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**CORPORATE SOCIAL RESPONSIBILITY RHETORIC
AND LEGITIMACY IN INDONESIAN ISLAMIC
BANKING**



ADI SUSILO JAHJA

Universiti Utara Malaysia

**DOCTOR OF PHILOSOPHY
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**CORPORATE SOCIAL RESPONSIBILITY RHETORIC AND
LEGITIMACY IN INDONESIAN ISLAMIC BANKING**



**BY
ADI SUSILO JAHJA**

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Tarikh: **17 Oktober 2021**

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(Name of Student) : **Adi Susilo Jahja**

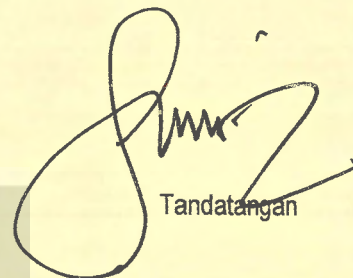
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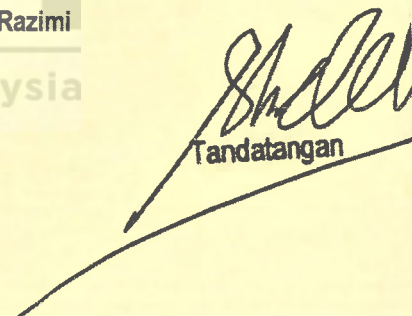
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Nama Penyelia/Penyelia-
penyelia
(Name of
Supervisor/Supervisors) : **Assoc. Prof. Dr. Subramaniam a/l Sri Ramalu**



UUM
Assoc. Prof. Dr. Mohd Shahril Bin Ahmad Razimi
Universiti Utara Malaysia

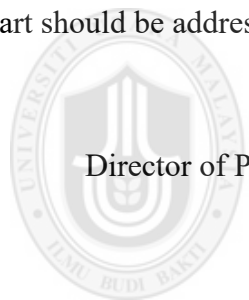

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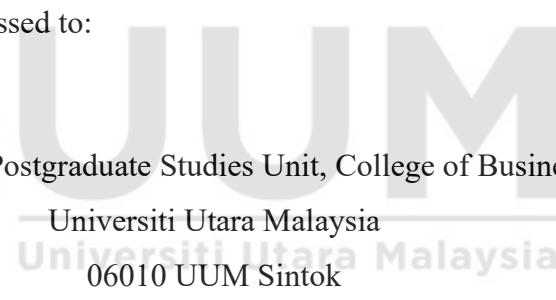
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Abstract

The future of the Indonesian Islamic bank industry is promising; however, its market share is still small. Islamic banks should strive to be accepted by stakeholders to acquire organizational legitimacy. Therefore, the impact of banks' activities on society's welfare is a significant concern. To get attention, comprehension, and conviction from stakeholders, banks should communicate their corporate social responsibilities (CSR) activities to stakeholders. Consequently, CSR rhetoric is essential. Previous studies have been conducted in the Western setting, none in the Indonesian Islamic banking context. The primary question of this research is how CSR rhetoric can be used to achieve legitimacy in the Indonesian Islamic banking context. The study uses an Islamic perspective and employs qualitative case study. This was done by investigating the two biggest Indonesian Islamic banks, Bank Syariah Mandiri and Bank Muamalat Indonesia. Data collection was conducted by interviewing six managers in charge of this issue and by collecting documents. Data analysis was carried out by categorizing the codes that emerge from interview transcription and written documents by employing Atlas.ti 7 application. Subsequently, categories and sub-categories are logically connected to make a plausible explanation. To enhance trustworthiness, this study employs purposive sampling, triangulation, and peer review. As a result, this study (1) reveals the concept of *Shariah* legitimacy of the Indonesian Islamic bank, (2) offers a new Islamic CSR definition, and (3) explains how rhetoric CSR can enhance *Shariah* legitimacy. This study contributes to the study of CSR rhetoric. Theoretically, it introduces the term *Shariah* legitimacy and provides a new definition of Islamic CSR. Practically, it offers CSR rhetoric strategies to achieve *Shariah* legitimacy. Through these strategies, Islamic banks can strengthen their existence and expand their market share. Methodologically, unlike previous studies, it uses interpretivism paradigm. For future research, this study can be expanded to other Islamic banks, replicated to different contexts, involve more cases to gain more insights, expanded further to develop quantitative evaluation criteria, and extended by investigating stakeholders' perspectives.

Keywords: Legitimacy, CSR, Islamic bank, rhetoric

Abstrak

Masa depan industri bank Islam Indonesia menjanjikan; namun, bahagian pasarannya masih kecil. Bank Islam harus berusaha untuk diterima oleh pihak berkepentingan untuk memperoleh kesahan organisasi. Oleh itu, kesan aktiviti bank terhadap kesejahteraan masyarakat menjadi perhatian utama. Untuk mendapatkan perhatian, pemahaman, dan keyakinan dari pihak berkepentingan, bank harus menyampaikan aktiviti tanggungjawab sosial korporat (CSR) mereka kepada pihak berkepentingan. Oleh itu, retorik CSR adalah mustahak. Kajian sebelumnya telah dilakukan di Barat, namun tidak ada dalam konteks perbankan Islam Indonesia. Persoalan utama penyelidikan ini adalah bagaimana retorik CSR dapat digunakan untuk mencapai legitimasi dalam konteks perbankan Islam Indonesia. Kajian ini menggunakan perspektif Islam dan menggunakan kajian kes kualitatif. Ini dilakukan dengan menyiasat dua bank Islam Indonesia terbesar iaitu Bank Syariah Mandiri dan Bank Muamalat Indonesia. Pengumpulan data dilakukan dengan menemubual enam pengurus yang bertanggungjawab atas masalah ini dan dengan mengumpulkan dokumen. Analisis data dilakukan dengan mengkategorikan kod yang muncul dari transkripsi wawancara dan dokumen bertulis dengan menggunakan aplikasi Atlas.ti 7. Seterusnya, kategori dan subkategori dihubungkan secara logik untuk mendapatkan penjelasan yang masuk akal. Untuk meningkatkan kepercayaan, kajian ini menggunakan persampelan bertujuan, triangulasi, dan tinjauan rakan sebaya. Hasilnya, kajian ini (1) mengungkapkan konsep legitimasi Syariah bank Islam Indonesia, (2) menawarkan definisi CSR Islamik yang baru, dan (3) menjelaskan bagaimana retorik CSR dapat meningkatkan legitimasi Syariah. Kajian ini menyumbang kepada kajian retorik CSR. Secara teorinya, ia memperkenalkan istilah legitimasi Syariah dan memberikan definisi baru mengenai CSR Islam. Secara praktikal, ia menawarkan strategi retorik CSR untuk mencapai legitimasi Syariah. Melalui strategi ini, bank Islam dapat mengukuhkan kewujudannya dan meluaskan bahagian pasaran mereka. Secara metodologi, tidak seperti kajian sebelumnya, ia menggunakan paradigma interpretivisme. Untuk penyelidikan masa depan, kajian ini dapat diperluas ke bank-bank Islam lain, direplikasi ke konteks yang berbeza, melibatkan lebih banyak kes untuk mendapatkan lebih banyak wawasan, diperluas lebih jauh untuk mengembangkan kriteria penilaian kuantitatif, dan diperluas dengan menyelidiki perspektif pihak-pihak berkepentingan.

Kata kunci: Legitimasi, tanggung jawab sosial korporat, bank Islam, retorik

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The attention toward Islamic financial institutions (IFI) is growing pervasively due to the increasing global recognition and the widespread of these institutions in both Muslim and non-Muslim countries (Nor & Hashim, 2015). In 2014, IFIs operated in 92 countries in the world (ICD - Thomson Reuters, 2014, p. 173), and in 2017, they have spread to 131 countries as shown in Figure 1.1. This indicates that IFIs are gradually being accepted in many countries.

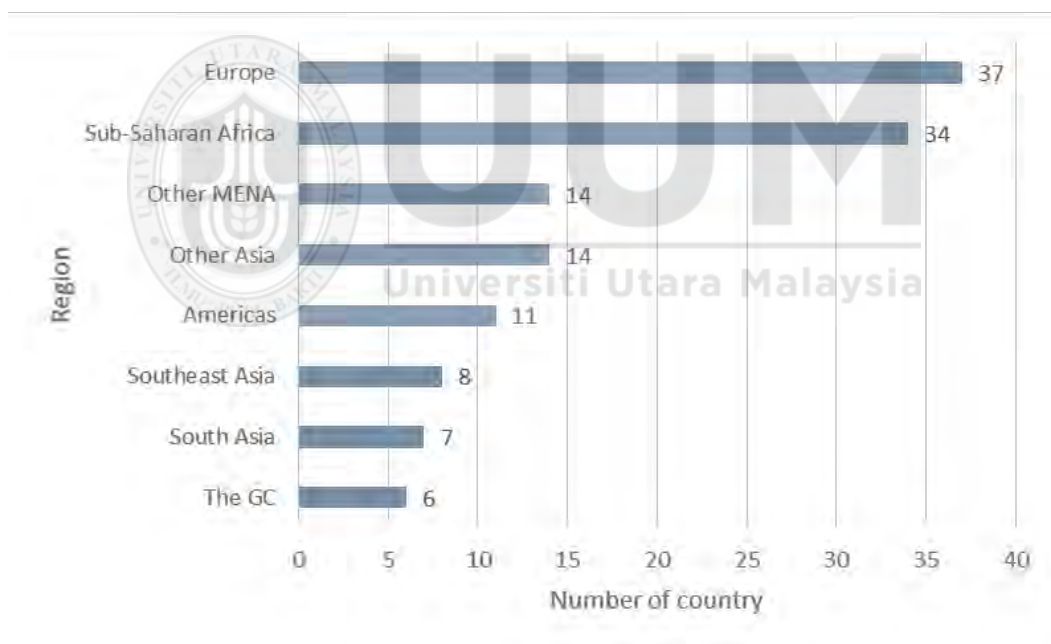


Figure 1.1
The List of 131 Countries where Islamic Finance Institutions Operate
Source: ICD-Thomson Reuters, 2017, p. 18-21.

In line with the widespread acceptance of these financial institutions globally, the Islamic financial assets also grew significantly. From 1980s to 1990s, the continuous expansion of IFIs was the hallmark of the Middle East's financial landscape, and by the 2000s, more than 180 IFIs operated in 60 countries (Sari, Bahari, & Hamad, 2014).

According to the Islamic Financial Services Board (2015), the growth rate of Islamic financial assets from 2009 to 2013 is 17%, faster than that of conventional finance. It was fuelled by the economic boom of the Muslim-majority nations of the Gulf and Southeast Asia at that time (Vizcaino, 2015). As shown in Figure 1.2, Islamic finance asset is growing up steadily and expected to reach USD3.5 trillion in 2021. The estimated average annual growth rate in 2017-2021 is 9.9%.

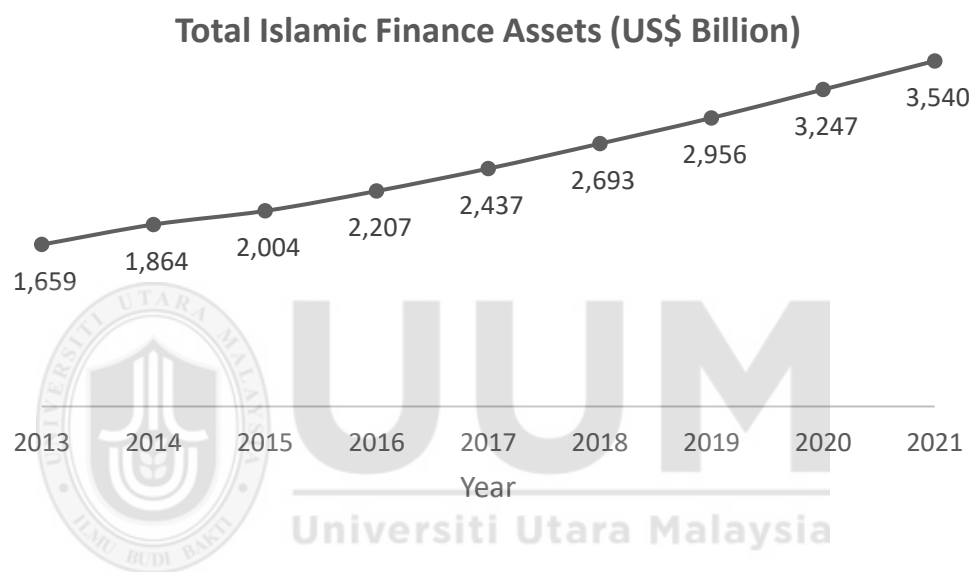


Figure 1.2
Islamic Finance Asset Growth and Projection (US\$ Million)
 Source: ICD – Thomson Reuters, 2016

These IFIs and conventional financial institutions are operating in the same society. They are performing the same functions as expected by the market (Hanif, 2014). IFIs also serve as intermediaries between the deficit units/households and the saving surplus units (Ayub, 2007), but they are designed to comply with Islamic law (*Shariah*). Theoretically, financial institutions consist of commercial banks and other non-bank financial institutions (NBFI). Commercial bank is a financial institution that accepts deposits and provides loans (Mishkin, 2004); it is owned by stockholders and

engages in various lending activities to make profit (Gup, 2011). It plays the intermediation function between the fund user and the saving surplus units and provides checking facilities to investors/savers (Ayub, 2007). NBFIs, on the other hand, is a financial institution that does not have a full banking license and cannot take deposits from the public (Carmichael & Pomerleano, 2002). The examples are insurance firm, venture capital company, employer pension funds, pawnshop, microfinance institutions, and others. Like conventional financial institutions, IFI also consists of Islamic NBFIs and Islamic banks.

In the future, the presence of Islamic banks will be more significant because of their increasing contribution to the economy. In the Islamic finance industry, Islamic banks will likely be the main driver of growth, since their share will be increasing to 80% by 2021 from 73% in 2015 (ICD – Thomson Reuters, 2016). Prior studies have shown the contribution of Islamic banking to economic growth. A study by Farahani and Dastan (2013) using quarterly data from eight selected countries found that Islamic banks' financing is positive and significantly correlated with economic growth. Other studies, such as Daly and Frikha (2016), Grassa and Gazdar (2014), and Imam and Kpodar (2013), also found that Islamic banks have a significant contribution to economic growth of many Muslim countries. Therefore, it is interesting to discuss the presence of Islamic banks.

Generally, both conventional and Islamic banks have similar functions, but they operate in different ways. An Islamic bank is not a mere copy of a conventional bank (Hanif, 2014). An Islamic bank as part of the Islamic economic system has a goal to realize the purpose of Islamic Law (*Maqasid Shariah*) which should attain economic

wellbeing and justice (Chapra, 2005a; Chapra, 2008). One implication of this view is the availability of guidance in practicing Islamic banking, including prohibition of interest and usury in financial dealings, avoidance of *gharar* (uncertainty) in a business transaction, avoidance of *maysir* (speculation) or any game of chance, application of profit and loss sharing, and financing for only *halal* (permitted) business (Ayub, 2007; Hanif, 2014). Additionally, anything that is immoral and impermissible should be avoided (Nor, 2012). Although Islamic banks have different modes of financing compared to the conventional ones, both banks contribute to economic growth.

Islamic banks have contributed more significantly to economic growth than conventional ones. Gheeraert and Weill (2015) explain the reasons. First, Islamic banking system has the function to produce information about feasible investment to reduce investment project evaluation cost. Islamic banks that use profit and loss sharing schemes should have more drive to assess investment projects; so, they are expected to have a greater contribution in this manner. Secondly, the banking system has the function of pooling savings to reduce transaction costs in funds mobilization from various sources, as well as to reduce the cost of information to savers. The development of Islamic banks will increase the number of this type of savings from the devout Muslims that are reluctant to deposit their money in conventional banks. Subsequently, as Lebdaoui et al. (2016) added, economic growth which comes from an increase in assets of Islamic banks would have a lower risk because of *Shariah*-compliant banking products which may increase the stability of the banking system. As a result of these positive outcomes, Islamic banks have gained more attention from

regulators, institutions (Fang, 2016), academicians, and businesspersons in many nations.

1.1.1 Indonesian Context

Indonesia, as the largest Muslim country in the world, provides the seed for the growth of Islamic banking. Lebdaoui et al. (2016) asserted that the significant share of Muslim population could influence the presence of Islamic banking and the role of Islamic banks in stimulating economic growth. Their research was conducted in Southeast Asia, where Indonesia is one of the countries being studied. Not only is Indonesia the biggest Muslim country, it is also the fifth most populous country in the world (Central Intelligence Agency, 2016) with 262 million population (Badan Pusat Statistik, 2017), and 87.2% of the Indonesian population is Muslim (Central Intelligence Agency, 2016; Pew Research Center, 2015). Moreover, Indonesia by 2050 is projected to be the fourth biggest economy in the world (Hawksworth & Chan, 2015). Therefore, as predicted by Lawrence, Tan, and Mullarkey (2016), this country would have a significant role in the development of international Islamic banking industry.

In this respect, it is necessary to understand the condition of this industry in Indonesia recently. In this country, there are 13 *Shariah* commercial banks (full-fledged Islamic banks), 21 *Shariah* business units (Islamic windows), and 166 *Shariah* rural banks (Otoritas Jasa Keuangan, 2017c). The total assets of those banks are IDR 412 trillion,

or equal to approximately USD 30.5 billion. The composition is depicted in figure 1.3 (Otoritas Jasa Keuangan, 2018c).

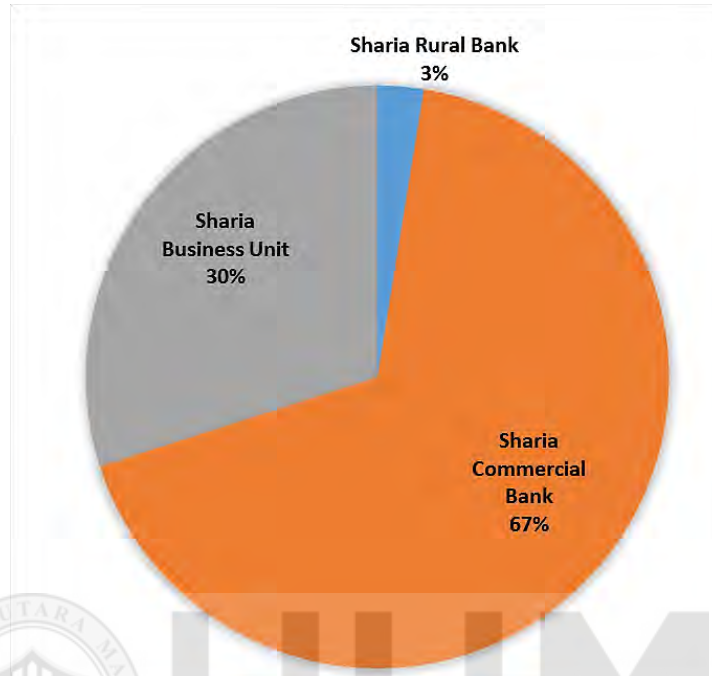


Figure 1.3
Total Asset Proportion of Indonesian Islamic Banks

Source: Otoritas Jasa Keuangan (2018)

Unlike *Shariah* commercial bank which is independent, *Shariah* business unit is a unit under conventional bank management that operationalizes business based on *Shariah* principles (Bank Indonesia, 2009b). Thus, this unit is subject to conventional bank policy as long as it does not conflict with *Shariah* principles. This condition is, of course, different from *Shariah* commercial bank which is a full-fledged bank; it has more flexibility in applying Islamic values in its strategy. Considering the larger portion of full-fledged Islamic banks in the Islamic banking industry, this kind of Islamic banks will be investigated further.

Figure 1.4 illustrates the full-fledged Islamic banks in Indonesia, the year of enactment, and their total assets in percentage. Islamic banks' market share in terms of asset is still around 5.42%, (Akbar, 2018). This fact indicates that there should be more effort for this industry to become a global player.

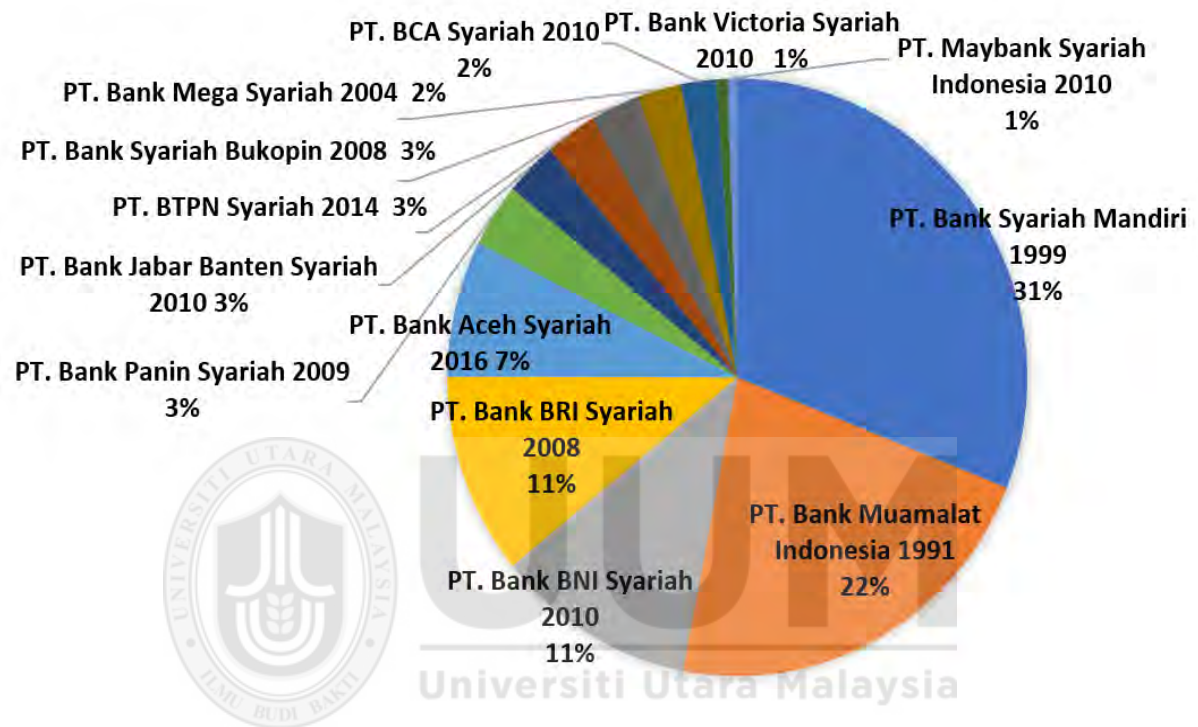


Figure 1.4
Total Assets of Full-fledged Islamic Banks

Source: Otoritas Jasa Keuangan, 2017

On the other hand, the Indonesian Government has shown its commitment to build this industry. Indonesian Financial Services Authority (known as Otoritas Jasa Keuangan or OJK) has envisioned Indonesian Islamic banks to have a significant contribution to sustainable economic growth, equitable development, and financial system stability, with a high degree of competitiveness (Otoritas Jasa Keuangan, 2015b). The Indonesian Government considers that this industry could attract foreign

investors' interest and become more meaningful part of Indonesia's financial industry (Lawrence, 2014). From a legal perspective, the Indonesia Government has issued laws about dual banking system that enable the implementation of Islamic banks along with the conventional ones, meaning that Islamic banks have a strong legal aspect (Ismal, 2011a). Therefore, Henry (2015) concluded that Indonesian Islamic bank institutions were set on a relatively stable foundation. Consequently, in line with its economic growth, huge population, better education, growing awareness among Indonesian Muslims and outlet distribution of Islamic banks (Darmadi, 2013), the future of this industry in Indonesia is promising.

1.1.2 Corporate Social Responsibility (CSR), Rhetoric, and Legitimacy

While the Government provides a conducive environment for the industry, every bank should strive to be accepted by their stakeholders to acquire organizational legitimacy. In an organization-stakeholder relationship, there is an implicit social contract between business and society (Brown & Deegan, 1998; Omran & Ramdhony, 2015). It is worth bearing in mind that the society would accept the presence of an organization to run a business, and in return the organization is asked to behave in accordance with the society's expectations (Branco & Rodrigues, 2006; Burlea & Titu, 2013; Dusuki, 2005; Guthrie & Parker, 1989; Kakabadse, Rozuel, & Lee-Davies, 2005; Mousa & Hassan, 2015). Hence, legitimacy refers to the theory related to perceptions of organizational behavior in alignment with social values, beliefs, rules, and norms (Brennan & Merkl-Davies, 2014; Marais, 2012; Sonpar, Pazzaglia, & Kornijenko, 2009). This concept is crucial to ascertain stakeholders' acceptance.

By cultivating legitimacy, an organization could attract resources, could be accepted by the market, and will be supported continuously by stakeholders (Sonpar et al., 2009; Tian & Gao, 2006). Consequently, the organization will become institutionalized in order to achieve long-term growth and sustainability (Colleoni, 2013; Cruz-Suarez, Prado-Román, & Prado-Román, 2014; Díez-Martín, Prado-Roman, & Blanco-González, 2013; Siwar & Hossain, 2009). For these reasons, legitimacy is critical for ensuring the organization's continued existence.

In order to achieve legitimacy, organizations should seek acceptance from the society by taking into account the interests of the society and prevailing social values. As organizations are striving to ensure their legitimacy, the impact of all of the corporations' activities on the welfare of the society becomes a major concern (Farook, 2007). Several studies show that to meet the society's expectations, CSR activities are indispensable (Castello & Galang, 2014; Deephouse, Bundy, Tost, & Suchman, 2017; Marais, 2012). For instance, Du and Vieira (2012) revealed that CSR practices in oil companies were aimed at achieving legitimacy. Kriyantono (2015) conducted research on 250 business and public relations practitioners from for-profit organizations and state-owned companies in Indonesia. He found that not only did CSR improve public relations credibility and reputation, it also resulted in legitimacy. Additionally, similar results were also found by Beddewela and Fairbrass (2016) and Bachmann and Ingenhoff (2016). Ali, Frynas, and Mahmood (2017) and Mousa and Hassan (2015) argued that within various theoretical perspectives, legitimacy theory is a dominant perspective in CSR studies. In the management literature, since CSR is considered as a tool to enhance legitimacy (Vollero, Palazzo, Siano, & Sardanelli, 2018), it has been

thoroughly studied (Castello & Galang, 2014). Therefore, CSR is an important tool for organizations to achieve legitimacy.

On the other hand, it should be understood that organizational CSR is not solely influenced by the public's expectations. If this does happen, and at the same time the society embraces loose moral values such as tolerance for corrupt behavior, then the organization could also behave in an immorally way (Dusuki, 2008). Thereby, the norms and values adopted by the society are not enough to be a guidance, since the determination of good and bad cannot rely on human reasoning alone (Dusuki & Abdullah, 2007). Despite the fact that organizations need to be guided by ethical and moral conduct in running their business, ethical and moral principles should derive from divine revelations that are more absolute, eternal, and enduring (Dusuki, 2008). In this context, since Islamic banks operate in Islamic majority societies, they are bounded with *Shariah* principles in their actions, in line with the society's expectations (Farook, 2007). Hence, organizations should refer to the teachings from the Qur'an and Sunnah as divine revelations to strengthen legitimacy. In the same way, CSR activities in Islamic banks should be inspired by *Shariah* principles.

Despite *Shariah* principles, CSR in Indonesian Islamic banking is implemented because of law and social requirements. According to the Indonesia Banking Act no. 21 of 2008 (Republik Indonesia, 2008a), apart from intermediary function, Islamic banks could engage in social activities by receiving and channeling social funds. Unlike other countries, referring to Act No. 40 of 2007 (Republik Indonesia, 2007a) regarding Limited Liability Company and Act No. 25 of 2007 (Republik Indonesia, 2007b) concerning Indonesian Investment Law, Indonesia has applied mandatory CSR

law (Sefriani & Wartini, 2017; Waagstein, 2011). This is the first country in the world that introduced mandatory CSR law (Rosser & Edwin, 2010). The socially responsible activities are also highly demanded by the society because of their religious identity (Hassan & Harahap, 2010; Mallin, Farag, & Ow-Yong, 2014), and this phenomenon align with 'social contract' theory which requires congruency of values between banks and Islamic societies. Apparently, Indonesian Islamic banks are endorsed by *Shariah* principles, law, and stakeholders' expectations to implement CSR programs.

Although an organization has met stakeholders' expectations, its legitimacy still can be eroded if it failed to communicate its social responsibility activities (Farook, Hassan, & Lanis, 2011), and society does not know what the organization did for them. The organization needs to communicate CSR activities in order to get attention, comprehension (Farache & Perks, 2010), and subsequent conviction from stakeholders that the organization has a commitment in fulfilling their expectations (Branco & Rodrigues, 2008). Consequently, if stakeholders are convinced that the organization's actions meet their expectations, the organization's legitimacy will be enhanced. In this respect, communicating CSR program is essential.

Because the message contained in CSR activities should be conveyed to the society, the rhetoric becomes important. Communication is the process where one individual (or a group of individuals) attempts to stimulate meaning in the mind of another individual (or a group of individuals) through intentional use of verbal, nonverbal, and/or mediated messages (Wrench, McCroskey, & Richmond, 2008). When the communication is performed by persuasion to alter the way others act, feel, or think, it is called rhetoric (Higgins & Walker, 2012; Kennedy, 2007; Simons, Morreale, &

Gronbeck, 2001). According to Kennedy (2007), rhetoric is the art of persuasion by words. Therefore, an organization must understand the rhetoric for delivering the message contained in the CSR program.

There are three primary forms of persuasive appeals in the rhetoric subject: *ethos* or appeals to the subject's character, *pathos* or appeals to the emotions of the audience, and *logos* or appeals to the reason (Castelló & Lozano, 2011; Kennedy, 2007). *Ethos* refers to a personal character, related to the credibility and trustworthiness of the speaker or communicator arising from goodwill, virtue, and wisdom (Piperopoulos, 2013; Waeraas & Ihlen, 2009). The word *logos* comes from Greek, which means logic (Murthy & Gosal, 2016). Communication with *logos* appeal means conveying messages clearly by logical reasons, using supporting evidence that includes examples, facts, numbers, and statistics (Jacobsen, 2006; Waeraas & Ihlen, 2009). Then, *pathos* is used when the communicator seeks to persuade the audience by affecting the audience's emotions and sympathy (Piperopoulos, 2013). It is conducted by understanding the desires, needs and values of the audience, and then delivering a message that touches feelings, both in the form of images and words (Higgins & Walker, 2012). Those three rhetorical devices are used in combination to persuade stakeholders.

Recently, scholars have also focused attention on the use of CSR rhetorical analysis. For instance, Brennan and Merkl-Davies (2014) explored the interactive communication between six MNCs firms that produce sportswear/fashion and environmental organization, Greenpeace. Greenpeace has reported the problem of toxic water pollution resulting from the release of hazardous chemicals by the textile

industry. Each firm used rhetorical strategy to persuade others of the legitimacy of a claim during a public controversy. In this case, rhetoric played a key role in acquiring legitimacy. Castelló and Lozano (2011) conducted research involving 93 firms in Spain and revealed that the use of rhetorical device is aimed at a different kind of legitimacy. A similar result was found by Marais (2012) in her research on 90 French listed companies. To sum up, considering the importance of legitimacy, CSR rhetoric can be employed.

However, most of the aforementioned studies were conducted in a Western setting, and none of those is related to contexts where Islam is dominant, particularly in an Indonesian context. It is important to note that research in the last three decades has demonstrated the limitations of universal applicability to Western management theories and practices, including CSR across all nations (Muniapan, 2014). This encourages the development of indigenous management theories through the identification of management theory and practice based on local conditions and socio-cultural factors. Visser (2008) argues that cultural traditions greatly influence the implementation of CSR, and in Asian countries, religion significantly influences culture. Thus, religious beliefs act as guidance to CSR practices (Visser, Tolhurst, Pohl, & Tolhurst, 2010). Since this study was conducted in Indonesian Islamic banking context, the experience and perspective of different individuals in this particular phenomenon were investigated.

In this way, the meaning of CSR is socially constructed within the context of Indonesian Islamic banking. According to Ozuem, Howell, and Lancaster (2014), this kind of research should be detached from the mechanistic Western perspective

prevailing in most extant literature. Since legitimacy, CSR and CSR rhetoric are driven by stakeholders' expectations and values, the social and cultural contexts in discussing this term are essential. Thus, compared to the previous studies commonly conducted in the West, this research is characterized by its Indonesian and Islamic settings.

Since such settings will influence stakeholders' expectations and values, the concept of legitimacy, CSR, and CSR rhetoric should be related to the contexts. Organization legitimacy can be achieved by conforming their activities to prevailing values and expectations of the society. As Ozuem, Howell, and Lancaster (2014) pointed out, numerous studies have noted that the understanding of CSR tends to be contextually bounded. Additionally, the way managers address CSR communication issues is based on their understanding and interpretation of such issues, which are dependent on the context and values systems around (Jysmä, 2014). Consequently, the experiences, background, and assumptions owned by individuals in charge of CSR activities and rhetoric issues contribute to reality construction. In this regard, people's subjective viewpoints and meanings they give to such issues are worth investigating. Therefore, in this study, the researcher focuses on understanding where the meanings are constructed within subjective experience (Bazeley, 2013). For this reason, the appropriate paradigm used in this research is interpretivism.

1.2 Rationale of the study

Various studies indicate that the small size of Indonesian banks' market share is not caused by a single factor. There is a problem with the Muslim community in responding to Islamic banks. This industry is experiencing a lack of understanding

among the Muslim community about the products, terms, and also *Shariah* banking principles (Ismal, 2011b; Iswanaji, 2018). However, according to Iswanaji (2018), this issue is not the most significant challenge inhibiting the growth of Islamic banks' market share. The other challenges are related to government policies, the lack of human resources, the understanding of some scholars regarding usury, and support from large Islamic organizations (Hidayat & Trisanty, 2020; Ismal, 2011b; Iswanaji, 2018). In other words, there is a problem with stakeholders' support.

Therefore, this issue cannot be viewed only from the customer's perspective. It should be understood in a broader context. The network relationships of banks and other stakeholders should receive more attention than just dyadic relationship between banks and customers (Hillebrand, Driessen, & Koll, 2015). In this regard, Hillebrand et al. (2015) argued that researchers should shift away from a narrow focus on customers toward a perspective of marketing that recognizes stakeholders' interconnectedness. Accordingly, Line (2013) pointed out that researchers increasingly recognize the need to take a stakeholder perspective. Thus, banks need to concentrate on establishing good relations with stakeholders to gain more acceptance. How banks manage their relationships with stakeholders is critical to comprehend. Likewise, how banks communicate their CSR activities to the stakeholders needs to be investigated further.

1.3 Problem Statement

In the context of Islamic banking, banks should embrace *Shariah* consideration in communicating CSR for the purpose of legitimacy, since it is a *sine qua non* for

enabling better access to resources, securing market acceptance, and maintaining stakeholders' support (Cruz-Suarez et al., 2014). Legitimacy can be achieved by adhering the organizational behavior to social norms, beliefs, values, and rules (Olsen, 2018; Suchman, 1995). According to Branco and Rodrigues (2008), communicating to stakeholders by using CSR rhetoric is needed to convince them that organizations commit to fulfilling stakeholders' expectations beyond legal requirements (Carroll, 1979). For this reason, issues pertaining to legitimacy, CSR definition and CSR rhetoric in Islamic perspective need to be investigated. Since this issue in Indonesian Islamic banking context is novel, thus, the phenomenon is not well understood. Consequently, qualitative research is employed. There are four issues that need to be addressed in this study.

Firstly, pertaining to the legitimacy of Islamic banks, the findings of previous studies suggest that more efforts are needed to achieve legitimacy. Dusuki (2007) demonstrated that despite the balance between social commitment and profit, stakeholders are keen that Islamic banks should follow the *Shariah* guidelines in carrying out their operations. So, there is no doubt about the legitimacy of the Islamicity of the bank. However, Haniffa and Hudaib (2007) found the high deviation between the ideal Islamic ethical identity and the content communicated on certain dimensions. They found the largest incongruence in the dimensions of vision and mission statement; information about top management; contribution and management of zakat, charity and benevolent loans; and commitments to society.

Their findings are surprising because Islamic banks, as social and economic institutions, were expected to communicate more on those dimensions to reflect

accountability and justice not only to the society but also ultimately to God. Islamic banks are presumed to communicate more on the Islamic values to ensure the congruency between *Shariah* ethical benchmarks and their rhetoric in the annual report. Likewise, Hassan and Harahap (2010) stated that some Islamic banks put little effort into disclosing their CSR activities to reflect accountability and justice publicly as a means to gain stakeholders' confidence and trust. Sairally (2013) who studied 46 Islamic financial services organizations worldwide revealed similar findings. She noted that CSR was practiced as a peripheral activity as opposed to being an integral, well thought-out and deliberate policy decision of management.

In Indonesian Islamic banking situation, a similar result was also found by Darus et al. (2014). They identified the indication of legitimacy threat in Islamic banking, because of failure in fulfilling society's expectations. This case can result in infringement of social contract that can cause legitimacy gap. In accordance with this case, Amran et al. (2017) highlighted the lack of the role of Indonesian Islamic banks in the development of underprivileged social strata, protecting the needs of the society and promoting social welfare. This conclusion, which is consistent with earlier findings (Haniffa & Hudaib, 2007; Hassan & Harahap, 2010; Sairally, 2013), indicates the prevalent issue about legitimacy in Islamic banking. The gap identified is that there are no sufficient knowledge and efforts on legitimacy as perceived by the Indonesian banks especially from the managers' perspective. Therefore, this research looks further into this matter.

Secondly, CSR definition in this context needs to be understood. According to Visser (2008), CSR is practiced and perceived differently due to different economic and

social contexts. There are many definitions offered by scholars. In this sense, Golob and Podnar (2014) argued that there is no generalizable CSR concept that is independent of these time-context dynamics. Accordingly, the suitable definition of CSR in Islamic context is needed. Although, there are several authors offering the definition (e.g., Khurshid et al., 2014; Bahari & Yusuf, 2014; Yusuf, 2017), however, there is no recent definition based on the latest development. Therefore, it is necessary to offer a new definition of ICSR based on the current definition widely accepted in the industry but with an Islamic perspective. Otherwise, CSR implementation will not be effective in achieving legitimacy. This study fills this gap by examining the most legitimate definition, and reviews it based on Islamic perspective.

Thirdly, CSR rhetoric studies mostly conducted in the Western context have overlooked the distinct features of legitimacy in Indonesian Islamic banking. Past studies about CSR rhetoric were mostly conducted in advanced countries (e.g. Brennan & Merkl-Davies, 2014; Devin, 2014; Gauthier & Kappen, 2017; Marais, 2012; Vollero et al., 2018). So far, however, no research focuses on the use of this concept in Indonesian Islamic banking. In addition, because this study is not context-neutral (Mukhopadhyay & Gupta, 2014), the perspectives of professionals practicing Islamic banking should be understood. Previous studies were conducted in countries with different socio-cultural and religious backgrounds from Indonesia. Findings from studies with different settings cannot be adopted immediately because each situation requires different assumptions. Thus, contextual inquiry is needed to obtain clarity and to capture a more genuine meaning of this issue. Since there has been no research in Indonesian Islamic banking context, this research fulfills the gap.

Lastly, this study fills methodological gap. It has been elucidated that legitimacy is related to CSR rhetoric, and the aforementioned studies have indicated the lack of legitimization effort from Islamic banking in the world, including in Indonesia. However, the previous studies in this field mostly employed positivism stance (e.g., Darus et al., 2014; Dusuki, 2007; Hassan & Harahap, 2010; Sairally, 2013), which holds the view that reality exists "out there" (Merriam, 2009); the investigator and the investigated "object" are assumed to be independent entities (Guba & Lincoln, 1994). They used positivism approach to investigate this phenomenon and overlooked the use of interpretivism approach which sees reality from the perspective of the players engaged in this case and constructing meaning from their experience (Crotty, 1998). According to Ponterotto (2010), by listening to the voices of actors in the field, the phenomenon can be understood clearly. Therefore, the issue of what legitimacy in Islamic banks is and how the decision is made in conducting CSR rhetoric have not been documented from the perspective of managers in Islamic banks in Indonesia. This poses a limitation because the positivism approach does not consider the perceptions of the practitioners in the field. As such, the voices of the practitioners could not be heard, and market practices could not be integrated. Thus, this study fills this gap.

1.4 Research Questions

Based on the aforementioned gaps, the primary question of this research is how CSR rhetoric can be used to achieve legitimacy in the Indonesian Islamic banking context. Based on this central question, the following sub-questions are developed.

1. What is legitimacy of Islamic banking as perceived by the bank managers?

2. How do bank managers perceive definition of CSR from Islamic perspectives?
3. How is CSR rhetoric used to attain the legitimacy of Indonesian Islamic banks?

1.5 Research Objectives

The overall objectives of the present study are as follows:

1. To find out the perceptions of bank managers about their knowledge and efforts on legitimacy of Islamic banking.
2. To explore a more comprehensive definition of CSR from Islamic perspectives as perceived by Islamic bank managers.
3. To investigate the use of CSR rhetoric in attaining legitimacy of Islamic banking in Indonesia by using interpretivism approach.

1.6 Scope of the Research

The profile of Indonesian Islamic commercial banks, as described in figure 1.1, indicates that BSM (Bank Syariah Mandiri) has the biggest market share, although it is younger than BMI (Bank Muamalat Indonesia). BMI is the first Islamic bank in Indonesia, founded in 1992, followed by the establishment of BSM in 1999, after Indonesia monetary crisis 1998. It means that BSM has better performance compared to BMI and other younger banks. Both banks are controlling 53% of the market share of Indonesian Islamic banks. The research was conducted in BSM and BMI, which are based in Jakarta, Indonesia. Managers in charge of this matter were interviewed. They were located in the headquarter office, Jakarta. The secondary data is also used to complement the primary data.

This research is based on the ontology that reality is constructed by managers who engage in planning and implementing CSR rhetoric in the organization. Considering the nature of this study which emphasizes the conceptual rather than technical aspects, the managers interviewed deal with this issue, ranging from top management positions to supervisory level at the headquarter. Meanings toward reality are constructed by those involved in the social reality that they interpret (Crotty, 1998). Social reality is constructed by managers involved in CSR rhetoric. They interpret their surroundings and make meanings based on their understanding of Islamic values. Therefore, the reality is considered subjective, and consequently, there will be no single reality, but multiple realities. Hence, this study employs interpretivism paradigm.

According to Merriam & Tisdell (2016), to understand abstract concepts, we need a process that can assist in collecting, sorting, managing and interpreting findings to understand the case that is based on research objectives and questions. In this vein, case study research is used to investigate a particular issue (Merriam & Tisdell, 2016) or phenomenon of interest over a period of time, which is currently deficient in the literature (Kurnia, Karnali, & Rahim, 2015). However, considering that more than one case is studied, this research uses multiple case study method. In this matter, more than one case is studied to investigate a general condition, phenomenon, or population in order to gain a deeper understanding through stronger explanations and descriptions (Creswell, 2012, p. 45).

