

Stakeholder Perception on Corporate Social Responsibilities (CSR) Effectiveness in Islamic Banking

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Based on stakeholder theory, the main goal of a company is to maximize and create added value for all stakeholders. In general, some argue that the existence of an organization or company aims to create value for shareholders, they are also expected to be socially responsible for the society in which they operate. This study try to describe and explain the level of effectiveness of Islamic Bank CSR in ethical and philanthropic responsibilities indicators based on stakeholder perceptions using Structural equation model (SEM). This study found that Islamic banks in Indonesia have been considered quite effective in terms of Corporate Social Responsibility. This study enlightens and recommends that Islamic Banks be actively involved in the activities of Corporate Social Responsibility so as to be effective in promoting Islamic Financial Institutions (IFIs). In the end, there are several conclusions, namely suggesting that Islamic Banks in Indonesia should not only rely on marketing strategies in spiritual terms to attract customers to use their products, but to get customers by being actively involved in CSR activities. The impact is not only to attract customers, but also to contribute to the social life and welfare of the community and the surrounding environment.

Keywords: CSR, Stakeholder, Islamic bank, Islamic finance

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INTRODUCTION

According to *stakeholder* theory, the main goal of a company is to maximize and create added value for all stakeholders. (Ararat, 2008). In general, some argue that the existence of an organization or company aims to create value for *shareholders*, they are also expected to be socially responsible for the society in which they operate (Hassan et al, 2009). *Corporate Social Responsibility* (CSR) can be interpreted as organizations or companies that must consistently improve their ethical behavior and avoid reprehensible actions, because if this damage is done it will cause a bad *brand image* of the company (Arthur et al, 2007). In this case, Islamic Financial Institutions such as Islamic Banks should provide a good example so that it can be used as an effective educational tool for the community regarding its principles and its operation in accordance with Sharia and also become a reference for other institutions or companies in terms of contributing back to *stakeholders* properly.

The Sharia Banking Statistics Report (SPS) as of December 2018, has a total of 14 Islamic Commercial Banks (BUS) with total assets of Rp. 316.691 trillion. (OJK.go.id, 2018). Islamic Financial Institutions (LKS) should be able to provide long-term benefits that are carried out fairly so that they can contribute to *non-profit causes*, such as social responsibility. Islamic banks should also be effective in providing a good return impact on society. Today, Islamic banking plays an important role as a financial industry, because Islamic banking is no longer only considered an obligation in terms of religious fulfillment for the Muslim community, but its function is a necessity that has a positive impact on society in productive ways, and is not only pegged on profit alone. (Dusuki et al, 2007).

According to Farook (2007) *Islamic Corporate Social Responsibility* (CSR) includes *mandatory* and *recommended* forms. Mandatory forms are screening investments, avoiding all forms of income prohibited by Sharia, being responsible in all forms such as dealing with clients, and paying zakat. Recommendations include having a benevolent fund (*qardul hasan*), conducting charitable activities such as free medical treatment, caring for employee welfare, having social savings and investments, reducing adverse impacts on the environment, and conducting *waqf* management such as land. The authors believe that investigating the effectiveness of Islamic banks in Indonesia can motivate concerned institutions or companies to contribute more to society and do so in accordance with procedures, which will also motivate other Islamic Financial

Institutions (FFIs) to actively do the same, by rewarding them and caring for the community.

Companies are currently facing challenges to behave ethically and develop them in accordance with applicable policies. (Khurshid et al, 2014). The existence of *customer* protection and investor decision making in investing is very important for a Financial Institution to remain active in protecting the environment, caring for employees, behaving ethically in trade which effectively makes a good image for them. One example of contribution to the welfare of society by Islamic Financial Institutions (LKS) such as Islamic Banks is effective and committed in contributing to the improvement of the overall community environment which will have an impact on the good performance of Islamic Banks on the level of profitability, competitiveness, and risk management (Snider et al, 2003). (Snider et al, 2003).

According to Freeman (1994) argues that managers are not only responsible for maximizing *shareholder* welfare, but also for *stakeholder* satisfaction. He notes that the success of an organization or company depends on the company's ability to maintain good relationships with *stakeholders*, not only primarily to *shareholders*, such as financiers, but also to employees, customers, local communities, and even society as a whole. According to Matten et al (2007) the definition of *Corporate Social Responsibility* (CSR) that exists in the business and management literature is Archie Carroll's definition. Carroll (2016) has a view that CSR has a construction in which there are 4 different parts of *business-society*, but they are still interconnected with one another. The four parts according to Carroll are *philanthropic responsibilities*, *ethical responsibilities*, *legal responsibilities*, *economic responsibilities*.

The author will focus more on discussing *Corporate Social Responsibility* (CSR) according to Carroll in terms of *ethical* and *philanthropic responsibilities* because there is still a strong connection with the objectives of Islamic banks, namely in accordance with *maqashid sharia*, and the social functions of Islamic banks. It is also based on the fact that the promoted dimensions of ethical and philanthropic responsibilities are already present in the Islamic banking system. This issue has been addressed by (Jaiyeoba et al, 2018) who conducted his research with a case study in Malaysia. The author wants to conduct research in Indonesia. Based on the background of the problem above, the objectives of this study can be formulated, namely: (1) To describe and explain the level of effectiveness of Islamic Bank CSR in *ethical responsibilities* indicators based on *stakeholder* perceptions;

(2) To describe and explain the level of effectiveness of Islamic Bank CSR in *philanthropic responsibilities* indicators based on *stakeholder* perceptions.

