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International Conference in Technology, Humanities and Management**MAQASID MASTERY: UNVEILING ISLAMIC BANKS'
PERFORMANCE IN INDONESIA**

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Abstract

Islamic banks have grown significantly along with Islamic finance. There may need to be more than traditional performance measurement tools to evaluate the Islamic banks performance as they operate on the Islamic or Shariah law, which emphasizes the attainment of Maqasid Shariah or higher objectives of Shariah. This study presents a Maqasid Shariah-based approach to assess Islamic bank performance. The Maqasid Shariah Performance Index assesses Islamic banks' performance based on Shariah principles. This research provides valuable insights for Islamic banking institutions in Indonesia to evaluate and enhance their performance to meet the objectives of Maqasid Shariah. This research underscores the need for Islamic banks in Indonesia to continuously improve their compliance with Maqasid shariah and increase the value of each element assessed. The result is Bank Panin Syariah achieved the highest rank for Maqasid Shariah Performance Index compared to 13 other Islamic Banks in Indonesia for ten years of study.

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Keywords: Islamic Finance, Islamic Law, Maqasid Shariah, Performance Measurement

1. Introduction

Islamic banks are increasing along with Islamic financing. Researchers, regulators, and practitioners have debated Islamic bank performance. Islamic banks must fulfil Maqasid Shariah or higher Shariah goals; hence they may need more than typical performance monitoring techniques. Thus, a comprehensive framework is needed to align with Shariah and evaluate Islamic banks based on their Maqasid Shariah compliance.

This study presents a complete Maqasid Shariah-based paradigm for Islamic bank performance evaluation. The Shariah framework encompasses beliefs, employment, intellect, history, and wealth. Islamic banks can be assessed holistically using Shariah principles and financial performance measures. According to Antonio et al. (2012), Saiful and Ayu (2019), Savitri et al. (2020), Shinkafi and Ali (2017) and Setiawan et al. (2020), Islamic banks perform poorly compared to conventional banks and must be suitably linked with their primary mission of defending Islamic values. Islamic banks, which sell Shariah-compliant items, face the issue of complying to Islamic criteria. According to Maqasid Shariah (Mohammad & Shahwan, 2013), Islamic law exists for humankind's good and welfare (maslahah). Academics have exhibited a profound interest in the concept of Maqasid Shariah for an extended for decades. Maqasid Shariah's instrumental components, as stated by Imam al-categorization, include its interaction with Islamic economics, banking, and finance.

The proposed framework has significant implications for stakeholders of Islamic banks, including regulators, investors, and customers. Regulators can use the framework to monitor and assess the performance of Islamic banks, while investors and customers can use it to make informed investment and financial decisions. In general, this research contributes to the existing literature on Islamic finance. It offers a useful tool for evaluating the performance of Islamic banks, particularly the 14 Islamic banks studied in Indonesia over ten years.

2. Literature Review

2.1. Maqasid Shariah Performance Index

Maqasid Shariah is Allah SWT greatest purpose in creating Islamic law (Antonio et al., 2020). In Islamic economics, Maqasid Shariah can be interpreted by understanding Shariah values (Abdul Rasool et al., 2020; Hasan & Siti Nabiha, 2012). Shariah is Allah's legal teachings to His followers (Mokhtar, 2016). Scholars hold varying perspectives regarding the categorization of Shariah goals. In the realm of Islamic economics, it is commonly acknowledged that Islamic law encompasses three fundamental objectives in education, equitable society, and welfare and public interest (Zahrah, 1997). By splitting Maqasid Shariah into four purposes and eight components, Abdul Majid Najjar's philosophy is larger and more effective.

The Maqasid Shariah Performance Index (MSPI) serves as a comprehensive framework employed for evaluating Islamic financial institutions, emphasizing Islamic banks. Its primary purpose is to assess the extent to which these institutions adhere to the objectives of Shariah or Maqasid Shariah. The MSPI has been gaining attention among scholars, regulators, and practitioners in recent years, as it provides a

comprehensive approach to evaluating the Islamic Banks performance. The earliest framework on the MSPI was by Omar Mohammed et al. (2008), who proposed a comprehensive framework for evaluating the efficiency of Islamic banks based on Maqasid Shariah.

