CSR and Legitimacy of Indonesian Islamic Banks

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Abstract: Every bank needs to strengthen their society's acceptance to exist and grow in the long term. As a country with the largest Muslim population, Islamic banks' market share in Indonesia is still relatively small. These banks should obtain legitimacy from stakeholders for business continuity and growth. To ensure legitimacy, the impact of all of the corporation's activities on society's welfare is a significant concern. Several studies showed that CSR activities are needed to increase legitimacy. However, previous studies regarding CSR and legitimacy mostly used the positive paradigm, and mostly conducted in Western societies. Since the discussion on this matter in Islamic banking in Indonesia is not yet found, this study aims to understand how Islamic banks in Indonesia implement CSR to gain legitimacy using an Islamic perspective. This research is based on the ontology that reality is constructed by business actors who implement CSR programs. A qualitative case study is used by interviewing practitioners who are in charge of CSR programs in the two largest Islamic banks in Indonesia and supported by banks' reports. This study reveals how legitimacy is achieved in the context of an Indonesian Islamic bank.

Keywords: CSR, legitimacy, Indonesia, Islamic bank

1. Introduction

Every bank needs to strengthen their society's acceptance to exist and grow in the long term. As a country with the largest Muslim population, Indonesia has Islamic banks since 1991. Indonesian's population is 87% Muslim, and Islamic bank’s market share in terms of assets is 6.2% (Otoritas Jasa Keuangan, 2020b; Population of Indonesia, 2020). It is substantially different from Malaysia, where the Muslim population is 61%, but its market share is 30% (Population of Malaysia, 2020; The World Bank, 2020). Comparatively, market share of Islamic bank in the Gulf Cooperation Council (GCC) countries is 25%, and in the Middle East and North African (MENA) region, the market share of Islamic banking represent 14% of total banking assets (Pakistan Press International, 2020). In this regard, the Indonesian Government encourages the advancement of Islamic banking through various strategies. For example, by building a framework and indicators for monetary and macroprudential macroeconomic policies which is in line with Islamic banking characteristic (Bappenas, 2018). While the Government is taking the necessary steps to increase the role of Islamic banks, on the other hand, Islamic banks should bolster their presence in society.

Essentially, every organization should strive to be accepted by their stakeholders to get organizational legitimacy. It can be assumed that the organization has an implicit contract with stakeholders (Brown & Deegan, 1998; Omran & Ramdhony, 2015). An organization's existence will be enduring if it can behave according to stakeholders' expectations (Branco & Rodrigues, 2006; Burlea & Titu, 2013; Mousa & Hassan, 2015). The alignment of organizational behavior with social norms, values, and rules would increase the organization's legitimacy (Brennan & Merkl-Davies, 2014; Marais, 2012; Sonpar et al., 2009). Thus, this concept is crucial for the organization's survival.

To ensure legitimacy, the impact of all of the corporation's activities on society's welfare is a major concern. Several studies demonstrated that CSR (corporate social responsibility) practices are necessary to align with society's aspirations. (Castello & Galang, 2014; Deephouse et al., 2017). Additionally, there are several research findings on the legitimacy of Islamic banks. Hassan and Harahap (2010) reported that Indonesian Islamic banks have not been considerate in revealing their CSR activities. Amran et al. (2017) also unveiled the lack of Indonesian Islamic banks' role in improving disadvantaged social classes, preserving society's needs, and fostering social welfare. Thus, the legitimacy issue is prevalent in Indonesian Islamic banks.

