

Developing of Maqashid Sharia Performance in Islamic Banking

By

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Abstract:

This research currently aims to develop the performance of maqashid sharia in Islamic banking using a content analysis approach. The concept of maqashid sharia is the aim of sharia to be achieved through the maintenance of several elements including religion (ad-din), soul (an-nafs), mind (al-'aql), wealth (al-maal), and prosperity (al-nasl). This concept is then operationalized by Islamic economists to measure the performance of Islamic banks with several measurements. However, existing measurements regarding maqashid sharia tend to be complicated and not easy to operate. This study uses a content analysis approach by studying the financial reports and annual reports of several Islamic banks in ASEAN countries, especially in Indonesia, Malaysia, Brunei Darussalam and the Philippines. Based on content analysis, the findings regarding the performance of maqashid sharia are divided into three measurement indicators, namely the individual educating (tahdzib al-fard), establishing justice (iqamah al-'adl), and promoting welfare (jalb al-mashalih). The individual educating indicator (tahdzib al-fard) is measured by the ratio of the cost of education, training and promotion (publication) divided by the total cost. The indicator of establishing justice (iqamah al-'adl) is measured by the profit sharing obtained by shahib al-maal divided by the total deposits from shahib al-maal. The indicator of promoting welfare (jalb al-mashalih) is measured by the natural logarithm of zakat, alms, and qardh al-hasan funds paid or received by Islamic banks divided by net profit.

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1. INTRODUCTION

The Covid-19 pandemic has had a widespread impact on all countries since it was first discovered in December 2019 in Wuhan, China. Not only in health pandemics but causing disruptions in global economic activity (Hasan et al., 2020), this pandemic had an impact on companies because they face fixed costs and debt service expenses with a decrease in cash balances (Hasan et al., 2020). From the world banking industry itself, there has been a decline in the growth of loans to conventional banks and financing to Islamic banks, but a significant decrease has occurred in conventional banks compared to Islamic banks. The facts show that even credit growth (financing) in Islamic banks grows around 2.5% faster than in conventional banks. This research sampled 421 banks from 17 countries (Boubakri et al., 2022). However, the impact on bank lending was lower in countries that were more affected by the health crisis. This impact also depends on the bank's financial condition, market structure, regulatory and institutional environment, the development of debt markets and financial intermediaries, the ease of access of companies to debt capital and the response of the public health sector to crises (Çolak & Öztekin, 2021).

ASEAN countries have also been affected by the Covid-19 pandemic. Indonesia as part of ASEAN was affected by the pandemic with a decrease in the composite stock price index (IHSG) and economic growth (Haryanto, 2020; Saraswati, 2019), depreciation of the rupiah against the dollar (Haryanto, 2020). Among ASEAN countries, Islamic banks in Indonesia have better stability in dealing with crises compared to other Islamic banks such as those in Malaysia and Pakistan (Luqmanulhakim et al., 2021).

Based on data on asset growth, collection of third-party funds and financing in the July 2022 period, ASEAN countries note that Islamic banks performed better than conventional banks during the global financial crisis. The difference between Islamic banks and conventional banks lies in the term profit-sharing based financing, the prohibition of usury and gharar, and the presence of underlying assets which indicates a strong suspicion that there is a differential effect from Covid-19 on these products. In addition, Islamic banks are also prohibited from trading risky financial instruments such as derivative instruments, resulting in stable profits obtained by Islamic banks, especially during periods of crisis (Pambuko et al., 2018; Trad, Rachdi, et al., 2017). During the 2000-2013 period in the financial crisis period, initially, there were no significant differences between Islamic banks and conventional banks. However, when the financial crisis spread to the real economy during the final phase of the crisis, Islamic banks experienced significantly higher levels of financial volatility compared to conventional banks and this finding holds for large Islamic banks. Small Islamic banks show relatively better handling of economic crises, thus supporting the argument that Islamic banks are more stable when operating on a small scale but lose their stability when Islamic banks increase the scale of their operations (Alqahtani & Mayes, 2018).

Based on the study of Maqashid Sharia, the Ulama agreed to recommend economic growth during a pandemic or epidemic to continue so that people's welfare is guaranteed (Ash-Shiddiqy & Fitriyati, 2022). All economic instruments in Islam based on

maqashid sharia are expected to be a solution that can reduce the impact of the economic crisis due to the Covid-19 pandemic and can be used sustainably (Rusydia et al., 2021).

