

Maqashid Sharia: Relevance of Sharia Compliance in Modern Islamic Banking

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Abstract

This study aims to compare the performance of Islamic banking in Indonesia and Malaysia using the Maqashid Sharia Index (MSI). The data were processed quantitatively with a total sample of 18 Islamic commercial banks through purposive sampling in Indonesia and Malaysia. Disclosure of MSI is carried out by analyzing annual banking reports for the period 2016–2021 obtained from the central banks of each country and the website of each bank concerned. They tested the hypothesis using the Independent Sample t-Test with the SPSS application version 26. This study proves that the performance of Islamic banks in Indonesia and Malaysia in 2016–2021 experienced differences in achieving Islamic maqashid educational goals (sig. $0.016 < 0.05$). On the other hand, this study proves that there is no difference in the performance of Islamic banks in Indonesia and Malaysia in 2016–2021 in achieving maqashid sharia, the goal of justice (sig. $0.321 > 0.05$), the purpose of *maslahah* (sig. $0.920 > 0.05$), and the overall maqashid index (sig. $0.416 > 0.05$).

Keywords: Maqashid Sharia Index, Financial Performance, Islamic Banking.

1. Introduction

The Islamic banking industry is growing rapidly in Southeast Asia. Islamic banking assets grew significantly in Indonesia (12.6% yoy) and Malaysia (5.9% yoy) (IFSB, 2022). The rapid growth of the Islamic banking industry shows that Islamic financial products increasingly exist in society. Saoqi (2017) emphasized that amid the rapid growth of the Islamic banking industry, it is necessary to measure banking performance per Islamic principles, making it easier for stakeholders to manage the company's quality to remain stable. For this reason, it is necessary to evaluate the performance of Islamic banking following its philosophical foundation (Listiyorini & Rita, 2020).

Islamic banking performance indicators still adopt conventional measurements, such as ROA, BOPO, NPF, and FDR. Mukhidat (2019) assessed that the performance of Islamic banks in terms of traditional indicators has weaknesses. For this reason, the measurement model for Islamic financial institutions must be different from conventional ones

because the practices and business orientations are very different (Soediro & Meutia, 2018). Thus, the assessment of financial performance must be aligned with the business orientation to be achieved (Kasi & Muhammad, 2016).

Evaluation of sharia banking performance must certainly be different from conventional banking (Rusydiaıa & Sanrego, 2018; Bahri et al., 2022). Because, in practice, Islamic banks focus on the main goal of an Islamic financial institution, namely creating benefits (Rusydiaıa & Firmansyah, 2018). For this reason, it is necessary to have a quantitative analysis while still paying attention to sharia compliance in measuring the performance of Islamic banks (Solihin et al., 2019; Listiyorini & Rita, 2020). By paying attention to sharia compliance, the performance of Islamic banks can be measured optimally.

Islam recognizes the concept of maqashid sharia, which consists of the protection of religion (din), reason (*'aql*), soul (*nafs*), offspring (*nasl*), and wealth (*māl*) (Hosen, Jie, Muhari, & Khairman, 2019). These values form a fundamental concept to be achieved by every individual, institution, or system to achieve *maslahah*. The aim of Islamic banks to achieve *maslahah* is evidenced by the availability of investment services in the halal business sector, which avoid usury, *gharar*, and *maysir* (Amaroh & Masturin, 2018). Therefore, Febriadi (2017) considers the maqashid framework ideal for measuring sharia compliance of contracts and products developed by Islamic banks.

Mohammed et al. (2008) succeeded in developing Abu Zahrah's thinking about the Maqashid Sharia Index (MSI) as a model for evaluating the performance of Islamic banks. The maqashid index establishes the three main objectives of Islamic banking performance, namely: *tahdzib al-fard* (education), *iqamah al-adl* (justice), and *jalb al-maslahah* (prosperity) (Mohammed et al., 2008; Rusydiaıa & Sanrego, 2018; Mega et al., 2019; Utami et al., 2021). Education can be obtained through disseminating knowledge to develop individual spiritual values. Justice can be upheld by setting fair values in prices, products, and terms for transactions in Islamic banking. Meanwhile, the benefit can be created by distributing assets for the distribution of help in the form of *zakat*, *infaq*, and *alms*. Therefore, the maqashid index is an alternative to measuring the performance of Islamic banks that is relevant and comprehensive (Suprayitno & Haq, 2022; Siswanto et al., 2023).

