

CSR and the Performance of Islamic Banks in Aceh

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This study aims to examine the effect of CSR and innovation on performance, CSR on innovation and the effect between CSR and performance mediated by innovation in Islamic banks at Aceh. In this study hierarchical regression is used to analyze research data and using SPSS 22, with a sample of 300 respondents who are permanent employees in Islamic banking at Aceh. The results of this study indicate that CSR and innovation affect the performance of Islamic banking as measured by the maqasid al sharia. CSR has a significant positive effect on innovation and innovation mediating the relationship between CSR and the performance of Islamic banking in Aceh. CSR is a multi-dimensional concept that affects innovation and performance both directly and indirectly. This study confirms the development of CSR indicators by combining several concepts that have been developed by several experts and their effects on performance as measured by the Maqasid al Shariah.

Keywords: CSR, Performance, Innovation, Islamic Banks, Maqasid Al syariah.

Introduction

Corporate social responsibility or better known as CSR stands, has been studied from various concepts, approaches and methodologies (Taneja et al., 2011), a topic that is still on the agenda to be debated (Freeman et al., 2010) and are increasingly in demand by practitioners and academics (Hassan and Harahap, 2010; Darrag and E-Bassiouny, 2013). CSR is seen as a corporate concept that is integrated with social and environmental concerns in the operations and interactions of companies with stakeholders that are based on voluntary (CEE, 2001). This means that there are two dimensions in CSR, namely internal and external (Chatsca et al. 2003), or internal and external stakeholders (Freeman, 1984). To date, CSR research has focused more on external stakeholders, while internal issues



are still less highlighted (Mory et al. 2015), and to create value for companies not only with external stakeholders but also internal stakeholders, namely employees (Skudiene and Auroskovice, 2012). Therefore CSR is not only philanthropic or even in the form of charity, but more than that there is no discrimination, the benefits of expanded workers, operating efficiently, transparency, product safety, and generating company profits (Farag et al. 2014). Companies benefit both internally and externally through CSR (See Virakul et al. 2012).

Bocquet et al. (2015) revealed that one of the benefits of CSR is its ability to drive innovation in companies. Such a study conducted by Bocquet and Mothe (2013) shows that CSR can lead to technology innovation when integrated into a company's strategy to achieve performance. Several studies on CSR related to organizational performance have been carried out, including (Torugsa et al. 2013; Tang et al. 2012; Disegni et al. 2015; Cegarra-Navarro et al. 2016) but in their study organizational performance was measured by financial performance. Based on empirical studies, the relationship between CSR and corporate financial performance is still contradictory (McWilliams and Siegel, 2001). Like Cegarra-Navarro et al. (2016) which revealed a negative relationship between CSR and financial performance, and there was no influence between CSR and financial performance (Crisóstomo et al. 2011), and several studies stated a positive relationship between both of them (Sun, 2012; Torugsa et al. 2013; Disegni et al. 2015).

Different methods have been used to measure CSR and financial performance (Orlitzky et al. 2003; Quazi and Richardson, 2012) based on previous empirical studies. Various factors have influenced the relationship between CSR and organizational performance, such as good corporate governance (Rodriguez-Fernandez, 2015), reputation and customer satisfaction (Saedi et al. 2015), innovation (Bocquet et al. 2015). Previous studies of CSR, innovation, and performance tended to focus on companies such as SMEs (Bocquet et al., 2015; Lu and Du, 2014; Bocquet and Mothe, 2013; Husted and Allen, 2007). While CSR research on Islamic banks has been measured by different methods or systems, but generally measured by the CSR disclosure index through annual reports of Islamic banking, and is still limited to measuring CSR in Islamic banking using measurement scales (Zafar and Sulaiman, 2018).

While the measurement of innovation in Islamic banking is generally on the development of sharia products and innovation studies are still focused on conventional banking compared to sharia banking (Tipu, 2014). This is consistent with what was revealed by Oke (2007) that innovation in services has reached a large growth rate, but innovation research in the service sector especially Islamic banking is still limited.

