Prediction Model of Murabahah Financing Performance in Sharia Cooperatives

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Abstract

This study aims to analyze and test the influence of competency of sharia account officer and information asymmetry variables on the risk of murabahah financing and the effect of competency of sharia account officer, information asymmetry, and risk of murabahah financing variables on the performance of murabahah financing in sharia cooperatives in Jember Regency. The population in this study are all Sharia cooperatives in Jember Regency. The sampling method used is purposive sampling with 75 samples of sharia cooperatives that have run murabahah financing. This study is explanatory research. Independent variables consisting of competency and information asymmetry affects risk and performance of murabahah financing, risk affects performance of murabahah financing. The analysis technique uses path analysis with the PLS program to test, analyze, and find the determinants of murabahah financing performance. The study results indicate that; (a) competency of sharia account officer variable has a significant effect on the performance of murabahah financing, (b) competency of sharia account officer has no significant effect on risk of murabahah financing, (c) information asymmetry has no effect on performance of murabahah financing, (d) information asymmetry has a significant positive effect on the risk of murabahah financing, and (e) the risk of murabahah financing has no effect on the performance of murabahah financing. In order to mitigate risk and increase performance of murabahah financing. Hence, management of sharia coopoereatives should increase compentency of sharian account officer and reduce information asymmetry. The future research should add Sharia Good Corporate Governance (SGCG) variable as independent variable.

Keywords: Competency, Information Asymmetry, Murabahah, Performance, Risk.

1. INTRODUCTION

One of the Islamic financial institutions namely sharia cooperatives are developing quite quickly today from 2,462 units in 2012 to be 150,223 units in 2020 based on Central Bereau of Statistic. Sharia cooperatives is business entity who run their business based on sharia principles and fatwa of National Sharia Council (NSC). Sharia cooperatives were originally established as a financial institution that helped the deprived with expenditure less then 25 USD per months, the poor with expenditure between 25 USD to 37 USD per months, and near poor such as traders and street vendors with expenditure between 37 USD to 83 USD per months (Iswahyudi, 2013). The main activities carried out by sharia cooperatives are the development of micro, small, and medium enterprises, especially regarding capital assistance. In order for the financing provided by sharia cooperatives can run, sharia cooperatives seek to collect as much funds as possible from the local community around them such as enterpreneur, farmers, member of sharia cooperatives. Therefore, sharia cooperatives, as non-governmental organizations in the form of cooperatives and based on sharia, are expected to be able to become a capital solution for the community, especially the lower middle-class community for business development with ease of obtaining loans.

Similar to Islamic banks, the operational activities of sharia cooperatives deal with collection (wadiah and mudharabah contracts) and distribution of funds (profit sharing contracts, buying and selling and ijarah/lease) to the public. The distribution of funds based on the principle of buying and selling is carried out by means of a murabahah, salam, or istishna contract. Currently, the most dominant distribution of funds with the principle of buying and selling is murabahah. Murabahah is a financing mechanism in which sharia cooperatives become sellers by delivering goods and members become buyers who are burdened by the selling price plus the profit margin agreed at the beginning of the agreement (Sudarsono, 2003).

Jember Regency has significant number of muslim about 96,59% from total population. Preliminary studies conducted by researchers i.e Iswahyudi (2013) and Hasan et al. (2017) on sharia cooperatives in Jember Regency shows that, sharia cooperatives, both newly established and long-established, mostly use murabahah contracts in financing. There are even sharia cooperatives that only use murabahah contracts in carrying out their financing activities. This is because the murabahah financing contract is less risky than other financing. According to Chowdhury (1996), the dominance of murabahah financing occurs because it tends to have less risk and is more secure for shareholders. It caused by income of murabahah financing is fixed income and guaranteed by murabahah

assets. It triggers the existence of more murabahah financing practice.

Referring to the aforementioned background, researchers are encouraged to find, develop, and study murabahah financing models and the determinants of murabahah financing performance in sharia cooperatives located in Jember Regency. The purpose of this study is to examine and analyze research model 1, namely: (a) the influence of the competency of sharia account officer variable and (b) the effect of the information asymmetry variable on the risk of murabahah financing; and research model 2, namely: (c) the effect of the competency of sharia account officer variable on the performance of murabahah financing, (d) the effect of the information asymmetry variable on the performance of murabahah financing, and (e) the effect of the risk of murabahah financing on the performance of murabahah financing.

