Available at: http://journal.uhamka.ac.id/index.php/jei

JURNAL EKONOMI ISLAM

ANALYZING THE PERFORMANCE OF ISLAMIC BANKING IN INDONESIA AND MALAYSIA: *MAQASID* INDEX APPROACH

Abdul Aziz Yahya Saoqi
Master candidate in Finance of International Islamic University Malaysia
Email: aziz.syauqi@gmail.com or phone: +60173509024

ABSTRACT

The discourse of the presence of *Maqasid* Index as an alternative approach to measure the performance of Islamic banking become broadly and extensively discussed among Islamic scholars. It is because the Islamic banking has different concept than the conventional bank both in theory and practice, thus the Islamic banks should have they own benchmark to measure their performance. Therefore, *Maqasid* Index which more directed at the aims and objectives of *sharia*, become proper benchmark to measure the performance of Islamic banking. This research would like to measure and to compare the performance of Islamic banking industry in Indonesia and Malaysia using *Maqasid* Index approach with SAW (Simple Additive the Weighting) method. The context of this research is Islamic banking industry in Indonesia and Malaysia which represented by Bank Syariah Mandiri from Indonesia and Bank Islam Malaysia Berhad from Malaysia. This research also will use secondary data from year 2013-2014. The result found that from the first and third objective (*Education/ Tadlihb al-Fardh*), Islamic bank in Malaysia which represented by BIMB depicted better performance which reached 38.37% while BSM depicted only 5.48%. For the second objective (*Justice/ Al-Adl*), BSM showed better performance which reached 17.33%. For the third objective (*Welfare/ Maslahah*), BIMB lead upon BSM which reached 103.25% and 78.89% accordingly. From the calculation of *Maqasid* Index rank, BIMB take the first place which reached 13.79%. Whilst, BSM take the second place of this *Maqasid* Index rank which reached 11.14%.

JURNAL EKONOMI ISLAM

ABSTRAKS

Perbincangan tentang Indeks *Maqasid* sebagai alat untuk mengukur kinerja perbankan syariah semakin luas dan intensif di kalangan cendekiawan muslim. Hal ini dikarenakan perbankan syariah memiliki konsep yang berbeda dengan perbankan konvensional baik secara teori maupun praktik, oleh karena itu perbankan syariah harus memiliki alat ukur kinerja tersendiri. Indeks *Maqasid* merupakan alat ukur yang tepat bagi perbankan syariah karena di dalam proses pengukurannya melibatkan unsur dan tujuan *Maqasid Syariah.* Penelitian ini akan mengukur dan membandingkan kinerja perbankan syariah di Indonesia dan Malaysia menggunakan pendekatan Indeks *Maqasid* dan metode SAW (Simple Additive the Weighting). Objek dari penelitian ini adalah perbankan syariah di Indonesia dan Malaysia yang diwakili oleh Bank Syariah Mandiri (BSM) dan Bank Islam Malaysia (BIM). Penelitian ini menggunakan data sekunder dari tahun 2013-2014. Hasil penelitian menunjukan bahwa dari objek penilaian pertama (Pendidikan/ *Tadlihb al-fardhi*) BIM menunjukan kinerja yang lebih baik yakni sebesar 38.37% sedangkan BSM hanya mencapai 5.48%. untuk objek penilaian kedua (Keadilan/ *Al-adl*) BSM menunjukan kinerja yang lebih baik dari BIM yang mencapai 17.33%. untuk objektif penilaian ketiga (Kesejahteraan/ *Maslahah*) BIM menunjukan kinerja yang lebih baik dengan pencapaian sebesar 103.25% sedangkan BSM hanya mencapai 78.89%. Dari perhitungan ranking Indeks *Maqasid*, BIM mengambil posisi pertama dengan pencapaian 13.79% sedangkan BSM menempati posisi kedua dengan pencapaian sebesar 11.14%.

Keyword : Islamic Banking, *Maqasid* index, Performance Measurement
JEL Classification : G21, L25

Introduction

Background

The growth of Islamic banking of in ASEAN depicted an enormous growth in last two decades, especially in Malaysia and Indonesia. Malaysia has begun to built Islamic financial system in the country since 1983 by establishing their first Islamic bank with full pledge Islamic system namely Bank Islam and up today Malaysia is the main global player of Islamic financial industry in the world due to various of Islamic financial services in that country. Furthermore, Indonesia left behind from Malaysia in term of develop Islamic financial industry, Indonesia started in 1999 by establishing a full pledge of Islamic banking namely Bank Muamalat Indonesia, although the establishment of Islamic banking in Indonesia lagged for several years from Malaysia, after 1999 the government of Indonesia

JURNAL EKONOMI ISLAM

also tried to pump the growth up by making regulation for Islamic banking and up today there are 13 Islamic banks in Indonesia with full pledge system.

A long part with the enormous growth of Islamic banking both in Malaysia and Indonesia, the measuring of the performance of Islamic banking become an important tools to assess, evaluate and control the quality of performance of Islamic bank in order to keep the growth steady and accordance with sharia compliant. Generally, to measure the performance of a company including Islamic banks using CAMELS (*Capital, Asset, Management, Earning, Liquidity, Sensitivity of Market Risk*) and EVA (*Economic Value Added*) which only limited in financial ratios (stakeholder oriented) (Antonio *et al*, 2012). Financial ratio measurement in Islamic banks is important because Islamic bank is an institution which involves as financial intermediary, therefore, this measurement is aiming to control and assess the financial health in Islamic bank to prevent the bankruptcy. On the other hand, since the Islamic bank has different concept with the conventional counterpart both in concept and practices then the Islamic bank should consider the other measurement which is not only to keep the stakeholder interest (financial ratios), but also shareholder interest (non-financial ratios) (Siddiqi. S.H, 2001).