Islamic banking and conventional banking have differences in terms of objectives, concepts, and philosophy and operations (Eljelly & Eloheed, 2013), the difference is unique and striking between both of them (Sani, 2013). Therefore the assessment or measurement of the performance of Islamic banking is certainly different from the performance of conventional banking. Islamic banking is banking that operates its activities based on sharia law. Ethical values and shared prosperity are very inherent in Islamic banking. Mohammed et al. (2015), Mohammed & Taib (2015), and Syafii et al. (2012) revealed about measuring the performance of sharia banking using maqasid al sharia, that sharia banking performance is much better when using al sharia maqasid. Judging from the purpose of establishing Islamic banking which is for welfare or mutual benefit, Maqasid al Syariah is very compatible with Islamic banking (Mohammed et al., 2015).

Therefore this study uses maqasid al Syariah as a measurement of Islamic banking performance. This study also aims to look at the effect of CSR on innovation and performance and to verify innovation as a mediating variable between the effect of CSR and performance. The following are the research questions in this study:

RQ1. Does CSR affect innovation?

RQ2. Does CSR affect performance?

RQ3. Does innovation mediate the relationship between CSR and performance?

Conceptual Framework

Further study is to understand the role of corporate social responsibility (CSR) in achieving innovation and organizational performance in the context of economic development. Different theories have been used to explain the behavior of economic units concerning CSR and find answers to different problems relating to the company's responsibilities, such as the Agency theory, the Stewardship theory, and the Stakeholder theory (Gallegal et al., 2011). Stakeholders are groups or individuals that can influence or be influenced by achievement of certain objectives, and changes in external environments and internal environments will impact the company in building their relationships with the stakeholders whether they are the employees, consumers or suppliers as each has their interest in or desire to progress the company (Freeman, 1984). Management has a very important role in managing and maintaining the balance of relationships among stakeholders because if this balance is not well maintained, the survival of the company will be disrupted (Freeman., 1993). CSR has a positive and negative side because not all study results show that corporate CSR has a positive outcome. The positive benefits of CSR activities include when the company integrates CSR into corporate strategy to improve or improve the company's ability of innovation. The very high innovation of the company will produce the market value that comes from corporate social responsibility, by providing satisfaction to the stakeholders that suits their wishes and needs, which will ultimately result in Superior performance of the of the company (Bocquet et al. 2015). The main construct used in the study will be discussed below:

Corporate Social Responsibility

Some researchers have made major contributions to the development of CSR, including Carrol (1979, 1999), Freeman (1984), Turker (2009). Carrol (1979, 1999) has introduced corporate social responsibility in four categories namely economic, ethical, legal, and discretionary, and to date, there have been many studies examining corporate social responsibility using the CSR dimension proposed by Carrol (Carrol and Shabana, 2010). But there is no standard definition of corporate social responsibility (Dasruld, 2008; William et al, 2006), each researcher defines corporate social responsibility according to his needs, this definition of corporate social responsibility is an agenda that is still being debated to date (Sheely, 20015; Taneerja et al, 2011; Sobczak and Havard, 2015; Heslin and Ochoa, 2008; Husted and Allen, 2007).

During this time CSR is more identical with the responsibility of the company to the community, consumers, suppliers, or communities outside the Company (external stakeholders), (Mory et al, 2015). The research on corporate social responsibility of internal stakeholders is employees (Skudiene and Ausruskeveciene, 2012). Furthermore, they reveal that the concept of social responsibility as a phenomenon integrated with the moral commitment to stakeholders by the management of the company. The CSR concept proposed by Skudiene and Ausruskeveciene (2012) is a concept based on the theory of stakeholders by Freeman (1984) which distinguishes the company's stakeholders over internal and external. Furthermore, Turker (2009) has developed a measurement scale from CSR that reflects the business responsibility on various stakeholders of the company, namely CSR in the community, the natural environment, the right of future generation, NGOs, CSR on employees, CSR on consumers, and CSR to the government. Hasan and Latif (2009) and Sairally (2013), focus more on their studies of CSR in Islamic banking on charity carried out by Islamic banking to the public, consumers, and the community. Then Ali Aribi and Arun (2014), Musibah et al. (2014) examined CSR through annual CSR report data on Bahrain's Islamic financial institutions and Islamic banking in the GCC country. Dusuki (2011) states: "Islamic banks, the intense commitment of Islam to brotherhood and justice makes the well-being of all human beings the principal goal of Islam. This well-being includes both material and spiritual satisfaction of the human personality that encompasses happiness in the present world and the hereafter."