2. LITERATURE REVIEW

2.1 Sharia Enterprise Theory

Sharia enterprise theory is an enterprise theory internalized with Islam values to obtain the transcedental and humanistic theory which recognize responsibility is not only to shareholders, but also broader stakeholders i.e Allah SWT, nature, and humans (Triyuwono, 2006b). Sarker (1999a) and Yusof and Amin (2004) explain that the Islamic company's goal is falah which is to achieve of happiness in the world and the afterlife, or material and spiritual well-being. The achievement of falah or welfare according to Islamic law (sharia) is the main focus of human activity in the world. Thus, Islamic producers, like Islamic consumers, will try to maximize welfare in the world as well as welfare in the afterlife. As a company with sharia ethics in addition to creating material welfare, it also creates mental well-being and spiritual well-being (Triyuwono, 2006b).

Sharia enterprise theory balances egoistic values with altruistic values, material values with spiritual values, and individual values with the congregation. In Islamic sharia, this form of balance is concretely realized in one form of worship, namely zakat (Triyuwono, 2006b). The balance value causes sharia enterprise theory to not only care about individual interests (in this case shareholders), but also other parties. The sharia enterprise theory has a wider scope of accountability than the entity theory, i.e., accountability to God, humans, and nature (Triyuwono, 2006a).

2.2 Sharia Coopreratives

Technically, sharia cooperative is cooperative who has principles of activities, objectives, and business activities based on Islamic sharia, namely the Qur'an and Sunnah. In general understanding, sharia cooperatives are cooperative business entities that run their business with sharia principles. If the cooperative has a productive savings and loan business unit, then all of its products and operations must be carried out by referring to the fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council. Thus, sharia cooperatives are not allowed to do business in fields in which there are elements of usury (interest), maysir (speculation) and gharar (uncertain condition). The foundations of sharia cooperatives (Muhshodiq, 2009) include:

1. sharia cooperatives are based on Islamic sharia, namely the Qur'an and Sunnah by helping each other (ta'awun) and strengthening each other (takaful)
2. Sharia cooperatives are based on Pancasila and the 1945 Constitution
3. sharia cooperatives are based on kinship

The principles of sharia cooperatives (Muhshodiq, 2009) include:

1. wealth is a trust from Allah SWT that cannot be owned by anyone absolutely,
2. humas are given the freedom to hold mu'amalah as long as it is in accordance with the provisions of sharia,
3. humans are the caliph of Allah and are prosperous on earth, and upholding justice and rejecting every form of usury and the concentration of economic resources on a few people or a group of people.

Therefore, sharia cooperatives must hire the competent account officers who understand sharia transactions to increase sharia cooperative performance, and also provide transparant and fair information to decrease information asymmetry and reduce the risk of murabahah financing.

3. METHODOLOGY

This study is explanatory research, which explains the relationship of independent variables i.e competency of sharia account officer and information asymmetry, and dependent variable i.e risk and performance of murabahah financing. For those all relationship figured in research framework below.
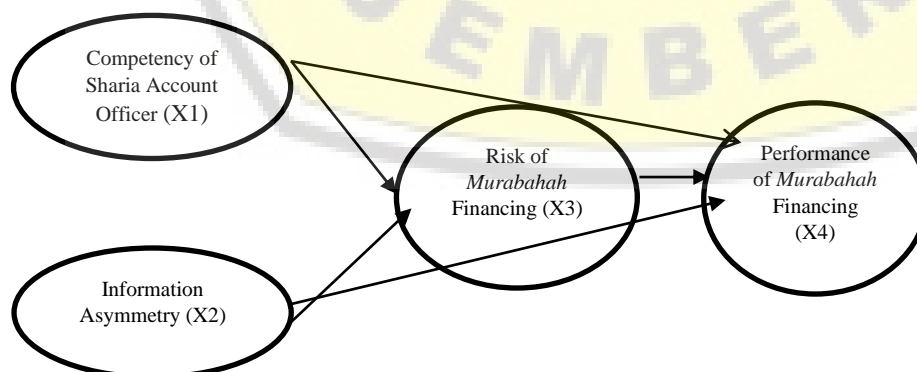