Asutay and Harningtyas (2015) developed an analytical framework for evaluating the Islamic Banks efficiency based on the MSPI. The framework included four dimensions, namely Shariah compliance, social responsibility, financial performance, and innovation, and incorporated a set of indicators for each dimension. Aliyu and Hassan (2020) provided a conceptual framework for assessing Islamic bank performance using the MSPI. The framework included three dimensions, namely Shariah compliance, social responsibility, and financial performance, and incorporated a set of indicators for each dimension. Tarique et al. (2021) developed a mechanism to evaluate Islamic banks' financial and social and ethical performance. The method provides a more holistic picture of Islamic bank by combining the frameworks of Zahrah and Ghazali and adding additional *maslahah* variables, such as protection of faith, life, intellect, posterity, prosperity, and complements and adornment. Including these variables highlights the importance of Islamic values and principles in the operations of Islamic banks and emphasizes the need for them to fulfil their obligations to society beyond financial performance. The mechanism also underscores the importance of integrating these principles into Islamic banks' governance structures to ensure that they are accountable and transparent in their operations.

2.2. The Objectives of Islamic Banks Based on Maqasid Shariah

Al-Ghazali, a famous Muslim thinker, classified the Maqasid into five categories: religion, human self, intellect, posterity, and money. Maqasid Shariah's five principles should guide an Islamic financial institution's management and governance (Mohammed et al., 2015; Shinkafi & Ali, 2017). Hudaefi and Noordin (2019) suggest measuring Islamic banks differently for two reasons. First, conventional measurements ignore Shariah and only measure finances. Second, Islamic banks' financial and religious characteristics may have been appropriately assessed. Tarique et al. (2021) stated that Maqasid Shariah uses Zahrah's structures or Ghazali's five objectives. Tarique et al. (2021) found there are no studies on complements and embellishments. Tarique et al. (2021) used Zahrah and Ghazali's frameworks and *maslahah* criteria to evaluate Islamic banks' performance. This study suggests combining these two models to better depict Islamic banks' Maqasid-based performance. This Tarique et al. (2021) paradigm emphasizes education, justice, *Maslahah*, and its sub-dimensions. The framework also examined essentials through its five protections—religion, life, intelligence, progeny, and riches.

3. Research Method

3.1. Verification of Performance Measures

The Islamic Banks performance measure developed from *Maqasid* Shariah framework as seen in Table 1, measure and evaluated the performance of 14 Islamic banks in Indonesia in ten years of study from 2011 – 2020.

Table 1. Weights for the *Maqasid* Shariah Performance Index on average

Concepts	Average Weight	Elements	Average Weight
C1 - Educating Individual	30	Scholarship	20
		Research	20
		Training	20
		Publicity / Marketing	20
		Product disclosure sheet (PDS) available?	20
C2 - Establishing Justice	41	Fair returns	25
		Risk-sharing vs. risk transferring	25
		Fair compensation to community and environment	25
		Protecting against mistreatment and unfair dismissal	25
		<i>Shariah</i> compliance report	3
C3.1.1 – Protection of religion		Disclosure	3
		Adequacy of <i>Shariah</i> audit committee member	3
		Amount spent on religious activity	3
C3.1.2 – Protection of life		Zakat	3
		Donation in Medicare and hospital	3
C3.1.3 – Protection of Intellect (<i>Aql</i>)		Investment in microfinance	3
		Reporting on ESG in the annual report	3
		Investment in technology	3
C3.1.4 Protection of Progeny (<i>Nasl</i>)	29	Employee attrition	3
		Investment in product innovation and R&D	3
		Return on capital	3
		Marriage and housing	3
		Employee benefit	3
C3.1.5 Protection of Wealth (<i>Mal</i>)		Payment of tax	3
		Wealth maximisation asset utilisation	3
		Investment in the real sector	3
		Credit risk	3
		Liquidity risk	3
C3.2 Complement		Solvency risk	3
		SNCI risk	3
		Transfer mechanisms	3
C3.3 Embellishment		Investment in <i>salam</i> , <i>Khafala</i> , <i>Ar Rahn</i> , etc, contract	3
		Transfer mechanism	3
		i) Online banking	
C3.3 Embellishment		ii) Mobile banking	
		Renovation expenditure	3
		Deposit linked with takaful	3
		Mobile top-up service	3
		Priority banking	3
TOTAL	100	TOTAL	100

Source: Tarique et al. (2021)

3.2. Evaluation of the Maqasid Shariah Performance Index

The particular goals of Islamic banks may thus be assessed statistically in the following manner:

The PI (O1) represents the first.

$$\begin{aligned} \text{PI (O1)} &= W_1^1 \times E_1^1 \times R_1^1 + W_1^1 \times E_1^2 \times R_1^2 + W_1^1 \times E_1^3 \times R_1^3 + W_1^1 \times E_1^4 \times \\ &R_1^4 + W_1^1 \times E_1^5 \times R_1^5 \\ \text{OR } W_1^1 (E_1^1 \times R_1^1 + E_1^2 \times R_1^2 + E_1^3 \times R_1^3 + E_1^4 \times R_1^4 + E_1^5 \times R_1^5) \end{aligned} \quad (1)$$

