

THE PERFORMACE MEASURES OF SELECTED MALAYSIAN AND INDONESIAN Islamic Banks based on the *Maqasid al-Shari'ah* Approach

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Abstract

Kebanyakan pengukuran yang digunakan untuk mengukur kinerja bank syariah saat ini masih menerapkan tolak ukur konvensional. Makalah ini menggunakan pendekatan PMMS langkah-langkah kinerja yang dipilih tiga bank Islam Indonesia yaitu Bank Muamalat Indonesia (BMI), Bank Syariah Mandiri (BSM) dan Bank Mega Syariah (BMS) dan juga memilih tiga bank Islam Malaysia yaitu RHB bank Islam (RHBiB), CIMB Bank Islam (CIMBiB) dan Bank Islam (BIS) selama periode 2007-2011. The bank dievaluasi dan peringkat pada tiga tingkatan berdasarkan mereka: 1) rasio kinerja, 2) indikator kinerja dan 3) indeks maqashid keseluruhan. Berdasarkan hasil indeks maqashid, itu jelas menunjukkan bahwa BMI menjadi nyata dari kinerja tertimbang tertinggi. Oleh karena itu, menurut indeks maqashid, kinerja tertinggi tidak lebih dari 35%. Selanjutnya, terendah adalah 17,18% terjadi di CIMBiB. Dengan demikian, berdasarkan hasil ini, bank-bank Islam didorong untuk meninjau kembali tujuan dan ukuran kinerja IB berdasarkan maqashid asyariah framework.

Keywords: PMMS Model, Maqasid Indexes, Maqasid al-Shari'ah, Performance Measurement.

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Introduction

What is the objective of Islamic banks toward *maqasid as-shari'ah*? What are the impacts of implementing *maqasid al-shariah* in Islamic Banking system? How does Islamic Bank promote *maqasid*? Those questions are apparently glanced thought the Muslim thinkers and economist and practitioners.

To begin with, banking as a financial institution has become so vital to almost all modern economies that governments, firms and individuals cannot afford to do without it. Governments use banks- especially the central banks, among others, to regulate and supervise the health of their economies. Firms and individuals rely on banks for savings, investments and the purchase of goods and services. Modern banks through financial intermediaries are central to the activities of the product and factor markets. The rapid changes in government regulations, technologies and financial innovations due to globalization have resulted in more banking facilities.

Currently, most countries are operating in dual banking system namely Conventional Bank and Islamic Bank. The simple reason IB came to existence are as the CB does not meet the Islamic way of life. Muslims are more concern on morality and ethics to adopt IB system. In other terms, Islamic finance is replete with opinions issued by *shari'ah* advisors concerning legitimacy of Islamic financial products. Opinions on *shari'ah* screening, validation of contracts, and capital and money market instruments are sought after in fulfilling the demand of pious investors and dedicated Islamic banks and fund managers.

To know deeper about Islamic bank, one needs to comprehend IB and system itself. The first Islamic bank system established was the MitGhamr bank in Egypt in 1963, and Dubai Islamic Bank in 1975. Starting from that, the expansion and performance of Islamic banking have been remarkable despite operating in a competitive environment dominated by the conventional banking system. International Monetary Fund shows that the number of Islamic financial institutions increased from 75 in 1975 to more than 300 in 2005, spread across more than 75 countries globally.² Since then, the development of Islamic Banking

² Dusuki, Asyraf W. (2005) Corporate Social Responsibility of Islamic Banks in Malaysia: A Synthesis of Islamic and Stakeholders' Perspectives, U.K., Loughborough University, PhD Thesis.

shows a positive trend in the world.

Since IB is now in existence, does IB plays a pivotal role in achieving *Maqasid al-Shari'ah* in actual terms? Prior to answering the question, it is needed to define what is *maqasid al-shari'ah*. Generally the *Maqasid al-shari'ah* promotes ways of life which are acceptable by Islamic law and beneficial towards the majority of community as compared to minority. Its laws are designed to protect these benefits by three categories which is essential *masalihor daruriyyat*, complementary benefits or *hajiyyat*, and embellishment or *tahsiniyyat*. The essential interests are itemized in five more categories which are namely faith or *din*, life, lineage, intellect and property or *mal*. The Qur'an singles it out: "We have not sent you but a mercy to the world".³ This can also be seen perhaps in the Qur'an's characterisation of itself in that it is "a healing to the (spiritual) ailment of the hearts, guidance and mercy for the believers".⁴

In view of that, the purpose of IB in promoting *Maqasid al-shari'ah* is debatable due to various reasons as usury or *riba* is still in place, need for collateral for loan, liability based is prioritized to asset based funding and the list goes on. Thus, scrutinizing IB impacts on *maqasid al-shari'ah* starts by examining the performance of IB. Since IB performance is measured using the same conventional yardstick, clear mismatch between these CB performance indicators and the wider objectives of IB. Thus, empirical test is used to examine effectiveness and sufficiency of present criteria in measuring the overall performance of IB.

This paper is trying to do the closer measurement of performance of Islamic bank which is different yardstick from conventional. Furthermore, by using the conventional benchmark to evaluate Islamic banking definitely there is a disparity between these conventional performance indicators and the wider objectives of IB. Hence, the lack of a cautious study on these objectives of IB has effected into misinformation and misgivings about the primary reasons for the existence of Islamic banks. Finally, many IB Stakeholders cannot clearly see the difference between the Islamic and conventional banking.

