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# IMPLEMENTATION OF GREEN ISLAMIC BANKING IN INDONESIA

*Implementación de la banca verde islámica en Indonesia*

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### ABSTRACT

The Purpose of this study is to examine the implementation of ICSR on sharia governance and maqasid shariah. The model was analyzed using partial least squares structural equation modeling (PLS-SEM). The results indicate that ICSR practices have an influence on sharia governance. However, they show a significant impact of ICSR on maqasid sharia-based performance and a significant influence of sharia governance on the extent of maqasid sharia-based performance.

**Keywords:** Green banking, islamic corporate social responsibility (ICSR), islamic banks, maqasid sharia, sharia governance (SG)

### RESUMEN

El propósito de este estudio es examinar la implementación del ICSR sobre la gobernanza de la sharia y la sharia maqasid. El modelo se analizó utilizando ecuaciones estructurales de mínimos cuadrados parciales (PLS-SEM). Los resultados indican que las prácticas de ICSR tienen una influencia en la gobernanza de la sharia. Sin embargo, muestran un impacto significativo del ICSR en el desempeño basado en la sharia maqasid y una influencia significativa de la gobernanza de la sharia en el alcance del desempeño basado en la sharia maqasid.

**Palabras clave:** Banca verde, responsabilidad social corporativa islámica (ICSR), bancos islámicos, maqasid sharia, sharia governance (SG)

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**INTRODUCTION**

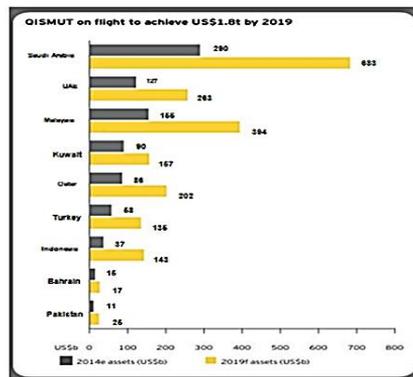
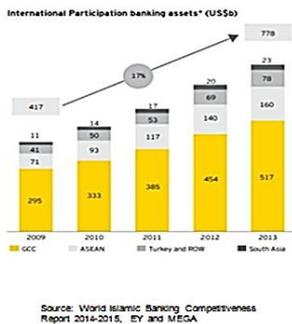
Islamic banking is a sharia financial institution that conducts Islamic commercial, financial activities, and Islamic social finance in support of the achievement of macroeconomic goals (Ascarya & Sukmana: 2017, pp. 12-28). Islamic banks as ones that follow Islamic sharia in their business transactions; in other words, Islamic banking has a unique role compared to conventional banking. They are not only business organizations but also play a social role. As business entities, sharia banks are not only required to be highly profitable companies but also to perform intermediary functions based on sharia principles. The objectives of Sharia banking are focused on aspects of justice and morals, equity of public welfare, stability of currency values, mobilization and investment savings, and effective services, and do not involve economic activities that conflict with Islamic concepts, such as financing for gambling, night clubs, liquor, or other non-halal businesses.

In the 2019 Islamic Financial Service Industry Stability Report, it was mentioned that the Indonesian Islamic banking sector has continued to grow in double digits, with assets growing at 14.5% and financing and deposits at 11.2% and 13%, respectively. It has become a contributor to global sharia banking development, with a contribution of 1.9% of total global sharia financial assets.

Up to the end of March 2020, Indonesian Islamic banking continued to show positive development of its assets. March 2020 these had increased by Rp536.60 trillion rupiahs or a growth of 9.02%. Fully-fledged Islamic banks contributed to the increase in Islamic banking assets by Rp349.95 trillion rupiahs.

Indonesia has gained international recognition as follows:

1. Together with the UAE, Saudi Arabia, Malaysia, and Bahrain, it is now considered to be in a position to offer lessons to other countries in the world on the development of Islamic finance.
2. Together with Qatar, UAE, Saudi Arabia, Malaysia, and Turkey (QISMUT), Indonesia is considered to be a driving force of sharia finance in the future.



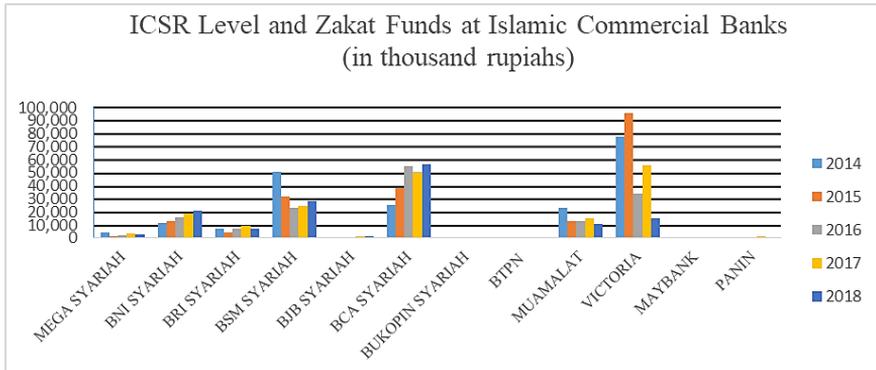
**Figure 1.** World Islamic Banking Competitiveness (Garifullin et al.: 2018, pp. 214-216)

In connection with the existence of Islamic banking in Indonesia, a large number of parties believe that it, and its counterparts over the world, must begin to develop sustainable and environmentally-friendly businesses because if this is ignored, natural damage will be more severe. With the purpose of creating this awareness, the concept of 'green banking' came into existence.

Green banking is an attempt to ensure that banking activities do not contribute to environmental pollution; many activities are suggested to ensure the achievement of related objectives (Hossain et al.: 2016, pp. 19-30). For example, green banking encourages activities that ensure the use of less paper, which can be achieved by introducing online banking. This involves less paperwork and prevents paper wastage. Another important activity is to introduce green banking products. Gives some examples of green banking products, such as 'green mortgages,' 'green loans,' 'green credit cards,' 'green saving accounts,' 'green checking accounts' and 'mobile banking,' discusses some of the strategies that Indian banks have adopted in order to

ensure green banking, including the introduction of green banking financial products and paperless banking; the creation of energy consciousness; the use of mass transport and green buildings; and the promotion of social responsibility services (Hossain et al.: 2016, pp. 19-30).

In the graph of the annual report of Islamic banking of 2014-2018 shown in Figure 2, the fluctuations in its corporate social responsibility (ICSR) program and zakat funds are clear.