Research related to the comparison of the performance of Islamic banks using the Maqashid Sharia Index (MSI) has been carried out by several previous researchers. Winesa et al. (2021) revealed that Islamic banks in Indonesia, Saudi Arabia, England, and Turkey have no differences in achieving the goals of education, justice, *maslahah*, and the maqashid index as a whole. Meanwhile, Mergaliyev et al. (2021) revealed differences in the maqashid index in 12 Islamic countries, influenced by political, social, and economic factors. Then, Alfadri (2022) shows no difference in the performance of maqashid sharia in Indonesia and Malaysia regarding education and benefit. Still, there are differences in the achievement of justice and the value of the maqashid index. Based on this description, this study aMSI to compare the performance of Islamic banking in Indonesia and Malaysia using the Maqashid Sharia Index (MSI) and its main objectives.

2. Literature and Hypotheses

2.1 Literature

2.1.1 Signaling Theory

Signaling Theory is an action the company takes to provide clues to investors about how management views the company's value in the future (Brigham & Houston, 2014). Signaling models often differentiate between high- and low-quality companies (Connelly, Certo, Ireland, & Reutzel, 2011). Companies with high quality can differentiate themselves from companies with less quality by sending a signal that can be trusted (credible) regarding its quality to stakeholders (Connelly et al., 2011).

2.1.2 Sharia Banking

According to Law Number 21 of 2008, Islamic banking is everything related to Islamic Banks and Islamic Business Units, including institutions, business activities, and methods and processes in carrying out their business activities. Meanwhile, Islamic Commercial Banks are Islamic Banks that, in their actions, provide services in payment traffic. Islamic banks are not only concerned with human relations, which are horizontal relationships but must also be addressed with steps and evidence of human piety to Allah SWT in carrying out all of His rules, which are vertical

relationships. Suppose the implementers of Islamic Banks think that vertical relations are later affairs after facing the Almighty. In that case, this means that they have nothing to do with muamalah anymore but are related to one's faith, morals, and faith (Connelly et al., 2011).

2.1.3 Financial Performance

Financial performance is an illustration of the achievement of company success which can be interpreted as the results that have been achieved for the various activities that have been carried out. It can be explained that financial performance is an analysis carried out to see the extent to which a company has implemented it using good and correct financial implementation rules (Fahmi, 2017). Performance shows something related to the strengths and weaknesses of the company. These strengths are understood so that they can be maintained or even increased, and liabilities must also be known so that corrective steps can be taken (Kasmir, 2014).

2.1.4 Maqashid Sharia Index (MSI)

Maqashid al-Syari'ah consists of two words, namely Maqashid and Syari'ah. Maqashid means bringing something, and it also means demands, gaps, and goals. Syari'ah, according to language, points the way to a water source which can also be interpreted as a way to the main source of justice. According to the definition given by experts, shari'a is all the books of Allah SWT that relate to human actions beyond those concerning self-regulated morals. Thus, the Shari'a is the name for laws that are amaliyah in nature. Therefore, Maqashid al-Syari'ah can be interpreted as the goals to be achieved from a legal determination (Kasmir, 2014).

Maqashid sharia was then developed into a model for measuring the performance of Islamic financial institutions called the Maqashid Sharia Index. STI measurement is described in three main objectives: *First*, educate individuals. This goal is achieved by imparting knowledge and skills and inculcating into individual values for spiritual development. *Second*, uphold justice. Justice in the activities of Islamic banks must ensure fair transactions in all business activities, including products, prices, and the contract term. *Third*, benefit. Islamic banking activities must benefit the people or achieve the public interest.

2.2 Hypothesis

2.2.1 Education (P1)

The aspect of educational attainment is a comparison of education and training costs to the total costs incurred by Islamic banks. Islamic banks are obligated to improve their employees' skills and knowledge.

H₁: There is a difference in achieving educational goals (P1)

2.2.2 Justice (P2)

The justice aspect will describe the extent to which Islamic banking tries to uphold justice by providing fair returns to customers, providing mudharabah and musyarakah financing facilities with the principle of profit sharing, and selling halal banking service products that are free from usury.

