

# Tawhid String Relation and Itsar Concept of Islamic Bank in Covid-19 Pandemic on Value Creation Perspective (Indonesia Evidence)

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### Abstract

The current COVID-19 pandemic that has shaken the global economy, including Indonesia, has caused social problems, including a growing number of poor. The purpose of this conceptual paper is to conduct a study related to the business model of Islamic banks, which is based on the Tawhid String Relations concept that also managed with the Itsar concept that can contribute to helping overcome social problems in alleviating poverty. The method used is the literature review, which uses previous studies and information related to how the concept of value creation in Islamic banks is related to TSR and Itsar in the Pandemic Covid-19. Social instruments, product innovation, and Islamic banking services are aimed to benefit the community. Also, the management of Islamic banks should be oriented towards managing Islamic banks to get Allah's pleasure, which is to provide benefits to the ummah.

JEL Code: G21, G30, L21

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## 1. Introduction

The current situation, where the COVID-19 pandemic took place, has led to significant changes in human life. The community's socialization life is limited due to the physical distancing policy (Ihle et al., 2020). Moreover, based on the previous event, the Covid pandemic began at the end of 2019, found in a seafood food market in Wuhan, China. The seafood food market in China sells food made from wild animals, such as meat from bats, pangolins, monkeys, snakes, dogs, and many more (Kumar et al., 2021; Safitri et al., 2020). Therefore, the presence of wild animals sold in the Wuhan market that were consumed for human food was identified as the initial cause of the coronavirus's spread (Okada et al., 2020).

Nevertheless, the impact of the Covid-19 Pandemic has shaken the economy, where the massive spread of the virus has limited human mobility (Bonaccorsi et al., 2020). Due to the limitation on mobility, many industrial sectors in Indonesia are exposed to decreasing turnover in all economic sectors. However, according to the Minister of Finance of the Republic of Indonesia, Sri Mulyani said that four sectors were most depressed in the Covid-19 Pandemic, which included the household sector, the MSME sector, the corporate sector, and the financial sector (Priyanka et al., 2020; Nugroho et al., 2020a). Also, the impact caused by the Covid-19 Pandemic has claimed many victims worldwide. As of August 26, 2020, the number of deaths has reached 822,233 people (Bramasta & Hardiyanto, 2020). All countries in the world were exposed to the Covid-19 Pandemic, which caused a decrease in household consumption, which resulted in low economic growth in the country (Anshary et al., 2021; Muniarty et al., 2021; Muzakki, 2020). The Indonesian government has taken several macroeconomic policies to prevent a more profound decline in economic growth. The approach undertaken by the Indonesian government is called the national economic recovery (Alika & Setyowati, 2020). The objectives of national economic recovery are to increase household consumption, which includes: (i) Acceleration of Polymerase Chain Reaction (PCR) tests, tracking, and federal quarantine aimed at responsive detection and prevention of the Covid-19 Pandemic; (ii) Accelerating the independence of domestic health services, hospitals, medical devices, and medicines; (iii) Focusing on the distribution of social assistance, labor-intensive programs, channeling working capital loans with government guarantees that prioritize the MSME sector, and providing electricity subsidies for low-income households; (iv) Encouraging exports and economic activities at the micro-level; (v) Indonesia Program Works to increase employment through government infrastructure projects.

Also, the philanthropy of actions carried out by Islamic financial institutions is growing, driven by the organization's vision and mission, which has social concerns (Ihwanudin et al., 2020; Kasdi, 2020; Nurhidayat, 2020). According to Abd Razak (2019) and Bahari et al. (2021), Islamic financial institutions such as Islamic banks are organizations based on sharia principles that aim to increase the benefit of humanity. Therefore, the rise of social activities carried out by Islamic financial

institutions is very close to the principles of maqasid sharia, which aim to improve community welfare and overcome social problems such as poverty alleviation, increasing access to education, and increasing access to health services (Nugroho et al., 2021; Nugroho et al., 2020b). Also, maqasid Sharia principles are derived from life guidelines, namely the Al-Qur'an and hadiths and other sources of Islamic law such as Ijtihad, Ijma, and Qiyas (Mudzhar, 2014; Nugraha et al., 2020; Arafah & Nugroho, 2016). The teachings of Islam must be carried out in their totality by the ummah, both in the spiritual and social life. Furthermore, the concept of implementing Islamic teachings in Islamic banks is based on the concept of the Tawhid String Relation (TSR), where the main guidelines for the company are the Al-Qur'an and Hadiths, along with other sources of Islamic law (Nugroho et al., 2020c; Pratiwi, 2016).

