

Antecedents and Consequences of Islamic Bank Performance Based on the Maqashid Syariah Index

by 443. 3015 Kautsar Riza Salman1 443. 3015 Kautsar Riza Salman1

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ABSTRACT

This study aims to obtain empirical evidence regarding the antecedents and consequences of performance based on the maqashid sharia index in Islamic banks in Indonesia. The maqashid sharia index in the literature and previous empirical research is limited to its use in the aspect of performance measurement only. This study seeks new insights into the antecedents and consequences of Islamic bank performance based on the Islamic maqashid index. The antecedent studied is the characteristics of the sharia supervisory board, while the consequences studied are Islamic social reporting. This study examines the effect of the sharia supervisory board on the maqashid sharia index in Islamic banks in Indonesia. In addition, this study also examines the effect of the sharia maqashid index on Islamic social reporting. The research sample is 11 Islamic banks in Indonesia within four years (2015-2018). This study found that the characteristics of the sharia supervisory board had a significant effect on the sharia maqashid index. The better the characteristics of the sharia supervisory board have an impact on increasing the sharia maqashid index. In addition, the maqashid sharia index has a significant effect on Islamic social reporting, meaning that the better the sharia maqashid index will impact broader Islamic social reporting.

ABSTRAK

Penelitian ini bertujuan untuk memperoleh bukti empiris mengenai anteseden dan konsekuensi kinerja berdasarkan indeks maqashid syariah pada bank syariah di Indonesia. Indeks maqashid syariah dalam literatur dan penelitian empiris sebelumnya dibatasi penggunaannya pada aspek pengukuran kinerja saja. Penelitian ini berupaya memberikan wawasan baru tentang anteseden dan konsekuensi kinerja bank syariah berdasarkan indeks maqashid syariah. Anteseden yang diteliti adalah karakteristik dewan pengawas syariah, sedangkan konsekuensi yang diteliti adalah pelaporan sosial Islami. Penelitian ini menguji pengaruh dewan pengawas syariah terhadap indeks maqashid syariah pada bank syariah di Indonesia. Selain itu, penelitian ini juga menguji pengaruh indeks maqashid syariah terhadap pelaporan sosial Islam. Sampel penelitian adalah 11 bank syariah di Indonesia dalam kurun waktu empat tahun (2015-2018). Penelitian ini menemukan bahwa karakteristik dewan pengawas syariah berpengaruh signifikan terhadap indeks maqashid syariah. Semakin baik karakteristik dewan pengawas syariah berdampak pada peningkatan indeks maqashid syariah. Selain itu, indeks maqashid syariah berpengaruh signifikan terhadap pelaporan sosial Islam, artinya semakin baik indeks maqashid syariah akan berdampak pada pelaporan sosial Islam yang lebih luas.

1. INTRODUCTION

As part of efforts to improve overall performance, Islamic entities should focus on achieving sharia goals contained in maqashid sharia. Maqashid sharia in terms of the objectives of Islamic law contained in each of its rules. Maqashid sharia index is used to measure maqashid sharia which is implemented on Islamic entities and is a tool for Islamic entities to measure compliance with Islamic principles. In the maqashid

sharia index, there are three indicators used to measure the performance of Islamic financial and banking institutions, namely educating individuals, building justice, and improving welfare (Syafii et al., 2012). Furthermore, the measurement of the maqashid sharia index was carried out by several researchers (Fitriyah et al., 2017; Harningtyas, 2015; Hudaefi & Noordin, 2019; Kholid & Bachtiar, 2015; Salman et al., 2018; Salman & Kurniasari, 2020; Saoqi, 2017).

* Corresponding author, email address:

The antecedent that will be tested in the research is Islamic governance represented by the characteristics of the Sharia Supervisory Board (SSB). SSB plays a very important role in implementing a compliance control mechanism of a sharia entity against sharia principles. According to Kholid & Bachtiar (2015), SSB has the duty to encourage Islamic banks to comply with Islamic sharia and ensure that there are no violations of Islamic banking operations. With the existence of SSB, the management of Islamic banks is expected not to violate contracts with customers, so that Islamic banks. Based on previous empirical research, there are still few studies that examine the effect of SSB characteristics on maqashid sharia index. This encourages this research to be carried out because previous studies are still testing the influence of SSB on financial performance. A high level of SSB quality can improve the financial performance of Islamic banks (Neifar et al., 2020).