Figure 1: Research Framework

The research method uses path analysis with the PLS program to test, analyze, and find the determinants of murabahah financing performance. The population in this study is 75 Sharia Cooperatives in Jember Regency. The sampling technique in this study uses purposive sampling method. The

analysis in this study uses a quantitative analysis approach. Quantitative analysis used in this study consists of descriptive analysis to see the description of population characteristics and path analysis. Path analysis is used for hypothesis testing using Partial Least Squares (PLS). Ghozali (2014) states that

the PLS formal model defines the formation variable as a linear aggregate of its indicators. The weighted estimates used to create the variable score components are obtained based on the specifications for the inner and outer models. Hypothesis testing is done by performing the following steps. First, the outer model with reflective indicators (indicators are expected to highly correlated with the laten variable scores) is evaluated based on its substantive content, namely by comparing the relative weights and seeing the significance of these weights, the significant indicator will be used and not significant will be deleted. Second, the inner model is evaluated by looking at the percentage of variance explained, i.e., by considering the R^2 value for endogenous constructs and the value of the structural path coefficient.

4. Results And Discussion

4.1 Results

This section describes all the results of the study, data

analysis, and hypothesis testing. The descriptions are grouped into three parts. The first part describes the description of the population data; the second part analyzes the statistical results; and the third part describes the results of the path analysis test. Descriptive analysis is intended to determine the distribution of data. Analysis of statistical results includes testing assumptions and testing data. Path analysis is used to draw conclusions whether the hypothesis is accepted or not.

4.1.1 Convergent validity

Convergent validity of the measurement model with reflective indicators is assessed based on the correlation between the item score/component score and the construct score calculated by PLS. Individual reflective measure is said to be high if it has a correlation of more than 0.70 with the construct to be measured (Ghozali, 2006). This is done by looking at the output results of the correlation between the indicators and their constructs as shown in Table 1.

	Original Sample Estimate	Mean of Subsamples	Standard Deviation	T-Statistic	P Values
X1.1	0.793	0.771	0.104	7.657	0.000
X1.2	0.926	0.920	0.035	26.566	0.000
X1.3	0.908	0.898	0.046	19.736	0.000
X1.4	0.935	0.934	0.023	41.288	0.000
X1.5	0.851	0.845	0.055	15.460	0.000
X1.6	0.844	0.840	0.047	18.122	0.000
X2.1	0.843	0.828	0.122	6.906	0.000
X2.2	0.956	0.950	0.033	29.228	0.000
X2.3	0.892	0.889	0.054	16.487	0.000
X2.4	0.834	0.826	0.121	6.896	0.000
Y1.1	0.876	0.862	0.072	12.174	0.000
Y1.2	0.922	0.911	0.056	16.527	0.000
Y1.3	0.727	0.712	0.174	4.165	0.000
Y1.4	0.911	0.906	0.065	14.109	0.000
Y1.5	0.879	0.876	0.040	22.131	0.000
Y1.6	0.920	0.911	0.034	26.732	0.000
Y2.1	0.902	0.900	0.035	25.851	0.000
Y2.2	0.966	0.964	0.017	58.487	0.000
Y2.3	0.890	0.887	0.047	18.800	0.000

Table 1: Result for Outer Loadings-2

Source: PLS Output

Based on the outer loading in table 1, it can be seen that the indicators with convergent validity have met (high) because they have a correlation of more than 0.70 with the construct to be measured (low).

4.1.2 Discriminant Validity

Discriminant validity of the measurement model with reflective indicators can be seen in table 2.

	Competency of Sharia Account Officer	Information Asymmetry	Performance of Murabahah Financing	Risk of Murabahah Financing
X1.1	0.793	-0.055	0.573	0.136
X1.2	0.926	-0.204	0.547	0.014
X1.3	0.908	-0.069	0.612	0.068
X1.4	0.935	-0.206	0.626	-0.093
X1.5	0.851	-0.333	0.615	0.005
X1.6	0.844	-0.30	0.464	-0.032
X2.1	-0.036	0.843	-0.261	0.284

X2.2	-0.247	0.956	-0.144	0.439
X2.3	-0.149	0.892	-0.170	0.508
X2.4	-0.069	0.834	0.020	0.524
Y1.1	0.147	0.299	-0.059	0.876
Y1.2	0.041	0.351	-0.17	0.922
Y1.3	0.124	0.263	--0.028	0.727
Y1.4	0.069	0.523	0.030	0.911
Y1.5	-0.146	0.544	-0.224	0.879
Y1.6	-0.030	0.559	-0.098	0.920
Y2.1	0.658	-0.084	0.902	-0.014
Y2.2	0.640	-0.088	0.966	-0.062
Y2.3	0.500	-0.259	0.890	-0.177

