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Research Article

Sharia Banking Transformation through Practices Islamic Corporate Social Responsibility (ICSR)

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Abstract. The transformation of sharia banking through ICSR practices is an effort to increase competitiveness, customer trust and Islamic values in sharia banking practices. Implementing ICSR can provide significant benefits for sharia banking, customers and society as a whole. The implementation of ICSR practices by sharia banking creates a positive impact in building financial institutions based on Islamic principles. This is not only about building reputation, but also creating strong relationships based on social and moral values, which in turn strengthens integrity and increases customer and community trust. Implementing ICSR can increase the competitiveness of sharia banking by improving product and service quality, positive image and customer trust. Implementing ICSR can also improve customer experience, strengthen relationships between banks and customers, and have a positive impact on society as a whole. Consistent implementation of ICSR can help sharia banking to become more competitive, trusted by customers, and realize Islamic values in banking practices

Keywords: Sharia Banking Transformation, ICSR, Competitiveness, Customer Trust, Islamic Values

Abstrak. Transformasi perbankan syariah melalui praktik ICSR adalah upaya untuk meningkatkan daya saing, kepercayaan nasabah, dan nilai-nilai Islam dalam praktik perbankan syariah. Penerapan ICSR dapat memberikan manfaat yang signifikan bagi perbankan syariah, nasabah, dan masyarakat secara keseluruhan. Implementasi praktik ICSR oleh perbankan syariah menciptakan dampak positif dalam membangun lembaga keuangan yang berlandaskan pada prinsip-prinsip Islam. Hal ini tidak hanya tentang membangun reputasi, tetapi juga menciptakan hubungan yang kuat berdasarkan nilai-nilai sosial dan moral, yang pada gilirannya memperkuat integritas dan meningkatkan kepercayaan nasabah serta masyarakat. Penerapan ICSR dapat meningkatkan daya saing perbankan syariah dengan meningkatkan kualitas produk dan layanan, citra positif, dan kepercayaan nasabah. Penerapan ICSR juga dapat meningkatkan pengalaman nasabah, memperkuat hubungan antara bank dan nasabah, dan memberikan dampak positif pada masyarakat secara keseluruhan. Penerapan ICSR secara konsisten dapat membantu perbankan syariah untuk menjadi lebih kompetitif, dipercaya oleh nasabah, dan mewujudkan nilai-nilai Islam dalam praktik perbankan

Kata Kunci: Transformasi Perbankan Syariah, ICSR, Daya Saing, Kepercayaan Nasabah, Nilai-Nilai Islam

INTRODUCTION

In recent years, Islamic banking has experienced rapid growth in Indonesia. This is due to increasing public awareness of the importance of Islamic values in life, as well as the increasing public need for financial services that comply with sharia.

Increasing public awareness of the importance of Islamic values can be an opportunity for sharia banking to increase its competitiveness. Sharia banking that implements ICSR can show its commitment to Islamic values, so that it can attract customers who are aware of Islamic values and can increase its positive image in the eyes of society. This can increase public trust in sharia banking, so that it can increase public interest in using sharia banking products and services.

Islamic values, which are rooted in faith ('aqîdah), worship, and morality and ethics (akhlâq), form the basis of the Muslim worldview. All existence on Earth is considered a creation of Allah SWT, and humans have a responsibility to maintain this belief. These values receive broad consensus support, especially in countries where the majority of the population adheres to Islam. Therefore, the concept of social responsibility harmony with Islamic values can be considered as a manifestation of moral reasoning that leads to the achievement of voluntary consensus.

Islamic principles emphasize the idea that balance will occur when the interests of various stakeholders are given priority by the company. This principle is in line with the concept of Maqâshid al-syarî'ah, which functions as a detailed rationale for understanding and achieving the goals behind Islamic law. Maqâshid al-syarî'ah refers to the aims, objectives, principles, intentions, goals, or ends of Islamic decisions. According to Imam Al-Ghazali, maqâshid aims to advance the welfare of all mankind, including the protection of faith (din), human self (nafs), intelligence ('aql), offspring (nasl), and wealth (maal).

However, research on social reporting based on stakeholder theory with a focus on Islamic principles is still limited (Puspawati et al., 2020). These studies have provided mixed results, making it difficult to ascertain whether social responsibility disclosure is considered a positive signal from an investor's perspective. Previous research used measurements from Haniffa (2002) and Othman et al. (2009) to assess social responsibility disclosure in Malaysian companies based on Islamic principles (Sardiyoa & Martini, 2021). In Indonesia, there are no clear regulations regarding Islamic Social Responsibility (ISR) disclosure between companies (Kalbuana et al., 2019), so implementation varies greatly. The focus is more on reporting returns, sharia-compliant transactions, and good customer service, rather than disclosing social factors (Putri & Mardian, 2020).