A number of studies about CSR and legitimacy have been made. However, most of the prior studies took a positivist stance (e.g., Dusuki, 2007; Hassan & Harahap, 2010; Sairally, 2013; Zain et al., 2012), where researchers view objects as an independent entity. The studies were implemented by using the objective lens, where reality is positioned "out there" (Guba & Lincoln, 1994). This means that the objects were not understood
from the perspective of practitioners. Therefore, it is critical to understand efforts in achieving legitimacy through CSR activities from the practitioners' perspective. Ponterotto (2010) argues the phenomenon under study can be understood more clearly by listening to practitioners' opinions. Previous studies (e.g., Castelló & Lozano, 2011; Cruz-Suárez et al., 2014; Marais, 2012) mostly conducted in Western societies with different values and cultures from Indonesian Muslim society. Additionally, the discussion on this matter in the Indonesian Islamic banking context is not present yet.

Hence, the understanding of efforts to achieve legitimacy through CSR from the perspective of practitioners is needed. Because they are involved in this matter in day to day operation, constructing their experiences. Since Indonesian Islamic banks operate in a Muslim society, this issue needs to be viewed from an Islamic perspective. For this reason, this study aims to understand how Islamic banks in Indonesia implement CSR to gain legitimacy using an Islamic perspective.

2. Literature Review

Legitimacy is defined as "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, p. 547). In this vein, the impact of the organization toward its surrounding should be attended. In other words, society's welfare should be considered by every organization to ensure that their presence is acceptable (Farook, 2007). Consequently, the organization can easily access resources, market, and stakeholders' support to ensure its long-term survival and growth (Colleoni, 2013; Cruz-Suárez et al., 2014; Prado-Román et al., 2018) because the organization is viewed as legitimate in the eyes of stakeholders. On the other hand, the absence of legitimacy will lead the organization to fall into trouble.

Legitimacy takes place in an established set of beliefs and norms. To be accepted by stakeholders, corporate behavior should align with stakeholders' interests in order to be recognized by them (Brennan & Merkl-Davies, 2014). However, ethical values that are based solely on stakeholders' interests are problematic. It has been criticized for lacking a sound moral principle (Laplume et al., 2008). Since the organization's legitimacy depends on society's perception, an organization needs to adapt its conduct according to how society wants it to act (Dusuki, 2008). Correspondently, suppose the organization considers that community values are accepted by stakeholders, corporate CSR initiatives are aimed to actualize the purpose and mission of the organization (Bakar., Azizi Ab. et.al, 2019).

While moral legitimacy is based on the values accepted by stakeholders in the Western perspective, the Islamic perspective in this respect needs to be understood. Suchman (1995) contends that the essence of moral legitimacy is derived from the normative evaluation of the institution and the conduct of the stakeholders. These stakeholders assess the principles of transparency, tolerance, global responsibility, humanism, and respect (Marais, 2012). Correspondingly, the idea of moral legitimacy in the Western view reflects the relationship between people; in Islamic terms, it is called hablun minannas. However, according to Islamic teaching, it should include the relationship between people and Allah or hablun minallah (Jahja et al., 2016). In this vein, the Qur'an 3:112 said: "and, unless they hold fast to a lifeline from Allah (hablun minallah) and mankind (hablun minannas), they are overshadowed by vulnerability wherever they are found.” Thus, there are two types of relationships as a prerequisite for a better life in this world and the world after. Therefore, in the Islamic view, legitimacy should have a divine nature that is ignored in previous studies.

Consequently, in Indonesian Islamic banking, the legitimacy idea is founded on the belief in God. In this manner, Shariah legitimacy is essential to note. Shariah is an ethical way of life that Allah has presented to humankind as a guidance for the success in this world and the hereafter (Ginena & Hamid, 2015; Kamali, 2008). Shariah legitimacy can be obtained by adhering all operations and activities to the Shariah principles in letter and spirit. It refers to the alignment of operations and practices with Shariah principles in terms of standards and their execution, and accomplishment of the socio-economic welfare and justice (Chapra, 1985; Khaleequzzaman & Rashid, 2016). Chapra (2005, 2008) stated that Islamic banking is one aspect of the Islamic economic system which aimed to actualize the purpose of Islamic Law (Maqasid Shariah), that is, humans well-being and justice (Bakar., Azizi Ab. et.al, 2019).

