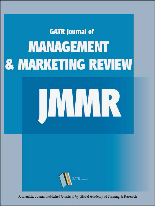
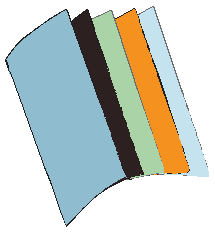
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**CSR and Islamic Banking Performance in Aceh: The Role of**

**Innovation as Mediation**

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**ABSTRACT**

**Objective –** In this article, the CSR is discussed as a means of building innovation for achieving organizational performance.

**Methodology/Technique –** The *Maqasid* model will be used in this paper as a dimension of Islamic banking in addition to employee performance. The literature review used in this study focus on collecting articles/journals which are then

synthesized so as to locate a comparison of substance that is related to this study. The idea is to clarify the relationship between CSR, innovation and performance.

**Findings –** This article identifies that innovation acts as a mediation between CSR and performance.

**Novelty –** The outcome of this article is expected to contribute to the development of human resources through CSR activities and innovation in Islamic banking services in Aceh and the application of the *Maqasid Al Syariah* and non- financial performance in measuring the performance of Islamic banking in Aceh.

**Type of Paper:** Review

***Keywords***: Corporate Social Responsibility, Innovation, Performance, Islamic Banking, *Maqasid Al Syariah*

**JEL Classification:** G21, M14.

**1. Introduction**

Corporate Social Responsibility (CSR) is an integrated concept of a company and its social activities towards the community it serves. CSR is an interaction between a company and its stakeholders based on voluntary means (*Commission of the European Communities*, 2001). There are two dimensions in CSR: internal and external dimensions (Castka et al., 2003) which depict internal and external stakeholders (Freeman, 1984). During the application of CSR, focus is usually given to external stakeholders (Mory et al.,

2015). Nonetheless, to create value for a company, CSR activities should not just be influenced by external stakeholders but also internal stakeholders, that is, the employees (Skudiene & Auruskeviciene, 2012). CSR should not be seen as a form of philanthropy or charity (Farag, Mallin, & Ow-Yong, 2014) because it concerns how corporate social responsibility towards employees is being demonstrated. From implementing CSR, a company is expected to reap benefits both for the internal and external stakeholders (See Virakul et al., 2009).

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Bocquet et al., (2015) argued that one of the benefits of the CSR is its ability to encourage companies to create innovations. A study conducted by Bocquet and Mothe (2013) noted that CSR could lead to technology innovation when it is integrated into the company's strategy to achieve performance. Nonetheless, innovation research in Islamic banking is still lacking (Tipu, 2014). This is because most studies (Martovoy & Mention,

2016; Ozdemir et al., 2007; Uzkurt et al., 2013). Bocquet et al., (2015) focused on conventional methods.

Research on the performance of Islamic banking has been done by researchers including Samad, 2004), Ismal, (2010), Eljelly and Elobeed, (2013), Johnes et al., (2014), Musibah and Alfattani, (2014), Nurwati et al., (2014), Wasiuzzaman and Nair Gunasegavan, (2013) and Erol et al., (2014). These researchers measured the performance of the financial side of companies. However, measuring performance of organizations by using financial ratios is inadequate for assessing the overall performance of the organization (Paranjape et al.,

2006). The measurement of non-financial performances such as employees, customers and market share growth rate needs to be considered.

Mohammed et al. (2015) revealed that measuring the performance of Islamic banking is no different from measuring the performance of conventional banks. Supposedly, the performance appraisal of Islamic banking is in accordance with similar concepts. Referring to Antonio et al., (2012), Mohammed et al., (2015) as well as Mohammed & Thaibt (2015) noted that *Maqasid Al Shari’ah* is more suitable for Islamic banking, both in terms of operations and its founding purpose as both benefit the *ummah*. In Aceh, Islamic banks generally use financial measures to measure the performance. Therefore, the focus of this study is to fill the research gap of measuring Islamic banking performance by implementing *Maqasid Al Shari’ah*. This study expects to contribute to the development of human resources through CSR activities and innovation in Islamic banking services in Aceh. The application used is the *Maqasid Al Shari’ah* and non-financial performance for measuring the performance of Islamic banking in Aceh.

