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Bank social fund distribution and cost of profit-sharing investment account: evidence from Indonesia

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Abstract

Purpose - This study aims to prove the impact of the distribution of social funds (qardhul hasan-QH and zakah funds) on the cost of a Profit-Sharing Investment Account (PSIA) immediately and for a long period in Islamic banks.

Method - The research is based on panel data from 11 Islamic commercial banks (IB) in Indonesia from 2009 to 2021. Data were analyzed using the generalized least squares (GLS) random-effects method with robust standard error.

Result - This research proves that the distribution of social funds (the distribution of QH and zakah funds) has a positive economic impact in the short period but the distribution of social funds has a negative economic impact in the long period.

Implication - This study contributes to bank directors in considering the social activities of banks funded by QH funds by considering the effectiveness of social fund distribution, hence having positive economic consequences for bank performance.

Originality - This research contributes to the development of previous literature in two ways. First, we use CSR performance proxies that are different from previous studies, namely the distribution of QH and zakah funds. The distribution of these funds is a proof of the bank's legitimacy to care about social, economic, and environmental issues. Second, we use the cost of PSIA as an economic consequence of CSR performance.

Keywords: economic consequences; financial performance; social concern; cost of debt

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Introduction

On the *tauhid* concept, Muslims are obligated to worship in all activities, including managing organizations, so managing organizations is a means for Muslims to worship. This concept causes organizational management to be based on sharia, which originates from the Al-Qur'an and Hadith. Islamic law stipulates that Muslims must have a good relationship with fellow human beings-*hablumminannas* (Qur'an Annisa: 36; Al Qasas: 77), God-*hablumminallah* (Qur'an Annisa: 36), and the universe-*hablumminalalam* (Qur'an surah Ar Rum: 41, Al-A'raf: 85). Sairally (2013) documents that institutions offering Islamic financial services are expected to consciously align their decisions and actions so that they are socially responsible fulfill the objective of sharia of promoting the welfare of society. Thus, the management of a sharia-based entity must provide benefits for all stakeholders, society, and the environment.

The importance of Islamic entities having concern for social and environmental problems has been explored by other scholars (Mukhibad et al., 2022; Harun et al., 2020; Amran et al., 2017; Bukair & Abdul-Rahman, 2013; Farook et al., 2011; Hassan & Harahap, 2010). Their research model emphasizes the discovery of factors that influence corporate social responsibility (CSR). The current research debates on the economic consequences of CSR (F. Zhou et al., 2021; Alshurafat et al., 2022) because corporations or organizations are under pressure from the government so that they are responsible for social, economic, and environmental problems around them while their efforts are for financial performance. Governments of the UK, the European Union, the USA, and other developing countries in East Asia have taken a far-reaching agenda in promoting CSR. However, CSR agendas in developing countries simply copy from developed countries and do not adopt CSR's agenda susceptive to their multiple nations' sustainable and equitable developments (Wirba, 2023).

The government of Indonesia, through Government Regulation No. 47 of 2012 concerning the Social and Environmental Responsibility of Limited

Companies and the Financial Service Authority (*Otoritas Jasa Keuangan*/OJK) Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies encourages companies in Indonesia to increase their awareness of social, economic, and environmental concerns. In addition, the regulation requires financial services institutions to issue sustainability reports as a proof that companies have conducted various activities showing that companies care about social, economic, and environmental concerns.

However, this encouragement is reflected in a policy that is detrimental to the company because the company's concern for economic, social, and environmental issues does not necessarily have an economic impact on the company. Organizations invest in CSR activities for the long term, so organizations are willing to reduce their profits to attract long-term investors (Nguyen et al., 2020). The company is concerned about environmental problems by producing green products, green marketing, green finance, and risk-return analysis (Julia & Kassim, 2019). This policy requires high investments, increases bank spending, and can negatively impact financial performance (Xue et al., 2023; G. Zhou et al., 2021; Crisóstomo et al., 2011).

