

# The financial performance of Islamic boarding school in the domain of social networking, trust, and morality of financial accountability

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## Abstract

**Purpose** - The purpose of this study was to examine the effect of social capital and Morality of Financial Accountability (MoFA) on the financial performance of modern Islamic boarding schools.

**Method** - The population of this research is Islamic boarding schools in Central Java with 40 samples. Measurements were made using a questionnaire with indicators contained in the variables of social networks, trust, MoFA, and financial performance. Data processing was carried out using WarpPLS software with small sample.

**Result** - The results of this study are social network and trust variables have a significant and positive effect on financial performance with an influence value of 23% and 33% respectively. Meanwhile, if it is moderated by spiritual capital, it has an influence on the relationship between social network variables and trust on financial performance, respectively 28% and 21%. Thus spiritual capital will strengthen the relationship between social networks and trust.

**Implication** - The relationship between MoFA in social capital can strengthen the financial performance of Islamic boarding schools due to additional information about plans to use donated funds for good.

**Originality** - MoFA is the development of additional information on the basis of compilation on the legality of kindness, disclosure of consistent reports, honesty in transactions.

**Keywords:** social capital; MoFA; financial performance



## Introduction

The relationship of social capital is through the relationships that occur between humans (Cahyono, 2014). This can be done through the form of a sense of trust, mutual understanding, the existence of similar values, and activities that are interconnected between a certain community to help each other. In relation to Islamic boarding schools, this social capital is a form in which social capital is used to achieve prosperity together (Laura et al., 2018). Social capital in an organization can function in improving financial performance because this will relate to the Morality of Financial Accountability (MoFA) to work carefully in obtaining its blessings (Abdullah, 2011). Meanwhile, Acquaah (2008) further sees the correlation of MoFA as a non-material resource that exists in every human heart to take an action. In the context of Islamic boarding schools, MoFA is interpreted as awareness in every part of Islamic boarding schools to carry out transformations for goodness (Khairi, 2013).

From data compiled by the Indonesian Ministry of Religion, the number of Islamic boarding schools and students continues to increase, so this needs to be addressed well in managing social capital and Morality of Financial Accountability (Kemlu) (Luckyto, 2011). This management is later related to presenting accountability in order to gain credibility in the form of activities organized by *pesantren* (Islamic boarding school) (Mahmudi, 2011). This is where the role of social capital is needed to be able to influence the financial performance of an organization (Branine & Pollard, 2010). And not only social capital but MoFA is also needed to maintain the spirit of religiosity in organizational management (Zohar & Marshall, 2004).

The purpose of this study is to reveal the importance of the financial performance of Islamic boarding schools which are very dependent on financial assistance provided by donors. This can be realized through the morality of the trust of the organization's social network which triggers benefactors to channel their money (Mahmoud & Yusif, 2012). With the

increasing number of donations received by Islamic boarding schools, the more they can guarantee scientific developments in Islam.

## Literature Review

Resource-based theory is used in explaining the relationship between variables in research involving Morality of Financial Accountability (MoFA) and social capital in the context of organizational financial performance through the capabilities possessed by a person (Penroses, 2004). This advantage is in the form of a person's ability to create value in efforts to create financial value to the organization (Hunt, 2007). These resources must be unique, and will not be owned by other organizations in building their organization (Barney & Clark, 2007).

Meanwhile, in RBT social capital, organizations will really need to see forms of trust and work networks (Shahyuti, 2008). This social capital is really needed by organizations in forming trust and networks in the social structure that they want to achieve (Olford, 2021). So, from these social networks trust can be obtained through information on changes and organizational forms desired by stakeholders (Lehtimä, 2016). Fukuyama (2003) states that social networks are knowledge and skills from human resources that can be obtained through formal and non-formal education. And of course this can affect the mechanisms that exist in the structure of religion, culture, customs, or habits of a society (Fukuyama, 2003).

Trust which is a connection that arises from social networks as a form of appreciation is formed by the community in an association (Hasbullah, 2006). So, in social relations, trust can form relationships on the principles of voluntary (voluntary), equality (freedom), and also civilization (civility). Trust formed through social capital can establish a sense of brotherhood between individuals which is the main force in social capital (Damsar, 2009). And this is the key to success for an organization in managing the movement of changes generated in social networks (Muslimah et al., 2015).

