

The role of Islamic Corporate Social Responsibility in building corporate image to increase customer loyalty

Irmayanti Hasan¹, Lailatul Farida², Kholilah^{3*}

^{1,2,3} Universitas Islam Negeri Maulana Malik Ibrahim Malang, Indonesia

Abstract

This research aims to determine the influence of Islamic Corporate Social Responsibility and Corporate Image on Customer Loyalty. The research was conducted by sending questionnaires to sharia banking customers in Malang. There were 100 respondents to the study. This research is quantitative. The analysis technique used is Partial Least Square. The results showed that Islamic Corporate Social Responsibility affects Corporate Image and Customer Loyalty. This study successfully proved that CSR activities carried out by Sharia banking can increase customers' trust in Sharia banking. Besides, the survey results also showed that corporate image could not mediate ICSR's influence on customer loyalty because many customers do not know CSR activities done by Sharia banking. This study's limitations were question items in the questionnaire that did not pass the validity and reality test and a relatively small number of respondents. Further research can use question items that better describe the variables used, and analysis can be done on sharia banking customers throughout Indonesia so that the results can be more generalized.

Keywords: ICSR, corporate image, customer loyalty

Introduction

Sharia banking as one of the financial institutions both at the national and international level should be a pilot financial institution in driving CSR program (Yusuf, 2010). CSR program in the perspective of *ihsan* is one of the noble and respectable forms of policy teaching in terms of man and God (Djakfar, 2014), while in Islamic view is corporate ethics to pay more attention to the impact that the company has on the surrounding community. Combining ethics and business can mean imposing religious norms on the business

world, installing a code of conduct for the business profession, revising economic systems and laws, and improving the skills of meeting outside ethical demands to gain business legitimacy. Ethical business is a business that has a commitment to sincerity in maintaining social contracts that are already running. Social contracts are a promise that must be kept (Djakfar, 2014).

Frynas (2005) mentioned several factors that the company is considering in conducting CSR, namely meeting regulations, social investment, corporate

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*Corresponding Author:
 Universitas Islam Negeri Maulana Malik Ibrahim
 Jl. Gajayana No 50 Malang, Jawa Timur, Indonesia
 E-mail: kholilah.fe@uin-malang.ac.id

business strategy, business operating license, and corporate risk management to alleviate social conflicts. The implementation of CSR in Indonesia began to be carried out since the government regulation stipulated in Law No. 40 of 2007 on Limited Liability Company (PT Law) article 70 which states that the company is obliged to set aside 20% of the company's profits as CSR funds especially for the activities of companies related to nature.

Sampurna (2007) mentioned that Sharia banking should pay more attention to CSR issues. Meanwhile, according to Segoro (2009) there is no difference between CSR for sharia and non-sharia banks. The value of CSR is to form morally based values, so program sustainability is much more important than program repetition. Therefore, CSR strategies are directed to support the sustainability of programs that impact the small environmental costs that companies have to pay and increase the amount of community participation. Eriandani and Syafridda (2011), revealed that the focus of CSR programs in Sharia banks is on economic empowerment activities, community social development as well as the environment and health.

Other areas that are not the focus of CSR programs are education, employment and consumers. The social role is very important for sharia banks, because sharia banks are expected to perform their social functions better than other businesses. Jusoh et al. (2015) said that Sharia banks have two important roles in society, namely in terms of religiosity and finance. On the religiosity side, sharia banks have a responsibility to operate in accordance with Islamic guidance, so that their business activities can influence the perception and behavior of individuals and business organizations in society (Jusoh et al., 2015). On the financial side, Islamic banks manage a considerable funds and use income to run their social roles (Jusoh et al., 2015).

CSR activities are part of the company's social performance. Sukarno

(2010) mentioned that the social performance of the company is a set of results achieved and refers to the actions of achievement and implementation of social responsibility expected of the company. Another definition is expressed by Santhosh and Baral (2015) which states that social performance is a multidimensional construct that has four components of corporate social responsibility namely economic responsibility to investors and consumers, legal responsibility to government or law, ethical responsibility to the community and philanthropic responsibility to the community.

