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The Mediate Effect of Sharia Compliance on the Performance of Islamic Banking in Indonesia

Usdeldi Usdeldi[1*], M. Ridlwan Nasir[2], Muhamad Ahsan[3]
[1*]*Faculty of Islamic Economics and Business, Universitas Islam Negeri Sultan Thaha Saifuddin, Jambi, Indonesia*
[2] *Graduate program Faculty of Islamic Economics and Business, Universitas Islam Negeri Sunan Ampel Surabaya, Indonesia*
[3] *Faculty of Islamic Economics and Business, Universitas Islam Negeri Sunan Ampel Surabaya, Indonesia*
*Corresponding Author: usdeldi@uinjambi.ac.id

Abstract

This study aimed to prove whether Sharia Compliance (SC) mediates the influence of Good Corporate Governance (GCG), Sharia Supervisory Board (SSB), and Corporate Social Responsibility (CSR) on financial performance and maqashid sharia performance in Islamic Commercial Banks (ICBs) in Indonesia. A regression analytical method was employed based on Structural Equation Modeling with panel data in the annual report published by ICBs in Indonesia for 2014-2019. The results proved that SC positively mediated GCG and CSR on maqashid sharia performance while negatively mediated financial performance. At the same time, it did not mediate SSB on both financial performance and maqashid sharia performance. Based on these findings, policymakers should launch regulations on the disclosure of the dimensions GCG, SSB, CSR, and SC in the annual reports of ICBs. Furthermore, in practical implementation, ICBs should improve GCG, CSR, and SC as the performance of Islamic banking-supporting dimensions and, evaluate SSB as the non-supporting one.

Keywords : CSR; GCG; Islamic banking Performance; Sharia Compliance; SSB
JEL Classification : G300*

1. INTRODUCTION

The emergence and rise of Islamic banking were driven by the increasing number of Muslims who wished to live under Islamic law (Usman et al., 2020). Currently, Islamic banking still can develop, especially in countries where most of the population is Muslim, such as Saudi Arabia, United Arab Emirates (UAE), Kuwait, Qatar, Turkey, Bahrain, Indonesia, and Malaysia (Handayani et al., 2020). According to the Global Islamic Financial Report (GIFR) assessment, Indonesia ranks 4th after Iran, Malaysia, and Saudi Arabia (Kasih & Rini, 2018). The development of Islamic banking in Indonesia contradicts the national banking market share, which is only 10%, compared to Brunei Darussalam and Malaysia, which are 63% and 26%, respectively(Ludiman & Mutmainah, 2020). This market share achievement shows that the performance of Islamic banking in Indonesia is still low, but, on the other hand, there is an opportunity to increase it.

It is not enough to measure performance based solely on financial indicators but also on sharia principles (Rahmawati et al., 2020). Sharia-based performance measurement is a process in determining whether Islamic banking can achieve the goals of Islamic banks (Kholid & Bachtiar, 2015). Through the Islamic maqashid variable, performance measurement has shown better results than conventional performance measurement (Mohammed & Taib, 2015). Performance measurement based on maqashid sharia has also shown the average health level (Mursyid et al., 2021). The internal dimensions of measuring the performance of Islamic banking were determined based on agency theory in the form of Good Corporate Governance (GCG) and Sharia Supervisory Board (SSB). In contrast, the external ones were based on stakeholder theory in the form of Corporate Social Responsibility (CSR).

Several previous studies have shown that GCG significantly affects financial performance using the corporate Governance Index (GCI) (Mertzanis et al., 2018; Ramos et al., 2020). It, seen from the indicator Self Assessment, also has significant results (Desiana et al., 2016). Moreover, the indicators, the board of directors, commissioners, audit committee, foreign ownership, and managerial ownership, significantly affect financial performance (Syed Amaar Ali Ausa, 2018; Tirthankar and Chanchal, 2020). Meanwhile, GCG with the same indicators, namely board of directors, board of commissioners, audit committee, foreign ownership, and managerial ownership, was also found to have no significant effect on financial performance (Bukair & Rahman, 2015; Mollah & Zaman, 2015). Furthermore, GCG with the indicators GCI (Ajili & Bouri, 2018; Mardiani et al., 2019) and self-assessment (Ferdyant et al., 2014; Siswanti, 2016) were found to have an insignificant effect on financial performance.

