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The Role of Partnership in Improving SMEs Reputation: An Islamic Outlook

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Abstract

Corporate governance related to the external stakeholders needs to be supported by professional knowledge, which includes Islamic and contemporary knowledge. The cooperative relationship with stakeholders has potential to increase the knowledge of managers. It is hoped that it will affect the company's good reputation. However, so far, the empirical research on reputation and partnerships has been primarily seen from the customer side, carried out in large organizations. Organizational agility is still rarely studied in both large organizations and SMEs. This study aims to examine the role of strategic partnership, professional knowledge, and organizational agility in improving the reputation of Small and Medium Enterprises (SMEs) in Islamic outlook. The results are expected to give contribution for SMEs in enhancing the strategic role of their human resources (especially managers) for the development of SME performance. With a sample of 33 managers of SMEs, the data obtained was analyzed by using structural equation modeling with AMOS software. The results showed that strategic partnership has a significant effect on professional knowledge, but not on organizational agility. Professional knowledge has a significant effect on organizational agility, not on organizational reputation. Then, the organizational agility has a significant effect on the organizational reputation. Therefore, it is important to support knowledge transfer from the individual to the organizational level. Besides, it is also necessary to improve Islamic social capital to support the reputation of small and medium enterprises.

Keywords: strategic partnerships, professional knowledge, organizational agility, reputation, corporate governance.

1. Introduction

Corporate governance is often associated with large companies where there is a separation between capital owners and managers. The existence of a conflict of interest between the two parties increases the need for control over the use of company resources. There are four main internal operational aspects that need to be controlled. They are financial expenditures, transparency, strategic direction of the company, and shareholder activism (Abor & Adjasi, 2007). As for small and medium-sized enterprises (SMEs), there is generally no separation between capital owners and managers, fewer employees and close relationships with owners, as well as cost minimization, resulting in low internal corporate governance needs. Instead, it is important for SMEs to manage external corporate governance in terms of partnerships with external stakeholders, such as other SMEs, suppliers, governments, communities, and financial institutions. The cooperation relationship should be based on justice, transparency, and accountability

(Wolfensohn, 2001). As Abu-Tapanjeh (2009) stated in his article that Muslims are expected to run their business in accordance with sharia rules, namely to be fair and honest, ethically and socially responsible, and not detrimental to their social and environmental welfare (Asyraf, 2006).

Allah SWT stated in Al-Fathir (QS. 35:28) shows the importance of deed based on knowledge. From an Islamic perspective, to run a company's business successfully, an entrepreneur must have adequate contemporary and Islamic knowledge (Hoque et al., 2014). The advantage of business knowledge is needed to identify strengths, weaknesses, opportunities, and threats faced. This can help businesses to develop policies and strategies needed for business success. Furthermore, this article calls it as professional knowledge. Professional knowledge can continue to be developed as a result of the interaction process with external parties with an interest in the company.

Talking about organizational reputation, it is always associated with large-scale enterprises. Small and medium enterprises are seen to be more important in managing their internal companies for the sake of efficiency and sustainability of the company. However, it cannot be ignored that one of the important problems of the SMEs is the difficulty in obtaining potential resources, including the quality of their management. To get talented employees, SMEs must compete with large companies that promise more attractive career paths and compensation. This is where the role of SME leaders in creating a positive reputation for the company to help attract and maintain valuable human capital for the company (Friedman, 2009). However, research on the company's reputation tends to be seen from the customer side (Bartikowski & Walsh, 2011; Caruana & Ewing, 2010; Eisenberger et al., 2010; Carmeli & Tishler, 2005), but empirical studies are rarely available from employee perspective (Fu et al., 2014). How employees perceive the reputation of the company where they work has a direct impact on their attitudes and behavior (Helm, 2011). As a result, Fombrun and van Riel (2004) showed that the emotional appeal of employees determines the company's reputation. Even financial performance is not a major factor influencing employee perception if compared to emotional attractiveness. Moreover, positive attitudes and behaviors of employees eventually impact customer satisfaction and loyalty (Hurley & Estelami, 2007). Likewise, Islam views the interests of employees and owners as complementary. Employees and owners can create corporate value through quality of their relationships with customers (Hoque, et al., 2014) especially, for small and medium enterprises where the interaction between employees and customers is relatively high. Employees as company representatives will determine how customers perceive the company's orientation towards its customers. That is why an in-depth study of the organizational reputation is needed from the perspective of internal company.

