



The Concept of Corporate Social Responsibility in Islamic Banking from the Perspective of Islamic Economics

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Abstract

Purpose - This paper aims to give an alternative to the CSR concept in Sharia banking is appropriate to rule in economy Islam.

Method - This paper uses qualitative study through understanding in a way inductive. The approach used is through approach related to normative theology CSR concept in the economy of Islam.

Result - CSR in Sharia banking is implemented following the rule economy Islam that is with aqad that complies with Sharia, is legal, and is also transparent in CSR disclosure. Besides that, the CRS concept in Sharia banking can also be used to guard faith, soul, offspring, protecting the mind, and wealth through connection with Allah (hablum min Allah) and also relationships with humans (hablum minannas). As a consequence of the implementation draft, the threat boycott can avoided. This CSR concept is also a form of commitment to Islamic banking to contribute to the field economy, quality communication, and quality of life legally and ethically.

Implication - Results study This shows that the concept of CSR in Sharia banking is appropriate with rule economy Islam can contribute to improvement investment, image positive, and loyalty of customers and employees in Syariah banking.

Originality - throughout knowledge author, research This is the first study to discuss in a way detailed and systematic related CSR concept in Islamic banking perspective economy Islam.

Keywords: Corporate Social Responsibility, Islamic Banking, Islamic Economics.



Introduction

The Islamic economy has experienced rapid growth worldwide, with one of its focal points being Islamic banking. Islamic banking has garnered attention from countries worldwide, both majority-Muslim and non-Muslim (Dusuki, 2008). Given this reality, Islamic banking institutions are expected to implement their services and activities following Islamic economic principles. It is hoped that Islamic banking can capture a significant portion of the financial market, thereby achieving global dominance in banking activities.

In its operations, Islamic banking adheres to the principle of profit-sharing (Mallin et al., 2014). Moreover, Islamic banking institutions are obligated to contribute to the realisation of socio-economic justice (Siddiqui, 2001). Based on this obligation, Islamic banking serves as an agent in social activities, one of which is manifested through Corporate Social Responsibility (CSR) initiatives (Probohudono et al., 2022).

However, in reality, CSR in Islamic banking is still deemed unsuccessful due to the perceived lack of systematic implementation (Mergaliyev et al., 2021) and inconsistency (García-Jiménez et al., 2017). Supported by Cebeci (2012), there remains systematic questioning regarding the contribution of Islamic finance to social development. In the disclosure of CSR (Mallin et al., 2014), the needs of Islamic banking stakeholders vary and are measured based on the Global Reporting Initiative Index. On the other hand, the implementation of CSR in Islamic banking must also comply with Sharia law (Menne, 2016). These issues are also inseparable from the process of transitioning the Islamic economy into Islamic finance, which has thus far been inefficient, ineffective, and fragile (Cebeci, 2012).

The diverse array of social issues in society, such as economic crises, social development, food scarcity, and others, need to be addressed and provided with solutions (Zafar et al., 2022). According to Lin and Sheu (2012), social responsibility is of paramount importance and should be prioritised. This underscores the obligation of the banking industry to fulfil its social responsibilities.



CSR in Islamic banking differs, among other things, in that meeting the expectations of each stakeholder must align with the ethical codes of Islam, not just benefits (Abu Bakar & Yusof, 2015). The concept of CSR in Islamic banking is inseparable from Sharia objectives (Shabbir & Rehman, 2019). However, current social performance is still perceived as insufficiently tied to Sharia objectives (Mergaliyev et al., 2021). Yet, Islamic banking customers expect CSR to be applied following Islamic principles (Anouze et al., 2018). When connected to the impact of CSR in the financial industry or industries in general, it can enhance customer satisfaction and loyalty (Skarmeas & Leonidou, 2013). Given these elucidated facts, contemporary CSR concepts in Islamic banking are necessary (Bukhari et al., 2020). This will significantly enhance the reputation and image of Islamic banking.

Literature Review

The Principles of Islamic Economics in Sharia Banking

In general, the banking industry employs interest-based transactions, a practice eschewed in Sharia-compliant banking (Hoque & Liu, 2021). Sharia-compliant banking conducts transactions based on profit-loss sharing (Chong & Liu, 2009). The adherence to Islamic economic principles mandated by Sharia-compliant banking serves as a differentiating factor from capitalist-based financial institutions (Sencal & Asutay, 2020).

The Islamic economic principles that must be applied in Sharia-compliant banking consist of fostering fair and balanced economic activities, implementing brotherhood in cooperation, and adhering to social commitments following Islamic guidelines (Dusuki & Abdullah, 2007). This aligns with Islamic teachings (Puspitasari, N., Harymawan, I., & Ab Aziz, N., 2023), particularly in the study of *maqasid al-shariah* in Islamic economics.