In order to gain organizational legitimacy, CSR practices need to be exercised to enhance the conformity between organizational actions and stakeholders' expectations. The relationship between CSR and legitimacy has been discussed in various researches (Castelló & Lozano, 2011; Devin, 2013; Marais, 2012). The substance of the CSR initiative is the idea that the organization gives benefit to society beyond the organization's interest and
legal requirements (Jahja et al., 2016). The pillar of CSR is 3P's (People, Profit, and Planet); which is introduced by Elkington (1997). Thus, each business entity should have economic, environmental, and social responsibilities.

The connection between CSR and legitimacy can be comprehended by relating it to the kinds of legitimacy. There are four kinds of legitimacy: regulatory, normative, cognitive, and pragmatic (Cruz-Suarez et al., 2014; Deephouse et al., 2017). Regulatory legitimacy refers to meeting the standards defined by laws and regulations. Cognitive legitimacy is concerned with accepting commonly taken-for-granted assumptions that offer rational explanations for the organization's actions. Normative or moral legitimacy is linked with the appropriateness of the organization's activities that is in line with society's norms and values. Finally, pragmatic legitimacy arises from stakeholders’ interests when the organization's operations could benefit them.

The first is regulatory legitimacy. An earlier study (Devin, 2014) noted that organizations in developed countries frequently report their CSR activities, but not purely on regulatory reason. This means that for them, reporting on social responsibility practices is goes without saying. On the other hand, Indonesia's situation is different. According to Indonesian Banking Law no. 21 of 200, Islamic banks could engage in social activities by receiving and channelling social funds. Additionally, society expects Islamic banks to implement CSR because of their Islamic identity (Hassan & Harahap, 2010; Mallin et al., 2014).

The second is cognitive legitimacy. Devin (2014) said that in the industry, organizations express a willingness to follow CSR actions. Organizations strategically report activities that are in line with stakeholder expectations to gain cognitive legitimacy. This awareness is founded on voluntary principles. As for the Indonesian Islamic banking context, this cognitive knowledge needs to be examined further. CSR in Islamic banking is not only based on universal human values but also based on Islamic principles.

The third is moral legitimacy or normative legitimacy, which refers to conscious moral judgments about the organization and its activities (Castelló & Lozano, 2011). Organizations will obtain legitimacy if they exhibit ethical conduct in accordance with the expectations of stakeholders. Subsequently, the organization would cultivate stakeholder's sympathy and engagement. In Western society's setting, the cultural homogeneity has been reduced by the pluralization of values (Castelló & Lozano, 2011; Palazzo & Scherer, 2006). In the Indonesian Islamic banking setting, however, the opinion of the Indonesian Council of Islamic Scholars (MUI or Indonesian Ulama Council) acts as a reference in business transactions. Thus, the prevailing values are relatively homogeneous in Indonesian Muslim society.

The fourth is pragmatic legitimacy. This legitimacy is based on the interests of the society, who expect benefits from the organization’s presence (Marais, 2012). According to this view, as long as the organization's involvement favors stakeholders, organizations will obtain legitimacy. Therefore, to get the trust of stakeholders, organizations need to demonstrate the benefits of their existence. In the Islamic banking context, a rational explanation can be employed as long as it does not contradict with Islamic teachings.

3. Methodology

This study is based on the ontology the reality is constructed by business practitioners who execute CSR programs. Meanings toward reality are created by those engaged in social reality that they perceive (Crotty, 1998). They interpret their surroundings and make meaning based on their understanding of Islamic values. Therefore, the reality is considered subjective, and consequently, there is no single reality but multiple realities. Hence, this research employs the interpretive paradigm.

In this regard, a qualitative case study is employed to examine a particular thing (Merriam & Tisdell, 2016) or phenomenon of interest over a period that is presently lacking in the literature (Kurnia et al., 2015). In this matter, more than one case is studied to investigate general conditions, phenomena, or population, to gain a deeper understanding through more robust explanations and descriptions (Creswell, 2012). Since this research is qualitative, instead of statistical sampling, the sampling method used is purposeful sampling or theoretical sampling (Maxwell & Chmiel, 2014; Neuman, 2014).