The combining measurement between financial ratios and non-financial ratios in measuring the performance of Islamic banking has been discoursed by Islamic scholars which more conical to the discussion about alternative benchmark to measure the performance of Islamic banking namely *Maqasid* Index (MI). MI tries to combine between financial ratio and non-financial ratio in measuring Islamic bank performance whereby those ratios are in line with the goal of sharia (*Maqashid Sharia*). Therefore, *Maqasid Index* could be the strategic approach to describe how good the Islamic banking is, particularly in the term of their performance (Antonio *et al,* 2012).

According to background above, this research would like to apply *Maqasid Index* to measure the performance of Islamic banking in Malaysia and Indonesia since both of them are the main player in Islamic financial industries in ASEAN. This study will assess the performace of the biggest Islamic bank in Indonesia which is represented by Bank Syariah Mandiri (BSM) and also Bank Islam Malaysia Berhad (BIMB) as the first Islamic banks in Malaysia. Selection of Islamic banking industry in Indonesia and Malaysia is based on the previous study which is stated that Islamic banking in

JURNAL EKONOMI ISLAM

Indonesia have the highest performance ratio than Islamic bank in Malaysia (Antonio, *et al,* 2012) (Jazil, Syahruddin, 2013). This is interesting to be further discussed, because Islamic bank in Malaysia has 20% market share while Indonesia only has 4.6%.

Problem of Research

According to the above ideas and background, the problem of this study is transformed into several questions:

- How does the performance of Islamic banking in Indonesia if measured by *Maqasid Index*?
- How does the performance of Islamic banking in Malaysia if measured by *Maqasid Index*?
- How does the comparison of the performance of Islamic banking both in Indonesia and Malaysia if measured by *Maqasid Index*?

Study Literature

Theoretical Basis

1. Islamic Banking

According to Kettel (2011) Islamic banking is the financial institutions are those based, in their objectives and operations, on *Qur'anic* principles. They are thus set apart from conventional institutions, which have no such religious preoccupations in their activities as financial intermediaries. And also Islamic banks have six key principles drive the activities of Islamic banks:

a. Predetermined loan repayments as interest (*riba*) is prohibited;

b. Profit and loss sharing is at the heart of the Islamic financial system;

c. Making money out of money is unacceptable: all financial transactions must be asset-backed;

d. Speculative behavior is prohibited;

e. Only *Shari'a*-approved contracts are acceptable;

f. Contracts are sacred.

The characteristic of Islamic banking operation is based on partnership and mutual benefits principle provides an alternative banking system with mutual benefits both for the public and the bank. This system will give priorities to aspects related to fairness in transaction and ethical investment by

JURNAL EKONOMI ISLAM

underlining the values of togetherness and partnership in production, and by avoiding any speculative activity in financial transaction. By providing various products and banking services supported by variative financial scheme. Islamic banking will be a credible alternative that can be benefited by all people without exception (OJK, 2013).