The consequence that will be examined now is the disclosure of social responsibility in the perspective of Islam in sharia entities. CSR disclosure in sharia entities is based on studies in previous research using Islamic social reporting, commonly abbreviated as ISR. ISR is an index used as a benchmark for the implementation of Islamic banking performance which contains a compilation of CSR standard items set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which is then further developed by researchers regarding CSR items that should be disclosed by Islamic entities (Maali et al., 2006).

ISR in accordance with Islamic entities in it disclose matters relating to sharia principles such as transactions that are free from usury, speculation, gharar, disclosures regarding zakat payment, sharia compliance status, and social aspects such as infaq, sadaqah, waqf to reveal how to conduct worship in a corporate environment. This index is expected to be the first step towards CSR disclosure standards that are in accordance with sharia principles. Specifically, this index is an extension of social performance reporting standards that include public expectations not only regarding the role of banks in the economy but also the role of banks in spiritual perspectives and care for the surrounding environment. In addition, this index also emphasizes social justice related to the environment, minority rights, and employees.

The application of ISR in Islamic banking is inseparable from maqashid sharia which shows the compliance of Islamic entities to sharia principles in accordance with the Qur'an and Hadith. Previous empirical studies from (Fitriyah et al., 2017; Harningtyas, 2015; Salman et al., 2018) shows contradictory results. In addition, there are still a small number of studies examining the influence of the maqashid sharia index, there is an Islamic social reporting level.

The novelty offered in this study is a new model of antecedents and the consequences of the

maqashid sharia index. This new model is a pioneer study in research with the topic of maqashid sharia index. Based on the background described above, the research problems are: (1) Do SSB characteristics affect the maqashid sharia index?; and (2) Does the maqashid sharia index affect Islamic social reporting?. Based on the formulation of the problem, this study aims to examine the effect of SSB characteristics on the maqashid sharia index. In addition, this study also aims to examine the effect of the maqashid sharia index on Islamic social reporting.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Legitimacy Theory

The grand theory on which this study is based is the theory of legitimacy. Legitimacy theory is used as the basis for explaining social and environmental reporting practices (Deegan, 2019). Legitimacy is an important factor for companies to continue to survive and develop, as a vehicle in constructing corporate strategies, especially those related to efforts to position themselves in the midst of an increasingly developed and developed community environment (Hadi, 2009). Legitimacy is expected to encourage company going concern by generating benefits and potential resources for the company. Legitimacy theory is a theoretical perspective within the framework of economic and political theory (Widiyanti & Hasanah, 2018).

Companies will tend to use environmental-based performance and disclosure of environmental information with the aim of justifying or legitimizing the company in the eyes of the public, this is because the extent of the influence of the community can determine the amount of financial allocations and other economic sources. In this theory, company will act to remain legitimate in the eyes of whom it deems to be able to affect its legitimacy. One of the ways companies act to remain legitimate with the public that gives this award, is by voluntarily disclosing social and environmental information in the company's annual report (O'Donovan, 2000).

Legitimacy is a management system that is oriented to the company's alignments with the community and the government. The annual report illustrates the company's responsibility to obtain revenue from the community that is expected to increase the value of the company and company profits. The company's ever-increasing profits will eventually become a reference for investors in making investment decisions. Public expectations of the company will be fulfilled if the social responsibility and social disclosure practices carried out by the company are carried out in accordance with the values and social norms prevailing in the community. If the company always aligns itself with the values and norms in society and can anticipate the occurrence of legitimacy gaps, the company can continue to survive because it is considered

legitimate according to people's views in carrying out its business activities (Widiyanti & Hasanah, 2018).

Maqashid Sharia

Etymologically, maqashid is a plural form of maqshud which means intentional, or purpose. The sharia is the way to water, or can be said to be the way to the source of life. In terminology, maqashid sharia is the intention of God as the maker of sharia to provide benefit to humans by meeting the needs of dharuriyah, hajiyat, and tahsiniah (Fauzia & Riyadi, 2018). The ultimate goal of the maqashid sharia is to increase the benefit of mankind in this world and the hereafter, in life and death, in the past and the future. Ignorance of maqashid sharia can encourage people to deny the law handed down by Allah Subhanahu wa ta'ala. The maqashid sharia framework developed by ushul fiqh experts establish five basic elements that originate from the al-Qur'an and constitute the objectives of sharia, namely: guarding religion, soul, reason, descent, and property.