LITERATURE REVIEW

Stakeholder Theory

The basic idea of "*managing stakeholders*" or "*value creation stakeholder theory*" is quite simple. Business can be understood as a set of values that create relationships among groups that have a stake in business activities. Business is about how customers, employees, and financiers (shareholders, bondholders, banks, and others), communities, and managers interact with each other to create value. In understanding how a business operates, it should have a strong working relationship. Executives or managers function to manage and form strong working relationships within an institution or company, and this is what is commonly referred to as "*managing for stakeholders*". According to SetiawaSetiawan (2009) Islamic banking governance structure will involve more parties than conventional banking, because Islamic banking has distinctive characteristics that conventional banking does not have.

The diversity of *stakeholders of the Islamic Bank* is a characteristic of the Islamic Bank itself so that it requires clear arrangements regarding the limits of rights, authorities, and obligations of each element to avoid conflicts of interest and ensure justice for each party. Islam strongly emphasizes the protection of all *stakeholders* fairly. The Islamic concept prioritizes the realization of justice and fairness, which is expected to accommodate all *stakeholder* interests fairly and reasonably (Setiawan, 2009).

In addition, managers play an important role in business activities. Therefore, managers are expected to take care of the health and safety of the entire company in order to keep them in balance. Business is part of the drive to create something with others and for others. Working in teams, creating new products which can be a contributing factor to why we go to work every day.

Employees expect security, safety, wages, benefits, and work that has a more meaningful purpose and benefit to them. Employees seek meaning in their work and participate in decision-making. Today, employees are heavily involved in businesses such as producing goods that are in line with the outcomes for them and other *stakeholders*. Sometimes employees are financiers too, since companies openly share ownership and loyal employees believe in the future growth of the company, they will invest in shares.

The role of the ulama is not only in the aspect of mahdhah worship, as seen in the subject matter of the preaching of the ustaz in the mosque through the Friday sermon, which is about aspects of worship alone, but also includes various fields of politics, economics, social, culture, education, and so on for the welfare of human life. According to Dimyati (2007) ulama have a very important role in socializing Islamic banking among the community, because ulama have a driving figure, motivator and dynamizer of the community in order to lead to better changes through the speech and behavior of ulama who can be used as examples and role models by the community.

We also need more insight into how to measure total performance and account for diversity in business-related relationships in the 21st century. We also need an understanding of how real *stakeholder* relationships, behavioral linkages, as well as mechanisms for public policies that encourage people to do business so as to make our world a better place.

Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) was initiated in 1924 by Sheldon. The discussion has gone global and started to generate controversy as it relates to the interests of business, society, government, and academia. The proverbial "business is business" has been criticized and should have a more humane, ethical, and transparent definition, as well as a more sustainable way of doing business (Lindfelt et al, 2006). (Lindfelt et al, 2006). This discussion has evolved significantly, incorporating a large proliferation of theories, approaches and terminology such as social issue management, development in terms of sustainable development, sustainable entrepreneurship, business ethics, and economic justice (Garriga et al, 2004). (Garriga et al, 2004).

The principles of *Corporate Social Responsibility* (CSR) are about ethics and sustainable business behavior, such as treating *stakeholders* with care and responsibility. (Van Marrewijk et al., 2003). *Corporate Social Responsibility* (CSR) is a concept that was defined in the West in 1920, the principle has long been a part of prudent business practices around the world. In China, the concept of business responsibility can be traced back 2,500 years to the "Confucian Entrepreneurs" who pursued profit in accordance with integrity and commitment to the welfare of society (Chan, 1996). (Chan, 1996, Chou et al., 2013).

The Western world has been debating about ethics and social responsibility in business since the

Industrial Revolution around 1800. Concerns about industrial progress and the welfare movement, in particular about how to make employees more productive (Carroll, 2008). (Carroll, 2008; Cacioppe et al, 2008). According to Cacioppe et al (2008)(2008), the history of *Corporate Social Responsibility* (CSR) beyond 1950 is the "*philanthropic*" era, during which time the main approach was donations. The beginning of 1900 has been described as the emergence of a phase called "profit maximizing management" which is when someone has believed that every individual seeks to maximize profits (Panwar et al, 2006). (Panwar et al, 2006). The next phase was where "*quality of life management*" started in 1950 which reflected the importance of the issue of people's quality of life (Hay et al, 1974). The philosophical approach of *Corporate Social Responsibility* (CSR) has developed in the mid-20th century which is based on the idea of philanthropy. Since 1990, the *Corporate Social Responsibility* (CSR) movement has become a global phenomenon and its growth has been remarkable, spreading from Europe and North America to the *rest of the world*. With today's globalization and complex business environment, the issue of *Corporate Social Responsibility* (CSR) has become more complicated and urgent.

According to Carroll, companies may be more responsive to social issues and problems, but they may essentially act in an irresponsible or unethical manner in the process. (Carroll, 1979). Carroll describes the multidimensional notion of *Corporate Social Responsibility* (CSR) into 4 categories, namely: 1) *economic*, 2) *legal*, 3) *ethical*, 4) *discretionary (philanthropic) responsibility*. (Carroll, 1979). The first research study conducted using the 4 categories, it has been found to have a valid content and instrument construct. (Aupperle et al, 1985). Carroll extracted the four definitions and organized them into a *Corporate Social Responsibility* (CSR) pyramid. The pyramid was chosen as the design geometry because it is easy, and intuitive. Consequently, *economic responsibility* has been placed at the base of the pyramid because it is the foundation that is a must in business. The key point of the basic framework of *Corporate Social Responsibility* (CSR) is that it is built on the premise of a sustainable economy and business.

At the same time, society conveys the message that businesses are expected to respect and comply with all laws and regulations, as these are the codified rules of the society in which businesses operate. The operations of businesses are expected to operate in an ethical manner, indicating that businesses have expectations and obligations, which they carry out in a way that is

good, right, fair, and minimizes any damage to the *stakeholders* with whom they interact.