Furthermore, the different visions and missions of Islamic banks and conventional banks have implications for Islamic banks' business focus not only on seeking profit but also on solving social problems that exist in society. Islamic banks' social goals also have implications for the products and services of Islamic banks, which are intended to be created not only for profit but also to consider their benefits for the ummah to improve welfare. Also, activities or business processes of Islamic banks that can provide added value to stakeholders and society in the form of economic and social benefits aimed at reducing social problems and environmental sustainability can enhance the reputation of an Islamic bank (Arshad et al., 2012; Nugroho et al., 2020d). Therefore, all activities carried out by Islamic banks with a business model oriented to the aspects of profit, social aspects, and spiritual aspects should increase the reputation and image of all stakeholders so that the business model of the Islamic Bank becomes part of the value creation.

Until now, the existence of Islamic banks in Indonesia has not been directly owned by the government. However, the Indonesian government has excellent concern for developing Islamic banks to support government programs to make Indonesia the center of sharia business and finance. Therefore, the Indonesian government has plans to merge Islamic banks, which are subsidiaries of state-owned banks (state-owned enterprises). The merger of Islamic banks, of course, must provide added value. The added value of the union from several Islamic banks is the Islamic financial services, which can reach all levels of society not only for economic and business transactions but also for carrying out religious teachings in kaffah or totality (Aziz, 2012; Nugroho et al., 2017). Therefore the problem formulation in this conceptual paper is how value creation in Islamic banks is related to TSR and Itsar in the COVID-19 pandemic?.

This study aims to provide a new paradigm related to Islamic banks' business model, which can be used as a solution during the Covid-19 pandemic from a value creation perspective. Also, this conceptual paper's benefits are input for policymakers and sharia bank practitioners. Their orientation in determining the performance target

of Islamic banks cannot be measured only by profit but also by social, environmental, and spiritual aspects. Finally, this conceptual paper's originality is that no article links the TSR concept with value creation.

## 2. Literature Review

Migration The literature review on this conceptual paper presents the concepts related to the Tawhid String Relationship, Value Creation, and Itsar, based on this article's discussion, include

### 2.1. Tawhid String Relation (TSR) Concept


Every Muslim is obliged to carry out his religious teachings in kaffah or totality. Therefore, a Muslim must be guided by the source of Islamic law in carrying out his activities as a social being (*habluminannas*) and as a creature created by God (*habluminallah*). Thus, every Muslim must understand and implement the sources of Islamic law to carry out Allah's orders and leave all His prohibitions, which aim to achieve salvation in the world and happiness in the hereafter. Moreover, in QS Ar-Ra'd verse 37: "And thus We have revealed it as an Arabic legislation. And if you should follow their inclinations after what has come to you of knowledge, you would not have against Allah any ally or any protector." The Qur'an contains a variety of things, ranging from issues of worship, human deeds (*amaliyah*), the last day, the stories of previous people, the books of Allah that were revealed to His messengers, history, and science. Therefore, the Qur'an was revealed in Arabic to make it easier for the communities to understand and teach it to all humankind.

The implications of human obedience to the primary sources of Islamic law, namely the Al-Qur'an and Hadith, will impact the welfare of humankind (Fidiana, 2020). Therefore, an organization or company based on sharia principles must carry out its business activities based on Islamic law sources. Also, understanding and obedience and implementation the provisions of the Al-Qur'an and Hadith, along with the origins of Islamic law, are insufficient. Still, they must also be equipped with adequate knowledge. Knowledge in Islam has a vital position, even in the Qur'anic verses that Allah first revealed to the Prophet relating to the mastery of knowledge, namely those contained in Q.S Al-Alaq verses 1-5: "Recite in the name of your Lord who created, Created man from a clinging substance, Recite, and your Lord is the Most Generous, Who taught by the pen, Taught man that which he knew not." Knowledge is the basis of every activity carried out by humans that can provide added value and contribute to the welfare of society. This valuable knowledge is in the form of innovations that can benefit the ummah, aiming to carry out religious orders and stay away from Allah's prohibitions. Therefore, religious people must be equipped with adequate knowledge, and knowledgeable people must be balanced with religion.