Prior studies have discussed the economic consequences of CSR but have yet to produce consistent findings (Mukhibad & Hapsoro, 2023), including a study of the economic consequences of CSR on Islamic entities (Asrori et al., 2023). The economic consequences of corporate CSR depend on consumer awareness to use green products or products from organizations that care about CSR (Mukhibad & Hapsoro, 2023). Prior studies showed the economic consequences of bank products using conventional bank (CB) products (see G. Zhou et al., 2021; Prieto et al., 2020; Fayad et al., 2017; Kesto, 2017). Consequences of CSR economics also depend on the type of product. CB and IBs have different product and consumer characteristics (Anouze et al., 2019). IBs use profit-sharing schemes so that IB products promote justice and fair value. Thus, this value is in line with the spirit of CSR. In addition, IBs offer halal products of banks according to sharia (Sencal & Asutay, 2021). So, the primary market of IBs is Muslim because Muslim customers place more emphasis on Islamic law-compliance products (Anouze et al., 2019). Thus, our first contribution is to expand on previous studies using a sample of IBs with different product and consumer characteristics from CBs.

Second, prior studies use profitability, cost of debt, customer loyalty, and corporate reputation indicators as the economic consequence of CSR concerns. IBs have unique products with different characteristics and risks from CBs, namely Profit-Sharing Investment Accounts (PSIA) (Mohd Ariffin et al., 2009). PSIA is a product of depositors with a profit-sharing scheme, does not provide a fixed return for depositors, and can even experience losses if the bank suffers a loss. Thus, PSIA holders face higher risks than holders of CB deposits (Mukhibad & Setiawan, 2022). Based on this scheme, IBs share their profits or losses with these account holders, and IBs are expected to take lower risks than CBs (Saeed et al., 2020). We use the cost of PSIA as an indicator of the economic consequences of CSR.

Third, our prior study uses the distribution of IB's social funds to indicate IB's concern for social, economic, and environmental issues in society. Islamic law as the basis of bank operations causes IB to be profit-oriented and social. Accounting standard setters in Indonesia require IBs to publish two types of annual reports, namely on the statement of sources and distribution of *zakah* funds and statements of sources and uses of QH funds (IAI, 2017). These two annual reports provide information on the receipt and distribution of social funds. Receipt of bank social funds is receipt of funds originating from *zakah*, *infaq*/alms, endowments, non-halal income, fines, etc. (Haniffa & Hudaib, 2007). The social funds IB receives will be used to finance the bank's social activities. Thus, the use of bank social funds is under bank policy. Our third contribution is expanding CSR concern indicators using bank social fund distribution (*zakah* and QH funds).

Literature Review

Legitimacy Theory

The survival of an organization depends on internal and external factors, which may be critical to maintaining organizational sustainability (Freeman, 1994). Organizations not only become sustained from the viewpoint of financial performance, but they also require legitimacy for the sustainability of organization operations. Carpenter & Feroz (2001) report that effective organizations and corporations can attain assistance and legitimacy in society by ensuring the norms and rules of society and regulators. Hence, organizations and corporations need to comply with social contracts. They are responsible for social, economic, and environmental problems to improve the customers' loyalty toward the overall functions of the bank (Tabash et al., 2020).

Legitimacy theory is considered to be a systems-oriented theory (SOT) where the organization is assumed to be affected by, and in turn, to have an effect upon, the society in which it operates (Deegan, 2002). Corporate policies to take responsibility for the social, environmental, and economic problems in society are considered to represent one important means by which external perspective on their organization influences this policy. The perspective of legitimacy theory is that society, politics, and economics are inseparable, and economic issues cannot meaningfully be investigated without considerations about the political, social, and institutional framework in which the economic activity takes place (Deegan, 2002).

Based on legitimacy theory, organizations are responsible for social, economic, and environmental problems in society to build good relationships with stakeholders and market risk (Saraswati et al., 2021) and thus increase firm value (Ikhsan et al., 2021; Isnalita & Narsa, 2017). Therefore, they are responsible for social, economic, and environmental problems in society to build good relationships with consumers (Magness, 2006), firm's reputation (Suto & Takehara, 2016; Servaes & Tamayo, 2013; Kuo & Chen, 2013), public trust and create entity's added value for its stakeholders (Mukhibad et al., 2020). However, the condition of society, which is low care with environmental problems, causes consumer decisions in choosing products/services used to fulfill their needs not based on the corporation's concern for social, economic, and environmental problems (Mukhibad & Hapsoro, 2023). Based on this situation, the corporate responsibility for social, economic, and environmental problems in society does not have a positive influence on financial performance. This argument is supported by findings from Asrori et al. (2023) who reported that social and environmental concerns of IBs in Indonesia did not affect financial performance. Several researchers also report that company concern for social and environmental issues (CSR) has no impact on financial soundness (Mukhibad & Hapsoro, 2023) and firm value (Alharbi et al., 2023). These results are based on the argument that consumers in developing countries choices to use products are not based on corporate concern for social and environmental problems in society (Mukhibad & Hapsoro, 2023). In the free-market, consumers have alternatives in determining product choices available on the market, including choosing products produced by a corporation that cares about the environment and social problems or otherwise (X. Zhang & Dong, 2020).