Where,

(O1) : The first shariah objectives education

W_1^1 : amount of weight given to the 1st Objective

E_1^1 : represents the amount of weight given to the first element of the 1st Objective

R_1^1 : represents the performance ratio assessments related to the first element of the 1st objectives

Similar procedure is adopted for elements two until fifth.

$$\text{Furthermore, PI(O1)} = \text{PI11} + \text{PI21} + \text{PI31} + \text{PI41} + \text{PI51} \quad (2)$$

Where,

$$\text{PI11} = W_1^1 \times E_1^1 \times R_1^1$$

$$\text{PI21} = W_1^1 \times E_1^2 \times R_1^2$$

$$\text{PI31} = W_1^1 \times E_1^3 \times R_1^3$$

$$\text{PI41} = W_1^1 \times E_1^4 \times R_1^4$$

$$\text{PI51} = W_1^1 \times E_1^5 \times R_1^5$$

Objective 2, PI (O2), represents the second Shariah objective of Justice. PI (O2) employs a methodology similar to objective 1 in addressing the components of the second Shariah objective. The same methodology is employed for attaining objective 3, PI (O3), of the components of the third shariah objective of Maslahah.

Hence, the Maqasid Shariah Performance Index (MSPI) of every bank encompasses a comprehensive set of performance indicators that align with the three fundamental objectives of Shariah. Hence, the Maqasid Shariah Performance Index (MSPI) can be defined as the aggregate of its Shariah performance indicators of Objective 1, Objective 2, and Objective 3.

$$\text{MSPI} = \text{PI(O1)} + \text{O2} + \text{O3} \quad (3)$$

4. Empirical Results

4.1. Performance Ratios

Islamic bank performance evaluation demands a thorough understanding of Shariah's goals and principles. The Maqasid Shariah Performance Index evaluates Islamic banks based on Shariah objectives. This index helps Islamic banks comply with Shariah by identifying and addressing performance discrepancies. Table 2 indicates the Maqasid Shariah Performance Index and its ranking.

Table 2. Maqasid Shariah Performance Index

Banks	Objective 1	Objective 2	Objective 3	MSPI	Ranking
Bank Aceh Syariah	0.064480	0.380681	0.135882	0.581043	3
BCA Syariah	0.061702	0.122135	0.142456	0.326293	11
Bank Jawa Barat Syariah	0.060049	0.126547	0.226774	0.413369	7
Bank Mega Syariah	0.062348	0.232795	0.139701	0.434844	5
Bank Muamalat	0.063284	0.477829	0.220876	0.761989	2
BNI Syariah	0.065976	0.148378	0.322562	0.536917	4
Bank Panin Syariah	0.139737	0.500371	0.138807	0.778915	1
NTB Syariah	0.060454	0.153484	0.199138	0.413076	8
BRI Syariah	0.062043	0.174213	0.178273	0.414529	6
Bank Bukopin Syariah	0.062243	0.048318	0.118847	0.229408	13
Bank Syariah Mandiri	0.061129	0.113834	0.181799	0.356762	10
BTPN Syariah	0.097947	0.110916	0.183513	0.392376	9
Bank Victoria Syariah	0.068501	0.096279	0.086998	0.251779	12
Maybank Syariah Indonesia	0.063196	0.009863	0.132002	0.205060	14

4.1.1. Performance Ratio for 1st Objectives

Bank Panin Syariah's commitment to educating its employees is reflected in its top ranking in this objective. The financial institution acknowledges the significance of allocating resources toward employee education and training as a fundamental driver for sustainable prosperity. It helps improve its workforce's overall capabilities and ensures it remains competitive in a constantly evolving market. To achieve this, the bank provides regular training and development opportunities to its employees, including granting education grants that can be used to cover the cost of further education and training programs. Moreover, Bank Panin Syariah's efforts to educate its employees are wider than formal training programs. The financial institution also cultivates an environment of ongoing knowledge acquisition by actively promoting its staff's participation in industry conferences and events, facilitating their enrolment in online educational programs, and facilitating peer-to-peer knowledge exchange initiatives. By doing so, the bank creates an environment where employees are constantly exposed to new ideas and best practices, which helps to foster innovation and creativity.