The subjects in this research are managers in BSM and BMI who are involved in managing CSR rhetoric. The informants were selected based on their knowledge and competence in this matter. Information was gathered by interviewing the informants

who are in charge of CSR activities in the bank. Interviews were employed as they could capture first-hand information from the subjects of the study. The collection of documents allowed the researcher to complement and verify the interpretation of statements made by interviewed informants. This activity is needed for the triangulation of data, a technique used to increase reliability through a collection of data from multiple sources (Merriam, 1998, p. 207; Merriam & Tisdell, 2016, p. 244). Additionally, reviews of experts were conducted to validate the data. These experts are people with considerable experience in the industry and have extensive knowledge.

1.7 Significance of the Study

This study contributes to the existing literature on CSR in terms of theoretical, practical, and methodological aspects.

1.7.1 Theoretical significance

The present research adds the existing literature on CSR as follows. First, it has been understood that an organization can be legitimate when its behavior is in line with stakeholders' expectations and values. Unlike most previous studies which were held in Western contexts, in this regard, the values held by stakeholders are Islamic values. Therefore, understanding legitimacy through an Islamic perspective on the banking industry in Indonesia needs to be done through the lens of actors in the field. This effort will make a theoretical contribution.

Second, this research advances the current body of knowledge about CSR by introducing Islamic values to organizations that employ CSR in seeking legitimacy.

By drawing on legitimacy theory, the study investigates how Islamic banks explore ideas alluded to this theory and uses the findings of this research to offer an explanation about employing Islamic CSR to achieve legitimacy in Islamic bank. Previous studies were mostly conducted in Western contexts, whereas there has been no similar research in an Islamic context.

1.7.2 Practical significance

This study provides empirical evidence on how to operationalize the CSR rhetoric in legitimizing Indonesian Islamic banks. To the best of the researcher's knowledge, this is the first study on this topic. Most prior research implicitly considers rhetorical analysis to examine legitimation processes (e.g., Castello & Galang, 2014; Devin, 2014; Erkama & Vaara, 2010; Harmon, Green, & Goodnight, 2015) in Western and Asian countries, but the research does not specifically use Islamic perspective. This study may enrich the existing literature on the CSR rhetoric in the Islamic bank context. Therefore, this study has a practical significance to the practice of CSR rhetoric conducted by Islamic banks.

Practically, this study assists Islamic banks in systematically understanding how Islamic values can be embedded into CSR policies. In this research, two oldest banks were selected based on the assumption that they have more experience. The knowledge generated from their experience is expected to be obtained and understood systematically so that other Islamic banks can apply it. Thus, banks can consider the results of this study in order to increase their legitimacy in the eyes of their stakeholders.

By understanding the types of legitimacy, management can systematically assess the legitimacy that must be considered for the survival of the organization. There are four kinds of legitimacy, namely cognitive, moral, regulatory and pragmatic (Deephouse et al., 2017) . This study explains how legitimacy is applied contextually. The lesson learned from this study can be used as a guide for managers to achieve legitimacy. Research on this topic has been carried out by Marais (2012) and Devin (2014) in Western society. The understanding of the application in different contexts can be used as a reference for managers in making decisions in this matter.

1.7.3 Methodological significance

In terms of methodological aspect, most of the research on this topic tends to be quantitative in nature (Brennan & Merkl-Davies, 2014; Castello & Galang, 2014; Castelló & Lozano, 2011; Erkama & Vaara, 2010; Harmon et al., 2015). On the other hand, Devin (2014) employed qualitative method, more specifically a case study method. Although she used the case study method, her study is based on the post-positivism paradigm. According to Hyett, Kenny, and Dickson-Swift, (2014) and Yazan (2015), there are two theoretical perspectives used in the qualitative case study. The first is the post-positivism paradigm as explained by Robert K. Yin (1981, 2003, 2004, 2011), Bent Flyvbjerg (2006, 2011), and Kathleen M. Eisenhardt (1989). The second is the interpretivism paradigm as explained by Robert E. Stake (1978, 1995, 1998) and Sharan B. Merriam (1998, 2009). This study uses the interpretivism paradigm since this case should be understood through the lens of actors involved in this matter. Hence, to the best of the researcher's knowledge, this is the first research in this field that employs a case study design with interpretivism paradigm.

1.8 Organization of the Thesis

This thesis is organized as follows. Chapter one presents the background of the study, problem statement, research questions, research objectives, the scope of the research, the significance of the research, and organization of the study. Chapter two explains the literature review concerning underlying theories of legitimacy, rhetoric theory, and CSR in Islamic perspective. Chapter three describes the methodology of the research, including ontology, epistemology, paradigm, sampling, data collection, data quality, and data analysis. Chapter four outlines the data analysis and interpretation. Last, chapter five presents discussion and conclusion.

1.9 Definition of Key Terms

1. Islamic bank : A bank which is conducting business based on the *Shariah* principles (Republik Indonesia, 2008b).
2. Legitimacy : A generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed systems of norms, values, beliefs and definitions (Suchman, 1995).
3. CSR : Responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that (1) contributes to sustainable development, including health and the welfare of society; (2) takes into account the expectations of stakeholders; (3) is in compliance with applicable law and consistent with international norms of behavior; and (4) is integrated throughout the organization and practiced in its relationships (International Organization for Standardization, 2010).

4. Stakeholder : Any group or individual who can affect or is affected by the achievements of the organization's objective (Freeman, Wicks, & Parmar, 2004).
5. Rhetoric : The art of persuasion by words (Kennedy, 2007).
6. *Ethos* : Appeals to the subject's character (Castelló & Lozano, 2011; Kennedy, 2007).
7. *Pathos* : Appeals to the emotions of the audience (Castelló & Lozano, 2011; Kennedy, 2007).
8. *Logos* : Appeals to the reason (Castelló & Lozano, 2011; Kennedy, 2007).
9. Qur'an : The word of Allah revealed only to the Prophet Muhammad (Habib, 2018).
10. *Hadith or sunnah* : The sayings of the Prophet, his practices, his acts and conducts, whatever he approved (Habib, 2018).
11. *Shariah* : Also called the Islamic law, which dictates specific dos and don'ts related to all aspects of a Muslim's life, including commercial and financial transactions (Habib, 2018).
12. *Maqasid Shariah* : Objectives of the *Shariah* aimed at promoting the well-being of the people, which lies in safeguarding their faith (*din*), the human self (*nafs*), intellect (*aql*), posterity (*nasl*) and wealth (*mal*) (Chapra, 2008b).
13. *Ijtihad* : The exertion of effort in finding a ruling on something not mentioned clearly, according to certain known methodology (Al Qardawi, 2000; Kamali, 1991)
14. *Fatwa* : *Shariah* opinion presented to a person who seeks it with regard to an incidence that has already occurred or is expected to occur (Ginena & Hamid, 2015).

15. *Muamalat* : *Shariah* law relating to human relations (Tarmizi, 2018).
16. *Fiqh muamalat* : Islamic rules on financial, business and economic activities (Ishak & Asni, 2020).
17. *Ibadah* : Ritual performances or acts of worship (Kamali, 2003).
18. *Khilafah* or vicegerency : Confers on human beings, individually and collectively, the mission and responsibility to build the earth and harness its resources with moderation and care for its ecological balance (Kamali, 2012).
19. *Falah* : Welfare in this world and the hereafter (Ayub, 2007).
20. *Zakat* : Compulsory charity imposed on Muslims who own above a certain minimum level of wealth (Habib, 2018).
21. Triple bottom line : Framework that captures the significance of economic, social and environmental factors. It commonly expressed by 3Ps formulation: people, planet, and profit (Elkington, 1997).
22. Sustainable development: Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland, 1987).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In Indonesian Islamic banking, CSR is conducted because of public expectation, motivation from *Shariah* principles, and legal reasons. The coherence between stakeholders' expectations and an organization's activities is required for the organization's legitimacy. Since CSR cannot be understood by stakeholders unless it is communicated in an appropriate manner, accordingly, CSR rhetoric is needed to enhance legitimacy. Subsequently, considering that the Indonesian Islamic banks operate in a Muslim society, CSR rhetoric to acquire legitimacy should be understood by examining its theoretical guidance using Islamic perspective. This chapter discusses legitimacy, CSR, and rhetoric theories, as well as the explanation in Islamic context.

2.2 Legitimacy Theory

What legitimacy is and why this theory is important need to be understood in the context of organization and management. Legitimacy is one of the main institutional theories since an organization must be well institutionalized to ensure successful performance (Cruz-Suarez et al., 2014). Jahn, Eichhorn, and Brühl, (2017) asserted that it is the central construct of institutional theory. Current literature (Deephouse et al., 2017; Gauthier & Kappen, 2017; Prado-Román, Díez-Martín, Blanco-González, & Prado-Román, 2018) shows that the most commonly used definition of legitimacy is the one from Suchman (1995). According to him, legitimacy is “a generalised

perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (p. 574). In the same meaning, Czinkota, Ruediger, and Basile (2014) define legitimacy as “a state of congruence towards laws, rules and social values” (p. 92). Legitimacy theory states that stakeholders’ recognition toward organizations’ existence greatly depends on their contribution to the society (Castelló & Lozano, 2011). For this reason, various organizations made adjustments in their policies, behavior, and processes to adhere to stakeholders’ expectations (Czinkota et al., 2014; Olsen, 2018). In order to perform well, organizations cannot ignore legitimacy issues.

Legitimacy is one of the most discussed theories in the field of organization and strategic management. It is the core concept of organizational institutionalism theory¹ that influences how organizations behave in pursuing sustainability and performance (Deephouse et al., 2017; Harmon et al., 2015; Tang, 2017). Organizational institutionalism theory is one of the theories that is used in the strategic management field (Garrido, Gomez, Maicas, & Orcos, 2014; Tang, 2017), and one of the main topics for organization research which has been widely discussed in the literature (Devin & Bartlett, 2012, p.19; Duff, 2017, p.3; Garrido et al., 2014, p.82; Marais, 2012, p.244; Palazzo & Scherer, 2006, p.73; Vergne, 2011, p.484). According to this theory, the absence of legitimacy will result in socio-economic consequences because most stakeholders are only willing to transact with legitimate organizations

¹ Tang (2017) & Garrido et al. (2014) explain that the strategic management field consists of three pillars, namely industry based view, resource based view and institutional based view. In the 1980s the Strategic Management field was conditioned by an industry-based view, and the 1990s was the decade of a resource-based view of the company. In recent decades, the institution-based view has become a leading perspective (Garrido et al., 2014).

(Deephouse et al., 2017). Therefore, as organizations depend on their stakeholders, obtaining legitimacy is imperative.

The importance of legitimacy in organization and management is theoretically grounded and empirically corroborated. Legitimacy is pursued since it is a necessary condition for organizations to access market and resources, which are very important to achieve long-term sustainability and growth (Colleoni, 2013; Cruz-Suarez et al., 2014; Díez-Martín et al., 2013; Siwar & Hossain, 2009). Therefore, some authors consider that legitimacy is a key element for organizational survival (Cruz-Suarez et al., 2014). Previous studies (Cruz-Suarez et al., 2014; Díez-Martín et al., 2013; Prado-Román et al., 2018) confirmed that organizations with more legitimacy can obtain better organization results. The organizations which survive the longest are the ones which best adjust to the pressures from interest groups, act in an ethical way, and display stability in the process of seeking competitive advantages (Prado-Román et al., 2018). Such a phenomenon has expanded legitimacy studies in a variety of fields.

There has been much legitimacy research in the area of strategic management and other areas as well, because it has been widely adopted in practice. Interest in the study of legitimacy has extended into strategic management literature given the possibility of improving legitimacy in order to achieve organizational goals (Cruz-Suarez et al., 2014). As Prado-Román et al. (2018) added, the concept of legitimacy has aroused great interest among the scientific community because it allows for better understanding of the behavior of organizations and their stakeholders. The research, investigating organizational legitimacy with the period of five years, found that seeking legitimacy orientation has dominated corporate sustainability management

practices (Schaltegger & Hörisch, 2015). This topic is gaining popularity not only in organization and management field, but also in related fields including sociology, psychology, political science, and philosophy (Suddaby, 2013).

2.2.1 Types of Legitimacy

There are four types of legitimacy: regulatory, normative, cognitive and pragmatic (Cruz-Suarez et al., 2014; Deephouse et al., 2017). Regulatory legitimacy is associated with meeting the standards set by law and regulation. Cognitive legitimacy is associated with the acceptance of broadly taken-for-granted assumptions available through cultural models which provide reasonable explanations for the organization's actions. Normative or moral legitimacy is associated with the appropriateness of the organization's activities to the society's values and norms. Finally, pragmatic legitimacy emerges from the interests of the organization's stakeholders when the activities undertaken by the organization are in line with the stakeholders' interests.

2.2.2 Legitimacy in Islamic Perspective

Furthermore, within the growing acceptance of research and practices of CSR where organizations are surrounded by assessments regarding appropriate processes in undertaking multiple interests, moral issues emerge. In this regard, moral is understood as a positive normative evaluation of the organization and its actions, reflecting a prosocial logic that is basically different from narrow self-interest (Suchman, 1995). Legitimacy takes place in the socially constructed system of norms, values, and beliefs. Then, stakeholders consider that organization activities conform

with their interest (Brennan & Merkl-Davies, 2014). Thus, to be accepted by stakeholders, corporate behavior should be in accordance with stakeholders' interests.

Notwithstanding, ethical values which are based on stakeholders' interests are problematic. This view has been criticized for lacking a foundation of credible and ethical principles (Laplume, Sonpar, & Litz, 2008). Since the legitimacy of organization rests upon the public's perception alone, they inevitably need to alter their behavior according to how the society expects them to behave (Dusuki, 2008). Consequently, as stated by Dusuki (2008), if the organization considers that local values are respected by giving concessions to moral values such as corruption, then the organization faces a dilemma because of the absence of absolute principles of ethical or moral conduct to guide social responsibility. In light of this, the adoption of the divine guidance that is more endurance and absolute is required.

While in the Western perspective moral legitimacy is based on values that are recognized by its stakeholders, Islam has a different perspective. Suchman (1995) argued the nature of moral legitimacy resulted from normative assessment of the organization and its actions by stakeholders. Those stakeholders evaluate the issues like openness to others, diversity, humanism, respect, and global responsibility (Marais, 2012). Accordingly, the term moral legitimacy in Western perspective can be referred to the relationship between human; in Islamic term, it is called *hablun minannas*. Whereas in Islamic context, it should include the relationship between humans and Allah (*hablun minallah*) (Muhamad, Sukor, & Muwazir, 2008; Muhamad et al., 2008). The terms *hablun minallah* and *hablun minannas* are mentioned in Al Qur'an 3:112. "and, unless they hold fast to a lifeline from Allah (*hablun minallah*)

and from mankind (hablun minannas), they are overshadowed by vulnerability wherever they are found.” This means that in Islamic point of view, two kinds of relationships are a prerequisite for a better life in this world and the world after. Therefore, legitimacy should contain a divine nature, which is not recognized by the previous studies.

It is important to note that managers who believe in God will behave according to His values. Schwartz (2006) explains three rational reasons. First, for managers who admit that God has power, the managers should be less willing to act immorally since they are aware that God is monitoring thoughts and behavior. Second, the belief that God is beneficent and merciful will assume that whatever God says will be in line with the managers' values. Third, the belief that God is always watching will create awareness that there will be consequences for inappropriate behavior whether in this world or in the day after. Thus, in the context of Indonesian Islamic banking, it is necessary to understand the legitimacy which is based on the belief in Allah. In this way, *Shariah* legitimacy is worth noting. *Shariah* is an ethical way of life that Allah has addressed to mankind to secure the success (*falah*) of creation in this world and the next (Ginena & Hamid, 2015; Kamali, 2008). *Shariah* legitimacy can be acquired by conforming all the activities and operations to the *Shariah* principles in letter and spirit. It refers to the compliance of operations and activities with the precepts of *Shariah* in terms of the pronouncements and their implementation, requisites of various contracts, as well as, fulfillment of the welfare and socio-economic justice objectives (Chapra, 1985; Khaleequzzaman & Rashid, 2016). Consequently, to attain *Shariah* legitimacy, not

only do Islamic banks follow the injunctions written in Qur'an and Sunnah, but they also take into account the purpose of those injunctions.

The awareness of the existence of Allah can be regarded as the main consideration for managers in Islamic banks to behave in a *Shariah*-compliant way, as the foundation for the legitimacy. *Shariah* legitimacy can be obtained if Islamic banks follow the ethical values derived from the guidance of Qur'an and Sunnah (Khaleequzzaman & Rashid, 2016). This kind of legitimacy is not restricted to the compliance of Islamic bank operations toward the procedures approved by the SSB (*Shariah* Supervisory Board)², but more than that, it should follow the Islamic economic philosophy of promoting justice, equitable income distribution, economic well-being, individual freedom, and universal brotherhood (Chapra, 1985; Chapra, 2005; Khaleequzzaman & Rashid, 2016). Those purposes are formulated by conducting comprehensive scrutiny to the texts of Qur'an and Hadith. The set of main purposes intended in Qur'an and Sunnah texts is called *Maqasid Shariah* (Taman, 2011).

2.2.2.1 Maqasid Shariah

The term *Maqasid Shariah* consists of the word *Maqasid*, or purpose, intent, objective principle, goal, end, or wisdom, and *Shariah* (Auda, 2007; Lamido, 2016). *Maqasid* is the plural form of *maqсад*, a word that conveys a number of meanings, including: 1) to aim at something, to come to it, to head towards it; 2) straightness of a path; and 3) justice, moderation and avoidance of excess (Laldin & Furqani, 2013). *Shariah* is a

² *Shariah* Supervisory Boards (SSB) is the oversight bodies in Islamic bank that are responsible for ensuring the *shariah* compliancy of banking services, products and operations (Bank Indonesia, 2007).

revealed divine law that encompasses all aspects of the faith and belief system (*aqidah*), the relationship between human and Allah (*ibadah*), the relationships between human (*mu'amalah*), and morality system (*akhlaq*) (Laldin & Furqani, 2013). It represents a body of Islamic religion that constitute a set of laws, values, and norms that govern all aspects of life (Laldin & Furqani, 2013), including social, political, economic and cultural matters.

While it is understood that the behavior and attitude of Muslims should be based on the Qur'an and Sunnah, the understanding of *Maqasid Shariah* is more than that. It covers the purpose and philosophy of these texts, and the understanding of the texts is often beyond the written words (Kamali, 1991). In other words, *Maqasid* is the purposes, objective or wisdom behind Islamic rulings (Auda, 2007, 2008). Accordingly, the focus is not solely on the letters and words of the Qur'an and Sunnah, but on the aim of the texts revealed (Kamali, 2008).

Essentially, the aim of *Maqasid Shariah* is to realize the benefits for humankind in various ways. *Maqasid Shariah* is based on the thinking that all rules and legislation are aimed to actualize a benefit, prevent some harms, or free ones from some evil or transgression (Al-Qahtani & Krause, 2015). That is to say, the objective of the *Maqasid* is not valid unless it results in the fulfilment of benefits to humanity (*maslahah*) or avoidance of all forms of harm (*mafsadah*) (Auda, 2008). *Maslahah* is understood as the common good, benefit, public interest or interests of human beings in the world and the hereafter (Kamali, 2008; Rauf, 2015). *Maslahah* is discovered not through a free exercise of reason or intuition, but as a result of an inductive exegesis of the texts (Weiss, 1978). This process is performed by deriving the rules, policies of

the text of Quran and Sunnah to ensure that rules, policies, and managerial decisions are based on rational considerations and cannot be separated from divine guidance. This phase is conducted to attain the success (*falah*) of creation in this world and the next (Ginena & Hamid, 2015).

To conclude, while legitimacy is needed to enable an organization's long-term sustainability and growth, in Islamic perspective it should be based on human-Allah relationship (*hablun minallah*), which is absent in the previous studies. This is the basis for moral measures that are not solely based on stakeholders' perception. In this respect, the term *Shariah* legitimacy is introduced. It is the concept where all activities and operations of organizations must be conformed to *Shariah* not just in text, but also in spirit, which should take cognizance of *Shariah* in order to achieve *falah*.

2.3 Corporate Social Responsibility

Recognizing the importance of CSR in enhancing legitimacy and the growing number of companies applying CSR programs, the definition of CSR needs to be discussed. There are an increasing number of firms developing legitimacy initiatives by conducting CSR programs (Cruz-Suarez et al., 2014), since it is often regarded as one of the best way for businesses to address social problems and maintain legitimacy (Schultz, Castelló, & Morsing, 2013). Numerous studies demonstrate that CSR activities are indispensable in achieving legitimacy (Castello & Galang, 2014; Deephouse et al., 2017; Marais, 2012). In light of this, it is crucial to understand the CSR term.

While CSR idea was practiced in business for centuries, the formal writing has been initiated in the first half of 20th century, and then developed into an intense debate. CSR academic discussion was initiated by Howard Bowen (Acquier, Gond, & Pasquero, 2011; Beall, 2014; Carroll, 2016), where he incorporated the notion of CSR into the body of academic literature (Hack, Kenyon, & Wood, 2014). He was celebrated as the founding father of the CSR concept (Acquier et al., 2011; Carroll, 1999). The main idea of Bowen's book is that firms are the vital centre of power and that firms' actions impact on the lives of the population in various ways (Bowen, 2013). He argued that social responsibility is not a panacea for all businesses' social problems, but it contains an important truth that must guide business in the future and tries to answer whether or not businesses have social responsibility. He asserted that the social responsibility of businessmen "refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 2013, p. 6). This first definition was followed by numerous refinements that specified and further developed the concept of CSR (Arena, Azzone, & Mapelli, 2018). To illustrate, after analyzing 762 selected articles, Wang (2015) revealed the increasing number of definitions. Likewise, Sarkar and Searcy (2016) found 110 definitions of CSR that was drawn from books and articles published in 1953-2014.

Wang (2015) and Sarkar and Searcy (2016) conducted literature review on CSR. In his research, Wang (2015) identified four perspectives on CSR definitions. They are management, environment management, marketing management, and stakeholder relations management. Additionally, Sarkar and Searcy (2016) explained the evolution

of the conceptual dimensions in CSR definition. They focused on the published CSR literature and divided it into three periods. In the first period (1953-1982), the CSR definition contains themes regarding "corporate obligations beyond their core economic goals" and "meet social obligations towards their employees and the wider society voluntarily". In the second period (1983-2002), they revealed the emerging of three dimensions in CSR definitions: "stakeholders", "environmental", and "sustainable". In the third period (2003-2014), they clustered various dimensions of CSR and identified the pattern of relationships that lead to the triple bottom line concept. Hence, CSR definitions have been studied extensively.

While this concept is progressively reviewed and discussed in the academic field and in various practical sectors, it is not free from criticism. Friedman (1970) vehemently opposed this concept. According to him,

... there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

His approach to CSR was updated by Henderson (2004), emphasizing that the primary role of business in the modern world is as an agent of economic progress and to pursue profitability, while CSR is seen as an effort to change the way the market operates by forcing corporations to give unnecessary attention to public welfare. Managers should do whatever is legal in order to maximize shareholder value (Wan-Jan, 2006). On the contrary, although it is understandable that any organization should conform to the law, their argument seems to be flawed (Kowalski, 2016). It must be understood that the design of current institutions is the result of reaction to social need, and the delay

between the social change issues and legislation to undertake such issues is inevitable (Falck & Heblich, 2007; Kowalski, 2016). While business could act quickly and decisively to anticipate social changes, the state institutions could not do that (Falck & Heblich, 2007). Additionally, due to increasing global presence of the firms, they have to operate in different geopolitical contexts (Misani, 2017). Consequently, they are no longer subject to just one national regulation (Falck & Heblich, 2007). For those reasons, organizations should behave beyond legal compliance to anticipate external changes in diverse contexts.

The thought that firms should behave not merely complying with the minimum requirements of the law in profit seeking, is empirically supported. Carroll (2015) claimed that CSR is an important concept that has been applied worldwide where firms are expected to do more than making money and obeying the law. Many studies have supported the idea of CSR (Arena et al., 2018). The opponent of this concept stated that because of the differences in theoretical orientation and assumption, corporate managers could not pursue CSR and corporate financial performance (CFP) simultaneously (Lee, 2008). In relation to this statement, Margolis and Walsh (2003) investigated 127 published studies between 1972 and 2002. They found that more than half of the result (54%) indicated a positive relationship between CSP (corporate social performance) and CFP, and only 5% showed negative association. Orlitzky, Schmidt, and Rynes (2003), who conducted a meta-analysis of 52 studies with a total sample size of 33,878, found that CSP and CFP have a positive association. Similar results have also been demonstrated by most of the current studies (Flammer, 2013; Hasan, Kobeissi, Liu, & Wang, 2016; Vishwanathan & Duran, 2018). Then, the debate about

CSR has shifted in the sense that it no longer focuses on discussions about what CSR is and whether or not corporations should become socially responsible; it is now centered on how to be socially responsible (Wan-Jan, 2006). Schaltegger and Hörisch (2015) emphasized that, in legitimacy-seeking view, the congruency between organization and social objectives is necessary. Thus, organization should deal with sustainability.

Recently, this view is embraced by many practitioners in the world. CFA Institute (Association of International CPA, 2018; CFA Institute, 2017) has surveyed 1,588 executives globally. It found the growing recognition that businesses rely on a broader set of resources and relationships. The importance of stakeholders other than customers and investors is growing significantly. Across all regions, the majority of executives, 89%, agreed that organizations need to shift their focus to wider value creation. Considerations such as customer satisfaction, value created for society and co-creation of value through other external relationships are becoming more important to future success.

In line with the increased public attention to CSR, for several reasons, there are wide-ranging CSR studies. An increasing number of studies reported that the social responsible behavior should be used strategically as it could be a source of competitive advantages (Camilleri, 2019). Business organizations, scholars, practitioners, international organizations, governments, and NGOs have taken into account issues that surround CSR seriously as a strategic theme for business managers that makes CSR a popular topic of research for academics in different disciplines (Arena et al., 2018; Idowu, 2018; Vollero et al., 2018). The proliferation of CSR

thought and practice in the last three decades indicates the progressive rationalization of the CSR concept because more managers are convinced that CSR can positively influence the financial performance of corporations (Farrington, Curran, Gori, O’Gorman, & Queenan, 2017; Lee, 2008; Moratis, 2015). The extensive use of this notion means that CSR is not only rationalized, but also institutionalized in the global business community (Lee, 2008). Due to the increasing number of studies and practices of CSR, it is expected that the definition of CSR will become clearer.

Unfortunately, the reality is much different. Since the beginning of CSR discussions until present, the plurality of definition is rising (Da-Silveira & Petrini, 2018). This concept has been contested and debated, causing a further increase in the number of definitions (Moratis, 2016). It has been extensively studied, producing ample rigorous theories from various disciplines; it is still continuously growing (Carroll, 2016). Whereas in practice, it has become a popular buzzword in annual reports, mission statements, and policy papers (Pedersen, 2015) with various angles. The term CSR means something, but not always the same thing to different people (Nolan, 2016; Okoye, 2009). Since CSR is slippery in definition and praxis (Rana, 2015), this term has no single definition that can be considered perfect and acceptable by all (Asif & Batool, 2017). This could hamper efforts by corporations or regulators seeking to move forward with CSR initiatives (Berger-Walliser & Scott, 2018). Hence, there is a demand for a definition which can be accepted by most of stakeholders.

In order to recognize the legitimate definition of CSR, being familiar to the similarities of elements amongst the multifariousness of definitions is worth noting. In this regard, Dahlsrud (2006) and Rahman (2011) both investigated analytically CSR definitions to

delineate the dimensions of CSR definitions. Dahlsrud (2006) gathered 37 definitions of CSR for his analysis by means of an extensive review of management literature, including both academic articles and websites, covering a time span from 1980 to 2003. He identified distinctive dimensions of CSR definitions: (1) environmental dimension; (2) social dimension; (3) economic dimension; (4) stakeholder dimension; and (5) voluntariness dimension. He found that at conceptual level, all CSR definitions consistently refer to those dimensions that are developed through established patterns for years.

Likewise, Rahman (2011) summarized ten major dimensions that more or less cover all the CSR definitions: (1) obligation to the society; (2) stakeholder involvement; (3) improving the quality of life; (4) economic development; (5) ethical business practice; (6) law-abiding; (7) voluntariness; (8) human rights; (9) protection of the environment; and (10) transparency and accountability. Moratis (2016) emphasizes that until now most of the definitions are composed of aforesaid dimensions. This circumstance creates opportunity in the CSR literature to come up with the definition that includes the major dimensions of CSR by engaging various stakeholders.

The CSR dimensions that have been identified by Dahlsrud (2006) and Rahman (2011) can be employed to assess the definitions created by multiple stakeholders. Moratis (2016) has examined the definition of CSR as propagated by ISO 26000. This is the definition:

responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that (1) contributes to sustainable development, including health and the welfare of society; (2) takes into account the expectations of stakeholders; (3) is in compliance with applicable law and consistent with international norms of

behaviour; and (4) is integrated throughout the organization and practised in its relationships (ISO, 2010: 3).

Moratis (2016) employed the aforementioned CSR dimensions to evaluate the definition. Table 2.1 presents the summary of his findings.

The table indicates that most of the dimensions have been included in this CSR definition. This definition incorporates a wide range of topics in business–stakeholder relationship that make it the most comprehensive definition at the moment (Bocean & Sitnikov, 2019; Moratis, 2016). Thus, CSR definition in ISO 26000 has included major dimensions.



Table 2.1
CSR Dimensions

Epistemological dimension	Core definition
Environment	Explicitly mentioned.
Social	Mentioned by using the word “society”.
Economic	Mentioned through the words “welfare to society”, which can be interpreted as an economic dimension.
Stakeholder	Explicitly mentioned.
Voluntariness	Not mentioned in the definition, as compliance with the law and behavioral norms may suffice.
Societal	Implicitly mentioned, as the definition emphasizes responsibility for impacts and does not explicitly mention community engagement.
Quality of Life	Can be inferred from the words “sustainable development, including health and the welfare of society”.
Ethical conduct	Mentioned through the words “ethical conduct”.
Law-abiding	Mentioned through the words “compliance with applicable law”.
Human rights	This dimension is not explicitly mentioned because it is overlapped with other principles as “respect for stakeholder interests”, “respect for the rule of law” and “respect for international norms of behavior”, respectively.
Transparency and accountability	The word “transparency” is explicitly mentioned, but “accountability” is not explicitly mentioned.

Source: Moratis (2016).

Various parties were involved in formulating the definition of CSR to produce the most legitimate definition. Through multiple stakeholder engagement, the formulation is carried out in order to cover all aspects of CSR that represent economic, social and environmental factors respectively (Amarah & Langston, 2017; Moratis & Widjaja, 2019). The definition of CSR based on ISO 26000 was developed by International Organization for Standardization (ISO) using a multi-stakeholder approach involving experts from more than 90 countries and 40 international or broadly-based regional organizations involved in different aspects of social responsibility (International Organization for Standardization, 2010). The main stakeholder groups are represented, which include the industry, government, labor, consumers, nongovernmental organizations, service, support, research and others (International Organization for Standardization, 2008, 2010). Hence, the definition was generated through multiple stakeholder consensuses.

Another aspect that should be considered is the worldwide adoption of this CSR definition. Naden (2017) reported,

ISO 26000 has been adopted as a national standard in over 80 countries (and counting!) and its text is available in some 22 languages. It is also referenced in more than 3,000 academic papers, 50 books and numerous doctorates, and is used by organizations of all shapes and sizes.

In practice, it appears that ISO 26000 does not diminish the profit of companies that employ it as the guiding rule of their activity; rather, such companies are doing well economically (Nesheva-Kiosseva, 2019). Accordingly, amidst the plethora of CSR definitions, since CSR definition propagated by ISO 26000 is widely accepted, this is the most legitimate definition.

2.3.1 CSR in Islamic Perspective

Jamali, Karam, Yin, and Soundararajan (2017) asserted that in mainstream management and business literature, CSR remains a concept by Western's framework of thinking. It is important to note that stakeholder concept in Western lens contains a problematical issue. In the Western view, basically legitimacy is determined by the extent to which the expectations of a society can be fulfilled (Dusuki, 2008). This means that the prevailing moral values embraced in societies where companies operate inevitably influence corporate behavior. The company is only responsible for the society in accordance with the society's moral standard. In such context, Humber argued

... that we should abandon the quest to develop a special moral theory for use in business and we should not attempt to impose the use of any moral theory upon business, but rather should allow corporation to determine their moral responsibility in any way they see fit" (2002, p. 207).

If this stance is adopted, consequently, there will be a greater tolerance of corruption and low moral standard (Dusuki, 2008), which is morally unacceptable. Therefore, the Western humanistic theories are lacking of a solid foundation or guiding principle of ethical and morality in the implementation of CSR activities (Dusuki & Abdullah, 2007).

Islamic perspective is different from the Western idea in this matter. Islam is based on Qur'an and Sunnah's prescription as a source of ethical guidance, which serves as a set of moral principles that distinguish between good and evil, right and wrong (Rafiki & Wahab, 2014). The behavior of an organization in conducting business and social responsibility activities must stand on those sources. In discussing CSR in Islamic

perspective, Dusuki (2008) and other authors (e.g., Ahmed & Rahman, 2015; Htay, Aziz, & Hamat, 2011; Khattak, Sofwan, & Ullah, 2011; Platonova, 2013; Salihu, Adelabu, Man, Odukoya, & AbdulJubreel, 2011) pointed out two general schools of thought.

The first is a model proposed by Chapra (2005) who argued that the purpose of a bank is not solely profit-oriented, but must promote Islamic values and norms in achieving the welfare of the society. He said that Islamic economic values and goals consist of individual freedom in the context of social welfare, equal distribution of income, the well-being of economic life compatible with *Shariah* principles, and universal justice and brotherhood. He added that organizations, particularly Islamic banks, are allowed to earn profit from the business, but not allowed if they only accumulate profits without any effort to improve the welfare of the community.

On the other hand, Sadeq (2007) criticized this notion by saying that these responsibilities are normally assigned to charitable organizations, specialized development institutions in the public sector, public sector welfare organizations, charitable organizations, or Islamic *da'wah* (missionary) organizations. Social responsibility is not the function of a commercial bank or any private business organizations since as business enterprises, they have to be profitable (Sadeq, 2007). There is no prohibition to seek maximum profit as long as it is in line with *Shariah*. He argued that if the corporation makes a profit under certain conditions, then, it is obliged to pay *zakat* to the eight parties in a strictly manner, as obliged in Qur'an 9: 60. Whereas for *sadaqah*, Islamic banks have more discretion in distributing this kind of fund.

Sadeq's view aligns with the second model, Dusuki (2008) called it Ismail's model. This model was put forward by Dato' Dr. Abdul Halim Ismail. He was the first Managing Director of Bank Islam Malaysia Berhad (BIMB), the first Islamic bank in Malaysia that was launched on 1st July, 1983. According to Ismail (cited in Ahmed & Rahman, 2015; Dusuki, 2008; Htay et al., 2011; Khattak et al., 2011; Platonova, 2013; Salihu et al., 2011), the main responsibility of Islamic banking as a commercial bank based on *Shariah* is to shareholders and depositors, while the social responsibility task is performed by the government. Since Islamic banks are part of the commercial sector of the economy, they should be responsible only for economic and financial activities (Platonova, 2013). Additionally, the banks are required to pay *zakat* in accordance with the *Shariah* and the rules that apply, as a social contribution. This argument is in line with Friedman's view of social responsibility, which states that the sole purpose of commercial institutions is profit maximization, conducted within the corridor of applicable regulations (Ahmed, 2016; Dusuki, 2008; Htay et al., 2011; Khattak et al., 2011; Platonova, 2013; Salihu et al., 2011).

However, in a more recent view, Ismail (2014) expressed a different view, perhaps because of the recent development. Previously he opined that Islamic banks' sole responsibility is implementing business according to Islamic law; while social welfare objectives are to be fulfilled by other institutions. Currently, he explained that essentially, there are three sectors that exist in the Islamic economic system: *ijtima'i* (social welfare) sector, *tijari* (private) sector, and *siasi* (public) sector. Each of these sectors has its own functions, its institutional form, and *Shariah* rules to be fulfilled and implemented. The *ijtima'i* sector carries out social responsibility for the welfare

of the society e.g. through *zakat*, *waqf*, *sadaqa*, and *qard hasan*³. *Siasi* sector is a public sector that creates regulations and laws, runs economic policies and manages assets. Meanwhile, *tijari* sector basically functions as wealth inviting activities in the form of economic activities of consumption, production and distribution. Islamic banks are included in the *tijari* sector whose main activity is to mobilize funds and channel the funds with financial contracts in order to gain profit. Previously, he asserted that Islamic commercial institutions of the *tijari* sector are only responsible to the shareholders and depositors, not to the society as a whole (Platonova, 2013). Since Islamic banks nowadays are seen not sufficiently involved in social responsibility activities, Ismail (2014) emphasized that Islamic banks also have certain responsibilities towards the *ijtima'i* and *siasi* sectors. As a consequence, he added, it is possible for the Islamic banks to organize social responsibility activities along with the *siasi* and *ijtima'i* sector. It seems there is a shift in Ismail's view toward the role of Islamic banking.

In his public lecture as an award recipient of The Royal Award for Islamic Finance at the Global Islamic Finance Forum 2014, Dato' Dr. Abdul Halim Ismail (Ismail, 2014) revealed a void in the role of Islamic banks in enhancing social welfare. In that occasion, he quoted a Qur'anic verse.

“[Such niches are] in mosques which Allah has ordered to be raised and that His name be mentioned therein; exalting Him within them in the morning and the evenings. [Are] men whom neither commerce (tijarah) nor sale (bai') distracts from the remembrance of Allah and performance of prayer and giving of regular charity

³ Means: obligatory Islamic wealth tax, property for humanitarian objective, charity, and virtuous loan (Ayub, 2007).

(*zakat*). *They fear a Day in which the hearts and eyes will [fearfully] turnabout*” (Qur’an 24:36-37).

Then, he interpreted this verse. An institution exercises *tijarah* and *bai'* transactions in the context is Islamic bank. The term *tijarah* means trade in general; it includes *al mudharabah* (trustee profit-sharing), *al musharakah* (joint-venture profit sharing), and other profit-sharing contract. Whereas, the term *bai'* means purchase and sale in general; it includes all contractual activities such as *bai' al murabahah* (cost-plus financing), and others, which are commonly used in Islamic banking practices. The term *zakat* is sometimes used interchangeably in Al Qur'an with *sadaqah*. Clearly, those verses are referred to Islamic banks. Then, he added, Islamic banking is obviously based on a three-sector Islamic economy and integrally incorporates social welfare sector, and they should enhance their role in social responsibility function by collaborating with the public and social sector.

Ismail's belief, which he delivered in the public lecture, indicates his acquiescence with the first model proposed by Chapra (2005). The view that Islamic banks are not solely pursuing profit is also based on *Maqasid Shariah*. Fundamentally, the life purpose of humans in Islamic religion is to worship Allah. Allah says “*I have only created Jinns and men, that they may serve Me.*” (Qur’an 51:56). Business activities are considered as acts of worship. In *Maqasid Shariah* perspective, those activities are included in the preservation of life (*nafs*) and wealth (*mal*). The former means to protect human life, individually and collectively. Some scholars extend it to preserve non-human life as well (Moghul, 2017). With respect to wealth, *Shariah* principles generally approves lawful earnings and profit levels which do not lead to exploitation, since Islam emphasizes on the continuity and the welfare of the community (Ali et al.,

2013). With the rationale idea in mind, CSR in Islamic perspective can be revealed further.

Actually, CSR idea is not alien to Islam. As one of the five pillars of Islam, *zakat* (an obligatory giving) has enormous potential implications in improving social well-being (Moghul, 2017). This instrument has been practiced by devout Muslims and institutionalized in Muslim communities. Other philanthropic instruments, like *sadaqah* (charity) and *waqf* (donation), are also familiar in Muslim societies, as they all have been used widely since the beginning of Islamic civilization (Man, Wahab, & Hamid, 2014). The believers are instructed to seek material gain after prayer is done, and when they get the material gain, they have to make social contribution. The Qur'an views that doing business means worship to Allah, as stated in this verse: "*And when the Prayer is finished, then may ye disperse through the land, and seek of the Bounty of Allah: and celebrate the Praises of Allah often (and without stint): that ye may prosper.*" (Qur'an 62:10). Part of the income raised should be spent out in the way of Allah, as He told, "*Who establish regular prayers and spend (freely) out of the gifts We have given them for sustenance*" (Qur'an 8: 4). In brief, doing business is one type of worship, and part of earned income from the business should be given to those who have the right through various philanthropic deeds, either compulsory or voluntary.

The underlying premise of Islamic philanthropic instruments are implemented to ensure social justice in the form of wealth distribution, which is in line with CSR idea. For example, *zakat* is a religious tax on Muslims having wealth over and above an exemption limit (*nisab*) at a rate fixed by the *Shariah* (Ayub, 2007). According to *Shariah* tenet, *zakat* money has to be distributed among the have-nots and the needy

as advocated by the Qur'an verse 9:60. It can be regarded as a form of a transfer payment from the rich to the poor (Kahf, 1999) and obviously contributes to the society welfare. Another example is *sadaqah*, a charitable act normally undertaken on a discretionary basis (Man et al., 2014). *Shariah* determines that the recipients of *sadaqah* are wider than that of *zakat*. It can be spent on the construction of mosques, community service complexes, and underprivileged individuals who need skills and training to increase their employability (Hamdan, 2014). Since CSR idea is deeply inscribed in the *Shariah*, any organization that claims to follow *Shariah*-based principles should naturally practice CSR (Khatun & Alautiyat, 2012). Accordingly, Islamic view in CSR context needs to be explained further.

2.3.2 CSR and Islamic Worldview

The existence of Islamic banks stands on the *Shariah* objectives which have to be implemented by human beings as ordered by the Qur'an. Kamali (2011) explains that, in its common usage, *Shariah* refers to commands, prohibitions, guidance and principles that Allah has addressed to mankind pertaining to their conduct in this world and salvation in the day after. It is designed so as to protect these benefits and facilitate improvement and perfection of the conditions of human life on the earth (Kamali, 2011). This mission and responsibility are entrusted to the mankind as Allah's vicegerent (*khilafah*) and worshipper (*'abd*) (Qur'an, 2: 30 and 51:57). Both terms, as the foundation of the concept of CSR in Islamic view, will be elucidated.