**Figure 2.** ICSR Level and Zakat Funds at Islamic Commercial Banks 2014-2018  
Source: Sharia Banking Annual Financial Report (2019) (data processed)

Figure 2 shows that some Sharia banks already have a good orientation towards green banking activities and support environmental sustainability; however, the implementation has not been conducted evenly.

In order to operate in a responsible manner, Islamic banks provide ethical services to their clients following Sharia guidelines by contributing to environmental preservation efforts in terms of green banking; i.e., by making a positive contribution to the community and actively participating in social responsibility or Islamic Corporate Social Responsibility (ICSR). A sample of 29 Islamic banks in Muslim countries. However, their results show that only eleven banks (38%) expressed their social responsibility in accordance with standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The results of the study, therefore, indicate that 62% of Islamic banks did not disclose their social responsibilities as expected. In addition, Julia and Kassim (2019) found that none of the banks studied fully met green/sustainable policy requirements; however, Islamic banks were ahead in preserving faith, intellect, and wealth circulation. This research was mostly based on secondary data. A significant positive relationship between corporate social disclosure and variables such as public ownership, board independence, and the presence of an audit committee. Corporate social disclosure has a significant positive relationship with the 'export-oriented sector, firm size, and types of industries.'

From this discussion, it can be seen that most studies have focused on the combination of social and environmental issues in the Islamic banking industry, mostly based on secondary data. This study contributes to the scientific review literature by using positive and empirical approaches concerning the review of the issues of corporate social and environmental reporting on sharia governance and its implications for the performance of maqasid sharia in sharia banking in Indonesia.

The remainder of the paper is structured as follows: Section 2 presents the literature review; Section 3 explains the hypothesis development; Section 4 describes the research method; Section 5 presents the empirical results and an interpretation of them, and Section 6 comprises the conclusion and contribution.

## **Theoretical Background and Hypothesis Development Green Banking and the Pentuple Bottom Line Theory**

The implementation of green banking in Indonesia is not immune to the role of Bank Indonesia as the central bank, which takes strategic steps in the form of drafting regulations to ensure that banks as financing institutions consider the principles of sustainable development and enhance their ability to manage financing risks in environmental projects. Bank Indonesia Regulation (BIR) concerning green banking refers to Act Number 32 of 2009 concerning Environmental Protection and Management. BIR on the implementation of green banking considers the risk factors in providing financing that prioritizes projects or businesses that are supportive of the environment.

The development of green banking requires the role of Islamic banking, so it is expected to focus more on providing financing to businesses that do not damage the environment, leading to sustainable companies that are accepted by the community and do not produce products that are harmful to the environment. Sharia banking is currently implementing green banking limited to the ICSR program only; however, this implementation has not run completely in line with the teachings of Islam, which involve a spirit of environmental maintenance and preservation (Bukhari et al.: 2019, pp. 125-156).

The concept of green banking was developed from the Triple Bottom Line, which refers to the three main aspects: Profit, People, and Planet. However, had a different understanding of the concept and application of the Triple Bottom Line theory, as it reduced accountability to God, which motivated him to complement the Triple Bottom Line by adding two accountabilities to the Hadith of the Prophet Muhammad SAW (Prophet) and Allah SWT (God) in order to create a Pentuple Bottom Line with five aspects: Profit, People, Planet, Prophet, God). This pentuple bottom line is considered more appropriate and suitable for use in Islamic banking, which adheres to sharia principles in its operations because these include the teachings contained in the Holy Qur'an and the Hadiths of Prophet Muhammad SAW as the basis of sharia laws. They, therefore, become more comprehensive in ensuring that sustainable development is conducted by having a balance in the five perspectives: profit (profitability), people (social), planet (environmentally friendly), the prophet (Hadiths of Prophet Muhammad SAW), and God (the Holy Qur'an), in which there is no dichotomy between the material (world) and spiritual (afterlife). All these areas of concern of green banking are in line with Sharia and meet the Maqasid Sharia based on various verses of the Holy Quran and the Hadiths of Prophet Muhammad SAW (JULIA & KASSIM: 2019, pp. 87-110).

### **Islamic Corporate Social Responsibility (ICSR) of Islamic Banks**

The World Business Council for Sustainable Development refers to ICSR as the "business commitment to contribute to sustainable economic development by working with its employees and their families, local community, and society at large to improve their quality of life." According to the Western concept, the social responsibility of a corporation is largely concerned with the expectations of stakeholders that organizational practices are targeted towards the fulfillment of these expectations (Bukhari et al.: 2020, pp. 34-68). ICSR does not cover the religious obligations of an organization or the religious code of conduct for business. The majority of the theoretical perspectives of ICSR focus on tangible benefits and the reporting and disclosure of an organization's socially responsible activities but mostly ignore the religious or spiritual obligations of an organization.

ICSR, from the Islamic perspective, is an inherent consequence of the teachings of Islam derived from the Qu'ran (Holy Book of Muslims) and the Sunnah (Hadiths of Prophet Muhammad SAW) (Bukhari et al.: 2020, pp. 34-68). The purpose of Islamic sharia (Maqasid Shariah) is *maslahah*, not just seeking profits. The social and environmental activities of Islamic banks are added values that can have implications for the company's sustainable growth in value and the increase in stakeholder confidence in the performance of Islamic banks (Ali: 2015, pp. 1-22).

In Indonesia, reporting the ICSR of the company, which was originally voluntary, became mandatory when the Government specifically encouraged the participation of companies to undertake their ICSR activities. Regulation on this matter was set forth in article 74, paragraph 2 of Law Number 40 the Year 2007, stating that Social and Environmental Responsibility as referred to in paragraph (1) is a corporate obligation that is

budgeted and calculated as a company expense, and the implementation is carried out based on propriety and fairness.

In this study, measuring social and environmental responsibility in Islamic banking implies that it is conducted through the presentation of ICSR information by formulating disclosure on ICSR specifically for Islamic banking and that the information is derived from Islamic values and adjusted to the established regulations. These are (1) caring and paying attention to environmental friendliness in financing and other activities; (2) conducting in-depth analysis and evaluation of the prospective customer's financing business; (3) having specific guidelines regarding the types of business that may or may not be financed in relation to environmental compliance; (4) caring and paying attention to environmental safety in financing and other activities; (5) imposing sanctions on productive financing customers; (6) conducting environmental responsibilities in each activity; (7) routinely allocating environmental cost budgets; (8) conducting environmental preservation, and (9) performing environmental conservation (Farook et al.: 2011, pp. 114-141).