Chahal and Sharma (2006), Russo and Tencati (2009), and Gürlek et al. (2017) mention that CSR has three dimensions that are economic, social, and environmental dimensions. The economic dimensions include the economic impact of operational activities carried out by the company. The key to economic success is economic performance with three indicators: products, services, and activities that undermine trust.

The social dimension is the latest dimension that is the main concern of some companies today. Two main indicators of social dimension are labour practises about workers in companies and social activities. Chahal and Sharma (2006) suggested that social activities have begun to be done by the company because it has a very significant impact on the company's financial performance. Kotler and Lee (2005) mentioned that social activities can be divided into 3 parts, namely corporate philanthropy, corporate volunteering, and cause-related marketing.

The environmental dimension is the csr dimension that has been discussed for about 30 years. The indicators of this dimension are the first waste management and producing environment friendly product. Waste management can be done by recycle, reduce, and reuse to reduce waste generated. Producing environment

friendly product, i.e. producing environmentally friendly products. The second indicator is relatively difficult for the company because it has an impact on the high cost of good sold (COGS) products. High COGS causes the selling price of products to be more expensive than the selling price of similar products on the market.

CSR form based on its nature is the social responsibility of the company to contribute actively in social activities either due to social awareness or demands of government rules (Yudiana & Setyono, 2016). Kotler and Lee (2005) mentioned that csr implementation can be categorized into six categories, namely cause promotions, cause-related marketing, corporate social marketing, corporate philanthropy, community volunteering, and social responsibility business practice.

Chahal and Sharma (2006) mentioned that the concept of Kotler and Lee (2005) can be constructed into three large dimensions, namely economic, social, and environmental. However, in its implementation there are often overlapping definitions of each category. Categories included in the economic dimension are cause promotions, cause-related marketing, corporate social marketing, corporate philanthropy, community volunteering, and social responsibility business practice. Social dimension categories are cause promotions, cause-related marketing, corporate social marketing, corporate philanthropy, and community volunteering. Categories included in the environmental dimension are corporate social marketing, corporate philanthropy, community volunteering, and social responsibility business practice.

The Prince of Wales International Business Forum mentions that CSR concerns five pillars, namely building human, strengthen economies, assessing social cohesion, encouraging good governance, and protecting the environment. Building human concerns the company's ability to have reliable human

resources support (internal) and community (external). Strengthen economies have the sense that companies are required to empower the economies of surrounding communities. Assessing social cohesion means that the company maintains harmony with the surrounding community so as not to cause conflict. Encouraging good governance is a company run with good business governance. Protecting the environment means the company must maintain environmental sustainability in doing its activities.

In contrast to CSR that focuses only on the economic, social, and environmental dimensions of the company's business activities. Islamic Corporate Social Responsibility (ICSR) is an implication of the teaching of ownership in Islam. Allah is the Absolute Owner (haqqiyah), while man is only a temporary owner who serves as the recipient of the trust (Djakfar, 2014). God as the Absolute owner, mandates man to be His caliph and recipient of His gift. Man is encouraged to seek sustenance without ignoring the importance of the hereafter (Djakfar, 2014).

Customer Loyalty and ICSR

Customer loyalty is the loyalty shown by sharia banking service customers. The research indicators used refer to the theory expressed (Griffin, 1995). Some indicators used to measure customer loyalty variables are repurchasing, making purchases outside the product/service line, recommending products, showing immunity from the attractiveness of similar products from competitors (Kotler, 2012). The benefits of customer loyalty according to Yudiana and Setyono (2016) are reducing marketing costs, growing distributor trust, attracting new customers, and more flexible time to deal with threats.