Ultimately, businesses are expected to be good citizens, give back, and contribute financially, as well as productive human capital. The pyramid is constructed in a way that reflects the fundamental role and expectations of business in society. According to Carroll, the other responsibilities depend on *economic responsibilities* and thus all companies are required to achieve the satisfaction of *economic responsibilities*. Companies are also required to comply with the law and there is a term "*play by the rules of the game*" which means to operate in accordance with the rules that have been made in order to provide limits to reprehensible and harmful behavior. Satisfaction of *legal responsibilities* is required before a company can be socially responsible.

Some laws evolve according to emerging and existing issues such as consumer protection, employee safety, and the surrounding natural environment. Companies should still apply truth and justice even when they do not clearly apply the *legal framework*. This is based on Carroll's general expectation of the welfare of society, and is above *economic* and *legal* expectations. Ethics suggests a level at which behavior evolves and can be anticipated by future laws. Responsibility within an organization on the *philanthropic* aspect is the highest desired level where ultimately *philanthropic responsibilities* have sometimes been ethically motivated by companies striving to do the right thing, although there are some companies that pursue philanthropic activities as a useful decision to be seen as "good citizens".

A company does this because they consider it virtuous. The ultimate interpretation of philanthropy can be seen as ethically motivated towards the environment. (Schwartz et al, 2003). Milton Friedman has contributed to the general theory of Corporate Social Responsibility by asking questions such as "should a company care and be responsible for social problems and issues?" (van der Wiele, 2001). He argued that only the social responsibility of a business can provide and increase profits that are established in a legal way.

Previous Studies

In this study, the authors have several references to previous studies that have the same variables, methodologies and topics. Jaiyeoba et al, (2018) conducted research which included a quantitative study of the *Survey* method with 193 respondents. The results showed that Islamic Banks, especially in Malaysia, not only depend on religious marketing strategies to attract

customers to buy their products, but they must also be active in *Corporate Social Responsibility* (CSR) activities which are also an effective educational tool for the public about Islamic Banks.

Dusuki et al (2007) conducted a study that concluded that Islamic Banks should be a center in the financial field that promotes Corporate Social Responsibility (CSR) practices and this is an important factor that reflects their positive behavior, namely CSR on decision selection criteria in choosing an *Islamic Bank*. Babatunde et al (2015) conducted a study that showed that the company's contribution to *social development* and *human development* will also increase the standard of living in the country, thereby increasing economic development in Malaysia.

Sairally (2013) conducted a study entitled "*Evaluating the corporate social performance of Islamic financial institutions: an empirical study*". The qualitative method used is the *survey* method. The result is that a policy that is carried out integrally, namely through the Corporate Social Responsibility approach, will explicitly shape Islamic Financial Services in terms of economic, legal, sharia, and ethical responsibilities. Other similar studies, for example, have been conducted by Abu Bakar et al (2015), Mostafa et al (2016), Atan et al (2011), Dusuki et al (2008), Lateh, et al (2009), Iqbal et al (2013), Okpara et al (2012), Hidayat (2011), Pérez et al (2013), Salehi et al (2009), Rashid et al (2002), and Akhtar et al (2018).

This research basically refers to (Jaiyeoba et al, 2018) which discusses whether *Corporate Social Responsibility* at Islamic banks in Malaysia is effective according to the views of *stakeholders*, but there are differences from this research with previous research, namely in terms of location and data collection methods. Thus this research will focus on Corporate Social Responsibility (CSR) of Islamic banking in Indonesia. Then another difference is that in this study the authors used the *Structural Equation Modeling* (SEM) method, while the variables used in this study used Corporate Social Responsibility variables in the aspects of *ethical responsibility* and *philanthropic responsibility*.

According to Juanda (2009), a hypothesis is an opinion or temporary answer to a problem that is submitted where the truth needs to be proven. The hypotheses in this study are:

H1 : *Stakeholders'* perceptions of the effectiveness of *Corporate Social Responsibility* in the *ethical responsibility* indicator.

H2 : *Stakeholders'* perceptions of the effectiveness of *Corporate Social Responsibility* in the *philanthropic responsibility* indicator.

METHODOLOGY

The study was conducted and adopted a quantitative research model in order to identify the effectiveness of *Corporate Social Responsibility* of Islamic Banks in Indonesia based on stakeholders' perceptions. (Babatunde & Adeyemi, 2015; Dusuki, 2008; Dusuki & Dar, 2007; Jaiyeoba et al., 2018). According to the type of research, this is a type of *field* research. This study will discuss how the perceptions of *stakeholders* such as Islamic Bank managers, Islamic Bank employees, Islamic Bank customers, and ulama or community leaders in responding to the effectiveness of *Corporate Social Responsibility* (CSR) of Islamic Banks in Indonesia.

Literature study is a data collection technique by taking documents belonging to other people by quoting the author's name which contains applicable theories. In this study, the author's documents taken can be in the form of personal notes, books, reports, official data, charts, images with the aim of gaining additional insight and knowledge. (Haryanto, 2012).

Islamic banks have now become a special concern of the community because they have carried out their operations in accordance with sharia. Islamic Banks must make a special difference with Conventional Banks, which are not only solely seeking profit, but must carry out the social functions of Islamic Banks. In the operation of a company, of course, there is something called *shareholders* and *stakeholders*. *Shareholder* is someone who has shares in a company, while a *stakeholder* is someone who is important and supports in a company. Islamic banks certainly have *stakeholders* such as managers, employees, customers, and the surrounding community. Therefore, *stakeholder* theory conventionally argues that the existence of an organization or company aims to create value for *shareholders*, they are also expected to be socially responsible for the community in which they operate (Hassan et al 2009).