³ QS Al-Ahzab : 107

⁴ QS At-Taubah: 57

Research Statement

This study will analyze the performance of Islamic bank in Malaysia and Indonesia based on *maqasid al-shari'ah* which the sample taken is three major representatives Islamic bank in both countries. There are two major questions that will be focused on this study, namely:

1. to measure the performance of Islamic bank in Indonesia and Malaysia based on *maqasid al-shari'ah* approach.
2. to rank the Islamic bank indexes based on *maqasid al-shari'ah* approach.

To implement the performance measurement of Islamic bank, it is believed that Mustafa *et. al.*, is the best measurement accordance with *maqasid al-shari'ah* approach.⁵ **Objective of Study**

The ultimate goal of this study is supposed to address the measuring performance of Islamic banking. It should give some advantages to banking and financial sector, particularly the Islamic bank, toward suggesting improving their performance towards the economy. Moreover, this study may enable for the government to decide a comprehend policy regarding the Islamic banking and finance system in Malaysia and Indonesia.

Maqasid al-Shari'ah

There are two inter-related hierarchy *mu'amalat* in Islam and it cannot be separated each other. Firstly, vertical *mu'amalat* form is a relationship to God with the shape of worshiping God as what has been commended in Quran and prophetic tradition (*sunnah*) such as *shalat* (prayers), *zakat* (alms and charity) *saum* (fasting) *hajj* (pilgrimage) and others. Secondly, horizontal *mu'amalat* form is the interaction among creatures in the form of social relationships and social interactions. Furthermore, Islam has a system of ethic and values that covered all aspects of life such as, personal, social, political, economic, and so on called by *shari'ah*. *Shari'ah* is grouped into three principal fields: Aqeedah (belief), *ibadah* (worship) and *akhlaq* (morality and ethics). The third aspect mentioned is integral part of the *shari'ah*. In addition, people live together

⁵ Mustafa Omar, Mohammed. (2007) the Performance of Islamic Banking: A *Maqasid* Approach. IIUM International Conference on Islamic Banking and Finance, Crowne Plaza Mutiara Hotel, Kuala Lumpur, April 23-25.

doing their activities included the economic activities which are the field of morals and ethics that cannot be avoided anymore.

In order to understand the *Shari'ah*, some one really needs to know and comprehend its objectives which allow flexibility, dynamism, and creativity in social policy. Its objectives is well known by *Maqasid Shari'ah* which is often translated as the goals and objectives of Islamic law. Thus, since the *Shari'a* is usually predicated on the benefits of man or slaves and also the whole community (*ummah*), its laws are absolutely designed to protect these benefits and helps.

Basically, the main purpose of implementing *shari'ah* is purposed for the *maslahah* (well-being of all mankind) where the mankind may get protection and benefit of all the provisions of the *shari'ah*. Other aim of *shari'ah* is *daf'ul mafsadah* (avoiding harm) as the God forbids some restricting things which is aiming to keep away the mankind from any dangerous. Moreover, the *shari'ah* does not benefit to God but to the servant. Referring to the *maqasid al-Shari'ah*, al-Ghazali said:

“The objective of the *Shari'ah* is to promote the welfare of human beings, which lies in safeguarding their faith, their life, their intellect, their posterity, and their wealth, whatever ensures the safeguard of these five fundamentals serves public interest and is desirable”.^{6,7}

The scholars have argued about the *Maqasid al-Shari'ah* with better understanding and classification. In general, majority scholars agreed with the five things concerning to *maqasid al-shari'ah* those are preservation of religion (*din*), human self (*nafs*), posterity (*nasl*) intellect (*'aql*), and wealth (*mal*).

As *maqasid al-shari'ah* has been defined into five preservations by Abu Hamid Al-Ghazali, and then followed by approval of Imam Al-Syatibi, and Fakhrudin al-Razi and others. Finally, a prominent jurist gave the first place to *Maqasid* to the human self (*Nafs*).

⁶ إن جلب المنفعة ودفع المضرة مقاصد الحق وصلاح الخلق في تحصيل مقاصدهم، (الغزالي: الإمام قال حجة الإسلام لكن نافعني بالمصلحة المحافظة على مقصود الشرع، ومقصود الشرع من الخلق خمسة: وهو أن يحفظ عليهم دينهم وأنفسهم وعقلهم ونسلهم ومالهم فكل ما يتضمن حفظ هذه الأصول الخمسة فهو مصلحة وكلما يفوت هذه الأصول الخمسة فهو مضرة ودفعها مصلحة
28 ص 1 المتصني للغزالي ج) الأصول الخمسة فهو منسدة ودفعها مصلحة

⁷ Chapra, M. Umer. (1985) *Towards a Just Monetary System*. Leicester, the Islamic Foundation.

The Objective of Islamic Bank Based on Maqasid al-Shari'ah

Islamic economics now has the spotlight to many economists. Many argue that Islamic economics is a cutting-edge solution for the common good towards society in general and economists in particular. One sector that provides an important role in the economic progress of Islamic economics is banking sector. This sector is an important point that contributes to the advancement of Islamic economics itself. Basically, Islamic banks have purposes which can be calculated (quantified) with the right approach. As a result, the purpose (objective) of the Islamic bank can be measured, defined, operated and they all contribute to specific goals or general.