Research on SSB with the indicators SSB size, number of SSB meetings, educational background of SSB members, and academic qualifications of SSB members found a significant influence on financial performance (Almutairi & Quttainah, 2017; Mollah & Zaman, 2015; Nomran & Haron, 2020). Meanwhile, other research results showed that SSB with the indicators SSB size, SSB meetings, and multiple SSB positions have no significant effect on financial performance (Anton, 2018; Rifai & Asrori, 2017).

The research also proved that CSR affects financial performance (Platonova et al., 2018; Mercedes and Fernandez, 2016), which is not verified in other studies. The other studies only stated that CSR implementation does not affect financial performance based on accounting measurements and financial performance based on market performance (Abdalmuttaleb and Al-Sartawi, 2020).

Furthermore, several researchers investigated the significant influence of GCG, SSB, and CSR on sharia compliance (Hikmah & Oktaviana, 2019; Waluyo, 2016) and the significant influence of sharia compliance on financial performance (Buallay, 2019; Nurjannah et al., 2020;). These findings proved that sharia compliance can be used as a mediating variable in confirming the results of the influence of GCG, DPS, and CSR on financial performance and maqashid sharia performance.

2. HYPOTHESES DEVELOPMENT

Good Corporate Governance and Sharia Supervisory Board Based on Agency Theory

The agency theory was developed by Michael Jensen, who believed that its management (agents) would act with full awareness of their interests and not as a wise and fair party to shareholders (Bosse & Philips, 2016). Agency relationships include contracts of one or more people between owners (principals) who employ management (agents) as responsible for making decisions under the employment contract (Troman & Carsin, 2018). Good Corporate Governance (GCG) is a concept based on agency theory that convinces investors of returns (*Suhadak* et al., 2019). Meanwhile, corporate governance is defined as the rules and principles governing the relationship between shareholders and other stakeholders, as described in the agency theory (Setiawaty, 2016; Umam & Utomo, 2017)). These various ideas on corporate governance are developed based on agency theory to ensure that corporate governance follows applicable rules and regulations (Garbo, 2019).

Sharia Supervisory Board (SSB) is one of the factors supporting the implementation of GCG in Islamic banking (Eksandy, 2018). It aims to build and maintain the trust of all parties involved in transactions, practices, and activities conducted following Shariah principles (Haryani & Septiani, 2015). This view is supported by research showing that the strength of Shariah boards, boards of directors, independent boards, and in-house CEOs has a significant impact on the Islamic bank performance (Ekasari & Hartomo, 2019). Enhancing the role and functions of the SSB requires the achievement of standards-compliant indicators so that the SSB's function and position in overseeing the Shariah compliance of Islamic banks can be optimally(Muhammad *et al.*, 2021). The hypotheses are:

H1 : Good corporate governance has a significant effect on the financial performance of Islamic commercial banks in Indonesia.

H2 : Good corporate governance has a significant effect on Islamic maqashid in Islamic commercial banks in Indonesia.

H3 : The sharia supervisory board has a significant effect on the financial performance of Islamic commercial banks in Indonesia.

H4 : The sharia supervisory board has a significant effect on the performance of maqashid sharia in sharia commercial banks in Indonesia

Corporate Social Responsibility Based on Stakeholder Theory

A stakeholder is defined as any group or individual capable of influencing or achieving organizational goals (Lübbeke et al., 2019). Meanwhile, Grimble and Wellard viewed stakeholders in their essential position and influence (Ningtyas, 2020). Stakeholder theory is a strategic management philosophy designed to help companies strengthen relationships with external groups and develop a competitive advantage. The theory is the basis for corporate social responsibility (CSR), which aims to help companies improve their relationships with external parties to create a competitive advantage (Camilleri, 2017)—implementing Corporate Social Responsibility from an Islamic Perspective Using the Social Reporting Index as a Starting Point for Corporate Social Responsibility Disclosure Standards (Nugraheni, 2019). Therefore, CSR is essential for determining Islamic banks' performance (Atmadja et al., 2019; Mardliyyah et al., 2020). The hypotheses are:

H5 : Corporate social responsibility has a significant effect on the financial performance of Islamic commercial banks in Indonesia.

