

## The Function Of Sharia Financial Institutions In Social Activity

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### ABSTRACT

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This study examines the underlying motives of Islamic Financial Institutions in Social Activities. A qualitative descriptive approach was used to obtain primary data through interviews with 24 informants of Islamic Financial Institutions. Secondary data is collected from public companies with annual reports on the IDX in 2021. The data is sampled and researched using trigulation and content analysis techniques. The results of the study indicate that there are 2 motives in Sharia Financial Institutions, especially social and economic. Furthermore, the motive economy is more dominant and expects the provision of input money. As a result, Islamic Financial Institutions become less effective and most programs do not follow the actual needs of stakeholders. The dignity of Islamic financial institutions needs to be restored by implementing the social dimension. There are 2 approaches used to implement Sharia Financial Institutions, including a support system that utilizes pressure. The transcendental approach is initiated by corporate actors through religious values from social activities, so that the implementation is more humanistic and oriented to stakeholders.

**Keywords:** Social motives, economic motives, Qardhul Hasan system support, transcendental support

### Introduction

In today's advanced and developing era, there is a lot of growth in Islamic financial institutions in the archipelago (Alberto:1997). The emergence of this growth can raise the standard of living in the community's economy. The upper class, middle class, and lower class people can realize their needs in terms of material to Islamic financial institutions in the form of banks and non-banks (Angrist, 1999: Pp. 77– 96).

Now we must be ready to look at the conditions around us and be committed to the small people struggling to change the economic system that has been unfavorable and changed by working hand in hand and together with the community, in accordance with the reform agenda which states that national development policies will be implemented. direct the community that small entrepreneurs are prioritized to be independent and free themselves from the shackles of poverty (Putra, R, 2018: 224–228). Namely, an Islamic financial institution, in this case, a bank or non-Islamic financial institution, should not only be oriented to business but also social, this institution does not only focus on concentrating wealth or only looking for a profit only for a small portion of the capital owners (founders) by suction on the majority of people who have only capital but institutions whose wealth is distributed evenly and fairly (Sumarni: 2020).

LKS is born from the people's awareness and has the mission and vision to help the majority in this society who lack the capital to open a business, namely the entrepreneurs of small/micro. LKS is not stuck in the game business for personal gain, but to build mutual or

any ukhuwah Islamiyah to achieve shared prosperity in this case there is also an empowerment program for small communities. In addition, the institute is not stuck on the minds of pragmatic but has the concept of an idealist and righteousness. The agency is the LKS (Wright, Gavin A. 1974: 30-56). Problem poverty is a major factor that has kept the community of well-being. Poverty has led to a lot of people can not meet the needs of everyday life, because banking institutions have not been able to accommodate small communities, especially in rural, (World Bank:1998) the banking transactions are still relatively high, Then here's one role such as business capital productive, benefit, groceries, check-up, scholarships, and help others get in shape funds card hasan, BMT can help members in terms of capital so that the community is self-sufficient by way of entrepreneurship through pick up the funds in BMT. Due to advances in economic growth at the start of the rural sector, the granary of the economy in rural economic good will automatically help the economic turnaround in the urban (Lindbeck, 1987: 79- 84).

This effort sees the function of LKS as very meaningful for the community because BMT is an institution in micro sharia able to solve the problems of fundamentals such as poverty faced by small and medium entrepreneurs, especially in the field of capital (Pambuko Z.,2018: 35- 40). Providing business knowledge with how to manage the business better, LKS not only works in the distribution of capital, capital raising, or looking for a profit but also serves to handle social activities for people who need capital, the help of donations, check-ups, scholarships, and other assistance (Alias candra, 2019: 2-11). LKS as Islamic microfinance institutions that operate under the principles of sharia, which has the function to empower the economy of the ummah for the sake of the benefit and have a puncture social with a row also as an institution that manages zakat, infaq, and sadaqah that institutions BMT has an important role in empowering the economy of the ummah so that people also feel assistance funds to make the effort (Iskandar, 2020: 1-10). Examined effectiveness of social responsibility disclosure for drive economic, environmental, and social performance. These studies conclude that there are inconsistencies in the results or effectiveness of disclosure in social responsibility. Furthermore, the emotive content in the LKS contains seriousness in implementation accuracy, which determines its effectiveness.