In Islamic knowledge, Allah creates human beings to perform worship (*ibadah*) and to conduct vicegerency (*khilafah*) on the earth. The word *ibadah* derived from *'abd*

(slave or servant) which means submission (Mawdudi, 1985). Al-Qaradhwawi (2003) emphasizes that worship should be based on commitment with *Shariah* whether in the form of commands or prohibitions, which is carried out with faithful hearts filled with Allah's love. In the matter of vicegerency, it denotes that mankind is the representative of Allah on the earth and as such Allah has entrusted mankind with the stewardship of all of His belongings (Zain et al., 2014). All of the mankind's activities must be in accordance with the conditions of Allah's mandate. Consequently, to perform worship and vicegerency functions, human beings should be guided by *Shariah*.

Shariah as the way of life contains both legal rules and ethical principles that Allah has addressed to mankind pertaining to their conduct in this world (Kamali, 2008) for the sake of human well-being. It does so by promoting what will benefit beings and protecting them from any harms (Ginena & Hamid, 2015). The primary source of the *Shariah* is the Qur'an – the sacred writings of Allah's divine revelation that were revealed to the Prophet Muhammad pbuh, where each and every word of it is from Allah - and Hadith – the practice, sayings and the silent approval of Prophet Muhammad pbuh (Adham, Said, & Yaakub, 2012; Mawdudi, 1996). The Qur'an, for Muslims, is the word of Allah revealed to the Prophet Muhammad to be conveyed to all human beings. Prophet is a person who typified pattern of conduct in carrying out the teachings of Allah (Qur'an, 33:21).

Muhammad is the last prophet sent by Allah SWT and ordered to spread mercy. Allah states, "*We sent thee not, but as a mercy (rahmah) for all creatures.*" (Qur'an 21:107). The word *rahmah* in this verse contains the deeds to maintain *maslahah* for His servants and protect them from various harm (Kamali, 1989; Laldin & Hafas, 2013;

Zaidan, 2008). Accordingly, the objectives of *Shariah* which are imposed on the followers of the Prophet Muhammad is *maslahah* (welfare, benefit or public interest) for human beings and nature. As the servant and vicegerent of Allah, the ultimate aim in promoting benefits and protecting against the harm is to attain *falah*, the happiness in this world and the Hereafter (Ginena & Hamid, 2015). The attempt to realize *falah* on the earth is performed by managing human relationships and their relationship with nature. All of these activities are intended to earn the pleasure of Allah. Thus, it is understandable that human beings as *khalifah* should realize *falah* with Allah's guidance.

In the context of achieving *falah* in CSR programs, scholars have developed principles, values, or dimensions that are in accordance with *Shariah* values. There are a variety of ways in formulating dimensions of CSR in Islamic view, but as yet there is no agreement on the conceptual framework of this matter (Hamdan, 2014). To exemplify, Chapra (1992) mentioned four goals and values for Islamic economics that emanated from *tauhid* (unity of Allah) and *khilafah* (vicegerency) concepts. They are economic well-being within the Islamic norms, universal brotherhood and justice, equitable distribution of income, and individual freedom within the context of social welfare. Based on his work, Dusuki (2008), one of the most cited scholars in the study of CSR in Islamic banking, enunciated *taqwa* paradigm, which consists of four important values: human dignity, free will, equality and rights, and the last is trust and responsibility. The latest study (Amran et al., 2017) mentions *rububiyyah* (oneness of Allah), *adl* (justice), *tazkiyyah* (purification and development), *ukhuwah* (brotherhood), *khilafah*, *ibadah*, *maqashid Shariah* and *maslahah* as the basis of CSR

framework. Apparently, authors use diverse terms to indicate the principles of CSR in Islamic view.

In this vein, Bakar (2015, p. 39) has categorized those principles and values into seven paradigms:

- (i) Tawhid paradigm (Muhamad, 2007; Muwazir et al., 2006); (ii) Taqwa paradigm (Dusuki, 2008b); (iii) the concept of *Maqasid Shariah* (the *Shariah*'s objectives) and *maslahah* (the public interest) (Darrag & E-Bassiouny, 2013; Darus et al., 2013; Dusuki & Abdullah, 2007a; Mohd Nor, 2012; Yusof & Bahari, 2011); (iv) four ethical axioms (unity, equilibrium, free will and responsibility) (Mohammed, 2007); (v) mandatory and recommended forms of Islamic CSR (Farook, 2007); (vi) the extended model of Carroll (1979) from the Islamic perspective (Khurshid et al., 2014), and (vii) the application of *maslahah* (public interest) and importance of social capital (Yusof & Bahari, 2011).

Lastly, she added (viii) *Tawhid* and *Shariah* paradigm. On the whole, those paradigms are basically founded on three relationships namely man-Allah, man-environment, and man-human beings. Those relationships are called Islamic worldview (Hanapi, 2015). Those diverse paradigms basically can be understood through this worldview. Hence the new framework that summarizes and integrates prior paradigms is needed to clarify these things.

CSR framework in a comprehensive manner can be put forward by using the Islamic worldview which is essential and imperative. Because, worldview held by people can influence the way of thinking and the way of conduct (Salleh, 2009). As Chapra (2001) argues, if the universe creates itself, humans do not need to be responsible to anyone. Consequently, the purposes of human life are only physical enjoyment and lust. On the other hand, if it is believed that Allah is the creator of the universe and all sources

of life are His mandate, humans will use resources responsibly, not only pursuing material and momentary pleasure; they will be concerned with spiritual matters (Chapra, 2001). According to Islamic worldview, the primary purpose of the existence of humankind is to please Allah, by implementing His will that is contained in *Shariah* to realize *maslahah* and *falah* on the earth. Those tasks are the area of relationship with other fellow human beings and other creatures.

The Islamic worldview consists of three relationships: human relationships with God, humans, and nature. Basically, Allah created the universe as He told:

Behold! in the creation of the heavens and the earth; in the alternation of the night and the day; in the sailing of the ships through the ocean for the profit of mankind; in the rain which Allah sends down from the skies, and the life which He gives therewith to an earth that is dead; in the beasts of all kinds that He scatters through the earth; in the change of the winds, and the clouds which they Trail like their slaves between the sky and the earth;- (Here) indeed are Signs for a people that are wise." (Qur'an 2:164).

After stating the creation of heaven and earth, Allah exemplify shipping activities employed for the purpose of human transportation, defense, and also trade as part of economic sectors. Then, He connected the economic activities with environmental concerns.

That Quranic verse mentions ship, which has a connection with economic activities and environmental concerns. In economic sense, shipping is closely associated with trading activities. It has been conducted more than 5,000 years, characterized as the 'world's key industry' (Harlaftis, Tenold, & Valdaliso, 2012; Stopford, 2009). Now, it is the main driver of trade growth. More than 90% of the world's economy is carried out through the sea (Harlaftis et al., 2012; International Maritime Organization, 2018).

It also has a crucial role in the alleviation of poverty and hunger as it provides an important source of income and employment (International Maritime Organization, 2018). Those economic activities should be carried out in harmony with natural environment to ascertain their sustainability. Therefore, in that verse, Allah expounds the phenomenon that pertains to natural law, life nurturing, sustenance, and generosity (Quthb, 1992). Apparently, Allah creates and maintains the world for the benefit of human beings. The interactions among Allah, human and nature are as follows.

First, only He is worthy of worship, because there is no god but Allah. Qur'an says "*Such is Allah, your Lord. There is no Allah save Him, the Creator of all things, so worship Him. And He taketh care of all things.*" (Qur'an 6: 102). As Quthb (1992) explains, since Allah is the only one God who creates and sustains everything in the universe, He deserves the power; He monopolizes the sustenance giving and no other partners join Him. Consequently, all creatures should worship Him (*ibadah*) and be servants or slaves; only to Him all obedience, adoration, and submission are presented (Quthb, 1992). In this regard, Al-Qaradhwani (2003) enunciates two necessary conditions of worship. One is the commitment to the *Shariah* in promoting virtue and preventing vice. Then, that commitment should come from the deepest heart in loving Allah, because He, as the Creator, has made everything on earth as a fortune for humans, and humans have been appointed as *khalifah* on account of their superiority over other beings.

Second, by realizing that Allah is the Creator and humans are commanded to serve Him, it is also important to understand that He is the Owner of the universe. Then, although the earth and heaven do not belong to humans, He privileges humans in using

all the endowments as He says: "*Do ye not see that Allah has subjected to your (use) all things in the heavens and on earth ...*" (Qur'an 31:20). This is because Allah has appointed humans as the *khalifah* or vicegerent (Qur'an 2:30), those who are given the duty to explore and utilize various resources on earth in accordance with His direction (Quthb, 1992). As vicegerent, humans are burdened with the responsibility of developing and maintaining, not ruining and destructing, realizing peace and justice, instead of oppression and tyranny (Jazuli, 2005). All of these matters are carried out in the area of human relationship and their relationship with nature.

Third, *falah*, is the goal that must be achieved by human beings as vicegerents on the earth. *Falah* is achieved when humans not only possess material wealth by conducting business activities, but also fulfill spiritual needs (Aminuddin, Bustamam, Mahyuddin, & Sathiman, 2016). While material goals concentrate primarily on goods and services that contribute to physical comfort and well-being, spiritual goals include nearness to Allah, peace of mind, inner happiness, honesty, justice, mutual care and cooperation, family and social harmony, and the absence of crime and anomie (Alom & Haque, 2011). *Falah* represents far-reaching success that encompasses a more holistic dimension through endeavors that aim to achieve everlasting prosperity and blessings here and the hereafter for the sake of Allah (Aminuddin et al., 2016). The well-being that includes spiritual and moral aspects should be enjoyed by the stakeholders, which means it includes the relationships not only between human, but also with natural environment. In fact, studies has demonstrated that natural environments sustainability play in preserving human well-being (Matsuoka & Kaplan, 2008).

This *tauhid* axiom as the worldview is paramount in understanding Islamic principles in CSR (Amran et al., 2017). This worldview contains three basic principles (*ibadah*, *khilafah* and *falah*), which are then developed into other principles. Based on former literature, the principles of CSR in Islamic view can be grouped into three categories as shown in the Appendix A.

Within this framework, a Muslim is a person who preserves his vertical relation with Allah (*ibadah*) and horizontal relations with fellow mankinds and the natural environment (*khilafah*) to achieve success in the world and the hereafter (*falah*). In performing *ibadah*, a Muslim should realize that everything in the universe is Allah's creation and He always gives sustenance, so that humans must worship only to Allah (*tauhid*) in a sincere manner (*ikhlas*), acting solely because of Allah alone. The sincerity should be preserved by purification or *tazkiyah* (Qur'an 91:8,9) activities to reach the highest degree as believers, that is called *taqwa* (Qur'an 49:13).

In addition, unlike other creatures, humans are endowed with a precious advantage (*karamatul insan*) by Allah in the form of free will (*ikhtiyar*) (Qur'an 90:10) which is supported by physical, mental, and thinking capabilities to do creative deeds. For this reason, humans are bestowed the mandate to manage relationships with other humans and with natural environment by building and maintaining them for the benefit of mankind. It must be performed by applying the principles of justice (*'adalah*), honesty (*siddiq*), brotherhood (*ukhuwah*) and benevolence (*ihsan*). All of those matters should be done under *Shariah* guidance to achieve *Maqasid Shariah*, and also *maslahah*. The ultimate outcome is *falah*, the advancement in material and spiritual attainment.

The aforesaid framework is the way of life that gives direction in the design of Islamic CSR that is in line with practical needs. That framework aligns with the Islamic CSR definition put forward by Sofian and Muhamad (2016):

CSR in Islam is that every individual is accountable to act good towards the universe (society and environment) besides believing in and worshipping Allah, in order to achieve *al-Falah* (success in this world and the hereafter) from Allah and avoid being punished.

However, since this statement is too general, the definition that integrates Islamic and conventional elements is necessary. In this respect, Sofian and Muhamad (2016) proposed the use of *urf* (custom) principle. *Urf* literally means that which is known. It is a recurring practice that are acceptable to people of sound nature; it refers to collective, widespread, and consistent practices in a given community (Kamali, 2003b; Moghul, 2017). The valid custom of *urf* is when it does not contravene with *Shariah* principles (Sofian & Muhamad, 2016).

Hence, the definition propagated by ISO 26000, since it has been widely accepted and practiced, can be categorized as *urf*. It can be modified to create the definition of Islamic CSR. Therefore, Islamic CSR can be defined as the responsibility for the impact of decisions and activities on the society and the environment to achieve *falah*, through transparent and ethical behavior that (1) contributes to sustainable development, including health and the welfare of society; (2) takes into account the expectations of stakeholders; (3) is in compliance with *Shariah* principles, applicable law and international norms; (4) is integrated throughout the organization and practiced in its relationships; and (5) carried out with the intention to perform *ibadah*, guided by *khilafah* values.

2.4 Rhetoric Theory

To gain legitimacy, organizations have to express their commitment to preserving stakeholders' interest. So, CSR activities must be communicated in order to be recognized by stakeholders. In this vein, “the rhetoric of CSR” is needed. It is the art of persuading stakeholders in order to make the stakeholders accept an idea or implement activities (Bonet & Sauquet, 2010; Castelló & Lozano, 2011). Thence, there is a view that rhetoric is the essence of an organization's relationship with its environment because it allows the organization to communicate (Ihlen, 2011a). In addition, rhetoric plays a pivotal role in increasing legitimacy (Hoefler & Green-Jr., 2016; Patala, Korpivaara, Jalkala, Kuitunen, & Soppe, 2017). Thus, CSR rhetoric needs to be discussed further.

Rhetoric is a common term in the academic field. It has been introduced in *On Rhetoric* book, authored by Aristotle, a scientist, educator and philosopher who lived in 384-322 BC (Kennedy, 2007). This term has obtained a bad reputation when scientific rationality became the dominant logic (Bonet & Sauquet, 2010; Elbe & Emmoth, 2014). It was viewed pejoratively, as an attempt to divert the audience from real meaning, deceive people, manipulate subjects, or as a way to misdirect others to achieve the personal goals of the speakers (Bonet & Sauquet, 2010; Higgins & Walker, 2012). However, with the increasing critical view of science, in the 1980s, rhetoric of science emerged (Bonet & Sauquet, 2010). Various scholars in the broad range of academic fields have begun to develop a "new rhetoric" that seeks to understand scientifically the meaning that occurs in the context of social change (Suddaby & Greenwood, 2005). This concept is now being discussed in organization and

management fields and other disciplines (Bonet & Sauquet, 2010; Suddaby & Greenwood, 2005). Hence, it is important to understand the use of rhetoric in communicating CSR.

The role of CSR rhetoric in enhancing legitimacy in the eyes of stakeholders has been discussed academically. It is a relatively new theoretical phenomenon that appears together with the global trend of CSR where the topic of social responsibility has been addressed by academic research, theory building, media coverage, scrutiny, debates, and commentary (Bartlett & Devin, 2011). Scholars from various disciplines have been involved in this area (Bartlett & Devin, 2011), and recently, they have focused their attention on using rhetorical analysis to investigate legitimation processes (Erkama & Vaara, 2010; Harmon et al., 2015). Harmon et al. (2015) added that this growing body of knowledge has focused primarily on how social actors use rhetoric to construct legitimacy. Several studies revealed that CSR rhetoric could enhance legitimacy (Castelló & Lozano, 2011; Devin, 2013a; Harmon et al., 2015; Marais, 2012; Suddaby & Greenwood, 2005). So, the use of CSR rhetoric has become more meaningful.

With respect to Islamic banking, this concept needs to be portrayed with an Islamic lens. Actually, "Rhetoric as an art of communication was morally neutral, that it could be used for either good or ill" (Aristotle in Kennedy, 2007, p. x). Thus, it is possible to use this concept with Islamic moral perspective, considering that this concept in Islamic literature is not something novel. Aristotle's book, "the Rhetoric" was reintroduced to the West, mainly through translations and interpretations of the great Islamic scholars-Al-Farabi (870-950), Avicenna (983-1037), and Averroes (1126-

1198) (Copeland, 2014; Merriam, 1974). By the middle of the thirteenth-century, Latin translation of the Rhetoric was began by using Arabic and the other anonymous translations from the Greek (Copeland, 2014). The linguistic source had been used to interpret Al Qur'an by Islamic scholars to understand the meaning of Qur'an in order to implement the messages. Within this spirit, "the Rhetoric" was studied to seek satisfaction of Allah, along with persuading people to be in the way of Islam (Borrowman, 2008).

Although this concept is not alien to Islamic scholars, CSR rhetoric in Islamic context until recently is under researched. Thereupon, the types of rhetoric and the Islamic view toward these matters need to be understood. There are three devices of persuasive appeals in rhetoric: *ethos* or appeals made on the basis of character or to acknowledge the importance of the subject, *pathos* or emotive appeals, and *logos* or appeals to logic (Castelló & Lozano, 2011; Kennedy, 2007). Some insights from knowledge about those rhetoric primary forms are discussed in the next sections.

2.4.1 Ethos

Ethos (Greek for 'character') refers to the credibility or trustworthiness of character of the speaker or writer (Piperopoulos, 2013) that can help to persuade an audience (Wisse, 1989). This mode of persuasion depends on the integrity and personal character of the communicator (Jacobsen, 2006). It is a means of persuasion that shows the morals of the communicator to establish more credibility in the minds of the audience (Al-Momani, 2014). Gauthier and Kappen (2017) define ethos as "Appeals based on the authority, character, and credibility of the source of the message; typically

reflecting moral and ethical concerns within socially accepted or cultural norms, tending toward social and collective interests “ (p. 222). Gauthier and Kappen (2017) and Higgins and Walker (2012) said that ethos is often characterized by an authoritative character that initiates the expertise. Erkama and Vaara (2010) added that ethos deals with the authority character in legitimation process. In this context, a character or ethos can be associated with the organization, because organizations in many ways are like individuals (Jacobsen, 2006).

Since Islamic bank as an organization should enhance the credibility in the eyes of stakeholders, it should have an image as an institution that has Islamic character or *Shariah* compliance that is developed from its inner qualities. Therefore, it should have authority in *Shariah* field at individual and institutional level, since ethos can be thought of as two modes of expression: individual and institutional authority (Tomeh, 2010). The institutional would have authority if it consists of the individuals that have competency in this matter.

Islamic bank should possess *Shariah* scholars or jurists who sit in the *Shariah* supervisory committee or board, and exercise their expertise to ensure that all activities are in line with Islamic principles. Jurists should possess a certain level of capacity for earning respect from the society due to their expertise, experience, education, and knowledge (Tomeh, 2010). In this regard, individual authority in *Shariah* matters is important. Due to the character of Islamic banking business that should cautiously watch *Shariah* compliance, persons in this field should be organized in *Shariah* Supervisory Board (SSB). It is an authoritative institution in reviewing, appraising, monitoring and advising the board on the implementation of the Islamic bank's

business, to ascertain that there are no elements that are not permissible (*haram*) in Islamic law (Ismail, 2014). The authority that emerges from this institution is termed institutional authority. Individual authority and institutional authority are important to confirm that organizations' decisions comply with *Shariah* (Tomeh, 2010). This compliancy is needed to please Allah and to be accepted by the society, or in another word, to attain *Shariah* legitimacy.

2.4.2 Pathos

Pathos was regarded by the ancient Greek scholars of rhetoric as an important element to influence public audience by using emotional appeal (Read, 2007). To obtain solid arguments that could influence the behavior and attitudes of the audience, pathos should be combined with ethos and logos (Ihlen, 2011b; Read, 2007). Although each of those elements is correlated, Aristotle emphasized the importance of emotion to ensure its impact on behavior and attitudes of the audience (Thomas, Nimehchisalem, Mohdkasim, & Ali, 2015). Pathos is needed to create the emotional connection between stakeholders and an organization since the organization should communicate ideas that are in line with stakeholders' beliefs and values (Castelló & Lozano, 2011). It is defined as "appeals that connect to and impact the emotions of the audience, tending toward individual concerns and interests" (Gauthier & Kappen, 2017, p. 222). A previous study (Marais, 2012) showed that pathos is commonly used in CSR communication to enhance a company's moral legitimacy by generating emotional arguments and by creating a shared positive vision of its mission.

However, since there is a distance between emotional and rational thought, pathos has been seen as manipulative (Read, 2007). On the other hand, emotion can also be used to motivate audience for performing good deeds. This results in the increasing demand for the knowledge about rhetorical choices employed in delivering effective messages by combining rational arguments and heart touching language (Read, 2007). Thus, the audience's values must be comprehended by the communicator.

Understanding the values of the audience is needed to ensure that the message is interpreted as intended by the sender (Reilly & DiAngelo, 1990). When the author or speaker demonstrates agreement with an underlying value of the audience, the use of pathos in communication is the most effective device (Castelló & Lozano, 2011). Consequently, in the context of CSR communication in Islamic banking, the wordings of the message should be in line with Islamic values.

Since time immemorial, persuasive communication has been used in spreading Islamic religion to all humankind. Therefore, "Islam is a communication-based religion" (Galandar, 2002) because Islam pays close attention to persuasive communication. The importance of communication in Islam can be understood from the revelation of the second letter of Al Qur'an. "*O you (Muhammad pbuh) enveloped in garments! Arise and warn!*" (Qur'an, 74:1,2). In this verse, Prophet Muhammad was ordered to stand up and communicate with mankind to convey a warning to stop human iniquity, and carry out the commands of Allah in order to get His pleasure (Al-Mubarakfury, 1993). This task was not easy because the Prophet encountered people embraced fundamentally different beliefs and customs for centuries (Kirat, 2015). Therefore, the

art of communicating Islamic knowledge that captivate the attention should be examined.

The Qur'an mentions the importance of persuasive communication to attract people closer to the righteous way and do good deeds. "*And by the Mercy of Allah, you dealt with them gently. And had you been severe and harsh-hearted, they would have broken away from about you*". (Qur'an, 3:159). In this regard, Allah gives the command to "*speak good words to all people*" (Qur'an, 2:83). This means that arousing emotion in communication is important since emotion can cause people to alter their opinion (Thomas et al., 2015). Pathos is based on emotion, and through this persuasive mode, the speaker tries to stir and arouse the audience's feelings by convincing and triggering their emotion (Thomas et al., 2015).

Al Qur'an uses the words *qawl* to indicate the persuasive communication that can be accepted universally (Zahid, 2013). According to Parwez (1960), the word *qawl* means a statement; something said; the thought which is still in mind but not spoken yet. It also means opinion, thought and belief. The words with *qaf* (ق), *waw* (و), *laam* (ل) have the indication of moving and flutter: *qawl* includes the movement of the tongue or the lips.

The use of this semantic is important to understand the will of Allah as expressed in the Qur'an. By studying the conceptual keywords of the Arabic language which are used by Al Qur'an, the Islamic lens in this matter could be grasped (Solihu, 2010). Additionally, this word has been used in many parts of the Qur'an, and the meaning can be understood easily. There are at least seven phrases with the word *qawlan* as the

basis of persuasive communication: *qawlan sadida* (right words), *qawlan baligha* (far-reaching words), *qawlan maysuran* (gentle words), *qawlan layyinan* (mild words), *qawlan karima* (noble words), *qawlan ma'rufan* (good words) (Sauri, 2008; Zahid, 2013) and *qawlaz zoor* (false words) avoidance (Husein, 2018). The following section explains each of those terms in detail.

1. Qawlan Sadida (Right Words)

This term appears in two verses. Firstly, in Qur'an 4:9. "*Let those who would fear for the future of their own helpless children, if they were to die, show the same concern [for orphans]; let them be mindful of Allah and speak out for justice.*" According to Quthb (1992), the context of this verse is reminding people not to eat the belongings of orphans, by touching the heart of the parents. The soft and sensitive heart toward the weaknesses of their offspring should arouse sympathy. The orphans should be protected with love and affection. The people around them are reminded to be afraid of Allah SWT and asked to speak out for justice (*qawlan sadida*). It may be appropriately rendered as "speaking in a just manner"; in the present instance, however, it obviously relates to speaking of others in a manner devoid of all hidden meanings, insinuations and frivolous suspicions, aiming at no more and no less than the truth (Asad, 1980). The other meaning of *qawlan sadida* is words of appropriate, comfort (Ali, n.d.), and kindness (Al-Hillali, Khan, & Muhsin, 1983; Asad, 1980; Pickthal, n.d.).

The other verse is in Qur'an 33:70. "*O you believe! Keep your duty to Allah and fear Him, and speak (always) the truth*". Allah asked the believers to preserve their belief in Allah (*iman*) and enhance it to the *taqwa* (piety) degree. In this verse, Al-Hillali et

al. (1983) translates the word *taqwa* by keeping the duty and fear of Allah. Based on *iman* and *taqwa*, the believers should behave by speaking the truth, direct fashion, with good purpose, just, true, and straight to the point (Al-Hillali et al., 1983; Ali, n.d.; Amrullah, 1984; Asad, 1980; Haleem, 2005; Pickthal, n.d.).

2. Qawlan Baligha (Far-reaching Words)

This word is found in Qur'an 4:63.

They (hypocrites) are those of whom Allah knows what is in their hearts; so turn aside from them (do not punish them) but admonish them, and speak to them an effective word (i.e. to believe in Allah, worship Him, obey Him, and be afraid of Him) to reach their inner selves.

This verse talks about the hypocrites of Medina at the time of the Prophet, who outwardly professed to be his followers but did not really believe in his teachings (Asad, 1980). They hide their intention and motivation, but Allah knows what is in their heart (Quthb, 1992). However, Allah has guided the Prophet in facing this matter by ignoring them, and give them a lesson to obey Allah's commands because in the previous verse (4:61) those hypocrites showed their aversion to Allah's revelation. Allah asked the Prophet to say the words with "*qawlan baligha*".

Literally, *baligha* means to reach. *Qawlan baligha* here is translated as an effective word. Other translators use phrases such as words to reach their very souls (Ali, n.d.), penetrating words (Haleem, 2005), speaking in a gravely searching manner (Asad, 1980), addressing in plain terms about their souls (Pickthal, n.d.)

3. Qawlan Ma'rufan (Good Words)

Ma'ruf means known or recognized thing, which is a universally accepted fact (Omar, 2010). *Ma'rufan* here is expressed with an implicit sentence (Az-Zuhaili, 2013). Other translators use the words: recognized forms of words, decent manner (Asad, 1980; Pickthal, n.d.). In Qur'an (4:5), Allah says,

And do not entrust to those who are weak of judgment the possessions which Allah has placed in your charge for [their] support, but let them have their sustenance therefrom, and clothe them, and speak unto them in a kindly way (*qawlan ma'rufan*).

Allah SWT forbids giving authority to those who are weak of judgment in managing their own assets. Those assets should be managed productively by their trustee, for the living of those people (Amrullah, 1984). This action should be communicated to them by "*qawlan ma'rufan*", to make them happy because this action is good according to the common sense and religious law (Az-Zuhaili, 2013). Other words for *ma'rufan* are kindness and justice (Al-Hillali et al., 1983; Ali, n.d.).

In the same surah (4:8), Allah speaks. "*And when [other] near of kin and orphans and needy persons are present at the distribution [of inheritance], give them something thereof for their sustenance, and speak unto them in a kindly way (qawlan ma'rufa).*"

Al-Hillali et al. (1983) and Ali (n.d.) used the words kindness and justice for *qawlan ma'rufa*.

4. Qawlan Layyinan (Mild Words)

Go forth, [then,] thou and thy brother, with My messages, and never tire of remembering Me: go forth, both of you, unto Pharaoh: for, verily, he has transgressed all bounds of equity! But speak unto him in a mild manner

(*qawlan layyinan*), so that he might bethink himself or [at least] be filled with apprehension. (Qur'an, 22: 42-44).

This verse describes Allah's order to two Prophets, Moses and his brother Haroon, to find king Pharaoh because he has exceeded all bounds. They are told to speak to him with *qawlan layyinan*. Other translations of this words are spoken gently or mildly. It is aimed to make Pharaoh ashamed of his sin and touch the heart in order to arouse his awareness and understand the consequence of whatever he did (Quthb, 1992). Thus, speaking in a good manner to anybody is a must, even to the oppressor.

5. Qawlan Karima (Noble Words)

Your Lord has commanded that you should worship none but Him and that you be kind to your parents. If either or both of them reach old age with you, say no word that shows impatience with them, and do not be harsh with them, but speak to them respectfully (*qawlan karima*). (Qur'an, 17:23).

Qawlan karima here means respect, honor, reverent, and gracious (Al-Hillali et al., 1983; Ali, n.d.; Haleem, 2005; Pickthal, n.d.). It is an expression of love between children to their parents, especially when they are getting older and weak, and their lives depend on their children.

6. Qawlan Maysura (Gentle Words)

Give relatives their due, and the needy, and travelers – do not squander your wealth wastefully: those who squander are the brothers of Satan, and Satan is most ungrateful to his Lord – but if, while seeking some bounty that you expect from your Lord, you turn them down, then at least speak some word of comfort to them (*qawlan maysura*). (Qur'an, 17: 26-28).

Qawlan maysura can be translated as easy kindness, gentle speech, reasonable word, or soft word (Al-Hillali et al., 1983; Ali, n.d.; Asad, 1980; Pickthal, n.d.). This kind of words are expressed toward the relatives, the needy, and travelers who are in need,

and cannot be helped because nothing is available to be given (Asad, 1980; Quthb, 1992).

7. Qawlaz Zoor (False Words)

"That [is the command]. And whoso magnifieth the sacred things of Allah, it will be well for him in the sight of his Lord. The cattle are lawful unto you save that which hath been told you. So shun the filth of idols, and shun lying speech (qawlaz zoor)" (Qur'an, 22:30).

This text alerts strictly the Muslim to avoid making false speech. This dirty deed is considered close to the act of *shirk* (assigning partners to Allah), which is the greatest sin (Qur'an 31:30). In other verse, the Qur'an asserts, "*It is most hateful to Allah that you say things and then do not do them*" (Qur'an 61:3). Communicating false information is clearly prohibited, and the words must be linked to actions. That is to say, speech integrity is a must.

The Qur'an has explained the use of the word *qawl* in a different context. The moral lesson of communication ethics here can be applied in many aspects of life (Zahid, 2013), including CSR rhetoric. Hence, the use of pathos with Islamic approach in CSR rhetoric can be studied by using the presented themes. Table 2.3 presents the themes used in Qur'an for the pathos.

Table 2.3

Themes of Pathos in Al Qur'an

No.	Words	Qur'an	Context	Pathos Themes
1.	Qawlan Sadida (Right Words)	4:9 33:70	Orphan maintenance The speech of believers and Allah feared persons	The concern to the disadvantaged in a society with a touching of divine faith.
2.	Qawlan Ma'rufa (Good Words)	4:5 4:8	Orphan maintenance Speak to the relatives in distribution of inheritance	
3.	Qawlan Maysura (Gentle Words)	17:26-28	Expression toward the relatives, the needy, and travelers who are in state of want, and cannot be helped because of not have anything to give	
4.	Qawlan Baligha (Far-reaching Words)	4:63	Communicate with hypocrites	Incorporates the elements of wider society such as those who may disagree with one's point of view
5.	Qawlan Layyinan (Mild Words)	22:42-44	Speak to the king who transgressed all bounds	
6.	Qawlan Kariman (Noble Words)	17:23	Expression of love between child to their parents which have reach old age.	More inclusive by embracing the old and weak as a social responsibility of organizations
7.	Qawlaz Zoor (False Words)	22:30	Refrain from false speech	Speech integrity

Source: Adapted from Husein (2018)

2.4.3 Logos

Logos is a Greek word that refers to the logic of its reason, the clarity of explanation, and the supporting evidence (Devin, 2014; Higgins & Walker, 2012; Piperopoulos, 2013). This term can also refer to thoughts expressed through words, as well as the reason or argument, which is inherent in a speech or document (Devin, 2014). The argument that is constructed on the basis of the logos would bring a long-lasting impact on the memories of the audience as they provide statistical data, facts, numbers, and examples, which appeal directly to the intellectual reasoning (Murthy & Gosal, 2016). According to Gauthier and Kappen (2017), logos is “appeals based on reasonable, logical arguments offering the proof of plausible truth that may induce methodical calculation, including practice sense rules of inference, to achieve effective and efficient decision-making; may be framed to align with audience’s self-interest” (p. 222).

In Islamic perspective, arguments that use logos must be based on *dalil aqli* (reason-based argumentation) and *dalil naqli* (revelation-based argumentation). *Dalil aqli* is obtained from the rationale and findings of human thought, whereas *dalil naqli* refers to the transition of knowledge from authentic textual sources in Al-Quran and Sunnah (Faryadi, 2015; Kasmani, Yusoff, Kanaker, & Abdullah, 2017). *Dalil naqli* cannot be understood except by using *dalil aqli*, and *dalil aqli* is not legitimate except it is based on *dalil naqli* (Dahlan et al., 1996). As Kartanegara (2005) said, revelation-based argumentation is aimed to ensure the implementation of *Shariah* as spiritual guidance for humans, while reason-based argumentation is needed to manage the realities in this

world. Revelation-based argumentation has an authority to humans as the role of intellect is limited, while reason-based argumentation relies more on rationality as a tool for humans to do research and make decisions (Kartanegara, 2005).

Moreover, it is important to emphasize that the distinction between *aqli* and *naqli* forms of reasoning does not imply the dichotomy between the two concepts because the dichotomy would result in the value-free knowledge (Davids, 2018). For Muslims, as the Islamic worldview is already available for every aspect of life, including science, value-free knowledge is undesirable. Knowledge cannot be separated into isolated non-revealed knowledge on the one hand, and transmitted knowledge on the other hand (Davids, 2018). Both concepts should be integrated.

In using the *naqli* argument, the comprehension of the Qur'an and Sunnah texts is essential. In this case, it is important to understand the term *qat'i* (definitive) and *zhanni* (speculative or open to interpretation) that are used by Muslim scholars. Kamali (1991) explains that *qat'i* means that those texts, according to Islamic scholars, are considered clear, have only one meaning, and are not open to multiple interpretations, such as the texts containing specific injunctions regarding fasting, prayer, and *haj* (pilgrimage) ritual. The other category of texts is called *zhanni*, which is conveyed in a language that leaves a room for interpretation and *ijtihad*, the exertion of effort in finding a ruling on something not mentioned clearly, according to certain known methodology (Al Qardawi, 2000; Kamali, 1991). The definitive texts of Qur'an and Sunnah are only a small portion of speculative texts (Tomeh, 2010). Thus, it gives more space for humans to develop reasons in their arguments. Complementary to this, Kamali (1991, p. 26) argues that less than one-tenth of Quranic texts are related to law

and jurisprudence, many of which refer to issues of ritual worship. Meanwhile, the larger portion of its 6,235 verses are concerned with human and the universe, devotional matters, the hereafter, moral and religious themes, and even the history of the parables and past events (Kamali, 2008, p. 20). So, this leaves a fairly broad range for Muslims to make interpretations.

The same case applies to *hadith*. The majority of Islamic scholars explain the presence of *hadith* from Prophet Muhammad that has the same level of authority as the Qur'an, that are classified as *mutawatir* or "continuous" (Kamali, 2003b). There are two kinds of *hadith mutawatir*, the one continuous in its precise text (*lafzh*), or verbal *mutawatir*, and that which is continuous in its meaning (*ma'na*) or conceptual *mutawatir* (Kamali, 2003b). Verbal *mutawatir* is a prophetic traditions, transmitted through so many channels and by so many people that collusion upon forgery is inconceivable; as such, their contents are known with certainty (Hallaq, 2005). It reaches the highest level of confidence that narrates the wordings and the behavior s of the Prophet Muhammad pbuh (Alias, 2005). Only a small portion of the *Sunnah* has been transmitted in the form of verbal *mutawatir*, not more than ten (Kamali, 2003; Sarwat, 2011; Tomeh, 2010).

Whereas conceptual *mutawatir* is a *hadith* whose narrators are different in compiling texts of *hadith*, there are common meanings, or those validated by multiple independent narrators who are impossible to agree on lies (Sarwat, 2011; Tomeh, 2010). Compared to verbal *mutawatir hadiths*, conceptual *mutawatir hadiths* are far more numerous. This means that texts in *hadith* are open to the wide-ranging interpretations which can be carried out with rigorous intellectual inquiry. The texts

from Quran and Sunnah as a *dalil naqli* should be the guiding principle for Muslims in reasoning.

Any reasoning, perspective, and practice that pertain to *ibadah* and *muamalat* matters shall not infringe the law and the principles outlined by Islamic worldview. Logos in this regard is applied in *muamalat* matter. It is the Muslims' affairs that take place in relationships with not only between humans but also between humans and natural environment. In this aspect, the following principle applied: "For acts of *muamalat*, everything is permissible unless it is specifically forbidden", in another word, every action is permissible unless it is objectionable to the *Shariah* (Ahmad, 2009). To exemplify, Indonesian Banking Act No. 21/2008 mentions the objectionable commercial activities in Islamic law, that are usury (*riba*), speculative activities (*maysir*), transaction in which the object is not clear (*gharar*), transaction of *Shariah* prohibited object (*haram*), and unfair transaction (*zalim*). Hence, in logos, logical reasoning can be exercised in managing business, including CSR rhetoric, as long as not transgressing the tenets contained in the Qur'an and Sunnah.

2.5 Previous Studies

There have been many studies on CSR rhetoric and legitimacy. Generally, those studies demonstrated how CSR rhetoric strategies could enhance legitimacy. Several studies (Castello & Galang, 2014; Castelló & Lozano, 2011; Vollero et al., 2018) have investigated the use of rhetoric strategies to achieve legitimacy, while others (Brennan & Merkl-Davies, 2014; Devin, 2013b; Erkama & Vaara, 2010; Gauthier & Kappen, 2017; Marais, 2012; Waeraas & Ihlen, 2009) studied rhetorical means (ethos, logos,

and pathos) to attain legitimacy. Both kinds of studies were conducted mostly in developed countries. By the same token, in 20 years of legitimacy study, Díez-Martín, Díez, and Blanco-Gonzalez (2018) revealed that most of such studies were conducted in the USA, Europe, Australia, and China. Moreover, although Castello and Galang (2014) examined corporations in Asian countries including Indonesia, their research did not deal with rhetorical means. Moreover, there are no studies which focus on CSR rhetoric and legitimacy in Islamic bank organizations especially in Indonesia. Therefore, as mentioned before, the gaps of this research area are present. In this study, researcher identifies theoretical gaps and research methodological gaps.

2.5.1 Theoretical Gaps

Based on investigation on previous studies, the researcher summarizes the theoretical gaps as depicted in the Table 2.4. The explanation of these gaps is presented in subsection 2.5.1.1 to 2.5.1.3.

Table 2.4
Theoretical Gaps

Subject	Theoretical Gaps
A. Legitimacy	
1. Regulatory	There has been little if any study conducted about how regulatory legitimacy is understood in Indonesian Islamic banking context.
2. Cognition	Previous research failed to take into account the concept of worship and <i>zakat</i> in attaining cognitive legitimacy.
3. Moral/Normative	There has been a little discussion on managers' perspectives in using Islamic values to achieve normative legitimacy.
4. Pragmatic	Past studies discuss efforts to achieve pragmatic legitimacy in the absence of <i>Shariah</i> consideration.

B. Islamic CSR	There are still few discussions about ICSR in a more contemporary condition by referring to the more legitimate definition that applies internationally.
C. CSR Rhetoric	
1. Ethos	The issue of ethos in Indonesian Islamic banking context which is refer to global agenda and <i>Shariah</i> values is poorly understood.
2. Pathos	There is far too little attention has been paid to investigate pathos in Indonesian Islamic banking context.
3. Logos	It seems that no research has specifically investigated how logos is used in the context of Indonesian Islamic banking for the purpose of achieving legitimacy.

2.5.1.1 Previous Studies pertaining to Legitimacy

After explaining the four types of theoretical legitimacy and the Islamic perspectives on these issues, relevant prior studies and the research gaps are revealed.

The first type is regulatory legitimacy. It has been investigated in developed countries by Devin (2014). She found that organizations would often report their activities whilst failing to acknowledge that it was shaped by legislation and/or regulations. Those organizations did not necessarily address all of the relevant activities stemming from regulatory pressure within their reports. This finding could lead to the suggestion that the actual act of referencing a piece of regulation or legislation may suggest cognitive legitimacy. More specifically, it may become a taken-for-granted assumption.

This issue perhaps is caused by the principle of voluntariness in applying CSR in developed countries. On the other hand, Indonesia requires the implementation of CSR. How this kind of legitimacy is understood in Indonesian Islamic banking

context, which is significantly different, needs to be explained, because there has been little if any study conducted pertaining to this matter.

The second is legitimacy based on cognition. Devin (2014) found that organizations should express their willingness to follow CSR behavior in industry. To achieve cognitive legitimacy, organizations strategically highlight their activities pertaining to their stakeholders' interests, implement their guidance policy, exhibit awards, and assure the quality of their performance by showing external parties assessment (Castelló & Lozano, 2011; Devin, 2014). This awareness is based on universal human values which are voluntary.

Those actions were also carried out in the Indonesian Islamic banking context, as can be seen from annual reports. However, the Indonesian Islamic banks' cognitive legitimacy needs to be investigated further due to context differences. In this regard, Islamic banks carry out CSR activities not only because of universal humanity values, but also because of *Shariah* principles, namely *zakat* obligation and other charity deeds which are voluntarily. In Indonesian Islamic banking context, it is known that there is a corporate *zakat* as stated in the law (Republik Indonesia, 2011). Thus, the teaching of *zakat* as one of the five Islamic pillars applies to individuals and organizations. It can be inferred that the social responsibility idea already exists in Muslims' cognition and institutionalized in Islamic banks. Thus, while in the West good deeds are based on universal values, in this context worship and the teaching of *zakat* are established in Muslim consciousness. Therefore, the explanation regarding efforts to achieve cognitive legitimacy in this context is important to be understood.

Thirdly, moral legitimacy or normative legitimacy refers to conscious moral judgement of the organization and its activities (Castelló & Lozano, 2011). Moral legitimacy is needed to get closer to stakeholders. Organizations will be considered legitimate if they demonstrate ethical behavior. Consequently, they can grow stakeholders' affection and stronger stakeholders' engagement (Marais, 2012). In the Western context, the pluralization of societies had consequences on moral legitimacy. Castelló and Lozano (2011) and Palazzo and Scherer (2006) argued that pluralization of modern societies in the context of globalization diminishes cultural homogeneity that erodes taken-for-grantedness norms in society.

On the other hand, banks that carry Islamic values face a different situation. Islamic values are the same everywhere although there is probably a little scholarly disagreement on a certain issue. However, in the Indonesian context, differences in views are generally resolved through the MUI (Majelis Ulama Indonesia or Indonesian Islamic Scholars' Assembly) *fatwa* as a reference. Thus, unlike previous studies, in this context Islamic banks are dealing with a Muslim society which adheres to relatively homogeneous values. There has been a little discussion on managers' perspectives in using Islamic values to achieve normative legitimacy.