**2. Methods**

This article is based on literature review. The aim is to provide empirical evidence that the *Maqasid Al Shari’ah* approach can be implemented. To obtain a good literature review, articles from journals pertaining to the title and topic were reviewed, compared and subsequently, conclusions were drawn. The literature review drawn up were based on the variables studied as theoretical basis and the formulation of hypotheses in the study. The organization of this study discusses the theory and its subsequent relationship to the CSR, innovation and performance before coming to a conclusion.

In this study 75 articles from journals were collected and reviewed so as to form a research model or conceptual framework for the study. Based on the review of articles, the data were divided into how they were presented:

1. Construction of theory of CSR, innovation and performance

2. Linkage of one variable with another variable based on previous research

3. Construction of hypotheses based on previous research

4. Attractive conclusions based on a literature review

All the four points above will be described in the discussion and conclusion.

**3. Discussions**

**3.1. Conceptual Framework**

In reviewing the current articles of CSR, it is inevitable to say that the idea was meant to understand the role of the CSR in achieving innovation and organizational performance in the context of economic development. Gallego‐lvarez et al., (2011) revealed that different theories have been used to explain the behavior of economic units related to CSR. In this regard, there were different answers found to address the

different problems related to the responsibility of a company. These problems were based on the Agency theory, the Stewardship theory, and the Stakeholder theory. The Stakeholders theory refer to a group or individuals who can affect or be affected by the achievement of certain goals of the company; and the changes noted in the external and internal environment of such companies can have an impact on companies to develop their relationship with all the stakeholders including employees, customers and suppliers, each of whom has its own interest for the company (Freeman, 1984). Therefore, the management plays an important role in managing and maintaining a balanced relationship among all its stakeholders. If balance is not maintained properly such survival of the company will be disrupted (Freeman, 1993). CSR has a positive and negative side because not all studies have shown that CSR creates positive outcomes. Of the many positive benefits identified from CSR, one is the company’s improvement whenCSR is integrated into corporate strategies such as innovations. The high innovation of the company will produce a high value of the company in terms of its responsibility. By giving satisfaction to all stakeholders in accordance with their wishes and needs, the company will create superior company performance (Bocquet et al., 2015). The main constructs used in the current study are discussed below.

**3.1.1. Corporate Social Responsibility**

Several researchers, such as Carroll (1979, 1999), Freeman (1984) and Turker (2009) have made major contributions to CSR development. Carroll (1979, 1999) classifies CSR into four categories namely, economic, ethical, legal and discretionary Until today, most studies examining CSR as a social responsibility of companies use the dimensions proposed by Carroll (Carroll & Shabana, 2010). However, there is no standard definition of what CSR means (Dasruld, 2008; McWilliams et al., 2006) hence, each researcher defines the concept according to needs. The definition of CSR is an agenda that is still being debated today (Heslin & Ochoa, 2008; Husted & Allen, 2007; Sheehy, 2015; Sobczak & Havard, 2014; Taneja, 2011).

Overall, CSR is understood as the corporate responsibility paid forward to a society and this society encompasses the customers, the suppliers or communities outside the company (external stakeholders) (Mory et al., 2015). There is little research of CSR focusing on internal stakeholders such as employees (Skudiene & Auruskeviciene, 2012). This is because studies note that the concept of social responsibility is a phenomenon that was integrated with the moral commitments made to stakeholders by the company management. The CSR concept proposed by Skudiene and Auruskeviciene, (2012) is one that was based on the Stakeholders theory held by Freman (1984). It distinguishes the internal from the external stakeholders of companies. Furthermore, Turker (2009) developed a Measurement scale of CSR which can reflect the responsibilities of businesses on the various stakeholders in the company. In other words, it looks at how CSR can be linked to the community and its natural environment, the next generation, NGOs, employees, consumers, and the government itself. In their study, Hassan and Salma Binti Abdul Latiff, (2009) and Sairally (2013) focused more on CSR of Islamic banking, especially the charity carried out by Islamic banking on the community, consumers, and communities. Ali Aribi and Arun, (2014) and Musibah and Alfattani, (2014) examined CSR through an annual CSR report data of Islamic financial institutions such as the Islamic banking in Bahrain and the GCC countries. It was noted by Dusuki (2011) that: “Islamic banks, the intense commitment of Islam to brotherhood and justice makes the well-being of all human beings the principal goal of Islam. This well-being includes both material and spiritual satisfaction of the human personality that encompasses happiness in the present world and the hereafter. "