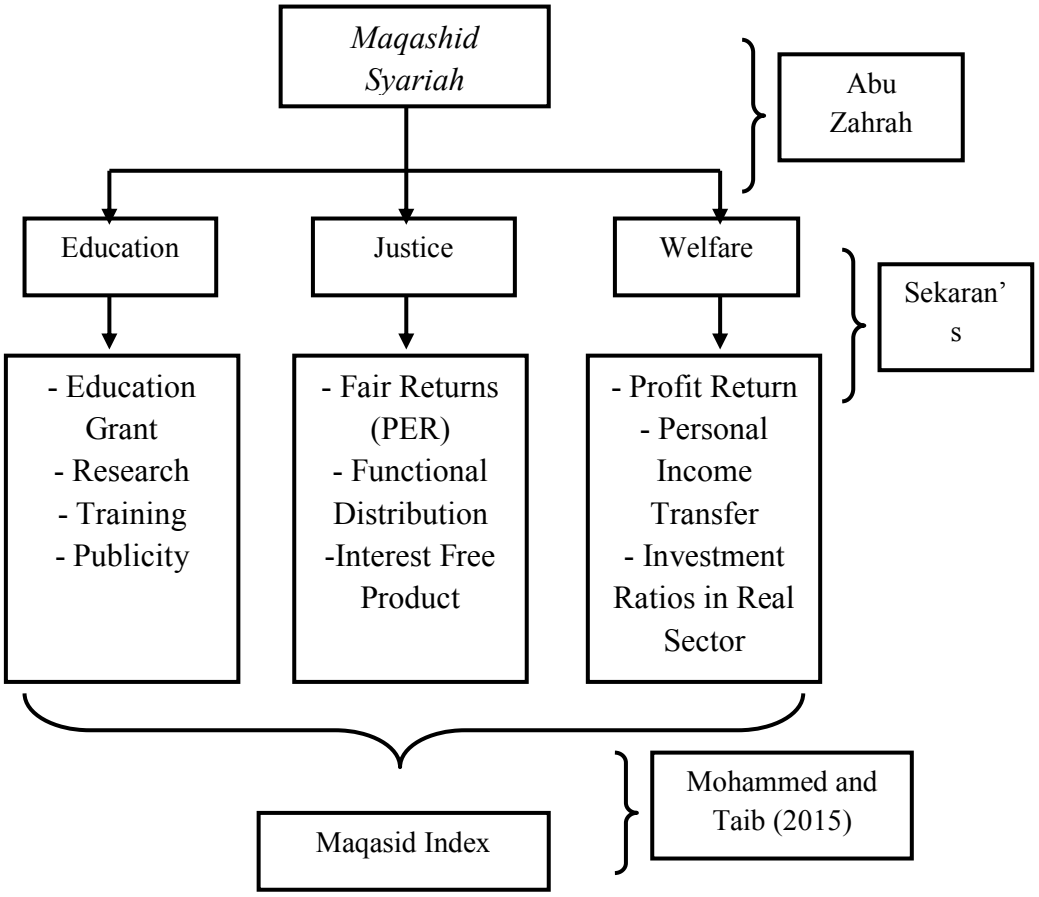
2. Maqashid Index

The concept of Maqasid Index was taken from Islamic noble value (*maqashid syariah*) that are understood as the ultimate goal of syariah (Antonio *et al*, 2012) which is promoting the welfare and benefit values (*Jalb al-Masalih*) also eliminate the misery (*Dar' Al-Mafaasid*) (Al-Jauziyah, 1973). *Maqasid Syariah* consist of five elements: protecting the religion, soul, intellectual, family and wealth which those elements called as *maslahah* (benefit)and every things that escape from it is called as *mafsadah* (damage) (Al-Ghazali, 1991). Moreover, Zahrah (1958) divided *Maqasid Syariah* into three elements; *Tahdzib al-Fard* (education), *iqamah al-adl* (justice) and *Maslahah* (benefit). These three elements is being transformed by Mohammad and Taib (2008) into a measurement to analyze the performance of Islamic bank. Since Islamic bank has different concept in worldview, purpose and strategy and policy than the conventional banks, then it will have an impact on objective formulation on Islamic bank (Antonio *et al,* 2012).

Based on Mohammad and Taib's (2008) research which entitled *Developing Islamic Banking Performance Measure Based on Maqasid al-Shari'ah Framework: Case of 24 Selected Banks.* They try to develop a benchmark measurement for evaluating the performance of Islamic banks. Moreover, by Referring to Abu Zahrah's concept on Maqasid Sharia which covering *Tadrib al-Fard*(education), *Iqamah al-Adl*(justice) and *Maslahah*(welfare) and trough Sekaran Concept they try to translated and classified into several elements. Those elements can be transformed into 10 elements which is described as follow:

JURNAL EKONOMI ISLAM

Figure 2.1. *Maqasid* Index Figure



Source: *Adapted from Mohammed and Taib (2015) and Antonio et al (2012)*

According to figure 2.1 above, the *first maqasid* is education which means that Islamic banking should develop educational program and training with morality values that they will able to improve their knowledge and expertise to employees about Islamic financial issue with better understanding. Islamic bank should also provide information to stakeholders about products which appropriate with *Sharia* complaint. Ratio in first *maqasid* are education grants, research, training, and publicity (promotion). The *second maqasid* is justice which means Islamic banking should the honesty and fairness as a prime pillar in all transactions and business activities and Islamic banking also should free from any injustice transactions such as *maysir* (gambling), *gharar* (uncertainty), *riba* (interest). Ratio in second maqasid are *fair return* (PER), *functional distribution* and *interest free product.* The *third maqasid* is welfare/ *maslahah* which means Islamic bank should contribute to the society trough investment projects and social services to improve society welfare. Ratio in third *maqasid* are *profit*

JURNAL EKONOMI ISLAM

return, personal income transfer, and investment ratios in real sector (Mohammad and Taib, 2015) (Antonio *et al*, 2012).

Performance Measurement

Performance evaluation is an important continuous improvement tool for staying competitive and plays an important role in the high-technology world of computers and telecommunications where competition is intense and grows more so each day. Performance evaluation and benchmarking positively force any business and organization unit to constantly improve for facing global competition. Performance evaluation and benchmarking help business operation/processes to become more productive (Zhu, 2003) and the result of performance measurement can be represented the health of that business (Antonio, et al., 2012).

According to Nelly and Kennerley (2002), performance measurement can be defined as the process of quantifying the efficiency and effectiveness of past actions, whilst Moullin (2002) defines it as the process of evaluating how well organizations are managed and the value they deliver for customer and other stakeholders. Thus the performance of a company or organization is closely relate to efficiency, effectiveness and well-managed so as a result it will give a good impact both for the shareholders and stakeholders.

Ulum (2005) divided the performance evaluation or measurement into two categories as follows:

a. Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time. Referring to Kasmir (2008), in banking system, to measure the health of a bank usually uses CAMELS analysis (*Capital, Asset, Management, Earning, Liquidity, Sensitivity of Market Risk*). This measurement has been acknowledged and declared by central bank of Indonesia to know the regular report of banks in Indonesia.

b. Non-financial Performance

Generally, the process of company performance measurement used financial ratios, but the financial ratios has many weaknesses such as the using of financial ratio as a sole determinant could encourage the managers to take a short-term action and ignore long-term plan (Yuwono, 2004), therefore some scholars has been developed non-financial ratio to measure the performance of a company or organization. Kaplan and Norton (1992) introduced *Balance Scorecard* in Harvard Business School to analyze the performance of a company which the intangible asset played a central role on this measurement.*Balance Scorecard* is one of tool analysis on financial and non-financial performance which involves four aspects: the financial perspective, customer satisfaction, efficiency on

internal processes, learning and growth. Antonio *et al* (2012) stated that non-financial performance measurement could be another benchmark and it could increase the quality control management process. Also in financial company case like Islamic banks, Mohammad and Taib (2008) has been developed another measurement which is known as Performance Measure Based on *Maqasid al-Shari'ah* Framework (PMMS) which not only based on financial ratio, but also involves non-financial aspect on its measurement.