### **Governance of Islamic Banking**

The governance system in Islamic banking is unique compared to that of conventional banking. The objectives of conventional and Islamic corporate governance are different; the structure of the former is more focused on the protection of the rights of the stakeholders, while the Islamic approach focuses on retaining the Islamicity of the whole corporation (Hassan & Muneza: 2014, pp. 120-129). In addition to having a corporate governance system, it implements a sharia version, which functions to ensure the compliance of all sharia banking operations with sharia principles. In the context of the regulatory framework in Indonesia, the governance system for Islamic banking is mentioned in Act Number 21 of 2008 concerning Sharia Banking, specifically in Chapter V of the Sharia Supervisory Board (SSB) section. As stated in the law, the board is given the authority to supervise and advise adherence to sharia principles in all Islamic bank activities. This section essentially regulates the sharia governance system for sharia banking in Indonesia. Bank Indonesia specifically devised the rules in Bank Indonesia Regulation Number 11/33/PBI/2009 concerning GCG Implementation for Sharia Commercial banks and Sharia Business Units.

The assessment of sharia governance factors for sharia banking covers every business aspect and all levels of banking with regard to the implementation of the five principles of GCG: transparency, accountability, responsibility, professionalism, and fairness (alamsyah: 2012, pp. 1-8). The principles of GCG and the focus on the assessment of the implementation of these are guided by the provisions of GCG that apply to Islamic banking, taking into account the characteristics and complexity of the banking business. An assessment of Sharia governance factors is necessary to achieve bank sustainability by taking into account the interests of shareholders, customers, and other stakeholders.

In order to ensure the application of the five GCG principles, Sharia commercial banks must conduct periodic self-assessments that include eleven GCG implementation evaluation factors, as stipulated in the GCG provisions applicable to Sharia commercial banks, as follows:

- a. Implementation of the duties and responsibilities of the Board of Commissioners;
- b. Implementation of the duties and responsibilities of the Directors;
- c. Completeness and implementation of the duties of the Committees;
- d. Implementation of the duties and responsibilities of the Sharia Supervisory Board;
- e. Implementation of Sharia principles in the activities of raising funds, channeling funds, and channeling services;
- f. Handling of conflicts of interest;
- g. Implementation of the compliance function;
- h. Implementation of the internal audit function;
- i. Application of the external audit function;
- j. Limit of the Maximum Fund Distribution (MFD); and
- k. Transparency of BUS financial and non-financial conditions of commercial sharia banks, GCG implementation reports, and internal reporting.

The ranking of GCG factors is based on an analysis of (i) the implementation of the GCG principles as

referred to above; (ii) the adequacy of governance in the structure, process, and results of the implementation of GCG in banks; and (iii) other information related to GCG based on relevant data and information. Self-assessment is made using a self-assessment worksheet for each factor, a summary of the calculation of the composite values, and a general conclusion of the self-assessment results of the GCG implementation of the banks.

### **Performance of Islamic banks: Perspectives of maqasid shariah**

Maqasid Sharia is an Arabic term, which is a combination of two words, Maqasid (direction) and Sharia (Islamic law). Technically, the term refers to the objectives drawn from the divine texts, and, according to Imam Abu Hamid Al-Ghazali (1998) in (M. H. Bedoui, 2012), Islam intends to preserve the well-being of the individual and society, and therefore it gives special attention to religion (din), life (nafs), dignity (nasl), intellect (aql) and wealth (mal).

(Dusuki & Bouheraoua: 2011, pp. 316-336) Maqasid Shariah in Islamic finance is divided into two categories: (1) specific objectives (al-maqasid al-khassah); and (2) general objectives (safeguarding wealth/hifz al-mal). Islamic legal experts emphasize that safeguarding wealth will be achieved through five main dimensions:

- a. Protection of wealth through the protection of ownership;
- b. Protection of wealth through acquisition and development;
- c. Protection of wealth from loss;
- d. Protection of wealth through its circulation;
- e. Protection of wealth through the protection of its value.

The Maslahah pyramid (community interest) functions like a framework and general guidelines for conducting ethical screening mechanisms through three levels of assessment that are used by managers in resolving conflicts that arise due to carelessness when conducting various financial transactions and other instruments. Assessment of these three levels in the fulfillment of responsibilities starts sequentially from the lower level of primary needs (daruriyah) to secondary needs (hajjiyyah) and then to tertiary needs (tahsiniyyah). To be more sure of the application of the concept of the maslahah pyramid in the Islamic financial system, analysis is required for the assessment of decision making based on the maslahah principles (Dusuki & Bouheraoua: 2011, pp. 316-336).

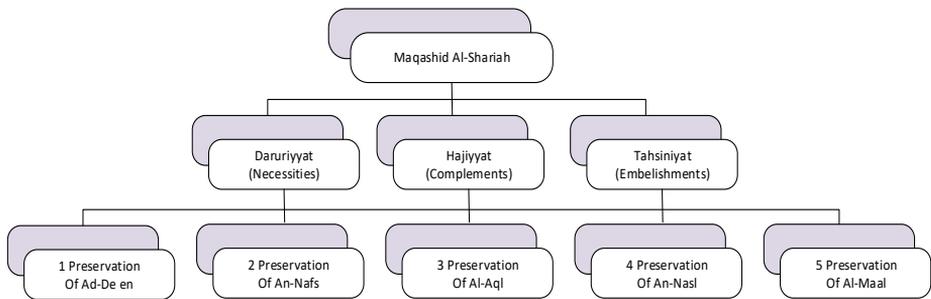
1. At the first level is important to scope. Managers are expected to try to maintain and protect the essential needs (religion, life, intellect, descendants, and property) of their stakeholders and society in general.

For example, Islamic banking must always limit its business operations to the Maintenance and protection of its clients' essential needs, as listed above. Therefore, this type of banking has religious, moral, and social responsibilities to avoid engaging in prohibited business activities; even though they may earn higher profits from them, they can cause disruption and chaos amongst the public.

2. The second level, which is complementary (hajjiyyah), can eliminate difficulties but does not pose a threat to the fulfillment and continuity of life. For example, Islamic banking that has fulfilled its basic needs can increase its responsibilities towards its employees through salary increases, workplace comfort, and education and training programs.

3. The third level in the maslahah pyramid is prestige (tahsiniyyah) and fulfillment of these needs so that Islamic banking can increase satisfaction, prestige value, and reputation in order to enrich customers' lives. Contributions to the realization of public welfare are one of the roles of Islamic banks in their implementation of social functions.