The performance of Islamic banks in previous studies still uses financial aspects or tends to be profit-oriented. Using a sample of 78 Islamic banks in 12 countries in the period 2004-2013, Trad, Trabelsi, et al. (2017) found that bank size and capital are the main factors responsible for increasing the profitability and stability of Islamic banks and reducing their credit risk. Profitability in the study is measured by ROA and ROE. Beck et al. (2013) found that Islamic banks proved to be less cost-effective, but had higher intermediation ratios, higher asset quality, and better capital. Tashkandi (2022) has revealed that Sharia supervision and governance variables are significantly related to the performance of Islamic banks. These results also indicate a relatively good level of governance in the Gulf countries. In addition, the presence of the Sharia Supervisory Board follows the impact of traditional corporate boards on bank performance. Therefore, the Sharia Supervisory Board is a body that plays an important role in the performance of Islamic banks. Furthermore, the study results also show that bank size, capital adequacy ratio, economic growth and inflation are significant and positive determinants of the financial performance of Islamic banks.

2. Research Design and Method

The current research uses a qualitative approach through content analysis. Content analysis is carried out by examining in depth the financial reports and annual reports of Islamic banks in ASEAN countries. Annual report on 30 Islamic Banks spread across 4 ASEAN countries, namely Indonesia, Malaysia, Brunei Darussalam and the Philippines. Islamic banks in Indonesia include Bank Bukopin Syariah, Bank Maybank (Net) Syariah, Bank Mega Syariah, Bank Muamalat Indonesia, Bank Panin Dubai Syariah, Bank Central Asia Syariah, Bank Jabar Banten Syariah, Bank Negara Indonesia Syariah, Bank Rakyat Indonesia Syariah, Bank Syariah Indonesia, Bank Syariah Mandiri, and Bank Victoria Indonesia Syariah. Sharia Banks in Malaysia include: Affin Islamic Bank Berhad, Al Rajhi Banking & Investment Corporation, Alliance Islamic Berhad, AmBank Islamic Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, CIMB Islamic Bank Berhad, Hong Leong Islamic Bank Berhad, HSBC Amanah Malaysia Berhad, Kuwait Finance House (Malaysia) Berhad, Maybank Islamic, MBSB Bank Berhad, OCBC, Public Islamic Bank Berhad (PIBB), RHB Islamic Bank Berhad (Malaysia), and Standard Chartered Saadiq Berhad. The Islamic bank in Brunei is BIBD. The Islamic bank in the Philippines is Al Amanah Islamic Bank Philippines. The content analysis was carried out in the 2015-2021 timeframe.

3. Results and Discussion

Maqashid Sharia Concepts

Islamic principles are not only applied by sharia entities in the field of fiqh in the form of the legality of products and services that are under Islamic principles alone but more than that Islamic principles should have a wider impact on economic and social aspects as a consequence of efforts to achieve Maqashid Sharia. More specifically, Razak et al. (2008) explained that the objectives of Islamic banks can be derived from the

objectives of sharia (maqashid sharia). This is because Islamic banks do not only aim to achieve profits but also have goals that have a social dimension. This goal which has a social dimension is represented by the concept of maqashid sharia.

The concept of maqashid sharia refers to the achievement of sharia goals through achieving benefit (maslahah) and avoiding harm. Maslahah can be achieved by providing protection and providing benefits to humans. Another aim of sharia is to avoid harm (mafsadah), to protect humans from any harm. This goal is known as maqashid sharia which is translated as the goals and objectives of Islamic law (Jazil & Syahrudin, 2013). To operationalize the concept of maqashid sharia, experts are the main references including Abu Zahrah, Syatibi and al-Ghazali. Of the three experts, the researchers developed a more operational definition and measurement of the concept of maqashid sharia (Figure 1).