This research refers *Corporate Social Responsibility* to the opinion or theory of Carroll. Carroll argues that there are important aspects in corporate social responsibility, namely *economic*, *legal*, *ethical*, and *philanthropic responsibility*. Here, the author will focus on the aspects and models of *ethical* and *philanthropic responsibility*, because this is the most important goal of a company in providing benefits to society, economic growth, and being responsible in this world and in the hereafter. The two models have been elaborated into 4 aspects, namely *investment development*, *human development*, *poverty reduction*, and *environmental development*, which will provide answers to the two models.

The sampling technique used in this research is purposive sampling. Purposive sampling is a sampling technique for specific purposes or purposes only (Sugiyono, 2015). In this study, the samples selected were Islamic Bank *stakeholders* such as Islamic bank managers, Islamic bank employees, Islamic bank customers, and ulama or community leaders. Islamic Bank stakeholders (managers, employees, customers, and scholars) who live in the Jabodetabek area (Jakarta, Bogor, Depok, Tangerang, Bekasi).

The sample is part of a number of characteristics possessed by the population. When the population is large and research is not possible to study the entire population due to limited energy, funds and time. Therefore, the sample taken from the population must be truly representative. (Sugiyono, 2015).

Operational Variables

The dependent variable is the variable that appears due to the independent variable that affects it. The dependent variable (Y) in this study is the effectiveness of *Corporate Social Responsibility* (CSR). Effectiveness is the main element to achieve the goals or objectives that have been determined in every organization, activity or program. According to KBBI (1989), effective means that there is an effect (effect, influence, impression), efficacious, effective, can bring results. So effectiveness is activeness, usability or in other words, the existence of suitability in an activity of people who carry out tasks in accordance with the intended target. Effectiveness is a condition that shows the extent to which what has been planned can be achieved. So, the more plans that can be achieved, the more effective the activity is, so the word effectiveness can also be interpreted as a success rate.

Corporate Social Responsibility (CSR) CSR in general is a comprehensive contribution from the business world to sustainable development, taking into account the economic, social and environmental impacts of its activities. *Corporate Social Responsibility* (CSR) that will be discussed in this study focuses on ethical responsibility and philanthropic responsibility. In measuring the level of effectiveness of *Corporate Social Responsibility* (CSR) can use a *Likert* scale as a way to measure the attitudes, opinions, and perceptions of respondents based on a weighted value of 1 to 5, which weight indicates disagreement or strongly agree that CSR has an impact on the benefit of good people.

Independent variables or independent variables (variables that influence) are variables that are deliberately presented by researchers in a study whose

function is to make an influence on the dependent variable, either positively or negatively. There is one independent variable in this study, namely *stakeholder* perceptions. Perception is the process of how a person organizes and interprets information inputs in order to create an overall picture. Perception is also the process by which individuals organize and interpret their sense impressions to give meaning to their environment. (Robbins Stephen, 1998).

Stakeholders are also commonly referred to as everything related to stakeholders. We also need to understand how real *stakeholder* relationships, the relationship between behaviors, and also the mechanisms for public policies that encourage people in business to create organizations that make our world better in the future, such as in the aspects of *ethical responsibility* and *philanthropic responsibility*, namely investment development, human development, poverty reduction, and environmental development.

Data Analysis Method

Data analysis is the process of presenting data, so that the data can be easily understood and interpreted. The data analyzed is the data from the field research survey approach and literature research, then the researcher conducts an analysis to draw conclusions. To analyze the data in this study, statistical methods are used which are effective and efficient data analysis methods in a study.

The data collection technique in this study is to use a questionnaire, so the quality of the questionnaire with the correspondent's answers and situational factors is something that needs to be considered by researchers. In analyzing the data obtained from the questionnaire results, researchers used quantitative data analysis with the *Survey* method. The *Survey* method consists of 2 parts, namely the latent variable model and the measurement model. These two SEM models have different characteristics from ordinary regression. Ordinary regression, generally specifies the relationship of observed variables, while in the SEM latent variable model, causal relationships occur between *unobserved* variables or latent variables. (Wijanto, 2008). There are several analyses performed, namely:

1. *Frequency Test*, this is done to find out demographic information from the collected respondent data.
2. *Descriptive Test*, conducted to determine the *mean score* of respondents on several questions asked.
3. *Exploratory Factor Analysis* to measure *construct validity*.

4. *Confirmatory Factor Analysis* knows and confirms the performance that has been done, and whether the model fits the data.

Furthermore, the *construct reliability* test is carried out which must be greater than 0.7.

The data that will be used in this research is primary data. Primary data is obtained through a questionnaire with *google form* to Islamic Bank *stakeholders* who live in the Jabodetabek area (Jakarta, Bogor, Depok, Tangerang, Bekasi).

RESULTS AND DISCUSSION

Respondent Characteristics

This research was conducted in August 2019. Determination of the sample in this study was carried out by *Purposive Sampling*. The terms of the respondents who have been determined are Islamic Bank *Stakeholders*, namely Managers, Employees, Customers, and Ulama who live in the Jabodetabek area (Jakarta, Bogor, Depok, Tangerang, Bekasi). The number of respondents used in this study was 100 people. The object under study is *stakeholder* perceptions of the effectiveness of *corporate social responsibility* of Islamic banks.

The gender characteristics of respondents consisted of two categories. The first category is male and the second is female. From figure 4.1, 100 data collected, the largest category is male with 68 people (68%) and male with 32 people (32%).