The sampling chosen is called maximum variation sampling (Creswell, 2007; Patton, 1990). In the case level, maximum variation sampling is applied by selecting BMI (Bank Muamalat Indonesia) and BSM (Bank Syariah Mandiri) because both banks have the greatest variation. Both are dominant actors in the industry, and they demonstrated different directions in terms of market share. Market share in terms of assets is 31% (BSM) and 14% (BMI) that indicate the largest market share in the Indonesian Islamic banking industry (Otoritas Jasa
Keuangan, 2020a). In 1991, BMI was founded as the first and the only Shariah bank with a 100 percent market share until the establishment of BSM in 1999. Hence, both banks have a competitive ability that is noticeably different. The informants from each bank were chosen based on their experience and understanding of the case, to acquire rich information (Creswell, 2007; Patton, 1990). They are President Commissioner BSM, Director Risk Management & Compliance BSM, Executive Director Lembaga Amil Zakat BSM, Director Compliance & Risk Management BMI, Manager CSR BMI, and Head of Baitul Maal Muamalat BMI. Interviews were held in Jakarta as these bank offices are in this city.

The data collection method used in this study is the interview and analysis of documentary evidence. The interview is chosen because it can capture first-hand information from the informants. The written documents have been used to supplement, explain, or validate information obtained through interviews. Those documents are downloaded from the banks’ website.

4. Result and Discussion

Islamic banks should obtain Shariah legitimacy. To obtain the pleasure of God, organizations should comply with Shariah and be accepted by stakeholders; therefore, efforts to comply with Shariah principles need to be revealed. Director Compliance & Risk Management BM (personal communication, 23 May 2019), said, "… Naturally, Shariah bank, since it carries out the Maqasid Shariah concept, in performing its business, the bank should pay attention to People, Planet, and … Profit aspect.” When asked about why BSM implemented CSR, President Commissioner BSM (personal communication, 25 April 2019) stated, the CSR idea is closely linked to Islamic bank existence. The reason for the existence of the Islamic bank is five purposes (Maqasid Shariah): the protection of religion, human self, intellect, future generations, and wealth. He described,

Actually, CSR is related to the Shariah bank interest. Shariah bank is operated based on Maqasid Shariah. There are five pillars of Maqasid Shariah: ad-dien, al-'aql, an-nasl, an-nafs, and al-mal. Ad-dien means preserving religious life, and then soul, intellect, posterity, and property. Something like that…

Therefore, religion, intellect, and soul preservation are categorized into People. Then, an-nasl is about the life of posterity, which is classified into environmental protection, or the Planet. Additionally, the property is related to profit. These 3P's are parallel to Maqasid Shariah.

The practical implementation of this concept is guided by the Financial Service Authority (OJK) Regulation, which is called POJK 51 (Otoritas Jasa Keuangan, 2017). This is a regulation issued by Indonesian Financial Services Authority Number 51/POJK.03/2017 that governs wide-ranging support from the financial sector to create sustainable development by putting the interest of social, environment, and economic interest in balance. Risk Management and Compliance Director of BSM (personal communication, 6 May 2019) argued that in implementing 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. Additionally, in executing sustainability finance, in POJK 51, there are two aspects, social and business aspect. In the social aspect, we implement CSR, and in the business aspect, we carry out green business. For example, if we want to finance CPO (crude palm oil) business, it should have a national and international certificate concerning environmental protection.

To ascertain Shariah-compliance, Islamic banks were obligated to follow BI and OJK regulations. The Shariah compliance supervisory function is conducted by Dewan Pengawas Syariah 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 Majelis Ulama Indonesia, or Indonesian Ulama Council). SSB provides guidance and recommendations to the board of directors and monitors the bank's operations to ensure Shariah compliance. It also submits a semi-annual report to the OJK.