Maqashid Sharia Index

Islamic banks are banks that carry out their business activities based on sharia principles. Sharia principles are Islamic legal principles based on fatwas issued by institutions that have the authority to determine fatwas in the field of sharia (Salman, 2012). Measurement of Islamic banking performance is developed based on the principles of maqashid sharia with the aim that there is a measurement for Islamic banks that is in accordance with its objectives (Syafii et al., 2012). Performance measurements for Islamic banking should not focus solely on profits and other financial measures, but other values must be added that reflect the size of the non-profit benefits in accordance with the objectives of Islamic banks. Maqashid sharia index has been widely applied in previous scientific studies to measure the performance of Islamic banking in various countries. The maqashid sharia index was developed based on three main factors, namely educating individuals (*tahdzibul fard*), establishing justice (*iqomatul 'adl*), and increasing welfare or welfare (*maslahah*). In addition, the maqashid sharia index has elements including protecting religion, soul, mind, lineage, property and the environment (As-Salafiyah et al., 2021).

Hudaefi & Noordin (2019) developed performance measures of Islamic banks in several countries by aligning the results of previous studies. The samples used were 11 Islamic banks in Saudi Arabia, Turkey, Malaysia, Bahrain, Indonesia, Egypt, Bangladesh, Pakistan, Qatar, Sudan, and the United Kingdom. The model developed by Hudaefi & Noordin (2019) is referred to as integrated maqashid al-Sharia-based performance measure (IMSPM). Using this performance measure, Hudaefi & Noordin (2019) found that Islamic banks had the highest performance on nafs (self) goals over a three-year period (2013-2015).

Ishak & Asni (2020) found that there are several common practices in the development of Islamic banking products, including replicating conventional products into sharia products, forcing *wa'd* (unilateral promises) to strengthen the combination of different contracts into one product, and adopting floating rates with *ibra'* (rebates) for financing prices, which are needed to sustain the industry in the modern financial system. Ishak & Asni (2020) revealed that maqashid sharia is applied to reconcile the laws in fiqh muamalah and the banking environment so that these decisions can be adopted pragmatically without compromising sharia principles.

Islamic Governance

Islamic governance is broader in scope compared to general governance. Islamic governance refers to governance that is carried out in an Islamic manner and meets Islamic principles. The difference lies in the underlying values or principles. Islamic governance must be based on Islamic principles derived from the Qur'an and the hadith of the Prophet. The principle of Islamic governance is regulated in Al-Hajj verse 41, which is "(that is) those who if we affirm their position on the earth they undoubtedly uphold their prayers, perform their zakat, order to do ma'ruf and prevent from unlawful acts; and to Allah is the return of all affairs." In that verse, three aspects of the basic principles in Islamic governance are explained, namely the enforcement of Islamic law, paying zakat, and amar ma'ruf nahi mungkar. In order to realize these three aspects, some basic values are needed including musyaarawah, justice, ukhuwah, trustworthiness, accountability, and transparency.

There are still limited empirical research studies carried out by experts on Islamic governance. Several studies in credible journals (Abdul Rahman et al., 2020; Elghuweel et al., 2017; Hasan & Asutay, 2019) have examined Islamic governance.

Elghuweel et al. (2017) examines the impact of corporate governance mechanisms and Islamic governance on earnings management behaviour in Oman. The results of the study found that on average, firms with better governance tend to be significantly less involved in earnings management than firms with poor governance. In addition, companies with a greater commitment to incorporating Islamic religious beliefs and values into their operations through the establishment of Islamic governance committees tend to be significantly less involved in earnings management.

Hasan & Asutay (2019) aims to explore and test the extent of Islamic governance practices in 35 Islamic financial institutions (IFIs) in Malaysia, the Gulf Cooperation Council countries and the UK, particularly in its six main areas, namely Islamic governance approaches, regulatory frameworks and internal policies, roles and functions of sharia boards, attributes of sharia board members on independence, competence and transparency, and confidentiality, operational procedures and IFI's perception of sharia board performance. This study

shows the state of Islamic governance practices in several countries. The survey findings confirm that there are significant differences and diverse Islamic governance practices among IFIs in these countries. Therefore, this study provides evidence that there are deficiencies and weaknesses in the existing governance framework, which need to be improved and further improved.

Abdul Rahman et al. (2020) developed and validated the Islamic Governance Examination Test (IGET) in its application to healthcare settings. The study results support the conceptual model and show the potential to improve the quality of health care. By articulating the internal and organizational processes implemented for Muslim patient compatibility and accommodating existing forms of healthcare governance.