To yield profits, without ignoring consumers or other stakeholders is a part of Islamic banking. CSR is a part of Islamic banking because the goal of Islamic banking is basically to increase socio-economic development and to reduce poverty (Dusuki, 2008). Furthermore, CSR also emphasizes on the environment,

human resource, philanthropy, and human rights which are all in accordance with the principles of Islam. In Skudiene and Ausruskeveciene (2012) and Al-bdour et al., (2010), human resources and human rights were classified into internal stakeholders while philanthropy and the environment were classified into external stakeholder. In Islamic banking, charity, as in paying *zakat* (obligatory alms), is required thus, it is different from conventional banking. *Zakat* in Islamic banking is part of CSR (Ali Aribi & Arun, 2014; Musibah & Alfattani, 2014). Therefore, it is clear that social responsibility is more identical with Islamic banking. it should be integrated with the teachings and principles of Islam, better known as *Shari’ah* law.

CSR has brought about many changes in the business world such as practices relating to environment and practices dealing with discrimination and harassment in the workplace (Al-bdour et al., 2010). CSR helps to balance the interests of internal and external. Fuentes-Garcıía et al., (2008) suggested that the main reason which accentuates the importance of CSR is its concept of welfare to all stakeholders in the company, especially in the field of human resources, including corporate social responsibility to employees such as workplace safety, working conditions, skills and education, training and participation in business, consideration justice, equal opportunity, health and safety, labor rights work and human rights as well as family

relationships work (Jamali, 2008; Vives, 2005).

Skudiene and Auruskeviciene, (2012) distinguished CSR into four factors: CSR is internally and externally associated with the consumer, CSR is externally associated with the local community, and CSR is externally associated with partner-flying businesses. This emphasizes CSR as a concern of stakeholders and partnership stakeholders. CSR that is related to employees is the personal development and the career development of employees, a system of fair wages, improving the psychological climate in the workplace (Aguilera et al.,

2007), ensuring an open communication, practicing openess, honesty and flexibility with employees and involving employees in the process of decision-making (Gyo, 2009). In addition it is the company's responsibility to provide and maintain stable employment for employees. The company is also obliged towards contributing free time and family life to employees so as to not cause conflict in the work, thus, the existence of a good balance for each employee (Mory et al., 2015).

Al-bdour et al., (2010) argued that CSR refers to the internal practices of companies and these are directly related to the physical and psychological work environment of employees. The internal factors reveal a concern of the companies for health and welfare issues of the employees, training and their participation in the business with no barring for equal opportunities and labor relations-family. The external factors reveal a concern for the company’s responsibility towards the local community, business partners and suppliers, customers, public authorities and NGOs representing local communities, as well as the environment. In this regard, CSR is synonymous to philanthropy, volunteerism and environmental protection (Al-bdour et al., 2010).

The external concerns of CSR is more widely known than the internal concerns of CSR. Based on the literature, it appears that the internal concern of CSR can provide motivation to employees (Skudiene & Auruskeviciene, 2012) so that a strong commitment is embedded in employees (Mory et al., 2015). This can lead to self-development such as career promotion, knowledge, competence, and expertise, all of which can have an impact on the capabilities and contributions of employees in their work, primarily the creativity to create new products or services which improve current existing ones. In this regard, the employees improve the quality of products and services or innovation with the competence they have acquired.

