

# Urgency in Waqf-Microfinance Project Collaboration for Socioeconomic Growth and the Mediating Effect of Sustainability Using PLS-SEM Analysis

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## ABSTRACT

The microfinance industry has contributed significantly to sustainable socioeconomic growth. In spite of its remarkable significance, microfinance still faces some obstacles in the industry. A significant challenge is its poor performance in terms of business growth due to lack of integrative approaches and creative resources. In response to this issue, a collaboration between Waqf and Microfinance is proposed to develop socioeconomic growth for sustainability. However, the element of urgency as an intangible resource is needed to ensure the collaboration practice will perform well and significantly contribute towards sustainable socioeconomic growth. Thus, this study aims to examine the impact of urgency on the performance of Waqf-Microfinance project collaborations. To contextualize sustainability within the collaborative practice, this study has evaluated the mediating influence of sustainability in terms of the relationship between urgency and the performance of Waqf-Microfinance collaborative projects. Subsequently, the advance partial least square technique (PLS) was employed as the primary approach to assessing the research model of the study. A quantitative approach was employed in this study. Industry practitioners are encouraged to adopt this research framework in developing a model that can provides a comprehensive guideline on the importance of urgency to enhance the performance of waqf- microfinance collaboration.

**Keywords:** Waqf-Islamic Microfinance; Urgency; Sustainability; Socioeconomic Growth

**JEL Classification:** M21; E6; G2; N35; Z12; Q5

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# La Urgencia en la Colaboración entre los Proyectos de Waqf y las Microfinanzas para el Crecimiento Socioeconómico y el Efecto Mediador de la Sostenibilidad mediante el Análisis PLS-SEM

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## RESUMEN

El sector de la microfinanciación ha contribuido significativamente al crecimiento socioeconómico sostenible. A pesar de su notable importancia, la microfinanciación sigue enfrentándose a algunos obstáculos en el sector. Un reto importante es su escaso rendimiento en términos de crecimiento empresarial debido a la falta de enfoques integradores y recursos creativos. En respuesta a este problema, se propone una colaboración entre Waqf y Microfinanzas para desarrollar el crecimiento socioeconómico para la sostenibilidad. Sin embargo, el elemento de urgencia como recurso intangible es necesario para garantizar que la práctica de la colaboración funcione bien y contribuya significativamente al crecimiento socioeconómico sostenible. Así pues, este estudio pretende examinar el impacto de la urgencia en el rendimiento de las colaboraciones de proyectos Waqf-Microfinanzas. Para contextualizar la sostenibilidad dentro de la práctica de colaboración, este estudio ha evaluado la influencia mediadora de la sostenibilidad en cuanto a la relación entre la urgencia y el rendimiento de los proyectos de colaboración Waqf-Microfinanzas. Posteriormente, se empleó la técnica de mínimos cuadrados parciales avanzados (PLS) como enfoque principal para evaluar el modelo de investigación del estudio. En este estudio se empleó un enfoque cuantitativo. Se anima a los profesionales del sector a que adopten este marco de investigación para desarrollar un modelo que pueda proporcionar una guía completa sobre la importancia de la urgencia para mejorar el rendimiento de la colaboración entre Waqf y microfinanzas.

**Palabras clave:** Microfinanciación Waqf-Islámica; Urgencia; Sostenibilidad; Crecimiento Socioeconómico

**Clasificación JEL:** M21; E6; G2; N35; Z12; Q5

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## 1. Introduction

Organizations based in various sectors are showing greater engagement in collaborative practices, displaying a willingness to pool resources and skills in order to reach shared business objectives with other parties (Born-Barnard et al., 2018; Nolte, 2018; Ukko & Saunila, 2020). To date, numerous models and methods of collaboration have been conducted in various ways to develop stronger socioeconomic growth while simultaneously guaranteeing profit for firms. In fact, firms and organizations in developing countries are currently looking at efficient practices to strategically achieve their business missions and visions together through the sharing of resources and capabilities (Donnelly & Wickham, 2020). Such effort is also currently prevalent in Malaysia where firms, organizations and even the government are exploring cross-sector collaboration practices with the aim of achieving national socioeconomic growth for sustainability.