CSR is a part of Islamic banking because its basic aim is to develop socio-economic and to reduce poverty. Generating profits without ignoring consumers or harming other stakeholders is a part of sharia banking, the main goal of which is for mutual benefit or welfare (Dusuki, 2008). Furthermore, Dusuki (2011) revealed that CSR is more emphasized on the environment, human resources, philanthropy, and human rights, and this is following Islamic principles.

In Skudiene and Ausruskeveciene (2012) and Al-bdour et al (2010) human resources and human rights are classified as internal stakeholders, while philanthropy and the environment are classified as external stakeholders (see Al-bdour et al., 2010). In Islamic banking charity is what is needed by paying zakat, this is what distinguishes between Islamic and conventional banking. Zakat in Islamic banking is part of CSR (Ali Aribi and Arun, 2014; Musibah et al. 2014). It is obvious that social responsibility is more identical with Islamic banking integrated with Islamic teachings and principles better known as sharia law.

Innovation

Referring to Avlonatis et al. (2001) which is the product which has financial services innovation in six types, new to the market services, new to the company services, new delivery processes, service modifications, service line extensions, and service re-positionings. These 6 types can encourage superior performance and better service development. Further innovations in financial services can form new products (such as flexible mortgage rates), new services (such as online banking), new production processes (credit-scoring systems) and new organisational forms (new approaches to electronic exchanges), (Frame and White 2004). Orlikowsky (1991) as quoted by (Chahal & Bakshi, 2015) argues that the two differentiated innovations are incremental and radical. Improving or improving products, services and technology or adding additional features is an incremental innovation. While radical innovation is bringing something new like new products, services and new technologies. In banking with incremental innovations is fixing or improving existing products and services as well as organisational structure to achieve banking performance is part of incremental innovation, while innovation radical is making products and services more competitive to achieve satisfaction for consumers (Chahal & Bakshi, 2015) .

Performance

Maqasid sharia reflects Islamic ethical views on justice, welfare and equality, and has been linked to performance (Bedoui and Mansour, 2014). The concept of maqasid al sharia has been widely used by researchers to measure the performance of Islamic banking including Muhammed et al. (2015), Mohammed and Thaib (2015), and Antonio et al (2012) by using the concept of maqasid al sharia Al-Ghazali, Ibn-Ashur and Abu Zaharah. Mohammed and Taib (2015) developed an Islamic bank performance measurement by using the concept of Islamic maqasid by Abū Zaharah into financial ratios. Sharia maqasid theory by Abū Zaharah consists of:

1. Tahdzib al-Fard (Educating the individual), the development of individual knowledge and expertise to increase their spiritual value. Such as training and education programs to enhance moral values so as to increase the knowledge and experience of employees, and banks must provide correct information about products offered in accordance with sharia law. The ratio in this Maqasid is education, research, training, and publication (promotion) grants.
2. Iqamah Al-Adl (Establishing justice), Islamic banking must have honesty in conducting all transactions related to all bank business activities including in terms of products, prices, contract terms. all contracts (Aqad) must be free from elements of injustice such as, gharar and usury. The ratio in the second Maqasid is PER ratio (Profit Equalization Reserve), Mudharabah and Musyarakah financing schemes (functional distribution) and interest-free interest income ratio.
3. Maslahah (Welfare). Islamic banking activities provide benefits to the general public, by developing investment projects and social services to improve public welfare. This Maqasid Ratio is Profit Returns, Personal Income Transfer (Zakah), and investment ratio in the real sector.

Mohammed et al. (2015) used the theory of Maqasid al sharia from Al Ghazali and Ibn 'Asyur to develop a performance appraisal model in Islamic banking, which consists of preservation of faith, preservation of life, preservation of intellect, preservation of programs and preservation of wealth. Generally maqasid al sharia is measured using a ratio as in the study of Mohammed et al. (2015), but other measurements besides ratios such as intervals can be considered to measure the maqasid Al sharia.