The term *Maqasid al-Shariah* comprises "maqasid" (objectives) and "shariah" (Islamic law). "Maqasid" denotes principles or goals (Kasri & Ahmed, 2015). Various interpretations exist regarding *Maqasid al-Shariah*, one of the renowned being that of Imam Ghazali. Imam Ghazali delineates *Maqasid al-*



Shariah as encompassing the preservation of faith, wealth, life, lineage, and intellect (Bedoui, 2012).

In the context of Islamic finance, particularly Sharia-compliant banking, Maqasid al-Shariah holds significance in all related activities and transactions (Akram Laldin & Furqani, 2013). Efforts to realize Maqasid al-Shariah necessitate expertise in Islamic economics principles through jurisprudential reasoning (ijtihad) within Sharia-compliant banking (Mohammed et al., 2008). This underscores the paramount importance of Maqasid al-Shariah in enhancing the growth of the Islamic economy, particularly in the domain of Sharia-compliant banking (Yumna, 2019).

The Implementation of Corporate Social Responsibility in Islamic Banking

Corporate Social Responsibility (CSR) (Alma, B., & Juni, P. D., 2009) is defined as a company's commitment to contribute to economic, communication quality, and quality of life aspects legally and ethically. Meanwhile, CSR in Islam can be understood as a form of responsibility within the scope of ethics, economics, and Islamic law (Khurshid et al., 2014).

CSR in Islamic banking should be implemented to benefit society following Law No. 40 of 2007 concerning Limited Liability Companies and Government Regulation No. 47 of 2012 concerning the Social and Environmental Responsibility of Limited Liability Companies, as well as other relevant regulations.

Table 1. The legal basis for the implementation of CSR in Indonesia

The Legal Basis of CSR in Indonesia	Explanation
Government Regulation Number 47 of 2012 Concerning the Social and Environmental Responsibility of Limited Liability Companies Article 2	Every company, as an embodiment of human activities in the business field, morally commits to being responsible for maintaining harmonious and balanced relationships with the environment and local communities following the values, norms, and culture of those communities.
Law No. 40 of 2007 concerning Limited Liability Companies	Article 1 paragraph 3 of Law No. 40 of 2007 concerning Limited Liability Companies states that Social and Environmental Responsibility is the commitment of the



**Law No. 21 of 2008 concerning Sharia
Banking**

company to participate in sustainable economic development to improve the quality of life and the environment beneficially, both for the company itself, the local community, and society in general. Islamic banks and Sharia Business Units (UUS) can perform social functions in the form of bait maal institutions, which involve receiving funds from zakat, infak (voluntary charity), sadaqah (charitable giving), grants, or other social funds, and disbursing them to zakat management organizations.

Methods

This paper employs a qualitative research methodology characterised by an inductive approach to understanding. The chosen approach involves a normative theological perspective concerning the concept of Corporate Social Responsibility (CSR) within Islamic economics. Furthermore, secondary data for this study was collected through extensive literature reviews and interviews with experts in Islamic economics. Credible Islamic economists validated this research. Triangulation techniques were also applied in this study to ensure comprehensive data collection pertinent to this research.

Results and Discussion

The Concept of Corporate Social Responsibility in Sharia Banking from an Islamic Economic Perspective

CSR in Islam is a manifestation of the belief that organizations must contribute to justice (Maulan et al., 2016). As a consequence, every Islamic company or organization is encouraged to disclose social responsibility. CSR itself has been widely researched to determine its impact by considering performance in both social and financial aspects (Mallin et al., 2014).

CSR from an Islamic economic perspective shows the ethical role of Sharia banking in the environment, market and workplace following Islamic teachings (Ahmad, 2015). In essence, Sharia banking businesses achieve social



goals and profits have a high position (Haniffa and Hudaib, 2007) Therefore, to achieve social goals in Sharia banking, Islamic economics can be formulated through maqashid sharia.