The phenomenon of collaboration that is currently rife among large companies not only strengthens the capabilities of collaborating companies, but also has an impact on the company's reputation. Partnership practices can also be applied in SMEs despite limited capabilities and resources. Each SME has a unique competency that is potential to strengthen each other. However, the study of partnerships in small and medium enterprises in Indonesia is still limited. This research is intended to fill this gap, which is to examine the role of strategic partnerships, professional knowledge, and organizational agility in enhancing the reputation of the Batik SMEs.

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2. Literature Review

2.1 Strategic Partnership

In the era of increasingly fierce business competition, collaboration discourses are even more prominent. A number of large companies in various countries are building partnerships to collaborate in various aspects, to increase efficiency and profit, market access, economic scale, technology and so on. This collaboration mainly occurs in industries where companies need to coordinate their business functions with other companies in order to be able to compete effectively as in the telecommunications, transportation, tourism and automotive industries (Williams, 1999).

Small-scale companies with limited capabilities and resources can also build partnerships with other business actors with the hope that such company is more capable of capturing external opportunities and internal challenges in creating and maintaining their core competence. External opportunities include resources, information, and markets. While the core competencies are operational and managerial competencies.

There are 3 stages of the strategic partnership process. First is establishing a strategic partnership. The company identifies its own strengths and weaknesses, and then determines which company will become its partner. Of course, the chosen company is one that has competencies that will add value to the company. Second

is developing a competitive strategy. In this second phase, the company identifies its core competencies, develops a value chain approach, and creates strategies to achieve partnership goals. Third, maintenance management, it is the cooperation that has been established must be sustained. It includes ongoing actions to build trust, consensus of shared responsibilities, loyalty, shared risks, role adjustments, and mutual respect (Dunning, 1997; Lewis, 1990). Furthermore, sharing information through an organizational learning process will strengthen the core competencies of each company involved in collaboration (Hamel, 1991).

2.2 Professional Knowledge

Today, it is increasingly believed that knowledge is an important asset of an organization. How valuable the knowledge possessed by all members will determine how much support for the achievement of company performance. Similarly, small and medium enterprises (SMEs) are increasingly critical of the need for knowledge workers.

Resource limitations and managerial capabilities are some of the conditions in SMEs that limit discussion of knowledge ownership in small and medium enterprises which include the knowledge of employees and managers as well as business owners. Moreover, professional knowledge is an important resource in modern learning organizations today. SME leaders as value creators and key contributors to the company are required to have the ability to apply the knowledge and information they possess to support the completion of strategic tasks and decision making that determine the sustainability of the company (McFarlane, 2008).

2.3 Organizational Agility

Organizational agility is a relatively new concept, but there are some interesting definitions explained by a number of researchers. Some define it as the ability to recognize market changes and allocate resources to benefit from these changes (Najrani, 2016). Appelbaum (2017) describes organizational agility as the ability to respond proactively to unexpected environmental changes. While Edwards (2007) defines it as the capacity to adjust to using the power to face challenges and minimize negative impacts due to organizational fragility. Agile companies will enjoy improved performance over time, where current and future performance is always better than before (Routroy, 2015).

Najrani (2016) also suggests three strategies to become an agile organization, i.e., reactive agility, proactive agility, and innovative agility. The company is stated to have reactive agility if it can implement a change program, and if successful it will achieve an increase in profit. If companies do not respond to these changes, the company's profit may decrease. Both are choices that companies can take in addressing market changes. An agile organization will take the first option, which quickly recognizes and responds market changes. Proactive agility is defined as the company ability to proactively identify new market trends and quickly develop strategies in order to maximize profits. If the new trend is long term, then proactive action with strategy adjustments is the best choice. This means that companies are able to swiftly capture new opportunities earlier than competitors. Then, innovative agility occurs when the company strategy is focused on developing new products and markets where consumers are not aware of what they want. In this condition, the company innovates to create new products and introduces them to its target consumers. There are two opportunities. First, consumers reject the concept of new products offered so that the company will lose the potential profits, resources and time that has been used for the development of these products. Second, if the market responds positively, the company will gain competitive advantage until competitors offer a similar product concept.