Sharia Supervisory Board (SSB)

As a sharia supervisor, the function of SSB is very strategic and noble, because it involves the interests of all users of the institution. The existence of SSB in Islamic banks is very important as the party who has the role to oversee the operations of the bank to be in accordance with the principles of sharia. SSB is expected to be able to guarantee and ensure that Islamic banks in all their operational activities have applied the principles of sharia. The implementation of the duties and responsibilities of SSB (Bank Indonesia, 2009a) includes: (1) assessing and ensuring the fulfillment of Sharia Principles for operational guidelines and products issued by the Bank; (2) oversees the process of developing new bank products to conform to the fatwa of the National Sharia Council - Indonesian Ulama Council; (3) requests a fatwa from the National Sharia Council - Indonesian Ulama Council for bank new products for which there is no fatwa yet; (4) conducting periodic reviews of the fulfillment of the Sharia Principles on the mechanisms for raising funds, channeling funds, and providing bank services; and (5) request data and information related to sharia aspects of the bank work units in the context of carrying out their duties.

The number of SSB members is at least 2 people and as many as 5 people (Bank Indonesia, 2004). In addition, Bank Indonesia (2009) stipulates that members of the SSB may only hold multiple positions as members of the SSB at two Islamic banking institutions and two non-bank Islamic financial institutions and members of the SSB are prohibited from holding concurrent positions as consultants throughout Sharia Commercial Bank and/or Sharia Business Unit. One SSB member is allowed to hold concurrent positions as a member of the National Sharia Council.

However, the results of other studies yielded interesting findings. Alam & Miah (2021) in their study in Bangladesh found that the position of the sharia supervisory board (SSB) in the majority of Islamic banks was similar to that of the bank's Board of Directors (BOD). Furthermore, this study found that in recruiting or selecting SSB members, some banks did not follow Bangladesh central bank guidelines. This study also found

mixed evidence regarding the independence of SSB members. Most of the respondents thought that the SSB had no power; in some cases, SSB members are not independent and appear powerless because the Board of Directors selects and recruits them. In contrast, SSB relies on management with respect to strategy implementation.

Islamic Social Reporting

Disclosure of social responsibility in an Islamic context can be measured using an Islamic social reporting index. The Islamic social reporting index is a standard issued by the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and most of the previous studies used a model based on the standards issued by the AAOIFI (Haniffa, 2002; R Othman et al., 2009). The Islamic social reporting index that is often used and used as a reference is an index made by Othman et al. (2009) which is the development of an Islamic social reporting model initiated by Haniffa (2002) through five disclosure themes, namely financial and investment themes, product and service themes, employee themes, community themes, and environmental themes.

The basic concepts on the theme of finance and investment are tawhid, halal and haram, as well as mandatory. Some of the information revealed on this theme according to Haniffa (2002) is an operational practice that contains usury and gharar. Another aspect that must be disclosed by Islamic entities is the practice of paying and managing zakat. Subsequent disclosures in addition to Othman et al. (2009) is a policy for late payment of accounts receivable and bankruptcy of clients, current value balance sheet, and value-added statement.

Othman et al. (2009) explains some aspects that need to be disclosed on the theme of products and services is the halal status of products and services for consumer complaints. Service for customer complaints must be a priority of Islamic banks in order to maintain customer confidence in accordance with the theory of legitimacy. Good service will have an impact on the level of customer loyalty. Another thing that must be disclosed by Islamic banks according to Haniffa & Hudaib (2007) is the glossary or definition of each product as well as the contract underlying the product.

In Islamic social reporting, everything related to employees comes from the concepts of ethics, trustworthiness, and justice. Haniffa (2002) and Othman & Thani (2010) state that the Muslim community wants to know whether company employees are treated fairly and fairly through the information that is disclosed. Some of the information includes working hours, holidays, employee benefits and education, and employee training.

Some aspects of disclosure related to community themes are sadaqah, waqf, and qardhul hasan (Haniffa, 2002). Several other aspects developed by Othman et al. (2009) include volunteers from among employees, providing educational scholarships, empowering work of school graduates or students in the form of internships, developing young people, improving the quality of life

for the poor, caring for children, charitable or social activities, and supporting activities - health, entertainment, sports, cultural, educational and religious activities. Companies should not be involved in activities that damage and endanger the environment (Othman & Thani, 2010). Information revealed in environmental themes includes environmental conservation, not polluting the environment, education about the environment, respect for the environment, and environmental management systems (Haniffa, 2002; Othman et al., 2009).