Previous Studies

Relating to the study about Maqasid Index and its application in measuring the performance of Islamic Banks, some researchers has done thestudy about this, starting from Mohammed, Dzuljastri and Taib (2008) with the research entitled *The Performance Measure of Islamic Banking Based on the Maqasid Framework.* They used SAW method (*The Simple Additive Weighting*) to develop the performance measurement in Islamic banking by using Maqasid index. There are six samples of Islamic banks (Bank Muamalat Malaysia, Islamic Bank Bangladesh, Bank SyariahMandiri Indonesia, Bahrain Islamic Bank, IIABJ Jordan, and Sudanese Islamic Bank) which used five years data frequency from 2000-2005.

Variable which used on this research were referring to the theory by Abu Zahrah that covered *Tahdzibal-Fard*(Education), *Iqamah al-Adl*(Justice) and *Maslahah*(Usufruct). Those variables are developed by using *Sekaran's Concept,* then obtained 10 ratios which becoming performance benchmarks. From the ten ratios, Muhammad, Dzuljastriand Taib only use seven ratios on their study. The result depicts that no single bank is able to reach high performance on those seven ratios, but by the ranked, IIABJ got the highest rank and followed sequence by BSM Indonesia, Bahrain Islamic Bank, Islamic Bank Bangladesh, Bank Muamalat Malaysia and Sudanese Islamic Bank. Therefore Islamic banks have to re-evaluate their aims to fit their goals with *maqashidsyariah.*

Furthermore, Mohammad and Taib (2015) also continue to develop their previous studyby doing another research entitled *Developing Islamic Banking Performance Measures Based on Maqasid al-Shariah Framework: Cases of 24 Selected Banks.* In this research they use 12 samples of Islamic banks and 12 samples of conventional banks. On this study they try to measure the performance both 12 Islamic and 12 conventional banks using Performance Measure Based on Maqasid al-Shariah Framework (PMMS) which used ten ratios that was developed before and Conventional Banking Performance Measure (CBPM) which used *Return on Asset* (ROA), *Net Interest Income* (NII) and *Liquidity* (LIQ) on its measurement. The result depicts that the Islamic banks showed better performance on all PMMS ratios and Liquidity ratio which is basically from CBPM ratio. The conventional banks only showed better performance on ROA and NII ratio.

Antonio, Sanrego and Taufik (2012) also continue the research on this issue which is entitled *An Analysis The Islamic Banking Performance: Maqasid Index Implementation in Indonesia and Jordania*. With SAW method which is adapted from Muhammad and Taib (2008) they try to measure

JURNAL EKONOMI ISLAM

and compare the performance of Islamic banks in Indonesia and Jordan by using Maqasid Index approach. This research used 2 years data frequency from 2008-2010. There are four samples of Islamic banks which is represented by Bank SyariahMandiri Indonesia (BSMI), Bank Muamalat Indonesia (BMI), IIAJB Jordan and Jordan Islamic Bank (JIB). The result shows that BSM and BMI depicted better performance than IIAJB and JIB which is contrary with Muhammad and Taib (2008) which stated that IIAJB has better performance than BSMI. This study also provide more clearly explanation that Islamic banks should not only focusing on financial ratio (*shareholder oriented*) but also focus on non-financial ratio (*stakeholder oriented*), therefore, Islamic banks more in achieving the *maqasidsyariah.*

Moreover, Tuba Jazil and Syahruddin (2013) on their research entitled *The Performance Measure of Selected Malaysian and Indonesian Islamic Banks Based on the Maqasid al-Shariah Approach* try to analyze the performance of three Islamic banks in Indonesia (Bank SyariahMandiri, Bank Muamalat Indonesia and Bank Mega Syariah) and three Islamic banks in Malaysia (Bank Islam Malaysia, RHB Islamic Bank and CIMB Islamic Bank) using *Maqasid al-Shariah*approach with SAW method which is also adapted from Mohammad and Taib (2008). The result of the research shows that Bank Muamalat Indonesia has better performance than other Islamic banks and CIMB Islamic Bank got the lowest rank on this performance measurement.

In addition, Irfan, Majeed and Zaman (2014) have done the research entitled *The Performance and Efficiency of Islamic Banking in South Asian Countries.* The purpose of this research is to analyze the performance of different Islamic modes and efficiency Islamicbanks in Bangladesh, Pakistan, Iran and Brunei. Seven samples of Islamic banks are included. *Return on Asset* (ROA), *Return on Equity* (ROE) and *Net Profit Ratio* (NPR) are used as variables. This research also used*Stochastic Frontier Analysis* (SFA) as its method. The result of the study shows that the Islamic banks in Asian Countries are efficient in ROA, ROE and NPR. Islamic banks in Brunei stands at top then followed in the sequence by Islamic banks in Pakistan, Iran and Bangladesh.

The differences this study from the previous rely on the object and year of research. This study is aim to analyze the comparative performance of Islamic banking in Indonesia and Malaysia by having sample of Bank Syariah Mandiri (BSM) and Bank Islam Malaysia Berhad (BIMB) over the period 2009-2014. *Maqasid Index* model used refers entirely from Mohammad and Taib (2008 & 2015) and also from Antonio, Sanrego and Taufiq (2012).

Data and Methodology

Data Types and Sources

JURNAL EKONOMI ISLAM

This study used a secondary data which taken from annual report from the official website of each bank over period 2013-2014.