Hypothesis Development

CSR and Innovation

There is a relationship between CSR and innovation, especially when CSR is implemented, it will affect organizational innovation (Gallego-Alvarez, Manuel Prado-Lorenzo, & García-Sánchez, 2011). When the implementation of corporate social responsibility has been considered to affect innovation, corporate social responsibility is related to organizational innovation. Companies that are more active in carrying out their social responsibilities will encourage and develop their employees to be able to be creative and cooperate with other stakeholders in developing or producing organizational innovations in products, technology, and processes and others. Learning in CSR will produce knowledge that will become a backflow into the organization as a driver for organizational innovation (Heslin and Ochoa, 2008).

Sanchez and Beniti-Fernandez (2015) revealed that CSR can increase workforce productivity which impacts company innovation. CSR policies through training can increase employee expertise to innovate and corporate social responsibility is considered to be able to provide opportunities for innovation (Husted and Allen, 2007). Based on the results of studies on small and medium companies in France, corporate social responsibility is related to technological

innovation, companies that implement CSR strategies are more able to develop technological innovation products than companies that are involved in responsive CSR (Boquet et al, 2013). In the CSR literature, business ethics and the social capital approach explicitly link CSR with value creation and innovation (Boquet et al, 2013).

External CSR is more widely known than internal CSR, namely employees because corporate social responsibility is not just external. From the internal side of CSR based on literature, it can motivate employees (Skudiene & Auruskeviciene, 2012) so that a strong commitment is embedded in employees (Mory, Wirtz, & Göttel, 2015). Then self-development be it a matter of career or promotion, knowledge, competence, and expertise will have an impact on the ability and contribution of employees in working primarily to create creativity new service products and improve existing ones. This means increasing the value of the product or service with the competency they possess.

H1: CSR affects innovation CSR and innovation

Valmohammadi (2014) revealed that CSR practices and activities affect organizational performance. It indicates that the importance of CSR development in companies refers to the social responsibility that is intended to achieve profitability, but also by integrating CSR into strategy Company. So that employees feel the CSR impact of the company and more committed to the company and support the company's CSR programs. Huang and Lien (2012) revealed that corporate social responsibility has been positively related and has a strong influence on the company's financial and non-financial performance. Besides, Cai et al. (2012) argue that good corporate social responsibility can increase the value of the company. Mahmoud and Hansen (2012) in his research revealed that corporate social responsibility contributed to the improvement of organizational performance. In the banking business based on a study conducted by Bihari and Pradhan (2011) that CSR can drive the performance of the banking business, it means that the activities undertaken for the community are away or the road to profit and achieve value for the company.

H2: CSR affects the performance of Islamic banking

The company's main goal is to maximize profit i.e. the company's performance from the financial side such as ROA (return of assets) and ROE (Return of capital). Bocquet et al., (2015) to improve the company's performance, then the company should be able to create value for shareholders. This can be accomplished by choosing investments that can maximize equity value so it benefits what can be shared with shareholders, however, this is not easy (Bocquet et al., 2015). In addition to financial performance, non-financial performance has also contributed to improving the overall performance of the company, which emphasizes intangible assets. One of them is knowledge (Barney, 2001), which suggests that the company's competitive advantage can drive on improving the company's performance, by



managing the knowledge resources owned by employees to Creativity that will eventually lead to the creation of innovation.

The relationship between CSR and innovation demonstrates the basic competencies that are owned by the company (Rexhepi et al., 2013). CSR is the driving force for innovation (European Commission, 2016; Öberg., 2012; Luo and Du., 2014). Hauser et al., (2006) as quoted by Luo and Du (2014) states that in the long term, that the profitability and viability of the company are crucial. This is determined by the competency of the company, which is an innovation for changing markets. Referring to the European Commission, (2016), Öberg.,(2012), and Luo and Du., (2014), CSR is a driving force for innovation and the company that has basic competencies can be demonstrated by the relationship between innovation and CSR (Rexhepi et al., 2013). CSR will be able to encourage employees to develop their skills and ideas to create new products, services, and processes or improve their existing products and services.