The characteristics of respondents based on age consisted of four categories. First, age 20 years - 30 years, second, age 30 years - 40 years, third age 40 years - 50 years, and fourth age 50 years - 60 years. From Figure 4.2, 100 data collected, respondents aged 20 years - 30 years have the highest frequency, namely 61 people (61%). Then respondents aged 30 years - 40 years totaled 14 people (14%). Then respondents aged 40 years - 50 years totaled 12 people (12%), and respondents aged 50 years - 60 years totaled 13 people (13%).

The characteristics of respondents based on their latest education consist of four categories. First, High School (SMA), second, Bachelor (S1), third Master (S2), fourth Doctor (S3). From Figure 4.3, 100 data collected, High School (SMA) has a frequency of 24 people (24%). Then at the Bachelor level (S1) there are 59 people (59%). Then at the Masters (S2) level there are 15 people (15%), and the last at the Doctoral level (S3) totaling 2 people (2%).

The characteristics of respondents based on position consisted of four categories. First, Islamic Bank Managers, second, Islamic Bank Employees, third, Islamic Bank Customers, and fourth, Ulama. From Figure 4.4, 100 data collected, Islamic Bank Managers totaling 1 person (1%). Then Islamic Bank employees totaling 10 people (10%). Then Islamic Bank customers totaling 86 people (86%), and Ulama totaling 3 people (3%).

Respondent characteristics based on domicile consist of five categories. First, Jakarta, second, Bogor, third, Depok, and fourth, Tangerang, and fifth, Bekasi. From Figure 4.5, 100 data collected, respondents who live in Jakarta are 18 people (18%). Then respondents who live in Bogor are 38 people (38%). Then respondents who are domiciled in Depok are 4 people (4%). Then respondents who live in Tangerang are 5 people (5%), and respondents who live in Bekasi are 35 people (35%).

Validity and Reliability Test

The validity test in the study was conducted on 100 respondents. Based on the r-count score compared to the r-table (0.1638), the r-count score > r table (0.1638). Therefore, it can be concluded that the questionnaire is declared valid. Meanwhile, for the reliability test, according to Sujarweni (2014), the questionnaire is said to be *reliable* if the *Cronbach's Alpha* value is > 0.6. Based on the reliability test by looking at *Cronbach's Alpha*, it can be seen that the level of reliability of the questionnaire in this study was 0.765 or 76.5%.

Furthermore, to determine the feasibility of a variable, whether it can be processed further using factor analysis techniques or not by looking at the value of KMO MSA (*Kaiser-Meyer-Olkin Measure of Sampling Adequacy*). If the KMO MSA value is greater than 0.50, then the factor analysis technique can be continued. Based on the output results, it can be seen that the KMO MSA value is 0.922 > 0.50 and the *Bartlett's Test of Sphericity* (Sig) value is 0.000 < 0.05, so factor analysis in this study can be continued because it meets the requirements.

At the next stage, the *Communalities* Table shows that the value of the variable under study is able to explain the factor or not. Variables are considered capable of explaining factors if the *Extraction* value is > 0.50. Based on the output (attached), it is known that the *Extraction* value for all variables is greater than 0.50. Thus it can be concluded that all variables can be used to explain the factors.

Table 1. Total Variance Explained

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	10,894	57,336	57,336
2	1,593	8,382	65,718
3	0,986	5,188	70,905
4	0,927	4,881	75,787
5	0,719	3,783	79,570
6	0,567	2,982	82,552
7	0,524	2,758	85,311
8	0,426	2,244	87,555
9	0,360	1,893	89,447
10	0,317	1,667	91,114
11	0,287	1,511	92,625
12	0,261	1,372	93,997
13	0,239	1,255	95,253
14	0,201	1,059	96,312
15	0,169	0,887	97,200
16	0,163	0,856	98,055
17	0,146	0,766	98,822
18	0,128	0,671	99,493
19	0,096	0,507	100,000

After the *Extraction* value is known, the *Initial Eigenvalue* appears, which explains that there are 2 factors that can be formed from the 19 items (components) analyzed. There is a requirement to become a factor, namely the *Eigenvalue* must be > 1.00. It can be seen that

Factor 1 gets a value of 10,894 and is able to explain 57.336% of the variation. Factor 2 gets a value of 1,593 and is able to explain 8.382% of the variation. If factors 1 and 2 are added together, the two factors can explain 65.718% of the variation.

Table 2. Rotated Component Matrix

Rotated Component Matrix ^a			Indicator
Factor Loading 1	Component		
	1	2	
Islamic banks have been effective in collecting and distributing benevolent funds (zakat, infaq, sadaqah, benevolent funds).	0,735*	0,363	Society_Dev1
Payment of zakat through Islamic Banks has contributed to reducing the poverty rate	0,815*	0,193	Society_Dev2
All benevolent funds have been utilized for human resource development and community social activities.	0,733*	0,326	Society_Dev3
Bank Syariah's social activities contribute to reducing hardship and enhancing human capital growth.	0,809*	0,308	Society_Dev4
Islamic Bank's social activities improve the community's economy	0,788*	0,292	Society_Dev5
Islamic banks actively help the community (financial assistance)	0,668*	0,409	Society_Dev6
Sharia Bank has an investment allocation that is based on social and environmental development.	0,737*	0,293	Society_Dev7