Some Islamic scholars have contributed defining the objective of Islamic banks; however, have not been in the lead on the theoretical framework which is based on *maqasid al-shari'ah*. The objectives of Islamic bank have not been formally reviewed. Henceforth, this paper tried to give some contribution to the objectives of Islamic bank from the theory of the objectives of al-Shari'ah (*maqasid al-shari'ah*), which the scholars have developed as far as the third century after Hijrah, 9th Century A.D.⁸

In the general way, most of the Muslim scholar and thinker have the same viewed about the ultimate objectives of al-Shari'ah, which are to promote welfare (*Jalb al-Masalih*) and avoid dangerous.⁹ Moreover, there are similar classification and different point in their argument concerning to objective of *shari'ah*. For instance, 'Ilal al-Fasi arranges his classification of objectives of shari'ah such as reforming the human mind, developing the earth, managing benefits for all, preserving order and system of livelihood, establishing justice and, utilizing Allah's natural resources. The other classification is provided by Ibn 'Ashur, he classified the objective of shari'ah into the specific objectives of the *shari'ah* which appears with the preservation of order, promotion of human welfare, prevention of corruption, establishment of justice and, maintaining stability and harmony.

Lastly, Abu Zahrah in his book of *Ushul Fiqh* comes with the more refined form of the specific objectives of al-Shari'ah. He classified

⁸ Al-Raysuni, Ahmad. (1992) *Nazariyat al-Maqasid 'Inda al-Imam al-Shatibi*. Herndon, International Institute of Islamic Thought.

⁹ Ibn 'Ashur, M. al-Tahir, *Maqasid al-Shari'ah al-Islamiyyah*, ed., al-Misawi, Muhammad al-Tahir (1998), Kuala Lumpur, al-Basa'ir.

them into three fields, namely *tahdhib al-fard* (educating the individual), *iqamah al-'Adl* (establishing justice) and *jalb al-maslahah* (promoting welfare).¹⁰ From those classifications, this study should use the closest approach in order to do measuring of Islamic banking performance; and it follows to Abu Zahrah's classification of *maqasid al-shari'ah*.

Empirical Studies of Performance Islamic Bank

In this study, the performance of Islamic bank is going to be measured which the measurement is different yardstick from conventional bank measurement. The usual measurement used to indicate measurement of conventional are determining and calculating the Return on Assets (ROA) which is considered one of the most useful ratios used to measure financial performance in the banking industry, this way shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments. This is reflected in the ROA, since investments and loans are the largest portion of bank's assets, while interest on loans resembles the largest portion of the bank's revenue and returns. Some studies even go as far as to claim that ROA is "the most meaningful financial indicator in the banking industry". ROA has the advantage that it can be used for small firms which have a very small equity base, in which case ROE may be a bit misleading compared to ROA.

Badreldin cited that Islamic financial model is considered quite new, having only been introduced in the early 1970's, it still has a long way to go and the system is nowhere close to perfect, but the potential of the system in avoiding dangerous and unethical financial activities is quite promising.¹¹ Due to the newness of the system and the absence of universally regulating bodies of financial reporting or supervision; current Islamic Banks are having lots of difficulties in measuring their performance let alone comparing it across the Islamic Banking Sector or across countries.¹²

¹⁰ Abu Zahrah, Muhammad (1997) *Usul al-Fiqh*, Cairo, Dar al-Fikr al-Arabi.

¹¹ Badreldin, Ahmed Mohamed (2009) *Measuring the Performance of Islamic Banks by Adapting Conventional Ratios*. Working Paper No.16 October 2009. Faculty of Management of Technology, German University, Cairo. Al-Tagamoa Al-Khames 11835 New Cairo-Egypt.

¹² Bedoui, M. Housseem Eddine. (2012) *Shari'a-based Ethical Performance Framework*. Séminaires de recherché 2012. Online at <http://cenf.univ-paris1.fr/>

The Islamic banks performance measurement in this present era has adopted the conventional yardstick.¹³

This way was done due to the absence of formal study on the objectives of Islamic banking to measure its performance. As a consequence, the measurement comes apparently to be similar to conventional measurement. Hence, it may appear mismatching measurement between their objectives, which the conventional is supposed to be focusing on financial measures. In the contrary, the means of Islamic banks measurement would have other requirement besides the financial measures.

Samad did a study of comparison between the efficiency of Islamic Bank and conventional banks in Malaysia.¹⁴ The result was provided using the Analysis of variance (ANOVA) test illustrated that conventional banks had higher managerial efficiency than Islamic Bank of Malaysia. Naqvi citing the study was concerning with a survey of expert opinion on 30 major Islamic banks shows the dismal performance of Islamic banks. Referring to his result of study, the rate of returns was found which offered by Islamic banks commonly had been lower than the interest-based banks. Furthermore, he came with cases of loan default that had risen dramatically among Islamic banks, as which it could no unable to make an affective deal that the interest-based bank.