H6 : Corporate social responsibility has a significant effect on Islamic maqashid in Islamic commercial banks in Indonesia.

Sharia Compliance

Sharia compliance (SC) is part of the risk management framework implementation in realizing a culture of compliance in Islamic banking (Mulazid, 2016). Besides, it is one of the fundamental aspects distinguishing Islamic banking from conventional banking (Nurhisam, 2016). Its legal basis in Indonesia is Bank Indonesia Regulation No. 13/2/PBI/2011 on implementing compliance functions for commercial banks. Shariah compliance is a set of precautionary measures to ensure that policies, regulations, systems, procedures, and business activities comply with Indonesian banking regulations and applicable laws and regulations. The hypotheses are:

H7 : Good corporate governance has a significant effect on sharia compliance in Islamic commercial banks in Indonesia.

H8 : The sharia supervisory board significantly affects sharia compliance in sharia commercial banks in Indonesia.

H9 : Corporate social responsibility has a significant effect on sharia compliance in Islamic commercial banks in Indonesia.

H10 : Sharia compliance has a significant effect on the financial performance of Islamic commercial banks in Indonesia.

H11 : Sharia compliance has a significant effect on the performance of maqashid sharia in Islamic commercial banks in Indonesia.

H12 : Sharia compliance mediates the effect of GCG on the financial performance of Islamic commercial banks in Indonesia.

H13 : Sharia compliance mediates the effect of GCG on maqashid sharia performance in Islamic commercial banks in Indonesia.

H14 : Sharia compliance mediates the effect of DPS on the financial performance of Islamic commercial banks in Indonesia.

H15 : Sharia compliance mediates the effect of DPS on the performance of maqashid sharia in Islamic commercial banks in Indonesia.

H16 : Sharia compliance mediates the effect of CSR on the financial performance of Islamic commercial banks in Indonesia.

H17 : Sharia compliance mediates the effect of CSR on the performance of maqashid sharia in Islamic commercial banks in Indonesia.

3. METHOD, DATA, AND ANALYSIS

Research Methodology

Secondary data from annual reports and financial reports on Islamic commercial banks in Indonesia were used in this study. The purposive sampling method was used to determine the sample according to the following criteria: Islamic Commercial Banks, which published Annual Report continuously from 2014-2019, and Islamic Commercial Banks, which had complete data for analysis. Based on the sampling technique, 10 (ten) Islamic Commercial Banks in Indonesia meet the criteria. The banks are: Bank Muamalat Indonesia, Bank SyariahMandiri, Bank Mega Syariah, Bank SyariahBukopin, Bank Rakyat Indonesia Syariah, Bank Syariah BNI, Bank BCA Syariah, Bank Panin Dubai Syariah, Bank Victoria Syariah, and Bank Tabungan PensiunanSyariah.

Operational Variables

The variables in this study include exogenous and endogenous variables, The exogenous variables consisting of Good Corporate Governance, Sharia Supervisory Board, and Corporate Social Responsibility, and endogenous variables consisting of Financial Performance and Islamic Maqashid Performance. The intervening variable was Sharia Compliance.

Table 1. Operational Variables

Variable	Indicators	Measurement
Exogenous		
Good Corporate Governance (GCG)	Board of Commissioners (BC)	Number of Commissioners
	Independent Commissioner (IC)	Number of Independent Commissioners
	Board of Commissioners Meeting (BCM)	Number of BC Meetings a year
	Audit Committee (AC)	Number of AC Meetings a year
	Audit Committee Meeting (ACM)	Number of Audit Committee Members
	Self Assessment (SA)	Self Assessment Composite Value
Sharia Supervisory Board (SSB)	Sharia Supervisory Board (SSB)	Self Assessment Composite Value
	SSB Education (SSBE)	Number of Relevant Education
	SSB Multiple Position (SSBMP)	Number of Multiple Positions
	SSB Meeting (SSBM)	Number of SSB Meetings a Year
Corporate Social Responsibility (CSR)	Corporate Social Responsibility Index (CSRI)	Items disclosed: Items that are supposed to be
Endogenous		
Financial Performance (FP)	Net Profid Margin (NPM)	Net income: Income
	Ratio Leverage (Lev)	Total Debt: Total Assets
	Return On Asset (ROA)	Net income: Total assets
	Return On Equity (ROE)	Net income: Equity
	Capital Adequacy Ratio (CAR)	Own capital: Total Financing
	Non-Performing Financing (NPF)	Total Financing: TotalTPF
	Operating Costs to Operating Income (OCOI)	Operating Costs:Operating Income
Maqashid Sharia Performance (MSP)	MaqashidSyariah Index (MSI)	Composite Value
Intervening		
Sharia Compliance (SC)	Islamic Income Ratio (IIR)	Halal Income: Total Income