Additionally, it should implement Fatwa from DSN-MUI. Based on the regulation issued by Bank Indonesia (2009, 2010), SSB should execute its tasks and functions in line with good corporate governance principles, which are stated in the annual report, as part of accountability. By conducting activities related to Shariah compliance, Shariah legitimacy is expected to be achieved. In this respect, there are four types of legitimacy that can be implemented to achieve Sharia legitimacy.

The first type is regulatory legitimacy. It has been researched in advanced countries. Devin (2014) acknowledged the regulations and/or laws that shaped it. In their publications, these organizations did not
explicitly describe all of the related activities resulting from regulative pressure. This result could lead to the possibility that CSR ideas could become a taken-for-granted assumption. Regarding this fact, President Commissioner BSM (personal communication, 25 April 2019) commented, "...that is part of their lives. Environmental issues, environmental awareness, ... They normally go unspoken."

Unlike the advanced countries with high environmental awareness, Indonesia is still in the early stage of development. According to POJK 51, OJK explicitly asks the banks to comply with sustainable finance regulations and to report their compliance with environmental regulations in the sustainability report for public exposure. It also requires financial services institutions to allocate a portion of their corporate social and environmental responsibility funds to support sustainable finance activities. Thus, unlike previous studies, 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.

The second is legitimacy based on cognition. To establish this legitimacy, Devin (2014) argued that corporations should highlight their intentions to embrace CSR initiatives using CSR rhetoric in industry. In utilizing CSR rhetoric, on behalf of their stakeholders, corporations mention their achievements, implement their guidance policy on this, ensure that external third parties to examine their reports and demonstrate their CSR awards (Devin, 2014). Those initiatives are based on the idea that corporations belong to society and should be professionally behaved and accountable (Branco & Rodrigues, 2006; Castelló & Lozano, 2011). Hence, universal moral values inspire corporations. If there is a little question in stakeholders' minds about how well organizations implement their operations, cognitive legitimacy exists (Castelló & Lozano, 2011; Cruz-Suárez et al., 2014). This means that cognitive legitimacy operates at the subconscious level.

In the case of Islamic banking, since the concept of CSR is an integral part of Islamic teaching, CSR is deeply ingrained in the minds of Muslims. Islam requires that Muslims should give a portion of their wealth to disadvantaged people. This obligation is imposed both on the individual and the corporation. Law on Zakat Management no. 23/2011, 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 under Islamic law." Thus, social function is embedded in the Islamic bank (Suhendar, 2017).

Correspondingly, President Commissioner BSM (personal communication, 25 April 2019) stated that Islamic banks are economic institutions and social institutions. They are also required to undertake CSR activities. Islamic banks are mobilizing zakat and other funds and distribute them to the needy. To perform these tasks, BMI and BSM established zakat foundations. It is important to note, according to the Head of Baitul Maal Muamalat BMI (personal communication, 21 May 2019), compare to the Islamic financial transaction administration, the zakat administration is more strict in conforming with Shariah laws. Compliance with Shariah is essential in managing zakat because it relates to worship (ibadah) in Islamic teaching. In this vein, there is a principle that any act of worship is forbidden unless there is evidence that validates its permissibility. Thus, Islamic teaching in the ibadah area should be based on the Qur'an and Sunnah texts.

The strictness of the zakat rule is indistinguishable from its status as one of Islam's five pillars. Consequently, there is a Shariah board to supervise the implementation of zakat administration. This institution should report to the state institution like DSN-MUI and the Ministry of Religious Affairs. Additionally, it has to publish the report to the public. Apart from zakat obligation, Muslims are also encouraged to make a donation, which is optional. Therefore, in Islam, philanthropy consists of compulsory and voluntary charity. This explanation leads to the conviction about the existence of CSR idea in Muslims' minds. The CSR idea exists at the subconscious level of Muslims because of Islamic teaching's inspiration.