Islamic banks provide financing in the aspect of education to people in need	0,584*	0,473	Society_Dev8
Bank Syariah has a policy to help orphans	0,762*	0,359	Society_Dev9
Bank Syariah encourages the development of traditional culture	0,683*	0,225	Society_Dev10
Bank Syariah has a policy on environmental sanitation	0,667*	0,425	Society_Dev11
Rotated Component Matrix^a			Indicator
Factor Loading 2	1	2	
Islamic banks in providing benevolent funds have a positive impact on the community's economy	0,449	0,589*	Economic_Dev1
Islamic banks help the development of Micro, Small and Medium Enterprises (MSMEs)	0,264	0,842*	Economic_Dev2
Islamic banks have a policy to help a person or family who is in debt.	0,513	0,573*	Economic_Dev3
Islamic banks have investment policies that encourage community economic growth	0,456	0,685*	Economic_Dev4
Bank Syariah actively socializes individuals and institutions to care for the environment.	0,402	0,599*	Economic_Dev5
Bank Syariah has a policy to help Micro, Small, Medium Enterprises (MSMEs) and social organizations.	0,199	0,893*	Economic_Dev6
Bank Syariah has a savings plan product for marriage and children's education.	0,251	0,791*	Economic_Dev7
Islamic banks have savings products for social and investment	0,345	0,770*	Economic_Dev8

Note: Society_Dev = Society Development, Economic_Dev = Economic Development

At this stage it can be seen, to ensure that a variable is included in a factor group, it can be determined by looking at the largest correlation value

between the variable and the factor (*component*) formed. The asterisk (*) states that the largest correlation value must be greater than 0.50.

Table 3. Construct Validity

	Factors		Communalities
Variance Explained (after rotation)	57.336	8.382	
Initial Eigenvalue	10.894	1.593	
Variables (factor loadings)	Factor 1	Factor 2	
Society_Dev1	0.735		0.672
Society_Dev2	0.815		0.702
Society_Dev3	0.733		0.644
Society_Dev4	0.809		0.749
Society_Dev5	0.788		0.706
Society_Dev6	0.668		0.613
Society_Dev7	0.737		0.629
Society_Dev8	0.584		0.564
Society_Dev9	0.762		0.710
Society_Dev10	0.683		0.517
Society_Dev11	0.667		0.625
Economic_Dev1		0.589	0.549
Economic_Dev2		0.842	0.778
Economic_Dev3		0.573	0.591
Economic_Dev4		0.685	0.676
Economic_Dev5		0.599	0.521
Economic_Dev6		0.893	0.837
Economic_Dev7		0.791	0.689
Economic_Dev8		0.770	0.712

Note: Society_Dev = Society Development, Economic_Dev = Economic Development

According to Adewale et al (2012) According to Adewale et al (2012), *construct validity* ensures that each item on the questionnaire is included in only one indicator. *Construct Validity* is a validity study (the truth that an item really measures something that is measured based on the pattern of interrelationships between items. Construct reliability is a measure of the internal consistency of the indicators of a formed variable which shows the degree in the formed variable. Variance extracted is a measure of how much the amount of variance from the indicator is extracted by the variable being formed. There are 2 approaches that can be taken to assess the reliability of the measurement model, namely the construct reliability test and variance extracted on each latent variable.

The *Construct Reliability* (CR) value must be greater than 0.7, while the Average Variance Explained (AVE) value must be greater than 0.5 and also the lower value is an absolute requirement of the *Construct Reliability* (CR) value. The results show that the CR value is above 0.7 (attached).

This represents the minimum value of the difference between the observed data and the hypothesized model divided into the *degree of freedom* formula (CMN/df). In addition, another measurement of model fit adapted from the study of (Mueller & Hancock, 2008) are *comparative fit index* (CFI), *normed fit index* (NFI) and *root mean square error of approximation* (RMSEA). Measurements above the expected value between 0 and 1 are the highest, such as 0.9 which indicates a *very good fit*. Root Mean Square Error of Approximation (RMSEA) if the RMSEA value is 0.08 or smaller, it indicates an index for the acceptability of the model created. The *goodness of fit index* value ranges from 0 - 1. If the value is close to 0, the model has a low fit while the value is close to 1, the model has a good fit. The *minimum sample discrepancy function* (CMNF) which is the value of the Chi Square statistic divided by the value of the *degree of freedom* (*degree of freedom*) is also called the relative Chi Square with a value of less than 0.2 with a tolerance below 0.3 which is an indicator of the acceptance of a model and data fit.

Table 4. Chi-square Output Value

<i>Chisquare</i>	389,748
<i>Degree of Freedom</i> (Df)	151
<i>Normed Chisquare</i>	2,581
<i>Comparative Fit Index</i> (CFI)	0,846
<i>Root Mean Square Error Approximation</i> (RMSEA)	0,126
<i>Good Fit Index</i> (GFI)	0.712

After all the output tables have been obtained, then we will conduct *confirmatory factor analysis* tests using AmoS software. *Confirmatory factor analysis* (CFA) may be used to confirm that all indicators group themselves into related factors as researchers have linked indicators to latent variables. *Confirmatory Factor Analysis* (CFA) has an important role in SEM. CFA models in SEM are used to assess the role of measurement error in the model, to validate multifactorial models, and to determine group effects on factors.

Confirmatory Factor Analysis (CFA) is part of the *Structural Equation Modeling* (SEM) test phase. *Confirmatory Factor Analysis* (CFA) is a powerful and flexible statistical

technique which has increased its use as a frequently used tool in the area of psychology including research in education. *Confirmatory Factor Analysis* (CFA) focuses on models that have linkages between manifest indicators and latent variables (factors).

Confirmatory Factor Analysis (CFA) and *Structural Equation Modeling* (SEM) have a fundamental difference in that they require researchers to explicitly determine every aspect of the model that will be evaluated. Therefore, *Confirmatory Factor Analysis* (CFA) and *Structural Equation Modeling* (SEM) require researchers to have a strong conceptual basis or empirical foundation to guide model specification and evaluation.