Social responsibility reporting standards based on sharia principles in Indonesia were developed by the association of Islamic economic experts, but the methodology used does not yet have standards built on "best practices" or "empirical," such as those developed by GRI. The standards built are not in line with current developments, while the implementation of maqashid Sharia values requires adjustments to the environment and regional regulations (El-Hawary et al., 2004; Nugraha et al., 2020). Therefore, applying these two measures inappropriately poses a threat to construct validity (Burt, 1976). However, Islamic banking also faces various challenges, one of which is competition with conventional banking. Conventional banks have greater resources and longer experience, so they can offer more diverse and more competitive products and services. To overcome these challenges, Islamic banking needs to carry out transformation. This transformation can be carried out in various ways, one of which is by implementing ICSR (Islamic Corporate Social Responsibility) practices.

Corporate Social Responsibility

HR. Bowen was the figure who first introduced the term Corporate Social Responsibility in 1953. ICSR initially emerged not because of government or institutional regulations, but this term emerged because at that time a company placed more emphasis on commitment to implementing ethics in the business world which had the aim of providing community welfare in accordance with applicable values and norms in society.

Based on the theory explained by Elkington regarding the 3P concept, the ICSR concept has the desire to combine three functions in a balanced manner, namely:

- a. Social function, the company carries out this function through empowering the community, namely stakeholders in the company. Apart from that, in this function the company also plays a role in maintaining an attitude of justice and trying to bear all the burdens of the company's activities, so that the surrounding community is predicted not to suffer losses because all the burdens are borne by the company.
- b. Economic function, in this function the company seeks to obtain profits to support the company's operational activities in the future.

- c. Natural function, in this function the company plays a role in preserving nature, because the company is one of the basic elements in the system of life on earth, if the earth is damaged automatically the parts that exist in life on earth will also be threatened with extinction (humans, animals and plants). plant).

Competitive Advantage

Competitive advantage theory states that companies can gain competitive advantage by offering quality products and services, competitive prices, and a positive image. ICSR can help sharia banking to improve product and service quality, positive image and customer trust.

Islamic Values

Islamic banking is based on Islamic values, such as justice, equality and prudence. ICSR is one way to realize Islamic values in banking practices.

RESEARCH METHOD

Study of literature

Literature study is a research method carried out by analyzing literature that is relevant to the research topic. This literature can be in the form of books, journal articles, research results, and other documents.

Survey

Surveys are a research method carried out by collecting data from respondents through questionnaires. The questionnaire can be used to ask respondents' opinions, attitudes or behavior.

RESULTS AND DISCUSSION

Based on the research that has been conducted, the implementation of ICSR can provide benefits for sharia banking in terms of competitiveness, customer trust and Islamic values.

1. Competitiveness

Implementing ICSR can increase the competitiveness of sharia banking by improving product and service quality, positive image and customer trust. The quality of sharia banking products and services can be improved by consistently applying sharia principles. Sharia principles emphasize the importance of justice, equality and prudence. Consistent application of sharia principles can provide benefits for customers, thereby increasing customer satisfaction and loyalty.

The positive image of Islamic banking can be enhanced by demonstrating its commitment to Islamic values and social responsibility. This can be done by supporting social and environmental programs, as well as implementing sustainable business practices. A good positive image can attract the interest of new customers and increase customer trust in sharia banking.

Customer trust in sharia banking can be increased by increasing transparency and accountability. This can be done by implementing transparent and accountable business practices, as well as reporting company performance transparently.

Regarding findings in the Islamic worldview, ISR is seen as a model that uses moral economy to create togetherness and prosperity. There are three fundamental components that need to be emphasized in the Islamic world view of organizational structures, namely the universe perspective, the perspective of human nature, and the purpose of human life. The importance of the degree of disclosure of corporate social responsibility (ISR) based on sharia principles is emphasized because it can increase positive values and trust, especially in among Muslims, emphasizing that Islamic banking prioritizes piety as its main interest apart from the interests of other stakeholders.

There is another view which states that CSR can be considered as an effort to improve the company's image by displaying a human side, kindness and responsible social actions. However, there is also a view which states that CSR can be considered as a mask for the unhindered pursuit of profit and power (The Economist, 2005).

On the other hand, implementing CSR is believed to improve a company's financial performance, where investors tend to invest in companies that carry out CSR activities. Investors believe that companies that engage in CSR activities have the potential to generate greater profits compared to other companies that do not. Therefore, in the future, companies are expected to improve their financial performance through implementing CSR (Arshad et al., 2012).