Table 2: Cross Loadings

Source: smartPLS report

Table 2 shows that the correlation value of the competency of sharia account officer construct with its indicators is higher than other constructs as well as the correlation of the constructs of information asymmetry, risk of murabahah financing, and performance of murabahah financing with higher indicators than other constructs. Another method to assess discriminant validity is to look at the average variance extracted (AVE) value. Ghozali (2014) recommend that the AVE value should be greater than 0.50.

	Average Variance Extracted (AVE)
Competency of Sharia Account Officer	0.770
Information Asymmetry	0.778
Performance of Murabahah Financing	0.847
Risk of Murabahah Financing	0.765

Table 3: Average Variance Extracted (AVE)

Source: SmartPLS Report

Table 3 shows that the AVE value of the competency of sharia account officer construct (0.770), information asymmetry (0.778), performance of murabahah financing (0.847), and risk of murabahah financing (0.765) was above 0.50. Thus, it can be concluded that the construct meets discriminant validity.

4.1.3 Composite Reliability

The reliability test used in this study is composite reliability (pc). The research instrument to measure a variable has good composite reliability if it has composite reliability ≥ 0.7. Composite reliability of the measurement model with reflective indicators can be seen below the output of smartPLS.

	Composite Reliability	Cronbach's Alpha
Competency of Sharia Account Officer	0.953	0.940
Information Asymmetry	0.933	0.905
Performance of Murabahah Financing	0.943	0.909
Risk of Murabahah Financing	0.951	0.939

Table 4: Composite Reliability

Source: SmartPLS report

Table 4 shows that the composite reliability value of the competency of sharia account officer construct was 0.953. The composite reliability value of the information asymmetry construct was 0.933. The composite reliability value of the performance of murabahah financing construct was 0.943. The composite reliability value of the risk of murabahah financing construct was 0.951. All constructs showed a composite reliability value greater than 0.70. This indicates that the competency of sharia account officer, information asymmetry risk of murabahah financing, and performance of murabahah financing had good reliability.

4.1.4 Structural Model or Inner Model

The structural model of this study did not include a full structural model. It means that there were two paths where path analysis was not carried out, namely the relationship between the influence of Islamic business ethics on the risk of mudharabah financing and the relationship of influence between the competency of sharia account officers. No analysis of the two paths was carried out because there was no strong theoretical support and previous research in justifying the relationship between the two paths. Therefore, for future research, it is expected that this research model can be refined by including both paths for analysis so that this research model becomes a full inner model.

In this study, the inner model or structural model was evaluated by looking at the percentage of variance. This was explained by looking at R2 for the dependent latent construct using the Stone Geisser Q squares test and looking at the value of the structural path coefficient. The stability of this estimate was evaluated using the t-statistic test obtained by the bootstrapping procedure. Besides, linearity test was conducted to evaluate the significance test of the structural model. Each inner model test is analyzed and described below.

4.1.5 Goodness-Fit Model Test

Testing of the structural model is carried out by looking at the R-square value which is the goodness-fit test of the model.

	R-square	R-square Adjusted
Performance of Murabahah Financing	0.44	0.393
Risk of Murabahah Financing	0.281	0.236

Table 5: R-Square

Source: smartPLS Output

In Table 5, research model 1 explains the influence of the competency of sharia account officer and information asymmetry variables on the risk of murabahah financing gave an adjusted R-square value of 0.236. This can be interpreted that the variability of the risk of murabahah financing was explained by the variability of the competency of sharia account officer and information asymmetry of 23.60%. Meanwhile, the remaining 76.40% was explained by other variables that were not used in this study. Unobserved variable such as Sharia Good Corporate Governance (SGCG) can be analyzed for the future research. Furthermore, research model 2 explains that the influence of the competency of sharia account officer, information asymmetry, and risk of murabahah financing variables on the performance of murabahah financing gave an adjusted R-square value of 0.393. This can be interpreted that the variability of the performance of murabahah financing was explained by the variability of the competency of sharia account officer, information asymmetry, and risk of murabahah financing by 39.30%. Meanwhile, the remaining 60.70% was explained by other variables that were not used in this study. Unobserved variable such as Sharia Good Corporate Governance (SGCG) can be analyzed for the future research.