CSR has a positive influence on customer loyalty (Al Mubarak et al., 2019; Faqihudin et al., 2020; Gürlek et al., 2017;

Suminto & Maharani, 2020; Yudiana & Setyono, 2016). This is because the CSR implementation carried out by the company can be felt by the customer so that the customer has a positive view of the company (Suminto & Maharani, 2020). The positive outlook of customers towards Sharia banking due to CSR activities shows that CSR has a positive effect on corporate image (Al Mubarak et al., 2019; Yudiana & Setyono, 2016). Al Mubarak et al. (2019) stated that CSR activities carried out by the company can increase consumer confidence due to the assumption that in addition to the company conducting its business operations not only to profit but also to have a positive impact on the community and the environment. Therefore, the company's image can mediate csr influence on customer loyalty (Al Mubarak et al., 2019; Gürlek et al., 2017; Yudiana & Setyono, 2016).

H₁: ICSR has a positive effect on customer loyalty

Corporate Image and ICSR

Corporate image is the image of an organization as a whole, so not the image of its products and services (Baines et al., 2016). Gürlek et al. (2017) mentions that corporate image is the result of one's beliefs, ideas, feelings, and impressions of the company. Furthermore, Gürlek et al. (2017) mentions that there are six main dimensions in measuring corporate image. First, dynamic, a company can be said to be dynamic if the company is very enthusiastic in expanding its business network. Second, cooperative, companies are expected to be able to cooperate either with other companies in order to mutually benefit each other or even create corporate synergies. Third, business-wise, it relates to how a company takes decisions wisely. Fourth, character, the company should be able to show the character of itself without exaggerating. Fifth, successful, is the success of an organization. The sixth, withdrawn, is the tendency of companies to withdraw

from conflicts that arise. So companies are more than happy to resolve conflicts internally.

In contrast to Gürlek et al. (2017), Suminto and Maharani (2020) and Yudiana and Setyono (2016) mention that the dimensions of corporate image are personality, reputation, value and corporate identity. Personality is the company's ability to provide an image that the company can trust and have social responsibility (Suminto & Maharani, 2020; Yudiana & Setyono, 2016). Reputation is a customer's experience of transaction security in Sharia banking (Suminto & Maharani, 2020; Yudiana & Setyono, 2016). Value is the value or culture owned by banks in serving customers (Suminto & Maharani, 2020; Yudiana & Setyono, 2016). Corporate identity is the way the company introduces itself to customers either through the selection of company colors, logos, mottos, or employee uniforms (Suminto & Maharani, 2020; Yudiana & Setyono, 2016).

H₂: ICSR has a positive impact on corporate image

H₃: Corporate image can mediate the influence of ICSR on customer loyalty.

The focus of this research is the implementation of ICSR in Sharia Banking. This research is an development of the research of Pratihari & Uzma (2019), Al Mubarak et al. (2019), Gürlek et al. (2017), Yudiana and Setyono (2016) by adding the value of the Islam in its measurement construct. Based on the above description, there are three objectives that want to be achieved in this study, namely knowing the direct influence of ICSR on customer loyalty, knowing the influence of ICSR on corporate image, and knowing the influence of corporate image in mediating ICSR with customer loyalty.

Method

This research is a quantitative study that aims to describe a generalization or relationship of one variable to another.

Population is the totality of all objects or individu that have certain, clear, and complete characteristics to be studied (Hasan, 2002)). The population in this study is sharia banking customers in Malang city and sharia banking has implemented ICSR program. The characteristics of this population are men and women who are over 17 years old, because they have been considered adults in determining their choices. Samples are part of the number and characteristics that such populations have. The type of sample in this study is nonprobability sampling, namely accidental sampling and convenience samling, which is a technique of determining samples based on coincidence and ease of finding them. Guidelines specify the sample size based on Ferdinand (2006), which is 100 samples for the Maximum Likelihood Estimation technique.

This primary data is obtained from the results of sending questionnaires to sharia banking customers in Malang and indepth interviews with informants to provide insight into question materials and statements in questionnaires about ICSR programs already run by Sharia banking in Malang. Secondary data is obtained from literature, journals, articles, magazines, and the internet in the form of information on the implementation of ICSR sharia banking in Malang.

This study uses a questionnaire survey method that is shared with respondents. Questionnaires shared with respondents contain closed statements meaning questions or statements that give

respondents the freedom to provide answers and opinions according to the choices provided. The scale used is the Likert scale with a score of 1= strongly disagrees; up to a score of 5 = strongly agree.

