajj Fund Management by Hajj Fund Management Agency (BPKH)." *KnE Social Sciences* (2019): 628–61.

Jensen, and Meckling, W.H. "Theory of The Firm: Managerial Behavior Agency Costs and Ownership Structure." *Journal of Financial Economics* 3 (1976): 305–60.

Jogiyanto, H. *Sistem Teknologi Informasi*. Yogyakarta: Andi Yogyakarta, 2005.

Kahn, B.K., D.M. Strong, and R.Y. Wang. "Information Quality Benchmarks: Product and Service Performance." *Communications of the ACM* 45, no. 4 (2002): 184–92.

McQuaid, R.W. The Theory of Partnership: Why Have Partnerships? In S.P. Osborne (Ed.). *Managing Public-Private Partnerships for Public Services: An International Perspective* (Routledge, London) (2000): 9–35.

Mohamed, E.F., and N.E. Fauziyyah. "Islamic Microfinance For Poverty Alleviation: A Systematic Literature Review." *International Journal of Economics, Management and Accounting* 28, no. 1 (2020): 141–63.

Nara Hari. D. Towards Expanding The Frontier of Microfinance Services in Nepal .https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-towards-expanding-the-frontier-of-microfinance-services-in-nepal-jan-2007.pdf

Negash, S., T. Ryan, and M. Igbaria. "Quality and Effectivness in Web Based Customer Support System." *Information and Management* 40, no. 8 (2003): 757–68.

Notoatmojo, S. *Pendidikan dan Perilaku Kesehatan* (Pertama). Jakarta: Rineka Cipta, 2003.

Ong, C., M. Day, and W. Hsu. "A Measurement of User Satisfaction with Question Answering System." *Information and Management* 46, no.7 (2009): 397–407.

Pandia, F. *Manajemen Dana dan Kesehatan Bank* (Pertama). Jakarta: Reneka Cipta, 2012.

Rodrigues-Lopez, and Comesane. "The Mediated Effect of Formal

and Informal Control on Governance Forms." *Navista de Administracaode Empresos* 56, no. 6 (2016): 655–67.

Sam, I.H., Hasanudin, C.M. Hakim, S.B. Utomo, and E.M. Astiwara. *Himpunan Fatwa Keuangan Syariah, Dewan Syariah Nasional*. Edited by H. Saputra, A. Syihabuddin, and A. Prasetya. (1st Edition). Jakarta: Erlangga, 2014.

Shihab, M.Q. *Pesan, Kesan dan Keserasian Al Qur'an*. Jakarta: Lentera Hati, 2002.

Siamat, D. *Manajemen Bank Umum* (Pertama). Jakarta: Intermedia, 1993.

Siddiqui, A. "Financial Contracts, Risk and Performance of Islamic Banking. *Managerial Finance* 34, no. 10 (2008): 680–94.

Sugiyono. *Metode Peneitian Kuantitatif,Kualitatif dan R &D*. Bandung: Alfabeta, 2015.

Sulistiyani, A. *Kemitraan dan Model Model Pemberdayaan*. Yogyakarta: Gaya Media, 2004.

Sulub, Y.A., and M.C. Mohd Salleh. "Financial Performance of Islamic and Conventional Banks in Malaysia: A Comparative Analysis." *International Journal of Management and Applied Research* 6, no. 4 (2019): 375–85.

Tatiana, N., K. Igor, and S. Liliya. "Principles and Instruments of Islamic Financial Institutions." *Procedia Economics and Finance* 24 (July) (2015): 479–84.

Uteli. Defis Et Enjeux Du Risk Management Dans Le Secteur Industriel Et De Services, 2001. www.asorganisation.com

Yousfi, O. "Does PLS Financing Solve Asymmetric Information Problems?" *Journal of Islamic Economics, Banking and Finance* 9, no. 3 (2013): 1-15.