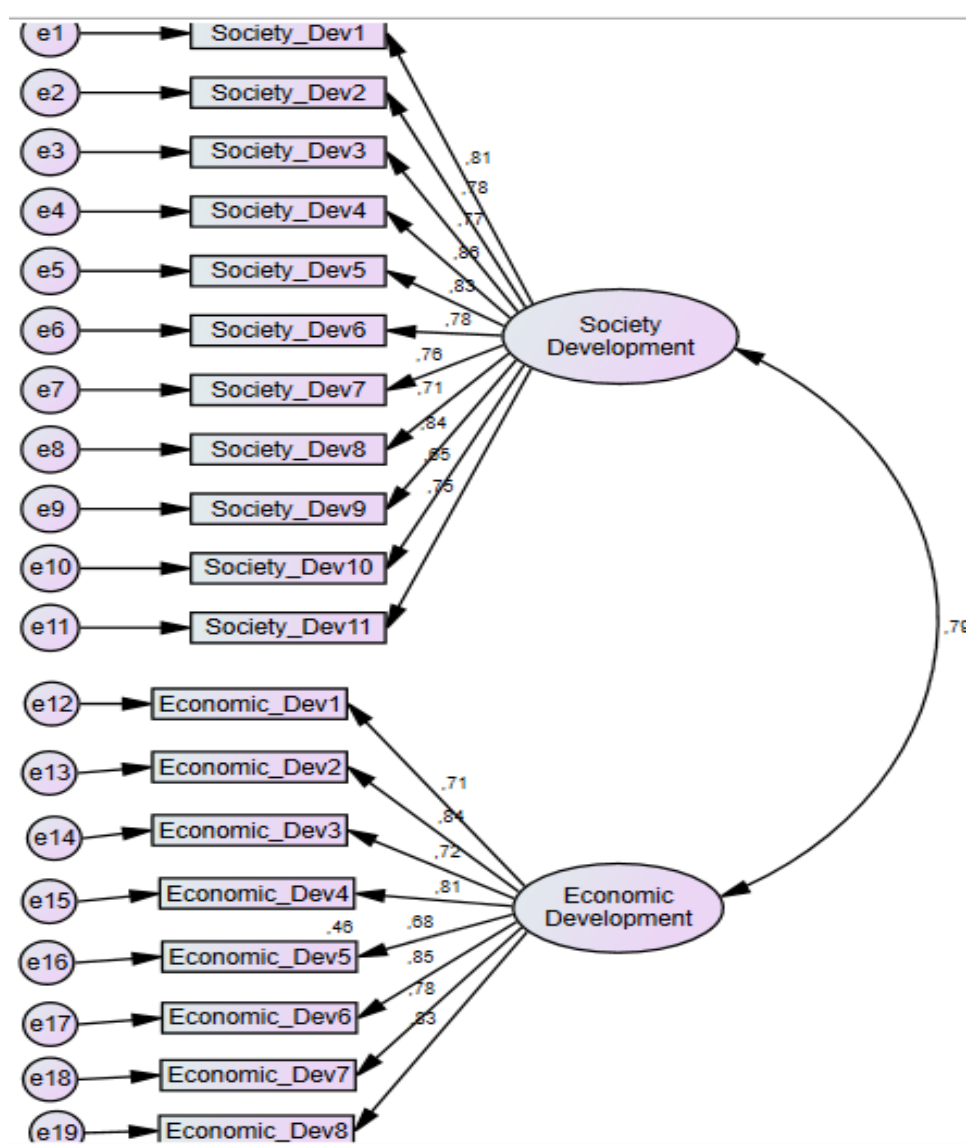


Figure 1. Confirmatory Factor Analysis for Indonesian Islamic Banks' CSR

The proposed model is supported with 4 model fits. The chi-square value of 389.748 (151, N=100), *probability level*=0.000 is significant because it is <0.05. The *normed chisquare* (CMIN) value is 2.581 by conducting a *fit test* of the model measurements.

This study confirmed the effectiveness of *Corporate Social Responsibility* (CSR). Starting from the descriptive statistics, where it was previously discussed that the mean score based on the Likert scale which there are 6 scales on the questions asked and all get answers above 3.5 (average score). This indicates that Islamic banks are beginning to understand their responsibility to the community and the environment through *Corporate Social Responsibility* (CSR). After all, *Corporate Social Responsibility* (CSR) should be a social responsibility that is embedded in the mind and carried out with actions, no longer just voluntary, but has become an obligation. This reasoning is based on an obligation from Islam that we must always be

responsible for everything we have done in the world and will be held accountable in the hereafter. Rejecting the essence of *Corporate Social Responsibility* (CSR) today will indirectly give a bad impression to investors, *shareholders*, and *stakeholders*. Of course, commitment through *ethical* and *social responsibilities*, especially in Islamic Banks will change the direction for the better in terms of profitability, competitive performance, and risk management. (Snider et al., 2003).

This study found that Islamic banks in Indonesia have been considered quite effective in terms of *Corporate Social Responsibility* (CSR). This study has been researched by several researchers, such as research conducted by (Babatunde & Adeyemi, 2015) where *gender* affects perceptions of the effectiveness of Islamic Banks. Next is (Dusuki & Dar, 2007), which found that consumers look at how Islamic banks perform *Corporate Social Responsibility* (CSR) before choosing them. In addition, the study suggested that Islamic banks should

be more active in *Corporate Social Responsibility* activities as it can be a marketing strategy tool that directly promotes them. A study entitled "*On Corporate Social Responsibility of Islamic Financial Institutions*" which contains both obligatory and recommended forms can be found in a journal written by (Farook, 2007).