**3.1.2. Innovation**

Innovation can be in the form of new products or services, new production technology process, structure or system of the new administration, and new plans or programs relating to members of the organization (Mahmoud & Hinson, 2012). The organization's ability to produce innovation is an indicator of the success of an organization (Saunila et al., 2014). Studies seem to define organizational innovations as those consisting of the determinants that affect the organization's ability to manage innovation. In the financial services sector, creativity in innovation is done differently, depending on the respective bank units so that the innovation

process is not simple and linear (Martovoy & Mention, 2016). The innovation process is the change that occurs in the organization. Gopalakrishnan et al. (1999), as cited by Tipu (2014), argued that to bridge the needs of the market of external users is by doing some product innovation. They found that changes in the organization, work, and mechanisms of information flow and others manifest the innovation process.

Avlonitis et al., (2001) categorized the financial service product innovation into six types: new to the market

services, new to the company services, new delivery processes, service modifications, service line extensions, and service repositioning. These types of innovation can encourage a superior performance and a development of better services. The next innovation in financial services may take the form of new products (such as flexible mortgage rates), new services (such as online banking), new production processes (credit-scoring systems) and new organizational forms (a new approach for the electronic exchange), (Frame & White, 2004).

Orlikowsky (1991), as cited by Chahal et al. (2015), stated that innovation can be of two kinds: incremental and radical. To repair or improve products, services, and technologies or meant to add additional features, so incremental innovation. In contrast, radical innovation is bringing something new such as new products, services, and technologies. In banking, incremental innovation refers to the betterment of existing products and services as well as the improvement of the organizational structure for achieving the performance of banks. Radical innovation refers to making products and services more competitive in order to achieve consumer satisfaction (Chahal et al., 2015).

**3.1.3. Performance**

The measurement commonly used to assess organizational performance is ROI, ROA and ROE (Yen, 2013) and traditional performance measurement systems based on financial metrics. Nonetheless, this has been considered inadequate. Non-financial metric has been a concern in performance measurement nowadays (Paranjape et al., 2006). Not only is organizational performance measured by using financial performance indicators, but also by customer satisfaction and employee satisfaction (Jing et al., 2011). Al-Najjar and Kalaf, (2012) showed the importance of looking at the performance of other perspectives besides financial perspective. Performance measurement using financial ratio does not describe the overall organizational performance. Thus, the nonfinancial performance measurement is also needed by the banking sector. In this regard, both conventional and Islamic banks can use the balanced scorecard introduced by Kapplan and Norton (1996) or the performance prism by Neely (2001) which provides a more comprehensive performance measurement.

According to Al-Najjar and Kalaf (2012), the scorecard is a useful approach. It has become a major concern for organizations to measure performance, especially organizations that make intangible assets as a competitive advantage in the enterprise. Maintaining a competitive advantage is a primary target of any organization (Choudhary et al., 2013) therefore, performance measurement is an aspect that reflects the achievement of the target or aim of the company.

In 1992, the Islamic banking system in Indonesia began with the issuance of Regulation No. 7/1992 which enabled banks to carry out Islamic banking operations through a shared system. Bank *Muamalat* Indonesia is the first Islamic bank in Indonesia established. The growth of Islamic banking in Indonesia began to increase after the launch of the Dual System Banking Regulation No.10 / 0.1998 as a change to Regulation No 7/1992 on Banking, with the establishment of Bank *Syariah* Mandiri in 1999, and Islamic business units that form part of the entity parent which continues to grow and develop (Nurwati et al., 2014).

For the people of Indonesia, including the Muslim community, the concept of Islamic banking is still relatively new but it is one of the concepts of alternative financing that is very promising (Ismal, 2010; Nurwati et al., 2014). Islamic banking is governed by regulations that encourage the development of Islamic Banking and performance growth. It has become a major magnet for conventional banks and investors to open Islamic banks, Islamic business units (business unit syarih) and BPR *Shari’ah* (Nurwati et al., 2014). Referring to a study conducted by Eljelly and Elobeed, (2013), Hadriche, (2015), Ismal, (2010), Musibah and Alfattani,

(2014), Nurwati et al., (2014), Wasiuzzaman and Gunasegavan, (2013), it can be seen that the performance of

Islamic banking is still using financial performance as an indicator to measure its performance.