Profit and Loss Sharing (PLS)

Islamic law promotes fairness, avoids an interest system, and presents profit and loss sharing (PLS) schemes on their transaction. In this PLS system, the owner of the funds (as *shohibul maal*) provides business capital to the fund manager or entrepreneur (as *mudharib*), and profits from a business will be shared between the *shohibul maal* and the *mudharib* based on the profit-sharing ratio agreed by them, and the *shohibul maal* will also have to cover its share of any loss incurred caused by the negligence of the *mudharib* (Lassoued, 2018). Implementation of the PLS scheme in deposit products places IBs as *mudharib* and consumers as *shohibul maal*. Consumers as PSIA holders do not get certainty about PSIA returns. Even PSIA holders can experience losses if the IB fails to manage the PSIA. PSIA holders are like equity fund holders. However, they cannot control the performance of bank directors because they do not have voting rights at the general meeting of shareholders. With this scheme, PSIA holders face greater risks than CB depositors.

PSIA holders can transfer their funds to other banks to reduce this risk. However, for IBs, PSIA withdrawal will increase the liquidity risk. Researchers have proven that customers will withdraw their funds when the returns given to PSIA holders fall (Aysan et al., 2018). To reduce PSIA withdrawal risk, banks can provide competitive returns and increase bank reputation and customer trust. Abedifar et al. (2013) suggest that equity-holders can be at risk of transferring a part of their profits to PSIA to reduce withdrawal risk. Following Tiby (2011), there is a high reputation risk in case the bank breaches the code of conduct, which may lead to panic withdrawal of funds by the depositors. So, IBs are less immune to deposit withdrawals than CBs (Ibrahim & Rizvi, 2018). Based on legitimacy theory, the organization will express its concern for social, economic, and environmental issues of society to acquire legitimacy from society to increase the bank's reputation (Lee et al., 2017).

Hypotheses Development

Based on legitimacy theory, corporates play a significant role in society and have responsibilities assigned to them based on their status in society. This concept implies that managers and providers of capital are accountable for their policies inside and outside their firms, including stakeholders, employees, and society. Accountability in this context means accountability to the community to establish socio-economic justice within their capacity. In IBs, the payment of religious taxes (*zakah*), philanthropic trusts *(waqf)*, alms, charity (*infaq* or *sadaqa*), and interest-free loans (*qardhul-hasan*) are forms of bank accountability to society (Hassan & Harahap, 2010).

Study on non-Islamic firm shows that CSR has an effect on corporate profitability through the creation of intangible assets, a good reputation, trust, and commitment of investors, and these drive long-term success to increase profitability (McDonald & Rundle-Thiele, 2008). CSR improves the firm's ability to attract resources and enhance financial performance, competitive advantages, and firm value (Fombrun et al., 2000). Also, CSR has economic consequences for improving the company's reputation for investors and customers (Servaes & Tamayo, 2013), firm values (Isnalita & Narsa, 2017), and market risk (Saraswati et al., 2021).

A positive consequence of CSR to profitability is still an ongoing debate (F. Zhou et al., 2021). A limited study of CSR in IBs shows that CSR has a positive or negative impact on financial performance. Platonova et al. (2016) found that maintaining a good relationship with stakeholders through CSR will increase banks' effectiveness in using resources, thus increasing financial performance. Harun et al. (2020) document that CSR has an impact on reducing banks' competitive advantages and creates more uncertainty for the investors, which drives reduced firm value. However, several researchers report no economic consequence of CSR in IBs. Asrori et al. (2023), Mukhibad et al. (2020), Mukhibad et al. (2019), Mallin et al. (2014), and Mosaid & Boutti (2012) report that CSR disclosure of IBs has no impact on increasing financial performance. IB's concern for social, economic, and environmental issues as a form of worship carries out religious teachings (Mukhibad et al., 2019) and is in line with their religious values and beliefs (Mallin et al., 2014). There are no economic consequences of this CSR because IB's concern for social, economic, and environmental issues as a form of worship carries out religious teachings (Mukhibad et al., 2019) and is in line with their religious values and beliefs (Mallin et al., 2014).