CONCLUSION

This study enlightens and recommends that Islamic Banks be actively involved in the activities of *Corporate Social Responsibility* (CSR) so as to be effective in promoting Islamic Financial Institutions (FIs). In this case, to determine the effectiveness of *Corporate Social Responsibility* (CSR), various analyses were conducted such as *descriptive statistics*, and *confirmatory factor analysis*. The value of the *mean score* obtained from *descriptive statistics* is above the average of 3.5 which gives an indication of the effectiveness of Islamic Banks in Indonesia. The analysis carried out such as *descriptive statistics* and other analyses such as *confirmatory factor analysis* that have been carried out by researchers get the result that Islamic Banks in Indonesia have been effective and comply with CSR activities.

In the end, there are several conclusions, namely suggesting that Islamic Banks in Indonesia should not only rely on marketing strategies in spiritual terms to attract customers to use their products, but to get customers by being actively involved in *Corporate Social Responsibility* (CSR) activities. The impact is not only to attract customers, but also to contribute to the social life and welfare of the community and the surrounding environment. Islamic banks in Indonesia are starting to become financial centers by promoting the practice of *Corporate Social Responsibility* (CSR), it can also be said that Islamic banks not only operate to meet the demands and needs of the Muslim community, but the Islamic Bank system assimilates *social responsibility* and Islamic ideals so that it is integrated into operations. Islamic banks must actively support the community by engaging in social responsibility so that it not only attracts customers, but can also be used as an effective educational tool to the public about Islamic banks.

In accordance with the limitations described earlier, the researcher hopes that the sample will be further strengthened by adding demographics of respondents, namely the majority of Islamic Bank customers, such as Bank Syariah Mandiri, Bank Muamalat Indonesia, and Bank BNI Syariah. Researchers also hope that this research will be input and evaluation material in further research so that it can be emphasized again, especially in terms of effectiveness.

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APPENDIX

Table. Validity test

Variable	Statement	R-Stats	R-Table	Note
<i>Ethical Responsibility</i>	X1	0,786	0,1638	Valid
	X2	0,742	0,1638	Valid
	X3	0,728	0,1638	Valid
	X4	0,765	0,1638	Valid
	X5	0,806	0,1638	Valid
	X6	0,780	0,1638	Valid
	X7	0,767	0,1638	Valid
	X8	0,742	0,1638	Valid
	X9	0,755	0,1638	Valid
<i>Ethical Responsibility</i>	X10	0,804	0,1638	Valid
	X11	0,673	0,1638	Valid
	X12	0,752	0,1638	Valid
	X13	0,772	0,1638	Valid
<i>Philanthropic Responsibility</i>	X14	0,790	0,1638	Valid
	X15	0,787	0,1638	Valid
	X16	0,707	0,1638	Valid
	X17	0,738	0,1638	Valid
<i>Philanthropic Responsibility</i>	X18	0,711	0,1638	Valid
	X19	0,765	0,1638	Valid

Table. Reliability test

Variable	Coefficient <i>Cronbach's Alpha</i>	Note
X1	0.754	Reliable
X2	0.753	Reliable
X3	0.753	Reliable
X4	0.753	Reliable
X5	0.752	Reliable
X6	0.753	Reliable
X7	0.753	Reliable
X8	0.755	Reliable
X9	0.753	Reliable
X10	0.752	Reliable
X11	0.754	Reliable
X12	0.752	Reliable
X13	0.750	Reliable
X14	0.753	Reliable
X15	0.752	Reliable
X16	0.753	Reliable
X17	0.753	Reliable
X18	0.753	Reliable
X19	0.753	Reliable

Table. KMO and Bartlett's Test

<i>KMO and Bartlett's Test</i>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0,922
Bartlett's Test of Sphericity	Approx. Chi-Square	1593,932
	df	171
	Sig.	0,000

Communalities table

<i>Communalities table</i>		
Item	Component	
	Initial	Extraction
Islamic banks have been effective in collecting and distributing benevolent funds (zakat, infaq, sadaqah, benevolent funds).	1,000	0,672*
Payment of zakat through Islamic Banks has contributed to reducing the poverty rate	1,000	0,702*
All benevolent funds have been utilized for human resource development and community social activities.	1,000	0,549*
Bank Syariah's social activities contribute to reducing hardship and enhancing human capital growth.	1,000	0,644*
Islamic Bank's charitable (social) activities improve the community's economy	1,000	0,749*
Islamic banks actively help the community such as financial assistance (capital)	1,000	0,706*
Sharia Bank has an investment allocation that is based on social and environmental development.	1,000	0,613*
Islamic banks provide financing in the aspect of education to people in need	1,000	0,629*
Bank Syariah has a policy to help orphans	1,000	0,564*
Bank Syariah encourages the development of traditional culture	1,000	0,710*
Bank Syariah has a policy on environmental sanitation	1,000	0,517*
Islamic banks in providing benevolent funds have a positive impact on the community's economy	1,000	0,778*
Islamic banks help the development of Micro, Small and Medium Enterprises (MSMEs)	1,000	0,591*
Islamic banks have a policy to help a person or family who is in debt.	1,000	0,676*
Islamic banks have investment policies that encourage community economic growth	1,000	0,625*
Bank Syariah actively socializes individuals and institutions to maintain the environment.	1,000	0,521*
Bank Syariah has a policy to help Micro, Small, Medium Enterprises (MSMEs) and social organizations.	1,000	0,837*
Bank Syariah has a savings plan product for marriage and children's education.	1,000	0,689*
Islamic banks have savings products for social and investment	1,000	0,712*

Table. Construct Reliability

	CR	AVE
Society_Dev	0,93	0,53
Economic_Dev	0,90	0,53

Notes: CR = *Construct Reliability*, AVE = *Average Variance Explained*