The last is pragmatic legitimacy. It is grounded on the self-interest of an organization stakeholders, who strive for influence or tangible results in exchange for granting legitimacy (Marais, 2012). Under this view, stakeholders will ascribe legitimacy to the organization as long as they believe that the organization's activities will be beneficial to them (Castelló & Lozano, 2011). Therefore, the organization will demonstrate its commitment to implement CSR idea (Devin, 2014; Marais, 2012). It is crucial for an

organization to show the benefit of its existence, and in return it will be recognized by the society in the form of reputation and trust. Vollero et al. (2018) underlined that this idea is widely viewed as important in service markets due to the difficulty for consumers to evaluate the intangibility of services. Accordingly, as financial service institutions, banks are keen to enhance their reputation as credible institutions.

The aforesaid ideas can be carried out by Islamic banks as long as they do not conflict with *Shariah*. In making decisions, managers must avoid *maysir*, *gharar*, *usury* and transactions that are prohibited by *Shariah*. In other words, in practical, there is no difference between conventional and Islamic banking unless for certain things which is determined by *Shariah*. Past studies discuss efforts to achieve legitimacy in the absence of *Shariah* consideration. This research investigates the effort of Islamic banks in achieving pragmatic legitimacy.

2.5.1.2 Previous Studies pertaining to Islamic CSR

Islamic corporate social responsibility (ICSR) has been described from several points of view. For instance, Khurshid et al. (2014) developed a definition of CSR which includes Islamic economic responsibility, legal, ethical and philanthropic. Yusuf (2017, p.71) in his study about ICSR in the Islamic financial institution in Aceh province, Indonesia, explained that CSR is a manifestation of responsibility to Allah SWT, fellow humans and the natural environment based on the principles of *tauhid*, *khilafah*, *justice*, *ukhuwah* and *maslahah*.

On the other hand, the development of CSR thinking has resulted in a definition that is widely accepted. However, the aforementioned ICSR definitions are still general in

nature and not yet cover more recent development. There are still few discussions about ICSR in a more contemporary condition by referring to the more legitimate definition that applies internationally. This study offers a new definition of ICSR, in Indonesian Islamic banking context.

2.5.1.3 Previous Studies pertaining to CSR Rhetoric

In CSR rhetoric, three important devices have been discussed: ethos, pathos and logos. This subsection outlines previous studies pertaining to this issue and the gaps of the studies.

Prior research pertaining to ethos has been conducted by Castello and Galang (2014), Castelló and Lozano (2011), and Marais (2012). They argued that the ethos must be based on the values prevailing in the community and the organization's environment. In order to gain credibility from society, organizations' ideas must be in line with the prevailing values. Subsequently, the organizations must show their expertise in implementing these values (Higgins & Walker, 2012; Marais, 2012). According to Higgins & Walker (2012), ethos invites audience to confer authority on a speaker. Their research showed that organizations were trying to show their authority by referencing to widely accepted values competing for sustainability issues in the global agenda. They demonstrated their authority, for example through their statements in their report, to show that the corporation is good and responsible (Castelló & Lozano, 2011).

In Indonesian Islamic banks context, the global agenda and *Shariah* values are followed. The global agenda is the main reference because this industry cannot be

separated from global agenda which is also adopted by OJK and Bank Indonesia. To build their ethos, Indonesian Islamic banks have to ensure their *Shariah* credential through individual and institutional authority. While the issue of ethos has been researched in the Western context, in the context of Indonesian Islamic banks, this issue is still poorly understood.

While ethos relates to the belief of the stakeholders that an institution has authority in its field, pathos relates to the values used in communicating organizational ideas. Previous research has used values on the global agenda. In discussing the moral value of pathos, previous studies (Castelló & Lozano, 2011; Marais, 2012) linked it to the global agenda such as partnership, social contribution, and human responsibility. Such values are used to build an identity that will be an appropriate response to stakeholders' expectations (Marais, 2012) and to engage the audience (Castelló & Lozano, 2011).

On the other hand, there are several studies that discuss Islamic CSR at Indonesian Islamic banks (Bahari & Yusuf, 2014; Darus et al., 2014; Ma'ruf et al., 2020; Shofawati, 2020). However, far too little attention has been paid to reviewing this research area. Indonesian Government has adopted SDGs (Sustainable Development Goals) into its policy and planning, and consequently it has been followed by finance and banking sector. The relationship between SDGs and Islamic values needs to be understood because it will explain how transcendental values are translated contextually, so that they can serve as a basis for persuading stakeholders in order to strengthen legitimacy. Thus, this is the gap investigated in this study.

In logos, the message delivered to the stakeholders, particularly to investors, stockholders and financial community, should be supported by evidence in the form of words, data, numbers, tables and graphics (Marais, 2012). Marais (2012) pointed out the importance of CEOs to put forward rational arguments about organizational performance. Castello (2011) argued that logos supports the most important argument. If the explanation is accepted by the public, the organization will gain legitimacy. However, if the explanation is not satisfying, coupled with unsatisfied financial performance, investors may be reluctant to support the organization.

According to the Islamic perspective, logos which is rational thinking can be used as widely as possible, as long as it does not conflict with *Shariah*. As has been explained, there are not many Islamic rules that limit the use of rational thinking in making decisions. It seems that no research has specifically investigated how logos is used in the context of Indonesian Islamic banks for the purpose of achieving legitimacy.

2.5.2 Research Methodology Gap

Previous studies on CSR are dominated by positivism paradigm, as revealed by Marais (2012) who conducted research on France companies and Castelló and Lozano (2011) who investigated MNCs. They found that rhetoric CSR was used to achieve legitimacy by using quantitative methods. Few researchers used a different paradigm, such as Erkama and Vaara (2010) who employed critical paradigm, and Castello and Galang (2014) who used post positivism paradigm in investigating Asian firms. Appendix B presents various studies on rhetoric and legitimacy, and the paradigm employed by the studies.

Research using the positivism paradigm has resulted in an understanding of efforts to achieve legitimacy through CSR activities. On the other hand, most of the research lacks experience description in understanding the phenomenon from the perspective of the actors involved. This research is intended to fill the methodological gap by employing interpretivism paradigm.

2.6 Summary

The legitimacy of an organization can be achieved when the organization's activities are in line with stakeholders' expectations. Once legitimacy is achieved, the organization will enjoy resources, market access and stakeholders support as prerequisites to exist in the long run and gain organizational growth. This is the primary reason for organizations to implement CSR. However, CSR should be communicated by using rhetorical devices to ensure that stakeholders understand the organization's purposes. The three key concepts, which are legitimacy, CSR, and rhetoric, have been explained through the Islamic perspective. Previous studies showed that CSR rhetoric could enhance legitimacy; however, none of those studies is conducted in Indonesian Islamic banking context. This chapter presents theoretical gaps and methodological gap. Theoretically, there are gaps in theories of legitimacy, CSR, and CSR rhetoric. Methodologically, this research uses different paradigm compared to prior studies. While most previous studies employed positivism paradigm, this study uses interpretivism paradigm in its methodology.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter explains research philosophy underlying the methodology, the method chosen, and the validation of data collected.

3.2 Research Philosophy

Although it has commonly been understood that research methodology is built on philosophical assumptions, yet the literature suggests different views on what is meant by philosophical terms and other building blocks of research. Philosophy is a roadmap for research, providing a better understanding of the research process and aligns pivotal aspects of the study to deal with various dilemmas that researchers might encounter (Sefotho, 2015). Unfortunately, there are diverse views about classifications, categorizations, and descriptions about research philosophy in relation to research methodology with overlapping meanings and emphasis (Mkansi & Acheampong, 2012). The terms used in this research need to be clarified. For that reason, this study refers to Gray (2014) and others (Crotty, 1998; Grix, 2002; Hay, 2011) in understanding ontology and epistemology as the basis for choosing paradigm, methodology, and methods, as depicted in Figure 3.1.

In line with the objectives of this study, the present research employs interpretivism paradigm which is based on multiple reality ontology and constructivism epistemology. The choice of research methodology is based on the consideration to achieve the research objective. This study recognizes that the reality is constructed in the mind of managers in the bank who are involved in this matter.

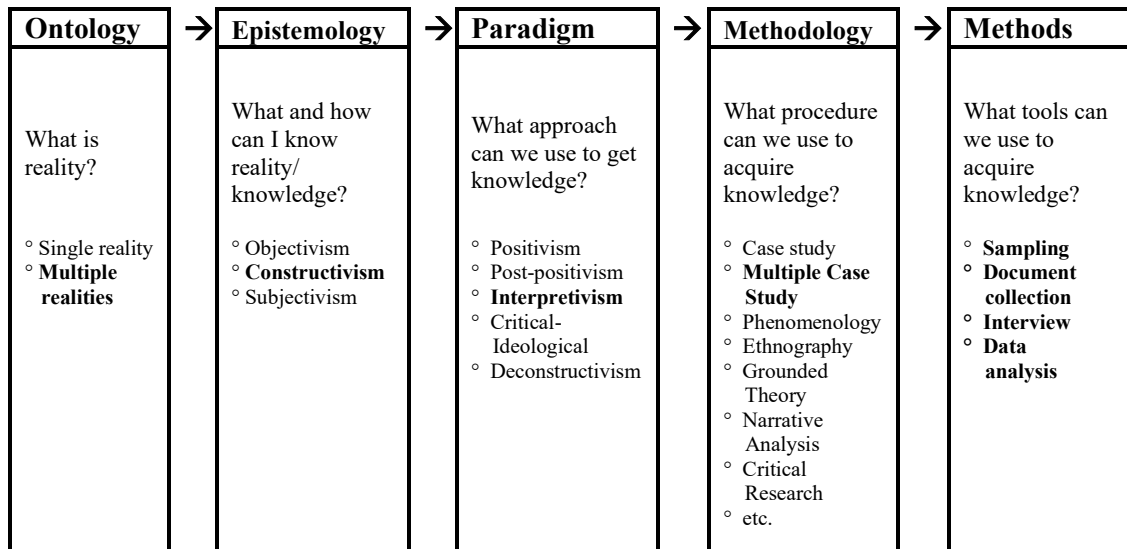


Figure 3.1

The Interrelationship between the Building Blocks of Research

Adapted from Crotty (1998); Gray (2014); Grix (2002); Hay (2011)

Since the reality is assumed to be subjective and has multiple contexts (Creswell, 2007b; Tracy, 2013), this research embraces the ontological assumption of multiple realities and constructivism epistemology (Gray, 2014). At this point, the literature reveals that the term constructivism is often combined with the term interpretivism (Creswell, 2009); scholars often call it “constructivism-interpretivism”. Both terms are used interchangeably (Jonas, 2018; Merriam, 2009) because both terms share the same aim and show the same roots in understanding social phenomena from people's perspective (Jonas, 2018). Thus, there is a need to state the researcher's stance in this matter. This study follows Gray's (2014) position who employs the term interpretivism as a paradigm linked to constructivism epistemology. Interpretivism paradigm adopts the premises that multiple realities exist, and their underlying meanings depend on and are co-created by researchers (Harrison, Birks, Franklin, & Mills, 2017; Sefotho, 2015). This paradigm underpins the methodology of the present study.

Because of the exploratory nature and particularly the objectives of the study, this research employs the qualitative approach and multiple case study methodology. Philosophically, case study methodology can be orientated from a realist ontology where researchers hold the view that there is a single reality, through to a relativist ontology which adopts the premise that multiple realities and meanings exist (Harrison et al., 2017). In other words, case study can be approached quantitatively or qualitatively. In this matter, due to the interpretivism paradigm employed in the present study, the methodology of this research is qualitative case study (Merriam, 1998; Merriam & Tisdell, 2016). This is an empirical inquiry that investigates a contemporary phenomenon within real-life context (Yin, 2011, p. 17), conducted to obtain multiple perspectives from process, activity, situation, process, or organization (Cooper & Schindler, 2014). Since the study investigates more than one case which are BSM and BMI, the methodology employed is called qualitative multiple case study (Merriam, 1998a, p. 40; Stake, 2006).

This methodology is chosen since it has distinct advantages in comparison to single case study. According to Merriam (1998), Tsang (2013), and Yin, (2011), the more cases included in the study, the greater variation across the cases, the more compelling and robust the interpretation is likely to be. Additionally, by employing this method, the transferability of the result is enhanced (Merriam, 1998; Tsang, 2013). The term transferability is closely related to external validity or generalization (Rambaree, 2007). Transferability is used because of the assumption that the findings are context specific and it is not aimed to generalize findings (Petty, Thomson, & Stew, 2012b). Transferability does not require the discovery of the general conditions under which a

finding or theory is valid; instead, it involves a transfer of knowledge from one study to another in similar contexts, settings or groups (Elo et al., 2014; Maxwell & Chmiel, 2014; Noble & Smith, 2015; Yilmaz, 2013).

3.2 Research Method

3.2.1 Sampling

Since this study is qualitative in nature, the sampling method employed is theoretical sampling instead of statistical sampling. According to Neuman (2014), while in quantitative research sampling is picking a few to stand in for the many, the logic of qualitative sample is to sample features of the social world. This method is expected to shed light into key dimensions or processes in a complex social life that could reveal valuable information, new aspects, new theoretical insights, or deepen understanding of complex situations, events, or relationships (Neuman, 2014). Flick (1998, p.41) added that the sample is determined by their relevance to the research topic rather than their representativeness. Thus, in lieu of employing statistical sampling typically adopted in quantitative research (De Massis & Kotlar, 2014), this study uses theoretical or purposeful sampling (Maxwell & Chmiel, 2014). In this regard, Patton (1990) emphasizes that "The logic and power of purposeful sampling lies in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance" (p. 169).

The purposeful sampling method used in this study comprises two levels, that are case and within the case level. In the case level, sampling method is conducted to achieve specific purpose through the greatest amount of data (Patton, 2002) by paying specific

attention to the diversity of views, behaviors, or contexts represented in the data that have been collected, deliberately searching for variability and data that do not fit prior expectations (Flick, 2011). Cases that reflect both the lowest and highest status are selected (Mills, Durepos, & Wiebe, 2010). It is called maximum variation sampling (Creswell, 2007a; Patton, 1990). This sampling method is selected to understand the common themes and patterns (Merriam, 2009) which are useful in capturing the core experiences and shared aspects of the phenomenon under study (Patton, 1990). In this case, “maximum variation sampling strategy would not be attempting to generalize findings to all people or all groups but would be looking for information that elucidates programmatic variation and significant common patterns within that variation” (Patton, 1990, p. 172).

Maximum variation sampling at the case level is applied by selecting BMI and BSM, because both banks have the greatest variation. Both are dominant actors in the industry and they demonstrated different directions in terms of asset growth. Figure 1.4 illustrates the market share in terms of assets; BSM has 31% and BMI has 22%, constituting the largest market share in Indonesian Islamic banking industry. BMI was established in 1991 as the first and only *Shariah* bank with 100% market share until 1999, when BSM was established. Thus, both banks have noticeably different competitive abilities.

At the case level, the sampling selection is based on criterion sampling. The informants chosen were individuals who have experience (Creswell, 2007) and understand the phenomenon so that rich information can be obtained (Patton, 1990). In this study, the term informant is used for the interviewee, because this term refers to their active role

in sharing their knowledge and experience in their social and cultural context (DePoy & Gitlin, 2015). Consistent with the objectives of the current research, the informants chosen are the key persons who plan, organize and engage in CSR programs. Informants of this study are as follows (see Appendix C).

1. President Commissioner BSM
2. Director of Risk Management & Compliance BSM
3. Executive Director of Lembaga Amil Zakat BSM
4. Director of Compliance & Risk Management BMI
5. Manager of Corporate Social Responsibility, Corporate Affairs BMI.
6. Executive Director of Baitul Maal Muamalat BMI

The sample size of this study is considered appropriate based on the views of some scholars. Noor and Hashim (2015) in their research about CSR and sustainability of Islamic banking suggest that between four to ten informants for qualitative data collections is justifiable. In the same vein, Bonde (2013) explains that if the informants have expertise and high level of knowledge about the topic under research, four to five informants are enough.

Those interviewed informants were experienced and knowledgeable people. Valuable insights about philosophical foundation matters were obtained from the President Commissioner of BSM. In Indonesian company law (Sondak, 2016), the board of commissioners represent corporations' interests. This body serves as a check and balance for the acts of the board of directors. The general meeting of shareholders appoints them. BSM's President Commissioner, Dr Mulya Efendi Siregar, was previously an officer at OJK who socialized the idea of sustainable finance. He was a Deputy Commissioner for Banking Supervision of the OJK, which developed the

concept of sustainable finance to be applied in banking (Baihaqi, 2016). Moreover, he endorsed Islamic banks to be at the forefront of sustainable financing implementation (Yudistira, 2016).

Valuable information was also obtained from other informants. CSR is implemented at the corporate, supervisory, and operational levels. The subsequent informants, Director of Risk Management & Compliance BSM and Director of Compliance & Risk Management BMI, formulated CSR strategies at the corporate level. At the supervisory level, the CSR programs were coordinated by the Sustainable Finance Department Head of BSM and the Manager of Corporate Social Responsibility, Corporate Affairs of BMI. They coordinate zakat foundations, which implement CSR programs.

3.2.2 Data Collection

The main data collection techniques used in this study are interview and document collection. Interview is favored as it could capture firsthand information from the subjects of the study. Subsequently, the information obtained from the documents was used to complement the information from the interviews.

3.2.2.1 Interviews

In order to understand the subject in depth, this study employed semi-structured interview to obtain information from managerial perspectives. The semi-structured interview was selected as it allows informants to talk about their opinions on a particular subject. The objective is to understand the informants' point of view in this matter. Open-ended questions were raised and some emerged naturally during the

interview. It allowed some areas to be explored in detail and some new facts or fresh insights could be revealed.

The questions were formulated based on the research questions and the literature review. The interview questions were developed to elicit an understanding of how the CSR rhetoric takes place at the bank to achieve legitimacy. Specifically, the questions comprise three main themes: (1) the concept of legitimacy; (2) the concept of CSR in Islamic perspective; and (3) CSR rhetoric. They are presented in Table 3.1. In addition, the interview questions revolved around the informants' practices and experiences of managing the CSR rhetoric to achieve legitimacy. The interviews were conducted with the person in charge for CSR at BSM and BMI. Each person was interviewed for around 40-90 minutes.

In employing the in-depth interview, the researcher favored an interview with the low structured format to probe for more information. The interviews were conducted face to face, in an informal way, without imposing preconceptions, to permit greater flexibility and allow for a fuller exploration and new points to be followed up (Ates, 2008). Through the interviews, the informants' interpretations and meanings toward the reality were revealed, and they offered insights into special knowledge that only the informants possess (Lapan, 2004). Thus, semi-structured interviews were chosen because thinking through question wording carefully in advance allows the researcher to consider if the question is complete, or if it is biased or misleading. Semi-structured interviews combined this strength with the ability to deviate from the guide in order to collect the most useful information. The interviewer also probed with additional follow-up questions in order to explore unexpected, unusual, or especially relevant materials revealed by informants (Patten & Newhart, 2018).

As a guide for probing the information, the interview protocol is needed. It was designed as a guide for probing the information and clarifying the issues raised during the interview. Before the commencement of the interview, the nature of the research was explained to informants, and their questions were raised for any clarification before proceeding with the questions. This was followed by an explanation of how the interview would be conducted. The next step was to obtain some non-sensitive background information, and be engaged in a general conversation about the Islamic Bank as well as the informant's particular role. All these steps were done to establish respect and care to the person being interviewed. The interview protocol is attached in Appendix D.

3.2.2.2 Documents Collection

In this study written documents were used as a source of additional information to complement, clarify or verify information collected from the interviews. The documents which are related to bank communication with stakeholders were obtained from online sources. Researcher downloaded the annual report, good corporate governance report and sustainability report from banks' websites. Annual report contains, among others, the report of performance, company profile, human capital, corporate governance and CSR. Parts of the annual report are explained in more detail in a separate report, namely the good corporate governance report and the sustainability report (triple bottom line report).

The information sought from those reports is based on themes developed from the Questionnaire Matrix (Table 3.1). These themes are related to first research questions (e.g. stakeholders, legitimacy, Islamic values), second research questions (e.g. CSR,

norms, law, guidance) and third research questions (e.g. governance, individual authority, institutional authority). These themes are obtained based on the theories reviewed in chapter 2 which includes *Shariah* legitimacy, Islamic CSR, and CSR rhetoric. First, *Shariah* legitimacy theory. It should be noted that this theory is built on the theory of *Maqasid Shariah*. Both theories act as the starting point for developing interview questions. Second, the Islamic CSR definition that has been formulated in the previous chapter. The researcher develops questions based on the elements contained in this definition. Third, regarding CSR rhetoric which consists of ethos, pathos and logos. Two major themes are developed from ethos, namely individual and institutional authority. Major themes in pathos are determined based on table 2.3. Additionally, the understanding of logos in the Islamic perspective becomes a major theme as well. The alignment of the research questions, research objectives, theories and interview questions is intended to ensure consistency.

Those themes are searched in text by analyzing the meaning of words and sentence structure in the annual report (2009-2019), good corporate governance report (2018), and sustainability report (2017-2018). Documents relevant to the content of the interviews were used to triangulate the themes or categories obtained from the interview transcripts.

Table 3.1
Questionnaire Matrix

RQ	RO	Theories	Questions
1. What is legitimacy of Islamic banking as perceived by the bank managers?	1. To find out the perceptions of bank managers about their knowledge and efforts on legitimacy of Islamic banking.	a. Shariah legitimacy Conformed to <i>Shariah</i> in order to please Allah and to be accepted by society. b. Maqasid Shariah	1. Who are the stakeholders of the Islamic bank? 2. What do Islamic banks do to be accepted in the eyes of stakeholders (to gain legitimacy)? Do you think it is enough? 3. In carrying out these activities, what kind of Islamic values that must be considered?
2. How do bank managers perceive definition of CSR from Islamic perspectives	2. To explore a more comprehensive definition of CSR from Islamic perspectives as perceived by Islamic bank managers.	Islamic CSR <ol style="list-style-type: none"> 1. contributes to sustainable development, including health and the welfare of society; 2. takes into account the expectations of stakeholders; 3. is in compliance with <i>Shariah</i> principles, applicable law and international norms; 4. is integrated throughout the organization and practiced in its relationships; 5. carried out with the intention to perform worship, and guided by <i>khilafah</i> values. 	4. Please explain, what are the reasons for the bank to carry out CSR activities? 5. What kinds of CSR activities carried out to achieve that goal? 6. Do you take into account stakeholders' expectations? Please explain. 7. Are there any Islamic rules, norms, national or international laws, which cause banks to do CSR? Is there any internal guidance? Please explain. 8. In your opinion, what are the Islamic values that can be a guideline in implementing CSR?
3. How is CSR rhetoric used to attain the legitimacy of Indonesian Islamic banks?	3. To investigate the use of CSR rhetoric in attaining legitimacy of Islamic banking in Indonesia by using interpretivism approach.	CSR rhetoric in Islamic view Ethos <ol style="list-style-type: none"> 1. Individual authority in <i>Shariah</i>. 2. Institutional authority in <i>Shariah</i>. Pathos <ol style="list-style-type: none"> 1. Concern to the disadvantage. 2. Incorporates the people who have different views. 3. Embracing the old or weak people. 4. Speech integrity. Logos Reasonable and logical arguments which is not transgress with Qur'an and Sunnah.	9. In communicating CSR activities with stakeholders, what factors do you consider or highlight? 10. Is the status as a <i>Shariah</i> -based bank important in communicating CSR? Please explain. 11. What is the essence of the message conveyed to stakeholders in communicating CSR, which can create a positive impression on them? 12. In delivering the message about CSR, how do you use of logical messages, such as logical arguments, data, numbers or objective facts that can be accepted by stakeholders? Please, explain.

3.3 Research Ethics

Research ethics are often defined as 'doing no harm' (Piper & Simons, 2005). It is an expected societal norms of behavior in research which pervade every step of the research process (Sekaran & Bougie, 2016), to ensure that no one suffers from research activities. It includes the issues of informed consent, confidentiality and publication access (Piper & Simons, 2005).

Ethical issues might occur in data collection process. In this regard, the researcher asked for the informants' permission by informing them clearly about the research objectives and the implication of taking part in the research. The researcher explained to informants that information gathered is only used for research purposes. The confidentiality of their responses is assured, and the anonymity is optional. Those ethical concerns are written in the interview protocol which is attached in Appendix D. In practice, the informants did not state any confidentiality of the information they gave.

3.4 Data Analysis

Taylor, Bogdan, and DeVault (2016) state that data analysis in qualitative research is not just a mechanical and technical process, but it includes inductive reasoning, thinking, reflecting, and authorizing. The researcher's mind and intuition are the greatest tools (Strauss & Corbin, 2008). In undertaking data collection and interviews, the researcher constantly theorized and tried to make sense of the data, keeping track on the emerging themes and ideas (Ponelis, 2015; Puvenesvary et al., 2008; Strauss & Corbin, 1998; Tracy, 2013). This step was undertaken by using qualitative data analysis software (QDAS).

Data analysis was carried out at two levels: within-case level and cross-case level. The within-case analysis was conducted to get categories based on codes that emerge from interview transcription and written documents. After the analysis of each case was completed individually, cross-case analysis was carried out to look for similarities and differences among cases.

Atlas.ti software was used in data analysis. Past literature has shown that such software enables the analysis process more organized, transparent, replicable, grounded in the evidence, thorough, yet more time savings (Ang, Embi, & Yunus, 2016; Rambaree, 2007) especially for large data sets (Hwang, 2008). It can substantiate data analysis and enhance the trustworthiness (Ang et al., 2016). However, the software did not do the work automatically, the researcher still did the intellectual work. Atlas.ti is one of CAQDAS (computer-assisted qualitative data analysis software) systems currently available in the market, and its use within the field of qualitative research has been growing over the last few years (Rambaree, 2015). There are several QDAS (qualitative data analysis software) application that can be used in processing data such as NVivo, ATLAS.ti, Quirkos, MAXQDA, Dedoose, Qiqqa, webQDA, Transana, and others. Nvivo is the most popular software used in qualitative research. Besides NVivo, Atlas.ti is one of the longest used QDAS tools and the most employed software in qualitative research (Woods, Paulus, Atkins, & Macklin, 2016). It is also the program that the researcher is familiar with. So, this study used Atlas.ti 7 to analyze data.

3.4.1 Within-Case Analysis

This step was conducted through the following activities.

3.4.1.1 Data Familiarization

The first step in the analysis process was the immersion of the qualitative data in the mind of the researcher (Green, 2007) by performing detailed examination of the recording and written texts. Technically, listening to the recording was done without interruption to get general impression. Furthermore, the texts were read and re-read delicately by referring to the objectives and the possibility of new themes emerging. The novice, surprising, unexpected or unusual themes are expected to emerge by managing this process in an open-minded manner. When this process had been completed, it became the basis for the next step (Green et al., 2007).

3.4.1.2 Coding

Coding is a process where data are broken down into components, which are given descriptive labels (Bryman, 2012, p. 712). It is carried out by labelling words, phrases, sentences, or sections. Labels can be about activities, concepts, opinions or processes. Something is considered important to code not only based on preconceived theories and concepts, but also to anything that is considered relevant. For instance, if it is surprising, repeated several times, importance as stated by interviewee, anything that have similarity to the previously published reports, or for some other reasons that is connected and appropriate. Moreover, it requires a clear sense of the context in which statements in interview data are made (Green et al., 2007) or the place of the document is present. In this matter, the researcher acts as an instrument (Creswell, 2007, p.38; Taylor et al., 2016, p. 40), because the researcher decides "which data chunks to code and which to pull out. Which patterns best summarize a number of chunks, which evolving story to tell" (Miles et al., 2014, p. 8).

3.4.1.3 Categorizing

Moving beyond initial coding and sometimes occurring alongside the coding process, the data need to be revisited to examine the ways the codes can be linked (Green et al., 2007) and grouped. The researcher chose which codes were the most important, and brought the codes together to create categories and sub categories (Saldaña, 2009, p. 9) if present. This step was done by examining all the codes created thoroughly. Then, the researcher created new codes, eliminated repetition and similar codes, dropped codes which were considered insignificant, or combined two or more codes considered important. In this step, the researcher used classification reasoning plus tacit and intuitive senses to determine which data "look alike" and "feel alike" when grouped together (Saldaña, 2009, p. 9).

3.4.1.4 Connecting Categories

Categories and sub categories were connected and displayed. The researcher considered how categories interrelate and how categories may have different levels by identifying the hierarchies of categories and sub-categories. As Miles and Huberman (1994) said, this step can be implemented by displaying the data on tables or figures in order to make the data understandable and to allow conclusion drawing. In this research, by using Atlas.ti application, such data were presented by the report for quotations for every code assigned. This presentation enables the researcher to interrelate categories and sub-categories. Subsequently, the explanation about those relationships can be made.

3.4.2 Cross Case Analysis

The researcher selected the categories and looked for within-group similarities coupled with intergroup differences. Furthermore, the researcher selected pairs of cases and then identified similarities and differences between each pair. Consequently, researcher made the interpretation.

3.5 Data Quality

In order to be trusted, all research should produce reliable and valid knowledge (Merriam, 1998; Merriam & Tisdell, 2016). In this sense, Lincoln and Guba (1985) offer the parallel concept of validity and reliability, called trustworthiness. Trustworthiness refers to the quality of research and its findings that makes it noteworthy to audiences (Schwandt, 2007). It consists of confirmability, dependability, credibility and transferability (Lincoln & Guba, 1985), which are elaborated in Table 3.2.

Table 3.2
Criteria for Trustworthiness

Quantitative research Criteria	Qualitative research Criteria	Description
Objectivity	Confirmability	The extent to which the findings are the product of the inquiry and not the bias of the researcher.
Reliability	Dependability	The degree to which the results are consistent with the data collected.
Internal validity	Credibility	The degree to which research findings match reality
External validity	Transferability	The extent to which the findings can be applied in other contexts or other similar settings.

Source: Lincoln and Guba (1985), Merriam (2009), Petty et al. (2012b).

The trustworthiness of qualitative research can be achieved by the rigor procedure. Scholars (e.g. Creswell, 2007; Guba & Lincoln, 1982; Patton, 1990; Petty et al., 2012b) have mentioned several procedures that can be used by qualitative researchers. Creswell (1998, p. 203; 2013, p. 253) recommended researchers to use at least two procedures in any given research. One procedure employed to ensure the transferability is purposive sampling. This has been explained in Subsection (3.2.1) on sampling. According to Petty et al. (2012b), purposive sampling is one of the strategies to enhance transferability, since it can deepen the understanding of the phenomenon under scrutiny and provides a range of perspectives. Other strategies used in this research are triangulation and experts' review.

3.5.1 Triangulation

Triangulation was used in this qualitative research. Although it is commonly used in mixed method research, there have been intense debates on the use of this concept. Hussein (2009) said that it is used in multiple methods, especially in qualitative and quantitative methods for the purpose of increasing trustworthy (Hussein, 2009). Triangulation is done by juxtaposing the results of analyses using quantitative and qualitative methods (Bryman, 2012). Triangulation is the rationale of mixed methods research as it combines quantitative and qualitative methods to generate mutually corroborated findings (Doyle, Brady, & Byrne, 2016). Thus, it constitutes the fundamental principles of mixed methodology research (White, 2011), which is based on the assumption that the inquiry is designed to get an objective truth (Miller & Fox, 2004). However, the idea of combining methods has been criticized because it contains naive realism assumption that implies the single definitive truth of the social reality (Wilson, 2014). Mixing methods within one paradigm, such as qualitative method, can

be problematic if it transgresses ontological and epistemological assumptions (Golafshani, 2003; Grix, 2001). Moreover, Pierre (2014) fiercely argues that in the mixed methodology research, there has been a common practice of brutal ontology and epistemology abandonment.

Notwithstanding the critique toward triangulation, however, the use of triangulation in qualitative research can be justified as long as it is consistent with the philosophical position. As Sefotho (2015) suggests, since paradigm occupies a crucial position in qualitative research, it should be followed to ensure the harmony and alignment in research process. In this matter, Gibbs (2013) contends that there are always error possibilities in interpretation or different perspectives in understanding a situation, which require efforts to determine which version is considered most likely. He added that there is a possibility that informants do not behave or speak in a consistent manner. Therefore, triangulation is required to validate the convergence between different and multiple sources to form categories or themes in this study (Creswell & Clark, 2010).

Hence, by paying attention to the philosophical position of this study, triangulation is used to assure that the picture can be captured clearly and meaningfully, relatively free from the researcher's biases, and not likely to mislead the readers greatly. Moreover, as Grix (2001) emphasizes, "as long as you are aware of how you are employing a specific method, and how this relates to the ways in which you employ other methods, there should be no problem" (p. 84). He recommends the use of data triangulation to reveal new dimensions of social facts where informants do not always perform consistently, not to prove that they are wrong or lying.

In this case, triangulation is used to increase trustworthiness. More specifically, this method can enhance credibility, confirmability, and dependability (Anfara Jr., Brown, & Mangione, 2002; Ang et al., 2016; Lincoln & Guba, 1985; Petty et al., 2012b). It is the practice of corroborating evidence from more than one theme or perspectives by employing different sources of data (Creswell, 1998; Denscombe, 2014). Triangulation could also enable readers to see whether the research would give the same meaning when found under different circumstances (Stake, 1995). In order to triangulate data across sources, the researcher developed evidence from several sources for interpretation. In this study, the researcher made tables for triangulation. The statements of the informants were crosschecked with other informants or documents to acquire more valid information.

This research phase was conducted by verifying the various data sources to ensure the trustworthiness of the research. In this regard, the incomplete or uncertain information was checked by other documents. For example, when one informant mentioned several kinds of stakeholders, he mentioned a few, not all of the stakeholders. Therefore, this information must be checked by the researcher by examining the bank's document or other sources. Additionally, there was a case when the informant was not sure about a certain issue and asked the researcher to check it. Several themes that emerge from the transcripts were triangulated as described in Appendix E, that resulted in corrections or adjustments to obtain more corroborated findings.

3.5.2 Peer Review

To improve trustworthiness, the experts assisted the researcher through peer review. Peer review is an external examination conducted by experts who are familiar with the phenomenon being scrutinized to improve the credibility of the study (Creswell, 2007;

Creswell & Miller, 2000; Henry, 2015; Lincoln & Guba, 1985). Discussions were held with the peers. They provoked critical thinking, provided fresh perspectives, and offered additional perspectives in order to develop interpretation and meanings in the research process (Lincoln & Guba, 1985).

Experts were involved in the review of this study. They were asked to review the findings and discussion sections, because they have knowledge and experience in Islamic banking field. This stage was conducted by discussing research findings and discussion of this research with them to get corrections, critical commentaries, new insights and fresh perspectives. This study was reviewed in order to get reliable and valid knowledge.

Four experts voluntarily reviewed this study. The researcher made appointments with them one by one. The researcher gave the result and discussion sections of this study to them, and then held discussions at a certain place and time, depending on their availability. Meetings with these experts were held after completing data analysis to obtain their feedback. Their comments were employed as feedback for adding new thoughts, modifying the interpretation, and enriching the perspective.

The experts involved in this study are:

1. Farouk Abdullah Alwyni, MA, MBA, ACSI
2. Prof. Dr. Selamat Riyadi, M.Si.
3. Prof. Dr. Ir. Hermanto Siregar, M.Ec.
4. Dr. Ir. Hadi Purnomo, MSi.

All of them are practitioners and academicians. They have contributed their thoughts and views to this study. Their profiles are presented in Appendix F.

The first expert is Farouk Abdullah Alwyni. He was the director of BMI from 2009 to 2011. He enriched the findings of this study based on his knowledge and experience. Discussions with him were carried out two times. The first discussion was conducted for about 40 minutes. He (personal communication, 11 December, 2019) commented the BMI's financial report due to its worse performance compared to that of BSM. Based on the first discussion, the draft was revised and the discussion chapter was created. In the second occasion, discussion was held for about one hour. He (personal communication, 3 March 2020) clarified several things, commented the existing practice by using *Maqasid Shariah* perspective, proposed the completeness of the analysis, and shared some thoughts.

The second expert is Selamat Riyadi, professor at Perbanas Institute, Jakarta. He previously worked at Bank Dagang Negara (1979-1999) and BSM (2003-2012). So, he has extensive experience in banking industry. The discussion was held for around fifty minutes. In the discussion (personal communication, 25 February 2020), he suggested the importance of highlighting the novelty of the research. Additionally, based on the findings of this study, it is recommended that future research should use quantitative method.

The third is Hermanto Siregar. He is a professor in economics. He has extensive experience in banking as a commissioner in several finance and banking institutions, and as a chairman of Agricultural Economics Association. The former Indonesian President (2011-2014), Susilo Bambang Yudhoyono, appointed him as one of the President's economic advisors. The discussion with him was conducted for around thirty minutes. In the discussion, he (personal communication, March, 2020) emphasized the importance of the clear depiction of CSR applied in Indonesian

Islamic banking. Finally, he reminded the importance of data support to corroborate the result.

The last expert is Hadi Purnomo. He engaged in banking industry from 1999 until 2015. He worked at BSM as Head of Financing Restructuring Division (2005-2009) and Head of Investment and Corporate Financing Division BSM (2009-2013). His last position in the bank institution was Business Director in Bank Panin Syariah (2013-2015). Subsequently, he engaged in teaching and consulting activities. The discussion with him lasted for one and a half hour. While discussing the topic, he enriched the study by sharing his knowledge and experience in industry, which are relevant to the topic. He criticized the conduct and behavior of Islamic banking, which are not in line with Islamic values. He also provided some insights and additional ideas for this study.

3.6 Overview of Research Method

For ease of understanding, the following figure illustrates the research method of this study.

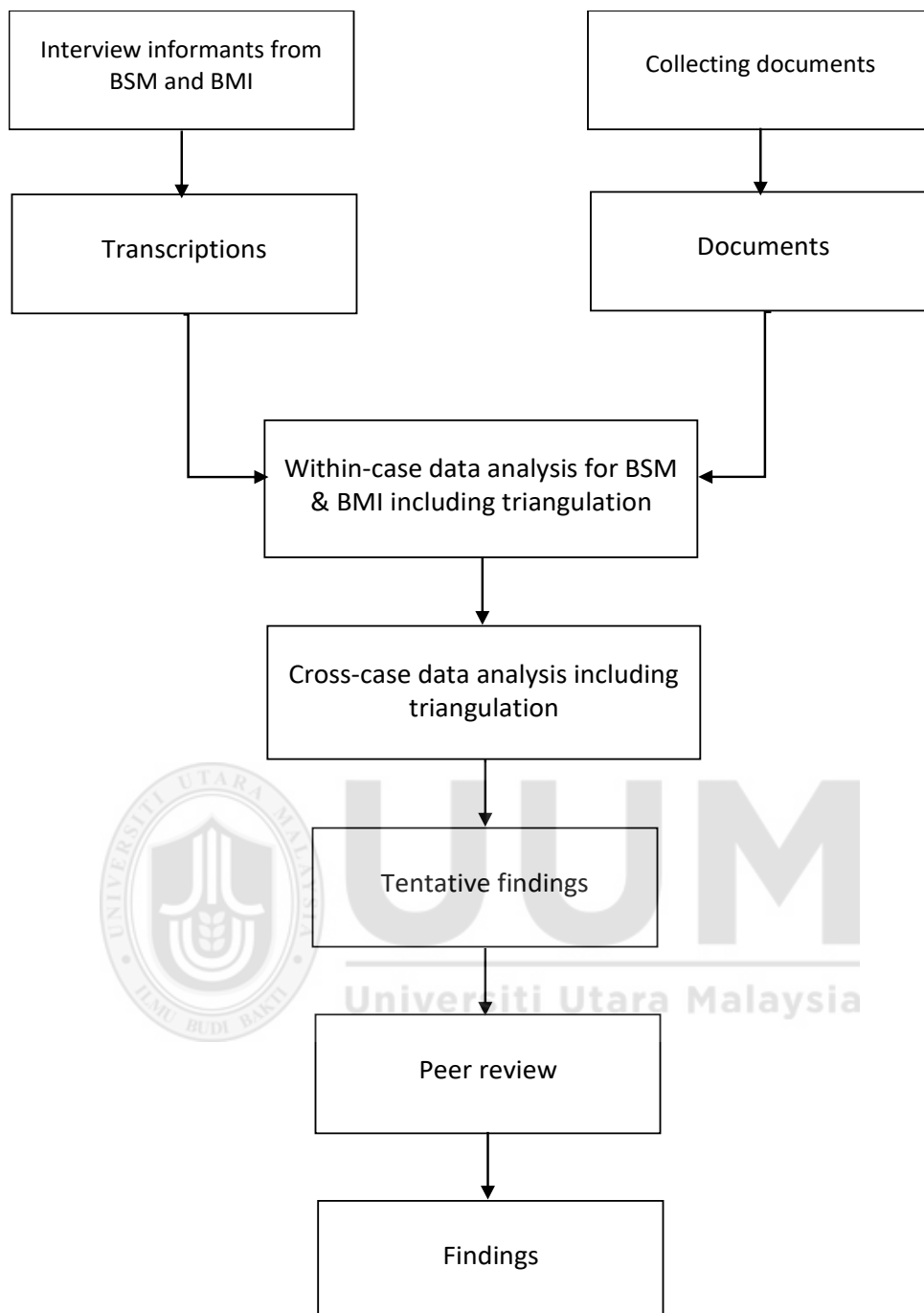


Figure 3.2
The Flowchart of Research Method

3.7 Summary

The research methodology of this study is constructed by the following building blocks: ontology, epistemology, paradigm, methodology, and methods. In ontology, this study views that reality as multiple realities instead of a single reality. Thus, the

epistemology employed is constructivism because these realities and their meanings depend on and are co-created by researchers. Subsequently, constructivism epistemology is linked with the interpretivism paradigm. Based on this paradigm, the researcher determines multiple case study as a methodology. In this vein, two cases are selected: BMI and BSM. Both banks dominate Indonesian Islamic banks' market share, and both banks are the oldest Islamic banks in Indonesia. Based on the methodology chosen, the methods employed are interviews, document collection, and thematic analysis. Interviews were conducted toward informants in both banks; they are key persons who plan, organize, and engage in CSR programs. Additional information was collected from banks' written documents to complement, clarify or verify information collected from the interviews. In collecting data, research ethics was applied. Furthermore, data analysis was implemented by analyzing interview transcripts and banks' written documents. To enhance trustworthiness, the researcher used procedures of purposive sampling, triangulation, and peer review.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The main objectives of this study, as stated in chapter one, are to explore the concept of CSR and how CSR rhetoric can be used to achieve legitimacy in the Indonesian Islamic banking context. To achieve these objectives, two cases (BSM and BMI) were purposefully selected. The data were collected via interviews and document collection. Then, the data were analyzed to obtain the findings, which are then critically discussed. Conclusions are drawn based on the discussion of findings. To increase trustworthiness, the findings were validated using triangulation and discussions with experts in this field. This chapter presents empirical findings and analysis of the data gathered.

4.2 Findings

All of the interviews have been transcribed by the researcher. Information collected through the interviews is accompanied by the written documents from the banks, which were acquired from their websites. Those documents include annual report, sustainability report, and governance report.