Variable	Indicators	Measurement
	Profit Sharing Ratio (PSR)	(Mudharabah + Musyarakah): Total Financing
	Islamic Investment Ratio (IIR)	Halal Investment: Total Investment
	Zakat Performance Ratio (ZPR)	Zakat: Net Assets
	Sharia Compliance Index (SCI)	Items disclosed: Items that are supposed to be

Source: Processed data, 2021

Method of Analysis

This study used SEM (Structural Equation Models) analysis techniques with Partial Least Square (PLS) to determine the correlation between variables. Hypothesis testing was done by using the bootstrap resampling method. The model specifications used in the study were as follows equation 1 to 5.

$$FP = \beta_1 GCG + \beta_2 SSB + \beta_3 CSR + e_1 \quad (1)$$
$$MSP = \beta_1 GCG + \beta_2 SSB + \beta_3 CSR + e_2 \quad (2)$$
$$SC = \beta_1 GCG + \beta_2 SSB + \beta_3 CSR + e_3 \quad (3)$$
$$FP = \beta_1 GCG + \beta_2 SSB + \beta_3 CSR + \beta_4 SC + e_4 \quad (4)$$
$$MSP = \beta_1 GCG + \beta_2 SSB + \beta_3 CSR + \beta_4 SC + e_5 \quad (5)$$

description:
FP = Financial Performance
MSP = Maqashid Sharia Performance
GCG = Good Corporate Governance
SSB = Sharia Supervisory Board
CSR = Corporate Social Responsibility
SC = Shariah Compliance
B = Regression coefficient
e = Standard error

4. RESULTS

Outer Model Analysis

The outer model test measured how far the indicator (item) can explain the latent variable. Evaluation of the measurement model consists of Convergent Validity, Discriminant Validity, and Internal Consistency Reliability. Based on the Partial Least Square estimation method, the model path diagram is shown in the following Figure 1.

The outer model test was carried out 3 (three) times to obtain a value that meets the requirements of the latent variables and indicators. Latent variable indicators that do not meet the criteria must be eliminated so that the validity and reliability of the model can be improved.