1. Bank Syariah Mandiri, Indonesia (http://www.syariahmandiri.co.id/category/investor-relation/laporan-tahunan/)
2. Bank Islam Malaysia Berhad(http://www.bankislam.com.my/home/corporate-info/annual-reports/)

Variables and definition of this research well be discussed as below:

Table. 3.1. Definition and Operational Variables

Concept (Objectives)	Dimension	Element	Performance Ratio	Sourced
1. Educating Individual	D1. Advancement of Knowledge	E1. Education Grant	R1. Education grant or scholarship/ Total Expense	Annual Report
		E2. Research	R2. Research Expense/ Total Expense	Annual Report
	D2. Instilling new skills and improvement	E3. Training	R3. Training Expense/ Total Expense	Annual Report
	D3. Creating Awareness of Islamic Banking	E4. Publicity	R4. Publicity Expense/ Total Expense	Annual Report
2. Establishing Justice	D4. Fair Returns	E5. Fair Returns	R5. Profit Equalization Reserves (PER)/ Net Income	Annual Report
	D5. Cheap Product and	E6. Functional Distribution	R6. Mudharaba and Musharakah	Annual Report

	Services		Modes/ Total Investment Modes	
	D6. Elimination of injustice elements	E7. Interest Free Product	R7. Interest Free income/ Total Income	Annual Report
3. Public Interest	D7. Profitability	E8. Profit Ratios	R8. Net Income/Total Asset	Annual Report
	D8. Redistribution of income and wealth	E9. Personal Income	R9. Zakah/Net Asset	Annual Report
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment in Real Economic Sector/Total Investment	Annual Report

Variables Explanation of Maqasid Index Model

First, objective 1is composed by four ratios (R1 to R4) called *Education Grant or Scholarship/ Total Expense; Research Expense/ Total Expense; Training Expense/ Total Expense; Publicity Expense/ Total Expense.* These ratios are include in *Tahdzibul al-fardh* (*educating individual*) whereby if the Islamic bank allocated more budget for educating individual which consist of four ratios above then the Islamic bank has promoted the first objective of *Maqasid Index* (*Tahdzibul al-Fardh*) and this objective is describing the role of Islamic bank in improving the quality of human resource.

Second, objective 2 is composed by three ratios (R5 to R8) called *Profit Equalization Reserves (PER)/ Net Income; Mudharaba and Musharakah Modes/ Total Investment Modes; Interest Free income/ Total Income*. These ratios are include in *Al-Adl* objective (*Establishing Justice*), for *mudharaba* and *musharakah* if the ratio getting high then the Islamic banks had an impotant role in developing economy of community trough justice financing with *profit and loss sharing* concept. Free from interest product also depicted that Islamic banks eliminated injustice in economy which means Islamic banks encouraged in reducing income inequality. On the other hand, if *Profit Equalization*

Reserves (PER) showed a low figure in rationing measurement then the Islamic banks eliminated injustice, because every customer has a right to get the profit without cancelation or postponement.

Third, objective 3 *Maqasid Index* consists of three ratios (R8 to R10) called Net Income/Total Asset; Zakah/Net Asset; Investment in Real Economic Sector/Total Investment. These three ratios are included in *Maslahah* concept. In the first ratio, if the Islamic banks get higher ratio of net income/total asset then Islamic banks bring more *Maslahah* or welfare for banks itself. Hence, the last two ratios depicted if Islamic banks got higher ratio on both ratios then Islamic banks bring more welfare to community.

Variable Verification of Maqasid Index Model

According to Mohammed and Taib (2008) *Maqasid Index Model* has been developed by some experts from the Middle East and Malaysia who have experience practically in conventional and Islamic banking. There are 12 Islamic banking experts, a jurist in Islamic jurisprudence and Islamic economists who have interviewed. Moreover, there are 16 experts who have determined the weighted of each ratio in *Maqasid Index Model* as the following table:

Table 3.2. Weighted Average of *Maqasid Index* Variables.

Objectives	Average Weight (Out of 100%)	Elements	Average Weight (Out of 100%)
		E1. Education grant	24
O1. Education (Tahdzib al-Fard)		E2. Research	27
	30	E3. Training	26
		E4. Publicity	23
		Total	100
		E5. Fair Return	30
O2. Justice (Al-Adl)		E6. Fair Price	32
	41	E7. Interest Free Product	38
		Total	100
		E8. Bank's Profit	33

		Ratios	
O3. Welfare (Al-Maslahah)	29	E9. Personal Income Transfer	30
		E10. Investment ratios in Real Sector	37
		Total	100

Adapted from: Mohammed &Taib (2008) and Antonio et al (2012).

ResearchMethodology

The Simple Additive Weighting (SAW) used in this study. SAW is a method that requires decision makers to determine weights for each attribute/ reference. Total score for an alternative obtained by summing all crossing result of the rating (which can be compared across attributes) and weight of each individual. Rating for each attribute should free dimension which means have been through normalization process before (Basyaib, no year).

Testing Steps of Maqasid Index

There are three tests on performance measurement in *Maqasid Index,* they are determination of performance ratio, Islamic banking health level referring to performance indicators and Islamic banking health level according to *Maqasid Index* (Mohammed *et al,* 2008) (Antonio *et al,* 2012). And we will discuss the three tests mentioned as follow:

a. *Determination of Performance Ratio*
   In this test, performance ratios compared with observation of study to get a preliminary assessment result of *Maqasid Index*. For ease calculation we take only 8 performance ratios due to limitation of the data, but those ratios still representing the three of *Maqasid Sharia Variables* (*Education, Justice and Maslahah*):

   1. *Education grant/ Total Expense (R_1^1)*
   2. *Research Expense/ Total Expense (R_1^2)*
   3. *Training Expense/ Total Expense (R_1^3)*
   4. *Publicity Expense/ Total Expense (R_1^4)*
   5. *Mudharabah and Musharakah Modes/ Total investment modes (R_2^2)*
   6. *Net Income/ Total Asset (R_3^1)*
   7. *Zakah/ Net Asset (R_3^2)*

8. *Investmen in real economic sector/ Tota Investment (R_3^3)*

b. *Ranking the Sample based on Their Performance Indicators (PI)*

In this step, take the multiplication between the dimensional and performance ratio with their own weights which mathematically can be made as the following models:

1. First *Maqasid* (*Educating Individual*)

$$PI(O1) = W_1^1 \times E_1^1 \times R_1^1 + W_1^1 \times E_1^2 \times R_1^2 + W_1^1 \times E_1^3 \times R_1^3 + W_1^1 \times E_1^4 \times R_1^4$$

$$\text{OR } W_1^1 (E_1^1 \times R_1^1 + E_1^2 \times R_1^2 + E_1^3 \times R_1^3 + E_1^4 \times R_1^4) \quad \text{..... (1)}$$

Where,

-O1 depicts the 1st *Maqasid* of *Maqasid Sharia* which is *Tahdzib al-Fard* (*Educating Individual*)
-W_1^1 depicts the weight of O1 (see Table 3.2)
-E_1^1 depicts the weight of first element of O1
-E_1^2 depicts the weight of second element of O1
-E_1^3 depicts the weight of third element of O1
-E_1^4 depicts the weight of fourth element of O1
-R_1^1 depicts the ratio corresponding to the first element of O1
-R_1^2 depicts the ratio corresponding to the second element of O1
-R_1^3 depicts the ratio corresponding to the third element of O1
-R_1^4 depicts the ratio corresponding to the fourth element of O1

Moreover, the model above can be transformed into,

PI (O1) = PI11 + PI21 + PI31 + PI41..... (2)
Where,
$PI11 = W_1^1 \times E_1^1 \times R_1^1$ ..... (3)
$PI21 = W_1^1 \times E_1^2 \times R_1^2$..... (4)
$PI31 = W_1^1 \times E_1^3 \times R_1^3$..... (5)
$PI41 = W_1^1 \times E_1^4 \times R_1^4$..... (6)

2. *Second Maqasid (Establishing Justice)*

$PI (O2) = W_1^2 \times E_2^2 \times R_2^2$ ..... (7)
Where,

- (O2) depicts that the second *Maqasid* from *Maqasid Sharia* is Justice

JURNAL EKONOMI ISLAM

- W_1^2 depicts the weight of O3 (see Table 3.2)
- E_2^2 depicts the weight of the second element of the O2
- R_2^2 depicts the ratio corresponding to the second element of the O2

3. *Third Maqasid (Welfare)*

PI(O3) = $W_1^3 \times E_3^1 \times R_3^1 + W_1^3 \times E_3^2 \times R_3^2 + W_1^3 \times E_3^3 \times R_3^3$
Or PI (O3) = $W_1^3 (E_3^1 \times R_3^1 + E_3^2 \times R_3^2 + E_3^3 \times R_3^3)$ ..... (8)
Where,

- (O3) depicts that the third *Maqasid* of *Maqasid Sharia* is Welfare *(Maslahah)*
- W_1^3 depicts the weight of O3 (see Table 3.2)
- E_3^1 depicts the weight of first element of O3
- E_3^2 depicts the weight of second element of O3
- E_3^3 depicts the weight of third element of O3
- R_3^1 depicts the ratio corresponding to the first element of the O3
- R_3^2 depicts the ratio corresponding to the second element of the O3
- R_3^3 depicts the ratio corresponding to the third element of the O3

The model above also can be transformed into,
PI (O3) = PI13 + PI23 + PI33 ..... (9)
Where,

PI11 = $W_1^3 \times E_3^1 \times R_3^1$ ..... (10)
PI21 = $W_1^3 \times E_3^2 \times R_3^2$ ..... (11)
PI31 = $W_1^3 \times E_3^3 \times R_3^3$ ..... (12)

c. *Islamic Banking Number and Rank Determination*
Furthermore, the last step is to multiply between dimension and performance ratio with their own weight are summed, then, it can be selected which Islamic bank that has the largest total value. Mathematically, the model can be made as follows:

MI = PI (O1) + PI (O2) + PI (O3) ..... (13)

Analysis and Discussion

Data Analysis

In this study, the *Maqasid* Index approach is conducted on the Islamic bank in Indonesia which is represented by PT. Bank Syariah Mandiri (BSM) and Islamic bank in Malaysia which is represented

by Bank Islam Malaysia Berhad (BIMB). BSM and BIMB are known as the market leader in Islamic banking industry in both country.

Table 4.1. Assets Development of Islamic Banking in Indonesia (IDR) and Malaysia (MYR)

Name of Bank	2013	2014
Bank Syariah Mandiri	IDR 66,942,422,284,791	IDR 63,965,361,177,789
Bank Islam Malaysia	MYR 42,836,531,000	MYR 45,829,287,000

Source: Annual Report of BSM and BIMB

From the table.4.1 above shows that the assets of Islamic bank in Indonesia which is represented by Bank Syariah Mandiri (BSM) decreased about 4.45%, whilst the assets of Islamic bank in Malaysia which is represented by Bank Islam Malaysia Sdn Bhd (BIMB) increased about 7.13% in 2014. This condition is very interesting to discuss further, because both BSM and BIMB have different situation in assets growth changing which will impact to their performance in *Maqasid* Index measurement.

Discussion

Maqasid Index Ratio of Islamic Banking in Indonesia and Malaysia

At the first test, in *Maqasid* Index model the performance of Islamic banking will be calculated based on their determined ratio. As mentioned before there are three ratios involved in this calculation they are Education ratio (*Tadhlib al-fard*), Justice Ratio (*Al-Adl*) and Welfare ratio (*Maslahah*). The following table (Table 4.2) shows the *Maqasid* Index performance ratio of Islamic bank in Indonesia (BSM) and Malaysia (BIMB) based on those ratios.