The following description is composed by referring to Questionnaire Matrix outlined in Table 3.1. The interview recordings were transcribed and supported by official documents. Subsequently, the written descriptions in those documents were converted into codes. In this stage, during categorizing information into codes, there were several emerging codes appended. This process was conducted by determining codes based on themes derived from the research questions. This process was conducted by using

Atlas.ti software. Additionally, the researcher connected categories which are conceptually related, added relevant information, and eventually made interpretations.

The following description consists of three issues which are aimed to answer three research questions as explained in chapter one, and also depicted in Table 3.1. These issues are *Shariah* legitimacy, Islamic CSR, and CSR rhetoric in Islamic view.

4.2.1 Shariah Legitimacy

The first objective of this research is to explore the concept of legitimacy in Indonesian Islamic banks' perspective. There should be a congruence between organizations' activities with laws, rules and social values. *Shariah* legitimacy is the concept where all activities and operations of organizations must conform to the *Shariah* tenets not simply in text, but also in spirit. It should be based on *maslahah* in order to achieve *falah*. In this regard, organizations should conform to the *Shariah* in order to please Allah and to be accepted by society or stakeholders. Therefore, efforts to comply with *Shariah* tenets need to be revealed.

It is important to note that organizations should direct their employees to worship Allah (*ibadah*) and these employees are expected to behave in accordance with *Shariah* in order to satisfy stakeholders' interest. In BSM's annual report (2018a), the concept of *ibadah* is placed in its core values by saying: "Work as worship mindset" (Bank Syariah Mandiri, 2018c). Correspondingly, BMI (2018) stated that the spiritual basis of the implementation is faith. In this sense, BMI quotes: "People, eat what is good and lawful from the earth..." (Al Baqarah 2:168). Additionally, "If the people of those towns had believed and been mindful of Allah, We would have showered them with blessings from the heavens and earth..." (Al A'raf 7:96). Those teachings are the

foundation for human activities in the organization in order to execute programs and tasks. Several programs have been set up to drive human motivation toward this orientation. For instance, the provision of worship space, *haji* or *umrah* permits, and making discipline of worship as a criterion in the assessment of GCG (Good Corporate Governance) principles (Bank Muamalat Indonesia, 2018, p. 373). These actions are in accordance with the purpose of *Shariah*. Consequently, the organization should assure that its product is good and lawful in order to create social welfare.

Maqasid Shariah is the main principle that should motivate the operation of Islamic banks. When asked about why BSM implemented CSR, BSM President Commissioner, Dr. Mulya Siregar (personal communication, April 25, 2019), revealed that CSR concept is closely related to *Shariah* banks' existence. The *raison d'être* of Islamic bank is five purposes which include the preservation of faith, human self, intellect, posterity, and also wealth. He explained,

Actually, CSR is related to the *Shariah* banks' interest. *Shariah* bank is operated based on *Maqasid Shariah*. There are 5 pillars of *Maqasid Shariah*: *ad-dien*, *al-'aql*, *an-nasl*, *an-nafs*, and *al-mal*. *Ad-dien*, means preservation of religious life, and then soul, intellect, posterity, and also property. Like that...

This means, they can be categorized. Preserving religion, intellect and soul are categorized into People. Subsequently, *an-nasl* is about posterity's life, is categorized into Planet, or preserving environment. Moreover, property is related to Profit. Those three categories are parallel with *Maqasid Shariah*. Those are People, Profit and Planet.

Thus, triple bottom lines (3Ps) are in line with *Maqasid Shariah*. In the same fashion, BMI's Compliance and Risk Management Director, Andri Donny (personal communication, May 23, 2019), said, "... naturally, *Shariah* bank, since it carries out *Maqasid Shariah* concept, in performing its business, bank should pay attention to People, Planet, and ... Profit aspect."

In relation to the four types of legitimacy, the explanation is as follows.

4.2.1.1 Regulatory Legitimacy

The practical application of the CSR idea is guided by the Financial Service Authority (OJK) regulation. This insight is described in a more definite manner in POJK 51 concerning sustainable finance. Putu Rahwidhiyasa (personal communication, May 6, 2019), Risk Management and Compliance Director of BSM, explained that in carrying out sustainability finance, POJK 51 regulates social and business aspects. He stated,

We implement CSR because, as an Islamic bank, it has *Maqasid Shariah* as the goal of its activities. Besides that, in executing sustainability finance, in POJK 51, there are two aspects, that are social and business aspect. In the social aspect, we implement CSR, and in the business aspect, we carry out green business. So, for example, if we want to finance CPO (crude palm oil) business, it should have national and international certificates concerning environmental protection.

This apprehension is also disclosed in the annual report (Bank Syariah Mandiri, 2018a, p. 412) as the basis for implementing CSR and enhancing business performance in a *Shariah*-compliant manner.

To ascertain *Shariah* compliance, Islamic banks should follow BI and OJK rules. The *Shariah* compliance supervisory function is conducted by Dewan Pengawas Syariah (DPS) or *Shariah* Supervisory Board (SSB). SSB is an independent body within the bank where the members are recommended by DSN-MUI (National *Shariah* Council, part of Indonesian Ulama Assembly). SSB provides advice and suggestions to the board of director and oversees its activities to ensure *Shariah*'s compliance. SSB's reports are submitted to the OJK semi-annually. In addition, SSB should implement *fatwa* from DSN-MUI. Furthermore, based on the regulation issued by Bank Indonesia (2009, 2010), SSB should execute its tasks and functions by following GCG principles, which are stated in the annual report, as part of accountability. By

conducting *Shariah* compliance activities, *Shariah* legitimacy is expected to be achieved.

4.2.1.2 Cognitive Legitimacy

All Islamic banks carry out CSR activities because of cognitive reason. Suhendar (2017), Accounting Group Head of BSM, stated that social function is embedded in Islamic banks. In this regard, Dr. Mulya Siregar (personal communication, April 25, 2019) underlined, "We are not just an economic institution. Consequently, we are involved in CSR activities... What we do, we have coordination with the *zakat* management institution that we have." Andri Donny (personal communication, May 23, 2019) supported this notion by saying: "CSR for banks, it has become a kind of obligation. CSR in the sense that it is obligatory through *zakat*, at least. Now, in all *Shariah* banks that I know, they pay *zakat*." Therefore, the teaching regarding *zakat*, which is inherent in Muslim's understanding of Islamic religion, is the main cause of CSR.

In implementing *zakat* teaching, Teten Kustiawan (personal communication, May 21, 2019), Director of Baitul Mal Muamalat, emphasized that compared to Islamic financial transaction administration, *zakat* administration is more stringent in following *Shariah* rules. *Shariah* compliance is crucial in *zakat* management because it relates to the worship aspect in Islamic pillars. He continued, "It is more stringent because there are three kinds of supervision." First, the *zakat* institution is supervised by the bank, second, the Ministry of Religion oversees this institution, and third, the institution should report its activities to the public. Accordingly, CSR implementation, particularly in managing *zakat* funds, is carried out thoroughly because it is related to one of the fundamental Islamic pillars, and closely watched.

4.2.1.3 Normative Legitimacy

Indonesian Islamic banks were founded based on the aspirations of the Islamic community. On May 1, 1992, the establishment of BMI was initiated by MUI, ICMI (Association of Indonesian Muslim Intellectuals), and Muslim entrepreneurs, who later received support from the Government (Bank Muamalat Indonesia, 2020; p. 54). Andri Donny explained that since its inception, *Shariah* supervision had been carried out by competent persons appointed by MUI. Additionally, *ulama* who are members of MUI, were active in conducting education, socialization, and political lobbying to develop Islamic finance and banking in Indonesia (Subardi & Yuliafitri, 2019). Moreover, other Islamic scholars and preachers also spread the Islamic banking and finance idea in mosques and various discussion forums. Hence, normatively, MUI's *fatwas* act as an essential reference for banks and the Muslim community.

MUI has inspired normative values, which are translated and discussed intensely in meetings, seminars, and workshops conducted by several communities. There are various communities with similar interests in which BSM and BMI are engaged, such as Asbisindo (Indonesian *Shariah* Bank Association), MES (*Shariah* Economics Community), and IAEI (Indonesian Association of Islamic Economists). Asbisindo (2019) was founded in 1992, conducting discussions and training related to professional certification, developing a professional code of ethics, and act as a government partner in formulating regulation. MES (2019), founded in 2001, consists of individuals, financial institutions, educational institutions and business entities that are interested in developing Islamic economics. This organization intends to improve the quality of human resources in Islamic economics and enhance Islamic financial institutions' participation in Islamic economic development. Lastly, IAEI (2021),

founded in 2004, consists of practitioners and academicians. The scope of this organization is in the fields of the halal industry, financial industry, *Shariah*-based business, and Islamic philanthropy (Merdeka, 2020). In those organizations, practitioners and academics learn to understand the policies or regulations published by MUI, BI and OJK, discuss current issues, engage in policy formulation discussion, and learn specific skills. Accordingly, those efforts could lead BMI and BSM to fulfill society's norms and values.

4.2.1.4 Pragmatic Legitimacy

Islamic banks, like other banks, have pragmatic reasons for conducting a program. In this sense, there are two main reasons for doing CSR, namely marketing and finance. Andri Donny (personal communication, May 23, 2019) said, "Bank implements CSR to strengthen its brand name. There is also a commercial aspect there ... But for stakeholders, they get CSR benefits through *zakat*, donation, charity, or other CSR funds". David Chandra (personal communication May 13, 2019) elaborated it in more detail.

CSR contains three aspects: Brand, reputation, and business. Pertaining to brand, certainly, when we organize CSR activity, people should recognize. So, we need a banner; we announce it on social media. Our brand must be exposed there. The second is reputation. Reputation has a long-term nature, and we can sponsor scholarships. When a person is assisted, there will be an emotional attachment in the long term. For example, seven years in the future, probably someone will say, "O, this Bank Muamalat helps me," he will definitely recommend us, because of a reputation that has been built for years. In the business aspect, for instance, if there is a proposal from non-governmental organizations, or we want to give a scholarship to *pesantren* (Islamic boarding school), we will obligate them to open a savings account.

Concerning this issue, Rizqi Octo (personal communication, May 17, 2019), head of LAZ (Lembaga Amil Zakat, or *zakat* management institution) BSM, described the benefit of philanthropic activities.

Actually, engagement, sir. Community engagement towards the BSM itself, then, also awareness, that's it. Previously, people didn't know about BSM. While they get assistance, it is like a TV reality show. They will unexpectedly be delighted. Well, they will be interested in moving their savings account from a conventional bank. There was a case like that.

In this respect, Rahwidhiyasa (personal communication, May 6, 2019) shared his experience.

... there was a case in one mosque in a public university; I do not want to mention the name. Because of the "Flowing the Blessings" program, mosque worshipers, which consist of university chairpersons, are interested in BSM. Then they gave options to their lecturers and employees to receive their salary using BSM's payroll system.

To sum up, philanthropic CSR activities are expected to benefit banks in brand image, reputation, engagement, and increased savings accounts.

4.2.2 Islamic CSR

The second research objective is to identify the concept of CSR as practiced by Indonesian Islamic banks. In chapter two, the researcher has proposed the definition of Islamic CSR. Based on that definition, the following findings which are related to the themes in that definition are discussed. Those themes are (a) achieving *falah*, (b) contribution to sustainable development, (c) stakeholders' expectation, (d) religious, norms, and law compliancy, (e) integration throughout the organization, and (f) intention and guidance.

a. Achieve Falah

The idea to achieve *falah* is adopted by both banks, as stated by the banks' report. *Falah* is an expression of common good, benefit, public interests of human beings in the world and hereafter. It contains five areas of *Maqasid Shariah*: faith (*al din*), human self (*al nafs*), intellect (*al `aql*), posterity (*al nasl*) and wealth (*al mal*). Ahmad

(2017) said that Islamic finance and banking is a vehicle to reach prosperity which is in line with *Maqasid Shariah*.

Both banks expressed their commitment to achieve *Shariah* objectives. Mulya Siregar (BSM) (personal communication, April 25, 2019) and Andri Donny (BMI) (personal communication, May 23, 2019) explicitly pointed out that by its nature, Islamic bank and finance is implemented to achieve *Shariah* objectives. In their report, both banks explain this and describe the effort to realize it. In applying *falah* principle, Siregar linked the five *Shariah* objectives with SDGs objectives which contain the idea of Triple Bottom Line (People, Profit and Planet). Siregar and Donny agreed that Triple Bottom Line is in line with *Maqasid Shariah*.

b. Contribution to Sustainable Development

In order to implement SDGs in Indonesia, OJK has issued POJK 51 (Peraturan Otoritas Jasa Keuangan or Regulation of Financial Services Authority Number 51/POJK.03/2017) to be followed by conventional and Islamic banks. It is worth noting that Dr Mulya Siregar is one of the eminent persons in formulating the regulation about the application of SDGs (Sustainable Development Goals) in Indonesian banking industry. Before acting as BSM President Commissioner, he was the Deputy Commissioner in OJK who issued the regulation about the application of sustainable finance, which is known as POJK 51. This regulation governs wide-ranging support from the financial sector to create sustainable development by putting the interest of people (social), planet (environment) and profit (economic interest) in balance. POJK 51 is the operationalization of SDGs which has to be applied gradually.

POJK 51 obligates the application of sustainable finance to financial service institutions, issuers, and publicly listed companies. Amongst the developing countries, Indonesia is considered quite advanced in applying sustainable finance, because it has issued regulations that bind not only banks, but also non-bank financial institutions and capital markets (Mulya Siregar, personal communication, April 25, 2019). This regulation is applied gradually, starting from commercial banks that are categorized into 4 levels. Each level is called BUKU⁴. It began in early 2019 for BUKU 3, BUKU 4 and foreign-owned banks, followed by BUKU 1 and BUKU 2 in 2020 (Otoritas Jasa Keuangan, 2017b, 2018a). Since BSM is classified as BUKU 3, it should start applying this rule, while BMI which is in BUKU 2 would follow.

Mulya Siregar (personal communication, April 25, 2019) claimed that *Maqasid Shariah* is in accordance with SDGs. SDGs is the organizing principle that aimed to meet the needs of the present without sacrificing the ability of the next generations in fulfilling their needs (Rkiouak, 2016). To achieve this vision, three aspects are crucial: economic growth, environmental protection and social inclusion (Sadiq & Mushtaq, 2015), which are parallel with 3Ps. In this sense, Siregar stated,

3Ps in sync with Islam ... Yes, it is in line with *Maqasid Shariah* ... So definitely, we, in *Shariah* bank should be at the forefront in implementing the SDGs program. The SDGs tenets which are originated from 3Ps then derived to sustainable finance principle, and subsequently formulated in POJK 51.

⁴ According to OJK (POJK regulation no. 6 /POJK.03/2016), based on the amount of core capital, Indonesian banks are classified to 4 categories, of BUKU (Bank Umum Berdasarkan Kegiatan Usaha, or general bank's type based on business activity). BUKU 1 (less than 1 trillion rupiah or 103 million US dollar), BUKU 2 (1 - 5 trillion rupiah or 103 - 516 million US dollar), BUKU 3 (5 - 30 trillion rupiah or 516 - 3,100 million US dollar), and BUKU 4 (at least 30 trillion rupiah or 3,100 million US dollar). Assumption: 1 US dollar = 14,000 Indonesian rupiah.

His statement is supported by the BSM's report (2018a), which proclaims that BSM intends to synergize business growth with social and environmental responsibility, as guided by POJK 51.

Mandiri Syariah (BSM) can play a big role to synergize fostering business growth, carrying out environmental and social responsibility by applying *Maqasid Shariah* and business model that is not contravene with MAGHRIB (*maysir, gharar and riba*) activities, as well as the implementation of POJK No. 51/POJK.03/2017. (p. 412)

BSM (2017b) also discloses that The Triple Bottom Line concept should be formulated in a systematic way to bring forth sustainable business strategic planning.

BMI is also preparing to implement this regulation. According to its Sustainable Finance (SF) report (Bank Muamalat Indonesia, 2018c), this bank views that sustainable finance is a continuous commitment to responsibly and ethically operates the business within the framework of environmental, social and economic objectives.

Bank Muamalat has started the sustainable finance journey since late 2015, at which the bank, together with other 7 local banks comprising 46% of national banking assets, voluntarily took the initiative to become the "First Movers on Sustainability Banking", a pilot project initiated by Otoritas Jasa Keuangan (OJK). With the support of WWF-Indonesia, the eight banks have participated in a series of capacity building and technical assistance programs... (p. 19)

In this regard, BMI has attempted to achieve business sustainability through the provision of environmental-friendly financing portfolio in its operational activities. BMI also issued Sustainability Report as an effort to follow POJK 51. Apparently, both banks have followed the rule to apply sustainable development.

c. Stakeholders' Expectation

The successful performance in the long term depends on the ability of the organization to bring forth positive interaction and implement mutually beneficial relationship with

stakeholders. To realize such an interaction, both banks need to understand stakeholders' expectation and fulfil it. In this case, stakeholders are individuals or institutions that can influence the organization's performance or those impacted by banks' activities. The main expectations of stakeholders that are taken into account by the banks are presented in the following table. In this sense, Putu Rahwidhiyasa (personal communication, 6 May 2019) said, "Our stakeholders are very broad, pak, ... To shareholders, banks must provide profit, to regulators we must follow the regulations set by the OJK, then our customers must provide satisfaction. To our employees, we must guarantee their welfare so they can perform well, then also to our stakeholders other."

The aforementioned information is combined with banks' annual report to generate a list of stakeholders' expectation as follows.

Table 4.1
Stakeholders' Expectations

No.	Stakeholder	Main Expectations
1.	Shareholders and Investors	Business value enhancement
2.	Customers	Customer protection and customer value
3.	Employees	Job security and fair treatment
4.	Regulator	Regulation compliance
5.	Suppliers	Fair and transparent treatment
6.	Similar Industry	Mutual benefit cooperation and healthy competition
7.	Community	Harmonious relation and economic empowerment
8.	Environment	Environmental protection

Source: Bank Muamalat Indonesia (2018b); Bank Syariah Mandiri (2018a, 2018c, 2018b)

d. Religious, Norms, and Law Compliancy

Islamic banks implement CSR because they want to comply with *Shariah*, applicable regulations, and industry norms. In explaining compliance with *Shariah* principles, Dr. Mulya Siregar (personal communication, April 25, 2019) told that essentially, by its nature Islamic bank is not only an economic business unit, but also a social institution. Since Islamic bank is established on the foundation of *Maqasid Shariah*, it should practice CSR. For instance, as a *Shariah*-based organization, bank must distribute *zakat*, *infaq* and *non-halal funds*⁵. Those funds have to be distributed to the needy in *Shariah*-compliant way; the funds cannot be ploughed back into the bank to grow the business. Whereas in conventional banks, those *non-halal* funds can be recognized as income. Furthermore, Siregar reminded that *Shariah* bank must not only focus on making profit and exploiting nature. It should have a long-term vision by adopting 3Ps, which have been practiced by many foreign banks. As the biggest *Shariah* bank in Indonesia, BSM should be a pioneer in implementing a sustainable finance system, as guided by POJK 51.

By the same token, BMI is also committed to carrying out POJK 51. The issuance of sustainability report (Bank Muamalat Indonesia, 2017b) is to comply with this regulation in order to implement sustainable finance. This commitment is emphasized by Andri Donny, Director of Compliance BMI (personal communication, May 23, 2019). He stated the fact that BMI is one of the first movers in green banking program in Indonesia. This commitment is not only based on regulation. He added that by

⁵ Non-*halal* income is the source of fund of social fund of the Bank that consists of among others, social funds from penalties, social funds derived from demand deposits received by the Bank from placement in a conventional bank, funds derived from penalties imposed on customers who can afford to pay but delay the payment, and others (Bank Syariah Mandiri, 2018a).

nature not only does Islamic bank seek to maximize profit, but it also takes into account social functions.

BSM (2018a) and BMI (2018a) have disclosed their commitment in conducting social responsibility deeds based on the applicable law. It is worth mentioning that existing laws obligate social responsibility, like the manpower law (No. 13/2003), *zakat* management law (No. 23/2011), customer protection law (No. 24/2004), and *Shariah* banking law (21/2008). Additionally, in article 4 paragraph (2) of Law no. 21 of 2008 concerning *Shariah* Banking, it is stated that Islamic banks and *Shariah* business units can implement social functions in the form of *Baitul Maal* institution. This institution receives funds from *zakat*, donation, alms, grants or other social funds and distributes them. Regarding *zakat*, Law No. 38 of 1999 concerning zakat management states that companies are subject to *zakat* collection. The aforementioned laws regulate the implementation of *Shariah* precept in social responsibility, and Islamic banks are bound by laws.

The issuance of social responsibility reports by BSM and BMI is intended to provide added value to stakeholders by reporting the various programs and participation that the banks have carried out in order to maintain the banking business sustainability. The report is developed by referring to the Global Reporting Initiative (GRI) Sustainability Reporting Standard. This standard is designed to be used by organizations to report about their impacts on the economy, the environment, and/or society (Global Reporting Initiative, 2016). The objective of this standard is to help reporters prepare sustainability reports to demonstrate an organization's commitment to a sustainable global economy (Singhal & Dev, 2017). Nevertheless, according to POJK 51, sustainability report publication is mandatory starting from 1 January - 31

December 2019 for BUKU 3, BUKU 4 and foreign banks. Other categories have to do the same in 2020. Thus, in addition to religious motivation, the sustainability report issuance is carried out as a preparation for the application of sustainability finance regulation and in order to follow international industry standard.

e. Integration throughout the organization

While implementing a CSR program, BSM (2018a) and BMI (2018a) emphasize their commitment in adding value to all stakeholders, so that they would support the organization's growth. To achieve this objective, BSM designs and implements various initiative programs covering all operational aspects to satisfy stakeholders' expectations. In this regard, BSM implements its social responsibility activities by referring to the principle of Sustainable Finance (SF) in the context of implementing POJK 51. BSM has issued a sustainability report to anticipate this. POJK 51 is made because Indonesian financial service authority follows the development of the world industry that leads to SDG application. Therefore, when it is required to make reports according to POJK 51 standards, the portfolio is ready (Siregar, personal communication, 2019). David Chandra (personal communication 13 May 2019), CSR manager of BMI, said that this kind of report has been issued by BMI since 2017. These facts imply that CSR is integrated throughout the organization.

f. Intention and Guidance

In the CSR definition proposed by the researcher, CSR is carried out with the intention to perform worship (*ibadah*) guided by the *khilafah* values. To explain it, Appendix A presents principles and values as the foundation of Islamic CSR. The explanation of how these principles and values are used by both banks can be traced from interview

transcripts and published documents. The research findings pertaining to *ibadah* and *khilafah* principles are as follows.

(i). Ibadah (worship)

As mentioned in Appendix A, this principle contains (1) *Tauhid*, (2) *Tazkiyyah*, (3) *Ikhlas*, and (4) *Taqwa*.

1. Tauhid (the unity of God)

This is the most important value as the conceptual and practical foundation. The substance of this concept is the sentence "there is no God but Allah". The word Allah is mentioned in the report's foreword by Commissioner, President Director and Chairman of the *Shariah* Supervisory Board. At the introduction and closing statement of their foreword letters, they always praise the Lord or state the expectation for achievement, sustenance and protection from Allah. *Tauhid* is the main requirement of all the deeds, including Islamic banking. In this way, although not explicitly stated, *Tauhid* is the basis for acting and making decisions.

2. Tazkiyyah (purification)

In this context, the purification of the soul can be conducted by acquiring sustenance in a permissible way and purifying it by giving to the needy through *zakat*. In this regard, Islamic banks are bounded by the regulation concerning *Shariah* compliance transaction and the treatment about non-*halal* revenue. Additionally, there is *zakat* regulation that has to be followed. This regulation is in line with the spirit of soul purification.

Bank Indonesia (2010) has issued the regulation regarding non-*halal* income, which should be followed by all Islamic banks. Non-*halal* income is the source of funds which are from penalties, fee from demand deposits placed in a conventional bank, fines, and others. These funds cannot be used by Islamic banks to finance the operation. They are bestowed to *zakat* foundation to be distributed to the needy. When received by *zakat* foundation, according to *zakat* regulation, these funds are called other religious and social funds.

To ensure the *Shariah* compliancy of *zakat* administration, it is important to note that every accredited *zakat* organization should have *Shariah* supervisory body. As Teten Kustiawan (personal communication, 21 May 2019) emphasized, the *Shariah* compliancy in *zakat* management is more stringent than in Islamic banks. *Zakat* foundations are supervised by banks, Ministry of Religious Affairs, and the public. This institution should be accredited by the Ministry of Religious Affairs. Additionally, *zakat* administrator (*amil*) should take part in training and obtain certification from Badan Amil Zakat Nasional (National Zakat Administration Institution) and Forum Zakat (Teten Kustiawan, personal communication, 21 May 2019). There is no difference between BSM and BSM in applying the treatment toward non-*halal* income and they employ *zakat* foundation to distribute those funds and behave according to the law.

Other means to ensure the purity of transaction is the governance of *Shariah* compliance. Both banks reported the governance of SSB in GCG report (Bank Muamalat Indonesia, 2018b; Bank Syariah Mandiri, 2018b). SSB has to provide advice and recommendation to the board of directors to assure that their business decisions are in accordance with *Shariah* principles. For this reason, SSB works

in close coordination with other units, provides assistance to relevant work units within the bank, and gives opinions on new bank products or activities to ensure the products' *Shariah* compliance. The results of SSB supervision are reported to the OJK semiannually. Thus, it can be assumed that *tazkiyyah* value is integrated into the existing governance system.

3. Ikhlas (sincerity)

Ikhlas is a virtue where individuals' purpose and ultimate goals in doing something are for the sake of Allah only. This essential value is mentioned in the interviews and annual reports. BSM (2018a) has shared values called ETHIC (Excellence, Teamwork, Humanity, Integrity and Customer Focus). *Ikhlas* is mentioned as part of Humanity values. These values consist of care, sincerity (*ikhlas*), giving benefits, and flowing the virtue to the country. The same spirit is conveyed by BMI (2016) who said that "... all elements of Bank Muamalat Indonesia can serve as role model that reflects the exquisiteness of Islamic values in serving all the customers' needs from the heart."

In interviews, this spirit was also revealed by the informants. Andri Donny, Director Compliance and Risk Management of BMI (personal communication, May 23, 2019) said that bank operation should pay attention to the spiritual aspect in prospering the society. He said, "In spiritual aspect, this is our obligation to give back what we own, expecting blessing from what we did". It means that bank will get the blessing from Allah if it conducts the good deeds toward the society. In the same fashion, Mulya Siregar from BSM (personal communication, April 25, 2019) said that sincerity is a must in giving value to the society, and in return, Allah will honor.

... we have to be *ikhlas* first, giving something to the society, and God has said, this action will be rewarded... But if we think profit first, it is difficult.... If you talk to the conventional bank practitioners, in their heads just profit. In our case we also think of profit and KPI (key performance indicator), but not only looking for profit.

It can be comprehended that the spirit of *ikhlas* is present.

4. Taqwa (God-consciousness)

Literally, *taqwa* is an Islamic term for being piety, cognizant of Allah and fear of Allah. It means to guard the self from sinful deeds by avoiding Allah's prohibition and performing His commands (Shihab et al., 2007). It is needed to assure that CSR activities are implemented in the right way. Both banks use this principle as a guidance of their policy.

In BMI, this concept is stated as one of Good Corporate Governance foundations in caring communities and protecting the environment (Bank Muamalat Indonesia, 2019).

"And cooperate in righteousness and piety, but do not cooperate in sin and aggression" (QS Al-Maidah: 2). The caring attitude (social awareness) is the concern to the disadvantaged communities and the environment which is reflected by performing various forms of humanitarian and social activities as a form of Bank Muamalat Indonesia's social responsibility to the society and the environment (p. 212).

Additionally, although it was not mentioned explicitly, the concept of *taqwa* is operationalized by BSM in building the working culture. Referring to its shared values, ETHIC, BSM explained that the work is worship, and it must be implemented in a responsible way. In its formulation, *taqwa* is interpreted in a more operational understanding by determining the rules about how people should and should not behave (Bank Syariah Mandiri, 2019) by stating: "...

Subsequently, those shared values is implemented in main behavior, in the form of the do and don't and action plan in implementing working culture" (p. 148).

(ii). Khilafah (vicegerency)

This principle consists of the following values: (1)) *Ikhtiyar*, (2) *Al 'adl*, (3) *Siddiq*, (4) *Amanah*, (5) *Karamat Al-Insan*, (6) *Ukhuwah* and (7) *Ihsan*.

1. Ikhtiyar (free will)

In Islamic view, human free will should be executed in a responsible way. Humans should be responsible toward themselves, society, environment, and most importantly, toward Allah SWT. In this vein, the direction of the free will is aimed to realize the banks' vision and mission. On the other hand, there are several constraints that must be considered in realizing the vision and mission, such as regulation, risk assessment, *Shariah* compliance and others. Those things should be considered in decision making in a responsible manner.

Therefore, banks should consider their strengths and weaknesses to take advantage of opportunities and deal with the threats. They have to make assessment for their internal capabilities, and deal with external chances and challenges industry (Bank Muamalat Indonesia, 2020, p. 162; Bank Syariah Mandiri, 2020, p. 277). The existing regulation and risk assessment are also included in their calculation to formulate strategic planning. This strategic plan is conducted to increase the organization's performance. Based on internal and external analyses, and referring to banks' values, they formulate a strategic plan. Both banks present their plan in their annual report (Bank Muamalat Indonesia, 2020, p. 158-165; Bank Syariah Mandiri, 2020, p. 160-162). The strategic plan

comprises global economic review, banking industry analysis, and position of the bank amid Islamic banking. Subsequently, operational reviews describe the banks' strategic plan (Bank Muamalat Indonesia, 2020, p. 166; Bank Syariah Mandiri, 2020, p. 163). Accordingly, *ikhtiyar* as the expression of human free will, in this context, is constrained by the existing regulations and other consideration that enable the banks to make optimal decisions to achieve superior performance.

2. Al 'Adl (justice)

Al 'Adl is a sense of balance among various aspects of humans' life in order to produce the best social order and harmony with the universe (Mohammed, 2013a). In light of this, the informants mentioned 3Ps (people, planet, and profit) as the cornerstone of living in harmony. Mulya Siregar, President Commissioner of BSM (personal communication, April 25, 2019) said that 3Ps are the core concept of SDG that will be applied in BSM since an Islamic bank is not only an economic institution but also a social institution.

... the institution, like a bank in doing financing, is not only for profit purpose, but it is also considering the interest of the society, in this case the people, and also environment, planet, life. So, actually, why *Shariah* bank cares about implementing CSR, because *Shariah* bank is not only an economic institution. It is also a social institution that has social concerns. Therefore, *Shariah* bank's products are expected not to have a negative impact on the society or the environment. Because of what? Because of *Maqasid Shariah*... So that's it.

Likewise, Andri Donny, Director Compliance and Risk Management BMI (personal communication, May 23, 2019) has the same opinion.

Naturally, *Shariah* bank, since it is carrying *Maqasid Shariah* concept, in its business, bank certainly will pay attention to the aspects of people, planet, and what is that?... Profit. Why? Ethically, and in terms of *Shariah* rules, it is not possible for a bank for instance, funding corporations that damage the environment, producing waste or harmful products.

Their statement has been implemented through policy and program taking into account sustainable finance.

Additionally, the banks' Annual Report and Sustainability Report (Bank Muamalat Indonesia, 2018c; Bank Syariah Mandiri, 2018c) disclose their commitment to be more socially and environmentally responsible by applying SDGs. POJK 51 translated SDGs to sustainable finance, that is implemented to create sustainable economic growth by harmonizing economic, social, and environmental interests. To realize these principles, BSM has created Sustainable Finance Department to support Corporate Secretary in coordinating working units, making sustainable finance policy, and formulating green finance. In the same way, BMI has also implemented sustainable finance which is executed by Sustainable Finance Task Force, led by Corporate Banking Strategy and Business Development. Apparently, POJK 51 has driven those banks in implementing sustainable finance, which is aligned with the spirit of *Al 'Adl*.

3. Siddiq (truthfulness)

Truthfulness promotes honesty in dealing with other people, and it is highly regarded in Islam. According to *hadith*, truthful behavior will be blessed, and truthful persons are highly regarded; they will be with the prophets, the truthful and the martyrs (Jabbar, Ali, Mohamed, & Jalil, 2018). This attitude and behavior are essential because bank is an institution entrusted to manage people's fund. The word *siddiq* or truthfulness is in line with the word integrity. To ensure that this principle is carried out properly, banks need to disclose their efforts to the public.

In this regard, financial authority has set up a regulation to implement this principle. *Shariah* banks, as well as other conventional banks, are obligated to implement it. In BSM, integrity is represented by the word truthfulness, compliance, and responsibility. It is one of the basic values of "Mandiri Syariah Shared Values" which comprise ETHIC (Excellence, Teamwork, Humanity, Integrity, dan Customer Focus). In BMI, integrity is also one of the basic values. This should be maintained in every activity according to *Shariah* principles, ethics, and applicable rules (Bank Muamalat Indonesia, 2019a). In other parts of its report (Bank Muamalat Indonesia, 2019, p. 210), BMI explicitly mentions *siddiq* as an operational basis for giving the best service in satisfying stakeholders' expectation. Along with this principle, both banks mentioned the same values. Among others are transparency, accountability, responsibility, professionalism, and fairness.

The aforesaid values are the foundation of good corporate governance (GCG). BI and OJK require all banks to implement GCG, including *Shariah* banks. In relation to this, GCG is the system that can prevent the occurrence of deviation, and manage resource trustfully. Since all banks are bounded to this regulation, it can be expected that *siddiq* principle has been integrated into the banking system.

4. Amanah (trustworthiness)

Since Allah SWT entrusted humans to manage all resources, humans are accountable to Allah in deploying and channeling those resources in a beneficial way. Humans are accountable to Allah, society, and environment. In light of this, both banks explain this concept. Accountability should contain element of clarity of function within the organization to assure effective management, and it should

be disclosed transparently and fairly. Since this value is one of the foundations of GCG, and its mechanism is standardized by BI and OJK, both banks shared the same principles and practices (Bank Muamalat Indonesia, 2018b; Bank Syariah Mandiri, 2018b). They published GCG Report annually.

5. Karamat al-insan (human dignity)

In Islamic view, human being is a noble creature that should be dignified by protecting their rights and optimizing their potentials. Humans are expected to bear responsibilities to maintain and prosper nature for the sake of human welfare (Arsad, Ahmad, Fisol, Said, & Haji-Othman, 2015; Dusuki, 2008). The term human being here refers to people as one of the 3Ps in the triple bottom line. Both banks (Bank Muamalat Indonesia, 2019a; Bank Syariah Mandiri, 2019a) focus their attention to three kinds of people: customer, employee and society.

As business organizations, BSM and BMI should focus on customers. To satisfy customers, BSM takes proactive actions by developing continuous innovation and service excellence. Innovation is undertaken by developing processes, services and products beyond customer expectations. The same thing is implemented in service excellence. BMI uses the term human customer-centric approach. This approach is applied by understanding customers' needs and wants, and then develop services and products to satisfy them. In implementing such an idea, both banks also reveal their effort to apply the principle of transparency, fair treatment, reliability, customer confidentiality, and complain handling. Those principles are mandated by Otoritas Jasa Keuangan (2013). Therefore, both banks have demonstrated their commitment to customer orientation.

Employees are an important resource for an organization's performance. Therefore, human resource development is a major concern for both banks. BSM (2018) stated the concern to human capital as an important factor in performing corporate plan. Hence, the bank allocates significant portion of the budget to educate and train them through particular programs. Those programs are carried out to enhance their capability. Similarly, BMI (2018a) views human resource as a valuable asset to establish sustainable business growth. BMI management has designed the roadmap for developing its human capital, which contains programs such as staff optimization, productivity and efficiency, staff capability improvement, and staff differentiation. In addition to human development, both banks report their programs pertaining rights and responsibilities of their employees which are aligned with government regulations.

Karamat al-insan idea is also applied to the society through CSR program. BSM (2018) launched social responsibility program regarding the development of socio-economic, spiritual, people and environment. Similarly, BMI (2017, 2018b) also has programs related to education, economy, humanitarian and environment pillar. The beneficiaries of these programs refer to eight zakat beneficiaries (*mustahiq*) as commanded by Qur'an. To summarize, the effort to enhance human dignity has been conducted toward the People element in the triple bottom line that includes customers, employees and society.

6. Ukhuwah (brotherhood)

In Islamic view, human beings are treated as a family where their welfare should be enhanced, and their rights should be protected. Therefore, stakeholders' interest needs to be considered. Both banks (Bank Muamalat Indonesia, 2018a;

Bank Syariah Mandiri, 2018c) mentioned that the existence of their banks should create values for all of their stakeholders. Therefore, they need to maintain a good relationship with stakeholders. For that reason, they conducted stakeholder's identification and designed method that could be used. Although the number of stakeholders identified by each bank is somewhat different, they share common categories. They are shareholders, customers, employees, communities, government, partners, society and environment (Bank Muamalat Indonesia, 2017, p. 78-7; Bank Syariah Mandiri, 2018c, p.32-34). The kinds of relationships between organizations and stakeholders are empowerment, consultation and communication, and collaboration. A good relationship is needed to ensure the acceptance of organizations by the stakeholders and as a commitment to treating others as a family.

BSM and BMI have a similar explanation in realizing brotherhood value. BSM (2018a) elucidates Humanity value, especially the idea of sharing blessings to the country. This idea became the theme of the BSM's sustainability program: "Synergy to share blessings as company competitive advantages". Because at the beginning of 2018 BSM should apply POJK 51 to implement sustainable finance. BMI (2018b) has the same perspective. In its report, BMI cites the Qur'anic verse (Surah Al-Maidah: 2) that commands believers to help one another in righteousness and piety. Which means care attitude toward the disadvantaged people should be carried out as the social responsibility of the bank. In 2018, BMI issued Sustainability Finance report, showing its commitment to act responsibly and ethically within the framework of the environment, social, and governance integration. Apparently, both banks demonstrated their intention to actualize brotherhood value.

7. Ihsan (benevolence)

Ihsan is doing goods for the benefit of others beyond what is required by the rules. Both banks reveal their understanding of this concept. BMI (2018b) explained *ihsan* as doing the best and avoiding harmful behavior, as asserted by Qur'an, "... and do good as Allah has been good to you..." (Al Qashash 28:77). In this context, Andri Donny, Director Compliance and Risk Management of BMI (personal communication, May 23, 2019) said that, from a spiritual perspective, CSR activities are implemented to contribute to the society, expecting blessings for return.

For us, there is another aspect that we believe, that is spiritual. That is, part of prospering the society, including CSR program. It is done to acquire blessing. For us, this is based on the commandment, to pay attention to the parties who are in needy. But in spiritual aspect, it is the way to obtain blessing. As far as we know, this Bank Muamalat has grown this far from many things, economic fluctuation and others, it cannot be separated from support of many parties.

This concept is also reflected in one of the BSM values (2020, p. 83), "Humanity: Care, giving benefit, and flowing the blessing." In this way, Mulya Siregar (personal communication, April 25, 2019) exemplified,

Bank Syariah Mandiri should have responsibility in prospering the mosque. We provide the budget... Also, for the *da'wah* (missionary activity) of the people who work at Bank Syariah Mandiri. So, if we find a mosque that smells dirty and squalid, it is very easy to identify that the leader of those branches never goes to the mosque. How he wants to build people, if he never comes to the mosque? ... Essentially, this is where Islamic banks depend on the mosque's presence, and also its social responsibility to build the community.

Preceding explanation indicates that *khilafah* values are present in the bank's operation, and in CSR activities as well.

4.2.3 CSR Rhetoric in Islamic View

The third research objective is to understand the CSR rhetoric used by Indonesian Islamic banks in acquiring legitimacy. As mentioned in the previous chapter, CSR has to be communicated to get recognition from stakeholders. In this sense, rhetoric is necessary.

There are three types of rhetorical devices described in this subsection. Ethos, which consists of individual and institutional authority, pathos which refers to Qur'anic values, and logos as seen from the *muamalat* principle's point of view.

4.2.3.1 Ethos

Ethos refers to the trustworthiness of characters. In this way, the integrity and personal trait of the communicator can enhance credibility in the mind of the audience. Since this character can be associated with the organization, Islamic bank should have a strong association with Islamic character that is developed from its inner quality. Consequently, the existence of recognized scholars who have authority in Islamic banking affairs is necessary to ascertain that bank is *Shariah* compliance.

Regarding SSB membership, Andri Donny said that SSB members must obtain recommendations from DSN and OJK. According to Donny and Siregar, the primary consideration to become a member of SSB is expertise. However, based on BMI's experience, the chairman of BMI is always the chairman of MUI. This means that the figure has an important role in heightening the bank's credibility in the eyes of the Muslim society. This is based on historical factors because the initiator of BMI is MUI. "*Alhamdulillah*, since the establishment of Bank Muamalat, the chairman of our SSB was always the clerical figures from Majelis Ulama (MUI), ... because this bank was

founded on the initiative of the Majelis Ulama" (Andri Donny, personal communication, May 23, 2019). Furthermore, Mulya Siregar from BSM said that the duty of SSB is to validate decisions related to Islamic law. In certain occasion, SSB members have to go to the field, visiting branches, ensuring whether Islamic financing is still in accordance with *Shariah* principles. They also have to participate in meetings with the board of commissioner and board of director. In other words, SSB members are bound by institutional procedures in carrying out their duties.

Therefore, to ascertain the Islamic compliance of the bank and to be recognized by stakeholders in this field, Islamic scholars in SSB should have authority in their area. Since those scholars are mandated to ensure the *Shariah* compliance, the administration of *Shariah* decision-making process is important to be supervised. They have to be administered in a professional manner since the output is decisions that will act as guidance for decision making in financial transactions. Individual authority and institutional authority are crucial to ascertain *Shariah* compliance (Tomeh, 2010). Previous studies (Mohiuddin, 2020; Rahman, 2016) explain the concept of individual authority and institutional authority in the context of journalism and globalization studies. This research uses Tomeh's (2010) view to provide an explanation of ethos.

a. Individual Authority

Regulation has been issued to ascertain that SSB members are persons who have authority in their field. Basically, there are two functions of SSB (Otoritas Jasa Keuangan, 2016a). First is the *Shariah* supervision function, and the second is the advisory function. Those functions are related to the *Shariah* compliance of

banking activities or products. Therefore, skilled and knowledgeable persons in Islamic banks are needed

BSM and BMI reported their commitment to following the rule. All members of SSB have received DSN-MUI's recommendation and OJK's approval (Bank Muamalat Indonesia, 2019, p. 62-63; Bank Syariah Mandiri, 2019, p. 338). As Shofanisa (2017) explained, MUI comprise authorized Islamic scholars as the main reference for *Shariah* implementation in Islamic banking. DSN-MUI is an institution under MUI that was formed in early 1999. Its task is to explore, study, and formulate values and principles of Islamic law to be used as guidelines for transactions in Islamic financial institutions. It also oversees the implementation of *Shariah* principles in Islamic financial institutions. This council has an authority to make *fatwas* or rules relating to all *Shariah* banking transactions. In this regard, BMI (2018b) explicitly specified additional criteria for SSB members, such as having good character, compliance commitment, finance and banking experience, and good knowledge in *fiqh muamalat* (Islamic commercial law), finance and banking. Those provisions are disclosed to inform the public that banks have qualified Islamic jurists. Those criteria are based on applicable regulations. Although not specifically mentioned by BSM, this bank has the same criteria regarding SSB members.

b. Institutional Authority

To make sure that the institution performs the *Shariah* compliance process properly, *Shariah* governance is needed. In this sense, *Shariah* governance is a unique and special structure in Islamic banks, in order to guarantee that all bank operations are in accordance with *Shariah* (Rama, 2015). This governance system

is needed by banks to foster stakeholders' trust. This system is also needed to avoid the occurrence of *Shariah* risk, which could arise because of *Shariah* defiance (Rama, 2015). Therefore, banks should communicate this issue.