This article focuses on 3 main factors in the hypothesis that LKS implementation affects effectiveness in Indonesia companies. These factors include the causes of implementation, the effect of shifting motives and social views as a response to the transcendental dimension of Illahiyah. Operational motives determine the type, pattern, and seriousness of the company in implementing LKS. The inclusion of these dimensions makes the LKS program designed to be more humane, stakeholder-oriented, and balanced.

## **Literate Review**

### **1. Social Contract Theory**

Company existence in a community is directly and indirectly bound by a set of values (Hadi, 2018). According to Wijaya (2016), the community value system is upheld by rights and is the basis for orderly agreement relationships or social contracts. Hobbes (1588-1679) and Locke (1632-1704) stated that the nature of the social environment is political in which

actors have a responsibility to obey established laws (Baier, 1988; Distefano, 1991; Gauthier, 1990). According to Locke (1632-1704), the social contract is needed to protect other parties' ownership and rights because everyone has their own desires. Furthermore, social contracts are also needed in contemporary management since companies involve many stakeholders (Hadi, 2017; Mouritz, 2010; Nbeta, 2012; Rawls, 1999).

A company has an obligation to maintain congruence between its wishes and expectations to exist in a community (O'Donovan, 2002; Ika Era Pratiwi, 2018). Congruence is achieved when the company's operations consistently adhere to a system of values, norms, rules, and social agreements (Adams & Kuasirikun, 2000; Belal, 2008; Buniamin, 2010; Gray, 2002; Hadi, 2018; O'Donovan, 2002). Therefore, the social contract is a Pareto optimal potential for conflict between the parties.

Medina Charter shows Islamic social contract between the Muhajirin, the Ansor, and the Jewish tribes during the Prophet Muhammad's time. The Medina Charter is based on respect for the pluralistic freedom value. Six basic values were developed and became the determinants social contract. These values include appreciation for implementing good customs, freedom from deprivation, fear speech and religion and persecution rights. The Muhajirin and Quraish groups adhered to good customs and believers should not let someone bear the burden of debt and family. According to the Medina Charter document, the Jews had a right to protection and equality without persecution against. Also, people who lived in Medina had the freedom to remain safe unless they sinned. Article 37 which stated that people were allowed to give good advice and embrace deeds without sin. The Medina charter determination provides answers to social situations such as diversity in religious communities and urban beliefs (Fahruddin, 2013; Fauzi, 2005; Patamatta & Jumardi, 2020). Conclusively, the Medina Charter is a social Islamic contract based on Al-Qur'an noble values. This is explained in the Qur'an, surah al-Maidah:

O believers! Stand firm for Allah and bear true testimony. Do not let the hatred of a people lead you to injustice. Be just! That is closer to righteousness. And be mindful of Allah. Surely Allah is All-Aware of what you do (QS: al-Madinah: 8).

## **2. Social Responsibility**

Companies are community groups which directly and indirectly impact the environment and society. Carroll & Buchholtz (2011) and Deegan (2002) stated that companies have a responsibility to shareholders, society and the environment. Carroll (2016) developed 4 categories of corporate responsibility, including economy, law, ethics, and philanthropy.



Figure 1: Carroll's Pyramid of CSR (Fadun, 2014)

Economic responsibility refers to improving shareholders by increasing profit per share, competitiveness, and efficiency (Carroll, 2016). To adhere to legal responsibility, companies should maintain business stability by complying with applicable regulations, constitution, and laws (De Schutter, 2008; Phillips, Freeman, & Wicks, 2003). Companies must uphold ethical principles, respect values in society, code of conduct, and conventions that apply in society (Carroll, 1991). Philanthropic responsibility is achieved by upholding humanity, empathy, charity, and responding to community problems.