Islamic Governance as Antecedents of Maqashid Sharia Index

The more members of the Sharia Supervisory Board, the better the performance of the board because the board has the experience, expertise, expertise, and highly professional, and social networks. The more members of the Sharia Supervisory Board will also increase the level of bank compliance in a better direction. In addition, better supervision can reduce agency problems conducted by bank management, so that with reduced agency problems, the performance of Islamic banks maqashid will be better (Kholid & Bachtiar, 2015).

The Sharia Supervisory Board (SSB) is an organ part of a Islamic bank that is internally tasked with overseeing sharia compliance and externally can maintain and enhance public trust. In Bank Indonesia (2009b), SSB can concurrently work at most 4 other financial institutions. Kholid & Bachtiar (2015) found that SSB carried out multiple positions or not had the same quality level. SSB who has held concurrent positions has demonstrated its expertise in sharia supervision, but its supervision must be shared with other financial institutions. The SSB does not hold concurrent positions at other financial institutions but does not show its expertise in sharia supervision.

H₁: SSB characteristics affect the maqashid sharia index

Islamic Social Reporting as a Consequence of Maqashid Sharia Index

The Maqashid sharia index consists of educating individuals, upholding justice, and improving welfare. Education has a relationship with the disclosure of social responsibility. If an Islamic bank has a high score in the aspect of education, it is certain that the bank will reveal high social responsibility, especially in the aspect of improving the quality of employees. Justice has the objective of administering justice which is described by several sub-indicators which include: fair return, functional distribution, and interest-free products. The achievement of high benefit shows evidence of the role of banks in improving public welfare. The benefits aspect is related to Islamic social reporting. This can be seen in one of the indicators of Islamic social reporting, namely the financial and investment aspects in Islamic bank practices must be far from the elements of usury, gharar, and halal-haram, for the benefit of all customers who have believed in Islamic bank. In addition, the environmental side shows that Islamic banking must not

damage or endanger the surrounding environment because it will affect the mutual benefit. Welfare is also related to the management of zakat, sadaqah, waqf, and qardhul hasan so that this is in line with the concept of ISR, namely from the community side. Islamic banking that operates is not only concerned with profits, but must pay attention to the common interests of employees, customers and the environment.

H₂: Maqashid sharia index affects Islamic social reporting

3. RESEARCH METHOD

The current study uses secondary data from financial reports and annual reports of Islamic Banks in Indonesia over a period of 4 years (2015-2018). Secondary data sources can be books and journals, government publications on economic indicators, census data, statistical abstracts, media, and annual corporate financial reports (Ghozali, 2016). Secondary data can also come from data that has been collected by data collection agencies and published to the user community (Kuncoro, 2014).

The maqashid sharia index uses indicators from Mohammed et al. (2008) and Hudaefi & Noordin (2019). Indicators of this variable consist of educating individuals (*tahdzibul fard*), upholding justice (*iqamatul 'adl*), and welfare (*maslahah*). The indicator of educating individuals is measured by the costs of education, training, research, and promotion. Indicators of upholding justice are measured by fair returns, affordable products and services, and eliminating negative elements that can create injustice. Indicators of increasing welfare (benefit) are measured by the profitability of Islamic banks, redistribution of income and welfare, and investment in the real sector.

The existence of the Sharia Supervisory Board (SSB) in this study uses indicators from Farook et al. (2011), namely the number of SSB members, dual positions, educational qualifications of SSB members, and the number of SSB member meetings. According to Bank Indonesia (2004) states that the number of SSB members is at least 2 people and as many as 5 people. According to Bank Indonesia (2009a) concerning the implementation of Good Corporate Governance in Sharia Commercial Banks and Sharia Business Units, SSB may only hold multiple positions as members of SSB at two banking institutions and two non-bank sharia financial institutions. and members of the SSB are prohibited from holding concurrent positions as consultants in all Sharia Commercial Banks and/or Sharia Business Units. Measurement of multiple positions by the SSB by giving a value of 1 for SSB who do dou-

ble positions in accordance with Bank Indonesia regulations and giving a value of 0 for SSB who do double positions but not in accordance with existing regulations. Educational qualifications related to expertise in the field of fiqh muamalah. Value 1 for members of SSB with muamalah science education background and knowledge in banking and or finance in general, conversely value 0 for SSB members with sharia muamalah educational background knowledge or knowledge in banking and or finance in general. The number of meetings is measured by the number of times SSB members attend meetings in one year by multiplying the number of SSB members by the frequency of meetings attended and then divided by the number of SSB members.