Questionnaires were given directly to Islamic bank customers in Malang as many as 100 questionnaires with a return rate of 50% and sent to several WhatsApp groups with 70 respondents so that the total number of questionnaires filled out was 120 respondents. However, the questionnaires that can be used are 100 questionnaires because 20 questionnaires are customers of conventional banks.

The instruments used in this study were 30 questions which included; 13 questions about ICSR, 13 questions about corporate image and four questions about customer loyalty. Questions about ICSR focus on the economic dimension with six questions, the social dimension with four questions, and the environmental dimension with three questions. Corporate image questions focused on Store Layout, Store Prestige, Service Quality of Store, Products, In-Store Promotion, and Support Services and Equipment. Each consisted of 2 questions except for service and equipment support points which consisted of 3 queries. Customer loyalty in the form of 4 queries. Details of the research questions are presented in the appendix. Based on the operational defining, the research framework is like Figure 1.

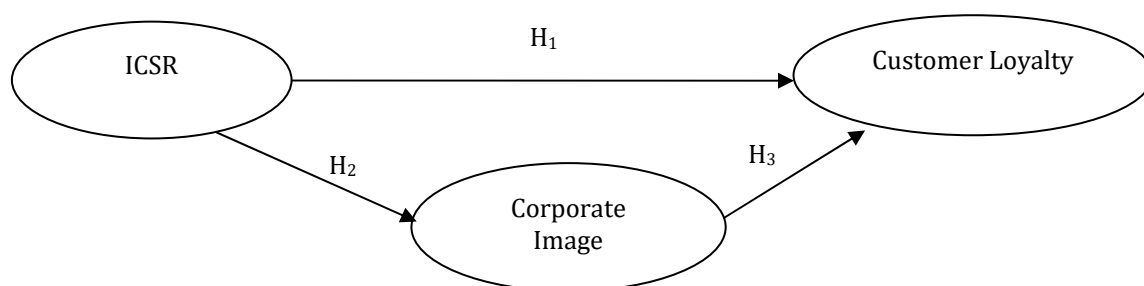


Figure 1. Research Framework

The analytical methods used in this study use Structural Equation Modelling (SEM). SEM is a multivariate technique that combines multiple regression aspects and factor analysis to estimate a series of simultaneous dependency relationships (Hair et al., 2017). Ghozali (2014) revealed that SEM makes it possible to answer regressive and dimensional research questions that measure the dimensions of a concept. SEM is also an integrated approach between factor analysis, structural model and path analysis. Ghozali (2014) states that the use of SEM makes it possible to test relationships between complex variables, to obtain a thorough picture of the entire model. SEM can test together (Ghozali, 2014). Partial Least Square (PLS) analysis is done with the help of smart PLS.

Results

The respondents in this study were 100 respondents who are sharia banking customers in Malang. The spread of respondents is 30% of PT Bank Muamalat Indonesia customers., 25% of Bank Syariah Mandiri customers, 15% of BRI Syariah

customers, 10% of BNI Syariah customers, 10% of BTN Syariah customers, and the rest are CIMB Niaga Syariah, Bank Mega Syariah, and Bank Sinarmas Syariah customer.

The instrument validity and reliability test were conducted against 100 respondents. Test validity and reliability in this study using smartPLS 6. Questionnaire items are said to be valid if each question item's correlation value is above the 0.3 cuts off. The research item is said to be reliable if the value of the Cronbach Alpha coefficient is 0.6. PLS is a variance-based structural equation analysis (SEM) capable of simultaneously testing measurement models and structural testing models. Measurement models are used to test validity and reliability, while structural models test causality (hypothesis testing with prediction models). The results of the PLS analysis are presented in Figure 2.

Based on these results, it can be concluded that as a large item, the question has fulfilled the validity and reliability requirements. The results of ICSR and corporate image direct influence tests are presented in Table 1.