Organization is a part of society, where they are required to have concern in solving social and environmental problems as a form of legitimacy from society. The organization that is concerned with social and environmental issues have fulfilled their responsibilities, improved their reputation, and increased investor confidence and consumer loyalty (Araújo et al., 2023; Mukhibad & Hapsoro, 2023; Servera-francés et al., 2019). Moreover, based on the stakeholder theory approach, the bank's concern for social and environmental issues is clear evidence that the bank has fulfilled all the interests of stakeholders, including PSIA holders. IBs' concern for social and environmental issues was presented as an obligatory action and was therefore motivated by bank interests and as a strategic tool to increase the bank's reputation and the trust of PSIA holders. Based on this argument, we develop this hypothesis:

H1a : The distribution of zakah funds negatively affects the cost of PSIA.

H1b : The distribution of QH funds negatively affects the cost of PSIA.

The perspective of legitimacy theory states that the customer should recognize a premium to those banks that are socially responsible, and that is increasing their loyalty, trust, and bank reputation thanks to this commitment (Araújo et al., 2023; Mukhibad & Hapsoro, 2023; Servera-francés et al., 2019). Customers as a part of society are inseparable, and economic issues can only meaningfully be investigated in the presence of considerations about the political, social, and institutional framework of the corporation in which they operate. The societies' attitudes to firms' environmental and social behaviors may push firms to become responsible for society's problems (Kuo & Chen, 2013).

Based on this argument, we expect that the social and environmental activities of banks for society have higher customer trust and, at the same time, reduce the cost of PSIA, then PSIA holders will favor banks with more societal concerns. It considers that the theoretical arguments proposed can be valid for the relationship between CSR and subsequent future costs of PSIA and that the economic consequences of CSR reduce the current cost of PSIA. This argument is expected that the distribution of social funds will positively impact the future cost of PSIA. This argument is supported by Magnanelli & Izzo (2017) and Platonova et al. (2016) that CSR produces immediate and long-term economic consequences. Customer trust in banks that care about social and economic issues is long-term. So, charities are an effective tool to establish a bank legitimacy image (Kuo & Chen, 2013). Lee et al. (2017) state that CSR causes customers to develop trust and loyalty toward this brand, leading to the establishment of enduring, long-term relationships. Thus, a positive corporate image can readily garner clients' goodwill and trust, leading to the development of repeat purchase behavior for a company's products. The implementation of CSR programs can effectively enhance a corporate image, leading to favorable consumer feedback and ultimately fostering customer loyalty. This is attributed to the company's transparent external communications and internal practices and through the company's willingness to care about social and environmental problems in society. Following Magnanelli & Izzo (2017) and Platonova et al. (2016), we consider a lag time effect of one year between the CSR and the cost of PSIA. Therefore, the following hypothesis is developed:

H2a : The previous year's distribution of zakah funds negatively affected the cost of PSIA in recent years.

H2b : The previous year's distribution of QH funds negatively affected the cost of PSIA in recent years.

Research Methods

This research population is Islamic commercial banks in Indonesia. The study sample was determined using the purposive sampling method and was observed for 11 years (2009-2021). During this observation period, Indonesia had 14 IBs, but 3 IBs did not report statements of sources and distribution of *zakah* funds, so we used a sample of 11 banks. Based on unbalanced data, we use 109 bank years.

Based on the Indonesian accounting standard-setting body, IBs report two additional financial reports in addition to other financial reports, namely (1) the statement of sources and distribution of *zakah* funds and (2) the statement of sources and distribution of QH funds. In this financial statement report, IBs provide information on *zakah* and QH funds received by the bank and distributed by the bank. Regulators require IB to distribute *zakah* and QH funds for social activities. However, *zakah* funds must be distributed to *asnaf*. Thus, we develop two proxies to measure CSR activity in IBs.