Islamic Social Reporting is an alternative standard used to measure corporate social responsibility reporting based on sharia principles. The Islamic social reporting index is a standard issued by the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions). Current research uses indicators from Haniffa (2002) with five disclosure themes, namely financial and investment themes, product and service themes, employee themes, community themes, and environmental themes.

Data analysis in this study uses the Partial Least Square (PLS) approach with SmartPLS soft-

ware version 3.0. The quality test of the measurement model includes a convergent validity test, discriminant validity test, and reliability test (Ghozali & Latan, 2015). Reliability testing was performed using Cronbach alpha and composite reliability. Cronbach alpha and composite reliability are used to measure the reliability of the reflexive measurement model. The rule of thumb for the reliability test is 0.70 (Hair et al., 2011). Structural model test results are performed by looking at the value of R Square, assessing the goodness of fit model, and using bootstrapping to assess the significance of the path coefficient. Testing the goodness of fit of the structural model using the predictive relevance (Q^2) formula. The resulting Q^2 value is greater than zero ($Q^2 > 0$) indicating that exogenous constructs have predictive relevance for endogenous constructs (Hair et al., 2011).

4. DATA ANALYSIS AND DISCUSSION

Descriptive Statistics

Based on Sharia Commercial Bank data registered with the Financial Services Authority there are 11 Sharia Commercial Banks as research samples. Descriptive analysis (Table 1) provides a description of the data, including the mean, maximum value, minimum value, and standard deviation of each data or variance which is a measure of variability.

Table 1. Statistic Descriptive

Indicators	Mean	Min	Max	SD
Number of SSB members ($X_{1.1}$)	2.341	2.000	3.000	0.474
Multiple positions ($X_{1.2}$)	0.932	0.000	1.000	0.252
Educational background ($X_{1.3}$)	0.318	0.000	1.000	0.466
Number of SSB member meetings ($X_{1.4}$)	13.330	7.000	26.000	3.747
Educating individual ($Y_{1.1}$)	0.002	-0.008	0.015	0.004
Justice ($Y_{1.2}$)	0.223	-0.037	0.931	0.138
Welfare ($Y_{1.3}$)	0.092	-0.009	0.129	0.021
Investment and Finance ($Y_{2.1}$)	0.693	0.500	1.000	0.170
Products and Services ($Y_{2.2}$)	0.871	0.333	1.000	0.204
Employee ($Y_{2.3}$)	0.696	0.455	0.909	0.082
Community ($Y_{2.4}$)	0.807	0.300	1.000	0.189
Environment ($Y_{2.5}$)	0.541	0.200	0.800	0.198

For the SSB characteristic variable, the minimum value of the number of SSB members is 2 which states that the minimum number of SSB members is 2 people. The maximum value of 3 states that in an Islamic Bank there are a maximum of 3 SSB members. The number of SSB members is more useful to ensure Islamic banks' compliance with Islamic principles and law. The minimum value of the number of meeting members is 7.0,

which means that there are several Islamic banks meeting in one year with a minimum frequency of 7 meetings, namely Panin Sharia Bank (2018), Muamalat Indonesia Bank (2015), and Bank Mandiri Sharia (2016, 2017, 2018). The maximum number of meetings is 26, meaning that SSB members often hold meetings with a frequency of more than once a month, namely Bank Jabar Banten Sharia in 2016.

For the maqashid sharia index variable, the minimum value is in the individual educator indicator of -0.008, where many sharia commercial banks do not allocate costs for the indicator. The individual educating indicator is calculated by comparing education costs, research costs, training costs, and promotion costs divided by total costs and multiplied by the weights for each indicator. The maximum value of the maqashid sharia index of 0.931 is an indicator of upholding justice. This shows that sharia commercial banks have a role in improving social and economic justice. The average of the three indicators is different and the highest average is obtained by enforcing justice with a value of 0.223 where the value is derived from 3 (three) ratios added from 2015-2018.

For Islamic social reporting variables, the minimum value is on the environmental indicator of 0.200, where there are a number of sharia commercial banks that do not disclose information on zakat such as Bukopin Sharia Bank (2015-2018), Panin Dubai Sharia Bank (2018), and Maybank Sharia

Indonesia (2015-2018). The maximum value of 0.204 is on the product and service indicators. This means that the bank discloses information relating to products and services as a whole in the annual report. The highest average product and service indicators obtained with a value of 0.871. Islamic social reporting variables have averages that increase from year to year, except for environmental indicators decreased during the 2016-2018 range.