Hasan recommended the performance of Islamic banks could be evaluated with reference to its social responsibilities in an Islamic framework. He said, “the mainstream techniques of cost-profit considerations in assessing bank performance: ratio analyses and various sorts of input or output frontier models Islamic economists appear to have used are often marred by gaps, errors, and inconsistencies that

[seminaires-de-recherche/seminaires-de-recherche-2012/janvier-sharia-based-ethical-performance-measurement-framework-by-dr-housseem-eddine-bedoui/](#)

¹³ Mustafa Omar M. (2007) The Objectives of Islamic Banking. *Islamic Finance Today: The Pulse of Ethical Business*, March-May 2007, pp.35-43.

¹⁴ Samad A. and Hassan, M. K. (1999) The Performance of Malaysian Islamic Banks During 1984-1997: An Exploration Study. *International Journal of Islamic Financial Services*, 1 (3), pp. 1-14. Also (1999), Comparative Efficiency of the Islamic Banks vis-à-vis Conventional Banks in Malaysia, *IIUM Journal of Economics and Management*, Vol.7, No.1, pp.1-25. Also (1999), Performance of Interest-free Islamic Banks vis-à-vis interest-based Conventional Banks of Malaysia, *IIUM Journal of Economics and Management*, Vol. 12, no.2.

render their conclusions vulnerable even in their own framework (Islamic banking).¹⁵

In recent time, substantially effort has been gotten that measurement of Islamic bank from uni-dimensional to the multidimensional measures. Nevertheless, practically all these effort have dealt with the subject matter unclosed to reference to *maqasid al-Shari'ah*. For instance, Martanet. al. used a “blurry-set” approach to measure the performance of Islamic banks forward to the traditional banking. Besides measuring the financial performance, some aspects of non-financial measures also revealed. Those are income distribution and social solidarity, economic development, investments and motivation to invest. Nonetheless, this measurement is not sufficient to the objectives of Islamic banks.

Dusuki also emphasize in his study on the challenge of realizing *maqasid shari'ah* in Islamic banking and finance, those study concluded that to realise the *maqasid shari'ah* in Islamic banking and finance institutions must ensure that all of its transactions are *shari'ah* compliant not only in its form and legal technicalities but more importantly, the economic substance which is premised on the objectives outlined by the *shari'ah*.¹⁶ Next, if the economic substance of a given transaction is identical to that of the prohibited transaction, (such as the one in which the bank or the financier acts as a creditor not as a trader of real property) then this must render the transaction impermissible regardless of its legal form. The adoption of these prohibited transactions on the grounds of *maqasid shari'ah* or *al-siyashah al-shari'ah* is legally wrong, leads to more harm than benefit and has fatal implications.

Mustafa et. al, they did the closer approach which measure the performance of Islamic banks. Here, it has also suggested a methodology that could be used to develop Islamic *bank* performance measures based on the *Shari'ah* framework. The result of the study has shown variations in the performances of the selected Islamic banks. No single bank is able to realize high performance in all the seven performance ratios,

¹⁵ Hasan, Zubair, (2004), *Measuring the Efficiency of Islamic Banks: Criteria, Methods and Social Priorities*, Review of Islamic Economics, Vol.8, No.2, pp.5-30.

¹⁶ Dusuki, Asyraf Wajdi and Abozaid, Abdulazeem. (2007) *A Critical Appraisal on the Challenges of Realizing Maqasid Al-shari'ah In Islamic Banking and Finance*. *IIUM Journal of Economics and Management* 15, no. 2: 143-165.

alternatives and performance indicators. Such variations show inconsistency on the part of the individual Islamic banks to focus on the overall *Shari'ah* objectives. From this study, this paper refers and tries to implicate the approach and methodology to measure the six Islamic banks in Indonesia and Malaysia.

Kuppusami, et. al, came with the conceptual framework developed in their study which is based on Islamic bank operation similarity to conventional banks, but it emphasize on social equity and *Shari'ah* principles well know by SC&P model. They came up with combination thought the performance measures such as the ROA, ROE and PM as indicators of profitability, business strength and stability. Appropriate indicators of the performance of Islamic banks, on the other hand, emphasize the extent to which the banks have adhered to *Shari'ah* principles. They concluded with three major quadrant indicates differently. The upper left quadrant represents banks that are very profitable, but weak in conforming to *Shari'ah* principles. Banks in the lower right quadrant conform strongly to good *Shari'ah* practices, but they suffer from poor profitability. Finally, the banks in the lower left quadrant perform poorly in both profitability measures and conformity to *Shari'ah* principles. Strategic concern here includes addressing profitability issues and the lack of *Shari'ah* conformity.

Methodology

Sources of Data

The data utilized in this study was compiled from the annual report for each of the following Islamic banks over the period of 2007-2011. The data was limited to this period mainly because these are the only years that the annual reports are consistently accessible. The aggregate data of the 6 Islamic banks for 5 years period of 2007-2011 were obtained from Bank Scope Database. In this study, there are 6 Islamic banks from Malaysia and Indonesia was used as the sample. Whereas 3 Islamic banks namely RHB Islamic bank, CIMB Islamic bank and Bank Islam from Malaysia and 3 Indonesian Islamic banks namely Bank Muamalat Indonesia (BMI), Syariah Mandiri Bank and Syariah Mega Bank.