Dusuki and Bouheraoua, (2011) argued that all transactions, both technical and legal forms, especially economic substances, in Islamic financial institutions, should be based on the objectives outlined by the *Shari'ah*, namely *Maqasid Al Shari’ah* in Islamic banking has the potential of becoming one of the promising sectors to realize the noble objectives of the *Shari'ah* because it is in the financial trajectory supported by the power of the command of *Shari'ah*. Islamic financial transactions must be sincere, fair, honest, and transparent to the public and it prohibits involvement in illegal activities which are detrimental to social welfare and the environment (Dusuki & Bouheraoua, 2011).

However, Islamic banking is still short of how it applies CSR activities in accordance with the purpose of its establishment, namely *Maqasid Al Shari’ah* systems which manage the Islamic banking industry. This has been the same as conventional banking systems (Mohammed et al., 2015) reflecting that the Islamic banking exists only in name, contrary to the purpose of the establishments of Islamic banks. This is because the *Maqasid Al Shari’ah*a is meant to be a neutral term. h. Islamic banking a person is expected to contribute to economic growth and upholding justice in all its activities (Mohammed & Taib, 2015).

Measuring Islamic banking performance by using the financial performance factor as a means is similar to conventional banks. This includes the ratio of profitability and capital adequacy ratio. Thus far, there has been no attempt to measure the performance of Islamic banking by using the *Maqasid Al Shari’ah*. (Mohammed et al., 2015).

In their study, Mohammed and Taib (2015) developed a model of Islamic banking performance measurement called the Performance Measure. The *Maqasid Al Shari’ah* was used as a framework or Model for PMMS at 24 banks. The study showed that the performance of Islamic banking was better when measured using PMMS than when tusing the measurements with CBPM (conventional banking performance measures) models. Antonio et al., (2012) also noted that the application of the Maqashid Index to measure performance in the Islamic banking industry appears logical. Likewise, Jordan, showed the better performance of Islamic banking after applying the *Maqasid Al Shari’ah*.

Mohammed and Taib (2015) developed a performance measurement Islamic bank by using the concept of the Islamic *Maqasid Al Shari’ah* proposed by Abū Zaharah. This was integrated into the financial ratios. The Theory of *Shari’ah* by Abū Zaharah, Maqasid suggests that:

1. Tahdheeb al-Fard (Educating the individual), the development of the knowledge and expertise of individuals to improve their spiritual value. This comes in the form of training and education programs which improve moral values thus, increasing the knowledge and experience of the employees. The banks must provide correct information about the products offered and this must be in accordance with Sharia law. The ratio in this Maqasid is educational grants, research, training, and publications (promotion).

2. Iqamah Al-Adl (Establishing justice), Islamic banking should have the honesty of conducting all transactions related to all the bank's business activities, including in terms of product, price, terms of the contract. The entire contract (aqad) must be free of elements of *maysir* such as injustice, gharar and usury. The ratio in the second *Maqasid* are PER ratio (Profit Equalization Reserve), *Mudaraba* and *Musharaka* financing scheme (functional distribution) and the ratio of interest income without interest.

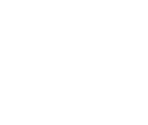
3. Maslahah (Welfare) Islamic banking activities provide benefits to the general public, by developing investment projects social services which improve the welfare of the community. The *Maqasid* ratio is Profit Returns, Personal Income Transfer (Zakah), and the Ratio of investment (Investment Ratios) on the real sector.