Validity Test

Convergent validity test results show that there are several indicators that have outer loading below 0.7 among the indicators of the number of SSB members ($X_{1,1}$), educating individuals ($Y_{1,1}$), upholding justice ($Y_{1,2}$), and funding and finance ($Y_{2,1}$) (Table 2). After some of these variables are removed in Table 3 it shows all the variables that have an outer loading above 0.7. Discriminant validity test results show that the indicators that measure variables are valid because they have a higher score compared to other variables (Table 4).

Table 2. Convergent Validity Test Results

No	Indicators	Outer Loading
1	Number of SSB members ($X_{1,1}$)	0.006
2	Multiple positions ($X_{1,2}$)	0.348
3	Educational background ($X_{1,3}$)	0.928
4	Number of SSB member meetings ($X_{1,4}$)	0.346
5	Educating individual ($Y_{1,1}$)	-0.467
6	Justice ($Y_{1,2}$)	0.813
7	Welfare ($Y_{1,3}$)	0.684
8	Investment and Finance ($Y_{2,1}$)	0.780
9	Products and Services ($Y_{2,2}$)	0.777
10	Employee ($Y_{2,3}$)	0.807
11	Community ($Y_{2,4}$)	0.277
12	Environment ($Y_{2,5}$)	0.501

Table 3. Second Convergent Validity Test Results

No	Indicators	Outer Loading
1	Educational background ($X_{1,3}$)	1.000
2	Justice ($Y_{1,2}$)	0.907
3	Welfare ($Y_{1,3}$)	0.855
4	Investment and Finance ($Y_{2,1}$)	0.733
5	Products and Services ($Y_{2,2}$)	0.842
6	Employee ($Y_{2,3}$)	0.796

Table 4. Discriminant Validity Test Results

	Maqashid Sharia Index	SSB Characteristics	Islamic Social Reporting
Maqashid Sharia Index	0.881		
SSB Characteristics	0.273	1.000	

Islamic Social Reporting	0.470	0.278	0.792
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Table 5. Reliability Test Results

	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
Maqashid Sharia Index	0.716	0.874
SSB Characteristics	1.000	1.000
Islamic Social Reporting	0.708	0.834

Reliability Test

The reliability test results using cronbach's alpha and composite reliability show scores above 0.7 (Table 5).

R² Value

R² value on the model with the maqashid sharia index variable as the dependent variable of 7.4% indicates that the model is weak, while the remaining 92.6% is explained by other variables outside the research model. Thus it can also be stated that there are still other variables outside the model that need to be considered in relation to the factors that influence the maqashid sharia index. R² value of 22.1% in the Islamic social reporting level variable as the dependent variable shows that the model is in the weak category. The value of R² indicates that the variable level of Islamic social reporting can be explained by the variables in the research model by

22.1%, while the remaining 79.9% is explained by other variables outside the research model.

Hypothesis testing

Results hypothesis testing of the direct effect is done by looking at the value in the path coefficients which show the parameter coefficient and the t-statistic value. The research hypothesis is supported if the absolute t-statistic value is greater than 1.96 or the p-value is less than 0.05 (Table 6). In accordance with Table 6, it can be shown that the characteristics of the SSB have a significant effect on the maqashid sharia index because it has a p-value of 0.015 less than 0.05. In addition, the results also show that the maqashid sharia index (MSI) has a significant effect on Islamic social reporting because it has a p-value of 0.000 less than 0.05.

Table 6. Hypothesis Testing Results

Relationship	<i>original sample</i>	<i>t-statistic</i>	<i>p-value</i>
Characteristics of SSB as the Antecedents of the Maqashid Sharia Index	0.470	5.284	0.000
Islamic Social Reporting as a Consequence of the Maqashid Sharia Index	0.273	2.308	0.021

Characteristics of SSB as Antecedents of Maqashid Sharia Index

The results of this study found that the characteristics of the sharia supervisory board (SSB) had a significant influence on the maqashid sharia index. The characteristics of SSB which are represented by educational background indicators of SSB members are empirically proven to be able to increase the Islamic Maqashid index in Islamic banks in Indonesia. An educational background that shows SSB knowledge and experience leads to an increase in the function of monitoring or supervision of Islamic bank operational activities. In the context of agency theory, the existence of good monitoring is proven to be able to reduce agency problems that occur in management and owner relations and this results in the performance of the Islamic banks' maqashid sharia index for the better.