Theoretical Model

To deal with the issues, Mustafa *et al*,¹⁷¹⁸ framework on the ideal objectives of Islamic banking from Abu Zahrah's theory of Maqasid al-shari'ah will used on this study. This model, they called as the **PMMS** model (**P**erformance **M**easures based on **M**aqasid al-**S**hari'ah) framework. It developed by using Sekaran's method to translate these 3 objectives, as mention above, namely educating individuals, establishing justice and *maslahah* were operationally defined into observable and measurable elements.

First thing to develop this model; Mustafa et al, translate these three into three steps. Whereabouts each of the objective or concept (c) they translated into broad characteristics or dimensions (D) and then finally into measurable behaviours or elements (E). As a result, based on the literature, the three (3) broad objectives were translated into 9 dimensions and 10 elements, which are measured individually by the corresponding ten ratios derived from the annual reports of the respective sample banks. Table 1 below shows us how to examine the three *shari'ah* objective in relation to the objective of Islamic banking.

¹⁷ Mustafa, Omar Mohammed, Razak, Dzuljastri Abdul and Taib, Fauziah Md (2008). The Performance Measures of Islamic Banking Based on the Maqasid Framework. *IIUM International Accounting Conference (INTAC IV) held at Putra Jaya Marroitt*, 25 June.

¹⁸ Mustafa O.M. and Taib, Fauziah (2010) Testing the Performance Measures Based on Maqasid al-Shari'ah (PMMS) Model on 24 selected Islamic and Conventional Banks. *2nd Langkawi INSANIAH-IRTI International Conference (LIFE) 2010, Meritus Pelangi Beach Resort and Spa, Langkawi Pantai Chenang, Kedah, 13-15 December 2010.*

Table 1
Application the Objectives of Islamic Banking

Concepts (Objectives)	Dimensions	Elements	Performance ratios	Source of data
1. Educating Individual	<i>D1.</i> Advancement of Knowledge	<i>E1.</i> Education grant	<i>R1.</i> Education grant or scholarship/total expenses	Annual report
		<i>E2.</i> Research	<i>R2.</i> Research expense/total expenses	Annual report
	<i>D2.</i> Instilling new skills and improvements	<i>E3.</i> training	<i>R3.</i> Training Expense/total expenses	Annual report
	<i>D3.</i> Creating Awareness of Islamic banking	<i>E4.</i> Publicity	<i>R4.</i> Publicity expense/total expenses	Annual report
2. Establishing Justice	<i>D4.</i> Fair dealings	<i>E5.</i> Fair Returns	<i>R5.</i> Profit Equalization Reserves (PER) /Net or Investment Income	Annual report
	<i>D5.</i> Cheap product and services	<i>E6.</i> Functional distribution	<i>R6.</i> Mudarabah and Musharakah Modes/Total Investment Modes	Annual report
	<i>D6.</i> Elimination of injustices	<i>E7.</i> Interest free product	<i>R7.</i> Interest free income/ total income	Annual report
3. Public Interest	<i>D7.</i> Profitability	<i>E8.</i> Profit ratios	<i>R8.</i> Net income/Total assets	Annual report
	<i>D8.</i> Redistribution of income & wealth	<i>E9.</i> personal income	<i>R9.</i> Zakah paid/Net Asset	Annual report
	<i>D9.</i> Investment in vital real sector	<i>E10.</i> Investment ratios in real sector	<i>R10.</i> Investment in real economic sector/ Total Investment	Annual report

Source: Mustafa et. al. 2010

Performance of the Ratios

First Objective

As shown above, the *first objective* is educating individual that it translated to three dimensions and then into four measurable elements namely educational grant, research expenses, training expenses and publicity expenses which measured by four ratios. Where, the ratios can be written as follow:

<i>a. Educational grant(R1)=</i>	$\frac{\text{Educational Grant/Scholarships}}{\text{Total Expenses}}$
<i>b. Research Expenses(R2)=</i>	$\frac{\text{Research Expenses}}{\text{Total Expenses}}$
<i>c. Training Expenses (R3)=</i>	$\frac{\text{Training expenses}}{\text{Total Expenses}}$
<i>d. Publicity Expenses(R4) =</i>	$\frac{\text{Publicity Expenses}}{\text{Total Expenses}}$

As a result, the higher the budget that the bank allocates for these four indicators, the more the bank is concerned about achieving educating individuals in its program. This is also good for the bank to enhance the quality of its human resource and at the same time work towards creating informed customers about its objectives and product.

Second Objective

For the second objective, there are three ratios, namely (Profit Equalization Reserves (PER) /Net or Investment Income), *Mudarabah* and *Musharakah* Modes/Total Investment Modes, Interest free income /Total income are identified for measuring three elements of the second Shari’ah objective (Establishing Justice).

e. Fair return (R5)=
$$\frac{\text{Profit Equalizer Reserves}}{\text{Investment Income}}$$

When banks set aside the PER, they deny the previous depositor their rights to the profit, which is a form of injustice. The PER ratio is in the parenthesis because it is subtracted from 1. Therefore as the ratio value moves towards 1, it means less reserve are allocated for PER. The value 1 means no reserve are allocated for PER. Hence high (1 - PER) ratio means the bank is moving towards achieving the higher level of justice.

f. Functional Distribution (R6) =
$$\frac{\text{Mudharabah and Musharakah modes}}{\text{Total investment Modes}}$$

On the other hand high *Mudarabah* and *Musharakah* modes ratio means the bank is improving in its objective towards socio-economic justice,

$$g. \text{ Interest Free Product (R7)} = \frac{\text{Interest free Income}}{\text{Total Income}}$$

Similarly high ratio of Interest free income to total income contributes positively towards minimizing the income and wealth disparity, since interest basically transfers wealth from the poor to the rich.