H₂: There is a difference in upholding justice (P2)

2.2.3 Maslahah (P3)

Maslahah's objectives will describe the extent to which Islamic banking is to provide benefits or welfare for the public interest. Islamic banking must prioritize business activities that generate greater profits for society, such as investment in important sectors, real sector financing, and the obligation to distribute zakat for the benefit of the people.

H₃: There are differences in achieving maslahah (P3)

2.2.4 Maqashid Sharia Index (MSI)

The Maqashid Sharia Index is obtained from the results of calculating all ratios that have been weighted through performance indicators (P).

H₄: There is a difference in the achievement of the Maqashid Sharia Index (MSI)

3. Research Methods

3.1 Research design

This research uses a quantitative approach with a descriptive type. The quantitative method is defined as a research method based on the philosophy of positivism, used to examine certain populations or samples, data collection, using research instruments, and data analysis is quantitative/statistical to test established hypotheses (Sugiyono, 2021). Meanwhile, descriptive research studies phenomena in more detail or distinguishes them from other phenomena (Siyoto & Sodik, 2015).

3.2 Population and sample

In this study, the population used was 28 Islamic commercial banks in Indonesia and Malaysia. The sampling technique used is purposive sampling. Purposive sampling has certain considerations (Siyoto & Sodik, 2015). With this sampling technique, 18 Islamic commercial banks spread across two countries were obtained, which became the object of research with an observation period of 6 years. Table 1 shows the sampling criteria used.

Table 1: Research sample criteria

No.	Criteria	Indonesia	Malaysia
1.	Sharia commercial banks registered with the country's central bank and actively operating from 2016–2021	12	16
2.	Islamic Commercial Banks that do not publish financial reports for 2016–2021	(4)	(1)
3.	Sharia Commercial Banks with foreign ownership (especially Malaysia)	(0)	(5)
	Amount	8	10
	total sample	18	

Source: author analysis (2023)

3.3 Data collection

The data is secondary by using documentation and literature study techniques. This research collects data using documentation techniques from the official websites of Bank Indonesia, Financial Services Authority, Bank Negara Malaysia, International Financial Service Board, and each Islamic bank site which is the object of research to obtain information in the form of annual reports of Islamic Commercial Banks for 2016–2021. This research also uses literature study techniques by collecting information through reference books, results of similar studies, articles, notes, and various journals related to the problem to be solved (Sari & Asmendri, 2020).

3.4 Data analysis

3.4.1 Maqashid Sharia Index Measurement

This study focuses on measuring the performance of Islamic banking using the Maqashid Sharia Index (MSI) method, which was adapted from Mohammed et al. (2008) with the objects of Indonesia, Malaysia, and Brunei Darussalam. The first step taken is the transformation of the three main sharia concepts or goals of *Tahdzib al-Fard* (educating individuals), *Iqamah al-Adl* (upholding justice), and *Jalb al-Maslahah* (benefit) into dimensions, elements, and ratios of performance. Table 2 shows the maqasid sharia measurement model.

Table 2: Maqashid sharia measurement model

Draft	Dimensions (D)	Element (E)	Performance Ratio (R)
	D1. Increase knowledge	E1. Education grants	R1. Educational Grant/Total cost

<i>Tahdzib al-Fard</i> (educate individuals)		E2. Study	R2. Research costs/Total costs
	D2. Add and improve new knowledge	E3. Training	R3. Training fee/Total cost
	D3. Creating public awareness of the existence of Islamic banks	E4. Publicity	R4. Publicity fee/Total cost
<i>Iqamah al-Adl</i> (uphold justice)	D4. Fair contract	E5. Fair returns	R5. Profit Equalization/Net or investment income
	D5. Affordable products and services	E6. distribution function	R6. Mudharabah and Musyarakah/Total Funding
	D6. Elimination of injustice	E7. Non-interest products	R7. Non-interest income/Total Income
<i>Jalb al-Maslahah</i> (benefit)	D7. Profitability	E8. Profit ratio	R8. Net Profit/Total Assets
	D8. Distribution of wealth and profits	E9. Income transfers	R9. Zakat/net profit
	D9. Investment in the real sector	E10. Investment ratio in the real sector	R10. Real sector investment distribution/Total investment distribution

Source: Mohammed (2008)

The next step is to calculate the ratio of the three objectives of the maqasid sharia by accumulating the ratios with predetermined weights. Table 3 shows the average importance of each aim of maqashid sharia.