According to classical and contemporary scholars, maqashid sharia has a far-reaching role in improving welfare (Chapra, 2008). CSR in Islamic banking from an Islamic economic perspective can be explained in table 2 below:

Table 2. CSR in Sharia Banking from an Islamic Economic Perspective

Goals of Islamic Economics	CSR Concept in Sharia Banking
Keeping the faith	Implementation of CSR in Sharia banking by prioritizing responsibility for faith in Allah
Guarding property	The realization of CSR in Sharia banking does not depend on achieving a certain investment threshold amount but is still realized even if the investment threshold amount has not been reached
Guarding the soul	Implementation of CSR in Sharia banking prioritizes the principles of Human Rights (al-huquq al-insaniyah) and does not differentiate between genders in its implementation. Community support must be prioritized by upholding love (Ar-Rahman) between human beings.
Maintaining lineage	CSR in Sharia banking must strengthen relationships with stakeholders based on cooperation based on trust to realize programs related to preserving descendants (nasab) for the benefit of Islam.
Protecting mind	CSR in Sharia banking must support the development of a scientific mindset and follow Islamic principles. Sharia banking cares about training and equal distribution of education opportunities both in formal and Islamic boarding schools.

Implementation of appropriate CSR rule economy Islam is reflected in its fulfilment justice, integrity, fulfilled commitments, and truth Kamil and Jan (2014). Implementation of CSR is frequently found relate with performance



finance. For example, If amount of investment threshold achieved will have an impact on the realization of CSR (Nollet et al., 2016).

This shows that many Islamic banks still have not yet regardless of the consequences of finance in realizing CSR (Dusuki, 2008). Whereas banking in general must role in economic development in a country.

CSR disclosure is important and carried out by the company or industry in general (Sofyani and Setiawan, 2015). Form transparency related to CSR carried out in a way sustainable can increase a bank's reputation (Branco and Rodrigues, 2008) CSR Disclosure. Implementation of CSR also has an impact on performance and increased finances (Chen and Wang, 2011). Therefore Sharia banking must be open in CSR. Sharia banks must endeavour to keep going increase awareness, transparency and openness in their CSR (Ali, M., et al., 2023).

CSR in Sharia banking is a must-strengthen connection with the stakeholders underlying interests based on cooperation trust to implement related programs to guard descendants (nasab) for Islamic interests and carried out in a way sustainable. The activity was environmental and social one method satisfying holder interest (Miles and Covin, 2000).

Implementation of CSR in Sharia banking prioritizes the principle of Human Rights Man (al- huquq al- insaniyah) and no differentiation between genders in its implementation. Partisanship society must take priority with upholding strong love (Ar-rahmah) between people. Management peak can give intervention to use guard health as form not quite enough answer social (Yen and Yen, 2012). With thereby activity, economy especially those that are detrimental to morals, can be avoided (Cebeci, 2012) so that awake soul man.

CSR in Sharia banking is a must support development patterns thinking in a way scientific and appropriate to Islamic rules. Concern sharia banking in training nor equality chance go through education good at education general as well as in education boarding school. This is appropriate to one role of Islamic banking in the development social (Platonova et al., 2018).



Draft, not quite enough answer social is one of them through the implementation of CSR in sharia banking is appropriate to rule economy Islam already become expectations of international bodies and experts of western theory. (Dusuki, 2008). Draft the as combined from Islamic spiritual and social systems (Amran et al., 2017). Abu Bakar and Yusof (2015) Implemented CSR in accordance rule of economy Islam can guard faith, soul, offspring, mind, and wealth through connection with Allah (*hablum minallah*) and also relationships with humans (*hablum Minanna*). Rule in economy applied Islam company impact on its realization Maqashid sharia with proof well-being social (Issalih et al., 2015).

The current CSR concept still there is a lot of problems (Garriga and Melé , 2004). Boycott one of the consequences assessed failure not quite enough answer social also becomes a threat company (Laari et al., 2016). With application CSR Concept in Sharia Banking from An Islamic Economic Perspective is expected can delete budget bad related to CSR. As an objective finally, social justice can materialize through CSR in Islamic banking (Hassan and Harahap, 2010).

Impact The good thing is that CSR is based on the rule economy of Islam. This can give rise to sympathy for the Muslim community in particular (Bukhari et al., 2020). In addition, CRS can hold in a way effective and quality impact decisions investment (Jaiyeoba and Haron, 2016), and customers will give a positive image (Abdullahi, 2019) on companies in general.

Conclusion

This study aims to give an alternative to the CSR concept in Sharia banking that is appropriate to rule in economy Islam. Therefore, to reach objective social in Sharia banking can formulate economy Islam through maqashid sharia. CSR in Islamic banking held in accordance rule economy Islam can guard faith, soul, offspring, protecting the mind, and wealth through connection with Allah (*hablum minallah*) and also relationships with humans (*hablum Minannas*). As a consequence of the implementation draft, the threat boycott can be avoided. This CSR concept is also a form of commitment to



Islamic banking to contribute to the field economy, quality communication and quality of life legally and ethically.

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