

Discourses of Islamic Performance Ratio Based on Tawhid String Relationship

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Abstract:

This conceptual review aims to analyze the performance measurement of Islamic banks based on sharia principles using the Tawhid String Relationship (TSR) concept. The method used is descriptive and qualitative, where the data sources from previous studies in the form of journals and books related to the research topic. Therefore, the formulation of the problem in this conceptual review consists of research questions as follows: (i) How should the performance of Islamic banks be based on the perspective of the Tawhid String Relationship (TSR)?; (ii) How is the implementation of the TSR concept on the performance of Islamic banks?; (iii) What is the role of the government in supporting to achieve of excellence Islamic bank performance?. The study results are that Islamic banks based on TSR have four crucial pillars: spiritual aspects, financial aspects, social aspects, and environmental aspects. Furthermore, based on this, the performance measurement of Islamic banks needs to be equipped with an Islamic Performance Ratio (IPR). Further, the government also has a significant role in improving the performance achievement of Islamic banks through policies that support increasing market share, such as converting state-owned conventional banks into Islamic banks. The outcome of this research is to provide information to stakeholders of Islamic banks to use an additional ratio, namely IPR, to measure the performance of Islamic banks.

Introduction

The contribution of Islamic banks to the development of the national economy is not optimal at this time. This phenomenon is indicated by the total market share of Islamic banks in the 29 years since the first Islamic bank was established, which is still below 10% or 6.55% in January 2021 (Rachmahyanti, 2021). So the growth in market share per year for 29 years has only reached 0.226% per year. This phenomenon certainly does not align with the situation of Indonesia as a country with the largest Muslim population in the world (Bahari, Nugroho, Badawi, & Hidayah, 2021). In detail, the growth in the market share of Islamic banks from 2017 to January 2021 is shown in table 1 below:

Table 1. Growth in Market Share of Sharia Banks VS Conventional Banks (2017-2019)

Bank Industries	Years				Growth 2017-2020
	2017	2018	2019	2020	
Islamic Banks Market Share	5.78%	5.96%	6.17%	6.51%	12.63%
Conventional Banks Market Share	94.22%	94.04%	93.83%	93.49%	-0.77%
Total Market Share	100%	100%	100%	100%	

Source: OJK (2020)

As shown in Table 1 above, the market share of Islamic banks for the last four years has not reached 10%. Nevertheless, in 2010, the government represented by Bank Indonesia (Central Bank) expected Islamic banks'

market share to reach 10% in 2015 (Nugroho & Husnadi, 2014; Sujatmiko, 2008). As a result, based on the government's expectations, there is a delay in obtaining market share for about five years. In addition, in the outreach aspect, there is a large gap between the number of conventional bank outlets and Islamic banks as of October 2020 which is shown in Figure 1 as follows:

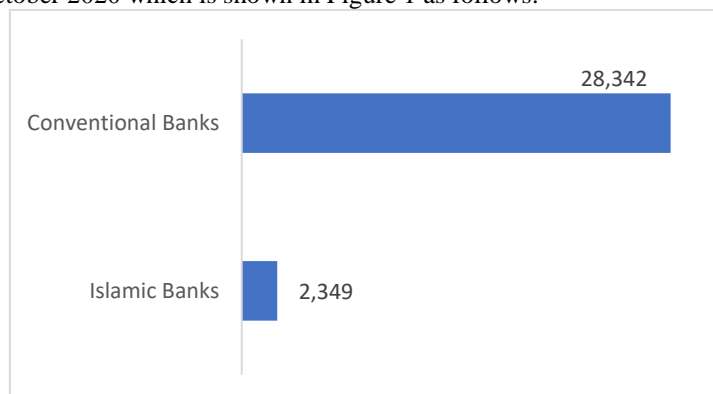


Figure 1. Number of Outlets of Islamic Banks VS Conventional Banks
Source: OJK (2020)

Moreover, based on Figure 2 above, the point of sale of Shari'a banks is low. The services of Islamic banks to the public are still limited compared to conventional banks. The limited number of points of sale of Islamic banks shows that the existence of Islamic banks in the community is still challenging to achieve for the public. This condition leads to public literacy towards Islamic banks staying low at 8.11% (Nugroho, Suganda, et al., 2020). The lower level of public literacy towards sharia banking has resulted in the products of Islamic banks, which are expected to contain the values of justice to be a solution in mitigating the economic crisis that occurred in 1997-1998 in Indonesia becoming useless.