Third Objective

Lastly, three ratios (R8 to R10) were selected for measuring three elements of the third *Shari'ah* objective – *Maslahah*. They are net income/total asset ratio, *Zakah*/net asset ratio and investment in real economic sector/total investment ratio.

$$h. \text{ Profit Ratios (R8)} = \frac{\text{Net Income}}{\text{Total Asset}}$$

High net income/total asset ratio shows higher profitability of the bank and thus its capability to contribute to the government budget for more developmental projects and for social services, which in turn increases the welfare of the public.

$$i. \text{ Personal Income (R9)} = \frac{\text{Zakah Paid}}{\text{Net Asset}}$$

Similarly, high *Zakah* net asset ratio shows transfer of income and wealth to the poor and the needy, thereby helping to bridge the inequality gap.

$$j. \text{ Investment ratio in Real Sector (R10)} = \frac{\text{Investment in real sector}}{\text{Total Investment modes}}$$

Meanwhile investment in real economic sector/total investment ratio refers to the number of vital sectors in which the banks invest in. Here, the importance is given to those real economic sectors that have direct implications to the wider population, especially those in the rural areas. Such sectors include agriculture, mining, fisheries, construction, manufacturing and small and medium scale businesses. Therefore, higher investment in real economic sector implies wider sphere of public interest.

Verification of the Performance Measures

The next step is to get the weighted ratio for three objectives above, Mustafa, *et al*, were using two ways both are in the form of questionnaire and interview where sent to *Shari'ah* expert from middle east and Malaysia who are well versed in both Islamic and conventional bank. The averages weights given by the experts are offered in table 2 below:

Table 2
Average weights for the three objectives and ten elements given by shari'ah experts

Objectives (W)	Average weight (out of 1)	Elements (E)	Average Weight out of 1)
1. Education (<i>Tahdib al-Fard</i>)	.30	<i>E1.</i> Education Grants/Donations	.24
		<i>E2.</i> Research	.27
		<i>E3.</i> Training	.26
		<i>E4.</i> Publicity	.23
		Total	1
2. Justice (<i>Iqomatul al'Adl</i>)	.41	<i>E5.</i> Fair Returns	.30
		<i>E6.</i> Fair Price	.32
		<i>E7.</i> Interest free product	.38
		Total	1
3. Promoting Welfare (<i>Jalb Maslahah</i>)	.29	<i>E8.</i> Bank's Profit Ratios	.33
		<i>E9.</i> Personal Income Transfers	.30
		<i>E10.</i> Investment Ratios in real sector	.37
Total	1	Total	1

Source: Mustafa et.al. 2010

The Maqasid Indexes

After we found the performance ratio of all banks, the next step is to rank. The total overall performance Indicators for the three *Shari'ah* objectives for each bank represents its individual *Maqasid* Index (MI). In other words, the *Maqasid* Index (MI) for the individual bank is the sum of its performance indicators in respect to Objective 1 Objective 2 and Objective 3. Thus, we can write down the formula as follows:

$$MI = PI (1) + PI (2) +PI (3)$$

Therefore; MI for *Maqasid* Index, PI(1) as Education (*Tahdhib al-fard*), PI(2) as Justice (*Iqomatul al’Adl*), PI(3) as promoting welfare (*Jalb al-Maslahah*)

Result and Analysis

Performance Ratios for Each Element

Table 3
Performance Ratios

ELEMENTS	Ratios	RHB IB	CIMB IB	B. ISLAM	BMI	BSM	BMS
E1. Education Grants/ Donations	R1	0.007766112	0.00003193	0.01139405	0.004620721	0.000548712	0
E2. Research	R2	0	0.00029354	0.02570702	0.002364887	0.002145774	0
E3. Training	R3	0	0.00219614	0.36958848	0.013052242	0.025051542	0.4356072
E4. Publicity	R4	0.0678404	0.00055116	0.03639159	0.052366549	0.044876538	0.0234923
E5. Fair Returns	R5	0.0444491	0.00627852	0.05771083	0.102536289	0.117625578	0.0874958
E6. Fair Price	R6	0.050877339	0.14441825	0.00204969	0.462750383	0.255705053	0.0421358
E7. Interest free product	R7	1	0.556124161	0.99845238	1	1	1
E8. Bank's Profit Ratios	R8	0.019198706	0.114519038	0.01180159	0.009060409	0.022087457	0.0138349
E9. Personal Income Transfers	R9	0	0.206895812	0.00075653	0.000256648	0.000816055	0.0007624
E10. Investment Ratios in real sector	R10	0.5031715	0.3382475	0.31798955	0.740710264	0.385149466	0.0796349

Performance Ratios for the First Objective

a) *Education grant/total income (R1)*

It’s clearly shown from the table, Bank Islam (BI Malaysia) has allocated highest donation among the examined six Islamic banks of providing education grants and scholarship to the society. That portion was 1.14 % of its net income on average is supported to the purpose. Meanwhile, CIMB IB has given only with small portion for the education grants slightly under 0.0031 % of their net income. In addition, there is no specific data found for BMS specifically on education grant. As a result, the data has shown just 0%. This is, however, not covered in the scope of the period under investigation. Therefore, the BI has surpassed the other 5 Islamic banks in achieving this component of the first *shari’ah* objective.