Social responsibility is an important medium in managing a company more humanely by paying attention to the planet and people (Carroll 2016). According to Elkington (1997), social responsibility refers to systematic, proactive, structured, and sustainable realization in socially acceptable and environmentally friendly business operations. The EU Commission (2002) stated that CSR allows companies to integrate social and environmental concern in business operations and interactions. Therefore, the company's operations need to synergize by protecting the social and physical environment. CSR directs corporate management to several orientations, including mandatory and voluntary serious commitment, partial physical and social environmental concern, charity and community development, sustainability, internal and external stakeholders improvement, accountability, disclosure, business ethics, economic growth and value feedback.

### **3. Qardhul Hasan**

Qardhul Hasan is interpreted as a loan given to those in need with certain criteria. These criteria include (1) unpaid loans with only repay the loan principal at once or in installments within a certain period of time, (2) intended for people who cannot afford (poor and/or poor) sustainable business capital, or for social assistance (alms). Furthermore, the implementation of Qardhul Hasan includes two models, namely:

- a. **Productive Loan Distribution** Productive loans are loans that produce goods continuously or also help to increase the production of an item
- b. **Distribution of Social Funds** This social fund is a distribution of funds that solely intended for those who need it for consumption or also to meet needs urgent.

The targets for distributing Qardhul funds are: These Hasan are those who belong to the eight asnap, especially the Fakir and the Poor. Furthermore, if explored further, in accordance with the published Financial Statements, Qardhul Hasan's sources of funds

consist of Infaq, Alms, Fines, Non-Halal Funds, Donations, and others. However, in its implementation, financing Qardhul Hasan uses more funds Zakat, Infaq, Alms, and Waqf.

## Method

This study focuses on the worksheets that underlie implementation motives, types, and strategies. The study used a descriptive-analytical approach with triangulation, carried out through the methods of observation, interviews, and documentation as shown in the picture below

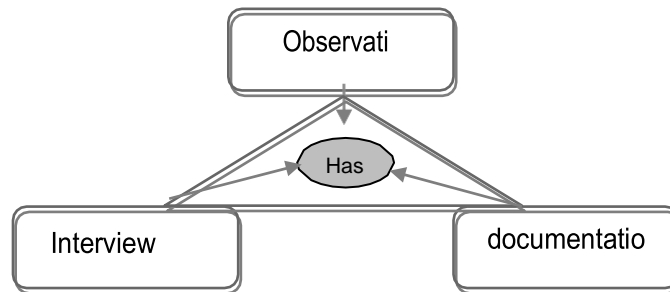


Figure 1 shows several data analysis steps, including collection by reading and in-depth examination of the annual report and interviews with informants. Data as checked to determine its relevance before reduction or grouping according to certain characteristics. Furthermore, comparisons and patterns were conducted to find the initial insight, which is validated in the last step.

## Result

The motives behind the LKS implementation determine the form, pattern, and strategy. Two types were analyzed, including 24 annual company reports from various industries and interviews results from 2 LKS management executives. The results showed that there had been a shift in LKS implementation motives which determines typology and influences effectiveness levels.

DATA RECIPIENT FUNDS				
Productive (KARITY)			Consumptive (CHARITY)	
LKS	Bina BU	BMT BF	BMT BH	BMT BU
320 orang	100	110	150	85

Source:Annual Report 2020

### 1. Motive of LKS Implementation

LKS implementation in Indonesia has experienced significant developments. In the annual report, social disclosures show changes in patterns and forms of implementation, strategies used, involved external parties, and costs incurred. According to the Annual Report in 2019, there are 2 types of motives, including social and economic. The social motive is

concerned with company responsibility to reduce the negative impact of operations and community problems. Also, social LKS activities are based on the intention to ease community burdens. LKS provides corporate charity to society through compensation for blood donors, cataract surgery, nursing homes, mass circumcisions, orphanages, street lighting, religious holidays, religious harmony (Annual Report, 2020 and interview results).