Apart from the Qur'an, Hadith, and knowledge, the essential element in the TSR concept is time. Change and the dynamics of development are inevitable. Therefore, updated knowledge is needed in interpreting the verses in the Al-Qur'an according to the phenomena that occur today (Ikhwan, 2016). This knowledge is

also helpful for planning and anticipating future events through evaluation and finding solutions to events that have been passed. Furthermore, based on elements that include (i) Al-Qur'an and Hadith, as well as other sources of Islamic law; (ii) Knowledge; (iii) Time, then the TSR formula as follows:

**Figure 1. Tawhid String Relation Concept**

$$\{\Omega, s\} \rightarrow * \Theta \rightarrow \Theta \rightarrow x\Theta \rightarrow W\{\Theta, x\Theta\} \rightarrow N\Theta \rightarrow \{\Omega, s\}$$


Remarks:

$\Omega$ : Qur'an

s: Hadith

\* $\Theta$ : Ijtihad

$\Theta$ : Knowledge

$x\Theta$ : Implementation of knowledge (active participatory)

$W\{\Theta, x\Theta\}$ : Wellbeing in term of Maslahah

$N\Theta$ : New knowledge

**Source:** Choudhury (2018) and Nugroho & Mariyanti (2021)

Referring to Figure 1 above, the concept of TSR states that the source of Islamic law, namely the Al-Qur'an and Hadith, is dynamic and adapts to the conditions of the updated development of human life. If applied in a company that runs its business based on sharia principles, such as Islamic banks, then the Islamic bank must-have products and services that are profit-oriented and socially oriented, environmentally oriented, and spiritually oriented, guided by the sources of Islamic law. ( $\{\Omega, s\} \rightarrow * \Theta$ ). Furthermore, the application of the sources of Islamic law must be based on current phenomena so that it is necessary to implement knowledge ( $\Theta \rightarrow x\Theta$ ) that contributes to the improvement of social wellbeing in society ( $W\{\Theta, x\Theta\}$ ). Thus, implementing this useful knowledge is innovation and solution ( $N\Theta$ ) that can be used to overcome social problems, including the economic problems due to the current Covid-19 Pandemic.

## 2.2. Value Creation and Itsar Concept

Value creation is a process that aims to provide added value to an outcome to improve the company's image and reputation (Gholami, 2011). According to Siebold (2020), value creation is the process of identifying needs and finding solutions so that the outcome of the process is of benefit to humankind. Therefore, in the value creation process, innovation is needed. Allah created humans to worship, where worship can be classified into 2, namely (i) ritual worship, which is directly related to Allah (vertical relationship), and (ii) social worship of humans and the universe (horizontal relationship). Managers as caliphs who carry out managerial functions to prosper humans and nature are included in social worship.

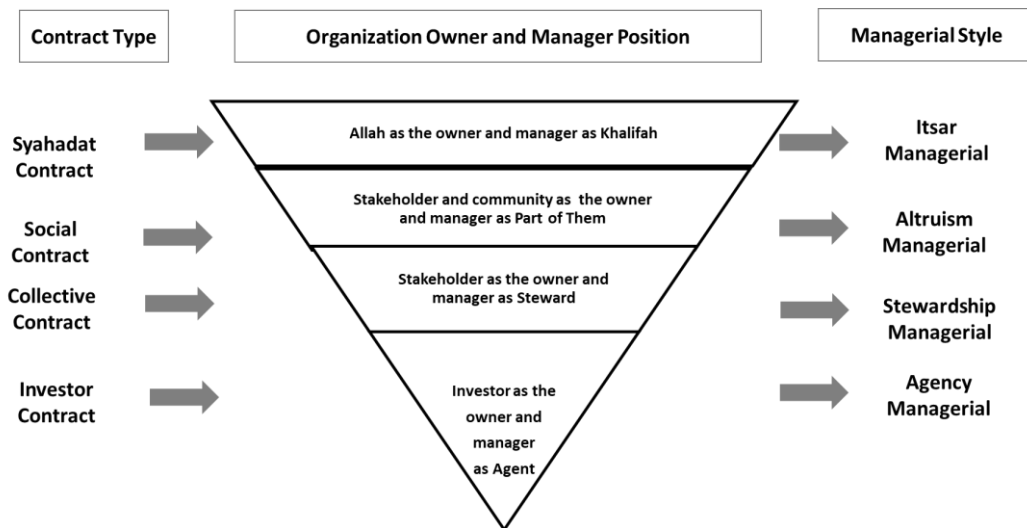
If management uses the foundation of faith as a form of recognition that God is the owner, then management behavior will become Itsar (Hidayati, 2016). Itsar behavior, based on faith, becomes a worship activity and will make the perpetrator a person who lives happily, peacefully, and prosperous.