The results of studies conducted by Li and Si (2010) and Uz Kurt et al. (2013) show that innovation has a positive influence on the company's performance and plays a role in achieving the company's success (Uz Kurt et al., 2013). Research results by Bocquet et al., (2015) revealed that innovation plays a role in the dissemination of the relationship between CSR and corporate performance. Employees who can innovate are also able to improve their skills and adapt to the outside environment such as the needs and desires of consumers and competitors. Of course, this is not separated from the role of the company in treating their internal stakeholders through internal activities or CSR programs. Mahmoud and Hinson, (2012) prove that CSR influences innovation and innovation to the dissemination of the relationship between CSR and organizational performance.

H3: Innovation mediates the effect between CSR and banking performance

Research Methods

This research is a cross-sectional study by conducting field surveys to obtain the required data. Research data collection is carried out by distributing questionnaires using self-survey (self administrative survey), which is a primary data collection method in which the respondent fills in the answers to the survey questions through a questionnaire. The data we collected in this study is based on a survey in the Islamic Banks region of Aceh. The sample in this study were employees in several Islamic banks in the areas of Banda Aceh, Sigli, North Aceh, and East Aceh, with a sample size of 300 respondents. The sample criteria used in this study were purposive sampling, researchers criteria samples that fit the purpose of the study the sample criteria in this study are as follows: (1) Sharia banking permanent employee,

(2) have a working period of more than three years. The data collected in this study will then be processed statistically to answer the hypotheses in this study. Hierarchical regression is used in this study to analyze research data using the SPSS 22 program.

Results and Discussion

Descriptive Statistic

Standard deviations, mean values, and Pearson correlation coefficients are important parts of descriptive statistics, the calculations are as shown in Table I. Data in the Table shows that performance is significantly correlated with CSR and innovation ($P < 0.01$) and CSR is positively correlated with innovation

Reliability and Validity

The results of the reliability and validity of this study can be seen in Table II. In this study, we used Cronbach's α 0.70 to test the reliability of the variables. The minimum reliability value in this study is on the performance variable with a Cronbach's α value of 0.858 above 0.70 which indicates a high internal consistency. Validity test in this study using factor analysis, according to Ghozali (2012: 58) matrix data must have sufficient correlation to assess whether factor analysis can be used or not. Bartlett of Sphericity test can be used to determine the correlation between variables and other test tools that measure the level of interrelation between variables, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO MSA). KMO values vary from 0 to 1, the desired value must be above 0.50 (> 0.50) to be able to do factor analysis. In this study, the KMO value is 0.878 so a factor analysis can be done. The loading factor significance value of 0.40 refers to Hair et al (1998), all items on the CSR, innovation, and performance variables have factor loadings values above 0.40 as exhibit Table II.

Hierarchical regression results are shown in Table III below. The table indicates that model 1 is better than the other models, the R^2 value of 0.249, and the F value of 98.959 is significant at $p < 0.05$. CSR influences innovation. In this study, H1 is CSR has a strong effect on innovation. To test it, we put innovation as the dependent variable and CSR as the independent variable in the model. CSR shows a positive influence on Innovation with a value of $\beta = 0,449$ at $p < 0.05$, indicating that high CSR can improve Innovation. The first hypothesis in this study is supported, CSR has a positive impact on innovation.

In this study to examine the mediating effect, refer to Baron and Kenny (1986), which uses a regression equation that contains four steps and has been used by Han and Li (2015) in their research that uses regression to test the mediating effect, first, testing the dependent variable significantly influenced by independent variables; second, testing the mediation significantly influenced by independent variables, third, testing the dependent variable significantly influenced by the mediating variable; fourth, the independent variable significantly influences

the dependent variable through mediation. There are Mediation effects when these effects are significant in the first and third steps and are insignificant or still significant but the β coefficient decreases in step four, meaning that there is a mediating effect (Han and Li, 2015).