The economic motive provides value feedback company on image building, promotion and legitimacy. This motive often distorts LKS effectiveness by focusing more on stakeholders than corporates and the community. Economic motives are characterized by programs intended more for internal stakeholders, activities tailored to the company's operations, promotional content, limited charity and strong trade-off costs and benefits considerations. Moreover, these motives improve employee welfare through promotion, skills, education, health and job security. LKS activities for external parties are directed to promotional value, image and company operations.

## **2. System and Transcendental Support**

System and transcendental support can be used to achieve stakeholder value alignments in LKS. System support is related to government authority which incorporates awareness and pressure through issuing regulations and monitoring. LKS implementation is managed in a structured and institutionalized manner through foundations and management departments. Therefore, its implementation is managed in a systematic, planned, sustainable binding manner. Transcendental System is corporate awareness involving transcendental aspects based on spiritual values and corporate religious dimension. LKS programs are matched or developed with religious teachings from the maqasid al-sharia principles. Its implementation is primarily focused on the response to religious values and not a matter of fulfilling the litigation and strategy. Incorporating the social activity value into LKS designs places religious teachings into the actor's empirical behavior based on the Lillah-Billah intention. Corporate operations have become more humanistic, generous and stakeholder-oriented. LKS programs are directed to helping others, preventing exploitation and other needs affecting the society.

## **Discussion**

This study results showed that LKS program form and strategy could not be separated from the underlying motives. Generally, the 2 types of LKS design and implementation motive include social and economic. The social motive solves problems and difficulties faced by stakeholders through empathy and responsibility. Contrastingly, the economic motive contains economic interests, such as building an image, promotional value, and legitimacy (Hadi. Nor, et al.,2018; Carroll, 2016; Low, MP, 2016; Shin, Y, & Thai, VV, 2015). The company's original goal was to develop society and the environment. Also, the other intended purpose is to responsible for the reported negative impacts and have economic feedback. LKS is more humane and partial value will be stronger attention is paid to transcendental (Divine) values based on the dimensions of social activity. This value gives worksheets that are more productive because they are more stakeholder oriented. The values of social activities include

Helping business capital (Hafidz, 2007; Farook, 2007; Al-Ubaidi, 1992; At-Thohir, 2001; Dusuki & Abdullah, 2007)

The company pays attention to the trade cost and benefit principle for all decisions. This attitude brings LKS out of its original spirit, which was charity, responsiveness attitude on the environment, and economic values. LKS was more than just fulfilling the prevailing regulations (litigation), and its implementation was not about regulations. However, the LKS program's deviation is high and the implementation does not match the real needs felt by stakeholders and does not provide solutions. Therefore, LKS implementation motives need to be reconstructed and returned to the original spirit. The company management should be humanist and responsive to society and the environment. LKS construction needs to consist of the sincere intention to do charity in obedience to religious teachings or Illahiyah response. Companies need to conduct managerial functions on profit orientation and also worship form through provision for eternal life.

The transcendental support is an LKS implementation strategy based on Islamic values that operationally incorporate the social activity dimension. Incorporating religious values into the LKS program design is easy when directors realize leadership or management is religious. This can be achieved by integrating existing LKS programs with the social activity dimension. It includes making religious teachings an actus in a khaffah or a source that benefits nature and humans. The incorporation of social activity into LKS can be completed by conducting a theoretical study of Islamic teachings or fiqh and analyzing assisted stakeholders' contextualities. Lastly, integrating the social activity dimension with existing LKS programs to obtain the religion- based on LKS dimensions.

Islam provides good corporate governance, by paying attention to society, the environment and not neglecting its business objectives. Islam is present with the messenger of Allah and mercy upon the universe (QS. Al-Anbyaa: 107). Table 3 shows several verses of the Qur'an and Hadith that can be referenced to develop socila activity integrated LKS.