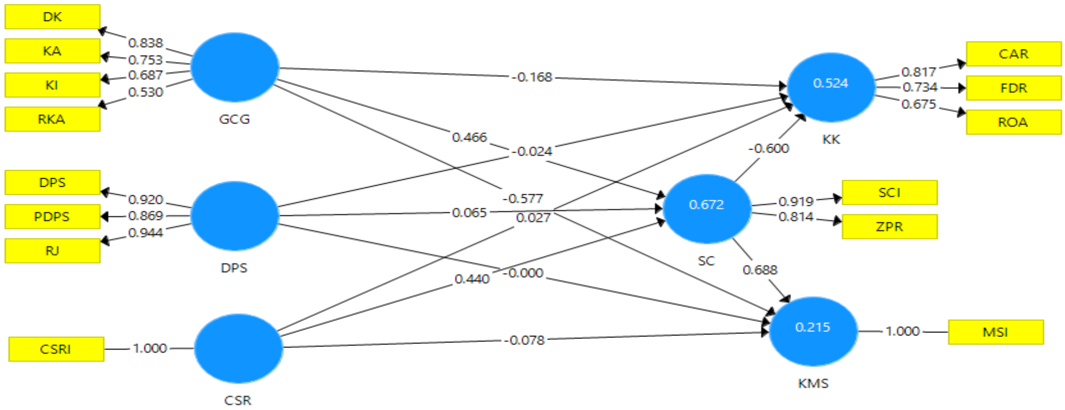

Figure 1. Complete Structural Model (PLS Algorithm) Modification 2

Table 2. Convergent Validity Test

Variable	Indicator	Outer Model		Modification 1		Modification 2	
		Factor Loading	AVE	Factor Loading	AVE	Factor Loading	AVE
GCG	BC	0.829	0.333	0.833	0.505	0.838	0.506
	IC	0.724		0.697		0.687	
	BCM	0.198		-		-	
	AC	0.691		0.743		0.753	
	ACM	0.509		0.536		0.530	
	SA	0.119		-		-	
SSB	SSB	0.913	0.616	0.921	0.831	0.920	0.831
	SSBE	0.865		0.869		0.869	
	SSBMP	0.940		0.943		0.944	
	SSBM	0.049		-		-	
CSR	CSRI	1.000	1.000	1.000	1.000	1.000	1.000
SC	IsIR	0.216	0.334	-	0.753	-	0.754
	PSR	-0.392		-		-	
	IIR	-0.198		-		-	
	ZPR	0.787		0.810		0.814	
	SCI	0.901		0.922		0.919	
FP	NPM	-0.098	0.428	-	0.527	-	0.554
	LEV	-0.489		-		-	
	ROA	0.793		0.779		0.675	
	ROE	0.651		0.631		-	
	CAR	0.855		0.821		0.817	
	NPF	-0.777		-		-	
	FDR	0.534		0.654		0.734	
	OCOI	-0.710		-		-	
MSP	MSI	1.000	1.000	1.000	1.000	1.000	1.000

Source: PLS Output Results, 2021

Table 3. Internal Consistency Reliability Test

Latent variable	Cronbach's Alpha (> 0.6)	Composite Reliability (> 0.7)	Conclusion
Good Corporate Governance	0.667	0.800	Reliable
Sharia Supervisory Board	0.898	0.936	Reliable
Corporate Social Responsibility	1.000	1.000	Reliable
Shariah Compliance	0.684	0.859	Reliable
Financial Performance	0.619	0.788	Reliable
Maqashid Sharia Performance	1.000	1.000	Reliable

Source: PLS Output Results, 2021

Based on table 2, it can be seen that all indicators had values of factor loading and AVE greater than 0.50 after 2 (two) model modifications had been made. Therefore, It means that all indicators in each latent variable were valid; thus, the variables were valid to be measuring tools.

Hypothesis Testing

The complete structural model test results using the bootstrapping method are shown in the following table.

Table 4. Hypothesis testing

Hypothesis	Path	Path Coefficient	T-Statistic	P-Values	Results*
H1	GCG --> SC	0.466	5.724	0.000	Supported
H2	GCG -->FP	-0.168	0.990	0.323	Not Supported
H3	GCG --> MSP	-0.577	3.887	0.000	Supported
H4	GCG --> SC -->FP	-0.279	2.461	0.014	Supported
H5	GCG --> SC --> MSP	0.320	2. 811	0.005	Supported
H6	SSB --> SC	0.065	0.735	0.463	Not Supported
H7	SSB -->FP	-0.024	0.236	0.814	Not Supported
H8	SSB --> MSP	0.000	0.002	0.998	Not Supported
H9	SSB --> SC -->FP	-0.039	0.692	0.489	Not Supported
H10	SSB --> SC --> MSP	0.045	0.727	0.468	Not Supported
H11	CSR --> SC	0.440	6.294	0.000	Supported
H12	CSR -->FP	0.027	0.160	0.873	Not Supported
H13	CSR --> MSP	-0.078	0.436	0.663	Not Supported
H14	CSR --> SC -->FP	-0.264	2.619	0.009	Supported

Hypothesis	Path	Path Coefficient	T-Statistic	P-Values	Results*
H15	CSR --> SC --> MSP	0.303	2.619	0.009	Supported
H16	SC -->FP	-0.600	2.867	0.004	Supported
H17	SC --> MSP	0.688	3.227	0.001	Supported

Source: PLS Output Results, 2021

*Hypothesis results with a significance level of 0.05

Based on table 4, it can be explained that GCG has a positive and direct effect on sharia compliance and compromise maqashid sharia performance but does not affect financial performance. Sharia compliance positively mediates the effect of GCG on maqashid sharia performance and negatively on financial performance. Furthermore, SSB has neither direct nor indirect effect on sharia compliance, financial performance, and maqashid sharia performance. Finally, CSR only has a direct impact on sharia compliance. However, sharia compliance can mediate the effect of CSR on financial performance (negatively) and maqashid sharia performance (positively). So, the role of sharia compliance negatively affected financial performance and positively affected maqashid sharia performance.