Furthermore, Malaysia's government itself is currently implementing several policies related to cross-sector collaborations to encourage cooperation between businesses and communities, so that they work together in supporting the country's socioeconomic development. This strategy is recognized as the Social Private and Public Partnership or SPPP, as initiated by The National Blue Ocean Strategy (NBOS) and integrated within the 11th Malaysia Plan (RMK-11). The initiatives under NBOS offer efficient and creative solutions to ensure the delivery of valuable impact at minimal expense. This involves planning and executing various programs targeted towards socioeconomic sustainability in collaboration with organizations from diverse sectors.

Waqf sectors also recently show a drive for collaboration with other industries, including the Microfinance industry, in ways which significantly contribute towards sustainable socioeconomic growth (Suhaida & Ismail, 2021). By amalgamating Waqf within the Microfinance industry, the literature review validates the capacity for Waqf to function as supplementary funding for Islamic Microfinance institutions, especially in the effort to create cost effective financial and human resources programs (Zainal et al., 2019). The Waqf fund utilized in the Waqf-Microfinance collaboration model is predicted to sponsor various profitable endeavours, where any revenue will be reserved for future financial needs. This ensures perpetuity of the Waqf fund for any possible upcoming activities.

Nevertheless, to date, both Microfinance and Waqf institutions in Malaysia have recorded slow progress, if not failure, in boosting the development and economy of the Muslim community, as most Microfinance businesses as well as Waqf properties, specifically lands, remain idle, neglected, and unproductive (Abas & Raji, 2018; Baqutayan et al., 2018; Khan, 2020; Qureshi et al., 2020). Such underperformance of this industry will cause a substantial loss to the national socioeconomic growth. Hence, an innovative approach such as cross-sector collaborations within the context of Waqf in Microfinance is considered as the ideal and strategic choice to administer and develop socioeconomic growth for a better performance.

One of the factors that must be addressed to critically resolve this issue is by adhering to an element of urgency between partners in this collaboration practice. Urgency should be tested as it is the most reliable and unique resource in this theory and of which is parallel to the nature of this study, i.e., collaboration between the SIRC and their partners. The Stakeholder Saliency theory highlights this aspect of the relationship, where the demand in terms of urgency prompts firms to respond efficiently to their stakeholders or partners in the collaboration (Ditlev-Simonsen & Midttun, 2011; Roy et al., 2020; Shahatha Al-Mashhadani et al., 2021). Sustainability is proposed to have an indirect significant effect on the relationship between urgency and performance (Paulraj et al., 2017; Zaragoza-Sáez et al., 2020).

In conclusion, the perspective of this study acts as a major impetus in the effort to bolster the growth of Waqf-Microfinance, in a manner which will be valuable to society as well as the parties involved in the project collaboration. In addition to offering a motivation for various parties to participate in such collaborations, the discussion also presents answers for tackling the challenges and troubles that could surface along the process. Careful planning and navigation are advised in order to

successfully manage the various elements within a collaborative project. However, even with thorough preparation it cannot be fully certain that every collaborative undertaking will be a productive one.

## 2. Literature Review

### 2.1. Waqf as Microfinance Instrument

Waqf has played a crucial part in the socioeconomic history and progress of Muslims since the age of Prophet Muhammad (PBUH). The role of Waqf in the socioeconomic development of Muslims continued to grow and reached its peak during the Ottoman Caliphate (Cizakca, 1998). At that time, all the basic needs of Muslims were derived from sources of Waqf including conveniences for education, health, mosque, road facilities and so on. The role of Waqf in national economic development was widely recognized since the yields from Waqf served as a continuous income for the Muslim community and can be used to finance various activities (Johari et al., 2014; Seng et al., 2020). Thus, it brought significant progress to Muslims in across social and economic dimensions.