Table 3: Average weight of sharia maqashid

Objective	Average (%)	Element (E)	Average (%)
<i>Tahdzib al-Fard</i> (educate individuals)	30	E1. Education grants	24
		E2. Study	27
		E3. Training	26
		E4. Publicity	23
		Total	100
<i>Iqamah al-Adl</i> (uphold justice)	41	E5. Fair returns	30
		E6. distribution function	32
		E7. Non-Interest Products	38
		Total	100
<i>Jalb al-Maslahah</i> (benefit)	29	E8. Profit ratio	33
		E9. Income transfers	30
		E10. Investment ratio in the real sector	37
Total	100	Total	100

Source: Mohammed (2008)

Then, determine the Maqasid Sharia Index by summing up all the performance indicators from the three maqasid sharia objectives. Until the MSI of each sharia bank can be formulated as follows:

$$MSI = IK(T1) + IK(T2) + IK(T3)$$

3.4.2 Normality test

Before carrying out a different test, the data must meet the normality assumption (Nuryadi, Astuti, Utami, & Budiantara, 2017). The normality test uses the Shapiro-Wilk model with the SPSS version 26 application because the number of samples is < 50. The data is considered normal if the Shapiro-Wilk significance value is > 0.05.

3.4.3 Independent Sample t-Test

The Independent Sample t-Test determines the difference in the mean of two independent populations/groups of data (Nuryadi et al., 2017). If the significance value (2-tailed) <0.05, then there is a difference in the two data groups.

4. Results and Discussion

4.1 Results

4.1.1 Sharia Maqashid Index Measurement (MSI)

Table 4 below shows the results of measuring the sharia maqashid index with its three main objectives: education, justice, and benefit for Islamic banks in Indonesia and Malaysia in 2016–2021.

Table 4: Maqashid index measurement results

Bank	Country of origin	P1	P2	P3	MSI	MSI Rank
BMI	Indonesia	0.28	22.35	12.27	34.91	4
BVS	Indonesia	0.35	24.32	7.64	32.31	6
BJBS	Indonesia	0.07	18.67	8.44	27.18	13
BMS	Indonesia	0.07	19.62	7.57	27.26	12
BPDS	Indonesia	0.13	27.68	14.53	42.34	1
BSB	Indonesia	0.20	23.60	8.54	32.33	5
BCAS	Indonesia	0.13	23.80	7.25	31.19	10
BTPNS	Indonesia	0.18	15.59	9.89	25.67	16
AIBB	Malaysia	0.04	22.03	9.92	31.99	7
ALIBB	Malaysia	0.20	16.56	8.93	25.69	15
AIB	Malaysia	0.09	21.42	9.75	31.26	9
BIM	Malaysia	0.08	16.12	8.97	25.17	17
BMMB	Malaysia	0.13	16.11	8.44	24.68	18
CIMB	Malaysia	0.04	15.76	10.31	26.12	14
HLIBB	Malaysia	0.11	19.03	10.00	29.14	11
MIB	Malaysia	0.01	25.21	10.36	35.59	3
PIBB	Malaysia	0.03	22.18	9.24	31.45	8
RHB	Malaysia	0.03	26.31	10.11	36.45	2
Indonesia MSI average		0.18	21.95	9.52	31.65	
Malaysian MSI average		0.08	20.07	9.60	29.75	

Source: author analysis (2023)

4.1.2 Normality test

Table 5 below presents information about the normality test processed using SPSS version 26.

Table 5: Normality test results

Variable	Country	Shapiro Wilk			Decision
		Statistic	df	Sig.	
P1	Indonesia	.921	8	.435	Normal
	Malaysia	.902	10	.231	Normal
P2	Indonesia	.968	8	.879	Normal
	Malaysia	.890	10	.170	Normal
P3	Indonesia	.835	8	.066	Normal
	Malaysia	.914	10	.313	Normal
MSI	Indonesia	.904	8	.315	Normal

	Malaysia	.908	10	.265	Normal
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Sumber: SPSS output (2023)

4.1.3 Independent Sample t-Test

Table 6 below presents information on the results of the Independent Sample t-Test.