Cognitively, the CSR idea is inherent in Islamic bank management because giving to the unfortunate is part of the Islamic pillars. In this regard, the zakat program contains three relationships. Firstly, since zakat is God's command, the collection and distribution of zakat funds should be in line with Shariah rules. It represents the man-Allah relationship. Secondly, the zakat distributed to beneficiaries demonstrates the relationship between humans. Thirdly, zakat can be related to environmental issues. For instance, MUI issued a fatwa concerning the permissibility of using zakat for clean water sanitation to save lives (hifzun nafs) of zakat beneficiaries (Majelis Ulama Indonesia, 2015). These three relationships indicate that CSR is deeply ingrained in the Muslim's mind and heart. The CSR idea exists at the subconscious level of Muslims because of Islamic teaching's inspiration. Efforts to optimize the collection and distribution of zakat will lead to more significant social benefits and strengthen legitimacy.

The third is moral legitimacy. Corporate is regarded as legitimate if it exhibits ethical conduct that is following society's moral standard. Prior studies (Castelló & Lozano, 2011; Marais, 2012; Palazzo & Scherer,
2006) about this legitimacy were implemented in Western countries. The result demonstrated that the pluralization in modern societies undermined cultural homogeneity and taken-for-grantedness moral values. On the other hand, Indonesian Islamic banking is facing a different problem. This industry seems to follow the current mainstream understanding of the corporation's role in civil society that should comply with national laws and stakeholders’ expectations. In the Indonesian Islamic banking context, moral arguments are shaped by the regulator, civil society, and devout Muslim customers. In developing the product or making a particular decision, the Islamic bank should consult SSB which is supervised by MUI. Because according to the regulation, all of the Islamic bank's products should be legalized by MUI as a requirement to get OJK approval.

Numerous parties also spread moral arguments like the regulator, academicians, Islamic preachers, Islamic finance and banking practitioners, and Islamic non-governmental organizations. BSM and BMI are also engaged in various associations in the banking industry to maintain relationships such as Indonesian Syariah Bank Association (Asbisindo), National Bank Association (Perbanas), Syariah Economics Community (MES), and Shariah Economics Communication Center (PKES) (Bank Muamalat Indonesia, 2018; Bank Syariah Mandiri, 2017). These activities allow socialization and discussion among business actors. Additionally, Islamic banks are serving the market segment that wants Shariah compliance products. Consequently, Indonesia Islamic banks have a homogeneous standard of morality.

Finally, pragmatic legitimacy. In this regard, Islamic banks also implement CSR for pragmatic reasons. Banks should develop programs concerning branding, reputation, engagement, and awareness that could impact customers' actions in opening savings accounts. In this regard, BMI's Compliance and Risk Management Director (personal communication, 23 May 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".

Manager CSR BMI (personal communication 13 May 2019) elaborated it in more detail.

CSR contains three aspects, brand, reputation, and business. About brand, indeed, when we organize CSR activity, people should recognize. So, we need banners, we announce it on social media. Our brand must be exposed there. The second is reputation. Reputation has a long term nature; 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. For example, for the business aspect, if there is a proposal from non-governmental organizations, or we want to give scholarships to pesantren (Islamic boarding school), we will obligate them to open a savings account.

Concerning this issue, Executive Director Lembaga Amil Zakat BSM (personal communication, 17 May 2019) described the benefit of philanthropic activities.

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

In this respect, Director Risk Management & Compliance BSM (personal communication, 6 May 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, they are university chairpersons, interested in BSM. Then they gave options to lecturers and employees to receive their salary using BSM's payroll system.

To sum up, philanthropic CSR activities are expected to bring benefits to the banks.