This study used the concept of shariah maqasid developed by Imam Abu Hamid Al-Ghazali in his book *al-Mustafa* (1937) in (H. E. Bedoui & Mansour, 2015), in which he broke up the shariah maqasid into five important or essential elements: 1) the maintenance of faith (hifz ad-Deen); 2) the protection of oneself and human life (hifz and-Nafs); 3) the maintenance of intellect (hifz al-Aql); 4) the protection of descendants (hifz an-Nasl); and 5) the protection of wealth or property (hifz al-Maal). All of these elements are considered to be necessary (Dharuriyyat) in achieving the goal of Sharia, which is to become maslahah. Figure 3 shows the framework of Imam Abu Hamid Al-Ghazali (Mergaliyev et al.: 2019, pp. 1-38):



**Figure 3.** Maqashid Sharia of Imam Abu Hamid Al-Ghazali

These five elements are important and are emphasized by Islam, and subsequently, Islam propagates the ways to protect them, as well as considering the consequences for those who neglect them or accumulate them in non-legitimate ways. The sequence of these elements is not to indicate preference in protecting them but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity.

The protection of all sharia maqasids that must be guaranteed by Islamic banks is inherent in running their businesses and programs in order to maintain and enhance the achievement of Sharia goals for owners and their employees as the top priority and for customers and recipients of the ZIS-Waf program, as well as for their business partners, communities and environment (Mergaliyev et al.: 2019, pp. 1-38; Dusuki & Bouheraoua: 2011, pp. 316-336).

## Hypothesis Development

### Influence of ICSR Implementation on Sharia Governance

With regard to the mission and objectives of Islamic banks, which require a balance of profit and social interests, the application of ICSR and Islamic governance is highly significant as a consequence of the principles of Islamic teachings. One form of sharia bank social responsibility can be seen in the implementation and disclosure of sharia-based ICSR in financial reporting, information on which is useful for stakeholders. ICSR disclosure in financial statements is a form of accountability that provides information on the extent to which Islamic banks are making a positive or negative contribution to the quality of human life and the environment.

In an effort to improve the level of sharia bank social disclosure, it is necessary for the Sharia Supervisory Board (SSB) authority to provide inputs and to inform the management of sharia banks about management policies in relation to compliance with sharia principles. SSB is a general term used in Indonesia to refer to Islamic internal supervision institutes in Islamic banks. In foreign countries, the board is also called the SSB. The position of this board in the organizational structure of sharia banks is equivalent to the Board of Commissioners, one of the most important elements in the Sharia Governance (SG) mechanism. In Indonesia, the board is responsible for the National Sharia Board (NSB) and Bank Indonesia and plays an important role in the process of supervision in Sharia banks.

In the study conducted by (Haniiffa & Cooke: 2002, pp. 317-349), the results of the regression analysis indicate significant associations (at the 5% level) between two corporate governance variables (viz. chair who is a non-executive director and domination of family members on boards) and the extent of voluntary disclosure in the annual reports of Malaysian listed corporations. The findings of the study support those of (Farook et al.: 2011, pp. 114-141) regarding the factors that influenced the level of disclosure of social responsibility in 47 Islamic banks around the world. The results show a significant relationship between social politics and SG; in this case, the role of SSB in the level of disclosure of social responsibility.

Therefore, the disclosure of social and environmental responsibilities in banks' annual reports will reflect the business ethics conducted by Islamic banking, as well as its accountable management of resources. This will increase the social trust of stakeholders and will ultimately improve the quality of sharia governance

(Dusuki: 2007, pp. 11-20).

As explained above, there is the assumption that the implementation of ICSR is positively correlated with the mechanisms of Sharia Governance management by sharia banking. Based upon the above discussion, the following hypothesis is proposed:

H1. ICSR implementation has a positive influence on sharia governance.

### **Influence of ICSR Implementation on Maqasid Shariah Performance**

Every muamalah, or economic activity, must be conducted according to sharia values and principles. One way to understand sharia is to be aware of each sharia goal, which will provide flexibility and creativity in developing company policies for the benefit of shareholders, stakeholders, and the social environment (Dusuki: 2007, pp. 11-20).

Along with the increasing environmental damage and public awareness of protecting the environment, Islamic banking, as part of the environment, also needs to pay attention to environmental sustainability. Sharia banking itself is a legal entity that must account for the management of its company to shareholders and stakeholders so that the management is able to demonstrate good performance to the parties concerned in relation to Sharia maqasid (Azis: 2018, pp. 1-17; Bukhari et al.: 2019, pp. 125-156; Dusuki: 2007, pp. 11-20).

(Dusuki: 2007, pp. 11-20) explained that the Islamic maqasid and concept of *maslahah* are important components in implementing the Islamic Corporate Social Responsibility (ICSR) of Islamic banking. Religiosity has a significant influence on the adoption and implementation of ICSR activities. It also impacts consumer behavior through the congruence of religious beliefs and organizational principles. Therefore, when Sharia banking conducts activities that support environmental management, managers must make a record of any costs incurred related to environmental activities so that accountability to interested parties will be easy (Haniffa & Cooke: 2002, pp. 317-349).

These studies are an indication that Islamic banking cannot only be measured through financial performance with conventional measurements, but as an Islamic business entity, it must also be measured in terms of the extent to which Islamic banks adhere to Islamic values and the extent to which Islamic objectives are completely implemented (Azis: 2018, pp. 1-17; Bukhari et al.: 2019, pp. 125-156; Dusuki: 2007, pp. 11-20). Based on the above discussion, the following hypothesis is proposed:

H2. ICSR implementation has a positive influence on Maqasid share performance

### **Influence of Sharia Governance on Shariah Maqasid Performance**

In principle, in achieving its objective Islamic banking is oriented towards Islamic principles. There are two reasons for the importance of implementing sharia maqasidin Islamic Financial Institutions (IFIs): (1) as a basis for sharia banking in the process of formulating corporate goals and policies; and (2) as an indicator of IFIs in implementing Islamic principles correctly in their business processes. In this case, the biggest challenge for IFIs is to be able to implement sharia compliance on products and services that are in accordance with Islamic principles but have a competitive advantage and ensure the long-term sustainability of the company.

Sharia governance is corporate governance that involves the characteristics of sharia principles. According to FSB, standard 10 (2009) specifically describes the implementation of sharia governance in sharia banking in ensuring the role of the Sharia Supervisory Board (SSB), which is an effective form of independent supervision of the implementation of sharia compliance.