4.1.6 Significance Test

Table 6 explains that the competency of sharia account officer variable had a significant effect on the performance of murabahah financing with a coefficient of 0.677 and a significant T statistic of 2.555. This shows that the higher the competency of sharia account officer, the higher the performance of murabahah financing and vice versa. Competency of sharia account officer had no significant effect on risk of murabahah financing with a coefficient of 0.138 and a significant T statistic of 0.633. Information asymmetry had no effect on the performance of murabahah financing with a coefficient of 0.070 and not significant with a T statistic of 0.746. Information asymmetry had a significant positive effect on the risk of murabahah financing with a coefficient of 0.543 and a T statistic of 0.022.

	Original sample estimate	Mean of subsamples	Standard deviation	T-statistic	P Values
Competency of Sharia Account Officer -> Performance of Murabahah Financing	0.677	0.586	0.265	2.555	0.011
Competency of Sharia Account Officer -> Risk of Murabahah Financing	0.138	0.042	0.289	0.478	0.633
Information Asymmetry -> Performance of Murabahah Financing	0.070	0.020	0.216	0.324	0.746
Information Asymmetry -> Risk of Murabahah Financing	0.543	0.485	0.236	2.299	0.022
Risk of Murabahah Financing -> Performance of Murabahah Financing	-0.133	-0.185	0.186	0.711	0.478

Table 6: Path Coefficients

Source: smartPLS report

The risk of murabahah financing had no effect on the performance of murabahah financing with a coefficient of -0.133 and a T statistic of 0.478. This shows that the level of risk of murabahah financing did not affect the performance of murabahah financing.

4.2 Discussion

The results of the path coefficient test for the first hypothesis (H1) show that the competency of sharia account officer variable had a significant effect on the performance of murabahah financing with a coefficient of 0.677 and a significant T statistic of 2.555. This means that the higher the competency of sharia account officer, the higher the performance of murabahah financing. The results of this study are in line with Arifin (2006) stating that a good investment manager will greatly determine the quality of his business as an intermediary institution and its ability to generate profits. Ahmed (2001) and Hendharto (2005) revealed that banks that

are generally not successful in mudharabah financing are due to the available human resources being unprepared or not sufficiently experienced with forms of Islamic bank financing and tend to behave like conventional bankers. Furthermore, Ismail (2001), Wei and Weidong (2002), Yumanita (2005), and Roziq (2012) concluded that human resource competence has a significant positive effect on financing performance where sharia account officer competence has a direct effect on financing performance in Islamic banks.

The results of the path coefficient test for the second hypothesis (H2) show that the competency of sharia account officer had no significant effect on the risk of murabahah financing with a coefficient of 0.138 and a significant T statistic of 0.633. This means that the level of competency of sharia account officer did not affect the risk of murabahah financing. The results of this study are not in line with Sugiarto (2004) emphasizing that expertise and competence need to manage the risks that will be faced by the bank in carrying out its business activities. Risks can arise due to incorrect financing analysis. Financing decisions may be invalid decisions. To reduce this risk, banks need trained and experienced staff (Karim, 2004). The results of this study do not support the results of research conducted by Roziq (2012) stating that the sharia account officer competence variable had a negative effect on the mudharabah financing risk variable in Islamic banks in East Java. However, this study supports Hasan et al. (2017) which competency of sharia account officer had no significant effect on risk of murabahah financing.

The results of the path coefficient test for the third hypothesis (H3) show that information asymmetry had no effect on the performance of murabahah financing with a coefficient of 0.070 and not significant with a T statistic of 0.746. This relationship shows that the level of information asymmetry did not affect the performance of murabahah financing. The results of this study are not in line with Andrew (2004) explaining that the mudharabah contract model was not successful in allocating funds because of information asymmetry. Mirakhor and Iqbal (2004) explained that mudharabah contracts can create moral hazard problems because Islamic banks are not able to urge entrepreneurs' efforts and actions to optimize income and entrepreneurs have incentives to report low profits and report high costs. The information asymmetry causes mudharabah financing is not a popular product in Islamic banks (Imaduddin, 2006). The results of this study do not support the results of research conducted by Hasan (2006) and Sarker (1999a) stating that information asymmetry in mudharabah and musyarakah contracts causes uncertainty in the level of return on capital. Harri and Raviv (1990) and Rahmawati et al. (2006) concluded that the emergence of information asymmetry can affect the size of the investment income obtained.