5. DISCUSSION

The Influence of Good Corporate Governance on Performance

The statistical tests show that GCG has a positive direct effect on sharia compliance but has the opposite impact on maqashid sharia performance and has no effect on financial performance. Thus, the implementation of GCG decreases the performance of maqashid sharia and does not affect the financial performance of Islamic Commercial Banks in Indonesia. Furthermore, sharia compliance can mediate the negative effect of GCG in improving financial performance. Meanwhile, sharia compliance mediation positively affects GCG on the maqashid sharia performance in Islamic Commercial Banks in Indonesia.

These findings were in line with those stating that GCG is not convincing enough to improve financial performance and continues to exist (Siswanti et al., 2017). Furthermore, the quality of GCG implementation had no statistically significant impact on financial performance as measured by ROA and ROE as it was not designed to maximize Islamic bank performance (Ajili & Bouri, 2018). The lack of impact of GCG implementation on Islamic banks' financial performance is due to limited disclosure of information in annual reports and public skepticism about Islamic principles applicable to Islamic banks (Mardiani et al., 2019). In addition, the implementation of the GCG through the independent officer ratio indicator is a form of compliance. As a result, the control function becomes ineffective and reduces performance (Andriana et al., 2017). This research does not support studies that use the Corporate Governance Index (CGI) indicator to show that GCG has a positive and significant impact on financial performance (Ahmed, 2019; Desiana et al., 2016). Likewise, the implementation of GCG, which uses the indicator the board of directors, shows that many members of the board of directors are more profitable in resource dependence to manage resources well (Eksandy, 2018). The implementation of GCG in several Islamic financial institutions in Muslim-majority countries can then increase public confidence in these Islamic banks.

The outcome of Shariah compliance mediation is in line with the GCG concept, which is based on the agency theory that corporate governance must be monitored and controlled to ensure compliance with applicable rules and regulations (Pahlevi, 2019). The GCG mechanism disciplines managers to abide by agreed contracts in order to improve the company's performance (Farida, 2018). So, empirically, this research proved that sharia compliance could improve maqashid sharia performance through the dimension of Good Corporate Governance. This empirical evidence supported the concept of Islamic banking that aims not only for profit but also contributes to benefit.

The Influence of Sharia Supervisory Board on Performance

The statistical tests showed that the variable SSB does not significantly affect sharia compliance, financial performance, and maqashid sharia performance, either directly or indirectly. It means that the role and function of SSB in Islamic Commercial Banks in Indonesia has not been optimal in improving the performance and sharia compliance. These results were confirmed by studies that concluded that the SSB did not significantly affect the performance of Islamic banks in Indonesia based on the Sharia maqashid index due to less optimal oversight by SSB members who have converging views (Anton, 2018). The relatively small number of members encourages the activities of Islamic banks (Kholid & Bachtiar, 2015). The frequency of SSB meetings cannot support financial performance as SBB meetings are only intended to advise directors on how to apply Sharia rules (Magdalena et al., 2017). Moreover, the appointment of SSB members is not based on their skills but on the popularity of characters from a community the size of SSB, which means that they do not have a significant impact on the bottom line. (Ardana, 2019).