(Bukhari et al.: 2020, pp. 34-68) explain that the SSB and competitors had a significant influence on an Islamic bank branch in Pakistan in adopting the practices of ICSR. The SSB has strong coercive powers on the functioning of Islamic banks, as per the regulations of the SBP (Shariah Bank of Pakistan) and international standards. The SSB can influence Islamic banks' socially responsible behavior towards its various stakeholders (Farook et al.: 2011, pp. 114-141).

The existence of this dual board will theoretically improve the process of monitoring the actions of managers so that the implementation of Islamic governance in Islamic banks can play a stronger role in improving the quality of the performance of the Maqasid shariah (Iryani & Yadiati: 2019, pp. 264-274). Maqasid Shariah is defined as a manifestation of the realization of benefits related to the public interest and as a way of achieving goals through a determination of sharia law (Dusuki & Bouheraoua: 2011, pp. 316-336). This

paradigm will form integrity, which helps shape the character of good governance. Therefore, the third hypothesis proposed is:

H3. Better implementation of Shariah Governance has a positive impact on the achievements of the performance of the Maqasid Shariah.

**METHODOLOGY**

**Instrument Development and Survey Method**

The study used three variables measured by multiple indicators through the questionnaires. The respondents were asked to express their point of view on a five-point Likert-type scale regarding the statements made, ranging from "less important" (1) to "more important" (5). The questions were grouped into four sections. The first was designed to collect general information on the market segment, performance indicators, and the importance of research variables for their Islamic banks. The remainder of the questionnaire was related to the following three variables: Islamic Corporate Social Responsibility (ICSR), Shariah Governance (SG), and maqasid Sharia-based performance.

The initial questionnaires were adopted from previous relevant studies, namely those for Islamic Corporate Social Responsibility;(Bukhari et al.: 2020, pp. 34-68; Farook et al.: 2011, pp. 114-141; Haniffa & Cooke: 2002, pp. 317-349; Iryani & Yadiati: 2019, pp. 264-274 ) for Shariah Governance; and (Dusuki & Bouheraoua: 2011, pp. 316-336) for maqasid Sharia-based performance.

The Islamic banks, which were respondents in the study, were located in 34 provinces throughout Indonesia. For most respondents outside of Java, the questionnaires were sent using express postal service, with a delivery time of two to three working days. As for all the fully-fledged Islamic banks and Islamic business units with headquarters in Jakarta, the questionnaires were delivered by hand. In-depth interviews were also conducted with several respondents in person to discuss the content of the questionnaires. Phone calls and messages were made using WhatsApp Messenger and email to initiate and monitor the data collection process. Table 1 shows the distribution and collection process of the questionnaires.

**Table (1).** Respondent group, response rate, and data collection method

These five elements are important and are emphasized by Islam, and subsequently, Islam propagates the ways to protect them, as well as considering the consequences for those who neglect them or accumulate them in non-legitimate ways. The sequence of these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.	These five elements are important and are emphasized by Islam, and subsequently, Islam propagates the ways to protect them, as well as considering the consequences for those who neglect them or accumulate them in non-legitimate ways. The sequence of these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.	These five elements are important and are emphasized by Islam, and subsequently, Islam propagates the ways to protect them, as well as considering the consequences for those who neglect them or accumulate them in non-legitimate ways. The sequence of these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.	These five elements are important and are emphasized by Islam, and subsequently, Islam propagates the ways to protect them, as well as considering the consequences for those who neglect them or accumulate them in non-legitimate ways. The sequence of these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.	These five elements are important and are emphasized by Islam, and subsequently, Islam propagates the ways to protect them, as well as considering the consequences for those who neglect them or accumulate them in non-legitimate ways. The sequence of these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.
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LESMANA & HARON: 2019, pp. 70-86).

<p>these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.</p>	<p>LESMAN                  A &amp; HARON: 2019, pp. 70-86).</p>	<p>these elements is not to indicate preference in protecting them, but to show that any negligence or inability in acquiring and protecting any one of them will harm humanity 20.</p>	<p>LESMAN                  A &amp; HARON: 2019, pp. 70-86).</p>	
<p>L                  ESMANA &amp;                  HARON:                  2019, pp. 70-86).</p>	<p>The protection of all sharia maqasids that must be guaranteed by Islamic banks is inherent in running their businesses and programs in order to maintain and enhance the achievement of Sharia goals for owners and their employees as the top priority and for customers and recipients of the ZIS-Waf program, as well as for their business partners, communities and environment (Mergaliyev et al.: 2019, pp. 1-38; Dusuki &amp; Bouheraoua: 2011, pp. 316-336;</p>	<p>The protection of all sharia maqasids that must be guaranteed by Islamic banks is inherent in running their businesses and programs in order to maintain and enhance the achievement of Sharia goals for owners and their employees as the top priority and for</p>	<p>L                  ESMANA &amp;                  HARON:                  2019, pp. 70-86).</p>	<p>The protection of all sharia maqasids that must be guaranteed by Islamic banks is inherent in running their businesses and programs in order to maintain and enhance the achievement of Sharia goals for owners and their employees as the top priority and for</p>

336; LESMANA & HARON: 2019, pp. 70- 86).	LES MANA & HARON: 2019, pp. 70-86).	customer s and recipients of the ZIS-Waf program, as well as for their business partners, communit ies and environm ent (Mergaliy ev et al.: 2019, pp. 1-38; Dusuki & Bouherao ua: 2011, pp. 316- 336; LESMAN A & HARON: 2019, pp. 70-86).	336; Lesmana, 2015).	customer s and recipients of the ZIS-Waf program, as well as for their business partners, communit ies and environm ent (Mergaliy ev et al.: 2019, pp. 1-38; Dusuki & Bouherao ua: 2011, pp. 316- 336; LESMAN A & HARON: 2019, pp. 70-86).
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Source: Data compiled from study survey

### Study Sample

The respondents were the division heads of accounting and finance and of compliance. 64 percent of the respondents had bachelor's degrees and 36 percent master's degrees. 47 percent of the respondents had more than ten years of working experience in Sharia accounting, while 53 percent had less than ten years. 74 percent had implemented the ICSR program since the start of operations of the Islamic bank; 6 percent had implemented the program a year after the start of operations, 12 percent two years after the start of operations; and 8 percent three years after the start. The profiles confirmed that the respondents were competent to answer the research questions related to ICSR and shariah governance and to the maqasid shariah performance of their business units. Table 2 presents the profiles of the respondents in more detail.