b) *Research expense/total expense (R2)*

Research expense is to show that the Islamic bank cares to develop the system which is circulated around recently among the Islamic

banking system. In this term, Bank Islam (BI) has shown also relatively good performance compared to the other 5 banks in the sample. Next, be followed by BMI with 0.23 % from its total expense for research activities. In the other hand, both BMS and RHB IB have no specific data provided in this allocation, the annual report did not reflect to the research development to Islamic banking system. As consequence, they did not perform at all in this research field.

c) *Training Expense/total expense (R3)*

Staff training programs is included to first objective which is to improve the education of whole staff. The educated and skilful staff of Islamic bank will perform the good system in the bank. Here now, BMS leaded the other 5 banks in the sample. BMS has allocated on average, over 4.35 % of its total expense for the staff training expense. Probably the high figure for BMS is because of using “other expenses” as a proxy for the training expense. Nonetheless, BMS has pointed to its annual report that the bank’s emphasis on improving its staff core competencies, risk management and upgrading their skills and knowledge focusing on financial analysis. The second range was Bank Islam allocating over 3.6% of its total expense on training. Moreover, RHB IB did not contribute any expense to this field because the annual data was not provided the staff training.

d) *Publicity expense/total expense (R4)*

Here, RHB IB is the highest portion that achieved to the publicity expense. Over six percent of its total expense allocated for publicity. Three banks, BMI, BSM, and BI spend the fund to this area with 5 %, 4% and 3 % of their total expense on publicity serially. Meanwhile, CIMB IB only contributed 0.055 % of the total expense for purpose. It meant that CIMB IB just the lowest bank in samples which spend the expense in this field.

Performance Ratios of the Second Objective

a. *Fair return/investment income*

It is shown form the table above that BSM Indonesia contributed with the highest allocation in this field, fair return. The portion was approximately 11% from the investment income. Followed by the second

bank is BMI with 10.25 % from all total investment income where as the CIMB IB still gave the lowest portion in fair return, even though it always supported all the item of measurement which examined.

b. *Fair price/total investment modes*

This ratio means that the bank is improving in its objective towards socio-economic justice. In this area, BMI was the first bank leads the fair price comparing the other 5 banks. It achieved about 46.28 % from the total investment. By contrast, the lowest share was given by Bank Islam with only no more than 0.20 % from the total investment income. Moreover, BSM and CIMB IB followed BMI as the second and third bank with the portion 25.57% and 14.44% from the total investment income.

c. *Interest free product/total income*

This ratio indicates that the Islamic bank has allocated the product to the non-usury or *riba* and similarly to the high ratio of Interest free income to total income shows confidently towards minimizing the income and wealth disparity. The table gave the clearly data that the four banks, namely RHB IB, BMI, BSM and BMS surely avoid their share to non-usury product and allocation. But the rest of two banks still came up with some product that indicates to non-halal or *shari'ah* incompliance, BI with approximately 0.16 % from the total income. However, CIMB IB still shared with about 44 % which apportioned to non-halal product.

Performance Ratios of the Third Objective

a. *Net Profit/total Asset (R8)*

The lowest share in bank's profit ration is placed by BMI about 0.9% from the total asset. In contrast the biggest percentage gained by the CIMB IB around 11.45 % from the total asset. This ration means that High net income/total asset ratio shows higher profitability of the bank and its capability to contribute to the government budget for more developmental projects and for social services, which in turn increases the welfare of the public.

b. *Zakah/Net Income (R9)*

The other ratio was tested here is personal income; CIMB IB leads the other 5 banks in terms of its zakah contribution, which is

above 20.68 % of its net income. Meanwhile, the other four banks just shared with slightly portion under 1% of their net income for zakah. RHB IB does not pay zakah. It leaves the responsibility to depositors and shareholders. Furthermore, the obligation and responsibility of RHB IB payment of Zakat lies with the ultimate individual shareholders and the depositors of the Bank. Therefore, no accrual of Zakat expenses is recognised in the financial statements of the Bank. To ensure the management of risk exposures in the bank are aligned to the principles of Islamic Banking – absence of interest based transactions (Riba')

c. *Investment deposits/total deposit (R10)*

The last ration which tested is Investment ratio in Real Sector. This ratio is yardstick of measures the extent to which the Islamic bank contributes its investment to the real sector. Thus, over 74 % of BMI total deposit is for investment purposes. The other three banks: BSM, BI, CIMB IB has over 30% of their deposits for investments. In addition, RHB IB investment deposit represents around 50% of its total deposit. The lowest ratio is only 7.9 % of BMS's total deposit is investment deposit.