These phenomena have implications for the government's efforts to achieve Indonesia as a center for Islamic economics, and Islamic finance must be even more active. Moreover, efforts are also needed by the Islamic bank's internal parties to improve the bank's performance. Refer to previous research conducted by Nugroho et al. (2017) and Sudarsono (2009), Islamic banks in Indonesia are caused by the encouragement of the Indonesian people to carry out the teachings of Islam in totality. Therefore, the background of the founding of Islamic banks in Indonesia is caused by a society driven, where the Indonesian Muslim community organizations (Majelis Ulama Indonesia-MUI) requested permission from the government to establish Bank Muamalat in 1991 and operated in 1992. However, the condition of Bank Muamalat in the last three years required additional liquidity. This is because the Non-Performing Financing (NPF-Nett) of Bank Muamalat in 2019 has increased from 0.88% to 4.53%. As a result of this increase, Bank Muamalat could not distribute new financing to the public because that eroded the capital from the Islamic bank to mitigate the problematic financing (Khadafi, 2019). Therefore, Bank Muamalat needs a capital injection to maintain its going concern (M.Richard, 2021). Based on the phenomenon of Islamic banks with a low market share compared to conventional banks, the number of outlets is far less than conventional bank outlets. Besides that, the public's literacy-related to Islamic banks contracts compare the conventional banks are still low, and the condition of Bank Muamalat as the first Islamic bank, has decreased on its performance. Therefore, the research questions are as follows: (i) How should the performance of Islamic banks be based on the perspective of the Tawhid String Relationship (TSR)?, (ii) How is the implementation of the TSR concept on the performance achievement of Islamic banks?., (iii) What is the role of the government in supporting to achieve of excellence Islamic bank performance?.

Regarding the research question, this study seeks to analyze the factors that may affect the performance achievement of Islamic banks based on the Tawhid String Relationship (TSR) concept. Moreover, the originality of this research is the object of research related to the performance achievement of Islamic banks from the perspective of the TSR that previous researchers have not widely carried out.

Method

The analysis method in this research is a literature review that uses qualitative sources, namely from previous studies, both from journals and other sources related to the research topic. Furthermore, the discussion methodology used in this paper refers to the following research questions:

- How should the performance of Islamic banks be based on the perspective of the Tawhid String Relationship (TSR)?;
- How is the implementation of the TSR concept on the performance achievement of Islamic banks?;
- What is the role of the government in supporting to achieve of excellence Islamic bank performance?.

Results and Discussion

The Performance of Islamic Banks based on the perspective of the Tawhid string relationship

The basic concept of an Islamic bank is a financial banking institution operating based on sharia principles. Moreover, according to the etymology of the language, the definition of sharia is the straight path, and some experts believe that sharia is the path that must be taken or followed to get to the spring (Febriadi, 2017; Henderson, 2010). The term spring is also related to the environmental conditions of the Middle Eastern community in the arid desert (Haris, 2018). Furthermore, the etymology of the word Sharia has the meaning of a straight path which is explained in the Qur'an Al-Jathiyah verse 18, which meaning: "Now We have set you O Prophet on the clear Way of faith. So follow it, and do not follow the desires of those who do not know the truth."

Furthermore, what is meant by the straight path is carrying out His commands and staying away from His prohibitions. During this time, to know and understand the commandments and prohibitions of Allah SWT, it is necessary to refer to the source of Islamic law, namely the Qur'an. Al-Qur'an is a view and guideline for human life that were revealed by Allah SWT, which aims for humans to get a safe life in the world and get happiness in the hereafter (Nugroho et al., 2021; Qutub, 2011). According to Arafah & Nugroho (2016) and Mohamad et al. (2016), believers who carry out His commands and obey His prohibitions will receive appropriate and commensurate compensation, as well as it is stated in the Qur'an, among others:

- Al-Kahf verse 107: "Indeed, those who believe and do good will have the Gardens of Paradise as an accommodation."
- An-Nisa verse 122: "And those who believe and do good, We will soon admit them into Gardens under which rivers flow, to stay there forever and ever. Allah's promise is 'always' true. And whose word is more truthful than Allah?"
- Al-Baqarah verse 208: "O believers! Enter into Islam wholeheartedly and do not follow Satan's footsteps. Surely he is your sworn enemy."