The Agency theory put forward by Fama (1969) and M. Jensen & Meckling (1976) explained that the manager is the agent of the company's owner. In large corporations, the owner cannot supervise the manager directly. Therefore, the owner creates a control mechanism to ensure the manager works in their interest. Agency theory assumes humans are rational, selfish (self-interest), and opportunistic. Thus, based on these assumptions, managers are considered to have the opportunity to take opportunistic actions, namely making policies or acting to maximize their interests rather than those of the owner or organization. The chance for a conflict of interest with the owner is tremendous because the manager controls more information about the company's operations than the owner (information asymmetry). Moreover, based on previous research, managers have the extrinsic motivation to obtain satisfaction in money, comfort, and avoiding penalties (Kornish & Li, 2010).

Agency theory assumes that managers are opportunistic. This perspective is considered less favorable. Therefore, the urge to formulate a new paradigm of owner-manager relations emerged from several experts (Donaldson & Davis, 1991). Furthermore, the stewardship theory that initiative by Davis et al. (1997) provides a new perspective on the manager-owner relationship. Stewardship theory explains that managers and owners have no conflict of interest. Instead, governance aims to find the mechanisms and structures that facilitate the most effective coordination between the two parties. The assumption used in this perspective is that humans are rational, prioritize the organization's success rather than personal gain, and have intrinsic motivation (rewards are quantified in monetary terms but can be in other forms). This theory is more concerned with managers. The Steward perceives that the utility gained from interest alignment and collaborative behavior with the principal is higher than that achieved through individualistic, self-serving actions.

Also, altruistic theories arise from moral problems that grow in the human person due to a conflict between efforts to fulfill self-interest (egoistic) and demands for his willingness to pay attention to others' interests (altruistic). Naturally, every individual tends to put his interests first before caring about others' needs, but his inner demands also urge him to help other people's problems. Therefore, according to (Li et al., 2020), altruism is a voluntary action taken by a person or group of people to help others without expecting anything in return, except perhaps the feeling of having done a good deed. Furthermore, when illustrated, the position of Itsar theory when compared with agency theory and stewardship theory, and theory altruism in the paradigm of management contract relations with owners in an organization or company is as follows:

**Figure 2. Itsar Concept in Organization Managerial**



Source: (Utami, 2020) Processed

According to figure 2. above, an organization based on sharia principles must be managed based on Itsar, where the manager is the caliph. Another paradigm that the author proposes related to cultural values and the contractual relationship between management and owners is the Itsar paradigm. Altruistic behavior prioritizes the interests of others and the claims of nature without expecting any reward or reward. Management that has worked optimally to serve the interests of society and the environment is acceptable behavior. However, this behavior does not necessarily reach an altruistic level because it aims to gain respect, community legitimacy, and reputation.

Meanwhile, Itsar's action can be achieved if management considers that it is making a contract with the almighty owner, Allah (*shahadat* contract), in carrying out its managerial functions. Nevertheless, another reason for Itsar's behavior is faith (belief). Ramadhan & Ryandono (2015) and Zain et al. (2014) reveal that the company's function manifests devotion to Allah. Faith means acknowledging that Allah (God) is the owner of the universe and that humans are accountable to Allah. In this case, God gives humans the power to become managers on earth or are called caliphs. Allah gave reason to humans, and for that reason, Allah sent down religion. As guidance and guidance in life, religion is the basis for regulating how to relate to the creator and the relationship with the universe. Therefore, humans are appointed as caliphs on this earth, Q.S Al-Baqarah verse 30: "And [mention, O Muhammad], when your Lord said to the angels, "Indeed, I will make upon the earth a successive authority." They said, "Will You place upon it one who causes



corruption therein and sheds blood, while we declare Your praise and sanctify You?" Allah said, "Indeed, I know that which you do not know."