$$QH\_Dist = \frac{Distribution\ of\ Qardhul\ hasan\ funds}{Total\ Assets} \qquad (1)$$

$$ZK\_Dist = \frac{Distribution\ of\ zakah\ funds}{Total\ Assets} \quad (2)$$

We use the cost of PSIA as a proxy for CSR financial consequences. PSIA is a savings and deposit product that uses the PLS scheme. So, PSIA has unique characteristics and is different from CB deposits. IBs do not provide fixed returns to PSIA owners like CBs, so customer loyalty and trust in IBs support bank operations.

$$PSIA\_Cost = \frac{profit\ sharing\ expense\ of\ mudharabah\ account\ (time\ deposit\ and\ saving)}{Total\ mudharabah\ account\ (time\ deposit\ and\ saving)} \quad (3)$$

Profit sharing expense of *mudharabah* account is determined based on bank efficiency. Banks with high efficiency will also provide high-profit sharing to PSIA holders. Considering this factor, we use cost efficiency (CE) as a control variable. Following Farihana & Rahman (2020), CE is measured by operating expenses to operating income.

In addition, large deposits cause IBs to have the opportunity to increase their income from financing. IB will invest a significant PSIA in their financing. High financing causes high financial performance, which is seen in a high IB capability for payment of profit sharing to PSIA. To control the factor of the financing and deposit, we add the variable financing to deposit ratio (FDR) as a control variable. FDR is measured by dividing total financing by total deposit (Sulaeman et al., 2019). Banks with high assets tend to have a low risk of withdrawing deposit funds because they have a high reputation. Thus, we use bank size (SIZE) as measured by the natural logarithm of total assets as a proxy. We also use COVID as a control variable to control for economic crisis factors due to the COVID-19 pandemic, which can affect the cost of PSIA. COVID was measured by a dummy with a score 1 where the year of observation of the measured period of COVID is given a score of 1, and 0 otherwise (Mukhibad & Setiawan, 2022).

Data were analyzed using panel data regression. The stages in this test are the Breusch and Pagan Lagrangian multiplier test and the Hausman test to choose between the common effect (CE), fixed effect (FE), and random effect (RE) methods. The next stage is to perform multicollinearity, autocorrelation, and heteroscedasticity tests. We used VIF as a multicollinearity test, the Wooldridge test as an autocorrelation test, and the modified Wald test as heteroscedasticity. Following Hoechle (2007), we use panel data regression with robust standard error for autocorrelation and heteroscedasticity problems. The research model is as follows:

Model 1

$$PSIA\_cost_{i,t,c} = \beta_0 + \beta_1 QH\_Dist_{i,t,c} + \beta_2 ZK\_Dist_{i,t,c} + CONTROL_{i,t,c} + \varepsilon \quad (4)$$

Magnanelli & Izzo (2017) and Platonova et al. (2016) report that CSR produces economic consequences immediately and for a long period. We expect that the distribution of social funds will have a positive impact on the future cost of PSIA. We build these models:

Model 2

$$PSIA\_cost_{i,t,c} = \beta_0 + \beta_1 QH\_Dist_{i,t-1,c} + \beta_2 ZK\_Dist_{i,t-1,c} + CONTROL_{i,t,c} + \varepsilon \quad (5)$$

Results and Discussion

Table 1 presents the average score, standard deviation, minimum, and maximum of all variables. The sample has an average of 12.40% and indicates that the sample provides an average return rate for PSIA of 12.40% per year. Table 1 shows that banks distribute QH funds (average 0.29% of total assets), which is greater than the distribution of zakah funds (average 0.1% of total assets). There is a high distribution of QH funds because the sample receives QH funds larger than zakah. The Indonesian accounting standard-setting body regulates that loan penalty income, non-halal income, waqaf, infaq or sadaqa are recognized as a QH fund (Falikhatun et al., 2016). On the contrary, zakah fund receipts come from zakah on bank income, employee salary, etc.

Table 1 shows an average CE of 75.96%, the lowest score is 0.01%, and the highest score is 1870.64%. The average IB has operating costs of 75.96% of operating income. The average sample disburses 84.15% of the PSIA received by the bank. These data prove that IB takes a policy to channel greater financing to increase financing income. Table 1 also shows that the average bank size is 29.7409.

Table 2 presents the matrix correlation between research variables. The correlation test shows that the biggest correlation is the correlation between COVID and SIZE of 0.7327. The correlation score between all variables is lower than 0.8 and indicates no multicollinearity problem in the model. In addition, Table 3 shows that the mean VIF scores were 1.42 (Model 1) and 1.40 (Model 2). The VIF score of both models is less than five and indicates no serious correlation between variables.