The results of the path coefficient test for the fourth hypothesis (H4) show that information asymmetry had a significant positive effect on the risk of murabahah financing with a coefficient of 0.543 and a T statistic of 0.022. This shows that the lower the information asymmetry, the lower the risk of murabahah financing. The results of this study are in line with Jarhi (2005) explaining that banks are open or unprotected from moral hazard actions when companies get financing using these funds for other activities at the time where the funding takes place. Banks are also open (unprotected) from adverse selection actions when banks fail to select companies that apply for financing that are eligible to be funded. This can lead to credit risk for Islamic banks due to information asymmetry problems where Islamic banks do not have sufficient information about the company's actual profits (Ahmed, 2010). Karim (2004) revealed that the mudaraba profit-sharing system demands a high level of mutual trust between the customer and the bank. This fact makes financing a high risk, because banks will always face information asymmetry problems. Muhammad (2004) and Ali (2007) explain that many factors

such as information asymmetry, agency problems, and human capital deficiency pose a risk of instability in the banking system. The results of this study support the results of research conducted by Sarker (1999a) that in mudharabah and musyarakah contracts, the uncertainty of the return on capital is very high due to information asymmetry. Furthermore, Roziq (2012) concluded that information asymmetry had a significant positive effect on financing risk. This relationship shows that the higher the information asymmetry between the Islamic bank and the mudharib, the higher the financing risk.

The results of the path coefficient test for the fifth hypothesis (H5) show that the risk of murabahah financing had no effect on the performance of murabahah financing with a coefficient of -0.133 and a T statistic of 0.478. This shows that the level of risk of murabahah financing did not affect the performance of murabahah financing. The results of this study are not in line with Gizycki (2001) stating that the return on assets of a bank is influenced by credit risk and the higher the risk has reduced the profitability of the bank. Every provision of financing to customers contains risks which in the end will result in bad credit if the financing is not managed properly. Bank Indonesia (2002) revealed that the low financing of the profit-sharing system is caused by the relatively high investment risk. Therefore, according to Arifin (2006), bank management must simultaneously consider various risks that will affect changes in the level of profit earned. The results of this study are different from the results of research by Sumarna (2007) which revealed that all bank risk variables affect bank performance, which is represented by return on equity. The difference in the results of this study is because the value of mudharabah financing risk is small so it does not affect the performance of mudharabah financing. However, supporting research conducted by Roziq (2012) concluded that financing risk had no significant effect on financing performance.

5. Conclusion

Competency of sharia account officer has a significant effect on the performance of murabahah financing. The higher the competency of sharia account officer, the higher the performance of murabahah financing. On the other hand, the lower the competency of sharia account officer, the lower the performance of murabaha financing. Competency of sharia account officer had no significant effect on risk of murabaha financing. This is because the variability of the competency of sharia account officer was low and had not been able to significantly influence the variability of risk of murabahah financing.

Information asymmetry had no significant effect on the risk of murabahah financing. This is because the variability of information asymmetry was low and had not been able to significantly influence the variability of risk of murabahah financing. Information asymmetry had a significant effect on the risk of murabahah financing. The higher the information asymmetry, the higher the risk of murabahah financing. On the other hand, the lower the information asymmetry, the lower the risk of murabahah financing. The risk of murabahah financing had no significant effect on the performance of murabahah financing. This is because the variability of the risk of murabahah financing was low and had not been able to significantly affect the variability of the performance of murabahah financing.

Based on the research findings, the management of sharia cooperatives needs to make policies to improve the competence of sharia account officers so that the performance of murabahah financing will be better and to reduce information asymmetry so that the risk of murabahah financing will be lower. In order to improve the performance of sharia cooperatives, policies can be carried out in a directed market

driven way by setting a target/achievement of a certain percentage of the portion of murabahah financing and the profit of murabahah financing. Sharia supervision policies for every practice of murabahah financing need to be implemented so as not to deviate from sharia principles.

This research has many more unobserved independent variable except competency of sharia account officers and information asymmetry to influence the performance and risk of murabahah financing. Future research can deploy another independent variable such as Sharia Good Corporate Governance (SGCG).

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