The governance of SSB is demonstrated in GCG and Annual Report of both banks in a transparent way as dictated by existing regulations. It includes abiding the fatwa issued by DSN-MUI, *Shariah* fulfilment of banks' operations, *Shariah* opinion issuance, asking *fatwa* to DSN-MUI concerning new products, periodical *Shariah* review towards collecting and distributing funds, reporting to board of director, commissioner, DSN and OJK, and other activities (Bank Muamalat Indonesia, 2019, p. 264-265; Bank Syariah Mandiri, 2019, p. 295). Those activities are disclosed in Annual and GCG reports, which can be read by the general public. In this way, public can evaluate GCG process in order to assure institutional authority.

4.2.3.2 Pathos

Pathos is a rhetorical device that can influence the audience through emotional appeal, in favor of building emotional connections between stakeholders and organizations. In this regard, a persuasive message is necessary to acquire legitimacy. Based on a review of the Qur'an verses pertaining to this issue, the pathos themes are formulated as depicted in Table 2.3. Those themes are employed to identify how banks implement them in business activities. The most important theme is about speech integrity. Otoritas Jasa Keuangan (2018a, p.17) defines integrity as the objective, fair and consistent actions that are conformed to ethics codes and organization's policy that upholding honesty and commitment. To achieve this principle, this institution has specified the condition that must be fulfilled, such as a person's character, regulation

and *Shariah* compliancy, and also external validation. All of these conditions should be disclosed transparently. Both banks reported integrity matter since it is indispensable.

The word integrity is explicitly mentioned in the banks' values. BSM (Bank Syariah Mandiri, 2019a) defines it using the terms honest, comply, trusted, and responsible. In this regard, employees are required to avoid any action that can degrade the integrity of banking system, take decisive steps to ensure they are not used by criminals or others for illegal means, such as money laundry drugs transaction or terrorism. Similarly, BMI (Bank Muamalat Indonesia, 2019a) emphasizes the importance of maintaining integrity according to the teachings of Islam, ethics, and rules that apply. This bank defines it using the terms honest, comply, trusted, and responsible. Integrity is the main consideration in appointing officials. To foster a culture of integrity, GCG is applied in accordance with prevailing regulations. Thus, integrity as a basic value is institutionalized through GCG.

In line with the implementation of GCG, existing rules are implemented and supervised to convince stakeholders. This is done to ensure that policy, system, procedure, and all activities are in line with prevailing regulation and *Shariah* principles. The effort to attain this objective is described in annual report and GCG report. To assure the public about banks' achievements, external recognition is presented at the beginning of the Annual Report, by depicting a number of achievements. This kind of content is communicated to gain trust from stakeholders.

Another issue to be considered is a concern to the disadvantage or the weak, as a social responsibility of the organization. Both banks expressed their concern in this matter. In BSM (Bank Syariah Mandiri, 2019a), this matter is related to one of the Mandiri

Syariah shared values, Humanity. This value is induced to raise the deeds of care, sincere, benefits and blessings for society and environment. That idea is realized in the form of three kinds of programs: Didik Umat (people education), Mitra Umat (people partnership) and Simpati Umat (sympathy for the people). Didik Umat program consists of scholarship given to those who need fund for a junior or senior high school, and sociopreneur development program for university students. Mitra Umat program comprises of economic empowerment for the community and strengthening the mosque functions in facilitating religious and social activities. Lastly, Simpati Umat program is aimed to develop an integrated health system, help people who experienced disaster, and conduct recovery programs for them. All of those programs are aimed at people who are eligible to receive zakat (*mustahiq*).

Likewise, BMI (Bank Muamalat Indonesia, 2019a) carries out the following social empowerment programs. The first is Social Business Muamalat which focuses on empowerment and the development of micro and social economic activities such as providing venture capital, business management development, coaching and monitoring. The second is Muamalat Social Initiatives. This program is implemented in the form of strategic philanthropic assistance in social, religious, health and environmental fields by involving employees as volunteers (community volunteering). The third is Muamalat Achievement School. It is conducted to improve the quality of education, as well as to build smart and noble character through educational assistance, scholarship and infrastructure facilities for schools and other educational institutions. These activities indicate that BMI has perceived CSR as goodwill and good initiative beyond the law by emphasizing its commitment to acting ethically and supporting the society's economic development.

4.2.3.3 Logos

Logos in rhetoric theory means conveying a clear message using logical reasons which are supported by evidence. In the Islamic view, logos is subject to the provision that in *muamalat*, logical reasoning is permissible unless it is objectionable to the *Shariah* (Ahmad, 2009). Since logos is aimed to attain integrity and clarity of the argument, consideration is given to textual components pertaining such appeals: (1) argumentation about the reason for applying a particular practice and (2) claim about outcome or activity that is bolstered by statistics, graphs and data (Higgins, 2012; Devin 2015). Those themes are scrutinized by exploring texts in Annual Report and the Sustainability Report, by using Atlas.ti software. The following facts reflect several points related to the logos.

Firstly, the reason for implementing CSR is demonstrated by BMI and BSM's commitment to preserve the environment to provide added value to all stakeholders. In this regard, these banks intend to provide benefits not only for shareholders but also for wider stakeholders, namely the society and environment. In this sense, the triple bottom line approach is employed. It contains Profit (economic indicators), Planet (environmental indicators) and People (social indicators). The aim is to support sustainable development.

The aforesaid idea has legal bases. The first is Law no. 40 of 2007 concerning Limited Liability Companies which states that CSR is a company's commitment to participate in sustainable economic development in order to improve the quality of life and the environment. It should be beneficial, both for the company itself, the local community, and the community at large. The second is Law no. 25 of 2007 regarding investment which obliges investors to carry out corporate social responsibility and respect the

cultural traditions of the communities around the location of investment business activities. In this law, CSR is seen as a responsibility inherent in every investment company to continue creating relationships that are harmonious, balanced, and in conformance with the values, norms, and culture of the local community. Those prescriptions are interpreted in the policy.

Based on both banks' financing policy, customers are required to manage environmental protection issues as required by current legislation. Funds will not be given to businesses that do not have environmental impact analysis or businesses which are not environmental friendly. The environmental aspect is one of the financing feasibility assessment criteria. Equally important, business firms are demanded to express explicit commitment in preserving natural environment. These provisions are created to ensure banks' responsibility to the people and planet.

In addition to regulation compliance reason, the most fundamental reason in implementing CSR is religious teachings. Based on POJK 51, sustainable finance should be applied by banks in 2019 and 2020, depending on their classification. Mulya Siregar (personal communication, April 25, 2019) further added that POJK 51 was a response from the authority due to the United Nations Development Program (UNDP) steps in moving forward from the Millennium Development Goals (MDGs) to Sustainable Development Goals (SDGs) in 2015. The 17 SDGs announced by UNDP in September 2015 basically adopted the Triple Bottom Line (TBL) concept (Siregar, 2019). BSM reported that TBL aligns with *Maqasid Shariah* (Bank Syariah Mandiri, 2018a p. 412). In this sense, Siregar (personal communication, April 25, 2019) emphasized,

... that is UNDP's expression, 3Ps. It is in line with the Islamic expression, *Maqasid Shariah*... So actually, we as *Shariah* bank should lead in implementing SDGs. SDGs with 3Ps and its derivation is sustainable finance, that is POJK 51... In this matter, I spoke to the board of directors, it must be implemented. It cannot not be done. Not because of POJK 51, but by nature we as *Shariah* bank has *Maqasid Shariah*, must do this.

Another reason for making sustainability report besides regulation and religious prescription is industry norms. According to POJK 51, sustainability report is a report that is announced to the public which contains economic, financial, social, and environmental performance. Although BSM is required to report SR since 2019, this report has been delivered to the public since 2011 (Bank Syariah Mandiri, 2012). Meanwhile, BMI sustainability report has been published since 2017 (David Chandra, personal communication 13 May 2019). Siregar (personal communication, April 25, 2019) said that this kind of report was initiated mainly because of commonality in international practices. When asked the reason for publishing sustainability report, Siregar answered, "Actually, this is not obligation. It was made because it follows international development that leads to implement SDGs." It can be assumed that the international norm has influenced both banks. Hence, the reasons for reporting the implementation of CSR are religious, regulation, and international norms considerations.

The second component of logos is the claim about outcome or activities concerning stakeholders. As depicted in table 4.3, BSM and BMI showed eight main stakeholders that should be considered to ascertain the banks' legitimacy. The banks have reported the outcomes and activities to those stakeholders and supported them with adequate data, graphs or statistics.

a. Shareholders

Shareholders put their funds in the corporation hoping that their business value will increase and their interests are protected. They entrust professionals on the board of directors to run the company's operation (International Finance Corporation, 2014, p. 284) to achieve a certain rate of return on their investment. Board of Directors, in turn, provides shareholders with financial and operational reports on a regular basis and in a transparent manner (International Finance Corporation, 2014 p. 30). Thus, how management acts to protect the interests of shareholders needs to be revealed.

There is a procedure regarding the protection of shareholders' interests. GCG Guidelines issued by BI and OJK (BSM, 2018, p. 271) govern this matter. BSM has carried out a self-assessment in semester I of 2018, and the result is in the excellent category. Additionally, BSM was assessed by an external institution and received a predicate as the most trusted company (score 85-100). To convince the audience, the relationship between the management and shareholders in the annual report is represented by data in the form of descriptions, numbers, tables, graphics, and pictures.

Similarly, BMI (2018b, p. 9) conducted a self-assessment of GCG implementation of Bank Muamalat Indonesia in semester I and semester II of 2018 comprehensively. The score of GCG self-assessment of Bank Muamalat individually was 3 (three), which means pretty good. Weaknesses in applying the principles of Good Corporate Governance were considered quite significant and require the attention of the Bank's management to be corrected. In this regard, both banks have demonstrated their efforts to protect shareholders' interests.

b. Customers

Customers who entrust their savings to the bank deserve protection from harms. Customers will only use bank services to save their funds if there is a guarantee that the bank will not misuse their money. Accordingly, the bank needs to build the customers' trust and satisfaction. In this way, the bank should perform any effort for the sake of customers' interest, but the effort should be in line with the regulations. This issue should be communicated to the customers to convince them.

The most crucial issue is pertaining to customers' interest is profitable bank and customer relationship. This concern is stated explicitly in Bank Syariah Mandiri (2019) shared values, ETHIC (Excellence, Teamwork, Humanity, Integrity and Customer Focus). The last letter, C, means customer focus which orientated to continuous and mutually beneficial customer satisfaction. For this reason, BSM expressed its commitment to be proactive in achieving customer satisfaction and continuously innovate to give solutions above the customer expectation. In ascertaining the above-mentioned matter, satisfaction and loyalty measurement are needed. In 2018, Marketing Research Indonesia (MRI) has measured the customer satisfaction level of BSM. The score result was very good, 84.14% (Bank Syariah Mandiri, 2019a).

By the same token, BMI (2018a, p.3) expressed strong affirmation in providing trustworthy services to customers. It uses the human customer-centric approach in marketing strategy. Such a strategy is based on understanding the voice of the customers by approaching them through customer engagement to acquire customers' insight as the basis for product development. This bank has surveyed

customer satisfaction level in 2018 with 400 respondents. The score of the customer satisfaction rate is 95.40% (Bank Muamalat Indonesia, 2019a).

To assure a profitable customer relationship, customer protection is necessary. Based on financial authority's regulation, BSM and BMI are registered as members of Indonesian Deposit Insurance Corporation (LPS) (Bank Muamalat Indonesia, 2019, p. 131; Bank Syariah Mandiri, 2019, p. 131). This institution has established loss reserves on the financing distributed, protected customers' data confidentiality, and also built the customer care center to handle problems that might occur. In demonstrating its concern to customer protection, both banks described the complaint mechanism and its actual implementation (Bank Muamalat Indonesia, 2019a; Bank Syariah Mandiri, 2019a). They established procedures to respond quickly to the incoming complaints and settle the problems wisely. It provided the ease of access by means of call enter phone, email, website, social media, and customer services in branch offices. Concurrently, statistics of customer complaints handling were also reported.

c. Employees

Employee capability needs to be developed to support organization progress. BSM views that human capital management should be able to motivate the employees to work more productively and behave better (Bank Syariah Mandiri, 2019a). In the same manner, BMI (Bank Muamalat Indonesia, 2019a) opines that human resource is an important asset which has a vital role in supporting the organization's sustainability. For this reason, they have developed training and development

program and facilitated employees to develop their skills according to their ability, interest and potentiality. Regarding human capital as a stakeholder, the main concern of banks is the right protection and fair treatment. Both banks reported these aspects in their annual reports in a similar manner, because banks are bounded by existing regulation to implement this principle.

A number of employees' rights are mentioned by both banks (Bank Muamalat Indonesia, 2019a; Bank Syariah Mandiri, 2019a). For instance, things related to remuneration, work time regulation, leave maternity permits, permits to perform Hajj and Umrah, welfare activities, the right to participate in training and development, equal employment opportunity, and safety and security during works. Those things are described in the annual report.

Both banks conduct recruitment with a standardized procedure to get qualified employees (Bank Muamalat Indonesia, 2019a; Bank Syariah Mandiri, 2019a). When they are hired, the key performance indicators are assessed. The result will be considered by the management to give the reward, to promote, or to develop their capabilities. Accordingly, they have disclosed that employees' interest as a stakeholder is fulfilled.

d. Regulator

Indonesian banks are subject to OJK and BI regulations. Initially, banking supervision and regulation authority were managed by the central bank (Bank Indonesia or BI). This institution run universal supervision which consists of macro-prudential and micro-prudential policies. However, learning from the

experience of Indonesia in 1998 crisis, microprudential policy was deemed insufficient to overcome the risk-taking behavior of financial institutions. Because monetary policy which is focused on price stability cannot directly manage problems at the micro institutional level (BI Institute, 2018). Subsequently, after a long debate, the parliament passed Law No. 21/2011. This law ordered that micro-prudential functions should be transferred to the financial services authority (OJK). Finally, micro-prudential functions have been administered by this institution since 2013 (Otoritas Jasa Keuangan, 2017a).

Based on the aforesaid Law, Bank Indonesia and OJK now have different roles. BI was assigned to focus on implementing macro-prudential supervision in order to achieve financial system stability by reducing systemic risks. For this reason, several policies were adopted for strengthening the capital base, managing intermediation functions, liquidity management, and increasing financial efficiency (BI Institute, 2018). While macro-prudential policy deals with monitoring and evaluating the financial system as a whole, micro-prudential policy deals with the soundness of individual financial institution (BI Institute, 2018). This function is performed by OJK. According to the Law, this function includes regulation and supervision on institution, soundness, prudential requirement and bank audit.

BSM and BMI reported their effort to comply with the existing regulation in the aforesaid areas. However, the most widely reported are efforts to implement GCG (Bank Muamalat Indonesia, 2018b, 2019a; Bank Syariah Mandiri, 2018b, 2019a). Governance issue is critical since it can influence the behavior of top management in decision making, and their decisions should align with stakeholders' interests (Ormazábal, 2016). In this matter, banks should apply fairness, accountability,

responsibility, transparency and independence principles. OJK has issued stricter regulations and control to ensure the banks' governance (Habir, 2016). In this way, since banks' audit is crucial, the disclosure about this matter is also reported in quite large proportions. In the same way, reporting on fulfilling the soundness and prudential principle was also made.

e. Suppliers

Local suppliers are business partners that support the bank in providing a supply chain for business sustainability. Since the performance of suppliers is necessary to enhance banks' reputation and ensure excellent performance, the selection of suppliers should be based on regulatory compliance and fair treatment. The effort to implement this idea is stated in banks' reports.

According to GCG reports (Bank Muamalat Indonesia, 2018b; Bank Syariah Mandiri, 2018b), the relationship between bank and suppliers should be based on professionalism guidelines. There are a number of regulations pertaining to this matter that should be implemented by the bank. Those regulations and the real condition of every bank are interpreted to formulate procedures as internal guidance to make decisions. Those procedures are applied to ascertain fair treatment to the suppliers.

In managing the relationship with suppliers, their satisfaction is a major concern because it could result in mutual benefits. Thus, there are principles that must be considered (Bank Muamalat Indonesia, 2018b; Bank Syariah Mandiri, 2018b). Suppliers' selection should be performed by applying a healthy competition with equal treatment to all qualified partners. The process is conducted in a transparent

and accountable way and no procurement fee should be involved during the process. In line with GCG principles, to uphold the value of integrity, both banks initiated gratification control. Therefore, it is expected that both parties will benefit from this policy

f. Similar industry

In carrying out daily business activities, every bank needs to maintain relationships with stakeholders, including those in associations and similar industries. BSM and BMI have been actively involved in various associations in this industry, such as Indonesian *Shariah* Bank Association (Asbisindo), National Bank Association (Perbanas), Syariah Economics Community (MES), IAEI (Indonesian Association of Islamic Economists), and *Shariah* Economics Communication Center (PKES) (Bank Muamalat Indonesia, 2018c; Bank Syariah Mandiri, 2017b).

In implementing cooperation with similar industries, BSM reported the following points (Bank Syariah Mandiri, 2017b, 2019a). BSM has launched an ATM that allows BPR and BPRS customers to have a BSM ATM card that can be used at BSM ATMs, Bank Mandiri ATMs, ATM Bersama and ATM Prima. The next is BSM E-MONEY which is a prepaid smart card issued by Bank Mandiri in cooperation with Mandiri Syariah. It provides a quick and easy foreign exchange transfer service between bank accounts in Indonesia or abroad to various destination currencies in the world, as well as remittance services in cooperation with banks and financial service companies in various countries. In 2018, BSM also collaborated with Bank Mandiri to provide a special service for opening *Shariah* accounts in Bank Mandiri's branch offices with a total of 600 outlets. In the same fashion, BMI has also collaborated with similar industries (Bank Muamalat

Indonesia, 2019a). To illustrate, BMI remittance service provides money transfer service in collaboration with local banks in various countries. BMI also cooperates with BPRS and cooperatives to deliver working capital financing to end-users. Therefore, BSM and BMI have fulfilled stakeholders' expectation in conducting beneficial business cooperation.

g. Community

Social responsibility toward community is conducted through other institutions. *Shariah* Banking Law number 21 of 2008 article 4 says that *Shariah* banks are able to conduct social function by forming *baitul mal* institution that receives and distributes *zakat*, *infaq* and other social funds. They can also raise *waqf* fund and distribute it according to the will of *waqf* giver. In performing this function, this *baitul mal* institution should follow the law.

To realize the aforementioned idea, BSM has three pillar programs (Bank Syariah Mandiri, 2019a). The first is Didik Umat (People Education) which consists of scholarship for junior and high school students. For university students, the bank has sociopreneur development scholarship program. The second is Mitra Umat (people partnership) which aimed to empower people's economic capabilities and strengthening the function of the mosque. The last is Simpati Umat (people sympathy), including Disaster Emergency and Recovery Center aid and developing integrated health system model.

BMI managed social issues by running social community programs that can provide benefits to the community and empower them to their economic potential. Social empowerment programs include Muamalat Social Business, Muamalat Social

Initiatives, and Muamalat Achievement Schools (Bank Muamalat Indonesia, 2019a). The first program focuses on empowering and developing micro and social-economic activities that consist of providing venture capital, business management, coaching and monitoring. Subsequent program is strategic philanthropic assistance in the social, religious, health and environmental fields. In some of its activities, employees are also involved as volunteers (community volunteering). Additionally, there are programs that aim to improve the quality of education, enhance young people's intellectual capacity, education scholarships, infrastructure assistance for schools, and other educational programs.

h. Environment

This social responsibility program is also deals with the Planet aspect of the triple bottom line (3 P's). To express commitment toward environment protection, BSM (2018a) developed three kinds of programs: Green Financing, Green Funding, and Green Campaign and Efficiency. Green Financing program is applied inclusively, which is targeted to teachers, paramedics, and infrastructure in underdeveloped areas. Green Funding is activities in fund mobilization to realize CSR. It is aimed to strengthen the green funding portfolio targeted to business firms with greater business portfolio in education and health sectors. Lastly, the Green Campaign and Efficiency program is the activity to promote the concept of sustainability to the stakeholders. This program offers the idea that the presence of industry should be beneficial to the environment and society. For this reason, the awareness, understanding, and application of sustainability finance are necessary.

Likewise, BMI also has an environmental protection program. BMI (2017, 2018c) expressed its commitment towards environmental protection through Green

Campaign and Green Economy. Green Campaign activities are targeted to internal BMI. The objective is to raise employee awareness of the importance of environmental preservation, especially the balance between the bank's operations and environmental sustainability. This idea is realized by increasing efficiency in energy consumption, reducing paper uses, and enhancing the utilization of digital banking services. Additionally, the Green Economy program is initiated to encourage the economic agent to give attention to environmental sustainability. One way to implement this idea is through green banking initiatives, where the Bank finances environmentally friendly projects. BMI has a policy of not providing finance to customers that endanger the environment, as has been applied to the palm oil industry. Thus, BMI has demonstrated that the commitment to sustainable finance has been carried out step by step.

4.3 Summary

Three objectives of this research have been examined in this chapter. The first is exploring the concept of legitimacy in Indonesian Islamic banks' perspective. *Shariah* legitimacy has been discussed. This concept is crucial to ascertain that Islamic banks' operation is conforming to *Shariah* in order to please Allah and to be accepted by society. To be accepted by the society means that the behavior and activities of the organization are matched with stakeholders' expectations. This has already been explained and briefly depicted in table 4.1. In order to please Allah, both banks have expressed their intent by pointing out the spiritual foundation of their operation, which is worship. To actualize this, *Shariah* compliance is imperative. This crucial issue is managed by implementing *Shariah* compliance procedure, which is applied as required by the regulation.

Second, based on the findings, Islamic CSR can be defined as the responsibility for the impact of an organization's decisions and activities on the society and environment to achieve *falah*, through transparent and ethical behavior that contributes to sustainable development; takes into account the expectations of stakeholders; is in compliance with *Shariah* principles, applicable law and international norms; is integrated throughout the organization and practiced in its relationships; is carried out with the intention to perform worship, guided by *khilafah* values. This definition aligns with the explanation in the literature review chapter.

Third, with respect to CSR rhetoric carried out by Indonesian Islamic bank in acquiring legitimacy, there are several things that have been uncovered. Rhetoric is conveying messages by employing three devices: ethos, pathos, and logos.

In the Islamic view, since ethos is concerning the Islamic or *Shariah* credibility of the institution, individual authority and institutional authority have been discussed. To ensure that SSB as the institution responsible for ensuring *Shariah* compliance is legitimate, its members should be the qualified persons in this field. Then, to ensure that this institution is functioning well, good governance should be upheld. SSB's member recruitment and SSB governance are controlled by OJK. Banks have reported their compliance to the prevailing rules regarding individual and institutional authorities.

Pathos in the Islamic perspective is related to integrity and concern to the disadvantage. Because of the importance of integrity value, both banks mention it as the core value and institutionalize this value through GCG mechanism as required by regulations. Concern to the disadvantage is also their core value, and they express their concern in this matter by mentioning Islamic principles. One of the Islamic pillars is

paying *zakat*. Since their social responsibility is associated with this principle, the bank created a *zakat* institution to implement social responsibility programs. However, this institution does not only manage *zakat* funds, but also other funds to be distributed to the needies. In this regard, social responsibility programs are also aimed to attain social objectives and business objectives. Business objectives here are related to promotion and image building.

Logos means delivering a clear message employing logical reason and evidence. In this regard, both banks reveal their reasons to implement CSR and claim of CSR activities. The reason for implementing CSR is reflected by the banks' commitment to preserving the environment and delivering more values to stakeholders. This reason is derived from religious teachings, prevailing regulations and international norms. Additionally, banks have reported their CSR activities toward stakeholders with adequate data, graphs, and statistics. Since logos in this matter is related to *muamalat*, logical reasoning can be performed as long as it does not transgress Qur'an and Sunnah guidance.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter consists of five sections. The first section discusses research findings. The second section presents the conclusion drawn from the empirical findings. The third section describes the contribution of study. The fourth section explains the managerial implications of this study. The final section outlines the limitations of study and recommendations for future research.

5.2 Discussion

In this section, the research findings are elaborated further. The differences and similarities with previous studies are presented. Other relevant information and materials are added to get new meanings and fresh perspectives toward issues addressed in this research, which can contribute to the body of knowledge. The draft of this chapter has been discussed with reviewers who have practical experience in Islamic banking. This step was implemented to validate the research findings and to enrich the study with a broader perspective. Accordingly, revision of the draft has been made based on the reviewers' feedback.

5.2.1 Discussion on Shariah Legitimacy

Although legitimacy is an important concept, studies that highlight strategies used by organizations and Asian firms to establish legitimacy through CSR are rare (Castello & Galang, 2014). Furthermore, in Indonesian Islamic banking context, such research is not present. This topic is critical since legitimacy has an obvious impact on

economic and social exchanges; most stakeholders will only engage with legitimate organizations. This chapter discusses legitimate organizations in Indonesian Islamic banking context.

The purpose of *Shariah* legitimacy is to achieve *falah* by achieving the *Maqasid Shariah*. *Shariah* legitimacy is pursued not merely to get acceptance from the stakeholders, but also from Allah. This is absent in Western concept. This understanding is related to the concept of *hablun minallah* and *hablun minannas*. This *Shariah* legitimacy is achieved not only in text but also in spirit. Because if it is solely achieved in text, it allows manipulation, for instance by creating false reports in order to get acceptability from humans. This contradicts stakeholders' expectations because essentially, stakeholders have expectations toward an organization's responsibility beyond legal requirements (Carroll, 1979). Therefore, spiritual factors concerning the relationship between humans and Allah need to be considered. In this regard, this study has introduced four principles that should be used as guidelines for every Muslims: *tauhid*, *tazkiyah*, *ikhlas*, and *taqwa*.

A good manager will behave in accordance with Allah's will. It can be understood by employing *dalil aqli* (reason-based argumentation) and *dalil naqli* (revelation-based argumentation). Managers who accept God as a legitimate managerial stakeholder might become alerted to the moral implications of their activities toward each stakeholder and make decisions by considering normative judgment (Schwartz, 2006). It can be explained using reason-based argumentation (Jahja, Saputra, & Ramalu, 2016; Schwartz, 2006) and revelation-based argumentation as follows.

First, the preceding section explained that faith is related to the concept of *ihsan*. "*Ihsan* is to worship Allah as though you see Him; if you do not see Him, indeed, He

sees you" (*Hadith* narrated by Muslim). Badi (2002) explains, *ihsan* is about fearing Allah and glorifying Him; it is also about the best actions of the heart, which leads to doing good deeds beyond legal requirements. In other words, people who embraced the *ihsan* concept will work as well as possible. In this sense, the Qur'an says, "Who hath created life and death that He may try you, which of you is best in conduct; and He is the Mighty, Forgiving." (Qur'an 67:2). The statement of Allah's Might is accompanied by the statement that Allah is Most Forgiving, which means that Muslims should always do their best even though they are not perfect. Because humans are not perfect, and for that reason, Allah forgives. Consequently, those who believe in Allah as the highest power should strive for excellence and are less likely to act immorally since they feel Allah will observe their thoughts and attitudes.

Second, the Qur'an says: "... And strive for excellence; indeed, Allah loves those who strive for excellence." (Qur'an 2:195). This principle enables managers to behave because they are aware of Allah's goodness so that in return, people are demanded to do good deeds. In this matter, Badi (2002) commented, this is also in line with the concept of *ihsan*, because *ihsan* can be interpreted as the best actions of the heart that will lead to love Allah the most, to seek the help of Allah, and to have hope in Allah. Therefore, those who believe in Allah who is compassionate and merciful are inclined to believe that all of Allah's actions are necessary, suitable, and consistent with their norms, beliefs, and values.

Third, Allah explains, "We shall record whatever [deeds] they have sent ahead, and the traces [of good and evil] which they have left behind: for of all things do We take account in a record clear." (Qur'an 36:12). This means that in the Muslim belief, every good or bad action will be recorded, and those records become the basis for

accountability on the Day of Judgment, as stated in the other verse of Qur'an (74:38), " Every soul is a pledge for its own deeds". As a result, managers are aware that inappropriate behavior will have consequences both in this world and in the afterlife because they believe Allah is always watching them.

Thus, managers who accept Allah as a legitimate managerial stakeholder will pursue *Shariah* legitimacy. *Shariah* legitimacy can be explained through four types of legitimacy (Deephouse et al., 2017): regulatory, normative, cognitive and pragmatic legitimacy.

5.2.1.1 Discussion on Regulatory Legitimacy

The first type is regulatory legitimacy. Many studies have focused on regulatory legitimacy in developed countries. Devin (2014) found that organizations would often communicate their CSR activities within their reports whilst failing to acknowledge that the activities are shaped by legislation and/or regulations. The organizations did not necessarily address all of the relevant activities stemming from regulative pressure within their reports. This finding could lead to the argument that CSR idea may become a taken-for-granted assumption.

By recognizing that Indonesian banks are not in such a condition, OJK (Financial Service Authority) explicitly demands banks to follow the regulations concerning environmental protection. OJK has issued POJK 51 pertaining sustainable finance regulation, which should be adopted gradually by Indonesian finance and banking institutions. This kind of policy was adopted because if the hard way would be undertaken, there would be many violations. Consequently, many financial institutions

will get punished; this situation will destabilize financial industry. Thus, OJK took step by step approach in applying such regulation.

Unlike developed countries that have a high environmental awareness, Indonesia is still in early stage of development. For that reason, it is understandable that OJK asks financial institutions to report their compliance toward environment regulations, and to disclose it in annual report for public exposure. Thus, unlike Devin's (2014) findings, this study shows that regulatory legitimacy in conducting and reporting CSR is explicitly emphasized in Islamic banks' reports. Indonesian Islamic banks should obey this rule. They do not do it voluntarily.

5.2.1.2 Discussion on Cognitive Legitimacy

The second is legitimacy based on cognition. To establish this legitimacy, Devin (2014) argued that organizations must state their willingness to follow CSR behavior in an industry and use CSR rhetoric. In employing CSR rhetoric, organizations highlight their activities on behalf of their stakeholders, implement their guidance policy on this, demonstrate their CSR rewards, and ensure that their reports are examined by external third parties (Devin, 2014). Those strategies are employed based on the idea that corporations belong to the society and should be well behaved and responsible (Castelló & Lozano, 2011). Thus, universal goodness values inspire corporations.

In this regard, besides universal values, *Shariah* guidance has led Islamic banks to care about social responsibility issues. Castelló and Lozano (2011) said that cognitive legitimacy exists when there is a little question in the minds of the actors that the organization serves as a natural way. This means it operates at the subconscious level.

In Islamic banking case, CSR is deeply ingrained in the mind of Muslims because it is an integral part of *Shariah* principles. Muslims who have a certain level of wealth should give a portion of their wealth to the needy. Because, basically, in every Muslim's property, there are other people's rights, as mentioned in the Qur'an: "And in whose wealth there is a right acknowledged" (Qur'an 70:24). A right acknowledged in this verse means a certain amount determined by every Muslim for people in need, so there is a cognitive awareness among Muslims that people in need have definite rights in the wealth of every Muslim (Al-Qardawi, 1987, p. 56). Some scholars argue that the other people's rights in wealth is *zakat* (Al-Qardawi, 1987).

This obligation is imposed to individuals, as well as to corporations. Law on *Zakat* Management no. 23 year 2011, article 1 paragraph 2 states, "*Zakat* is an asset that must be issued by a Muslim or business entity to be given to those entitled to receive it in accordance with Islamic law." (Republik Indonesia, 2011). Because of this reason, it could be inferred that social function is embedded in Islamic banks. Islamic banks are not only economic institutions but also social institutions. Thus, they are urged to conduct CSR. In practice, Islamic banks mobilize *zakat* and other funds; then, they distribute those funds to the needy. *Zakat* foundations are created by BMI and BSM to perform these tasks. Those foundations are operated under *Shariah* supervision board to ensure *Shariah* compliancy.

It is important to note, compared to Islamic financial transaction administration, *zakat* administration is more stringent in following *Shariah* rules. *Shariah* compliance is crucial in the management of *zakat* because it relates to the worship (*ibadah*) aspect in Islamic principles. In this regard, there is a principle that any act of *ibadah* is forbidden unless there is evidence that validates its permissibility. Thus, the deeds in

ibadah area should be based on the Qur'an and Sunnah text. The strictness of *zakat* rule is inseparable from its position as one of the five Islamic pillars. Besides *zakat* obligation, Muslims are also encouraged to give donation (*sadaqa*), which is optional. Thus, philanthropy in Islam consists of obligatory and voluntary charity. The aforesaid explanation about cognitive aspects of CSR for Muslims leads to the conviction about CSR idea in Muslims' mind. Obviously, CSR idea exists at Muslims' subconscious level, which is motivated by *Shariah* principles.

Prior studies (Castello Lozano 2011; Devin, 2014) show that the willingness to implement CSR programs aims to achieve cognitive legitimacy. The universal goodness values prevailing in society inspired this program. This study supports previous studies in this matter. Islamic banks are inspired by universal goodness values. In addition, it also inspired by Islamic principles.

5.2.1.3 Discussion on Normative Legitimacy

Corporate is considered legitimate if it demonstrates ethical behavior which is in line with society's moral values. Previous studies (Castelló & Lozano, 2011; Marais, 2012; Palazzo & Scherer, 2006) about this legitimacy were conducted in Western countries. The pluralization of modern societies amid globalization has diminished cultural homogeneity and eroded taken-for-granted moral values.

On the other hand, Indonesian Islamic banking is facing a different issue. This industry seems to follow the current mainstream understanding of the role of the corporation in civil society which should comply to national laws and fairly homogeneous and stable societal expectations. In Indonesian Islamic banking context, the normative or moral arguments are shaped by regulator, civil society, and devout Muslim customers. In

developing a product or making a certain decision, Islamic bank should consult to SSB (*Shariah* Supervisory Board) which is supervised by MUI (Majelis Ulama Indonesia or Indonesian Ulama Assembly). Because according to the regulation, all of the Islamic banks' products should be legalized by MUI as a requirement to obtain OJK approval.

The moral arguments are also spread by numerous parties like regulator, academicians, Islamic preachers, Islamic finance and banking practitioners and other Islamic communities. BSM and BMI are also engaged in various associations in banking industry to maintain relationships. These activities allow socialization and discussion among business actors. Additionally, Islamic banks are serving the market segment who wants *Shariah* compliance products. Consequently, Islamic banks in their CSR communication should deliver the moral message containing their commitment in applying *Shariah* values.

To sum up, while prior research (Castelló & Lozano, 2011; Marais, 2012; Palazzo & Scherer, 2006) revealed the pluralization of moral values prevailing in society, this study shows the opposite. Since this industry is built on *Shariah* rules approved by the scholars at MUI, the prevailing values follow the directions from MUI. Thus, moral values are more homogeneous.

5.2.1.4 Discussion on Pragmatic Legitimacy

In this regard, Islamic banks also implement CSR for pragmatic reasons, mainly in marketing and financial areas. In the marketing area, banks should develop programs concerning branding, reputation, and engagement to impact customers in opening savings accounts. The first is for branding purposes. In carrying out CSR for this

purpose, banks expose their CSR activities on social media to be widely recognized. In this vein, they expect the positive stakeholders' association toward the banks. They expect their brand to be related to stakeholders' thoughts, feelings, images, attitudes, and experiences toward the banks. The second is reputation. Islamic banks need a reputation that is in line with the image they build in the long term. This means that CSR activities are expected to grow a positive image in the minds of stakeholders. Consequently, it could improve favorability, respect, and trustworthiness toward banks. The third is engagement. If people are assisted with CSR activities, they will become emotionally involved. Subsequently, they will keep them talking about various aspects of Islamic banking. Thus, this program is expected to be able to increase brand awareness, reputation, and consequently, indirect business benefits in the form of new savings account openings.

Regarding financial matter in pragmatic legitimacy, it is crucial to note that, before satisfying stakeholders' needs, banks should maximize their profit. Profit seeking purpose is crucial to secure shareholders' support. Thus, although satisfying stakeholders' expectations is crucial, the priority is to satisfy shareholders with profit guarantee. Otherwise, they can retract their funds, or they will not invest additional fund when it is needed. Marais (2012) argued that pragmatic legitimacy can be achieved if the CEO can increase stakeholder satisfaction, especially toward boards of directors, financial investors and shareholders. Otherwise, organization would face trouble. The subsequent section discusses this matter.

5.2.1.4.1 Notes on Pragmatic Legitimacy in BMI

Pertaining to financial matter in pragmatic legitimacy, the multiple case method employed in this research reveals the differences. This study uses two cases (BMI and

BSM) that have different trends in market share. As mentioned in chapter one, BSM has better performance than BMI. BMI as the oldest bank was established in 1991, acted as a single player in the market until 1999, when BSM entered the industry. However, currently the market share of BMI in terms of total asset is lower than that of BSM, which reflects their different capability in marketing.

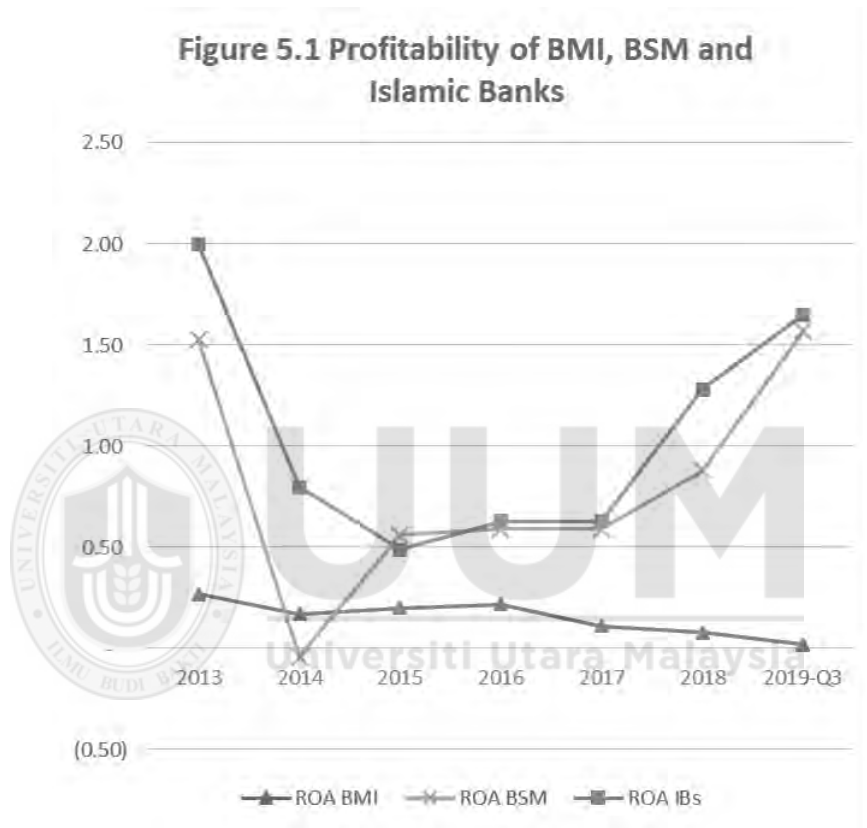


Figure 5.1 Profitability of BMI, BSM and Islamic Banks

Source: Otoritas Jasa Keuangan, 2014, 2015b, 2016c, 2017d, 2018c, 2019

The ability to make profit is also different. Figure 5.1 portrays their profitability trend. Although both banks experienced a fall in profit for 2014, BSM's profitability has demonstrated recovery, in line with Islamic bank industry's profitability. On the other hand, BMI is facing trouble in this important aspect. The cause of this problem in relation to legitimacy concept is interesting to be discussed.

Both banks suffered a decline in profitability in 2014, and they strived to solve this issue. The slowdown of their profitability coincided with the decline in industry as a whole (Alwyni, 2015). In their annual reports (Bank Muamalat Indonesia, 2015; Bank Syariah Mandiri, 2015), both banks described that the decline in national economy was the cause of the profit decrease. At the same time, Islamic banking industry was also experiencing profitability decline (Otoritas Jasa Keuangan, 2015a). As reported by Otoritas Jasa Keuangan (2015), non-performing finance of both banks also increased. This means that the risk management of both banks were not adequate (Wiguna, 2019).

Both banks strived to solve this issue. To overcome this problem, BSM has received additional capital from Bank Mandiri (BM) as the dominant shareholder⁶. In 2014, BSM paid-in capital 1,489 billion rupiah. Then, BM injected 500 billion rupiah every year (Bank Syariah Mandiri, 2015, 2016, 2017a, 2018a, 2019a). On the other hand, in the same period, BMI's paid-in capital was stagnant at 1,103 billion rupiah (Bank Muamalat Indonesia, 2015, 2016, 2017a, 2018a, 2019a). Consequently, BMI was also experiencing difficulty in financing, as depicted in Figure 5.2. This circumstance caused the decrease in revenue, and subsequently affected its profitability. Therefore, this bank was experiencing difficulty to get additional capital from both existing shareholders and external shareholders.

⁶ BM has 597,804,386 shares, whereas PT Mandiri Sekuritas only has one share (Bank Syariah Mandiri, 2020). Thus, it controls almost one hundred percent of shares.