**Table . The Basic of LKS in Al-Qur'an and As-Sunnah**

<b>Responsible</b>	<b>Verses of Al-Qur'an &amp; Hadith</b>
Community	Al-Baqarah: 2, 11, 12, 43, 167, 245; At-Taubah: 103; Al-Maidah: 2, 11; Al-Mujadilah: 11; Al-Kahfi: 95; Al-Qhashas: 34-35; Al-Fath: 29; Al-Hujarat: 9-10, and others.
Environment	Al-Baqarah: 205; Ar-Rum: 41; Ali-Imron: 134; Al-Mulk: 3- 4, HR. Tirmizi, No. 653, and othres.
Energy	Yasin: 80; Al-Waqrah: 72-73; Nuh: 15-16; Yunus: 22; Al-Isra': 69; Al-Ambyak: 81; Al-Furqon : 48; Ar-Rum: 46; Al-Fatir: 9; dan lain lainnya.

Employee	As. At-Taubah: 9; Al-An'am: 135, Hud: 36; At-Thalaq: 6; Az-Zuhruf: 2; Az-Zumar: 39; Al-Baqarah: 279, and others. HR. Malik: 795, 980; HR. Bukhori: 30, 2227; HR. Ibnu Majah: 2442; HR. Muslim: 2328, 2310; HR. Abu Daud: 4786, 4773; dan lainnya.
Ethic	Al-Baqarah ayat 167, QS. 31: 20; (QS. 15: 29; QS. 75: 36; QS. 31: 28; An-Naim: 3; Al-Furqan: 23; Al-An'am: 152; AS-Syuaro': 181, and others.
Economic	Al-Humazah: 1-4; Al-Taqabun: 64; Ali Imron: 14; Al-Baqarah: 164, 275, 282; At-Taubah: 24, An-Nur: 37; Al-Fatir: 29; At-Taubah: 18; An-Nahl: 90; Al-Qasas: 77; Al-An'am: 152; As-Syuaro' 181, and others.

Sources: Al-Qur'anul Karim and Sunnah Rasulullah

Applicable verses and hadiths are translated into fiqh or operational practice procedures. Al-Quran requires translation to provide maslahan or benefits values that take into account contextuality.

This study examines the motives behind LKS implementation and the implication of shifts on effectiveness. Novelty is shown through the development of an effective LKS strategy known as transcendental support. In previous studies, LKS effectiveness is bias on the corporate side or economic perspective, (Aupperle, Carroll, & Hatfield, 1985; Belkaoui & Karpik, 1989; Choi et al., 2010; Guthrie & Abeysekera, 2006; Mackey et al., 2007; Naser. & Hassan, 2013). The research concluded that social disclosure has a positive effect on profitability, market performance, and the environment. Similarly, (Basu & Palazzo, 2008; Brammer & Pavelin, 2006; Hassan & Nareeman, 2013; Mankelow, 2008; Shin & Thai, 2015; Spence, Coles, & Harris, 2001) stated that social disclosure affects customers satisfaction and SMEs.

## Conclusion

The motives behind LKS implementation determine its form and orientation, which cause effectiveness issue. This study focused on 2 LKS implementation motives, specifically social and economic. There has been a shift from social to economic motives directing program more to internal stakeholders who can provide valuable feedback. This condition has cost LKS its original charity-based values. Placing the LKS motive to the essence of origin and constructing LKS principles and dimensions is essential. System support and transcendental support are relevant in creating a principles program. The support system develops a structured authority as binding pressure, while transcendental incorporates social activity dimensions. These dimensions give value to LKS, such as philosophy, principles, motives, and indicators.



Shifting to social activity value and support system will solve effectiveness problems because of binding pressure and religious power. Transcendental values provide therapy and direct LKS intentions aimed at gaining ukhrowi or the afterlife. LKS programs will be designed to match community needs. The social activity dimension will teach company management aspects of balance, trust, usefulness, stakeholder protection and corporate awareness.

Research limitations were related to LKS dimensions development in social activity perspective, which is contextual to stakeholder conditions. Also, the model design was not empirically validated. Therefore, further research needs to develop and factorial test a contextual dimension of social activity. Moreover, the research could design an empirical model through a developmental approach.

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