As a basis for social capital, trust and social networks require a new philosophy paradigm in building an organization as MoFA in maintaining the

balance of the universe (Khairi, 2013). MoFA is a basic principle for organizations in developing the vision and mission direction and future development values (Luthfi, 2017). In the study of religiosity involving MoFA, the aspects developed are legality of kindness, disclosure of consistent reports and honesty in transactions.

On the aspect of financial performance, non-profit organizations base their measurements on non-rational finances (Hartono et al., 2019). This can be seen from the transactions that occur in the organization where the financial reports presented are sourced from donations as the basis for their preparation (Mutasowifin, 2014). In terms of income, the main source comes from community donations (Malloch, 2010). Then, non-profit organizations will utilize the donated funds in increasing assets (Junita, 2014). With this increasing number of assets, it allows the level of trust in their social network to increase, which has an impact on donations (Mutasowifin, 2014).

Baron & Markman (2003) argue that the relationship formed from social networks in financial performance is due to the influence on the relationship of mutual trust. Meanwhile, according to Subakhi (2014), the trust given by the community to Islamic boarding schools can trigger financial performance. And if we look at the basis of MoFA in Islamic boarding schools, it will be able to trigger the creation of even greater Islamic boarding school financial performance (Luthfi, 2017).

### **Hypotheses Development**

Social networks are developed through social relationships in developing personal profiles as a basis for building social capital (Campbell et al., 2014). The concept of relational networks leads to a network economic approach, which is related to the relationship between agents who work together to share, obtain, and exchange resources (Del Giudice & Maggioni, 2014). The role of social media as a tool to encourage social network relations on recent product activities (Rathi & Given, 2017) encourages collaboration to innovate both informally and non-informally (Scuotto et al., 2017). Social networks enable companies to achieve a position of competitive advantage by

generating sustainable superior performance (Bicen & Hunt, 2012). Personal networks include a diversity of content of friends, business partners, and relatives to provide significant support for company growth (Kregar and Antoncic, 2016). This type of network shows how an actor has a close relationship with the network structure by providing business opportunities (Broadbridge, 2010) to develop the value of a product, which arises from consumer surplus and its user network (Afuah, 2013). Social networks also attract followers who value brands to collaborate with other companies (Cordero-Gutiérrez & Santos-Requejo, 2016). The closeness of these actors is the key to social capital which leads to the development of social networks in the organization's financial performance. Therefore, the first hypothesis can be formulated as follows:

*H1 : There is a significant influence between social networks and financial performance*

Trust is an aspect of social capital by involving the morality of leaders in making decisions based on ethics, responsibility, and the principles of justice (Treviño et al., 2000). Ethical characteristics reflect integrity, honesty, fairness, and belief in the generally accepted manifestations of moral goodness (Brown and Mitchell, 2010). Morality influences ethical behavior in positive facts (Mo & Shi, 2017) by involving open communication (Xu et al., 2017). Javed et al. (2018) revealed a positive relationship between follower trust and leader morality in honest communication, accepting potential risks, and belief in ethical behavior. Research shows that conformity with personal values of leaders can function in understanding relationships with followers (Brown & Treviño, 2009; Lee et al., 2017). Trust influences the principles of attitudes, behavior, and decisions of followers (Qu et al., 2017) on the ethical moral values of leaders (Lee et al., 2017).

Xu et al. (2017) emphasize that leaders who can be trusted will influence followers to engage in risky behavior. The interactional perspective of ethical behavior (e.g. Lee et al., 2015) demonstrates the level of trust and conformity of follower values to ethical leadership in risk taking (Javed et al., 2018), which makes employees feel comfortable and safe when expressing opinions

and ideas on issues of place work, the actions of others, or necessary changes. Lee et al. (2017) state the effect of the complexity of the interaction of ethical leadership, trust, and conformity of follower values on organizational financial performance. Therefore, the second hypothesis can be formulated as follows:

*H2 : There is a significant influence between trust and financial performance*

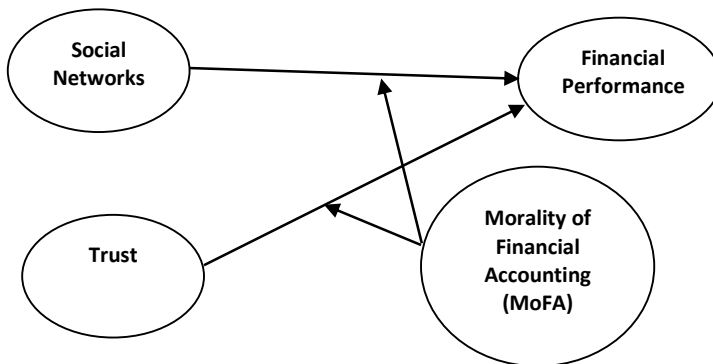
Financial performance, which is the level of manager's expertise in carrying out management activities, is one of the factors that can be used to increase the collectivity of organizational networks and financial accountability (Vorhies, 2009). Financial accountability is a manifestation of the organization's obligation to account for the success/failure of the organization, as well as achieving the goals and objectives that have been set, through the medium of periodic accounts, namely financial reports (Lan, 2000; Mardiasmo, 2009; Syah, 2007). Meanwhile, reporting that is formed on the basis of morality can lead to disclosure of honesty in material and non-material presentations that cause people to feel sympathy for the organization. Financial reports can influence the quality of management to make better decisions. Therefore, the third hypothesis can be formulated as follows:

*H3 : There is a significant influence of morality of financial accountability (MoFA) as a moderating variable between social networks and financial performance*

Dewi et al.'s (2019) research that examines the effect of financial accountability on organizational financial performance shows that there is a significant relationship to the form of trust morality. From collecting data on questionnaires distributed to 161 out of 303 population of Agency (Dinas) employees in the Provincial Government of South Sumatra, Indonesia, the results show that the financial accountability system has a positive effect on organizational value. Financial accountability both directly and indirectly is mediated by the quality of financial reporting information. In addition, the

quality of financial reporting information has a direct and positive effect on financial accountability. The results of this study can be useful for organizations as input and consideration in determining policies, especially related to improving the quality of financial reporting information and financial accountability on organizational financial performance. Therefore, the third hypothesis can be formulated as follows:

*H4 : There is a significant influence of Morality of Financial Accountability (MoFA) as a moderating variable between trust and financial performance*

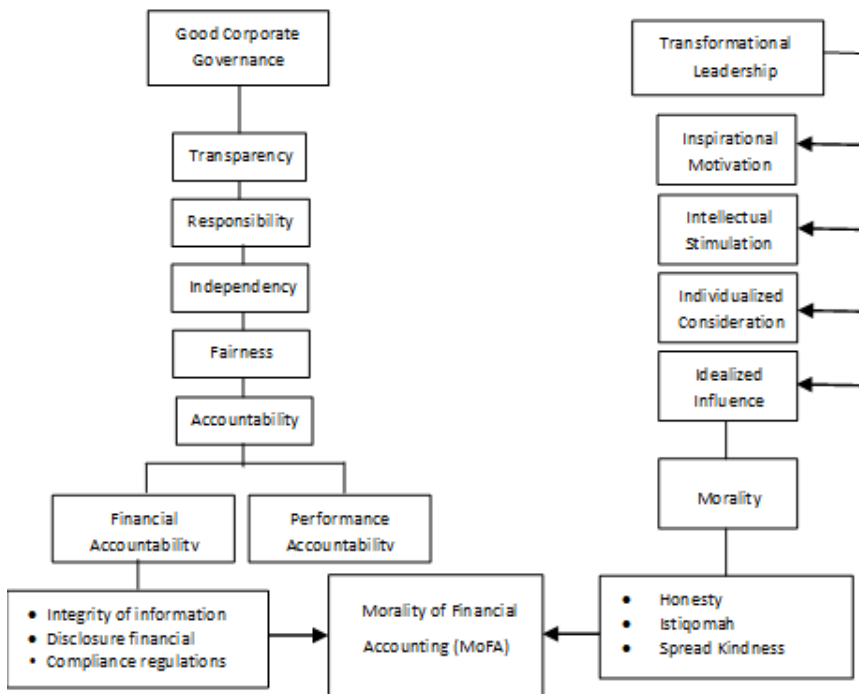


**Figure 1. Research Framework**

## Research Methods

The type of research used is explanatory research which explains the relationship between variables in this study, namely social network, trust, spiritual capital, and financial performance. The MoFA is a moderating variable that can strengthen or weaken the relationship between social network variables and trust in financial performance. Samples were taken from the population of modern Islamic boarding schools in Central Java, namely 40 Islamic boarding schools. The data processing uses WARPPLS 5.0 for testing small research samples. Meanwhile, the MoFA structure was developed through the derivation of corporate governance and