The concept of altruism is the doctrine of all religions where all religions are concerned with social services to humanity (Pessi, 2011; Suzuki & Miah, 2016). Furthermore, according to (Hidayati 2016), the terminology of sacrifice (Qurbani), *ihsan*, *infaq*, and *sadaqah* reflects the implementation of altruism in Islam's perspective. Altruism defines voluntary actions by a person or group to help others without expecting anything in return (Yang, 2017). In the Islamic perspective, the concept of Altruism is Itsar, which means voluntarily putting others ahead of oneself in worldly matters because they only hope for the afterlife and the pleasure of Allah. Besides, Itsar is based on the principle of brotherhood (ukhuwah). Therefore, it is willing to work together, help and sacrifice for others sincerely without expecting anything from others, but intending sincerely only for Allah. Furthermore, the activities and actions of mutual assistance in Itsar are aimed at the goodness and benefiting society.

### 3. Methodology

This conceptual paper deployed a content analysis approach, a research approach that focuses on an in-depth investigation of the research problems. This conceptual paper's research problem establish the value creation of Islamic banks from a TSR perspective. The data were obtained by purposive sampling to focus on concept development based on the existing literature related to the purpose of the study (Napitupulu et al., 2020; Oktris et al., 2022). The obtained data were then analyzed using an interactive analysis model. This model consists of three stages: data collection, data reduction, data display, and conclusion (Shenton, 2004).

### 4. Results and Discussion

This section will describe the analysis result of the Islamic banks' concept of value creation from the TSR perspective. Islamic banks' business activities that aim to provide benefits to the community can be a trigger for value creation. Concern and siding with justice and ensuring that Islamic banks' services and products support halal activities are competitive advantages of the operational principles of Islamic banks. Also, the objectives of a sharia bank, which are based on the maqasid of sharia, include (i) safeguarding religion; (ii) guarding the soul; (iii) keeping intellect; (iv) safeguarding property; (v) keeping offspring; (vi) preserving the environment, has a significant contribution to the value creation process. Compared to conventional banks, the advantage of Islamic banks is that they are required to pay zakat of 2.5% of the profits they receive for one year to be distributed to the public following the criteria for zakat recipients. Furthermore, according to Wajdi Dusuki (2008), the function of Islamic banks has a double bottom line, which includes: (i) obtaining optimal benefits; (ii) actively contributing to improving community welfare; (iii) contributing actively to projects that can benefit the community and use in the long term; (iv) create and innovate services and products that are



following the needs and become solutions to current technological developments; (v) using operational costs effectively and on target; (vi) provide financial services to the public in a professional manner; (vii) implementing sharia principles and giving da'wah to the public to carry out Islamic teachings in totality. In fact, according to Nugroho et al. (2019), Islamic banks in Indonesia have implemented sustainable finance, which prioritizes the distribution of financing with the following categories: renewable energy; energy efficiency; pollution prevention and control; sustainable natural resource management, and sustainable land use; biodiversity conservation; environmentally friendly transportation; sustainable management of water and wastewater; adaptation to climate change; products that can reduce the use of resources and produce less efficient resources; environmentally sound buildings following national, regional or international standards or certifications; business activities and other activities that are ecological; micro, small and medium enterprises activities that are environmentally concerned.