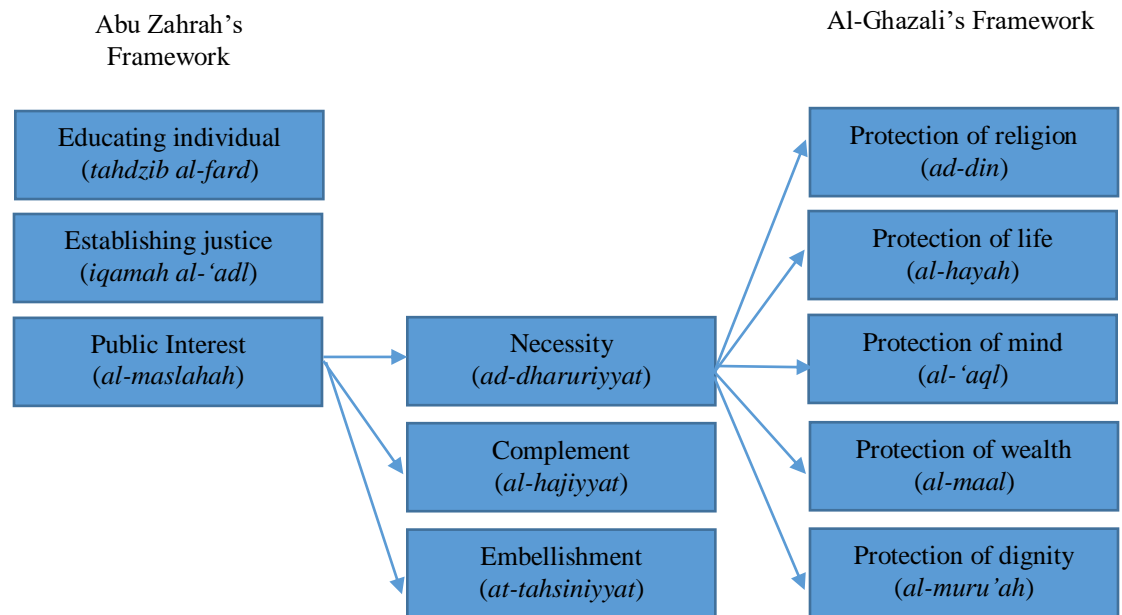


Figure 1. Maqashid Sharia Performance Measurement

Source: Mohammad & Shahwan (2013)

Performance Measurement of Maqashid Sharia Based on Five Elements of Protection

Imam Al-Shatibi gives a better and more comprehensive meaning by adding the meaning of *ri'ayah* besides protection and preservation. Al-Shatibi explained that sharia is not only aimed at protecting or maintaining benefits (*maslahah*) but sharia should also promote and spread (*tabligh*) benefits to realize benefits for human life. The five elements (religion, soul, intellect, lineage, wealth) are not only guarded and protected but also promoted and disseminated to humans. The more appropriate term for promoting this is *ri'ayah* (Maszlee Malik, 2015). The same thing was also expressed by Jazil & Syahrudin (2013) that the purpose of sharia is to promote human welfare through safeguarding religion, life, mind, lineage and wealth.

Jazil & Syahrudin (2013) revealed the concept of maqashid sharia is guarding or protecting 5 (five) elements which include protecting or guarding beliefs (religion/*al-din*), life (life/*al-hayah*), intellectual or reason (mind/*al-'aql*), descent (dignity/*al-muru'ah*) and wealth (wealth/*al-maal*). Based on the concept of Al-Ghazali (2011) this was also developed by Esen (2015) (Figure 2).

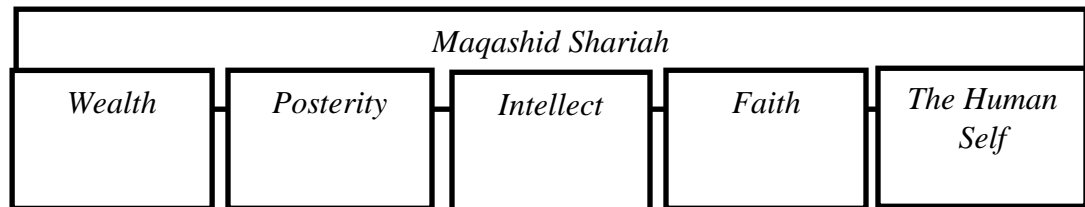


Figure 2. Protecion of Maqashid Syariah

Source: Esen (2015)