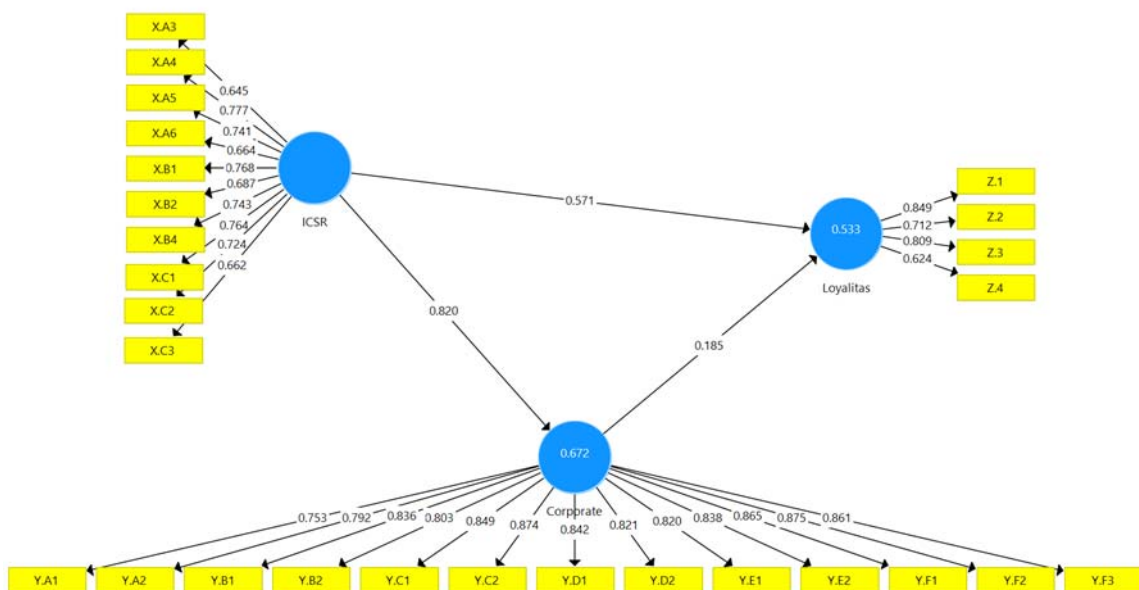


Figure 2. Model Construction Result

Table 1. Direct Hypothesis Test Results

	Beta Coefficient	T	P Value	Description
<i>Corporate image -> Costumer Loyalty</i>	0,145	0,178	0,168	Not Sign.
<i>ICSR -> Corporate Image</i>	0,038	0,820	0,000	Sign.
<i>ICSR -> Costumer Loyalty</i>	0,128	0,576	0,000	Sign.

Based on the test results, the p-value of 0.168 was obtained for the influence of corporate image on customer loyalty. This result shows that $0.168 > 0.05$, so it can be said that the corporate image has no effect on sharia banking loyalty customers in Malang city. The second test on the influence of ICSR on corporate image shows a p-value of $0.000 < 0.05$, so it can be concluded that ICSR has a positive effect on corporate image. The last test is the direct effect of ICSR on costumer loyalty. P-value

of $0.000 < 0.05$, so it can be concluded that ICSR affects customer loyalty.

The study also conducted indirect corporate image testing of ICSR and costumer loyalty. The test results are shown in the following Table 2.

The test results showed that the p-value was $0.170 > 0.05$, so it can be concluded that corporate image cannot mediate ICSR's influence on customer loyalty.

Table 2. Indirect Hypothesis Test Results

	Beta Coefficient	T	P Value	Description
<i>ICSR -> Corporate Image -> Costumer Loyalty</i>	0,119	0,146	0,170	Not Sign.

Discussion

The Influence of ICSR on Customer Loyalty

Companies that want to implement ICSR management's concept must change the paradigm of responsibility to shareholders into responsible stakeholders, namely consumers, employees, environmentalists, suppliers, the local community, and other parties. As one of the company's stakeholders, consumers are significant parties in the sustainability company business. This study shows that there is a positive relationship between ICSR to the loyalty of sharia banking customers in Malang.