Performance Indicators Each Element

Table 4
Result of Performance Indicators

Al-shari'ah Objectives	Elements	RHB IB	CIMB IB	B. Islam	BMI	BSM	BMS
PI for 1st Objective	PIE	0.00055916	2.29923E-06	0.000820371	0.000332692	3.95072E-05	0
	PIR	0	2.37768E-05	0.002082268	0.000191556	0.000173808	0
	PIT	0	0.000171299	0.028827901	0.001018075	0.00195402	0.03397737
	PIP	0.004680989	3.803E-05	0.002511019	0.003613292	0.003096481	0.00162097
	Total	0.005240149	0.000235405	0.034241561	0.005155615	0.005263816	0.03559833
PI for 2nd Objective	PIF	0.005467235	0.000772258	0.007098433	0.012611964	0.014467946	0.01076199
	PIA	0.006675107	0.018947675	0.00026892	0.06071285	0.033548503	0.00552822
	PIH	0.1558	0.1558	0.1558	0.1558	0.1558	0.1558
	Total	0.167942342	0.106364077	0.162926233	0.229124814	0.203816449	0.1720902
PI for 3th Objective	PIPr	0.001837316	0.010959472	0.001129412	0.000867081	0.00211377	0.001324
	PIPi	0	0.017999936	6.5818E-05	2.23284E-05	7.09968E-05	6.6325E-05
	PIIr	0.053990304	0.036293959	0.034120278	0.079478211	0.041326538	0.00854483
	Total	0.05582762	0.065253367	0.035315509	0.080367621	0.043511304	0.00993515

First Shari’ah Objectives

The first Shari’ah Objectives shows Bank Islam as the leaders in terms of providing education grant to the public (PIE) and research (PIR) with 0.08 %, 0.20% and 3.39% serially. Meanwhile, the highest ratio for training (PIT) and publicity (PIP) are Bank Mega Syariah and Bank Muamalat Indonesia respectively.

Second Shari’ah Objectives

Based on the figures for the second objectives, Bank SyariahMandiri (BSM) has the highest ratio in terms of fair return (PIF) with 1.44%, affordable price(PIA) with 3.35% and interest free income (PIIf). Interestingly, RHB IB, Bank Muamalat Indonesia, Bank SyariahMandiri (BSM) and Bank Mega Syariah (BMS) have the same ratio in interest free income (PIIf) with 15.58%. This is because we did not find interest in their annual income statement. It is mean that they have income that does not exist of interest.

Third Shari’ah Objectives

The third shari’ah objectives exhibits CIMB has performed the best in profit ratio (PIPr) and personal income (PIPi) with 10.95% and 17.99% respectively, while Bank Muamalat Indonesia has the highest in PIIr with 7.94%.

Maqasid Indexes

As mentioned before, the Maqasid Index is measurement of the overall performance for the three shari’ah objectives, namely the PI1 (education) PI2 (Justice) and PI3 (public interest). The result can be seen as follows

Table 5
Maqasid Indexes

Banks/PI	PI 1	PI 2	PI 3	Total	Ranking
RHB Islamic Bank	0.005240149	0.167942342	0.05582762	0.229010111	4
CIMB Islamic Bank	0.000235405	0.106364077	0.065253367	0.171852849	6
Bank Islam	0.034241561	0.162926233	0.035315509	0.232483302	3
BMI	0.005155615	0.229124814	0.080367621	0.314648049	1
Bans Syariah Mandiri	0.005263816	0.203816449	0.043511304	0.252591569	2
Bank Mega Syariah	0.035598334	0.172090205	0.009935152	0.217623691	5

From table 5 above, for 1st objective, overall, Bank Mega Syari'ah has on top of ranking with overall performance indicator (PI) about 3.56% then followed by Bank Islam 3.42% approximately which is it slightly beneath Bank Mega Syari'ah. While, the Performance indicator (PI) of others are below 1%. For 2nd objective, accordingly, Bank Muamalat Indonesia (BMI) has outperformed all the other in the first ranking closed to 3% then followed by BSM which reached up to 20%. While the PI of other bank beneath 20%. The last for the 3rd objective, overall, BMI getting the first rank again for overall weight on public interest where the PI is 8% and followed by Bank Islam got the PI 6.5%.

Hence, as shown in the table, totally, Bank Muamalat Indonesia (BMI) has getting the biggest PI and put in the first rank, followed by in the chain in descending order by Bank Syari'ah Mandiri (BSM), Bank Islam, RHB Islamic bank, Bank Mega Syari'ah (BMS), and the last is CIMB Islamic bank.

Conclusion

The objective of this study was to measure the performance of 3 selected Islamic banks from Indonesia namely, BMI, BSM, and BMS and 3 Islamic banks from Malaysia, namely RHB Islamic bank, CIMB Islamic bank, and bank Islam. The measurement used to measure is the performance measures based on *maqasid shari'ah*, the PMMS model, where it developed by Mustafa *et.al*.

The result of every ratio which examined comes up with the various results that variety from one Islamic bank to others in their performance. This result has a similar trend with Mustafa *et.al*, finding. No single bank is able to recognize high performance in all the 10 performance ratios, except on interest free income ratio and performance indicators. From the performance indicators, the highest only reached up to 3.5% from 30% for PI1, at the same time as PI2 luckily has almost reached up to 23% from 41% while PI3 only 8% from 29%. According to MI the highest performance was not more than 40%. And the lowest is CIMB Islamic bank at 17.18%.

However, the items that are going to be examined are not easily retrieved from the annual report as the annual report of each bank is different serving form. Thus, it is really better for Islamic accounting standard to make a standardized annual report and the financial analyst can read and analyze it conveniently.

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