The Breusch and Pagan Lagrangian test in Model 1 produced a chibar2 score of 8.31 and a p-value of 0.002, while Model 2 produced a chibar2 score of 6.91 and a p-value of 0.0043. The Breusch and Pagan Lagrangian test for both models yields a p-value of less than 0.05. It indicates that the data between banks are heterogeneous and do not recommend processing using OLS.

The Hausman test in Model 1 produces a chi2 score of 0.66 and a p-value of 0.9953, while Model 2 produces a chi2 score of 2.22 and a p-value of 0.8186. The Hausman test on both models yields a p-value of more than 0.05 and indicates that the Hausman test recommends using random-effect GLS regression.

Table 1. Descriptive of Variables

Variables	Means	std. Dev.	Min.	Max.
PSIA_Cost	0.1240	0.5681	0.0151	4.9781
QH_Dist	0.0029	0.0172	0.0000	0.1481
ZK_Dist	0.0010	0.0076	0.0000	0.0769
CE	0.7596	2.0702	0.0001	18.7064
FDR	0.8415	0.2042	0	1.6279
SIZE	29.7409	1.4342	24.2398	32.4745
COVID	0.1538	0.3618	0.0000	1.0000

Table 2. Matrix Correlation

		1	2	3	4	5	6	7
PSIA_Cost	1	1						
QH_Dist	2	0.144	1					
ZK_Dist	3	-0.0767	-0.0152	1				
CE	4	-0.1356	-0.0063	-0.0132	1			
FDR	5	0.2	-0.0191	-0.0142	-0.0714	1		
SIZE	6	-0.1578	-0.0487	-0.2688	0.1477	-0.0065	1	
COVID	7	0.0458	-0.0262	-0.0198	-0.0418	0.7327	0.0104	1

Table 3. Regression Analysis Test

	Coef.	Robust Std. Err.	Coef.	Robust Std. Err.
	Model 1		Model 2	
QH_Dist	-0.076***	0.029	-	-
ZK_Dist	0.0002	0.0002	-	-
Lag1. QH_Dist	-	-	0.225***	0.022
Lag 1. ZK_Dist	-	-	-0.051	0.055
CE	0.0001	0.001	0.001*	0.000
FDR	0.008	0.006	0.007	0.007
SIZE	-0.002	0.004	-0.001	0.002
COVID	-0.063	0.048	-0.059	0.058
_cons	0.053	0.160	0.035	0.117
VIF (Mean)	1.42		1.40	
Modified Wald test	18778 ***		41.04***	
Woolridge test	57,062 ***		-	
Breusch and Pagan Lagrangian multiplier test	8.21***		6.91***	
Hausman	0.66		2.22	
Prob > Chi2	0.000		0.000	
R-Sq	0.060		0.0824	

*Note: ***,**,* denote 1%, 5% and 10% significance levels, respectively*

The Modified Wald test on model 1 produces a chi2 score of 1877.03 (prob. 0.000). The Modified Wald test on model 2 produces a chi2 score of 41.04 (prob. 0.0002). Both models produce p-values less than 0.05 and indicate a heteroscedasticity problem in both models. The Wooldridge test on model 1 produces an F score of 57,062 and a p-value of 0,000. This test shows that there is an autocorrelation problem in the model. We use a robust standard error to overcome the problems of autocorrelation and heteroscedasticity in the model (Hoechle, 2007). Table 3 is the result of random-effect GLS regression with robust standard error.

The distribution of *zakah* and QH funds negatively affects the cost of PSIA

Model 1 test results show that the distribution of QH funds has a negative effect on the cost of PSIA. These results indicate that the bank's social activities originating from the QH fund led to a low cost of PSIA. This finding reinforces the theory of legitimacy in Islamic entities that IBs care about social and environmental issues by distributing high QH funds, confirming that IBs have fulfilled the social contract. This research result confirms that social behavior can be a strategic approach toward enhancing IBs' legitimacy and justifying their right to exist (Elamer et al., 2020). Similarly, social activities enhance bank legitimacy by proving that IBs adhere to sharia principles because sharia promotes a caring attitude toward social and environmental issues (Asrori et al., 2023; Mukhibad et al., 2022). Hence, IBs need to maintain good relationships with various bank stakeholders (*hablumminannas* and *hablumminalalam*), and improve bank legitimacy, which can motivate IBs to engage in social activities (Asrori et al., 2023; Elamer et al., 2020).