2.4 Organizational reputation

There are number of definition of organizational reputation. One of them is defined by Fombrun et al. (2000), who stated that an organizational reputation is a collective assessment of the company's ability to provide valuable outcomes for stakeholders. The resource-based view of the firm considers that an organizational reputation is an intangible resource which is very valuable and strategic for the company's competitive advantage in a sustainable manner (Deephouse, 2000; Fu, 2014). Organizational reputation also has a positive impact on financial performance (Surroca et al., 2010) and investment attractiveness (Pfarrer et al., 2010). Even a number of research results have found their impact on customer attitudes and behavior (Caruana & Ewing, 2010; Bartikow & Walsh, 2011; Eisenberger et al., 2010). For employees as internal stakeholders, the organizational reputation has a positive impact

on loyalty, creativity, commitment, job satisfaction, and self-esteem (Helm, 2011; Fu, 2014). This shows that the study of organizational reputation studies more about the impact on the organization. In the setting of small and medium enterprises that have limited resources, more research is needed on the role of owners and managers as those who have professional knowledge.

3. Hypotheses

3.1 Strategic Partnership and Professional Knowledge

The partnership built by the company has potential to trigger collaborative knowledge. Hopwood (2016) argues that such relationships have implications for the professional expertise of employees who interact directly with partners. The result by Williams (1999) showed that strategic partnerships support the sharing of information in the fields of products, markets, marketing, technology, industry, government, and so on. Certainly, all of them will support the improvement of the knowledge of managers. Knowledge, information, and experience from these relationships are intellectual resources that can be used to create value (Nicholson & Kiel, 2004). Similarly, Nathan & Ribiere (2007) emphasized that corporate leaders capture knowledge through personal relationships and interactions with the external environment. The hypothesis can be formulated as:

H₁: Strategic partnership has a positive effect on professional knowledge.

3.2 Strategic Partnership and Organizational Agility

By collaborating and sharing activities and values, companies can create more innovative and more efficient production processes; and other creative capacities that are difficult to achieve if working alone (Oliver, 1990). This shows that strategic partnerships have the potential to increase the company's ability to respond to market opportunities. Collaborative cooperation between companies also improves quality and speed in decision making, as well as increasing corporate resources (Borzsony & Hunter, 1996). The results of this study can be interpreted as a strategic partnership which can enhance the company's ability to behave reactively and innovatively. Both are dimensions of organizational agility. Therefore, the hypothesis can be formulated as:

H₂: Strategic partnership has a positive effect on organizational agility.

3.3 Professional Knowledge and Organizational Agility

As we all know, the involvement of young people in the field of entrepreneurship encourages the dynamics of competition that relies on creativity. No wonder the need to recruit and retain knowledgeable employees in SMEs is increasing. What is needed is a creative idea and the ability to execute it. This requires the support of SME owners as entrepreneurs (Doris, 2008). SME owners must have professional knowledge that distinguishes them from competitors. Entrepreneurs must be knowledgeable to support better business organization (Beijerse, 2000). This is in line with the statement of Bruderl et al. (1992) that the higher the level of education of SME owners, the higher the productivity of their businesses. However, the results of Doris & Boštjan (2008) research show that professional knowledge of owners and managers (top management) of SMEs are not primarily determined by the level of education but the management experience. Omerzel (2008) also asserts that entrepreneurial professional knowledge will reduce the risk of uncertainty, improve learning skills, and examine market changes more quickly. It can be interpreted that professional knowledge of SME owners supports the company's ability to capture market opportunities and face competition dynamics. The agility of this organization requires the support of strong and sustainable commitment from its employees. The commitment of SME owners as the party with the most interest in the sustainability of the company, of course, need not be questioned. But at the level of the entrepreneur/owner of the SMEs, the determinant of organizational agility is his professional knowledge. This will determine the ability to formulate and adapt strategies that ultimately affect the competitiveness of companies in the industry (Klein et al., 2017; Alpkan, 2010). The hypothesis that can be formulated is:

H₃: Professional knowledge has a positive effect on organizational agility.