Moreover, the existence of the Quran as a source of law must be implemented in human life, so Allah sent His Prophets as ideal examples for worship and muamalah (social interaction) (Ihwanudin et al., 2020; Mahliza et al., 2020). Therefore, Islam is a comprehensive religion that regulates all aspects of human life, and this makes its people obliged to carry out the teachings of Islam in totality or kaffah (Afiyana et al., 2019; Rahman, 2014). In addition, referring to Noviandi & Fatta (2012), the totality in carrying out Islamic teachings is contained in Qur'an Al-Baqarah verse 208: "O believers! Enter into Islam wholeheartedly and do not follow Satan's footsteps. Surely he is your sworn enemy." Thus, the existence and activities of Islamic banks must refer to the notion of Tawhid String Relationship (TSR), where there is a formulation as follows:

$$\{\Omega,s\} \rightarrow * \Theta \rightarrow \Theta \rightarrow x \Theta \rightarrow W \{ \Theta, x \Theta \} \rightarrow N \Theta \rightarrow \{\Omega,s\}$$

Remark:

Ω :	Al-Qur'an
s:	Hadith
* Θ :	Ijtihad
Θ :	Knowledge
$x\Theta$:	Implementation of knowledge (active participatory)
$W\{\Theta,x\Theta\}$:	Wellbeing in term of <i>Maslahah</i>
$N\Theta$:	New knowledge

Referring to the TSR formulation above, the Qur'an is the primary source of law in Islam. Therefore, according to Arafah & Nugroho (2016), Choudhury & Hoque (2013), and Nugroho et al. (2019), the Qur'an is contextual the primary law from Islam, which is by the times and follows the progress of science. Therefore, in human daily life activity, the implementation of the Qur'an must be embedded by Hadith and also Ijtihad from the scholars. In addition, in applying the Qur'an, Hadith and Ijtihad must be accompanied by sufficient knowledge for the implementation of muamalah that means to create benefits for the whole ummah. Thus, in carrying out this vibrant life, Muslims should be the best people on earth by implementing Islamic teachings, which command to do good and establish faith in Allah SWT. Referring to the TSR concept, Islamic banking is based on Islamic teachings because Islam is a guide in worship and regulates human relations as social beings.

Moreover, if illustrated, the concept of Tawhid String Relationship in Islamic banks can be shown in Figure 2 below:

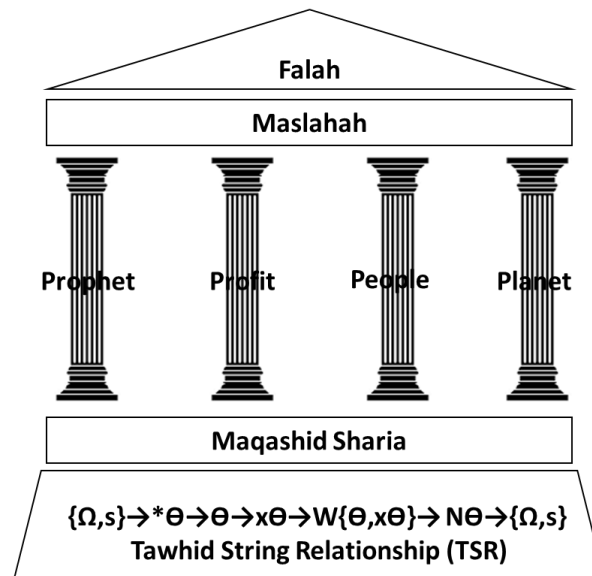


Figure 2. Islamic Banks Concept Based on Tawhid String Relationship
Source: Author

Based on Figure 2 above, Islamic banks have the foundation of TSR and maqashid sharia. This foundation makes guidelines and guidelines for Islamic banks in carrying out their business activities, which must be based on Islamic legal sources, namely the Qur'an, Hadith, and Ijtihad, which are elaborated with the times and science so that they can be applied to human life which is constantly changing from time to time. In addition, the elaboration of the sources of Islamic law and science as the driver to establish of implementation of maqashid sharia which consists of:

- Maintain the religion, according to Nugroho et al. (2019), maintain religion is to carry out all the commands of Allah and stay away from the prohibitions. In addition, Islam is a comprehensive religion that regulates all aspects of human life so that every Muslim is obliged to carry out the teachings of Islam in totality or kaffah.
- According to Nugraha et al. (2020), maintaining the soul is intended to maintain the right to live with dignity, including consuming foods that can damage the body or excessive consumption (israf). Furthermore, maintaining the soul in maqashid sharia is manifested in eating and drinking in the halal aspect. If this is not fulfilled, it will damage the soul or life;
- According to Nugroho et al. (2019), maintaining the human mind is vital because human reason is a gift from Allah SWT. Moreover, with a healthy mind, humans can distinguish what is good and what is wrong. The maintenance of this mind is linked to the protection of the mind from something that can damage the existence of the mind, like drinking intoxicating alcohol;
- Maintaining for descendants, worldly and hereafter benefits is intended by God to be continuous from one generation to another. Sharia that is implemented in one generation becomes meaningless due to the extinction of the next generation. Thus, Islam regulates marriage and forbids adultery (Nugroho et al., 2020). In maqashid sharia, maintaining offspring can be done by getting married to avoid adultery;
- Maintaining property, although, in essence, all property belongs to Allah SWT, Islam recognizes a person's right. According to Sukmadilaga & Nugroho (2017), Islam requires regulations regarding muamalah such as buying and selling, renting, borrowing, pawning, and so on and prohibiting fraud and ban the practice of maysir, gharar, and riba (gambling, uncertainty transaction, and interest rate implementation). One form of maintaining property intended in maqashid sharia is to avoid the fraudulent taking property ;
- Maintaining the environment and preserving nature is essential that humans can avoid disasters due to natural damage. Also, considering the sustainability of the next generation's life and protecting the environment is vital in all aspects of human life (Nugroho et al., 2019).

The foundation of TSR and maqashid sharia makes the building of a sharia bank consists of four pillars which include:

- Prophet (spiritual aspect), the existence of Islamic banks is to facilitate Muslims to carry out the teachings of Islam in totality (kaffah). Also, the function of the Islamic bank to serve all people to get fair, equal, and

balanced financial services based on universalism values. Therefore, Islamic banks are not only for Muslims but for all humanity as well (Amin et al., 2013; Nugroho et al., 2020)

- Profit (financial aspect) Islamic banks are business entities that can mobilize public funds based on sharia principles. Therefore, as a business entity, Islamic banks' business continuity and business reputation are vital to maintaining the trust of stakeholders (Haniffa & Hudaib, 2007; Salman & Nawaz, 2018). This is in line with the concept of sharia enterprise's theory, which states that an organization with sharia values must provide benefits for all stakeholders, not only for shareholders (Birton et al., 2015);
- People (social aspect), Islamic banks as business entities based on sharia principles also have the principle of providing benefits through poverty alleviation, increasing access to education and health for all levels of society. Therefore, the identity of the Islamic bank which is declared in the vision and mission there should be a concern for micro and small entrepreneurs (Arafah & Nugroho, 2016a; Wajdi Dusuki, 2008);
- Planet (environment aspect), the occurrence of climate change in global warming, and natural damage due to pollution and waste produced by humans have threatened human life today. Therefore, Islamic banks have a concern for environmental aspects so that they do not provide loan facilities to companies or business entities that have an impact on environmental damage (Aassouli et al., 2018; Khan et al., 2016)

Furthermore, based on the four pillars and the foundation of TSR and maqashid sharia, the existence of Islamic banks aims to provide benefits (maslahah) for all humanity and uphold the teachings of Islam in muamalah. Therefore, the climax goal of the Islamic banks of Muslims is to carry out religious teachings in totality to get falah, namely victory for the people who get safety in the world and happiness in the hereafter.