Pengukuran Kinerja Maqashid Sharia Berbasis Objectives of Maqashid Sharia

Zahrah (1994) classifies maqashid sharia into three specific objectives, namely educating individuals (*tahdhib al-fard*), upholding justice (*iqamah al-'adl*) and promoting welfare (*jalb al-maslahah*). Razak et al. (2008) initiated the development of a maqasid sharia performance measurement approach based on the classification carried out by Abu Zahrah (1997). Al-Ghazali (2011) describes *maslahah* into three levels starting from need (necessity/*al-daruriyyat*), complement (complement/*al-hajiyyat*) and embellishment/*al-tahsiniyyat*). The first element is a necessity which is defined as a very important element (vital) for the survival and welfare of humans. Without this element (necessity/*al-daruriyyat*) it can endanger the order of life in society. The second element, namely complement or *al-hajiyyat*, is an element that facilitates human life. This element is a complementary need or interest and the absence of this element does not pose a threat to human survival. The third element, namely embellishment or *al-tahsiniyyat*, is an element related to moral and ethical rules. This third element is seen as something that can achieve improvement and perfection in human behaviour at all levels of achievement (Mohammed et al. (2015).

Referring to Zahrah (1994), Razak et al. (2008) formulated a performance evaluation model based on the maqashid sharia concept. The indicators used include *tahdzib al-fard* (educating the individual), *iqamah al-'adl* (establishing justice), and *jalb al-maslahah* (public welfare). The first Maqashid (*tahdzib al-fard*) has the meaning of developing the knowledge and expertise of each individual so that spiritual values increase. The first maqashid has several ratios, namely education grants, research, training, and publicity. Studies in Indonesia that use the Abu Zahrah model as the basis for their studies, including those conducted by Antonio et al. (2020). Almost the same as several previous studies, Antonio et al. (2020) have attempted to analyze the Abu Zahrah sharia maqasid model as a performance measurement system and use it to evaluate the performance of Islamic banks. The method used is a combination of a literature review and a survey of 97 Islamic banks in Indonesia. This study found three dimensions of

maqasid sharia, namely educating individuals, establishing justice, and promoting welfare.

Maqashid Sharia Performance Development in Sharia Banks

Based on the content analysis of annual reports on research objects and literature reviews in several articles (Antonio et al., 2020; Esen, 2015; Jazil & Syahrudin, 2013; Razak et al., 2008), researchers developed an easier measurement of maqashid sharia performance to be operationalized. There are four stages developed, namely the development stage of the maqashid sharia model framework, the stage for determining indicators that are relevant to the objective of maqasid sharia, the stage for measuring the performance ratio of each element, and the stage for calculating the performance of maqashid sharia.

The first stage is the development stage of the maqashid sharia model framework consisting of protections and objectives of maqashid sharia. The protections of maqashid sharia consist of protection of religion, protection of life, protection of mind, protection of wealth and protection of dignity. The objectives of maqashid sharia consist of educating individuals (tahdzib al-fard), establishing justice (iqamah al-'adl), and promoting welfare (jalb al-mashalih). Each protection of maqashid sharia is represented by several objectives of maqashid sharia. Educating individuals aims the protection of religion, protection of life, protection of mind, protection of wealth, and protection of dignity (Figure 2).

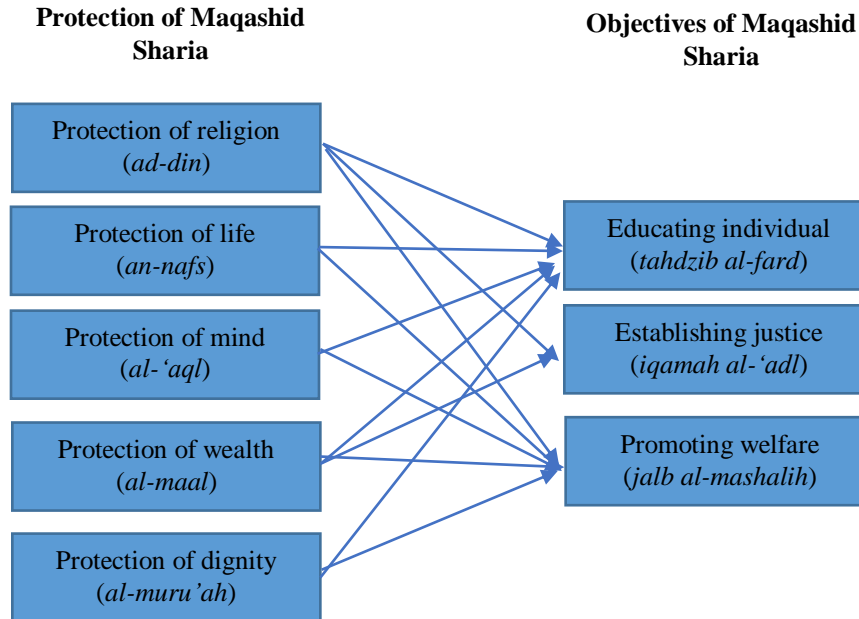


Figure 3. Maqashid Sharia Model Framework

The second stage is the stage of determining indicators that are relevant to the objective of maqashid sharia. The objective of maqashid sharia consists of educating individuals,