3.4 Professional Knowledge and Organizational Reputation

External parties with an interest in the company form perceptions about the company based on several things (Men & Stacks, 2012). First is a direct experience with the owner and or manager. Second is the quality of communication that is built between stakeholders and the company. This is supported by the statements of Gotsi and Wilson (2001) which emphasize the role of communication in creating corporate reputation. In small and medium enterprises, effective communication between companies and external parties is carried out by managers. How the quality of communication that is built reflects his professional knowledge. Stakeholder's direct experience through its interaction with the management of SMEs determines their perception of the company. The ability of SME managers to build relationships and collaboration with internal employees and external stakeholders affects the company's reputation. As confirmed by Dowling (2004), that management competencies and quality affect the reputation of the organization perceived by stakeholders. The hypothesis that can be formulated is:

H₄: Professional knowledge has a positive effect on organizational reputation.

3.5 Organizational Agility and Organizational Reputation

One indicator of organizational agility is innovation. Organizations that have innovative agility will introduce new products to the market earlier (Najrani, 2016). Even consumers have not yet realized the need for these products. Competitors have also not offered to the market. The introduction of new, creative and fast products to the market has the potential to shape a positive corporate reputation. The company's ability to observe new trends in the market and immediately adjust its product design strategy provides an opportunity to be more proactive in the industry. This also has the opportunity to improve the company's reputation. The hypothesis that can be formulated is:

H₅: Organizational agility has a positive effect on the organizational reputation.

4. Methods

4.1 Population and Sample

The population of this study is the manager of Batik UKM in 7 cities/regencies in Central Java, i.e. Pekalongan Regency, Pekalongan City, Pati, Sukoharjo, Surakarta, Rembang, and Purbalingga. Involving 135 SME managers, as following Ghozali (2008) i.e. by using the estimation model of maximum likelihood estimation of 100-200. Data collection using survey method through questionnaires, which the managers of each SMEs responded to.

4.2 Variable Measurement

Strategic Partnership. This variable refers to respondents' perceptions of the relationship of their cooperation and other batik SMEs. It used 5 modified indicators based on the instruments developed by Williams (1999), namely, information networks, product and marketing synergy, partnerships, market access efficiency and funding access. Each indicator was measured by 1 question item, 1-10 scale from "strongly disagree" to "strongly agree".

Professional Knowledge. This variable refers to the respondents' perception of how much knowledge they have is valuable and supports the company's ability to compete in the midst of industry dynamics. It used 4 modified indicators based on the instruments developed by Lepak and Snell (1999) i.e. the ability to implement strategies, competitiveness, operational knowledge, and the ability to respond to changes. Each indicator was measured by 1 question item, 1-10 scale from "strongly disagree" to "strongly agree".

Organizational Agility. Organizational agility refers to the respondents' perceptions of how much the company is capable of facing competition proactively, reactively and innovatively. It used 3 modified indicators based on the instruments developed by Najrani (2016), i.e. speed of recognizing market changes, reactive agility, and innovative agility. Each indicator was measured by 1 question item, 1-10 scale from "strongly disagree" to "strongly agree".

Organizational Reputation. This variable refers to respondents' perceptions of how much corporate responsibility to internal and external stakeholders. It used 3 modified indicators based on the instrument developed

by Fu, et al. (2014) i.e. social, environmental and community responsibility. Each indicator was measured by 1 question item, 1-10 scale from "strongly disagree" to "strongly agree".

5. Results

The validity test was conducted using Confirmatory Factor Analysis (CFA). All question items used in this study were declared valid, because the loading factor is greater than 0.4 which shows the level of compatibility between the variables and the factors. Thus, the question items can be used for further analysis.

The reliability test was done using the Cronbach's Alpha method. In this study, the research instruments were categorized as reliable because they have an alpha value of more than 0.6. More detailed are described in Table 1.

Table 1. The Result Summary of Reliability Test

Variable Names	Cronbach's Alpha
Strategic Partnership	0,873
Professional Knowledge	0,932
Organizational Agility	0,925
Organizational Reputation	0,890

This research employed structural equation model so that it requires Structural Equation Model (SEM) test. Data analysis was conducted through Amos software version 22. It started with a confirmatory analysis, model feasibility tests, hypothesis testing, and output interpretation.