However, not only material benefits are expected. Immaterial benefits like blessings are also expected. President Commissioner BSM (personal communication, 25 April 2019) explained about one of the CSR program, called "BSM Mengalirkan Berkah" or "BSM Flowing Blessings." This program is aimed to cultivate the branch's responsibility toward the surrounding community. In this program, BSM allocates funds IDR 25 million for the branch office to support the mosque's maintenance near each office to enhance its cleanliness and convenience. This fund will be given to the branch, which demonstrated a certain degree of performance. He said about this program.
It is 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 effortless to identify that those branches’ leaders never go to the mosque. How can we build a relationship with people if they never come to the mosque? They have to build a relationship with worshipers in the mosque... Essentially, the Islamic bank depends on the mosque’s presence. Moreover, social responsibility is to build communities.

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

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<thead>
<tr>
<th>Legitimacy Types</th>
<th>Western</th>
<th>Islamic</th>
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<tbody>
<tr>
<td>Regulatory</td>
<td>Implicitly underlined</td>
<td>Explicitly underlined</td>
</tr>
<tr>
<td>Cognitive</td>
<td>Influenced by the pressures of regulation</td>
<td>Influenced by regulation pressures and Islamic teachings</td>
</tr>
<tr>
<td>Moral</td>
<td>Plural values</td>
<td>Homogenous values</td>
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<tr>
<td>Pragmatic</td>
<td>Concern for the benefit of the stakeholders</td>
<td>Concern for the stakeholders’ benefit in a Shariah-compliant way</td>
</tr>
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5. Conclusion, Contribution, and Future Study

This study revealed the concept of shariah legitimacy that must be attained by Indonesian Islamic banks. Practically, this legitimacy can be achieved in four ways. First, regulatory compliance is explicitly emphasized because sustainable finance idea is still at an early stage of development in Indonesia, not as pervasive as in developed countries. It is fulfilled by implementing OJK regulations and making reports periodically, and communicating to the public so that the bank becomes legitimate in stakeholders’ eyes. Second, cognitively, the CSR idea is inherent in Islamic bank management because giving to the unfortunate is part of the Islamic pillars. Third, normative legitimacy is achieved by making conformity with prevailing moral values in society, which is relatively homogenous. Fourth, pragmatic legitimacy. As a business entity, Islamic banks need to be professionally handled to deliver benefits to stakeholders in line with Shariah principles. The board of directors must carefully maintain confidence to build enduring legitimacy in the eyes of stakeholders.

The present research contributes to the existing literature on CSR in several ways. First, this research has advanced the current body of knowledge about legitimacy. This study introduces the term Shariah legitimacy in Indonesian Islamic banking, which is based on legitimacy theory. Thus, manager behavior is driven not only to please stakeholders in general but mainly to please God. Second, since regulatory, cognitive, normative dan pragmatic legitimacy can be used as a reference to strengthen Shariah legitimacy; therefore, this study has a practical contribution. Third, unlike previous studies, which mostly 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. Through this methodology, extension theory has been carried out, namely expanding pre-existing theoretical or conceptual formulations to other groups or other sociocultural domains. The theory of legitimacy was interpreted differently because of the sociocultural consideration setting.

This research has several limitations, and due to that, some recommendations are made for future research directions. First, this study is considered as a preliminary study on the CSR activities to attain legitimacy from the Islamic perspective. Thus, in the future study, the number of the case may be increased to gain more insights and comprehensive picture. Second, the conceptual framework of Islamic CSR principles presented in this research guides Islamic banks in practicing CSR and communicates it in adherence to Shariah principles. However, this framework still lacks any quantitative evaluation criteria. Thus, the framework can be expanded further to meet such expectations. Third, 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 other stakeholders’ perspectives on Islamic banks’ CSR rhetoric to get the whole picture of this issue. Fourth, the proposed CSR managerial guideline of this study is most suitable only for Shariah-compliant banks. It can be further replicated to examine in other religious or sociocultural philosophies, e.g., Christianity, Hinduism, Buddhism, or Chinese, to provide a more comprehensive perspective of CSR issues.
References