The third *Maqasid* is translated into 9 dimensions and 10 elements. The ninth dimension, namely the advancement of knowledge; the embedding of new skills and the improvement of new skills; creating awareness of Islamic banking; fair returns; inexpensive products and services; eliminating negative elements which encourages the development of injustice; bank profitability; redistribution of income and welfare as well

as a raft of key investments in the real sector. The *Maqasid* dimensional model is based on the 9 dimensions and 10 elements which turned the concept to become a PMMS model, as shown below:



*Maqashid Syariah*



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Education Justice Maslahah* | | | | | | *Sekaran”s*  *concept* |
| *Education* |  | *Fair Returns* |  | *Profit Return* |  |  |
| *Grand* |  | *(PER)* |  | *Personal Income* |  |  |
| *Research* |  | *Functional* |  | *Transfer Investment* |  |  |
| *Training* |  | *Distribution* |  | *Ratios in Real* |  |  |
| *Publicity* |  | *Interest Free* |  | *Sector* |  |  |
|  |  | *Product* |  |  |  |  |

*Maqashid Indeks*

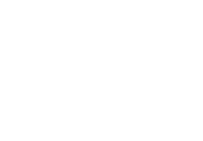
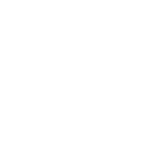


Figure 1. Index Maqasid oleh Mohammed dan Thaib (2009)

**3.2. Hypotheses Development**

**3.2.1. CSR and Innovation**

Studies seem to note that there is a relationship between CSR and innovation, especially where CSR has affected organizational innovations (Gallego‐Álvarez et al., 2011). When the implementation of CSR has been considered, there will be impact on innovation, so it can be said that CSR has a correlation with organizational innovations. Companies that are more active in implementing social responsibility will encourage and develop its employees to be able to be creative and collaborate with other stakeholders in developing or producing organizational innovations of products, technologies, and processes. Learning through the implementation of CSR will generate knowledge that will be flowed back into the organization as a stimulus for organizational

innovation (Heslin & Ochoa, 2008). Öberg, (2012) in his study revealed that CSR can lead to Innovation in firms.

Sánchez and Benito-Hernández, (2015) also mentioned that CSR can improve labor productivity which has an impact on the company's innovation. The CSR policies, through training, can improve employees’ skills to innovate. CSR is assessed by the provision of opportunities for innovation (Husted & Allen, 2007). Based on the study results noted of small-and-medium enterprises in France, it was found that CSR is associated with technological innovations. Companies how CSR strategies are implemented also helps the employees to become better at developing the technological innovation of products as compared to other companies (Bocquet & Mothe, 2013). In the literature of CSR, as well as business ethics and social capital approach, it was noted that CSR is explicitly linked with the creation of value and innovation (Bocquet & Mothe, 2013).

Ratajczak and Dawid Szutowski (2016) also revealed that CSR has assumed an effect on innovation and vice versa. This is supported by studies conducted by Gallego-Álvarez et al. (2011) who examined CSR with two models, the first model of innovation affected the CSR and the second model have the ability to influence innovation. Both these models confirmed that CSR and innovation are bidirectional. However, in the research of Mahmoud and Hinson (2012), results showed that CSR-related activities have an impact on innovation in the telecommunications sector of Ghana. Lou and Du, (2014) also expressed the same things noting that there is influence with positive relationship between CSR and innovation, but not on new product innovations and

incremental innovations. Kim et al., (2014) thus suggested that the relationship between CSR and innovation activity indicate that CSR affects the behaviour of innovation activities.

*H1: CSR can affect the innovation in Islamic banking Aceh*

**3.2.2. CSR and Performance**

Several studies (DiSegni et al., 2015; Tang et al., 2012; Torugsa et al., 2013; Sun, 2012) of CSR linking the performance of organizations to innovations showed that organizational performance was measured by financial performance. This is verified by Valmohammadi (2014) who revealed that CSR practices and activities affect organization performance. This indicates the importance of CSR development in companies, showing how carrying out social responsibility actions have a purpose of achieving profitability. By integrating CSR into corporate strategies, employees were able to benefit from the impact of CSR on the respective companies.