The Implementation of the Tawhid string relationship concept on the performance of Islamic Banks

The banking industry is a financial industry that requires trust capital from all stakeholders, especially the public and the government as a regulator. Furthermore, one of the efforts to gain this trust, Islamic banks need to show good performance. Furthermore, according to Bal et al. (2013) and McAdam et al. (2005), the definition of performance in a business entity is the achievement of the targets set by stakeholders in a certain period. The targets can be in the form of quantitative targets or qualitative targets. Furthermore, these quantitative and qualitative targets are used as key performance indicators (KPI) for each work unit in the business entity, which is then adjusted to the function of the work unit. For example, the accounting and finance work unit has a KPI for the production working unit. The KPI for the accounting and finance working unit has a KPI related to the accuracy of submitting financial reports.

In contrast, the production working unit has a KPI related to daily production volume. In addition, the company's main business activities can also be seen from the company's vision and mission because the vision is the long-term goal of a company or what the founders of the company want. Furthermore, the mission is the steps or methods used to achieve these goals (Farrell, 2015; Lee et al., 2013).

Islamic banks as business entities that carry out their business activities are guided by sharia principles that refer to maqashid sharia. Therefore, every Islamic bank should have the same vision to benefit the community (Maslahah). The way to achieve maslahah is adjusted to the characteristics and identity of Islamic banks as banks that have four pillars of aspects consisting of spiritual aspects, financial aspects, social aspects, and environmental aspects. Thus, depending on its characteristics, efforts to boost the performance achievement of Islamic banks focus on the micro and small business segment. In addition, the measurement of the success of the performance of Islamic banks is not only based on financial aspects (Ghayad, 2008). Nevertheless, according to Asutay (2012), Islamic values represented by spiritual aspects, social aspects, and environmental aspects should be one of the mandatory achievements of the successful performance of Islamic banks.. According to Nugroho et al. (2020), some ratios can complement the performance indicators from the financial aspect, which are currently commonly used by conventional banks and Islamic banks to measure the success of banks from the financial aspect, namely, return on assets. This ratio is called the Islamic Performance Ratio, consisting of a profit-sharing ratio, zakat performance ratio, and equitable performance ratio. The explanation of these ratios is as follows:

- Profit-Sharing Ratio (PSR), Islamic banks have different financial contracts from conventional banks. The main difference between the products of Islamic banks and conventional banks is that Islamic banks are banks that operate based on the principle of profit-sharing and have financing products based on sharia contracts. One that reflects Islamic banks as profit-sharing banks is the cooperation agreement, namely the distribution of financing through mudharabah and musharakah contracts. Mudharabah contracts and musharakah contracts are also called profit-sharing-based contracts because the installment payments are based on a ratio of income that has been agreed between the Islamic bank and the debtor. Thus, the amount of loan installments is not determined upfront, which is the practice of usury (Ghayad, 2008; Razak et al., 2011);
- Zakat Performance Ratio (ZPR), Islamic banks as banks that carry out their operations based on sharia principles must comply with sharia principles, including Sharia banks, which are required to pay taxes on the profits receive of 2.5%. Therefore, the better the ZPR, the greater the zakat payment for Islamic banks.

The amount of zakat payment will have an impact on increasing the role of Islamic banks in spiritual, social, and environmental aspects (Alam Choudhury & Syafri Harahap, 2008);

- Equitable Distribution Ratio (EDR), the ratio should be noted that the gap of internal welfare among the internal employee of Islamic banks should not occur. Therefore, the income from Islamic bank management and Islamic bank employees should not have a large gap. When there is a gap in income, rewards, and compensation, suspicion will arise among the Islamic bank employees, which has implications for the decline in productivity of Islamic bank employees. A work based on the perspective of Islam is worship because work is one of the efforts to seek happiness from Allah SWT and provide benefits for the ummah. A leader in an Islamic bank should be responsible for fairly managing all employees not only to shareholders but also to Allah SWT (Abeng, 1997; K. Khan et al., 2015; Nugroho, Hidayah, et al., 2020).