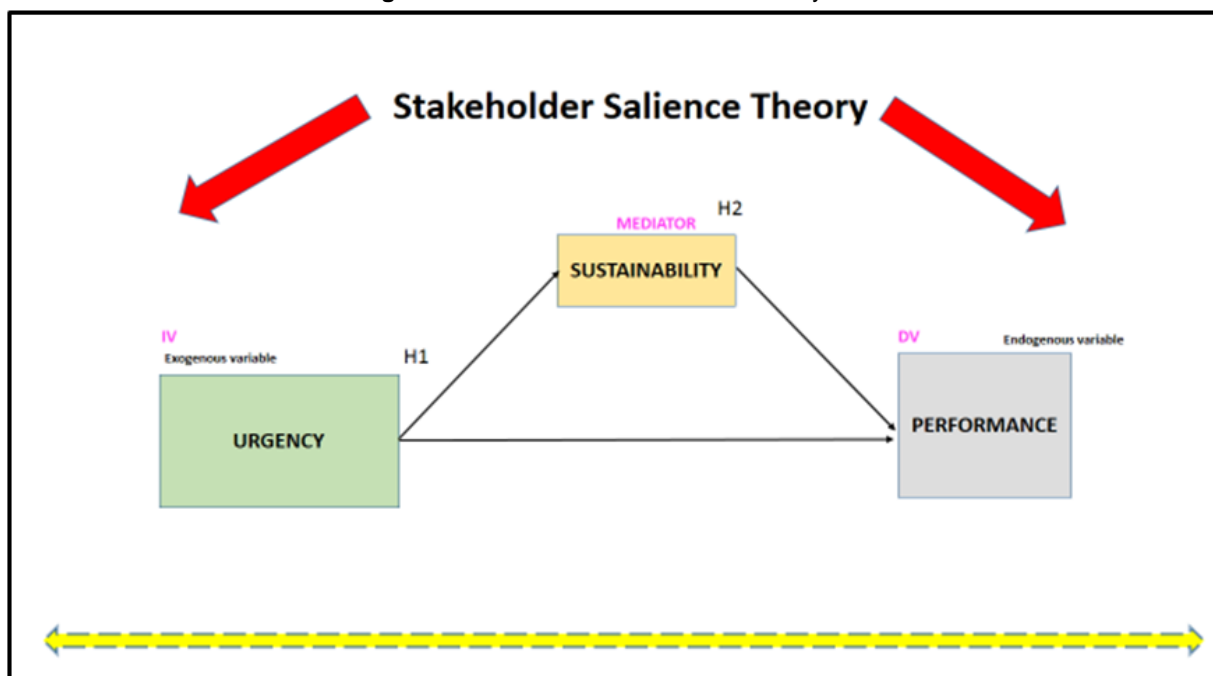
### 2.2. Theoretical Framework and Hypothesis Development

A research framework illuminates the main elements which are the subject of a study, namely the variables, constructs or factors, and the predicted relationships between them. The research framework of the current study is theory-driven and formed on the basis of previous literature. Figure 1 lays out the research framework applied in the study. Following to the research framework, hypothesis statement is developed as below:

*Hypothesis 1:* There is a positive significant relationship between urgency and the performance of Waqf project collaborations.

*Hypothesis 2:* The relationship between urgency and performance of Waqf project collaborations is positively mediated by sustainability.

Figure 1 Research Framework of the Study



## 3. Research Methodology

The positivist view, as well as the deductive and quantitative approaches, have been incorporated in this study. Subsequently, the research design is justified where the selection of appropriate research

methodology is crucial in guiding how the study is conducted as well as affecting the quality and accuracy of the results (Bhattacharjee, 2012; Creswell, 2018).

In deciding the unit of analysis in this study, purposive sampling is adopted. This allows researchers the freedom to determine the make-up of respondents according to their discernment. In simple terms, purposive sampling ensures that researchers can pinpoint specific qualities in their respondents based on relevance to their research scope. A selection of 160 respondents was selected through purposive sampling. These respondents represented the organizations that participated in cross-sector collaborations in Waqf projects.

After describing the population and sample which are specific to a minimum sample size requirement, the questionnaire administration, development, translation process, and ethical considerations are further examined. The questionnaire was distributed via two options according to the respondents' preferences, i.e., either by mail or drop off to the respondents' office. Before SEM is applied, the latent constructs were submitted to a confirmatory factor analysis in order to evaluate the level to which the findings would comply to the theory and subsequently forecast the constructs within the proposed model.

## **4. Findings**

### **4.1. Demographic Findings**

In demographic analysis of the study, out of the 160 sets of questionnaires available, only 153 samples can be used after performing the data cleaning procedure. The majority of the respondents involved in this study were from Islamic Religious Councils (SIRCs) with a frequency number of 82 from the total respondents of 153 which makes up 53.5% of the total respondents. This is followed by the other Microfinance organization. Most of the respondents hold middle level management positions i.e., 45 respondents or 29.4% of the total respondents. Most of the respondents have also been involved in cross-sector collaboration projects for about 1-3 years i.e., 64 respondents or 41.8% of the total respondents.