Table I : Descriptive Statistic and Correlation

	Mean	SD	1	2	3
CSR	4.2244	.42555	1.000		
Innovation	3.4767	.68024	,499**	1.000	
Performance	4.1406	.50265	,451**	,358**	1.000

Note: ** $p < 0.01$

Table II: Reliability and Validity

Construct	Item	Factor Loadings	Reliability
CSR	Participate in voluntary activities	0.722	0.884
	Open, honest and flexible communication	0.792	
	flexible policies and life balance for employees	0.756	
	Maintain security and stability for all employees	0.790	
	Implement procedures for handling consumer complaints	0.717	
	Avoiding manipulative product advertisements	0.610	
	support local sports activities, culture and other community activities	0.503	
	Investment for community development	0.616	
Innovation	New products and services are developed through customers	0.748	0.889
	Introducing a new way of making transactions	0.745	
	New products and services through employee feedback	0.728	
	There is no change in sharia services	0.894	
	There is no support for the employee's idea of improving sharia services	0.821	
Performance	Increase employee knowledge and experience and moral values through training and education	0.744	0.858
	Providing correct information about products according to sharia law	0.826	
	Conduct research for organizational development	0.762	
	Be honest in every transaction	0.776	
	Each contract (Aqad) is free from the elements of gharar and usury	0.645	
	Develop social service activities for the welfare of the community	0.634	

The first step on model 2 in Table III shows a positive and significant effect between CSR and performance ($\beta = 0.451$ at $p < 0.05$). In the second step, the model I shows that CSR has a significant positive effect on innovation ($\beta = 0.449$ at $p < 0.05$). In the third step, model 3 recommends that innovation has a significant positive effect on performance ($\beta = 0.358$ at $p < 0.5$). The fourth step, model 4 shows that the CSR coefficient to the performance is significant but decreases compared to the data in model 2 ($\beta = 0.362 < \beta = 0.451$ at $p < 0.05$) and the effect of innovation on performance is significant ($\beta = 0.177$ on $p < 0.05$). Based on the above results, innovation does not fully mediate the relationship between CSR and the performance of Aceh's Islamic banking, this result supports H3.

Table III. Hierarchical regression result

Variables	Innovation		Performance	
	M1	M2	M3	M4
Independent variable				
CSR	0,449	0,451		0,363
Mediating Variable				
Innovation			0,358	0,177
Adjusted R ²	0,249	0,204	0,128	0,227
F	98,959	76,253	43,889	43,682
Notes: n=300	Sig.	P<0,05		

Previous studies have revealed a positive relationship and the influence of CSR and performance. But the measured performance is more focused on financial performance while the performance measured by maqasid al sharia is still limited. Bihari and Pradan (2011), Farag et al. (2014), Disegni et al. (2015), Cegarra-Navarro et al. (2016), Torugsa et al. (2013) who revealed a positive relationship and influence between CSR and financial performance, but Huang and Lien (2012) in their research not only measured the effect of CSR on financial performance but also non-financial performance, the results showed that CSR affected both. The results of this study indicate that CSR and innovation influence the performance of Islamic banking as measured by using the Maqasid al-Shariah. Although performance measurement by using Maqasid al - Sharia is supported by research conducted by Mohammed et al. (2015) and Mohammed and Thaibt (2015), their research did not examine the effect of CSR and innovation on performance and the role of innovation as mediation.

External and internal CSR activities in the form of compensation, skills, and career development, communication, donations, volunteers can encourage performance in Islamic banking. Besides, these results also support previous research conducted by Guadamillas-



Gomez and Donate-Manzanares (2011), Mahmoud and Hinson 2012 and Bocquet et al, (2015), which suggests that performance can be achieved by carrying out CSR programs activities or through innovation (Mahmoud and Hinson, 2012; Bocquet et al., 2015).

Conclusion

The results of this study indicate that CSR plays an important role in Islamic banking to improve or build the image of the company in the community and also enhance the competence of its employees by developing skills and careers. Public confidence will increase with the success of Islamic banking in practice CSR to create innovation which will ultimately have an impact on performance and increase the value of Islamic banking. The results of this study contribute to the development of the theory, that CSR has an important role both internally and externally in improving the performance of Islamic banking in Aceh in terms of the performance of maqasid al sharia.

This research proves that CSR and innovation in organizations do not only have an impact on financial performance, such as the research conducted by Bihari and Pradan (2011), Torugsa et al. (2013), Farag et al. (2014), Disegni et al. (2015) and Cegarra-Navarro et al. (2016) but also performance is measured by the concept of maqasid al sharia. For Aceh, sharia banking managers, namely operational managers, pay more attention to CSR practices both internal and external that have to do with developing employee knowledge in creating innovations in sharia banking both sharia products and services.

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