Confirmatory analysis was the initial stage that was carried out because the variables examined in this research are unobserved variables. The test criterion is that the standardized estimate indicator is > 0.5 . Table 2 shows that the standardized estimate value generated in each indicator is > 0.5 , so it can be concluded that each indicator can be used as a measuring tool for the four variables in this study.

The results of the model feasibility test showed the fit value where TLI is 0.981 or more than 0.90 and RMSEA is 0.066 or less than 0.08, whereas the values of GFI (0.891) and AGFI (0.847) showed marginal results. The RMSEA value is less than 0.08 indicating satisfactory fit (Noruzi et al., 2013), so that it can be concluded that the structural equation model is fit and can proceed to the hypothesis testing.

The effect among variables is assessed through a significance value of ≤ 0.05 . Following is the result of testing the effect among variables.

Table 2. The Result of Hypotheses Test

			Std Estimate	S.E.	C.R.	P
Professional Knowledge	<--	Strategic Partnership	.845	.056	12.294	***
Organizational Agility	<--	Strategic Partnership	.079	.062	1.044	.297
Organizational Agility	<--	Professional Knowledge	.867	.086	10.148	***
Organizational Reputation	<--	Professional Knowledge	.035	.164	.218	.827
Organizational Reputation	<--	Organizational Agility	.873	.168	5.258	***

Table 2 shows that strategic partnership only has a significant effect on professional knowledge ($\beta=0.845$ ***), and has no significant effect on organizational agility ($\beta=0.079$). Similarly, professional knowledge only has a significant effect on organizational agility ($\beta=0.867$ ***), but it has no significant effect on organizational reputation ($\beta=0.035$). The organizational agility in this study shows a significant effect on organizational reputation (0.873***).

6. Discussion

The hypothesis 1 test showed that strategic partnership has a positive and significant effect on professional knowledge. The partnership in this case is interpreted as a collaboration that has been carried out by batik entrepreneurs with their stakeholders. These stakeholders include fellow batik entrepreneurs, local governments (industry offices), raw material suppliers, batik traders, educational institutions, and other business communities.

The forms of cooperation include joint exhibitions, sharing of information, capital assistance, training in product and market development, guarantee of raw material supply, business consultation, relief of payment requirements, mutual benefit sharing, expansion of sales reach, and so on. The collaboration was carried out systematically, comprehensively, and synergy occurred. Relational relationship with these partners can effectively increase the knowledge of batik entrepreneurs. Professional knowledge supports the ability to implement strategies to take advantage of opportunities and face competition. Besides, it also improves the ability to run business operations efficiently and effectively. As Scoot-ladd and Noonan's (2012) statement, that relationship is very important for the business community. Even Chittoor and Das (2007) assert that business failure lies in the company's ability to build partnerships with its stakeholders. One example, as acknowledged by respondents, that the limited ability of human resources and capital hampers the fulfillment of high export opportunities. With the production collaboration between batik entrepreneurs, orders from export markets can be fulfilled. This is able to increase the confidence of foreign customers and encourage the sustainability of re-orders. Then, the facts in the field also showed that batik entrepreneurs realize the importance of the role of internet-based information technology. But again, the constraints of human resources capable of managing IT professionally are still very limited. Collaboration in electronic community systems is a solution that batik entrepreneurs cannot avoid to expand their marketing reach. This shows that strategic partnership has the opportunity to improve professional abilities of batik entrepreneurs.

Based on the results of hypotheses testing, it was not proven that there is a significant effect of strategic partnership on organizational agility. Strategic partnership measured by the extent of systematic collaboration, information sharing, and synergy with partners do not have a significant effect on the agility of the company in terms of speed of recognizing market changes, early identification of new opportunities, and the speed of introducing new products. Agility here is interpreted as a quick and agile act of reading changes and responding immediately by offering new products that are in line with market trends. This finding shows that the cooperation made by batik companies with their stakeholders does not necessarily increase their speed of responding to these opportunities and challenges. This can be understood because of two things. First, respondents perceive that the cooperation which has been built so far has been followed up with joint action, not the speed of entering the market by the company individually. Second, cooperation with partners is carried out by the owner / manager who is the key person in SMEs. This causes partnership relationships that occur tend to improve the individual capabilities of those key HRs, and not directly improve organizational skills.