**Table (2).** Profile of Respondents

Type of Islamic bank	Education level		Working experience in Shariaaccounting at the IB (years)		Implementation of ICSR Program (Islamic Corporate Social Responsibility)			
	S1 level	S2 level	<10	>10	Since operations started	1 year after the start of operations	2 years after the start of operations	3 years after the start of operations
Fully-fledged Islamic bank (BUS)	7	5	3	9	8	1	1	2
Sharia Business Unit (UUS)	15	7	15	7	17	1	3	1
Total	22	12	18	16	25	2	4	3
Total (%)	64	36	53	47	74	6	12	8

Source: Data compiled from study survey

### Measurement Model Testing

Verification analysis aimed to examine the influence of the latent variables in the study. Use of the Partial Least Squares Structural Equation Modeling (PLS-SEM) method included evaluation of the measurement model (outer) and structural model (inner). The measurement model aimed to describe how well these indicators could be used as instruments for measuring latent variables by testing the validity and reliability of each indicator and the dimension of the research variables. The following section describes the evaluation of the measurement and structural models.

As the number of respondents was only 34, simplified models with latent variable scores were used, as suggested by (Hair et al.: 2014, pp. 106-121). As shown in Figures 1 and 2, the study combines three measurement models using confirmatory factor analysis (CFA) and one structural model using the concept of regression. The three measurement models represent the relationship between the variables of ICSR and the two indicators X2.1 (recognition, environmental measurement accounting) and X2.2 (reports of environmental accounting); between Sharia Governance (Sg) and the three indicators Y1.1 (sharia governance structure), Y1.2 (sharia governance processes) and Y.1.3 (sharia governance mechanisms); and between maqasid Sharia-based performance (Msp) and the five indicators Z1 (the guarding of religion/hifz ad-dien), Z2 (of the soul/hifz an-nafs), Z3 (of the intellect/hifz al-'aql), Z4 (of descent/hifz an-nasl), Z5 (and safeguarding wealth or property/hifz al-Maal) using first-order CFA. The structural model is consequently the relationship between Islamic corporate social responsibility, shariah governance, and maqasid shariah performance.

The measurement model was tested with the confirmatory factor analysis (CFA) approach, which was conducted to determine the validity of the indicators on each variable. The results of the CFA testing are presented in Table 3.

**Table (3).** Summary of Cross Loading for Variable Measurement in Implementing Islamic Corporate Social Responsibility, Quality of Sharia Governance and Maqasid Sharia Performance

Indicator	X2	Y1	Z
X2.1	0.9336	-0.185545	0.254387
X2.2	0.962071	0.052522	0.379955
Y1.1	-0.036677	0.880294	0.108358
Y1.2	0.051728	0.758711	0.013254
Y1.3	-0.055376	0.958079	0.179505
Z1	0.256428	0.211464	0.844955
Z2	0.233735	0.130356	0.912526
Z3	0.394731	0.130865	0.960241
Z4	0.37783	0.06688	0.856587
Z5	0.173187	0.216139	0.799728

Source: Research Results (2020)

Table 3 highlights that the cross-loading weighting values indicate that the loadings of the indicators on each latent variable were greater than the other variables, indicating that the indicator was able to explain each of its latent variables.

**Table (4).** Summary of Outer Loading for Variable Measurement in Implementing Islamic Corporate Social Responsibility, Quality of Sharia Governance and Maqasid Sharia Performance

Indicator	Outer Loading	T-value	Description
X2.1	0.934	57.942	Valid
X2.2	0.962	136.580	Valid
Y1.1	0.880	15.978	Valid
Y1.2	0.759	9.616	Valid
Y1.3	0.958	18.118	Valid
Z1	0.845	45.587	Valid
Z2	0.913	59.220	Valid
Z3	0.960	314.849	Valid
Z4	0.857	61.644	Valid
Z5	0.800	26.104	Valid

Source: Research Results (2020)

Table 4 shows that the value of the outer loading factor weight of each indicator was greater than 0.50 and that the t count was higher than 1.96, which means that the indicators in the Implementing Islamic Corporate Social Responsibility, Quality of Sharia Governance, and Maqasid Sharia Performance variables were valid as measurement tools.

### Structural Model Testing

Before testing the structural model, a model suitability test was conducted with the goodness of fit index approach. This approach aims to ascertain whether the model which was built on theory has good suitability with the empirical data collected through the questionnaires.

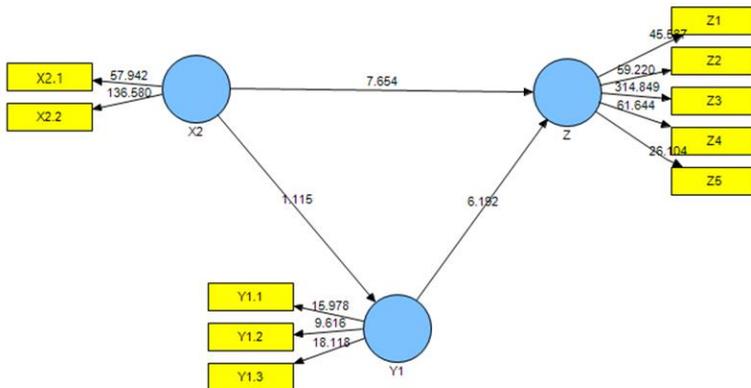
**Table (5).** Overview of Results of Model Goodness Testing

Latent Variable		AVE	Composite Reliability	R Square	Cronbach's Alpha	Communality
X2	Islamic Corporate Social Responsibility	0.8986	0.94658		0.88916	0.8986
Y1	Quality of Sharia Governance	0.75616	0.90216	0.00281	0.88154	0.75616
Z	Maqasid Sharia Performance	0.7684	0.94293	0.15145	0.92451	0.7684

Source: Research Results (2020)

The results of the model goodness test shown in Table 5 demonstrate that all the indicators with values of AVE > 0.50, Composite Reliability (CR) > 0.7, and Cronbach's alpha (CA) > 0.6 have a very good level of fit. From the combination of various levels of model suitability, it can be concluded that the study model as a whole had a very good level of compatibility.

The research hypothesis was conducted, with the results shown in Figure 4



**Figure 4.** Structural Model Diagram of T-Value Research

The level of the effects produced between the latent variables can be identified by observing the path coefficient value formed, which is shown in Figure 5.