2. Customer trust

Implementing ICSR can increase customer trust in sharia banking by increasing transparency and accountability, as well as sharia banking's commitment to Islamic values. High transparency and accountability can give customers confidence that sharia banking is managed well and responsibly. This can increase customer confidence in sharia banking.

Sharia banking's commitment to Islamic values can give customers confidence that sharia banking operates in accordance with Islamic principles. This can increase customer confidence in sharia banking. The transformation of Sharia Banking through Islamic Corporate Social Responsibility (ICSR) practices has a significant impact on customer trust. ICSR practices in the context of sharia banking include various social, environmental and economic activities carried out by sharia-based financial institutions to achieve social goals and Islamic values. Some of the impacts of ICSR practices on customer trust:

- a) Reputation Improvement: ICSR practices can improve the reputation of sharia banking in the eyes of customers. When banks demonstrate their commitment to social responsibility and Islamic values, this can shape positive perceptions and increase customer trust in the integrity and morality of the financial institution.
- b) Customer Satisfaction: Customer trust is often closely related to their satisfaction with bank services. If ICSR practices reflect concern for customer needs and values, this can increase customer satisfaction. Customers who feel that their

- bank cares about social and environmental issues may be more likely to maintain their banking relationship.
- c) **Community Engagement:** ICSR practices that focus on engagement and community building can create emotional bonds between Islamic banks and their customers. When customers feel that the bank plays an active role in advancing the welfare of the community, this can strengthen emotional bonds and trust.
 - d) **Transparency and Accountability:** Sharia banks that implement ICSR practices in a transparent and accountable manner can build customer trust. Open information about the bank's social and environmental activities creates a sense of confidence that the bank is acting ethically and responsibly.
 - e) **Conformity with Islamic Values:** ICSR practices that are consistent with Islamic values can strengthen the trust of Muslim customers. Customers tend to look for compatibility between their religious values and sharia bank business behavior. If banks can demonstrate this alignment, customer trust can be strengthened.

3. Islamic values

The application of ICSR can realize Islamic values in sharia banking practices by consistently applying sharia principles, as well as providing benefits to society. Consistent application of sharia principles can ensure that sharia banking operates in accordance with Islamic values. This can increase public trust in sharia banking.

Providing benefits to the community can show sharia banking's commitment to Islamic values, such as justice, equality and social care. This can improve the positive image of sharia banking in the eyes of the public. With all this in mind, implementing ICSR in Islamic banking is not just about complying with sharia principles, but also about creating a positive customer experience, strengthening the relationship between banks and customers, and having a positive impact on society as a whole.

Implementing Islamic Corporate Social Responsibility (ICSR) in sharia banking is a deeper effort to create a meaningful and positive customer experience. In this context, there are several aspects that can be expanded to improve the customer experience more deeply:

- a. **Responsive Customer Service:**
Sharia banks must provide more responsive and personalized customer service. This may include providing financial advice in accordance with sharia principles and consultation to assist customers in selecting products and services that suit their needs.
- b. **Ease of Access to Services:**
Ensure that customers have easy access to sharia banking services, including sharia-compliant digital banking services. In this way, customers can manage their finances more comfortably and efficiently.
- c. **Continuous Sharia Financial Education:**
Islamic banks can hold sustainable sharia financial education programs, such as seminars, workshops and educational literature. This will help customers increase their understanding of sharia concepts and how to apply them in everyday life.

d. Sharia Economic Promotion:

Islamic banks can promote the sharia economy by providing loans in accordance with sharia principles to small and medium entrepreneurs. This will help economic growth and create job opportunities, which in turn will improve customer experience with the bank.

e. Support for Individual Social Responsibility:

Islamic banks can provide customers with the means to support their own social responsibilities by facilitating donations and zakat through their online banking platforms. This allows customers to actively participate in helping those in need.

f. Social Impact Monitoring:

Islamic banks can routinely monitor and report on the social impact of their ICSR initiatives. This not only provides transparency but also allows banks to continuously improve their social initiatives in line with customer needs and expectations.

CONCLUSION

Based on the results of the research and discussions that have been carried out, it can be concluded that the application of ICSR in sharia banking can provide significant benefits for sharia banking, customers and society as a whole. Implementing ICSR can increase competitiveness, customer trust and Islamic values in sharia banking.

Implementing ICSR can improve customer experience, strengthen relationships between banks and customers, and have a positive impact on society as a whole. Implementing ICSR can improve community welfare, create jobs, and realize justice and equality.

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