The results of hypothesis testing showed that professional knowledge has a positive and significant effect on organizational agility. As it is known that SMEs depend on potential human resources whose numbers are very limited. Knowledge of SMEs is also located in these potential individuals. Usually an owner who at the same time acts as the leader/manager, having an interest in the sustainability of the business as well as the adequate basic experience and capabilities of the batik industry. So that the greater the ability to operate the business effectively and efficiently and implement strategies, the greater the agility of the company in introducing new products compared to its competitors.

The finding showed that professional knowledge does not significantly affect the reputation of the organization. This finding is an indication that the reputation of small and medium enterprises is influenced by many factors, not only by the professional knowledge of the business manager. Professional knowledge is interpreted by the respondents as the ability of the owner/manager to apply knowledge in decision making and strategy implementation for business continuity, while SMEs are companies that are "close" to the surrounding community, both as customers, suppliers and sources of labor. Therefore, the ability to build social interaction with various external parties is an important factor. In the interaction process has the potential to build "trust" which is one of the factors in building the company's reputation as Wikaningrum's statement (2011) that "trust" is an intangible resource that is important for the organization and develops through a process of social exchange.

Organizational agility has a positive and significant effect on the reputation of the organization. The results of this study are in line with previous studies that tested these two variables. A company that is proactive, reactive, and innovative is a characteristic of an agile organization. The company's rapid response to market and environmental changes affects the perception of external parties (partners, surrounding communities, customers) of the company concerned. For example, the problem that often occurs in the batik industry is the waste of chemical dyes that pollute the river and the environment around the production site. The company's willingness and ability to innovate to address these issues both proactively and reactively, reinforces its reputation for social and environmental responsibility. The use of natural materials that are environmentally friendly and of higher quality also has the potential to increase the company's reputation in the minds of the target market.

The results of this study also show that a positive reputation is more effectively built through strengthening Islamic social capital. Islamic social capital defines as a network that helps to create relationships which in turn motivate people to follow up on Islamic rules and norms that govern the organization's management process (Farooqi, 2006). The aim of Islam regarding to the social capital is based on Islamic concepts of human welfare and good life which emphasize brotherhood and socioeconomic justice. This is in line with the orientation of SMEs that are not only on the economic welfare of the company but also socio-economic justice. So that a balance is reached between the material and spiritual needs of both the internal company and the surrounding community. Indeed, Burt (1992) states that one of social capital form is reputation. This reputation comes from the relationship of interaction and cooperation in certain network memberships. It appears that it is very closely related to reputation and partnership, especially partnerships with credible stakeholders and has an impact on increasing the trust of other stakeholders. Therefore, batik SMEs that are as the subject of this research should actively join the network built by the Cooperative and SME Office. Various activities, such as training, coaching, and mentoring by government agencies are expected to increase the knowledge of SMEs and facilitate access to information that supports the development of their businesses. The membership of SMEs as fostered partners of the Cooperative Office and SMEs is also expected to strengthen the company's positive reputation in the external stakeholder view. As for employees (internal stakeholders), the partnership can increase trust in the existence and development of the company they work for.

7. Conclusion

Small and medium business actors rely on "key person" who is generally the owner and or manager who becomes "top management". So that the partnership that occurs in SMEs has more impact on the professional knowledge of certain individuals. Knowledge at the individual level does not have a direct impact on the company's reputation. However, professional knowledge affects the agility of the organization in answering the dynamics of competition and opportunities, which in turn will have an impact on reputation. The findings of this study in which organizational agility significantly mediates the effect of professional knowledge on reputation. This has several implications. First, the importance of learning practices to support the transfer of knowledge from the individual level to the organizational level. Second, it needs to increase Islamic social capital to support the reputation of small and medium enterprises. Third, business actors must build partnerships with credible stakeholders to create a multiplier effect. That is the effect of strengthening reputation and collaboration with other stakeholders, both external and internal. The authors also view the importance of further research that tests which one the partnerships with stakeholders which is most significantly improves the reputation of SMEs. The concept of partnership in the view of Islam (*syirkah*) is still very limited to the empirical research. So far, the study of *syirkah* has been dominated by the context of profit sharing and capital. While the form of strategic SME partnerships in this era is not only a financial problem. Therefore, further research needs to involve several other concepts in studying organizational reputation and agility, such as organizational learning, knowledge management, and Islamic social capital.

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