Legitimacy theory assumes that the organization is part of society, where they are required to have concern in solving social and environmental problems as a form of legitimacy from society. The involvement of IBs in community social activities will improve the image and reputation of the bank (Lee et al., 2017; Taghian et al., 2015; Bear et al., 2010; Hassan & Harahap, 2010) as well as the public's belief that investing their funds in the bank is the right and profitable policy. Organizations that prioritize social and environmental concerns have successfully fulfilled their duties, resulting in enhanced reputation, heightened investor confidence, and greater consumer loyalty. This attitude forms and increases customer loyalty (Zhang, 2022; Tran, 2022; Lee et al., 2017).

Organizations that prioritize social and environmental concerns have successfully fulfilled their duties, resulting in enhanced reputation, heightened investor confidence, and greater consumer loyalty (Araújo et al., 2023; Mukhibad & Hapsoro, 2023; Servera-francés et al., 2019). Furthermore, in accordance with the stakeholder theory framework, the bank's prioritization of social and environmental matters serves as compelling proof of the bank's comprehensive fulfillment of stakeholder interests, encompassing PSIA holders as well. Based on this argument, we report that higher customer loyalty has an impact on reducing high-return motivation as a consideration of customer investment, and it can reduce the cost of PSIA for banks. These findings are similar to and support previous findings that CSR has positive economic consequences for increasing firm value (Fombrun et al., 2000; Isnalita & Narsa, 2017), company's reputation (Zhang, 2022; Tran, 2022; Servaes & Tamayo, 2013), risk (Mukhibad & Hapsoro, 2023; Saraswati et al., 2021), and reducing the cost of debt (Binh, 2023; Fandella & Sergi, 2023; Xu et al., 2021).

However, the distribution of *zakah* funds has no effect on the cost of PSIA. Social activities originating from *zakah* funds do not increase bank legitimacy and subsequently do not have an economic impact on banks. These findings indicate that there is a difference in the legitimacy effect of the distribution of QH and *zakah*. The difference in these findings is that the bank regulator in Indonesia limits banks in distributing *zakah* funds. The Indonesian government issued Law No. 23 of 2011 concerning *zakah* management. This document states that the government established BAZNAZ as the management of *zakah* (Article 5). In addition, Article 17 states that the community can form an amil *zakah* institution to assist BAZNAS in collecting, distributing, and utilizing *zakah*. Thus, IB is not directly involved in distributing *zakah* funds. This authority causes banks to be unable to use *zakah* funds to increase their legitimacy through their involvement in reducing social, economic, and environmental problems in society. Thus, the distribution of *zakah* funds has no effect on the cost of PSIA.

To the best of our knowledge, limited studies report the impact of *zakah* expenditure on PSIA. However, Asrori et al.'s (2023) study is similar to our findings and supports our document that social and environmental concerns of IBs (measured by the distribution of *zakah* fund) did not affect financial performance. This fact is because sharia limits banks in distributing *zakah* funds, namely eight *asnaf* (poor, needy, amil, *mualaf, riqab* or slave, *gharim*, fisabilillah, and *ibnu sabil*). So, banks cannot use these *zakah* funds for bank social activities, which can have a positive impact on improving the reputation, customer loyalty, and financial performance of IBs, including reducing the cost of PSIA. Mukhibad et al. (2019) reinforce this argument when their study reports that there is a minimal proof that the social and environmental concern policies of IBs are caused by economic motives. IBs have a motive related to catching the sharia role as the basis for implementing social and environmental concern activities.