establishing justice, and promoting welfare. Each of these objectives is represented by an indicator that reflects the objective of maqashid sharia. The maqashid sharia indicator of educating individuals (MSEI) is used to achieve goals related to educating individuals (*tahdzib al-fard*). The MSEI indicator is measured by elements of accumulated costs that are relevant to educating individuals such as education, training, publication (promotion) and research costs. The MSEJ indicator is measured by the profit-sharing element received by the *shahib al-maal*, while the MSPW indicator is measured by the accumulation of zakat, alms, and *qardh al-hasan* (Table 1).

Table 1. Objectives, Indicators and Performance Elements of Maqashid Syariah

No	Objectives	Indicators	Code	Elements
1	Educating individual (<i>tahdzib al-fard</i>)	Maqashid Sharia of Educating Individual	MSEI	Education, training, publication (promotion), and research expenses
2	Establishing justice (<i>iqamah al-'adl</i>)	Maqashid Sharia of Establishing Justice	MSEJ	Profit sharing received by shahibul maal
3	Promoting welfare (<i>jalb al-mashalih</i>)	Maqashid Sharia of Promoting Welfare	MSPW	Zakat, alms and qardhul hasan

The third stage is the stage of measuring the performance ratio of each element. Each element of maqashid sharia is measured by one indicator which is sufficient to measure the objective of maqashid sharia. Elements of education, training, publication (promotion), and research costs are measured by the ratio of education, training, promotion, and research expenses divided by total operating expenses. The profit-sharing element received by *shahib al-maal* is measured by the ratio of profit-sharing paid to third parties (depositors) divided by the total funds received from third parties (depositors). Elements of zakat, alms, and *qardh al-hasan* are measured by the ratio of the amount of zakat, alms, and *qardh al-hasan* distributed by Islamic banks divided by net income (Table 2).

Table 2. Elements, Performance ratios and Maqashid Sharia Performance Weights

No	Elements	Performance Ratios	Bobot
1	Education, training, publication (promotion), and research expenses	$\frac{\text{Education, training, publication (promotion), and research expenses}}{\text{Total operating expenses}}$	1/3
2	Profit sharing received by shahibul maal	$\frac{\text{profit sharing paid to third parties (depositors)}}{\text{total funds received from third parties (depositors)}}$	1/3

3	Zakat, alms and qardhul hasan	<u><i>the amount of zakat, alms and qardhul hasan distributed by Islamic banks</i></u> <i>net profit</i>	1/3
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The fourth stage is the stage of calculating the performance of maqashid sharia. As the weight of each performance ratio has been explained in Table 2, the overall total maqashid sharia performance score is obtained from:

$$\text{Maqashid sharia performance} = \frac{1}{3} \text{MSEI} + \frac{1}{3} \text{MSEJ} + \frac{1}{3} \text{MSPW}$$

MSEI = maqashid sharia of educating individual

MSEJ = maqashid sharia of establishing justice

MSPW = maqashid sharia of promoting welfare

4. Conclusion

Based on the literature review and content analysis of the annual reports of Islamic banks in ASEAN, a maqashid sharia model framework has been developed that is more practical and easy to operate. In addition, the maqashid sharia performance model was developed based on an analysis of the contents of the annual report so that it reflects conditions that are more suitable for Islamic banks. The developed model framework can be generalized to existing Islamic banks in the ASEAN region so that it cannot be extended to countries outside ASEAN such as in the Gulf region. The limitations are more focused on finding data in the annual report which are not all easily and adequately available. Another limitation is the annual report template, which differs between countries, making it difficult to collect the data needed to calculate each performance ratio. Suggestions for further research to be able to develop a model framework that is easy to operate in other regions such as the Gulf and Europe with content analysis.

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