Table. 4.2. *Maqasid* Index Performance Ratio of BSM and BIMB 2013-2014

Banks	MI 1st			MI 2nd		MI 3rd		
	R1	R2	R3	R4	R6	R8	R9	R10
BSM	0.93%	0.06%	0.93%	1.81%	17.33%	0.54%	0.07%	78.28%
BIMB	35.18%	0%	0%	3.19%	0%	3.33%	0.36%	99.56%

Source: Annual Report of BSM and BIMB

JURNAL EKONOMI ISLAM

Table. 4.3. The Total of *Maqasid* Index Performance Ratio of BSM and BIMB 2013-2014

Banks	MI 1st				Total	MI 2nd	Total	MI 3rd			Total
	R1	R2	R3	R4		R6		R8	R9	R10	
BSM	0.93%	0.06%	0.93%	1.81%	**5.48%**	17.33%	**17.33%**	0.54%	0.07%	78.28%	**78.89%**
BIMB	35.18%	0%	0%	3.19%	**38.37%**	0%	0%	3.33%	0.36%	99.56%	**103.25%**

Source: Annual Report of BSM and BIMB

1. *Performance Ratio on 1st Maqasid Index Objectives (Education/ Tdhlib Al-Fardh)*

a. *Education Grant/Total Expense (R1)*

Referring to Table 4.2. above, for the first ratio of 1st object in *Maqasid* Index Model shows that the BIMB has the higher ratio than BSM which reached 35.18% and 0.93% respectively, which means that the BIMB allocated more than the BSM in funding to improve human quality in its community trough education, thus in the first ratio of 1st *Maqasid* Index, BIMB lead than BSM.

b. *Research Expense/Total Expense (R2)*

In the second ratio of 1st object of *Maqasid* Index, BSM lead than BIMB in allocating budget for research in developing Islamic banking industry which aims to make the concept and strategy for Islamic banking sustainability in the future. BSM allocated 0.06% from the total expense for the research, whilst BIMB did not allocate any budget for it.

c. *Training Expense/ Total Expense (R3)*

Training expense means that the budget allocating which is determined by the Islamic banks to improve the quality of their employees which will affect in good contribution to Islamic banks. In this ratio, BSM lead than BIMB in allocating budget for employees training which reached 0.93% of the total expense, while BIMB did not allocate any budget for it.

d. *Publicity/Total Total Expense (R4)*

For the fourth ratio of 1st object of *Maqasid* Index is publicity ratio which means budget allocating which is made by Islamic banks to penetrate the market trough publicity and promotion in aiming to make people aware about the existence of Islamic bank which will encourage them to use the Islamic banking products. In this ratio, BIMB lead than BSM in allocating budget for publicity which reached 3.19% and 1.8% accordingly out of the total expense.

2. *Performance Ratio of 2nd Maqasid Index Objective (Justice/ Al-Adl)*

a. *Mudharabah and Musharakah Modes/Total Investment Modes (R6)*

The second object of *Maqasid* Index is the establishing justice (*Al-Adl*) which means in term of Islamic banking, this ratio is represents the effort of Islamic banks as financial intermediary to distribute the excess money from surplus unit by using fair scheme, and *Mudharabah* and *Musharakah* scheme with the concept of partnership and profit and loss sharing in transaction are considered as selected schemes to represent the ratio in second object of *Maqasid* Index. In this ratio, BSM allocated about 17% from total investment to finance the economy of the community trough *Mudharabah* and *Musharakah* modes. Meanwhile BIMB did not allocate fund to finance economy trough these schemes.

3. *Performance Ratio of 3rd Maqasid Index Objective (Welfare/ Al-Maslahah)*

a. *Net Profit/ Total Assets (R8)*

The third goal of *Maqasid Sharia* is to achieve the welfare for all people, in term of Islamic banks the welfare should distribute to all shareholders and stakeholders. Net profit is represent the welfare for all participants involved in Islamic bank activities, with high of net profit, the Islamic banks will have adequate fund to pay their operating cost, thus, this is ratio is important for Islamic banks. BIMB lead than BSM in this ratio which reached 3.33% and 0.54% accordingly. This means, BIMB received more net income than BSM.

b. *Zakat/ Net Income (R9)*

Zakat is part of social activities in Islamic banks, it reflects the achievement of Islamic banks in fulfilling the third goal of *Maqasid Sharia* (*Welfare*). The figure of ratio of zakat will show the contribution Islamic banks in improving the welfare of community. In this ratio, BIMB lead upon BSM which reached 0.36% and 0.07% respectively from their net income.

c. *Investment in Real Sector/ Total Investment (R10)*

The third ratio of the 3rd objective of *Maqasid Shariah* is the ratio of investment in real sector which is compared with the total investment, this ratio become important ratio, because as financial intermediary, Islamic banks should channeled between the surplus unit and deficit unit in aiming to achieve together the welfare *(Maslahah)* and indeed this business-relation should accordance with *Maqasid Shariah* concept. Both BSM and BIMB depicted a high percentage of this ratio which reached 78.28% and 99.56%. The figures of this ratio reflect that the Islamic banks both BSM and BIMB allocated more fund to finance the economy particularly the real sector of economy rather than the non-real sector in aiming welfare throughout community.

JURNAL EKONOMI ISLAM

Islamic Banking Rank based on Maqashid Index.