Table 6: Independent Sample t-Test results

		Levene's Test for Equality of Variances		t-test for Equality of Means			Decision
		F	Sig.	t	df	Sig. (2-tailed)	
P1	Equal variances assumed	2.062	.170	2.684	16	.016	Different
	Equal variances not assumed			2.535	10.817	.028	
P2	Equal variances assumed	.167	.688	1.023	16	.321	No different
	Equal variances not assumed			1.027	15.343	.320	
P3	Equal variances assumed	10.219	.006	-.102	16	.920	No different
	Equal variances not assumed			-.092	7.728	.929	
MSI	Equal variances assumed	.031	.862	.834	16	.416	No different
	Equal variances not assumed			.813	13.306	.413	

Sumber: SPSS output (2023)

4.2 Discussion

The results of this study revealed differences in achieving the goals of maqashid sharia in the field of education (P1). Differences occur in Indonesia and Malaysia caused by government factors. Malaysia has budgeted more education funds than Indonesia, so the CSR of Malaysian Islamic banks tends to be smaller than the CSR allocation of Indonesian Islamic banks (Noufal, 2020). Harisudin & Choriri (2021) found that Indonesia adheres to a continental European legal system (Civil Law System) with procedural complexity in formulating economic policies. Meanwhile, Malaysia adheres to an Anglo-Saxon legal system (common law) which is more dynamic in adapting to economic, social, and cultural changes. This finding supports Budiman et al. (2022) that different policies can affect the financial performance of Islamic banking differently. However, this does not align with Satria et al. (2021); Barka et al. (2021).

Then, there is no difference in achieving the goals of maqashid sharia in terms of justice (P2). This equation is viewed from Islamic banks' characteristics that remain firm in Islamic principles. Nugraha et al. (2020) support Islamic banks remaining consistent with universal and inclusive Islamic values, even though they are in countries with different regulations. With maqasid sharia, banks are expected to fairly improve customer welfare to improve sharia banking operations (Amin, 2019). This study is not following Khusaeri et al. (2022); Barka et al. (2021).

On the other hand, this study reveals no difference in achieving masalah goals (P3) in maqasid sharia. Indonesia and Malaysia have similarities in achieving masalah, which focuses on managing assets (Batchelor, 2021). This result also aligns with the findings of Satria et al. (2021); Barka et al. (2021).

Then, the Maqashid Sharia Index (MSI) acquisition did not experience a difference as a whole. This study proves that the factors of the banking system and the management structure of Islamic banks produce company performance that is not significantly different. These results support Nidyanti & Siswantoro (2022) that the similarity of the structural banking system makes MSI not much different. Indonesia and Malaysia have one statutory basis related to the banking system in general, but the policy focus related to Islamic banks is still designed separately. Establishing the Sharia Supervisory Board (DPS) as a sharia audit and advisory institution in Indonesia and Brunei is a factor in the absence of a significant difference in the MSI score. This result aligns with (Safira & Hadijah, 2021; Adzhani & Rini, 2017). However, it differs from (Rianto et al., 2022; Maspupah & Hasanah, 2018; Romli, 2022; Kurniasari et al., 2019).

5. Conclusion

This study concludes that the performance of Islamic banks in Indonesia and Malaysia in 2016–2021 has experienced differences in achieving the first goal of maqashid sharia, namely education. This difference is seen in the different government systems regulating each country's economic policies. On the other hand, this study proves that there is no difference in the performance of Islamic banks in Indonesia and Malaysia in 2016–2021 in achieving the second goal of maqashid sharia (justice), the third goal (maslahah), and the overall Maqashid Index score. Of course, this is influenced by the characteristics of sturdy Islamic banks by paying attention to their sharia compliance in achieving maslahah goals.

This research is expected to be an innovation in modernizing the Islamic economy. In addition, it can be used as a review to make the maqashid index an assessment of Islamic banking performance which is legalized by law. With the development of the sharia maqasid index model, the evaluation of Islamic financial institutions will be more optimal and able to evaluate comprehensively.

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