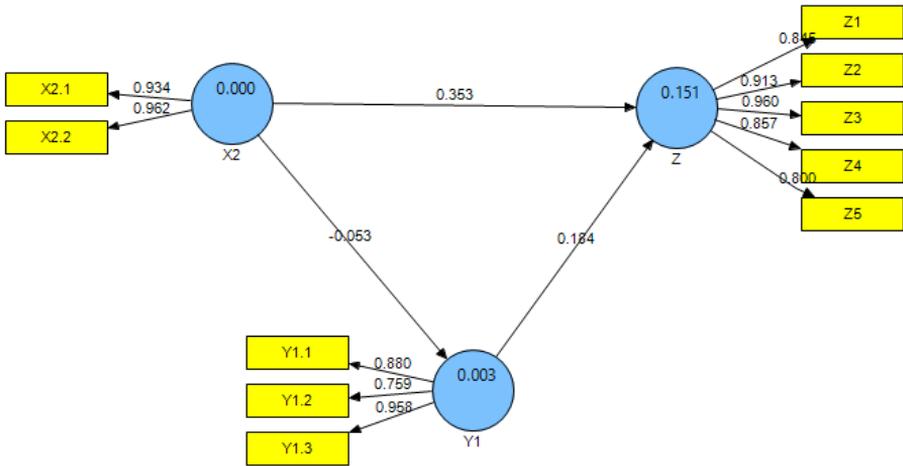


Figure 5. Structural Model Diagram of Standard Solution Factor

Figures 4 and 5 show the results of the research hypothesis testing, while the level of the causal relationship between the research variables is presented in Table 6

Table (6). Hypothesis Testing Results of the Direct Influences

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics ( O/STERR )	Hypothesis Result
H1 X2 -> Y1	-0.0530	-0.0487	0.0476	0.0476	1.1154	Rejected
H2 X2 -> Z	0.3527	0.3540	0.0461	0.0461	7.6543	Accepted
H3 Y1 -> Z	0.1843	0.1862	0.0298	0.0298	6.1919	Accepted

Source: Research Results (2020)

Note: if the value of |t count| is > t table (1.96) alpha 5% it is acceptable

**RESULTS**

This section discusses the results of the empirical tests for each problem statement. The discussion is based on the underlying theory, results of previous studies, descriptive analysis, and hypothesis testing.

**Implementation of Islamic Corporate Social Responsibility (ICSR) in Relation to Sharia Governance**

The results of the hypothesis testing show that the implementation of ICSR did not have a positive influence on the quality of shariah governance. The implementation of environmental accounting was measured by the indicators of recognition, measurement, and reports of environmental accounting.

Based on the responses and interview results, it can be concluded that, on average, the allocation of Islamic Banking funds for its CSR only reached 1% of the total cost, amounting to 17.65%, as shown in Table 7.

**Table (7).** Average Islamic banking allocation of funds to ICSR

1% of the total cost	2% of the total cost	3% of the total cost
17.65%	8.82%	5.88%

Source: Research Results from General Information Section (2020)

Therefore, the ICSR contained in the Sharia bank environmental accounting reporting has not been maximally built on the basis of Sharia bank's social responsibility to help it become one of the financial institutions that helps the community prosper.

The findings of this study support those of (Widiastuti et al.: 2018, pp. 107-117), who explained that ICSR activities conducted by Islamic banks were not optimal in their distribution. Therefore, with the ICSR funds that have been budgeted, Islamic banks have a social obligation to channel these to those who are entitled to the funds, and this obligation should continue sustainably so that the benefits can be felt continuously. Similarly, the research also found that CSR disclosure has an insignificant relationship with SSB qualification, which does not show the supervisory role of SSB in channeling ICSR to those who are blessed to obtain the funds.

The findings of this study could become inputs for Islamic banking to achieve a good ICSR level; the roles of stakeholders (the government, accounting systems, supervisors, banking associations, institutions, shareholders, Board of Directors, senior management, depositors, employees, internal and external audits, Sharia Supervisory Board/SSB and shariah auditing) are required to jointly conduct transparent and accountable activities.

### **Implementation of ICSR in Relation to Maqasid Sharia Performance**

The hypothesis testing results indicate that the implementation of ICSR had a positive influence of 0.3527 on the performance of maqasid shariah. This performance was measured by the indicators of the guarding of religion/hifz ad-dien; of the soul/hifz an-nafs; of the intellect/hifz al-'aql; of descent/hifz an-nasl; and safeguarding wealth/hifz al-maal. The results provide empirical evidence that the better the implementation of ICSR, the better the performance of Islamic maqasid in Indonesian Islamic banking.

The influence of the implementation of environmental accounting on the performance of Islamic maqasid is in line with the study of (Hossain et al.: 2016, pp. 19-30), who conducted research on ten Islamic Banks in Bangladesh over the three year period from 2011 to 2013. Their results showed that the implementation of environmental accounting had a positive effect on the performance of Islamic maqasid, as proven by the increase in their green banking indicators each year. In 2011, there was an average of 7.4% issues, the issues ten increased in 2012 to 9.9%, and in 2013 rose again to 11.8% issues. Found that CSR disclosure positively affected the performance of Islamic maqasid in channeling environmentally-friendly credit to various types of companies. Also found that in practice, green banking has required financial institutions to always prioritize environmental sustainability in conducting their environmentally-friendly operational activities through the implementation of programs of efficiency, recycling, and reuse of used goods.

Based on the responses and results of the interviews, it can be concluded that Islamic banking has undertaken activities that support environmental management, as can be seen from the results of the research, which show that Islamic banking has implemented recording, measuring, and reporting of its environmental accounting based on the elements that constitute Sharia (maqasid syariah), as presented in Tables 8.

**Table (8).** General Information Question

Description	Result
To what extent is information on environmental accounting practices (*such as being environmentally friendly and safe in the financing and contributing to environmental conservation) important in assisting Islamic banking in implementing environmental disclosure, which is an important element of the quality of financial reports? (* ) Islamic banking cares for and pays attention to the impact of environmental sustainability and conservation in its business activities.	Very important 47.06%
	Important 38.24%

Source: Research Results (2020)

## DISCUSSION

This research strengthens the pentuple bottom line (PBL) theory by emphasizing that the planet (the second element in the PBL) is a concern of Sharia banking; that it must pay attention to the impact of environmental sustainability and conservation, and every muamalah activity must be carried out in accordance with sharia values and principles. The maqasid Syariah and maslahah concepts are important components in undertaking sharia banking CSR. Therefore, when Sharia banking conducts activities that support environmental management, it must record and disclose any costs incurred related to such activities; in this way, accountability to interested parties will be more practical (Dusuki: 2007, pp. 11-20).