The previous year's distribution of *zakah* and QH funds negatively affected the cost of PSIA in recent years

Mukhibad et al. (2020), Magnanelli & Izzo (2017), and Platonova et al. (2016) report that CSR produces economic consequences immediately and for a long period. CSR has a positive impact on financial performance in current and future years (Mukhibad et al., 2020; Magnanelli & Izzo, 2017; Platonova et al., 2016). However, in this study, we found that the distribution of QH has a positive effect on the future cost of PSIA. These results indicate that the distribution of QH funds has the effect of reducing the cost of PSIA immediately and increasing the cost of PSIA over a long period. This fact is different from the findings of Mukhibad et al. (2020), Magnanelli & Izzo (2017), and Platonova et al. (2016), which prove the economic consequence of CSR over the long period. The difference between this study and previous research is the proxy for measuring CSR, whereas this research uses the distribution of QH as a bank's concern for social problems. This method differs from that used by Magnanelli & Izzo (2017) and Platonova et al. (2016), which use CSR disclosure to indicate CSR performance. However, we see that the distribution of QH funds over the long period improves bank reputation, increases customer financing, and can improve bank financing income. The high reputation of IBs through the distribution of QH funds makes it easier for banks to provide financing to customers. Thus, there is an increase in bank financing. PSIA uses the PLS scheme, so the cost of PSIA depends on the IB's income. High bank income (due to increased bank financing) increases the cost of PSIA because the large amount of IB provides profit sharing to PSIA holders. Thus, in the long term, the distribution of QH funds increases the cost of PSIA in the long period. This study corroborates the findings from Magnanelli & Izzo (2017) that CSR increases the cost of debt.

Consistent with hypothesis 1a, the test of hypothesis 2a shows that the distribution of *zakah* funds has no effect on the future cost of PSIA. These findings indicate that the distribution of *zakah* funds has no effect on the cost of PSIA immediately and for a long period. Based on legitimacy views, CSR causes customers to develop trust and loyalty towards this brand, leading to the establishment of enduring, long-term relationships (Lee et al., 2017). However, Mukhibad & Hapsoro (2023) state that the economic benefits of corporate social activities occur in consumers who are aware that it is important for society to protect the environment and society. This concern is reflected in the consumer policy to choose products provided by producers who care about social, economic, and environmental issues (green products). On the contrary, this finding is because IB does not have the authority to channel *zakah* funds directly to the community, which is prioritized to increase bank legitimacy. Regulators in Indonesia only give authority to BAZNAS (*Badan Amil Zakat Nasional*) and LAZ (*Lembaga Amil Zakat*) as institutions that can distribute *zakah* directly to *zakah* recipients (eight *asnaf*). Thus, in the context of channeling *zakah* funds, we find that banks' concern for social, economic, and environmental issues only positively impacts economic performance after a long period. This finding is in line with Asrori et al. (2023), Mukhibad et al. (2020), Mukhibad et al. (2019), Mallin et al. (2014), and Mosaid & Boutti (2012) that the CSR performance of IBs has no impact on increasing financial performance.

Conclusion

This study aims to prove the economic consequence of the CSR performance of IBs. We use the distribution of social funds of IBs as an indicator to measure the CSR performance of IBs. Based on accounting standards in Indonesia, IBs report using and distributing *zakah* and QH funds as bank social funds. In addition, we use the cost of PSIA as an indicator of a bank's economic performance. The results showed that the distribution of QH funds had a negative effect on the cost of PSIA, but the distribution of *zakah* funds did not affect the cost of PSIA. This study shows that the distribution of QH funds positively affects the future cost of PSIA, but the distribution of *zakah* funds does not affect the future cost of PSIA. This research proves that the distribution of social funds has a positive economic impact in the short term because it reduces the cost of PSIA. In addition, the distribution of social funds has a negative long-term economic impact because it increases the cost of PSIA.

This research contributes to the development of previous literature in two ways. First, we use a CSR performance proxy different from previous studies. Previous studies are more familiar using CSR disclosure as an indicator of CSR performance. Second, we extend the previous literature by developing indicators of economic performance as an economic consequence of CSR. Previous studies emphasized profitability and firm value performance as the economic consequences of CSR. This study uses the cost of PSIA as an economic consequence of CSR.

This study contributes to bank directors considering the social activities of banks funded by QH funds, considering the effectiveness in the distribution of QH funds so that this distribution has positive economic consequences for bank performance. Thus, this study recommends that customers of IB pay attention to the bank's awareness of society's social and economic problems as their investment choice. This policy encourages IBs to take on social and environmental problems in society, which is in line with Islamic values.

The limitation of this research is that we emphasize the link between CSR performance and the cost of PSIA. Our indicator of CSR's economic consequences is the cost of PSIA. Other indicators of the economic consequences of CSR have yet to be explained by previous research, namely the cost of IB debt, customer loyalty, and investor trust. Future studies can use other economic performance indicators to expand the literature on CSR.

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