4.1.2. Performance Ratio for 2nd Objectives

Bank Panin Syariah's top ranking in the second objective, which focuses on establishing justice, is a testament to the bank's commitment to upholding ethical and fair business practices. The bank understands that to gain its customers' trust and build long-term relationships with them, it must prioritize fair dealing in all its interactions with them is reflected in its top position in the element of fairness. This means the bank treats all customers fairly and without bias, regardless of their backgrounds or circumstances. By doing so, the bank can build trust and loyalty among its customers, which in turn helps to drive customer satisfaction and retention. Aceh Syariah Bank and BCA Syariah are positioned high in terms of risk sharing, reflecting their commitment to sharing risk with customers fairly and equitably. This is a key component of Islamic finance, emphasizing the importance of risk sharing between lenders and borrowers. Regarding fair dealing with the community, Bank Panin Syariah and Bank Muamalat are

ranked highly. This indicates that both banks are committed to engaging with the communities they serve fairly and transparently and establishing enduring connections founded on reciprocal respect and trust. Finally, all banks in the study have employee associations designed to protect employees against mistreatment and unfair dismissal. This is an important dimension of fair dealing with employees, as it ensures that employees are treated with respect and dignity and that their rights are protected in the workplace. Banks can attract and retain top talent by prioritizing fair dealing with employees, which is crucial for their long-term success.

4.1.3. Performance Ratio for 3rd Objectives

BNI Syariah's top position in the third objective reflects its strong commitment to protecting religion. This is a crucial dimension of Islamic finance, ensuring that the bank operates following Islamic principles and values. It is also worth noting that Bank Jawa Barat Syariah and Bank Muamalat have performed well in this dimension, with no incidents reported in their operations over the years. In protecting the life dimension, all banks distribute zakat, which is an important way of protecting the vulnerable in society. However, not all banks have investments in microfinance, with only BCA Syariah, Bank Mega Syariah, and Panin Syariah making such investments. This indicates that these banks are committed to supporting micro-entrepreneurs and small businesses, which are significant economic growth and development drivers.

Regarding the protection of intellect, none of the Islamic banks report investments in technology in their annual financial reports. In terms of progeny protection, all banks can fulfil their obligations to protect shareholders, customers, employees, and the government. This indicates that these banks have strong governance structures in place, ensuring that they operate responsibly and ethically. In the protection of wealth dimension, only BCA Syariah, Mega Syariah Bank, and Bank Victoria Syariah report their investments in Small and Medium Enterprises. In contrast, almost all banks report investments in agriculture in their financial statements. This indicates that these banks are committed to supporting the development of the agricultural sector, which is a key driver of economic growth in many countries.

Finally, the complement dimension only describes investment in *Salam*, *Khafala*, and *Rahn* in some banks. This may indicate that these banks have yet to fully explore these Islamic finance products, which could offer new opportunities for growth and expansion. Overall, the third objective highlights the importance of protecting religious values and principles in Islamic finance and the need to support vulnerable communities and promote sustainable economic growth.

4.2. Ranking of Maqasid Shariah Performance Index

The ranking of Bank Panin Syariah, Bank Muamalat, Bank Aceh Syariah, BNI Syariah, and Bank Mega Syariah highly in the *Maqasid* Shariah Performance Index is reflects how committed they are to adhering to the tenets of Shariah in every facet of their undertakings. These banks have demonstrated their ability to align their business activities with the *Maqasid* Shariah by prioritizing social responsibility and ethical practices while delivering competitive financial products and services. Islamic banks that score high on the *Maqasid* Shariah Performance Index support the advancement of the Islamic finance

sector in Indonesia and play a vital role in promoting financial inclusion, sustainable development, and social welfare. They serve as role models for other Islamic banks to follow, encouraging them to adopt best practices and adhere to the principles of Shariah in their operations.

5. Conclusions

Maqasid Shariah's perspective on Islamic banking principles makes this study relevant. It describes Islamic banking goals and gives a Shariah-based performance measurement system. The outcomes of this research indicate differences in the performance levels of the selected Islamic banks. The gaps, indicate that there exists potential for further enhancement in the adherence of Islamic banks to the objectives of *Maqasid* Shariah. This research provides valuable insights for Islamic banking institutions in Indonesia to evaluate and enhance their performance to meet the objectives of *Maqasid* Shariah. It is important to note that no single bank shows the top position in each *Maqasid* Shariah element, indicating that there is still room for improvement in each area. This research underscores the need for Islamic banks in Indonesia to continuously improve their compliance with *Maqasid* shariah and increase the value of each element assessed. This can be achieved by focusing on governance structures emphasising transparency and accountability and a commitment to ethical and social considerations in all financial activities. Overall, the ranking of the *Maqasid* Shariah performance index provides valuable insights into the level of compliance of Islamic banks in Indonesia and highlights the need for continuous improvement in this important area.

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