The current phenomenon, where the Covid-19 Pandemic occurred, impacts the financial capacity of all people, especially low-income people and micro and small entrepreneurs, affecting increasing poverty rates. According to Seetharaman (2020), limited community mobility contributes to a country's economic growth decline. This is because economic activity is experiencing a slowdown where people cannot carry out business transactions and economic activities in normal conditions. Therefore, economic growth in developing countries can have a worse impact than in developed countries during the current Covid-19 pandemic (Cohan, 2020). This is because the backbone of the economy in developing countries is micro and small entrepreneurs (Herliansyah et al., 2020; Nichter & Goldmark, 2009; Nugroho & Tamala, 2018). Then there is the question of why are small and micro-entrepreneurs also affected by the current Covid-19 pandemic?. The answer is micro and small entrepreneurs engaged in the real sector who rely on physical contact with buyers and their trading partners so that mitigation policies for the spread of the coronavirus have caused a decrease in their business turnover and sales turnover during the current Covid-19 outbreak (Jandoc et al., 2020; Lestari et al., 2015).

In Indonesia, the number of poor people in March 2020 became 26.42 million, wherein in March 2019 amounted to 25.14 million, or there was an increase in 2020 amounting to 1.28 million (Agustiyaniti, 2020). Therefore, social-financial instruments are needed to help micro and small businesses and low-income communities survive. Therefore, one of the social functions of Islamic finance during the Covid-19 Pandemic was to help the community through social instruments from Islamic banks. Social tools collected from the public through Islamic banks include zakat, infaq, and waqf. The definitions of social instruments, which include zakah, infaq, and waqf, are as follows:

**Table 1. Social Instruments (Zakah, Infaq dan Waqf) Definition**

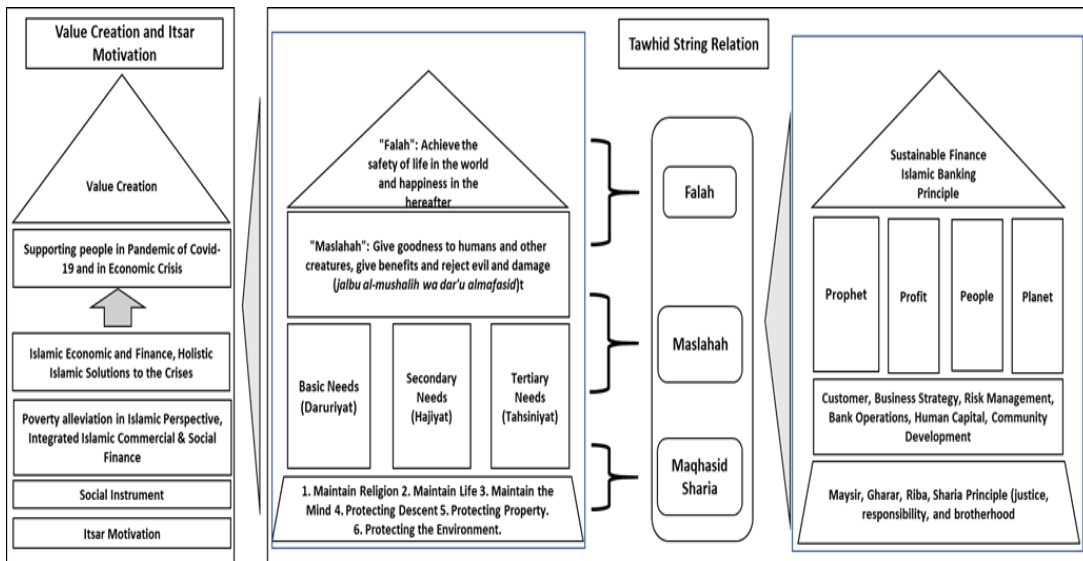
	<b>Zakah</b>	<b>Infaq</b>	<b>Waqf</b>
<b>Rule</b>	Compulsory	Compulsory/Voluntary	Voluntary
<b>Rate</b>	Fixed-rate	Any amount	Any amount
<b>Expense Categories</b>	Eight fixed expense categories	Flexible expense categories, Donors can decide	Flexible expense categories, Donors can decide
<b>Spend</b>	Generally spend in 1 year	Spend typically in 1 year	Generally capitalized
<b>Investments</b>	Generally not invested-needs to be discharged as soon as possible	Typically not invested - may be released according to need and mandate	Invested in social or economic asset
<b>Sharia Governance Liability Mutawallee (trustee)</b>	Liability for payment is governed by sharia	Any person can give	The donor must be sane, of age, male or female
<b>Document</b>	Mutawallee not necessary	Mutawallee not necessary	Must appoint mutawallee
<b>Sadaqah Jariyyah</b>	No document necessary	No document necessary	It may be done through a donation deed
<b>Capital Base</b>	Generally not continues	Generally not continues	Always a continuous charity and continuous reward
<b>Beneficiaries</b>	Not a capital base	Not a capital base	Forms a capital base for sustainable community development
<b>Time for Payment</b>	Applied only to Muslims	May be used to all, irrespective of creed	It may be applied to all, irrespective of creed
	Once a year	Can be paid at any time	Can be paid at any time