transformational leadership theories that lead to the embodiment of the financial performance of Islamic boarding schools. The distribution of the questionnaire was carried out using a questionnaire, where the measurement was carried out based on the indicators of each variable in this study. In developing the framework carried out in this study, the data analysis can be carried out using the partial least squares (PLS) model. This model is taken because in this study, there are four latent variables that form indicators in a formative and not reflective manner. Tests were carried out with the statistical tool WarpPLS 5.0, which is to accommodate the use of SEM models in structural equations.



**Figure 2. Derivation of Morality of Financial Accounting (MoFA)**



**Table 1. Variables and Indicators of the Research**

Variables	Indicators
Trust (TRS)	View of truth Behavior perspective Action tendencies Expectation
Social Network (SNT)	Cooperation Service System
Morality of Financial Accounting (MoFA)	Legality of Kindness Disclosure of consistent reports Honesty in transactions
Financial Performance (FF)	Donation The number of donors The value of the donation

## Results and Discussion

In the measurements that have been carried out using WarpPLS 5.0, it can be seen that the relationship between social network variables and financial performance is significant with a value of  $\rho < 0.01$  and has a path coefficient value of 0.362. From testing this research, we can then conclude that the first hypothesis is accepted. In addition, the number 0.362 shows that in the relationship between social networks and financial performance, when the network is increased, the effect on financial performance also increases by 0.362 or vice versa, if it is decreased, the impact is also a decrease by 0.362.

Meanwhile, the measurement between the variables of trust in financial performance is significant with a value of  $\rho < 0.01$  and has a path coefficient value of 0.424. From testing this research, we can then conclude that the second hypothesis is accepted. In addition, the number 0.424 shows that in the relationship between trust and financial performance, when the network is increased, the effect on financial performance also increases by 0.424 or vice versa, if it is lowered, the impact is also a decrease by 0.424.

The value of R2 shows the effect size found in the performance variable which is influenced by social network and trust variables. The effect size or R2 value in this study is 0.314, meaning that these two variables have an influence on financial performance of 31.4%. And the remaining 68.6% can be influenced by other variables outside the variables of social networks and trust.

The next test involves the MoFA variable as a moderating variable. The relationship between social networks and financial performance with MoFA as a moderating variable is significant with a value of  $\rho < 0.01$  and a path coefficient value of 0.241. This shows that the MoFA variable can be used to strengthen social network relationships with financial performance together of 0.241.

Tests involving the MoFA variable as a moderating variable are on the relationship between trust and financial performance. The results shown from the statistical test, MoFA as the moderating variable is significant with a value of  $\rho < 0.01$  and a path coefficient value of 0.283. This shows that the MoFA variable can be used to strengthen the relationship of trust with financial performance together of 0.283.

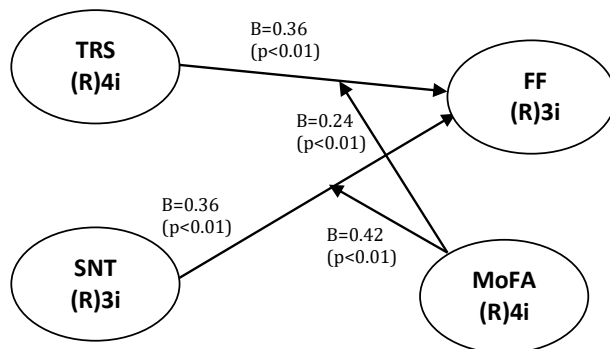


Figure 2. Result of the Research

**Table 2. Direct and Indirect Effects**

Criteria	Variable	TRS	SNT	MoFA	FF	TRS*MoFA	SNT*MoFA
Path Coefficients	TRS						
	SNT						
	FF	0.362	0.424			0.241	0.283
p- values	MoFA						
	TRS						
	SNT	0.002	0.05			0.004	0.002
Effect size for path	MoFA						
	TRS						
	SNT	0.228	0.334			0.28	0.21
	MoFA						