In this section we will find out the rank of Islamic banks which is included in *Maqashid* Index Model test. From the Table 4.4 we can see clearly that Islamic bank in Malaysia which is represented by Bank Islam Malaysia Sdn Bhd (BIMB) take the first place of *Maqasid* Index testing Model which reached 13.78%. Whilst, Islamic banking in Indonesia which is represented by Bank Syariah Mandiri (BSM) take the second place which reached 11.14%. This result of this study is contrary with previous study which has done by Jazil and Syahruddin (2013) which stated that BSM take the second rank in *Maqasid* Index, Meanwhile, BIMB take the third place in this test. This is because in 2014 the assets of BSM decreased about 4.45% while the assets of BIMB increased by 7.13% in the same year. Thus in 2014 BIMB lead than BSM in *Maqasid* Index test.

Table 4.4. Rank of Islamic Banking based on *Maqasid* Index

Name of Bank	PI (O1)	PI (O2)	PI (O3)	MI PI(O1)+PI(O2)+PI(O3)	Ranked
BSM	0.004109299	0.022740291	0.084574024	0.111423614	2
BIMB	0.027530003	0	0.11032722	0.137857223	1

Source: Annual Report of BSM and BIMB and Adapted from Mohammad et al (2008) and Antonio et al (2012).

Conclusion and Recommendations

Conclusion

From the discussion which has made before, there are some points which can be conclude as follows. From the all objectives of *Maqasid* Index which involves 1). *Education/Tdhlib al- Fardh*, 2). Justice/*Al-Adl* and 3). *Welfare/Maslahah* the Islamic banking both in Indonesia and Malaysia depicted the different performance. From the first and third objective, Islamic bank in Malaysia which represented by BIMB depicted better performance which reached 38.37% while BSM depicted only 5.48%. For the second objective, BSM showed better performance which reached 17.33% while BIMB did not allocate any budget for *Mudharabah* and *Musharakah* investment. For the third objective, BIMB lead upon BSM which reached 103.25% and 78.89% accordingly. From the calculation of *Maqasid* Index rank, BIMB take the first place which reached 13.79%. Whilst, BSM take the second place of this rank which reached 11.14%.

Recommendation

- This study might provide clear information for the policy makers of Islamic banking industry particularly in measuring the performance of Islamic banking by using *Maqasid* Index Model which no longer focus only in shareholder interest but also stakeholder interest.
- Due to the limitation of this research, for the next research is expected to extend and enhance this study in term of putting more data and the object of the research not only in two countries.

References

Abu Zahrah, Muhammad. (1958). *Ushul Al-Fiqh.* Darul Fikri al-Araby.

Antonio, Muhammad Syafii *et al.*(2012). *An Analysis of Islamic Banking Performance: Maqashid Index Implementation in Indonesia and Jordan.* Journal of Islamic Finace, Vol. 1 No. 1, (2012) 012 - 029, IIUM Institute of Islamic Banking and Finance.

Bank Islam Malaysia Berhad. (2015). *Annual Report 2014-2013.* Accessed on 16 November 2015 < http://www.bankislam.com.my/home/corporate-info/annual-reports/>

Bank Syariah Mandiri. (2015). *Annual Report 2014-2013.* Accessed on 16 Novmber 2015 < http://www.syariahmandiri.co.id/en/category/investor-relation/laporan-tahunan/>

Fasy, 'Allal. (1993). *Maqashid Asy-Syariah Al-Islamiyyah Wa Makarimuha* 5th ed.. Darul Garb Al-Islamy. Ghazali,

Indonesian Financial Service Authority. (2013). *Islamic Banking in Indonesia in Brief.* Accessed 11 October 2015. < http://www.ojk.go.id/en/sharia-bank>

Irfan, Muhammad *et al*. (2014). *The Performance and Efficiency of Islamic Banking in South Asian Countries.* Journal of Economia, Vol. 17, No. 2, (2014) 223-237.

Jauziyah, Ibnu Qayyim. (1973). *I'lamul Muwaqqi'in 'an Rabbil Alamin.* Editor: Thaha Abdur Rauf Sa'd. Beirut: Darul Jail

Jazil, Tuba and Syahruddin. (2013). *The Performance Measures of Selected Malaysian and Indonesian Islamic Banks Based on the Maqasid al-Shari'ah Approach.* Journal of Islamic Civilization, Vol. 7, No. 2, (2013) 279-301, University of Darussalam Gontor

Kasmir. (2008). *Bank dan Lembaga Keuangan Lainnya.* Jakarta: PT RajaGrafindo Persada.

Kettel, Brian. (2011). Introduction to Islamic Banking and Finance. West Sussex: Jhon Wiley & Sons Ltd.

Moullin, M. (2002), Delivering Excellence in Health and Social Care, Open University Press,Buckingham

Mohammed, and Taib. (2008). *Developing Islamic Banking Performance Measures Based on Maqasid al-Shari'ah Framework: Cases of 24 Selected Banks*. Journal of Islamic Monetary Economics and Finance, Vol. 1, No. 1, (2015) 054-077, Bank Indonesia

Mohammed, Dzuljastri and Taib. (2008). *The Performance Measures of Islamic Banking Based on the Maqashid Framework.* Best paper of IIUM International Accounting Conference (INTAC IV) held at Putra Jaya Marroitt.

Neely, A.D., Adams, C. and Kennerley, M. (2002), The Performance Prism: The Scorecard for Measuring and Managing Stakeholder Relationships, Financial Times/Prentice Hall, London

Ulum, Ihyaul. (2005) *Akuntansi Sektor Publik Sebuah Pengantar* (Cet.2). Malang: Universitas Muhammadiyah Malang.

Yuwono, Sony, et al. (2004). *Petunjuk Praktis Penyusunan Balance Scorecard Menuju Organisasi yang Berfokus pada Strategi.* Jakarta: PT Gramedia Pustaka Utama.

Zhu, Joe. (2003). Quantitative Models for Performance Evaluation and Benchmarking. New York: Springer Kluwer Academic Publisher.

JURNAL EKONOMI ISLAM