The Role of the government in supporting to achieve excellence Islamic Bank performance

One of the phenomena that can be used to discuss the role of government in improving the performance of Islamic banks is the condition of Islamic banks in Indonesia. Indonesia is a country with the most outstanding Muslim population in the world. However, the number of Islamic banking products and services is still low compared to the users of conventional banks' products and services (Djuwita & Muhammad, 2016; Sari et al., 2016). If further analyzed, the significant role of the Indonesian government in the development of Islamic banks is as follows:

- In 1992, the government allowed the first Islamic bank in Indonesia to operate. The first Islamic bank is Bank Muamalat;
- In 1998, the government, through Law No. 10 of 1998, has provided a robust legal basis for the establishment of Islamic banks to provide a strong foundation for investors to develop their business in the Islamic banking industry;
- In 2008, the government, through Law No. 21 of 2008, provided support for the operations of Islamic banks, namely strengthening the legal basis for Islamic banks to operate and develop their market share;
- In 2018, Aceh Qanun which caused all conventional banks in Aceh to be converted into Islamic banks;
- In 2021, granting a merger permit for three state-owned bank subsidiaries (Bank Rakyat Indonesia Syariah/BRIS, Bank Negara Indonesia Syariah/BNIS, Bank Mandiri Syariah/BSM) to become Bank Syariah Indonesia/BSI.

Referring to the government's efforts, the increase in market share has an impact on the Aceh Qanun policy, which requires conventional banks in Aceh to be converted into Islamic banks. Meanwhile, government policies related to the merger of Islamic banks in state-owned banks have not impacted increasing the market share of Islamic banks.

However, several issues need to be further evaluated by the government related to the merger policy of Islamic banks, which include:

- Islamic bank mergers carried out during the current Covid-19 pandemic where external conditions and unfavorable macroeconomic conditions can cause the merged bank to have the potential to experience a decline in performance;
- The merger process through the top-down mechanism seemed rushed so that in a short period of approximately three months, the Islamic banks merged so that there were no in-depth studies related to the risk exposure of each Islamic bank so that if the merger was carried out, there was the potential unfairness treatment;
- The vision of the merged Islamic bank has not yet shown the characteristics and identity of the Islamic bank. The vision of the merged Islamic bank is the top 10 global Islamic banks;
- The mission of the merged Islamic bank has not yet shown the characteristics and identity of the Islamic bank. The missions of the merged sharia bank are as follows: (i) Providing access to Islamic finance solutions in Indonesia; (ii) To become a large bank that provides the best value for shareholders; (iii) To be the company of choice and the pride of Indonesia's best talents;
- Referring to the vision and mission of the Islamic bank as a result of the merger, there are no aspects that are characteristic of Islamic banks, including social aspects, spiritual aspects, and environmental aspects.

Furthermore, to anticipate and improve the performance of Islamic banks, the Indonesian government can take the following steps:

- Create regulations that can support performance improvement, such as tax payment incentives, and facilitate the conversion mechanism of conventional banks to Islamic banks;
- Give priority to Islamic banks to finance government-owned infrastructure projects and make Islamic banks a bank for paying salaries of civil servants;
- Assisting Islamic banks in conducting socialization related to Islamic bank contracts to the public;
- Support the opening of Islamic economics and Islamic finance study programs to increase the number of prospective workers who are interested in the Islamic finance industry;

- It is making regulations that support the business focus of Islamic banks in the Micro Small Medium Enterprise (MSME) sector, such as providing incentives to Islamic banks that have a larger MSME financing portfolio ratio than non-MSME financing portfolios.

In addition to the steps mentioned above, the government program that will make Indonesia a center of Islamic finance and economy must strengthen Islamic banks in terms of assets and expand the network of Islamic banks in big cities and villages. and remote areas so that all people in all regions of Indonesia can access the products and services of Islamic banks. If necessary, the government can convert state-owned banks into Islamic banks or take corporate actions to merge PT Pegadaian with the merged Sharia Banks.

Conclusion

As banks that carry out their business activities based on sharia principles, Islamic banks must make TSR the foundation of all their business activities. Therefore, the business focus of Islamic banks must cover four aspects: spiritual aspects, financial aspects, social aspects, and environmental aspects. Furthermore, from the four focus aspects, the impact on the performance measurement of Islamic banks must be added so that indicators are not only based on financial aspects or indicators of return on assets. However, they can be equipped with Islamic Performance Ratios. In addition, the government has a vital role in advancing the development of Islamic banks in Indonesia. One of the efforts needed by the government is to convert state-owned banks into Islamic banks so that the number of networks of Islamic banks can reach people throughout Indonesia. The implication of this research is to provide input to stakeholders related to the use of performance indicators of Islamic banks, which must be equipped with the Islamic Performance Ratio (IPR).

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