Huang and Lien, (2012) stated that CSR has a positive and strong influence on the performance of financial and nonfinancial companies. Cai et al., (2012) argued that CSR was able to increase the value of the company. Mahmoud and Hansen (2012) said that CSR contributed to the improvement of organizational performance. Based on the study of Bihari and, Pradhan (2011), it was found that CSR was able to push the performance of banking business. This means that the activities undertaken by the community is a way to obtain benefit and achieve value for the company. Farag et al., (2014) examined the relationship disclosure of CSR with financial performance of Islamic banking using CSR indices and ROA and ROE for the performance. It was noted that it showed a positive relationship between each other.

*H2: CSR can affect the performance in Islamic banking Aceh*

**3.2.3. CSR, innovation, and performance**

In general, there are two types of performance for firms: financial and nonfinancial. The former is often measured by using an index of economic performance or profitability such as ROA (return on assets) and ROE (return on equity). Bocquet et al., (2015) revealed that firms should be able to create value for their shareholders for the purpose of improving the performance of firms. This can be accomplished by selecting investments that are able to maximize the value of equity so as to benefit that which can be shared with shareholders. However, this is not easy. The latter, non-financial performance, emphasizes on intangible assets. Knowledge is one measure in creating the company's performance that is by investing in knowledge capital or intangible assets. Barney (2001) argued that the company's performance could be achieved through the competitive advantage held by the company. By utilizing existing resources within the company, including the knowledge held by employees in creativity, it will lead to innovation.

The link between CSR and innovation shows the basic competencies that are owned by the company

(Rexhepi et al., 2013). CSR is a driving force for innovation (European Commission, 2016; Öberg., 2012; Lu

& Du., 2014). Hauser et al., (2006) as cited by Luo and Du (2014) stated that the profitability and viability of the company, in the long term, is very important. It is determined by the company’s competence, that is, the innovation for a changing market. CSR will be able to encourage employees to develop their expertise and their ideas to create products, services, and new processes or improve the products and services that already exist.

Studies conducted by Li and Si (2010) and Uzkurt et al. (2013) showed that innovation has a positive influence on the company performance. It was also instrumental in achieving the company's success (Uzkurt et al., 2013). Furthermore, Bocquet et al., (2015) revealed that innovation plays a role in mediating the relationship between CSR and company performance. Employees who were able to innovate were also able

to upgrade their expertise and adapt to the outside environment such as the needs and desires of consumers and competitors. Of course, this can not be separated from the company's role in treating their internal stakeholders through internal activities or CSR programs. Mahmoud and Hinson, (2012) proved that CSR influences innovation and innovation mediates the relationship between CSR and organizational performance.

*H3: Innovation mediates the relationship between CSR and performance*

**4. Conclusions**

In this article, CSR has been discussed as a means to build innovation for achieving performance. CSR and innovation displays the competence of the organization. Good CSR practices will be able to encourage and enhance the ability of employees in being creative thereby, bringing forth innovation for the organization. In Islamic banking, human resources have an important role to play in improving the banking’s performance. The ability of Islamic banking’s innovation cannot be separated from education, training and development undertaken by the Islamic banking which aims at improving knowledge and competence of employees. This can be conducted through internal activities and external CSR. The process can collect a variety of information which can show the internal stakeholders’ interests for the company. This can improve its innovation capability. CSR is a concept that can build relationships or networking more deeply through stakeholders. It is done by facilitating the sharing and exchanging of knowledge with external stakeholders. This process ultimately leads to innovations (Luo & Du, 2014) for the organization’s superior performance.

Finally, this article links the model to organizational performance by using the *Maqasid Al Shari’ah* concept. The construct depicted here could be operationalized and measured empirically. To validate this model, a manager or a senior employee can be contributing more extensively for the betterment of the organization. This framework, as shown below, can be tested for future studies by a using cross-sectional study

on Islamic banking located in Indonesia, especially in Aceh.

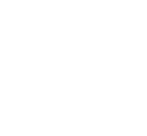
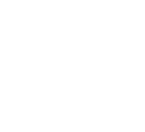
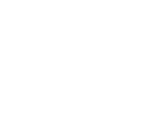
Radical

Innovation

Internal CSR External CSR

Incremental

Innovation



Maqasid al syraiah

Employee

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Figure 2. The proposed model

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