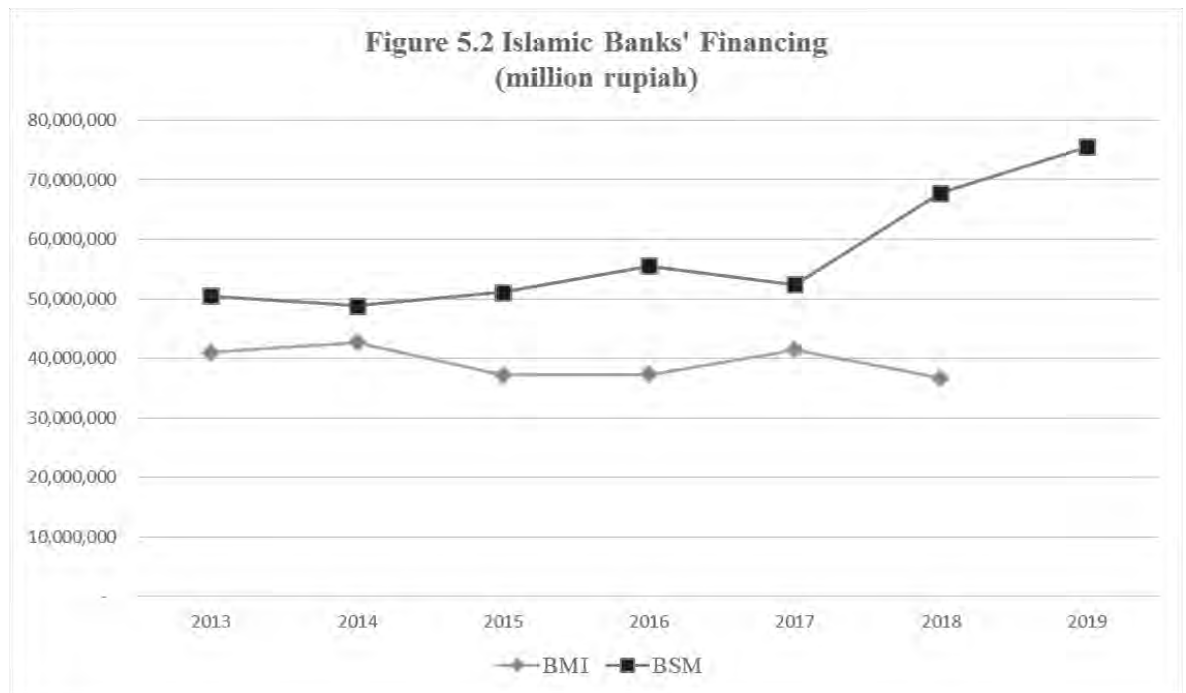


Figure 5.2 Islamic Banks' Financing

Source: Bank Muamalat Indonesia (2014, 2015, 2016, 2017a, 2018a, 2019); Bank Syariah Mandiri (2018a, 2019, 2020, 2014, 2015, 2016, 2017a)

BMI has looked for capital injection from the existing shareholders and other investors. The majority shareholders are as follows: Islamic Development Bank (IDB) (32.74%), Boubyan Bank (22.00%), National Bank of Kuwait (8.45%), and SEDCO (24.23%) (Bank Muamalat Indonesia, 2019). Those shareholders did not inject additional capital needed by BMI for various reasons (Nordiansyah, 2018; Rahayu, 2018). IDB cannot supply additional capital because of their internal regulation restriction, Boubyan Bank and National Bank of Kuwait are experiencing internal problems, and SEDCO did not want to inject for unknown reasons. Thus, BMI did not get support from majority stakeholders.

In this case, this study supports past studies. Previous research (Castelló & Lozano, 2011; Devin, 2014; Marais, 2012) pointed out that stakeholders will ascribe pragmatic legitimacy to the organization as long as they believe it is beneficial. Thus, organizations that do not benefit stakeholders, particularly shareholders, will

experience a decrease in pragmatic legitimacy. BMI experienced financial difficulties because shareholders did not provide additional capital.

Alternatively, BMI should attract capital from external parties. However, this effort was not easy. There were several parties that have been approached to do this thing, but it did not happen because of the disagreement between the bank and investors. Other reason is pertaining to OJK's permission, because OJK wants to make sure that additional investors will guarantee banks' sustainability. After waiting for five years, it seems there will be an investor approved by OJK (Putri, 2020). However, because of Covid-19 pandemic, the process is uncertain. This difficult process implies a problem concerning legitimacy of bank in the eyes of existing shareholders.

This BMI case revealed a new insight pertaining to legitimacy matter. Although this bank is encountering declining performance which makes existing shareholders unsatisfied, in the eyes of other important stakeholders, this bank is still legitimate. A number of important stakeholders support the existence of this bank and expect its sustainability (Andreas, 2018). Indonesian parliament has invited OJK and BMI to discuss this case. Indonesian vice president, Prof. Dr. KH Ma'ruf Amin is also very concerned with this issue. He is one of prominent persons in Indonesian Islamic banking development. Previously, he was the chairman of *Shariah* Supervisory Board in BMI, and served five Islamic banks in Indonesia as SSB members. He said, whatever it takes, this bank should be rescued (Tobing, 2019). Although the bank's legitimacy is eroded, however, support from various parties toward this bank indicates that its legitimacy is still present.

Observers opined, as the first Islamic bank in Indonesia, BMI has political support, strong *Shariah* brand equity, and loyal customer base (Sahara, 2020). Although it is

still experiencing trouble, the amount of third-party fund from customers is not seriously affected. They said, if this case happened in conventional banks, the story would be different (Sahara, 2020). The data presented in Figure 5.3 shows the evidence. Surprisingly, although BMI is experiencing a trouble, its third-party fund (TPF) has not decreased significantly. This means it still has customers' trust. In other words, this bank is still legitimate.

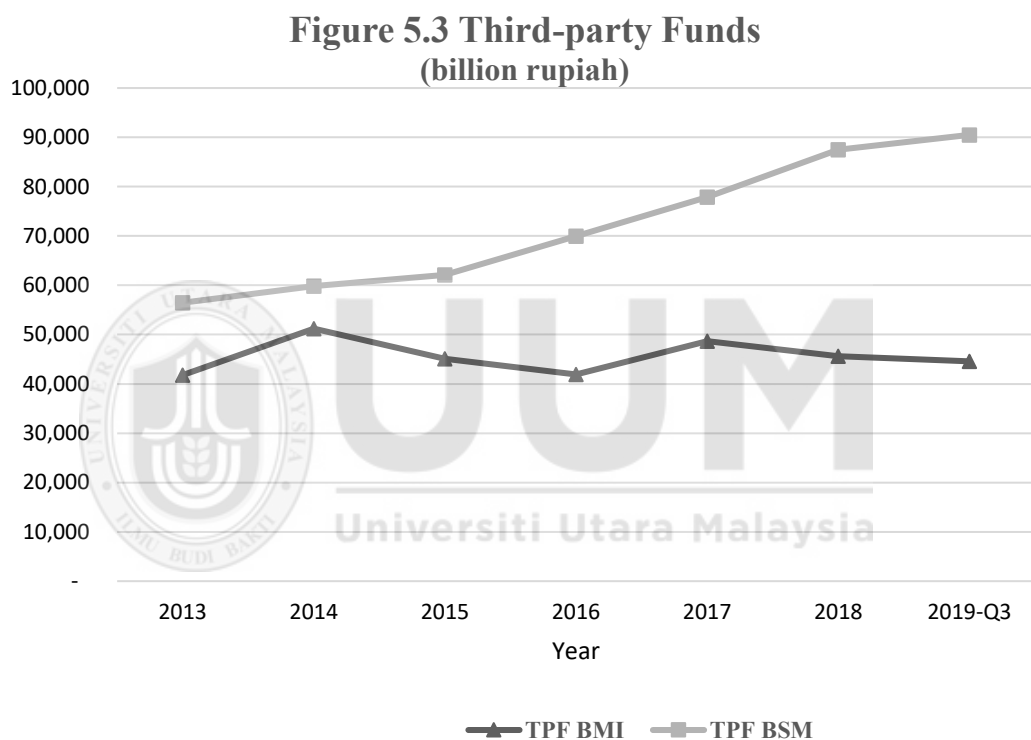


Figure 5.3 Third-party Funds

Source: Bank Muamalat Indonesia (2014, 2015, 2016, 2017a, 2018a, 2019, 2019b); Bank Syariah Mandiri (2018a, 2019, 2020, 2014, 2015, 2016, 2017a, 2019b)

The aforementioned explanation about pragmatic legitimacy shows an insight about the mutual benefit between bank and stakeholders. Bank provides benefits to the stakeholders, and in return, it also would gain benefits, such as branding, customers' engagement, increasing savings account and ultimately, profit. In BMI's case, however, the fall in profit which was caused by high NPF (non performing finance)

led to further hardship since the existing shareholders did not want to provide additional capital. It also faced difficulty to attract external investors. While it suffered from decreasing legitimacy in the eyes of existing shareholders, the other important stakeholders still have expectation toward this bank to recover. They have commitment to help this bank to recover. Thus, the deficiency in one kind of legitimacy which disturb the bank's performance is compensated by other legitimacies. Several parties expressed their willingness to help this bank.

5.2.2 Common Pattern in Attaining Legitimacy

While the previous discussion talked about differences between the two banks, the multiple case study as explained in chapter three also leads to the finding of the common pattern in the way to attain legitimacy. The common pattern can also lead to higher transferability, which means that the findings of this research can be “generalized” to other Islamic banks in Indonesia. This common pattern is caused by the more stringent regulation environment faced by Indonesian banking industry. This condition emerged from financial crisis faced by banking industry in 1998, where national banks were highly exposed to various risks.

Abdullah and Santoso (2001)⁷ explained the story of the crisis. Starting from 1997, Indonesia experienced a banking crisis following the depreciation of rupiah currency which has dropped from IDR 2,450 per USD in July 1997 to IDR 11,000 in March 1998. Many people withdrew their money from the banks and converted it to US dollar. There was a lack of public confidence toward the banking system, and a number

⁷ The authors are authoritative persons in Indonesian finance and banking field. Burhanuddin Abdullah (born 10 July 1947) was a Governor of Bank Indonesia, in office from 2003 to 2008, and Wimboh Santoso (born 15 March 1957) is a chief commissioner of OJK for the period 2017-2022. Source: Wikipedia (2019, 2020).

of banks suffered insolvency and illiquidity. To cope with this problem, after issuing a number of policies, BI has frozen several banks, so the number of banks has been decreased from 239 to 153. According to Susilo and Simarmata (2007), there were two main problems in banking industry: failure in bank supervision and failure in ensuring prudential banking. Then, BI initiated considerable changes to restructure the banking system by issuing several policies such as improving corporate governance, strengthening banking supervision, and encouraging a sound banking environment (Abdullah & Santoso, 2001).

Learning from that situation, the Government and Parliament were involved in debates and discussions that aimed to strengthen the finance and monetary system. These actions led to the changes in law and regulations to prevent the recurrence of similar events. Thus, it can be understood why the Indonesian banking system is highly regulated and highly supervised. For instance, BI and OJK issued rules that emphasize the importance of GCG, where banks' strategic decisions should align with stakeholders' interests. This condition makes banks behave uniformly in achieving legitimacy. To respond to this circumstance, banks are striving to comply with the regulation. Consequently, this activity leads to the commonalities in banks' behavior.

5.3 Discussion on Islamic CSR

To sharpen the understanding toward Islamic CSR, the current way of thinking pertaining to the objective of business enterprise needs to be discussed. Thus, this section discusses triple bottom line in Indonesian Islamic banking context. Subsequently, profit and purpose in light of Islamic point of view are delineated.

In the past, there was a debate about profit and purpose. There are two main views pertaining to this matter. The first argument was propounded by Friedman (1970), which explicitly stated that the only social responsibility of business is increasing profit as long as it is in line with the prevailing regulation and engaged in fair competition, while its engagement in social responsibility is justified in its own self-interest. On the contrary, there is a legitimacy-seeking view which concerns with the importance of congruency between organization and social objectives. Thus, organizations should deal with sustainability. As explained in chapter two, based on previous studies, organizations should focus on how to be socially responsible.

The essential foundations of socially responsible business are 3Ps: People, Profit and Planet. Elkington coined this idea in 1994, which subsequently advanced the sustainability global agenda concept (Arowoshegbe & Emmanuel, 2016; Žak, 2015). In September 2015, 193 heads of state in UN General Assembly including Indonesia, agreed to implement Sustainable Development Goals (SDGs) agenda that has to be achieved in 2030 (Panuluh & Fitri, 2016). Following this event, OJK developed Sustainable Finance Roadmap (Otoritas Jasa Keuangan, 2017b) which became the foundation of POJK 51 regulation. The application of such a regulation for the Islamic banking perspective needs to be explored. The following points explain the relationship between *Shariah* principles, triple bottom line, SDGs and POJK 51.

First, the triple bottom line, which consists of People, Profit and Planet, is considered in line with *Shariah* principles. Essentially, Islamic banks are operated based on five pillars of *Maqasid Shariah*: protection of faith or religion (*din*), life (*nafs*), lineage or progeny (*nasl*), intellect (*'aql*), and property (*mal*). According to Siregar (personal communication, April 25, 2019), preserving *din*, *'aql*, and *nafs* are related to People.

Nasl, since it is connected with sustainability of next generation and other creatures, can be related to Planet, and *mal* is related to Profit. Those principles are related to sustainability issue, which is in line with *Shariah* principles, particularly the concept of humankind as *khilafah*. According to this concept, Allah created the earth and its endowment as the subordinate of humankind, and they have to be managed by humankind in a sustainable manner, in line with the concept of *ibadah* and *khilafah*.

All Muslim activities are based on *ibadah* principles to realize the *khilafah* values. The same goes for implementing SDGs. United Nations Development Programme (2015) states that in addition to the 3P's, there are other 2 Ps: Peace and Partnership. Peace is needed to ensure that SDGs can be carried out in favorable conditions. Additionally, Partnership, which means involving collaboration with various parties, is required to facilitate the implementation of SDGs programs. Therefore, the values contained in the concept of *ibadah* and *khilafah* (see Appendix A) should be a reference for Islamic banks in carrying out SDGs programs. Correspondently, banks would implement Islamic CSR.

Second, the 3Ps concept which includes economic growth, social inclusion and environmental protection is at the heart of sustainable development. Sustainable development is aimed to meet "the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987). SDGs that contain 17 goals are a universal call to promote sustainable development, end poverty, protect the planet, and ensure that all people enjoy peace and prosperity (United Nations, 2016). According to Ministry of National Development Planning Republic of Indonesia (2019), Indonesia has a commitment to successfully bring about the SDGs idea by achieving the 2030 development agenda.

Third, in financial sector, Otoritas Jasa Keuangan (2018) has built Roadmap for Sustainable Finance in Indonesia and its succeeding regulation. This roadmap serves as a reference for OJK, financial service industry players and other parties who have interest in supporting sustainable development, especially government, industry players and international institutions. Furthermore, POJK 51 and its technical guidance (Otoritas Jasa Keuangan, 2018b) were launched to operationalize SDGs in financial sector.

The descriptions about the relationships between *Maqasid Shariah*, Triple Bottom Line, SDGs and POJK 51 are presented in Table 5.1. SDGs which consist of 17 goals can be categorized into five P's as the extension of 3Ps (United Nations Development Programme, 2015). In SDGs concept, Peace and Partnership are added to Triple Bottom Line (3Ps) because those two P's (goal no. 16 and 17) are the prerequisites for the success in implementing Triple Bottom Line. Those 5Ps are:

1. People: Improving and sustaining for the current achievements on existing MDG goals (poverty, health education, gender).
2. Profit: Economic sustainability (inclusive growth, jobs, infrastructure, industrialization).
3. Planet: Environmental sustainability (climate change, oceans and land-based ecosystems, sustainable consumption and production).
4. Peace: All held together by the 'peaceful and inclusive societies for sustainable development' (governance agenda, rule of law and non-violence).
5. Partnership: The goal covers means of implementation (finance, trade, technology, capacity building, partnerships, and data).

The descriptions in Table 5.1 align with Islamic CSR's definition stated in chapter two and the findings in chapter four. The elements of the Islamic CSR definition are closely related to this table. Hence, to achieve *falah*, Islamic banks should contribute to sustainable development, comply with *Shariah* principles, carried out with the intention to perform *ibadah*, and be guided by *khilafah* values.



Table 5.1
The Connection between Triple Bottom Line, Maqasid Shariah, SDGs, and POJK 51

Triple Bottom Line	Maqasid Shariah	SDGs	POJK 51 [Its linkage with SDGs number]
People	<i>Din</i>	1. End poverty in all its forms everywhere.	1. Renewable energy [7]
		2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	2. Energy efficiency [7, 12]
Social	<i>Nafs</i>	3. Ensure healthy lives and promote well-being for all at all ages.	3. Pollution prevention and control [11, 13, 15]
	<i>Aql</i>	4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	4. Natural resource management and sustainable land use [2, 13, 15]
		5. Achieve gender equality and empower all women and girls.	5. Terrestrial and aquatic biodiversity conservation [14, 15]
Profit		8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	6. Environmentally friendly transportation [11, 13]
Economic	<i>Mal</i>	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.	7. Sustainable management of water and waste [6, 11, 12]
		10. Reduce inequality within and among countries.	8. Climate change adaptation [13]
		6. Ensure availability and sustainable management of water and sanitation for all.	9. Eco-efficient products [3, 12]
Planet		7. Ensure access to affordable, reliable, sustainable and modern energy for all.	10. Environmentally friendly buildings that meet national, regional or international recognized standards or certifications [9, 11]
	<i>Nasl</i>	11. Make cities and human settlements inclusive, safe, resilient and sustainable.	11. Business activities and/or other environmental conservation activities [adapted to 17 goals]
Environment		12. Ensure sustainable consumption and production patterns.	12. Micro, small and medium enterprises (MSMEs) activities [1, 8, 10]
		13. Take urgent action to combat climate change and its impacts.	
		14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.	
		15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and biodiversity loss.	

Source: UN, 2015; OJK, 2018.

5.4 Discussion on CSR Rhetoric

CSR rhetoric which includes ethos, pathos and logos are employed by Islamic banks to obtain legitimacy. Ethos in this sense refers to individual authority and institutional authority in *Shariah* which are assured through *Shariah* governance. Pathos is related to the noble values communicated to stakeholders, while the logos is carried out to deliver the clear message by expressing the reasons and supporting evidence. In this regard, there is no specific and strict guidance as everything which is not forbidden by Qur'an and Sunnah exegesis is permissible. The explanations of these devices are as follows.

5.4.1 Ethos

Ethos is characterized by an authoritative character that indicates expertise, and it deals with the legitimization process (Erkama & Vaara, 2010; Gauthier & Kappen, 2017; Higgins & Walker, 2012). In this context, ethos or character is associated with expertise in implementing the *Shariah* values of Islamic banks, which is not examined in previous studies due to different context.

In order to build trust, every institution should behave according to the prevalent values. Its ideas and actions must not conflict with the values and norms of stakeholders. Consequently, it should demonstrate willingness in fulfilling society's expectations. In today's banking industry, values originating from the global agenda must be followed because these values are adopted by the nation. Additionally, as an Islamic institution, Islamic banks must show that they also have authority. Thus, banks should adhere with international norms and Islamic norms as well.

This characteristic differentiates Islamic banks from other conventional banks. Needless to say, Indonesian Islamic banks follow the global agenda which is dynamic, just like conventional banks. However, Islamic banks also carry out *Shariah* principles, and must demonstrate that they have Islamic credential. In this vein, this study has introduced the concepts of individual and institutional authority to explain ethos.

Individual authority is the ability and skills of individuals in the field of Islamic law to carry out *Shariah* scrutiny of the products and provide legal considerations to management regarding problems that arise. Those activities are conducted to ensure *Shariah* compliance. To get qualified individuals in this issue, MUI (Majelis Ulama Indonesia or Indonesian Ulama Assembly) has formulated the criteria. Since this matter relates to banking institutions, it cannot be separated from the supervision of the OJK. Thus, while ensuring compliance with *Shariah* is implemented by MUI, OJK regulates administratively.

In carrying out their duties, individuals are organized in the SSB institution. SSB is supervised by OJK and MUI to ensure the quality of decisions. According to OJK regulation, the selection of SSB members, process and performance should also be reported periodically to the OJK and to the public. This indicates that the external party plays an important role to supervise banks in carrying out their duties as mandated, and consequently to strengthen their legitimacy.

Ethos originated from individual and institutional authority. Individual authority comes from jurists' capacity in an Islamic bank which is recognized by OJK and MUI. An institutional authority, on the other hand, is the authority that emerges from the *Shariah* Supervisory Board (SSB) which is governed according to existing regulations. Individual

authority and institutional authority are important to confirm that an organization's decisions comply with *Shariah* principles. Thus, individual authority and institutional authority in Islamic law play an important role in building organizational ethos in the eyes of stakeholders. To achieve regulative legitimacy, banks published periodical reports. This is an effort to implement GCG principles. In addition, the existence and function of SSB are required to exhibit to the public that banks are committed to actualizing Maqasid *Shariah*; in other words, to obtain normative legitimacy. In brief, ethos is essential for building legitimacy, particularly regulative and normative legitimacy. Therefore, through individual and institutional authority, ethos can be developed and consequently will strengthen legitimacy.

5.4.2 Pathos

Pathos is needed to persuade stakeholders by creating an emotional connection between the organization and its audiences (Castelló & Lozano, 2011; Piperopoulos, 2013). Past studies (Castelló & Lozano, 2011; Marais, 2012) showed that corporations used the values contained in the global agenda such as partnership, social contribution, and human responsibility to evoke emotional connections. This study reveals that the Islamic banks also use those values. However, the main values employed are values derived from Islamic principles.

The effort to identify moral values of pathos has been conducted in literature review. This study has identified moral values using a semiotic approach. This was implemented by deriving Qur'anic verses containing the word "*qaul*" to get the values of pathos in an Islamic perspective. The results are depicted in Table 2.3. This approach has been developed by

Sauri, (2008), Zahid (2013), and currently by Husein (2018). This study shows that Islamic banks concern to the disadvantaged, old, and weak people in society. They also stated their commitment toward the integrity values; since this industry is very demanding in this matter. Incorporating the wider elements of society such as those who may disagree with banks' point of view do not become an issue, unless it is carried out by financial authorities or influential parties.

However, in the other part of this thesis, the researcher has also identified the values based on *falah*, *ibadah* dan *khilafah* principles, as depicted in Appendix A. This approach resulted in a more comprehensive list of values than the previous one. In addition, Table 5.1 describes the relationship between these values and the values contained in the global agenda, namely SDGs.

It is important for Indonesian Islamic banks to interpret this agenda, because the Indonesian government is committed to implementing it. Furthermore, they have to understand the interrelationship between SDGs, *Maqasid Shariah* and POJK 51 so that banks can carry out a global agenda that is in line with the spirit of *Shariah*. Therefore, not only do they comply with existing rules, they also realize the *Maqasid Shariah*. For this reason, board of directors and shareholders should have the same views on the Islamic worldview (*ibadah*, *khilafah* and *falah*), the triple bottom line, SDGs, and also their implementation.

This study finds that the relationship between global values, triple bottom line and its implementation cannot be separated from *zakat* obligation. *Zakat* is an Islamic obligation attached to both individuals and corporations. According to Islamic pillars, *zakat* is applied to all Muslim individuals who meet certain criteria. However, *zakat* regulation is also

applied to corporations. Thus, the noble values of the teachings of *zakat* are in the minds of Muslim community. In this regard Islamic banks should behave according to public's expectation.

5.4.3 Logos

In order to convince stakeholders that the presence of corporations is beneficial, logos aspect in communication is crucial. Because, logos provides the objective and reasonable explanation about the importance of corporate presence in their area. In this sense Dusuki (2008) asserted that, in Islamic point of view, the rational faculties can and should only be used to complement support and strengthen the ethics and morals as framed within the *Shariah*. Thus, in this regard, in implementing business organizations, it is necessary to communicate messages based on two principles, namely *tabi'* and *shar'i* principles (Beekun, 2006, p. 4-5). *Shar'i* principles are *Shariah* percepts which serve as guidelines in running a business. It distinguishes between what is permissible and what is forbidden. *Tabi'* principles are the natural principles which contain causal relationships that can be explained empirically and rationally. It relates to the mundane where human applies reason and experience to run the business. In Islam, these two aspects must be implemented in order to achieve *falah*. This notion is in line with the Qur'anic verse: "Whoever does righteousness, whether male or female, while he is a believer - We will surely cause him to live a good life, and We will surely give them their reward (in the hereafter) according to the best of what they used to do." (Quran 16:97). Righteous deeds (*'amal salih*) are the actions based on *tabi'* and *Shar'i* principles. In this verse, the good life can be related to the

falah concept. Asad (1980) said the good life could refer to happiness in this life, happiness in the hereafter, or both.

In this research, there are findings which are related to these principles. As explained in chapter five, BMI experienced a decline in ROA since 2014. In 2019 (third quarter), ROA experienced a steep decline. This is a recurring problem since 1998 when Indonesia faced a monetary crisis (Bank Muamalat Indonesia, 2011, 2016). At that time, this bank suffered loss and its NPF was 60%. Islamic Development Bank (IDB) provided additional capital into the bank, to save it from the crisis. In 2015, there was a problem of capital shortages, but existing shareholders were reluctant to inject new capital. The main problem was due to financing which does seem to have a good quality, thereby increasing non-performing funds and uncollectible funds expense. According to BMI, non performing finance happened mainly in transportation and mining sector (Syafina, 2015). This bank was criticized for its focus on corporate funding instead of retail funding (Saragih, 2019). Hence, this problem can be resolved not only by capital injection, but also by improving banks' strategy in funding.

In fact, BSM also has experienced a downturn in profitability. Figure 5.1 shows the ROA of both banks from time to time. However, because BSM ownership is dominated by Bank Mandiri (BM), this problem is easier to be handled. Unlike BMI which has more than one owner, BSM can make the decision less complicated.

Market share and profitability are only the phenomena. BMI's profit fell not because of a lack of marketing efforts, but because financing was unable to expand due to limited capital. This limitation happened since existing shareholders did not have the courage to inject

funds, because they had an unpleasant experience in the past. According to Farouk (personal communication, 11 December, 2019), this problem is mainly due to character and competency issues. Character relates to GCG issues, and competency relates to risk management capabilities.

Thus, there is an NPF (non performing finance) problem caused by the provision of funds that are not in line with the principles of GCG and risk management. Because of this situation, the funding did not provide returns. It even eroded profits. Because this incident happened repeatedly, the legitimacy of managers in the eyes of shareholders is decreasing. They are reluctant to inject new funds. In other words, there has been a decline in the credibility or ethos of management in the eyes of shareholders. In addition, BMI's shareholders are not a single majority. The existence of several major shareholders results in different opinions. So, the solution to the problem became more complicated.

In a previous study Marais (2012) stated that the message conveyed to stakeholders, especially to investors and the financial community, must be understood and accepted by them. While in the case of BSM, the problem of decreasing profits can be resolved by the actions of shareholders injecting capital; BMI did not experience the same thing. This is due to decreasing legitimacy which is exacerbated by the existence of fragmented shareholders instead of single majority shareholder like in BSM. Therefore, the rational argument regarding management performance must also take into account the composition of shareholders. Since shareholders have different values and interests, their diversity has impacted on the level of difficulty in decision making. Nevertheless, in essence, there is a problem of legitimacy that makes shareholders reluctant to increase capital.

On the other hand, although BMI is experiencing the legitimacy problem in the eyes of shareholders, this is not the case for other stakeholders. The decrease in savings is not drastic, and political support is still strong. This is not because they do not realize the bank's decreasing performance. The existing system requires banks to publish their performance periodically and can be evaluated by the public. Thus, there are several factors that make this bank's legitimacy still strong. These factors are history, Muslim community support and political support.

The idea of establishing an Islamic bank in Indonesia has a long history. Since 1930s, Indonesian Islamic scholars have expressed their views on the prohibition of conventional banking services (Fasa, 2013). However, the effort to build an Islamic bank was constrained by the unfavorable political situation toward Islamic aspiration, especially in the 1980s (Yasin, 2010). Nevertheless, due to political dynamics, President Soeharto should exert political accommodations to get support from the Muslim community to maintain his political position, which he has held since 1966. In this situation, MUI and ICMI⁸ initiated the establishment of the first Islamic bank. After the 1992 Banking Law was passed, BMI was founded.

Muslim community support is shown by the level of participation from prominent Muslim scholars from MUI and representatives from the two largest Islamic organizations in Indonesia. To strengthen its legitimacy, SSB BMI was chosen from representatives of the

⁸ ICMI (Ikatan Cendekiawan Muslim Indonesia or Indonesian Association of Muslim Intellectuals) was founded in 1990 when President Soeharto moved his public identity toward Islam. This organization represents the Muslim middle class which has developed into a significant middle-class power (Rahman & Hazis, 2018). ICMI was led by the Minister of Research and Technology, B. J. Habibie; in 1998, President Suharto appointed him as Vice President.

MUI and the two biggest Muslim organizations, Muhammadiyah and Nahdlatul Ulama (NU). This of course was welcomed happily by Muslims. As the first Islamic bank in Indonesia, this bank which always carries the slogan "First pure *Shariah* bank", enjoyed privileges.

Political support is also obtained by this bank. In dealing with internal problems, the bank has political support. Indonesian vice president, Dr (HC) KH Ma'ruf Amin who previously served as a member of the SSB in BMI, stated that this bank must be saved (Idris, 2021). Additionally, Chairman of the Indonesian People's Consultative Assembly (MPR), Bambang Soesatyo, encouraged two of Indonesia's largest Muslim organizations, Nahdlatul Ulama (NU) and Muhammadiyah, to take over ownership of this bank (Faisal, 2020). Thus, this bank has strong legitimacy due to historical, Muslims community support, and political support.

It is understood that logos is used as a rhetorical strategy to strengthen legitimacy. Castelló and Lozano (2011) argued that in rhetorical strategies, logos is used to legitimize the economic logic of the firm, in order to achieve legitimacy. Basically logos is an organizational effort to impress stakeholders, their sense of clarity and integrity (Higgins & Walker, 2012; Hossain, Ahmad, & Siraj, 2017). It aims to convince audiences by using facts and figures to back up a claim (Brennan & Merkl-Davies, 2014). This research enriches previous results. However, this research also reveals a different thing. There was a case when the organization did not perform well as expected by shareholders. This makes the bank delegitimate. Consequently, shareholders' support decreased. On the other hand,

it is surprising that the decline in trust from customers is not as drastic as the decline in profitability. This can be interpreted that the bank is still trusted by certain stakeholders.

There are three lessons learned from this case. First, to build enduring legitimacy in the eyes of stakeholders, management should keep their trust intact. Stakeholders have to be assured that their interests are preserved. Shareholders, in particular, are one of the most important parties that should be convinced that the organization is running on purpose and guaranteeing profit. In this case, since the bank cannot convince them, its legitimacy decreased.

Second, this case shows that when there is a deficit of legitimacy in the eyes of shareholders, the bank can still survive because of other legitimacy based on political, historical, and social reasons. The bank could demonstrate its ability to persuade other parties with its logos to gain their support. It can persuade prominent persons in government and parliament to support the bank's existence. It also looks for other investors. According to Bank Muamalat Indonesia's (2021) report, the bank is still under due diligence by potential strategic investors. This process is carried out in coordination with regulator and bank's shareholders.

Third, logos as one of the rhetorical devices was used in communicating banks' performance to attain the desired legitimacy by providing evidence. It is conducted by publishing reports in accordance with the standard set by OJK and BI. Thus, the audience can assess it objectively. In this regard, Islamic banks should demonstrate that banks comply with prevailing regulations.

Thus, logos can be used to achieve pragmatic legitimacy and regulative legitimacy.

5.5 Conclusion

5.5.1 Shariah Legitimacy

The first research objective is to find out the perceptions of bank managers about their knowledge and efforts on legitimacy of Islamic banking. Pertaining to this objective, the concept of *Shariah* legitimacy has been explained. Islamic bank managers perceive that banks must not only be accepted by their stakeholders but the most important thing is accepted by Allah. Consequently, they design CSR programs that are in line with *Maqasid Shariah*. Practically, *Shariah* legitimacy can be achieved through four ways.

The first is legitimacy based on regulatory compliance. It is explicitly emphasized because in Indonesia, the idea of sustainable finance is still at an early stage of development, not as pervasive as in developed countries. It is fulfilled by implementing OJK regulations and reporting its implementation periodically. This is also communicated to the public so that the bank becomes legitimate in the eyes of stakeholders.

Secondly, cognitively, CSR idea is inherent in Islamic bank management because the idea of giving to the unfortunate is part of the Islamic pillars. The alms giving, whether compulsory (*zakat*) or voluntarily, are explicitly suggested in Qur'an and Sunnah. This notion is in line with CSR idea.

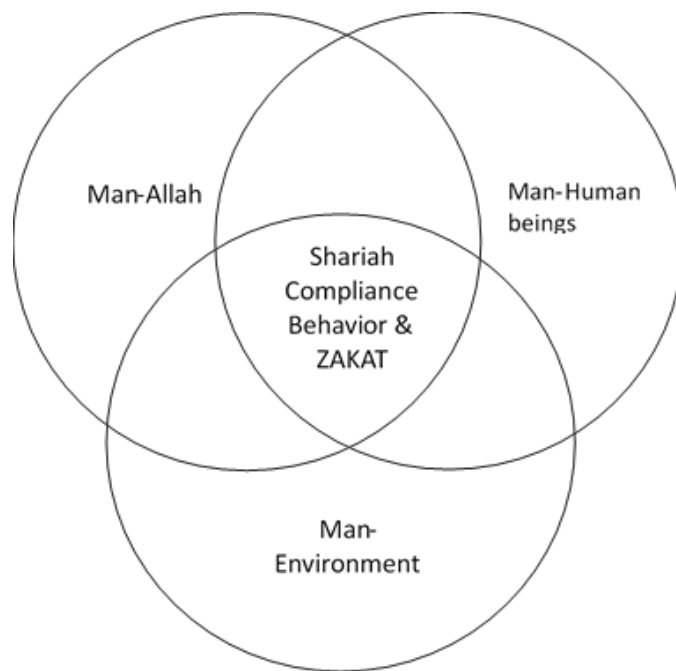


Figure 5.4 Zakat and Three Relationships

This figure (adapted from Hamdan, 2014) shows that the values in the *zakat* program contain three relationships. First, certainly *zakat* is Allah's command, so the collection and distribution of *zakat* fund should be in line with *Shariah* rules. It represents man-Allah relationship. Second, the *zakat* distributed among eight beneficiaries clearly demonstrates the relationship between humans. Third, *zakat* is related to environmental issues. *Zakat* can be used for programs related to the environment based on the fatwa from Majelis Ulama Indonesia (2015) number 001/MUNAS-IX/MUI/2015 about the provision of sanitation and clean water facilities for *zakat* beneficiaries. It is the manifestation of the implementation of preserving *nafs* (self) principle. Utilization of *zakat* funds to build those facilities is permissible under certain conditions.

These three relationships are also closely connected to the concepts of *ibadah*, *khilafah* and *falah* as depicted in Appendix A. Thus, CSR is deeply ingrained in the Muslim's mind and

heart. Efforts to optimize the collection and distribution of *zakat* will lead to greater social benefits and consequently will strengthen legitimacy. This explanation confirms that *Shariah* legitimacy does exist and is practiced in Indonesian Islamic banks through *zakat*.

Thirdly, normative legitimacy is achieved by making conformity with prevailing moral values in the society. Unlike previous studies whose moral values are heterogeneous, in this case, they are homogeneous. Because this industry is built on *Shariah* principles that have been agreed by the scholars under the auspices of MUI. MUI has become a benchmark for religious leaders, scholars, managers, finance and banking industry players, and Muslim's customers. MUI has issued various *fatwas* which serve as guidelines for Islamic banks in making decisions regarding banking transactions. SSB members are also recruited based on the criteria set by this institution. Those members are also required to obtain certification from MUI. Thus, normatively banks have clear and homogeneous standards.

Fourthly, pragmatic legitimacy. As a business entity, as in the case of conventional banks, Islamic banks must be managed professionally in order to deliver values to society, be able to share profits with savers, and increase the wealth of their shareholders. However, this study reveals pragmatic legitimacy issues. If stakeholder expectations are not met properly, it will affect the continuity and sustainability of the bank, as happened in BMI case.

It is understood that in order to build enduring legitimacy in the eyes of stakeholders, board of management must carefully maintain trust. Stakeholders must be convinced that the bank will always implement the purpose and make profit to ensure business growth. If this effort is not achieved, its pragmatic legitimacy will be decreased and the bank will be at risk. How long can the bank survive in facing this problem? This study revealed that apart from

a bank's ability to recover profit, another form of legitimacy in the eyes of stakeholders can make a bank last longer even in a difficult situation.

The discussion about legitimacy has revealed the differences between legitimacy types in Western perspective and those in Indonesian Islamic perspective, which are summarized in the following table.

Table 5.2
Legitimacy in Western and Indonesian Islamic Perspective

Legitimacy Types	Western	Indonesian Islamic banking
Regulatory	Implicitly emphasized	Explicitly emphasized
Cognitive	Driven by regulation and industry norms	Driven by regulation, industry norms and <i>Shariah</i> principles
Moral	Plural values	Homogenous values
Pragmatic	Concern to the stakeholders' benefit	Concern to the stakeholders' benefit in <i>Shariah</i> compliant way

5.5.2 Islamic CSR

The second research objective is to explore a more comprehensive definition of CSR from Islamic perspectives as perceived by Islamic bank managers. The research findings demonstrated coherence with the definition of Islamic CSR as presented in chapter two. The triple bottom line which is the core of SDGs as a global agenda, subsequently translated into Indonesian sustainable finance regulation. It is considered in line with Islamic values. The triple bottom line is in line with *Maqasid Shariah*. This is in accordance with the definition of Islamic CSR proposed by the researcher that Islamic CSR is the responsibility for the impact of organizational decisions and activities on society and the environment to achieve *falah*.

According to the aforesaid definition, Islamic CSR activities should be carried out through a transparent and ethical behavior. Such a behavior has been executed by using GCG principles which have been reported periodically. Banks also report on sustainability development related activities as determined by the OJK. Activities to meet stakeholders' expectations, comply with *Shariah*, applicable law and international norms have also been carried out. The findings also indicate that all of these activities are integrated throughout the organization. Finally, the values of *ibadah* and *khilafah* have also been explained, which have been carried out by both banks. Thus, this research has shown that in general, both banks have met the definition of Islamic CSR. The proposed definition of Islamic CSR has adopted the most legitimate definition of CSR which originated from ISO 26000. This definition is also in line with the application of SDGs as a global agenda and its implementation in Indonesian Islamic banking context.

The definition is restated. Islamic CSR is the responsibility for the impact of decisions and activities on the society and the environment to achieve *falah*, through transparent and ethical behavior that (1) contributes to sustainable development, including health and the welfare of society; (2) takes into account the expectations of stakeholders; (3) is in compliance with *Shariah* principles, applicable law and international norms; (4) is integrated throughout the organization and practiced in its relationships; and (5) carried out with the intention to perform *ibadah*, guided by *khilafah* values.

5.5.3 CSR Rhetoric in Islamic View

The third research objective is to investigate the use of CSR rhetoric in attaining legitimacy of Islamic banking in Indonesia by using interpretivism approach. In this regard, this

research has confirmed the use of ethos, pathos and logos in Islamic perspective. Ethos is related to the *Shariah* compliance credibility of the institution, which consists of individual and institutional authority. Pathos is related to the values that are categorized to *ibadah*, *khilafah* and *falah*. Logos is rational reasoning that can be employed as long as not contravene with Islamic values. This study offers the novel explanation about rhetorical devices application in Islamic context.

Firstly, in order to demonstrate ethos to the public, institutions need to highlight their authority in the field of Islamic banking. They should prove their authorities in implementing Islamic values so that they get legitimacy from stakeholders. More specifically they must have authority in *Shariah*, which is represented by individual and institutional authorities. These two concepts were introduced by Tomeh (2010), but their application for banking has never been studied. This study explains the application of these two concepts to Indonesian Islamic banking. It has been explained that ethos can certainly strengthen regulative legitimacy and normative legitimacy as well.

Secondly, in order to show the pathos to the public, prevailing values should be considered. This study has revealed a list of Islamic values pertaining to CSR, and linking them to SDGs and sustainable finance's regulation. CSR in Islamic banks is inseparable from the obligation of *zakat*. In Indonesian context, it is also known as corporate *zakat*, something which is the result of new *ijtihad*. Thus, it can be understood that these values are in the consciousness of Muslims in doing business. Muslims should leave a portion of their property to be given to the beneficiaries. In this regard, banks behave in line with applicable

laws, industry norms and *Shariah* tenets. Thus, pathos can strengthen cognitive and normative legitimacy.

Thirdly, in communications with stakeholders, a rational approach should be used. If rational stakeholders cannot accept the explanation from the organization, then the organization will experience delegitimation. This happens when BMI's performance decreases and as a result it gets into trouble and finds it difficult to get additional capital from shareholders. Logos has an impact on pragmatic legitimacy. In this sense, in the strategic conduct of any Islamic business, it is necessary to understand two segmented areas, namely *shar'i* and *tabi'* principles (Beekun, 2006, p. 4,5). *Shar'i* principles are principles derived from Qur'an and Sunnah which become guidelines in conducting business. It distinguishes between what is permissible and what is forbidden. On the other hand, *tabi'* principles are the natural principles that can be explained empirically and rationally. It relates to the mundane where humans apply reason and experience to execute their daily business. If this principle is not implemented properly, the natural law will apply. Thus, besides strengthening pragmatic legitimacy, logos can also strengthen normative legitimacy.

To summarize, the relationships between CSR rhetoric (ethos, pathos and logos) and *Shariah* legitimacy is as follows (Figure 5.5). Ethos is used to achieve regulative and normative legitimacy. In this context, Islamic banks' ethos is built through individual and institutional authority for SSB. Islamic banks should demonstrate their commitment to implementing the prevailing *Shariah* rules and norms. According to the regulations, they should report their conduct to stakeholders periodically. Pathos is intended to achieve

cognitive and normative legitimacy. Both banks have zakat institutions that carry out social welfare activities and communicate them to the public. These institutions collect zakat and alms funds, then distribute these funds to those in need. The Muslim community cognitively embraces the teachings of zakat and alms. In addition, these programs demonstrate that banks behave following the prevailing norms. Logos is directed to achieve pragmatic and regulatory legitimacy. Banks must demonstrate that their existence is beneficial to stakeholders; consequently, they should report their society's contributions clearly and honestly in accordance with applicable regulations. An understanding of these relationships can provide insight into the contribution of this study.