The results of this study are in line with Salman & Kurniasari (2020), where the study succeeded in proving the influence of the number and educational background of the sharia supervisory board on the maqashid sharia index. The results of this study are also supported by a descriptive analysis where the sharia supervisory board has an average of good educational background so that it shows that SSB works well according to expertise in their fields and meets the criteria as SSB members. The increased performance of SSB supervision has proven to have a positive impact on the performance of Islamic banks, especially the maqashid sharia index.

Islamic Social Reporting as a Consequence of Maqashid Sharia Index

Based on data analysis, it was found that the maqashid sharia index has a significant influence on Islamic social reporting. In this study, the maqashid sharia index is represented by justice and benefit. The performance of educating individuals as measured by the proportion of the costs of education, training, research, and the cost of promotion to the total cost proved invalid so it was not used in the test results. Compared to justice and benefit, education is an aspect that is not considered by Islamic banks, as evidenced by the lowest average value over a 4-year span of the 2015-2018 period and tends to decrease from 2015 to 2018. This finding is contrary to the importance of aspects education for Islamic banks in order to improve the quality of human resources in Islamic banks through education and training, improve research, and promote Islamic bank products and services to the community. The results also show that if the budget allocated by Islamic banks for educational performance is very low, it proves that Islamic banks in Indonesia are less involved in educating individuals and the quality of human resources (employees and stakeholders).

The findings of this study provide empirical evidence about the importance of justice as part of the maqashid sharia index. Equity performance is measured by fair returns, distribution functions, and interest-free income. Justice in this study obtained the highest average value over a span of 4 years (2015-2018) compared to educational performance and welfare performance. Justice performance tends to increase during the last 4 years from 2015 to 2018, which is 43% and up 14% per year. The results of this study indicate that the higher the performance score obtained by Islamic banks, the higher the level of Islamic social reporting will be. Conversely, the lower the performance score obtained by Islamic banks, the lower the level of Islamic social reporting will be. The importance of justice performance is also in line with the theory of legitimacy on which this research is based. Banks that produce a high performance of justice will have an impact on disclosure of Islamic social reporting which is also higher because of the increasing level of public trust and concern for Islamic banks. This has an effect on people's interest in the products and services offered by Islamic banks.

The results showed that the welfare or benefit aspect was able to play a role in increasing the disclosure of Islamic social reporting on Islamic banks in Indonesia. High performance in this aspect shows the important role of Islamic banks in Indonesia in improving the welfare or benefit of the

community. Islamic banks with high welfare performance are proven to express social responsibility better. Welfare performance is measured by bank profitability, income redistribution and welfare through zakat paid by banks, and investment in the real sector. Based on descriptive analysis data, welfare performance has decreased by an average of 7.8% over the past 4 years (2015-2018) and a decline rate of 2.6% per year. Although the effect is significant on the level of Islamic social reporting, performance scores improve welfare or benefit is very low. This is because many Islamic banks have negative profits, low real sector investment, and there are some Islamic banks that do not allocate funds to pay zakat.

The results of this study support previous research conducted by Salman et al., (2018), Saoqi (2017), and Salman & Kurniasari (2020) who discovered the empirical influence of the maqashid sharia index on the disclosure of Islamic social reporting on Islamic banks in Indonesia. The higher the performance of the Maqashid sharia index, the wider the reporting of social responsibility by banks. Islamic banks that have good performance tend to be able to express higher social responsibility to gain trust from the community so that Islamic banks can maintain their performance in the future.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

We present the aim of the study to examine the effect of the characteristics of the sharia supervisory board on the maqashid sharia index. In addition, this study also aims to examine the effect of the maqashid sharia index on Islamic social reporting. The results of the study found that there was a significant effect of the characteristics of the SSB on the maqashid sharia index. Likewise, the results of this study empirically prove the influence of the maqashid sharia index on Islamic social reporting.

The findings of this study confirm the role of legitimacy theory in the relationship between the maqashid sharia index and Islamic social reporting. The findings of this study also provide new insight that Islamic banks based on legitimacy theory will disclose wider social and environmental information when Islamic banks have a high maqashid sharia index. Future research is expected to develop operational definitions and indicators to measure Islamic governance, maqashid sharia index and Islamic social reporting on other sharia entities such as baitul maal wa tamwil, Islamic insurance, Islamic boarding schools, mosques, amil zakat institutions, and waqf institutions.

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