The company's ICSR activities indicate that the company's primary profit goal will be directly proportional to the company's positive impact on the

company's environment. The results of this study are similar to the research of Al Mubarak et al. (2019), Faqihudin et al. (2020), Gürlek et al. (2017), Suminto and Maharani (2020) as well as Yudianta and Setyono (2016). This is because the company's CSR implementation can be felt by the customer to have a complementary view of the company (Suminto & Maharani, 2020). Positive consumer perception will increase consumer loyalty to Al Mubarak et al. (2019) and Pratihari and Uzma (2019).

The Influence of ICSR on Corporate Image

Kotler and Lee (2005) suggested that csr applied appropriately, both in the economic, social and environmental fields, can provide many benefits for the

company, one of which is to be able to improve the corporate image. Companies that implement CSR will attract the public's attention. For example, CSR that the company does to employees. CSR implementation in employees has an impact on the positive outlook of employees in the company, low employee turnover, and the community also has a positive view of the company. Moreover, if the company's ICSR form is the awarding of higher education scholarships to the surrounding community and the provision of employment opportunities for the recipient of the scholarship. This improves the company's image because it impacts the quality of human resources. The results showed that on the positive influence of ICSR on corporate image. The results of this study are similar to the research results of Pratihari and Uzma (2019), Al Mubarak et al. (2019), and Yudiana and Setyono (2016).

Pratihari and Uzma (2019) mentioned that the company's CSR affects corporate image, this is because the consumer perspective becomes better with the CSR done by the company. The same is true of Al Mubarak et al. (2019) that CSR's main activities including economic, legal, ethical and philanthropic activities affect the corporate image of banking. The company's reputation will be increased by CSR activities carried out by the company (Semuel & Wijaya, 2008). The positive outlook of customers towards Sharia banking due to CSR activities shows that CSR has a positive effect on corporate image (Al Mubarak et al., 2019; Yudiana & Setyono, 2016). Al Mubarak et al. (2019) stated that CSR activities carried out by the company can increase consumer confidence due to the assumption that in addition to the company conducting its business operations not only to profit but also to have a positive impact on the community and the environment.

The Influence of Corporate Image Mediation on ICSR and Customer Loyalty

The increase in corporate image due to the company's CSR activities can increase customer confidence to become a loyal consumer of the company as stated by Gürlek et al. (2017) that CSR is an effective means for companies to improve both corporate image and customer loyalty. Unlike Gürlek et al. (2017), Al Mubarak et al. (2019), Yudiana and Setyono (2016) who found that corporate image was able to mediate the influence of ICSR on customer loyalty, the results of this study could not prove such an influence. This can be due to the lack of customer understanding of CSR activities carried out by Sharia banking, resulting in no increase in customer loyalty because no image is formed of CSR activities (Suminto & Maharani, 2020). Nevertheless, the results of this study are different from the results of Yasa et al. (2015), who found the effect of corporate image in mediating ICSR and customer loyalty. Yasa et al. (2015) stated that CSR carried out by the company creates a positive image of consumers to increase customer loyalty. The difference between this study and previous research is that the company's image has been formed in customers' minds so that it does not depend on CSR activities carried out by the company.

Conclusion

The results showed that there was a positive influence of ICSR on customer loyalty. This shows that ICSR activities conducted by the company give customers confidence that in the operation of its business, the company focuses not only on economic interests but also on social and environmental activities to bring peace of mind to customers to transact and put their

funds in sharia banks. The results also showed that ICSR has a positive effect on the corporate image of Sharia banking. ICSR activities conducted by Sharia banks can improve the corporate image in the form of Sharia banking's right image in the eyes of customers. The results of this study could not find the effect of corporate image mediation in the relationship between ICSR and customer loyalty. This can be due to customer ignorance about CSR activities carried out by Sharia banking. This study's limitations are question items that do not sufficiently describe the measurement of the variables used. Subsequent research could look for other question items that better correspond to variables. Besides, the number of samples used in this study was only 100 respondents to sharia banking customers in Malang. This finding contributes to the increase in ICSR activities carried out by Islamic banks so that the company has a positive image to increase customer loyalty. Increasing customer loyalty can improve the role of Islamic banks in the national economy.