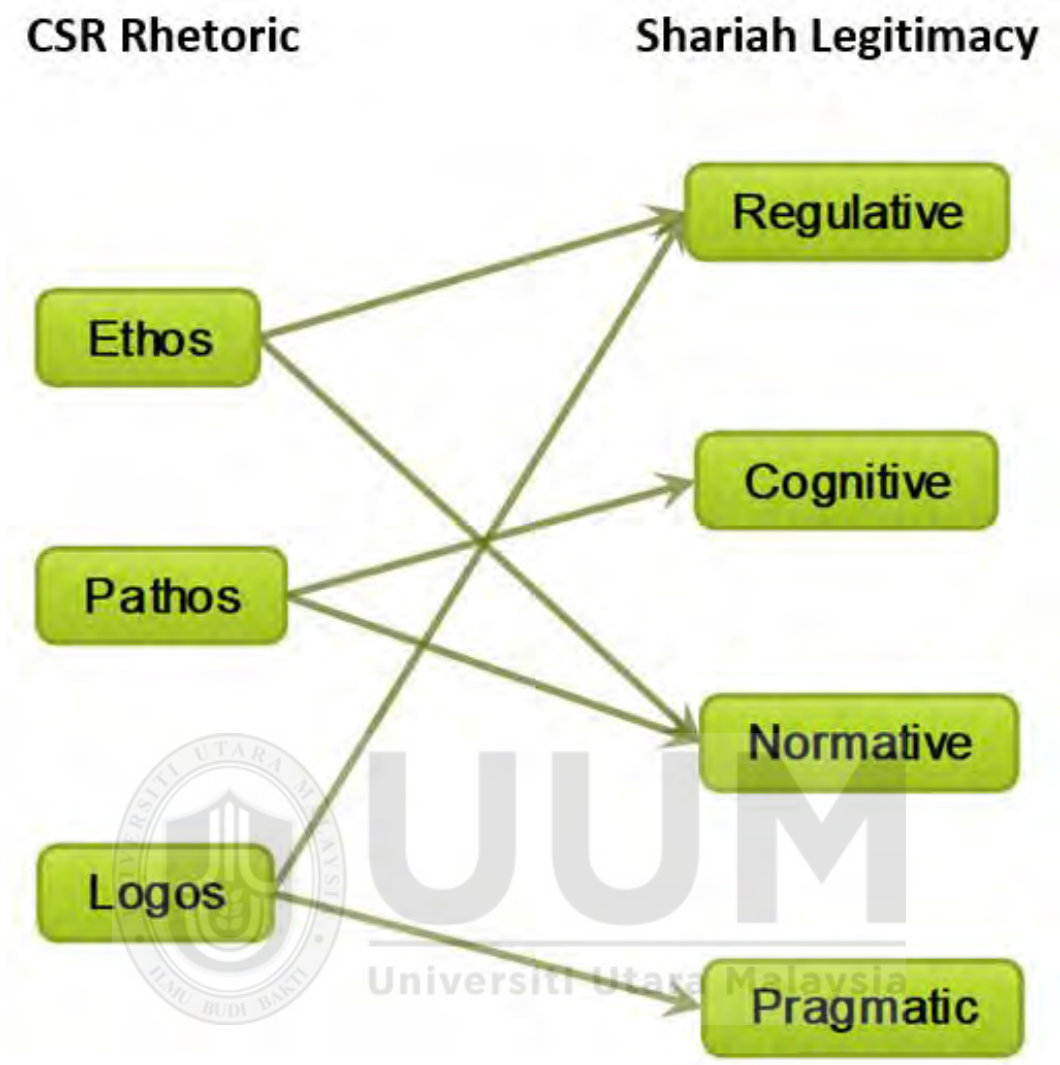


Figure 5.5 The Relationships between Shariah Legitimacy and CSR Rhetoric

5.6 Contribution of Study

This study contributes to the existing literature on CSR in various ways.

5.6.1 Theoretical Contribution

First, this research has advanced the current body of knowledge about legitimacy. This study introduces the term *Shariah* legitimacy in the context of Indonesian Islamic banking

which is based on legitimacy theory. *Shariah* legitimacy contains two dimensions, namely Allah-human relationship and human-human relationship. Unlike the existing legitimacy theory, which has a horizontal relationship scope, *Shariah* legitimacy also contains a vertical relationship. This means that manager behavior is not only to please stakeholders in general, but mainly to please Allah. Thus, in the concept of legitimacy within the Islamic perspective, there is a dimension related to *hablun minallah*, which is different from legitimacy in the Western view.

In this vein, there is a rational argument why managers will behave in the ways consistent with Allah's will. Schwartz (2006) has explained that managers who accept God as a legitimate managerial stakeholder might become alerted to the moral implications of their activities toward each stakeholder and make a decision by considering normative judgment. While Schwartz (2006) study explains the rationale of this behavior, this study provides guidance on how to behave in accordance with *Shariah* principles.

Second, this study provides a new definition that is based on solid foundation originating from the most legitimate definition. Accordingly, Islamic values have been imbued into this definition. This definition is different from previous Islamic CSR definitions proposed by several scholars (e.g. Khurshid et al., 2014; Dusuki, 2008; Dusuki & Abdullah, 2007; Mohammed, 2007; Yusuf & Bahari, 2011) which are too general, because they explain more about the principles of ICSR. This study has accommodated prior thoughts to formulate the new definition. By adapting the definition from ISO 26000, this definition provides an avenue for further development in order to be more operational.

5.6.2 Practical Contribution

Regulatory, cognitive, normative dan pragmatic legitimacy can be used as a reference to strengthen *Shariah* legitimacy. Previous studies were absent in discussing the way to strengthen *Shariah* legitimacy. Therefore, this study has a practical contribution.

First, ethos can be used to increase regulatory and normative legitimacy. SSB is functioned by exercising individual and institutional authority. Therefore, it applies GCG principles. GCG implementation is communicated to the public periodically, including achievements and deficiencies that need to be corrected. Its purpose is to encourage banks to perform better, increase public trust, and achieve regulatory legitimacy. Furthermore, it is worth mentioning that the Islamicity of Islamic banks deserves attention. Banks carry out activities not only to fulfill regulations but also to conform to norms and *Shariah* tenets. In this regard, the fulfillment of *Maqasid Shariah* is the primary goal of every bank; therefore, SSB plays a critical role in assuring banks to achieve the goal. Consequently, banks can achieve regulatory and normative legitimacy.

Second, pathos can be directed to strengthen cognitive and normative legitimacy. Cognitive legitimacy is associated with the acceptance of broadly taken-for-granted assumptions available in society. For that reason, banks behave based on the beliefs and awareness that prevails in people's minds. Since the Muslim community has expectations that Islamic banks are business institutions and social institutions, banks should communicate their social welfare programs. *Zakat* institutions carried out these programs. The source of funds is *zakat* and alms from corporations, employees, and the general public. Then, *zakat* institutions organize social welfare. These programs are attractively packaged and are

published in mass media and social media. Additionally, banks can optimize the *zakat* program for the social welfare through collaboration with BAZNAS (Badan Amil Zakat Nasional or National Board of Zakat)⁹ because this institution intends to increase the role of *zakat* in the SDGs to realize *Maqasid Shariah* (BAZNAS, 2017). This collaboration can have a broader impact. This program is in accordance with the Muslim belief in Islamic pillars. Thus, cognitive legitimacy can be achieved.

To achieve normative legitimacy, the following activities have been carried out. Islamic banks are involved in various associations so that they can socialize values and convey their aspirations. These associations manage discussions on current issues with bankers, practitioners and government officers, conduct bankers' professional development courses, and organize Islamic bank education for the public. To illustrate, both banks are involved in IAEI and MES organizations. Government officers lead both organizations. Currently, IAEI is led by the Minister of Finance after previously being led by the previous Minister of Development Planning; the minister of State-Owned Enterprise now leads MES after previously being led by the Chairman of the OJK Board of Commissioners (Masyarakat Ekonomi Syariah, 2021; Nasori, 2019). Through the involvement of government officers in this association, it is hoped that they will be able to understand the problem. As a consequence, government will issue favorable policies for the industry.

Harmonious relations between industry players and policymakers can have a positive impact. For instance, IAEI has formulated a curriculum for Islamic economics education

⁹ According to Zakat Management Act no. 23 of 2011 (Republik Indonesia, 2011), BAZNAS is an institution that manages *zakat* at the national level. This institution is funded by the State Budget and Amil Rights.

which was adopted by the Ministry of Higher Education (Ikatan Ahli Ekonomi Islam Indonesia, 2021). Furthermore, the government engages IAEI and MES in *Shariah* economic literacy programs, including book publishing, training, scholarships for postgraduates, and developing a curriculum for higher education (Bappenas, 2018). Recently, the Minister of Finance who is also the chairperson of IAEI stated her commitment to supporting Islamic finance and banking by issuing government Islamic securities or *sukuk* (CNN Indonesia, 2020). Accordingly, pathos can contribute to strengthening the existence of Islamic banks and expanding their market share.

Third, logos are used to increase pragmatic and regulatory legitimacy. Every business organization should look for profit. However, unlike previous studies, in the Islamic banking context, their actions should align with *Shariah* tenets: avoid *maysir*, *gharar*, *usury*, *haram*, and *zalim* transactions. This practical guidance is not present in conventional banks. In this matter, Islamic banks are required to apply the *shar'i* principle and *tabi'* principle so that they are able to increase their competitiveness. Additionally, it is crucial to understand that banks should not only focus on profits and the interests of investors. They should also fulfill the interests of other stakeholders, as described in Table 4.1. If stakeholders' expectations are met, banks can improve their performance. Accordingly, banks should communicate their performance to their stakeholders. If Islamic banks perform well, stakeholders will trust the banks. Furthermore, since the Financial Service Authority has an interest in the success of the SDGs, its regulations must be followed by banks. Thus, banks must convey the message that stakeholders' interests are fulfilled and rules are followed by presenting sufficient evidence. Hence, logos can be used to achieve pragmatic and regulatory legitimacy.

5.6.3 Methodological Contribution

Unlike previous studies which generally used the positivism paradigm, this research used the interpretivism paradigm. An understanding of the reality is explored by practitioners in the field and the documents they produce. This approach raises new insights from the object under study. Positivism paradigm assumes uniformity, while interpretivism paradigm accommodates differences in context.

To get insights from the phenomenon under study, the following steps have been taken. This research was conducted by interviewing officials who have an authority in handling CSR. Their position was from the strategic level to the supervisory level. Interviews were conducted using semi structured questions to explore their understanding. This understanding was complemented by the insights captured from their official reports. Then, the researcher performed a within-case level analysis. After completing this analysis, cross-case level analysis was carried out to obtain tentative findings. During within-case analysis and cross-case analysis, the researcher made triangulation. Next, these tentative results were discussed with Islamic banking experts to get improvement. Their comments were very insightful and have helped to improve the manuscript. The use of multiple case study methodology for this kind of research has never been used before.

Through this kind of methodology, theory extension has been carried out, namely expanding pre-existing theoretical or conceptual formulations to other groups or to other sociocultural domains (Ridder, Hoon, & Baluch, 2014). In this research, how the concepts of ethos, pathos and logos are employed in different contexts has been explained, resulting in the need to modify the understanding. Likewise, the theory of legitimacy and the

definition of CSR are interpreted differently because of the socio-cultural consideration setting.

5.7 Limitations of the Study and Recommendations for Future Research

This research has several limitations, and due to the limitations, some recommendations are made for future research.

First, this study is considered as a preliminary study on the CSR rhetoric to attain legitimacy from the Islamic perspective. Thus, there are many things that need to be revealed. It is highly recommended for future research to use this framework in studying other Islamic banks. Interviews with managers in other Islamic banks can be conducted to get their views and perceptions in order to enrich the body of knowledge.

Second, the proposed CSR managerial guideline of this study is suitable only for *Shariah*-compliant banks. It can be further replicated to examine other religious or socio-cultural philosophies e.g., Christianity, Hinduism, Buddhism, or Chinese that may have similar concepts in their religious or social systems. This activity would provide a wider global perspective of CSR issues.

Third, it is related to the number of cases undertaken in this study. Although this research has explained CSR rhetoric and legitimacy in Indonesian Islamic bank, the case study with just two banks might not be sufficient to get the whole and comprehensive story on this matter. Thus, future research may involve more cases to gain more insights. For example, the research may also be undertaken in other Islamic banks in Indonesia, or cross-country

comparative studies with other Islamic banks in other countries. This study can be used as a main reference.

Fourth, the conceptual framework of Islamic CSR principles presented in this research provides a guidance for Islamic banks in practicing CSR and communicate it in adherence to *Shariah* principles. However, this framework still lacks any quantitative evaluation criteria for measuring the implementation of such framework. Thus, the framework can be expanded further to meet such expectation.

Fifth, this study has limited itself to listening to the voice of CSR actors in the field. Although this methodology has revealed the findings that contribute to the body of knowledge, it lacks the perspective of other stakeholders. This research could be extended by understanding the perspective of other stakeholders toward CSR rhetoric of Islamic banks to get the whole picture of this issue. Future studies will enrich the knowledge of this topic.

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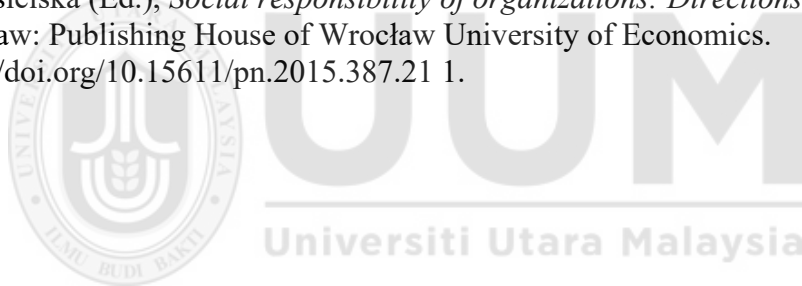
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Appendix A

Islamic CSR Principles

IBADAH	KHILAFAH	FALAH
<p>1. Tauhid (the unity of God)</p> <p>It refers to the oneness of God, a belief that Allah alone creates all the universe and determines the sustenance and nourishment of His creation. He directs those who belief in Him towards success and humans are obliged to obey Him (Muwazir, Muhamad, & Noordin, 2006).</p>	<p>1. Ikhtiyar (free will)</p> <p>Man's ability to choose whatever path they desire to follow without external coercion (Mohammed, 2013a). The vicegerency role allows free will for human beings, but they are not allowed to transgress the social limits of individual freedom (Dusuki, 2008). The freedom to choose must always be done for the right, true, just and correct reason (Malik, 2011), carried out responsibly towards themselves, society, environment, and the Creator.</p>	<p>An expression of common good, benefit, public interest or interests of human beings in the world and hereafter (Kamali, 2008; Rauf, 2015), or the repulsion of <i>mafsadah</i> (evil, harm, damage or injury) (Darus, Yusoff, Naim, & Zain, 2013; Dusuki, 2008). It contains of five areas of Maqasid Sharia: faith (<i>al din</i>), human self (<i>al nafs</i>), intellect (<i>al 'aql</i>), posterity (<i>al nasl</i>) and wealth (<i>al mal</i>) (Chapra, 2008a; Kamali, 2008).</p>
<p>2. Tazkiyyah (purification)</p> <p>Purification of the human soul and character development in the relationship with Allah, with humans, and with the natural environment (Islahi, 1996; Mohammed, 2013a).</p>	<p>2. Al 'adl (justice)</p> <p>A sense of balance among the various aspects of a man's life in order to produce the best social order (Mohammed, 2013b) and relates to the all-embracing harmony in the universe (Rafik I. Beekun & Badawi, 2005).</p>	
<p>3. Ikhlas (sincerity)</p> <p>It connotes a virtue where an individual's purpose and ultimate aim in doing something is only for the sake of Allah and not for material gains or personal rewards (Jabbar et al., 2018).</p>	<p>3. Siddiq (truthfulness)</p> <p>The belief that one has to truthful and honest in their dealings and utterances in order to achieve success now and hereafter (Mohammed, 2013b; Rahman & Shah, 2015).</p>	

IBADAH	KHILAFAH	FALAH
<p>4. Taqwa (Allah-consciousness)</p> <p>Literally means to guard oneself against Allah's displeasure (Qadir, 2018). It is a state of mind whereby a person brings Allah to mind and is conscious of the Divine presence in all his actions and, therefore, it will function as a moral safeguard against decay and destruction (Furqani, 2015).</p>	<p>4. Amanah (trustworthiness)</p> <p>A form of trust given by Allah to every human and humans need to bear responsible with it (Kamaruddin & Auzair, 2018). It connotes the principle of accountability to Allah, because all resources that are bestowed upon human are regarded as a trust from Allah and this includes business resources that must be deployed and channeled for the benefit of the deserving individual, society, environment, and ultimately Allah (Jabbar et al., 2018).</p> <p>5. Karamat al-insan (human dignity)</p> <p>Human beings have been created with an exalted and noble nature (Dusuki, 2008) as explicitly stated in the Qur'an 17:70, <i>walaqad karramna bani Adam</i> (We have bestowed dignity on the children of Adam). Consequently, their right must be protected, and their potential must be utilized by shouldering the responsibility of maintaining and developing the universe (Arsad et al., 2015; Dusuki, 2008).</p> <p>6. Ukhuwah (brotherhood)</p> <p>Treating each human as a family member which has the unity of ideas and actions to burden responsibility in enhancing social welfare (Kamaluddin & Abdul Manan, 2010; Nor, 2012). On the other side, rejecting discrimination on account of wealth, status, race, color, origin, et cetera (Nor, 2012).</p> <p>7. Ihsan (benevolence)</p> <p>Doing what is good for the benefit of other party beyond what is required by rules of law, although without any obligation at the same time (Kamaruddin & Auzair, 2018; Sidani & Showail, 2013).</p>	

Appendix B

Research Methodology Gap

No.	Authors	Companies	Places	Paradigms	Findings
1.	Waeraas and Ihlen (2009)	General Electric (GE), Toyota, and Starbucks	USA	Post-positivism	Ethos is the most important rhetorical means in strengthening organizational legitimacy
2.	Erkama and Vaara (2010)	Volvo Bus Corporation	Finland	Critical	Rhetorical strategies are used to legitimize or delegitimize the organizational change processes
3.	Castelló and Lozano (2011)	31 companies from The Global Reporters 2006 Survey of Corporate Sustainability	International	Post-positivism	Strategic rhetoric seeks pragmatic legitimacy Institutional rhetoric, refers to cognitive legitimacy Dialectic rhetoric aims to establish moral legitimacy
4.	Marais (2012)	90 listed companies	French	Post-positivism	Values rhetoric to develop moral legitimacy Normative rhetoric to improve cognitive legitimacy Instrumental rhetoric to enhance pragmatic legitimacy
5.	Devin (2014)	30 Australian companies listed in FTSE4Good Australia index	Australia	Post-positivism	The type of CSR rhetoric may imply a different type of legitimacy
6.	Brennan and Merkl-Davies (2014)	Greenpeace vs. six sportswear/fashion firms	International	Post-positivism	Both parties used rhetoric devices especially <i>pathos</i> to pursue legitimacy
7.	Castello and Galang (2014)	776 firms	22 Asian countries	Positivism	Different rhetoric strategies are aimed to gain a different kind of legitimacy
8.	Gauthier and Kappen (2017)	3 firms	USA and Switzerland	Post-positivism	Ethos, pathos, and logos are used to address the different constructs of legitimacy.
9.	Vollero, Palazzo, Siano, & Sardanelli (2018)	311 firms from Dow Jones Sustainability World Index 2016	Worldwide	Positivism	The service and product companies are different in using rhetorical CSR strategies to sustain legitimacy.

Appendix C

Profile of Informants

No.	Name	Position	Professional background
1.	Mulya Siregar, Ph.D	President Commissioner PT Bank Syariah Mandiri (2017-present)	<ol style="list-style-type: none"> 1. Deputy Commissioner of Banking Oversight Otoritas Jasa Keuangan (OJK) (2014-2017); 2. Assistant Governor of Bank Indonesia (2013- 2013); 3. Executive Director of DPNP Bank Indonesia (2012-2013); 4. Head of Shariah Banking Directorate Bank Indonesia (2010-2012); 5. Head of Bureau Research for Shariah Banking Development and Regulation Bank Indonesia (2006-2010); 6. Team Leader of Islamic Banking Research and Development (2002-2006); 7. Working Committee Member of International Islamic Financial Market (IIFM) (2000-2002); dan 8. Senior Researcher for Islamic Banking Research and Development Team (1999-2002).
2.	Ir. Putu Rahwidhiyasa, MBA	Risk Management & Compliance Director PT BSM (2017-present)	<ol style="list-style-type: none"> 1. Director Compliance & People Management Mandiri Syariah (2014-2017); 2. Division Head Transformation Management & Corporate Culture Mandiri Syariah (2010–2014); 3. Head of Pawnshop Division Mandiri Syariah (2008–2010); 4. Vice President Risk Management Bank Mandiri (2004-2008); 5. Assistant Vice President Human Capital Bank Mandiri (2001–2004); dan 6. Assistant to the President Commissioner of Bank Mandiri (1999-2000).

No.	Name	Position	Professional background
3.	Rizqi Okto Priansyah, SE	Executive Director LAZ BSM BSM (2017-present)	1. Cooperative BSM 2. CSR Division BSM
4.	Ir. Andri Donny	Director Compliance & Risk Management PT BMI (2016-present)	Branch Manager, Product Development, Treasury, Assistant Director of Corporate Planning, Daily Executive Corporate Secretary, Head of Corporate Planning Division, Executive Task of Head of Risk Management Division, Head of Finance & Strategy Division, Head of Strategic Change Management Division, Head of Strategic Planning Division.
5.	David Chandra, S.Si	Manager Corporate Social Responsibility, Corporate Affairs PT BMI. (2018-present)	Export Marketing Supervisor PT LG Electronics Indonesia (2011-2012) CIMB Niaga CSR Project (2016-2017) Assistant Manager of Non-Consumer Banking Marketing Communication (2012-2018)
6.	Teten Kustiawan, SE	Executive Director Baitul Maal Muamalat	Executive Director BAZNAS (National Zakat Agency) (2008-2015)

Appendix D

Interview Protocol

Time of interview: _____

Date: _____

Place: _____

Name of Interviewer: _____

Name of Interviewee: _____

Information about recording and storing of this interview:

Introduction

- Introduce yourself
- Explain the purpose of the study
- Describe the interview structure (audio recording and taking notes)
- Define any necessary terms
- Assure confidentiality and prepublication access

Interview Content Questions

1. What has been your role in the _____? (Ice breaker)

- Professional background
- Job function
- Report to whom
- Your role in corporate social responsibility (CSR)

2. Who are the stakeholders of the Islamic bank?

3. What do Islamic banks do to be accepted in the eyes of stakeholders (to gain legitimacy)?
4. In carrying out these activities, what kind of Islamic values that must be considered?
5. Please explain, what are the reasons for the bank to carry out CSR activities?
6. What kinds of CSR activities carried out to achieve that goal?
7. Do you take into account stakeholders' expectations? Please explain.
8. Are there any Islamic rules, norms, national or international laws, which cause banks to do CSR? Are there any internal guidance? Please explain.
9. In your opinion, what are the Islamic values that can be a guideline in implementing CSR?
10. In communicating CSR activities with stakeholders, what factors do you consider or highlight?
11. Is the status as a sharia-based bank important in communicating CSR? Please explain.
12. What is the essence of the message conveyed to stakeholders in communicating CSR, which can create a positive impression on them?
13. In delivering the message about CSR, how do you use of logical messages, such as logical arguments, data, numbers or objective facts that can be accepted by stakeholders? Please, explain.
14. Finally, may I ask for the last three years documents relating to CSR communication to stakeholders? Thank you for your help.

Closing Instructions

- Thank the participant
- Assure confidentiality
- Request further interviews if needed

Appendix E

Triangulation

No.	Theme	Statement	Interpretation
1.	Stakeholders' expectations	<p>Shareholders and Investors</p> <ol style="list-style-type: none"> 1. Maintain and increase business value according to the expectations of shareholders. 2. Respect the rights and responsibilities of shareholders in accordance with statutory regulations and other applicable provisions. <p>(Bank Syariah Mandiri, 2020)</p> <p>Shareholders The company maintains and increases business value according to shareholders' expectations. (Bank Muamalat Indonesia, 2020)</p>	1. Shareholders and Investors: Business value enhancement
	Customers	<ol style="list-style-type: none"> 1. Provide quality services that exceed customer expectations and increase value for customers. 2. Provide Data confidentiality. 3. Expand the network and types of services <p>(Bank Syariah Mandiri, 2020a)</p> <ul style="list-style-type: none"> • Increasing the intensity of information dissemination related to the Bank's financial products and services, especially for new customers and the public who have not been educated on sharia-based financial access. • Improved banking facilities and access and transaction security. • Transparency of Bank service information. <p>(Bank Muamalat Indonesia, 2020)</p>	2. Customers: Customer protection and customer value

No.	Theme	Statement	Interpretation
	Employees	1. Equality and fair treatment. 2. No discrimination applies. 3. Ensuring work safety, health and safety. 4. Giving rights in accordance with applicable regulations. (Bank Syariah Mandiri, 2020a)	3. Employees: Job security and fair treatment
	Government and Policy Makers	1. Maintain a harmonious relationship with the regulator. 2. All Mandiri Syariah employees are subject to and comply with applicable laws, regulations and business regulations. 3. Mandiri Syariah reports regularly to the Government as a regulator. (Bank Syariah Mandiri, 2020a)	4. Regulator: Regulation compliance
	Government and Policy Maker	<ul style="list-style-type: none"> • Compliance with all applicable regulations. • Good Corporate Governance. • Cooperation in Corporate Social Responsibility (CSR) programs. (Bank Muamalat Indonesia, 2020)	

No.	Theme	Statement	Interpretation
	Work partners	1. A fair and transparent procurement mechanism. 2. Objective system of selection and evaluation of partners. 3. There is no charge of anything in the procurement process. (Bank Syariah Mandiri, 2020a)	5. Suppliers: Fair and transparent treatment
	Partner	Transparency in the procurement process (Bank Muamalat Indonesia, 2020)	
	01 AR BSM-2019	Similar Industries (Other Sharia Banks) 1. The creation of a fair business competition climate. 2. Cooperation among sharia financial industries. 3. Regular meetings among business people. (Bank Syariah Mandiri, 2020a)	6. Similar Industry: Mutual benefit cooperation and healthy competition
		<ul style="list-style-type: none"> • Good cooperation among fellow Sharia banking industries. • The creation of fair business competition. • Regular meetings between business people. (Bank Muamalat Indonesia, 2020)	

No.	Theme	Statement	Interpretation
	Public	1. Establish a harmonious relationship with the community around the operational area. 2. Empowering the potential of the community by providing sustainable value. (Bank Syariah Mandiri, 2020a)	Community: Harmonious relation and economic empowerment
	Public	<ul style="list-style-type: none"> Increasing standard of living (“people”) through sharia-based financing products for the development of MSMEs. Growing the number of Islamic customers to remote areas of the archipelago. Increasing quality and convenience of services, especially for prospective <i>Hajj</i> and <i>Umrah</i> customers. Increasing public literacy related to Islamic banking products/services. Community Organizations/Non-profit Companies Clear and current information disclosure. Capacity building related to sustainable finance. (Bank Muamalat Indonesia, 2020)	
	Environment	1. Play an active role in reducing the company’s operational impact on environmental damage. 2. Play an active role in environmental preservation activities. (Bank Syariah Mandiri, 2020a)	8. Environment: Environmental protection

No.	Theme	Statement	Interpretation
2.	The reason to carry CSR activities	<p>"Work as worship mindset" (Bank Syariah Mandiri, 2018c)</p> <p>BMI quotes: "People, eat what is good and lawful from the earth..." (Al Baqarah 2:168). Additionally, "If the people of those towns had believed and been mindful of God, We would have showered them with blessings from the heavens and earth..." (Al A'raf 7:96). the provision of worship space, hajj or umrah permits, and making discipline of worship as a criterion in the assessment of GCG (Good Corporate Governance) principles (Bank Muamalat Indonesia, 2018b, p. 373)</p> <p>Actually, CSR is related to the Shariah banks' interest. Shariah bank is operated based on Maqasid Shariah. There are 5 pillars of Maqasid Shariah: ad-dien, al-'aql, an-nasl, an-nafs, and al-mal. Ad-dien, means preservation of religious life, and then soul, intellect, posterity, and also property. It is like that... This means, they can be categorized. Preserving religion, intellect and soul are categorized into People. Subsequently, an-nasl is about posterity's life, is categorized into Planet, or preserving environment. Moreover, property is related to Profit. Those three categories are parallel with Maqasid Shariah. Those are People, Profit and Planet. (Mulya Siregar, personal communication, April 25, 2019).</p> <p>... naturally, Shariah bank, since it carries out Maqasid Shariah concept, in performing its business, bank should pay attention to People, Planet, and ... Profit aspect. (Andri Donny, personal communication, May 23, 2019),</p> <p>Mandiri Syariah implements its social responsibility activities by referring to the principles of Sustainable Finance (SF), which is one means to achieve Maqashid Shariah comprehensively. (Bank Syariah Mandiri, 2020, p. 412)</p> <p>"And cooperate in righteousness and piety, but do not cooperate in sin and aggression" (QS Al-Maidah: 2). The caring attitude (social awareness) is the concern to the disadvantaged communities and the environment which is reflected by performing various forms of humanitarian and social activities as a form of Bank Muamalat Indonesia's social responsibility to the society and the environment. (Bank Muamalat Indonesia, 2020, p. 212)</p>	<p>The reason for doing CSR activities is to seek the pleasure of Allah. Accordingly, all human and organizational behavior in order to satisfy stakeholders must be in accordance with <i>Shariah</i>.</p> <p>Operationally, the main principle that should motivate the operation of Islamic banks is <i>Maqasid Shariah</i>.</p>

No.	Theme	Statement	Interpretation
3.	Sustainable development	<p>In green banking, there are people, there is... what is it called, ... planet, and another is profit. In the people aspect, there is a context, not just the banking business in general. But the function of CSR, charity.... actually, naturally Islamic banks employ the concept of Maqasid Syariah. Consequently, in doing business, banks will definitely pay attention to aspects of people, planet and profit. (Andri Donny, personal communication, May 23, 2019)</p> <p>We implement CSR because, as an Islamic bank, it has Maqasid Shariah as the goal of its activities. Besides that, in executing sustainability finance, in POJK 51, there are two aspects, that are social and business aspect. In the social aspect, we implement CSR, and in the business aspect, we carry out green business. So, for example, if we want to finance CPO (crude palm oil) business, it should have national and international certificates concerning environmental protection. (Putu Rahwidhiyasa, personal communication, May 6, 2019)</p> <p>The Islamic bank operates based on Maqashid Shariah, the goal of shariah. There are five pillars: din, al aql, an nasl, an nafs, and al mal. This means the preservation of religious life, soul, mind, lineage and property. That's how it is. That is, if these are grouped, preserve religion, reason, then soul, this is related to people, society or people. Then an nasl is related to descent or life. In other words, it is related to planet or environment. Then property, this is related to profit. So the three groups are related to Maqasid Shariah. Those three groups are actually people, profit, planet. That's the concept of SDGs, sustainable development growth.... That's the language of Islam, that Maqasid Shariah... So actually, we as Shariah banks must be leading in the implementation of the SDGs. The SDGs with the 3Ps are translated into sustainable finance (SF), that is POJK 51. (Mulya Siregar, personal communication, April 25, 2019)</p>	Both banks expressed their commitment to achieve Shariah objectives. Five kinds of <i>Maqasid Shariah</i> are in line with three dimensions of sustainable development (People, Planet and Profit). CSR is implemented to realize <i>Maqasid Shariah</i> .

No.	Theme	Statement	Interpretation
3.	<i>Shariah compliance</i>	<p>The appointment of Sharia Supervisory Board members by the GMS has received a recommendation from the National Sharia Council - Indonesian Council of Ulema (DSN - MUI). (Bank Muamalat Indonesia, 2018c)</p> <p>The Sharia Supervisory Board is appointed and ratified through the GMS in accordance with the recommendations of the National Sharia Council (DSN). (Bank Syariah Mandiri, 2018b)</p> <p>The DPS member is a member of the DSN, the National Sharia Council. They get recommendations from DSN and OJK. (Andri Donny, personal communication, May 23, 2019).</p> <p>The DPS performs a spot check. At certain times, they go out every two months to the field, to the regions, to see whether the implementation of Shariah financing is in accordance with Shariah principles. Then if there is a problem, it can be fixed. There is also a meeting of commissioners, directors and DPS, we discuss the problem. They are appointed based on expertise. And more importantly is their time availability. (Mulya Siregar (personal communication, April 25, 2019).</p> <p>Shariah Commercial Banks are required to compile a report on the implementation of GCG at the end of each financial year. (Bank Indonesia, 2009a)</p>	<p>To ensure that SSB as the institution responsible for ensuring Shariah compliance is legitimate, its members should be the qualified persons in this field. Then, to ensure that this institution is functioning well, good governance should be upheld. SSB's member recruitment and SSB governance are controlled by OJK. Banks have reported their compliance to the prevailing rules regarding individual and institutional authorities.</p>
4.	The integration of CSR in organization	<p>So after we implemented it in 2017 and 2018, actually, many of our portfolios are in line with the SDGs, in accordance with the 3Ps. So when we want to comply with POJK 51, it is already there. But at that time we did not realize that it was in accordance with the SDGs. Because of the Maqasid. So that social financing, which will later bring benefits, already exists. But we didn't realize that it was in line with the SDGs, that is, in line with sustainable finance. (Siregar, personal communication, 2019)</p> <p>When it is not mandatory yet, what is our motivation? It's like this, emm... So that we would not be surprised... We thought this CSR would be mandatory next year... Accordingly, we just practiced it, we took our own initiative... Yes, we made it based on ... the OJK regulations.... (David Chandra, personal communication 13 May 2019),</p>	<p>CSR is integrated throughout the organization.</p>

Appendix F

Profile of Experts

No.	Name	Education	Experience
1.	Prof. Dr. Ir. Hermanto Siregar, M.Ec.	<ul style="list-style-type: none"> - 1982-1986: Ir. Agribusiness Institut Pertanian Bogor (IPB) - 1989-1990: Diploma in Agricultural Economics, UNE, Australia - 1990-1991: Master of Economics, Univ. of New England (UNE), Australia - 1997-2001: Ph.D. in Economics, Lincoln University, New Zealand. 	<ul style="list-style-type: none"> - 2018-present: Rector at Perbanas Institute, Jakarta. - 1988-present: Lecturer at IPB - 2007-present: Professor at Faculty of Economics & Management IPB. - 2016-Present: Faculty Member (External) at Bank Indonesia Institute - 2008-2018: Vice Rector of IPB - 2007- 2019: Independent Commissioner and President Commissioner of State-Owned Banking and Finance Institution (Madani Venture Capital, BRI Bank, BRISyariah Bank) - 2011-2014: National Economic Committee Republic of Indonesia/Economic Advisor to the President of Republic of Indonesia - 2017-present: Chairperson, Indonesian Agricultural Economics Association
2.	Prof. Dr. Selamet Riyadi, M.Si.	<ul style="list-style-type: none"> - 1980-1986: Bachelor in Management, Universitas Krisnadwipayana, Jakarta - 1994 – 1996: Master of Science in Business Administration, Universitas Indonesia, Jakarta - 2012 - 2016: Doctor of Economics in Business Management, Universitas Pancasila, Jakarta 	<ul style="list-style-type: none"> - 2019-2021: Vice Rector of Cooperation, Innovation and Facilities, Perbanas Institute, Jakarta - 2017-2019: Head of Study Program Master in Management, Perbanas Institute - 2015-2017: Deputy Dean Faculty of Economics and Business, Perbanas Institute - 1987-1997: Lecturer at Budi Luhur University, Jakarta - 2012 – 2013: President Commissioner of PT. Build Independent Resources - 2004 – 2008: Commissioner of PT Bio Dinamika Nusa - 2003 – 2012: PT Bank Syariah Mandiri - 2002 – 2003: PT Asuransi Jiwa Mandiri (Axa Mandiri) - 1999 – 2002: PT Bank Export Indonesia - 1979 – 1999: Bank Dagang Negara - 1977 - 1979: PT Aero Garuda Dairy Farm (Subsidiary of PT GIA), Jakarta - 1977: Pontan & Co Accounting Firm, Junior Audit

No.	Name	Education	Experience
3.	Farouk Abdullah Alwyni, MA, MBA, ACSI	<ul style="list-style-type: none"> - 2017-present: University of Science Malaysia, Penang, Malaysia, PhD Candidate, Islamic Development Management Studies. - 2003-2004: The Birmingham Business School, the University of Birmingham, Birmingham, UK. - 1996-1998: M.B.A., International Banking & Finance, The New York University, New York, USA, M.A., Economics. - 1988-1993: Perbanas Institute (was STIE Perbanas), Jakarta, Indonesia SE (First Degree Graduate), Banking & Financial Management. 	<ul style="list-style-type: none"> - 2013–present: Lecturer at Graduate Management Program (MM Program) Universitas Indonesia, Jakarta. - 2012–present: Lecturer at Perbanas Institute, Jakarta. - 2012–2017: Correspondent Board of Islamic Finance News (IFN), Kuala Lumpur, Malaysia - 2012 – present: Owner/President Director (CEO) of PT. Alwyni International Consulting (AIC), Jakarta. - 2009–2011: Managing Director of International Banking & Treasury PT. Bank Muamalat Indonesia, Jakarta. - 2007–2009: Managing Director of PT. Al-Ijarah Indonesia Finance, Jakarta. - 2007–2007: Head of Market Research & Monitoring Section/Team Leader, Asia & CIS Region, Trade Finance & Promotion Department, Islamic Development Bank, Jeddah, Saudi Arabia - 2004–2006: Senior Officer-in-Charge for Indonesia, Iran, Maldives, Kazakhstan, and Tajikistan, Trade Finance & Promotion Department, Islamic Development Bank, Jeddah, - 2000 - 2003: Officer-in-Charge for Bangladesh and Indonesia, Trade Finance & Promotion Department, Islamic Development Bank, Jeddah, - 1998-1999: Young Professional Program at Islamic Development Bank, Jeddah, Saudi Arabia - 1997: Graduate Intern at High Commissioner for Human Rights (HCHR) Office under Secretary-General United Nations Headquarters, New York - 1993-1994: Marketing Officer of Private Banking Division, Astra Insurance, Jakarta. - Listed as one of the 500 who make the Islamic Economy [www.Islamica500.com]) in 2016 – 2019 by the IsFin Institute (www.isfin.net).

No.	Name	Education	Experience
4.	Dr. Ir. Hadi Purnomo, MSi	<ul style="list-style-type: none"> - 2018: Doctorate in Management and Business, School of Business IPB - 2009: Master of Science in Shariah Financial Economics, Universitas Indonesia - 1990: Bachelor Degree in Agronomy, Universitas Sumatera Utara, Medan, Indonesia 	<ul style="list-style-type: none"> - 2018-present: Director of Research and Training Perbanas Institute - 2016-present: Assessor for Private Sector/Business World, Indonesia Endowment Fund for Education-Ministry of Research and Higher Education - 2015-present: Founder-SCO SPINConsulting - 2015-2018: President Commissioner of PT. Paper Basuki Rachmat Indonesia, Tbk - 2015-2016: Strategic Director of PT Pandu Siwi Sentosa Logistics - 2015-present: Lecturer at IMMI College of Management, Jakarta - 2015-present: Senior Partner at IBS Research & Consultant - 2013-2015: Business Director of PT. Bank Panin Syariah Tbk. - 2009-2013: Head of Corporate Finance and Investment Division PT Bank Syariah Mandiri - 2005-2009: Head of Financing Restructuring Division, PT Bank Syariah Mandiri - 2003-2005: Deputy Head of Corporate Finance Division, PT Bank Syariah Mandiri - 2002-2003: Area Business Coordinator at PT Bank Danamon Indonesia Tbk. - 2003-present: Senior Trainer in <i>Shariah</i> Banking, Strategic Management, Risk Management & GCG, Credit Management, Financial Management, Leadership & Executive Coach - 2011-2013: Lecturer at Shariah Financial Economics Program, Universitas Indonesia - 1995-1999: Lecturer at Undergraduate Program Universitas Duta Wacana Yogyakarta

Appendix G

Permission Letter from BMI


Bank Muamalat

No. : 002 /B/POC/SHR/V/2022

Jakarta, 04 Januari 2022 M
01 Jumadal Tsaniyah 1443 H

Perihal : Surat Keterangan

Assalamu'alaikum Warahmatullahi Wabarakatuh,

Semoga Allah SWT senantiasa melimpahkan rahmat dan hidayah-Nya kepada kita semua dalam menjalankan aktivitas sehari-hari. Amin.

Menerangkan dengan sesungguhnya bahwa :

Nama : Adi Susilo Jahja
NIM : 900953
Jurusan : Manajemen
Universitas : Universiti Utara Malaysia

Telah melakukan penelitian disertasi pada tanggal 13 Mei 2019 di PT. Bank Muamalat Indonesia, Tbk. dengan judul "Corporate Social Responsibility Rhetoric And Legitimacy: A Case Of Indonesian Islamic Banking".

Demikian surat keterangan ini kami buat dengan sebenarnya, agar dapat dipergunakan sebagaimana mestinya.

Wassalamu'alaikum Warahmatullahi Wabarakatuh,

PT. BANK MUAMALAT INDONESIA, Tbk.

David Candra Purnama  Mgr - Customer Engagement & CSR Management	Andri Donny  Compliance, Risk & Legal Director	Anton Hendrianto  Head of People Development & Culture
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Bank Muamalat
KANTOR PUSAT JAKARTA

PT Bank Muamalat Indonesia Tbk
Muamalat Tower 3, Prof Dr. Satrio Kav. 18, Jakarta 12940, Indonesia
Telp. +62 (21) 80 666 000, Fax +62 (21) 80 666 001

Appendix H

Permission Letter from BSM


mandiri
syariah

PT Bank Syariah Mandiri
Kantor Pusat
Jl. MH Thamrin No.5
Jakarta 10340, Indonesia
Tel (62-21) 2.800.509, 3983.9000
Fax (62-21) 3.983.2989
www.syariahmandiri.co.id

14 Februari 2019

Kepada
Yth. Sdr. Adi Susilo Jahja
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
Malaysia

Perihal: **PERSETUJUAN PENELITIAN (RISET)**

Ref: Surat No. UUM/OYAGSB/R-4/4/1 Tanggal 31 Januari 2019 perihal Permohonan Penelitian Skripsi.

Assalaamu'alaikum Wr. Wb.

Semoga Saudara dan seluruh staf dalam keadaan sehat wal afiat dan senantiasa mendapat taufik serta hidayah dari Allah SWT. Amin

Menunjuk referensi di atas, dengan ini kami sampaikan bahwa pelaksanaan penelitian/riset dapat dilaksanakan di Kantor Pusat Bank Syariah Mandiri, dengan keterangan sebagai berikut:

No	Nama	NIM	Jurusan/ Univ.	Ket.
1.	Adi Susilo Jahja	900955	Manajemen/ Universiti Uta Malaysia	Riset di Kantor Pusat Bank Syariah Mandiri

Demikian kami sampaikan. Atas perhatian Saudara, kami mengucapkan terima kasih.

Wassalaamu'alaikum Wr. Wb.

PT BANK SYARIAH MANDIRI
HUMAN CAPITAL DIVISION


Sigit Hasnaro
Department Head


Muhamad Ali Fitran
Department Head