Source: Ascarya et al. (2018)

Also, Islamic banks that distribute financing to the public based on underlying assets are oriented to the micro and small business sectors; therefore, Islamic banks' existence can improve the real sector. Furthermore, Islamic banks that aim to implement sharia maqasid based on TSR principles and implement 4P (Prophet, People, Planet, and Profit) can provide value creation in society through social instruments that become services and products at Islamic banks, especially during the Covid-19 Pandemic (Faturhman et al., 2021; Nugroho et al., 2020e). The motivation to work with all employees and managers in Islamic banks affects how

to manage the Islamic bank. However, according to Nugroho et al. (2018), the management of a sharia bank must have Itsar motivation so that their work orientation is no longer limited to material, position, and popularity but carries out worship sincerely to seek the pleasure of Allah (Nugroho et al., 2020f). The management is the leader, so if the leader of a sharia bank applies Itsar values in carrying out their work, all employees will follow it and become the corporate culture in the Islamic bank. Furthermore, the concept of the relationship between TSR, Itsar, and Value creation can be illustrated in Figure 3 below:

**Figure 3. Relation Concept Among TSR, Itsar, and Value Creation**



Source: Nugroho (2022)

The implementation of TSR, Itsar, and Value Creation has been carried out by Bank Syariah Mandiri (BSM), which is a sharia bank that has the largest market share in the Islamic banking industry during the Covid-19 Pandemic, including:

- BSM, together with employees, has distributed 26,600 assistance in the form of basic foodstuffs to communities affected by Covid-19 throughout Indonesia. The aid distribution is divided into three stages: before Ramadan, before Lebaran- Eid Al-Fitr, and after Lebaran 2020. BSM's income will be deducted by 2.5 percent as the company's zakat, used entirely for the community. Not only does this program help alleviate the burden on people affected by the economy, but this program also provides a multiplier effect on customers' businesses. This is due to the purchase of raw food packages from BSM micro and small entrepreneur (MSE) customers. The program's objectives are to help maintain the business

continuity of our MSE customers, especially during the Covid-19 Pandemic. Food assistance is provided to affected people whose income has decreased during the pandemic, such as daily laborers, online motorcycle taxis, transportation drivers, small traders, mosque administrators (*marbot*), honorary teachers, and recitation teachers. As a bank that carries the value of Sharia, BSM always strives to provide benefits for the people (Wiratmini & Rini, 2020). This can be implemented with a contribution from the customer of the Islamic bank.

- BSM has prepared a digital zakat application to help people distribute zakat fitrah, zakat mal, infaq, and alms during the COVID-19 pandemic, resulting in residents staying home. BSM is Indonesia's most prominent Islamic bank and intensively carries out digital transformation. BSM provides solutions and is always ready to oversee the community's banking needs, even during a pandemic. Making the MSM (Mandiri Syariah Mobile) application makes it easier for customers to pay zakat fitrah without worrying about the spread of the virus outside the home (Sukirno, 2020);
- Organizational structure with an extensive range to accommodate positions that have existed in Islamic banks before and keep from demotion

Islamic banks are concerned about the social problems caused during the current Covid-19 Pandemic through programs implemented to help the community. Therefore, indirectly implementing TSR and Itsar concepts in Islamic banks becomes an activity in value creation. So that, value creation in Islamic banks is a necessity and is integrated into Islamic banks' business activities

## 5. Conclusion

Like one of the Islamic financial institutions that carry out their business activities based on sharia principles, Islamic banks have contributed to overcoming social problems caused by the current Covid-19 Pandemic. Also, the management of Islamic banks based on the Itsar concept and TSR has impacted the business activities of Islamic banks, not only to make profits but also for the benefit of humanity.

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