From the results of research testing that has been produced, it can be seen that the relationship between social networks and financial performance is significant and positive. When viewed from the indirect effect, it can be seen that this relationship has an influence of 22.80%. This shows a fairly strong influence from the social network. Johanson & Vahlne (2009) provide an opinion about the dependence of organizations on other organizations in gaining access to resources through certain positions in the network.

The acquisition of corporate knowledge mainly depends on the formation of networks and actors in business, industry, and also social networks (Andersson et al., 2018; Axelsson & Easton, 1992; Johanson & Vahlne, 2009). So, the network formation model will continue to correlate during the process of obtaining financial resources for the organization (Johanson and Vahlne, 2003).

Meanwhile, in the relationship between the variables of trust in organizational performance, significant and positive results can be obtained. Then, when viewed from the indirect effect, an effect of 33.4% is obtained. This shows that trust has a fairly strong influence. Olah's (2021) study shows that trust between organizations is trust with its business partners,

customers, contractors, and networks. The term “interorganizational trust” relates to a synergistic approach that encourages complementarity and embeds between the networks and institutions involved. Complementarity relates to a mutually supportive relationship between organizations and their partners enshrined in a legal framework that protects their responsibilities and privileges.

Trust is the shared links and connections between businesses and business partners that make joint actions easier to plan to achieve common goals. Studies that support the notion that two ways of producing outstanding financial performance are through trust between organizations. Trust between organizations acts as a safeguard against possible opportunistic and risky moral harm from business partners. Such guarantees significantly minimize high costs and the need for formal safeguard activities, i.e. complex contracts and close monitoring (Williamson, 1993; Dyer & Singh, 1998).

In the relationship between social network variables and financial performance involving MoFA as a moderating variable, it can be seen that the results are significant and can be used to strengthen the relationship. When viewed from the indirect effect, in this relationship, MoFA can strengthen social network relationships with financial performance by 28.3%. Dewi & Saudah (2012) evaluated empirically the inclusion of MoFA as one of the IC components. MoFA is very important in individuals as well as organizations in social networks through the way entities or companies are managed, ensuring business operations run according to laws and standards, being honest in financial matters, etc., which in turn will improve the company's financial performance.

In addition to social network relationships, MoFA is also used to moderate the trust relationship with financial performance. From the tests carried out, significant results were obtained in moderating the trust relationship with financial performance by 20.8%. MoFA can change this pattern by improving the relationship of entrepreneurs with others (Chan-Serafin et al., 2013). Stinchcombe (1965) adds that successful new businesses often require "transactions with strangers". MoFA when viewed positively by

others, can generate trust and reciprocity that facilitates transactions (McMullen, 2011; Puffer McCarthy, & Boisot, 2010).

MoFA serves as a necessary moral precondition and basis for social order for ongoing market transactions, thereby reducing transaction costs by signaling honesty and accountability. Employees can also be drawn into a business by the entrepreneur's MoFA. MoFA can be a signal to employees that entrepreneurs have moral and ethical standards and can be trusted (Drakopoulou-Dodd & Gotsis, 2007). Thus, the trust that is formed can improve financial performance through strengthening the MoFA.

## Conclusion

The conclusion obtained from the research is that financial performance can be influenced by trust and social networks, and can be strengthened through the mediation of Morality of Financial Accounting (MoFA). The relationship between social networks and financial performance which is the influencing factor is the acquisition of knowledge that occurs in these social networks. Meanwhile, in the relationship between trust variables and financial performance, the important factor is the synergy approach. Meanwhile, the MoFA, which functions in moderating social network relationships and trust in financial performance, will play a role as a moral value. When viewed from the direct effect, the MoFA has the smallest value if it is seen from the value of 21% on the moderation of trust and financial performance. For future research so that the development of moral values as the MoFA can be further deepened.

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