### **4.2. Measurement and Structural Model**

In Table 1, the result of composite reliability of indicator performance, sustainability and urgency shows that the indicators are reliable at a satisfactory level reaching the threshold of more than 0.70 (Hair et al., 2014;2020). The indicator reliability value depicts that all indicators has reached more than 0.60. Next, the AVE result of performance (0.55), sustainability (0.571) and urgency (0.641) indicate a satisfactory degree and also reaches the threshold of  $AVE > 0.5$  (Hair et al., 2014;2020). The Heteroite-Monotrait Ratio (HTMT) test was also conducted (Table 2) and a satisfactory result is generated when all values are below 0.85 HTMT, suggesting that each construct in the model differs from one another (Hair et al., 2014;2020; Henseler et al., 2016).

#### *4.2.1. There is a positive significant relationship between urgency and the performance of Waqf project collaborations.*

In terms of the structural model (Table 3), it is imperative to discover the significant effect of urgency towards the performance of Waqf-Microfinance project collaborations. Here the VIF value of 1.796 satisfies the threshold of less than 5. Finally, the bootstrapping technique has been performed to confirm hypothesis H1. The findings record that urgency has a significant relationship with performance with a t-value recorded at 4.166, p-value of 0.000, and  $\beta = 0.31$  and with a confidence interval of less than 1; it is confirmed that the value meets the threshold. Hence, the hypothesis H1 of a direct relationship between urgency and project performance is supported with a significant impact of the resources on project performance.

**Table 1** Construct Reliability and Validity

	<b>Outer Loading</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
<b>PERFORMANCE</b>		0.918	0.93	0.55
PF1	0.679			
PF2	0.626			
PF3	0.768			
PF4	0.795			
PF5	0.81			
PL1	0.685			
PL2	0.685			
PL3	0.699			
PS1	0.753			
PS2	0.812			
PS3	0.814			
<b>SUSTAINABILITY</b>		0.926	0.902	0.571
SP1	0.726			
SP2	0.872			
SP3	0.869			
SS1	0.672			
SS2	0.809			
SS3	0.692			
SS4	0.609			
<b>URGENCY</b>		0.888	0.914	0.641
UT1	0.823			
UT2	0.882			
UT3	0.786			
UT4	0.87			
UT5	0.784			
UT6	0.634			

**Table 2** HTMT Result of the Study

	<b>PERFORMANCE</b>	<b>SUSTAINABILITY</b>	<b>URGENCY</b>
<b>PERFORMANCE</b>			
<b>SUSTAINABILITY</b>	0.566		
<b>URGENCY</b>	0.578	0.542	

*4.2.2. The relationship between urgency and performance of Waqf project collaborations is positively mediated sustainability*