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APPENDIX

Variable Operational Definitions

Variable	Indicator	Item
<i>Islamic Corporate Social Responsibility (X1)</i>		
<i>Economic Dimension</i>	The economic impact of operational activities carried out by the company	<ul style="list-style-type: none"> a. ICSR activities conducted by the Bank do not cause a decrease in the quality of products and services (X1.1) b. Bank maintains the security of products it sells as a form of ICSR activity (X1.2) c. Bank innovate - innovation of products produced under consumer expectations (X1.3) d. Banks are consistent with promised services (X1.4) e. The information provided by the Bank can be trusted, especially about the halalness of the product (X1.5) f. ICSR activities conducted by the Bank do not weigh the price of the products and services offered (X1.6)
<i>Social Dimension</i>	Forms of company transactions given to internal and external stakeholders	<ul style="list-style-type: none"> a. The Bank is concerned about the future of its employees. For example, providing ease of financing facilities (X1.7) b. Banks can provide a sense of security to employees. For example, by ensuring its employees (X1.8) c. The Bank is willing to hire the surrounding community as its employees (X1.9) d. Banks actively participate in social activities. For example, donating to a surrounding social foundation (X1.10)
<i>Environment Dimension</i>	Company actions to reduce the negative impact on the environment	<ul style="list-style-type: none"> a. Banks are responsible for the waste they produce, such as sorting organic and non-organic waste, and indiscriminate waste disposal. (X1.11) b. Banks reduce the use of hard-to-recycle products, such as plastics (X1.12) c. Banks use environmentally friendly products, such as food-grade packaging and recycled wipes. (X1.13)
<i>Corporate Image(X2)</i>		
1. <i>Store Layout</i>	Is the space between one product and another presented to consumers	<ul style="list-style-type: none"> a. Neat and clean interior space placement distance (X2.1) b. Beautiful and bright interior space placement distance (X2.2)
2. <i>Store Prestige</i>	Store prestige can be interpreted as the reputation of the store that occurs due to the involvement of both parties between the company and consumers in the long term continuously	<ul style="list-style-type: none"> a. The reputation of bank service to right bank customers (X2.3) b. The reputation of honest, transparent, and reliable bank service (X2.4)

Variable	Indicator	Item
3. <i>Service Quality of Store</i>	Quality is the whole product or service provided to create the satisfaction that consumers need for what they buy.	<ul style="list-style-type: none"> a. The quality of bank service to bank customers is good (X2.5) b. Bank maintains a good relationship with bank customers (X2.6)
4. <i>Products</i>	A product is an object of an object marketed through advertising and intended in marketing activities.	<ul style="list-style-type: none"> a. Banking products offered according to the needs of bank customers (X2.7) b. Banking products offered up to date (X2.8)
5. <i>In-Store Promotion</i>	An investment made to promote their products in-store, such as; rack positions, custom screens, promotional brochures, and more.	<ul style="list-style-type: none"> a. Investment material promotion kid according to the needs of bank customers (X2.9) b. Material promotion kid inverse is beneficial for bank customers (X2.10)
6. <i>Support Services and Equipment</i>	A tool provided by the store, such as shopping carts and returning products provided by the store to consumers. Indicators based on Tu et al. research (2013)	<ul style="list-style-type: none"> a. Banking product assistive materials trusted by customers (X2.11) b. Material banking product return tool under initial commitment (X2.12) c. The banking service process gives a feeling of trust (X2.13)
<i>Customer Loyalty (Y)</i>	Defined as loyalty shown by sharia banking service customers. Indicators based on theory (Griffin 1995)	<ul style="list-style-type: none"> a. Make regular repeat purchases (Y1.1) b. Purchases across product and service lines (Y1.2) c. Recommend products (Refers other) (Y1.3) d. Demonstrates an immunity to the full of the competition (Y1.4)