Disclosure of CSR is a basic principle of green banking in the effort to strengthen the ability of bank risk management, especially related to the environment, and to encourage Islamic banking to increase environmentally-friendly financing portfolios, such as renewable energy, energy efficiency, organic agriculture, eco-tourism, environmentally-friendly transportation, and various eco-labels. An effort is a form of bank awareness of the risk of possible environmental problems in projects it is financing and which may have negative impacts in the form of a decline in credit quality and of the reputation of the bank concerned.

### The Implementation of Shariah Governance in Relation to Maqasid Sharia Performance

The hypothesis testing results indicate that the implementation of sharia governance had a positive influence of 0.1843 on the performance of the sharia maqasid. Sharia governance is measured by the indicators of sharia governance structure, sharia governance processes, and sharia governance mechanisms.

A major ethical component of any economic activity in Islam is to provide justice, honesty, and fairness and to assure the rights and dues of all parties. The difference in implementing corporate governance in sharia and conventional banking lies in shariah compliance. The results of this study are in line with those of (Abu-Tapanjeh: 2009, pp. 556-567), who attempted to discuss the nature, applications, and comparisons of Islamic principles of corporate governance with conventional ones by considering special references to the Organization of Economic Co-operation and Development (OECD). He concluded that the dimensions of Islamic perspectives of corporate governance have broader horizons and cannot compartmentalize the roles and responsibilities in which all actions and obligations fall under the jurisdiction of the divine law of Islam and that OECD principles impose six different issues and obligations on firms. Complaints that often arise are aspects of compliance with sharia principles (shariah compliance).

One important pillar in the development of Islamic banks is shariah compliance. To guarantee the application of sharia principles in banking institutions, sharia supervision is required, which is conducted by the Sharia Supervisory Board (SSB). For this reason, the role of the SSB in Islamic banks must be truly optimized, qualifications to become SSB members must be tightened, and formalization of their roles must be realized by Islamic banks. The results of this research support that of Mergaliyev et al. (2019), in which the

samples included 33 full-fledged Islamic banks from 12 countries over the period 2008-2016. The findings show that although during the nine-year period, the disclosure of the maqasid performance of the sampled Islamic banks had improved, this was still short of 'best practice.' Through panel data analysis, the study found that the indicators of the Muslim population, CEO duality, shariah governance, and leverage variables positively affected the disclosure of maqasid performance. If the role of the SSB is not optimal in undertaking supervision of sharia practices, this will result in violations of shariah compliance, and the image and credibility of banks in the eyes of the public will be negative, and public trust reduced. Failure to apply sharia principles will make customers move to other banks by 85%. Therefore, the application of good corporate governance and sharia principles or governance is necessary for the efforts of sharia banking to improve its reputation and trust and to protect the interests of stakeholders.

The results of this study have empirically proved that the better the sharia governance, the better the performance quality of sharia maqasid in Islamic banking. If this is the case, the Sharia Supervisory Board (SSB) plays a role in providing confidence to investors and stakeholders that Islamic banks are conducting their activities in compliance with sharia laws and principles.

The results also support the research of (Farook et al.: 2011, pp. 114-141), who explained that the existence of SSB in Islamic banks could improve the function of monitoring and supervision of the application of banking products in accordance with compliance with sharia principles, resulting in the provision of quality financial report information.

This research also strengthens the pentuple bottom line theory, in which the role of the SSB (prophet, the fourth element in PBL) is an effective form of independent supervision of the implementation of sharia compliance. Therefore, there is an influence of sharia governance on the performance of sharia maqasid through accountability and divine values, which consider sharia and moral instruments to be parameters of good and bad and right and wrong conduct in business activities. This paradigm will form integrity, which helps to shape the character of good governance.

## **CONCLUSION**

This study has explored Islamic Corporate Social Responsibility (ICSR), Shariah Governance (SG), and the maqasid shariah performance of Islamic banking based on the argument developed by the Imam Al-Ghozali framework, in which the main purpose of Syariah (maqasid syariah) is to promote the well-being of society, in the form of care for five aspects: religion (diin), the soul (nafs), the intellect ('aql), lineage ('nasl) and property (maal) (Acharya & Sukmana: 2017, pp. 12-28). A model for measuring the performance of Islamic banks based on the concept of sharia maqasid and the socio-goals of sharia bank economics was also designed. With the subsequent identification of ICSR, SG, and the Maqasid Shariah performance main determinants, several hypotheses were developed and tested with the primary data generated from a disclosure analysis, along with a number of other variables. As a result, several important findings were made.

These findings show that the influence of ICSR was found to be insignificant on the sharia governance of Islamic banks, which indicates that they do not fully implement the determinants of ICSR disclosure through the role of the Sharia Supervisory Board (SSB) as a testing attribute that represents SG structure. Any loss of such legitimacy can negatively influence the financial performance and stability of IB, as depositors may withdraw their funds in cases where shariah compliance is compromised in IB operations, as discovered by. (Farook et al.: 2011, pp. 114-141) added that ideally, stakeholders expect the representation of the SSB in Islamic law and principles to be greater than that of the management of IB. The nature of compliance with Islamic law and principles is not only seen from compliance in issuing sharia reports but also by greater involvement in ICSR activities, including disclosure of ICSR.

The related factors of the ICSR of IB have a significant impact on its maqasid shariah performance. The activities of ICSR Syariah banks can fulfill the maqasid syariah described by Imam Al-Ghazali in his book *Al-Mustafa* (1937), which includes care of religion, the soul, intellect, lineage, and property. The care of all sharia maqasid that must be met by Islamic banks involved in running their business and programs involves maintaining and improving the achievement of Shariah goals for owners and employees as the top priority, as well as for customers and recipients of the ZIS-Waf program, and for business partners, the community and environment.

The factors related to the sharia governance of Islamic banking also have a significant impact on banks' maqasid shariah performance. The identified issues of shari'ah governance should particularly be noted, whereas the related factors of SSB positively impact the maqasid shariah performance of the IB sample. The presence of shariah supervision in Shariah banks is a determinant in the implementation of all transactions and products offered in accordance with Islamic rules and principles. The importance of the existence of shariah supervision in sharia banks is just as important as the existence of corporate governance in conventional companies.

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