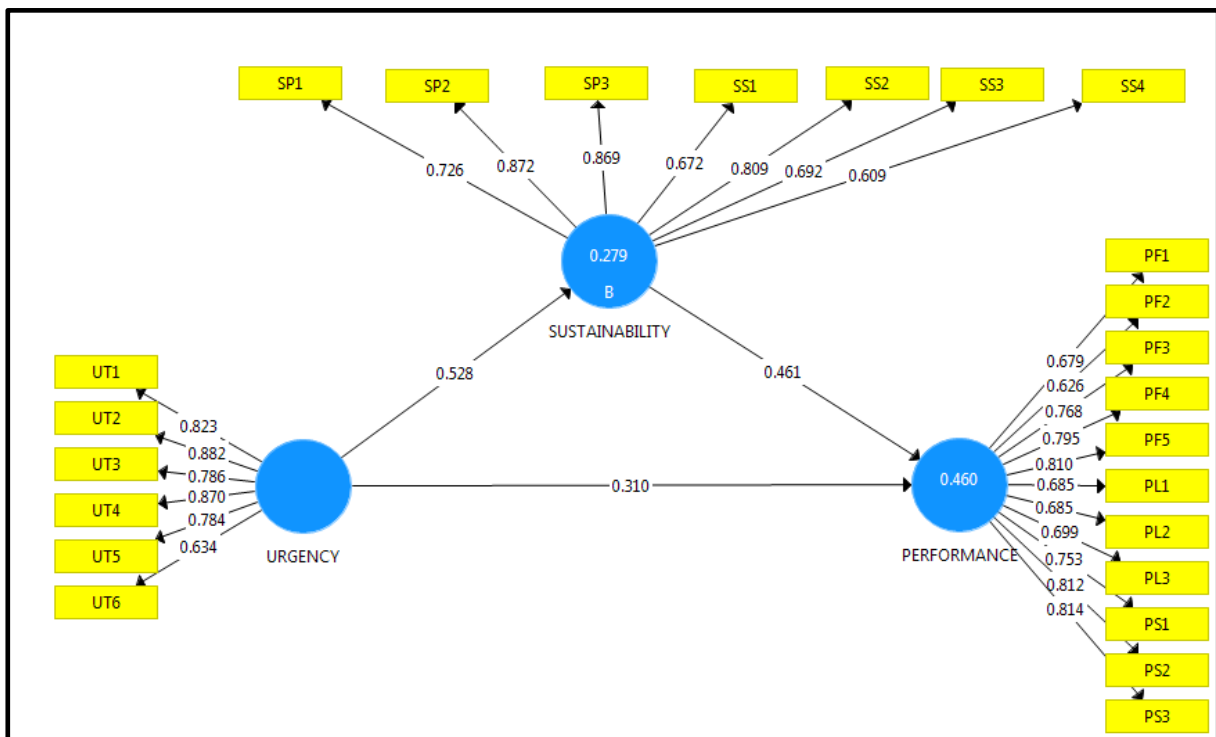
Table 3 also demonstrates that hypothesis H2 focuses on the specific indirect effect of sustainability as a mediating factor in the relationship that connects urgency with the performance of Waqf-Microfinance project collaborations. Correlated with findings in hypothesis H2, the result of the mediating effect shows that sustainability has a significant indirect effect as a mediator in the relationship between urgency and performance with value of  $\beta = 0.243$ ,  $t\text{-value} = 5.237$ ,  $p\text{-value} = 0.000$ . Therefore, it confirms the hypothesis H2 above.

**Table 3** Summary of Hypothesis Testing

	Beta	STD. DEV	t-Statistics	Decision
URGENCY -> PERFORMANCE	0.31	0.075	4.116	Supported
URGENCY -> SUSTAINABILITY -> PERFORMANCE	0.243	0.046	5.237	Supported

Next,  $f^2$  effect size is also analyzed using the guidelines proposed by Hair et al. (2014;2020), in which the effect size  $f^2$  values of 0.02, 0.15, and 0.35 are categorized as small, medium and large effects. With a value of  $f^2 = 0.129$ , it is indicated that urgency has a small effect size on the endogenous constructs. Based on the results above, it is evident that hypothesis H1 and H2 is supported such that urgency and sustainability has been found to have a significant effect towards the performance of Waqf-Microfinance project collaborations. Figure 2 illustrated the model of the study.

**Figure 2.** Model of the Study



## 5. Discussion and conclusion

The research findings have revealed the significant effect of the intangible resources, namely that of urgency within the performance of Waqf-based Microfinance projects, carried out as collaborations between SIRC and their partners. Another noteworthy mediating effect has also been revealed. In this research study, sustainability functions as a significant mediating variable in the relationship between urgency and the Waqf-Microfinance project collaborative performance.

With respect to practical concerns, this study recommends precise directions towards the design and rationalization of the requirement for resources for cross-sector collaboration strategies in Waqf-Microfinance development. While it would be challenging for these findings to directly translate to non-Malaysian societies, they can still aid organizations in evaluating their existing procedures related to cross-sector collaboration and making modifications where needed.

The empirical findings of the present study have concluded that the element of urgency, in its form as a construct of intangible resources, demonstrates its importance and how it is significantly owned and required by the partners of SIRC in the Waqf-Microfinance project collaboration processes. This construct is especially crucial as it has been highlighted during the preliminary session of the research by the partners of SIRC. In addition, sustainable socioeconomic development can be achieved in response to the national agenda that is posited by the federal government (Moallemi et al., 2020). The

current study agrees with the government's efforts in incorporating Waqf as a vital component in sustainable socioeconomic development by means of cross-sector collaborations between various SIRC's and other public and private sectors. This strategy also correlates with the 11th Malaysia Plan (RMK-11) which outlines the National Blue Ocean Strategy (NBOS) along with the aim to reform the social sector through the implementation of a Social Public-Private Partnership (SPPP).

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