The study was also not in line with the theory that it is the responsibility of SSBS to build and maintain the trust of all stakeholders that all ICB transactions, practices, and activities are conducted in accordance with Sharia principles (Haryani & Septiani, 2015). The function and role of the SSB are urgent to control and ensure that Islamic banking transactions are appropriate and compliant with Sharia law and to ensure fairness on the part of the various parties in Islamic banking (Rini, 2014). Financial performance in Islamic banking shows that those who implement SSB best perform better than those who do not (Almutairi & Quttainah, 2017). The frequency of SSB meetings and disclosure of Shariah compliance reports directly affects the financial performance of Islamic banking. This means that the more positive the SSB meeting and reporting monitoring results, the more likely the Islamic bank's financial performance will improve (Rifai & Asrori, 2017). In addition, the size of the SSB, the Ph.D. qualifications of SSB members, and the replacement of SSB members also support the financial performance of the Islamic banking sector (Mollah & Zaman, 2015; Nomran & Haron, 2020). Therefore, SSBs have a significant positive impact on ROE; the larger the SSBs with different expertise, the better the overall financial performance of Islamic banking (Khan & Zahid, 2019).

The Influence of Corporate Social Responsibility (CSR) on Performance

The statistical tests showed that CSR has a positive effect on sharia compliance but has no effect on financial performance and maqashid sharia performance. It is in line with (D. P. Sari & Setiyawati, 2021) that CSR disclosure did not affect earnings quality. (2021) also states that CSR disclosure did not affect earnings quality based on conservatism. It means that the implementation of CSR only affects sharia compliance. Therefore, it improves neither financial performance nor maqashid sharia performance in ICBs in Indonesia. Furthermore, sharia compliance can mediate the positive influence of CSR in improving maqashid sharia performance but harms financial performance at Islamic Commercial Banks in Indonesia.

The findings of this study support several studies that have found that CSR disclosures do not affect financial performance based on accounting measures and market performance (Atmadja et al., 2019; Fitriya, 2019). Higher operating costs resulting from CSR activities lead to lower financial performance, so empirical results suggest that CSR has a negligible impact on financial performance (Abdalmuttaleb & Al-Sartawi, 2020). The negative impact of CSR on financial performance also highlights that corporate social responsibility sacrifices do not improve financial performance (Lin et al., 2015). The regression model results refute the impact of corporate social responsibility on financial performance due to the lack of necessary information disclosure (Senawat et al., 2018). These findings of this study are inconsistent with findings that disclosure of CSR information following the expectations of various stakeholders can improve bank performance (Luthan et al., 2017; Platonova et al., 2018). Volatility in CSR disclosures can improve bank performance as measured by the Maqasid Syariah index (Mardliyyah et al., 2020). High CSR disclosure can lead to stakeholder support, increasing market share, sales, and company profits (Meiyana & Nur Aisyah, 2019). CSR implementation will improve the corporate image and public trust in the bank, thus affecting revenue or profitability (Djamilah & Surenggono, 2017). CSR has a positive impact on financial performance, so the concept of CSR can motivate banks to engage in social activities (Luna et al., 2015). Using the CSR Index methodology, corporate spending on CSR improves financial performance (Mercedes & Fernandez, 2016).

The mediating effect of sharia compliance has a positive impact in influencing CSR on maqashid sharia performance. However, sharia compliance mediation negatively affects CSR in affecting the financial performance of ICBs in Indonesia. Hence, the variable sharia compliance is urgent to increase at the practical level in ICBs in Indonesia. However, the increase in CSR will increase the operational costs of Islamic banking to reduce the profit for the current year.

6. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Based on the results and discussion, ICBs in this study have implemented and disclosed GCG, SSB, CSR, and SC in their annual reports. Primarily, the practice of Sharia Compliance is very urgent in ICBs. Apart from being a differentiator from conventional banks, it also impacts the performance of sharia banking. In addition, the active role of SSB members in overseeing the implementation of sharia banking activities to follow sharia principles is also very urgent. It requires increased competence following their fields.

This study proved that sharia compliance can mediate the positive influence of GCG and CSR on maqashid sharia performance but harms financial performance using conventional bank measurements. Meanwhile, sharia compliance does not mediate the effect of SSB on financial performance and maqashid sharia performance. These findings support the principles of sharia as the main objective of Islamic banking: not solely for the interests of shareholders but also for the social interests and benefits of all stakeholders.

The practical implications are; first, the government needs to emphasize the implementation regulations and disclosure of the indicators of the sharia compliance of Islamic commercial banks in their annual reports. Secondly, Islamic commercial banks in Indonesia must improve internal organizational factors that do not support the implementation of GCG, SSB, CSR, and sharia compliance; thirdly, further research is expected to widen the research scope.

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