

## Comparison of Sharia Banking Performance Implementation Based on Maqashid Shariah Index in Sharia Banks in Indonesia and Malaysia

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### Article Info:

#### Keywords:

Maqashid Shariah Index (MSI);  
Bank Syariah Indonesia;  
Malaysia Islamic Bank

#### Article History:

Received : August 11, 2021  
Revised : November 28, 2021  
accepted : November 29, 2021  
Available online : November 30, 2021

#### Article Doi:

<http://dx.doi.org/10.22441/jiess.2021.v2i2.006>

### Abstract:

*This study aims to analyze the performance of Islamic banking in Indonesia and Malaysia. At present, the measurement of the performance of the Islamic banking industry uses only the measurement of financial ratios (which are oriented towards shareholders). This measurement is not enough. Islamic banking needs a new paradigm in terms of measuring its performance of the which is not only limited to financial ratios. This study Applies approach the maqashid shariah index as a measurement of sharia banking performance. This type of research used in this study is comparative research. The object of this research is the Islamic banking industry, there are eight Islamic banks in Indonesia and nine Islamic banks in Malaysia that meet the criteria. The type of the data used is secondary the data in the form of financial reports / annual reports Obtained from the official website of each bank. By using the different test analysis method, it can be concluded that there is no significant difference in the variance in the performance comparison of data based on the MSI of Islamic Banks of Indonesia and Islamic Banks of Malaysia. The results showed that there was no difference between the two, during the period 2012 to 2015 the Malaysian Islamic Banks have the achievement of performance based maqashid shariah index (MSI) is no different than the Indonesian Islamic Banks.*

### Introduction

Islamic Bank as institutions that run the business based on the principles of sharia should not be directed to produce profits to ignore the social function. As an Islamic bank business institutions should be directed to achieve success in this world and hereafter. Islamic Bank has a goal to contribute to the achievement of maqashid Sharia, Islamic Bank should have a much greater purpose than simply to achieve maximum profit and also must try to realize maqsdid Sharia. (Syafei, 2013)

Islamic banking has the primary goal of achieving the benefit. The benefit of the language can be defined as usefulness, benefits, interests, welfare or al-benefit. It is claimed that there are fundamental differences between conventional banking Islamic banking in terms of goal setting.

The performance assessment of conventional and Islamic banking is usually only seen from the measurement of financial performance using ratios RGEC (Risk Profile, Good Corporate Governance, Earnings, Capital) and EVA (Economic Value Added)

If the Islamic banking using measurements together with conventional banking to measure its performance, there is no comparable value from the use of conventional banking performance indicators with larger objects contained on Islamic banking (Mohammed et al., 2015). Required an analytical tool to determine the performance of Islamic banking in Indonesia mainly to assess the performance from the standpoint of values applied sharia in Islamic banking operations daily. (Prasetyowati & Handoko, 2016)

Islamic banking has a purpose that is based on the achievement of sharia maqashid so that an assessment of interest in Islamic banks are not only judged by the intensity of the profitability as conventional banking, but also consider aspects of sharia should be taken into account in the assessment of Islamic banking company. The aspect that is shaped as an index to measure the benefit of financial institutions such as the

achievement of five parameters: Aql, Dien, Nasl, Nafs and Maal. (Nurhayati, Sri, 2016) Anything that can guarantee the fulfillment of the essence is said to be five *maslahah* and every thing that does not meet the essence is said to *mafsadah* or damage (Syafii et al., 2012). Meanwhile, according to Zahra (1997) in (Mohammed, Mustafa Omar, Taib, 2015), measurement parameters are classified into three classifications namely individualized education, the embodiment of justice and the public interest. These objectives in the economics of Islam known as *al-maqashid Al-Sharia*. This objective can be lowered to a certain standard of performance measurement aspects of its social function. In this study, the concept of *al-maqasid al-Sharia* to be used is based on the theory formulated by Abu Zahra containing three main objectives of Islamic banking.

Based on this concept, the researchers Muslims do the research to formulate a new measurement method called *maqashid Shariah Index*. This index is used to measure the performance of Islamic banking based social functions to better fit in the achievement of sharia.

Sharia *maqashid* performance measurement index (MSI) is useful in measuring the extent of achievement of the objectives of sharia that was achieved and the extent to which the quality values of sharia applied in banking. It is an aspect of the main ratings on MSI to support other performance measurement reports. MSI also consider the sustainability aspect in which the assessment indicators index is concerned with the welfare of the bank itself by measuring the ratio of interest income to the benefit of society. This is because the banks also need funds for the sustainability of operations and banking business activities. When profits from the high compared with the utilization of assets used,

This study takes the research object of sharia banking in Indonesia and Malaysia. Currently, Islamic banking in these countries grew rapidly to provide services and Islamic banking services to the public. According to the State of the Global Islamic Economy Report 2018/2019 Malaysia is ranked first in the top 15 countries in the Global Islamic Economy indicator while Indonesia is ranked the top ten. (State of the Global Islamic Economy Report 2018/2019, 2018)

Comparisons between the two countries are considered important given the two countries is a country allied with the majority Muslims in Southeast Asia and has a high rank in the development of Islamic banking world. Compliance to sharia banking is reflected by how much the values of the MSI and the third destination value sharia. This is a very important thing considered in order to provide convenience for customers and stakeholders, and fulfill the main objectives of Islamic banking based on Sharia *maqdsid*.

This research is the development of a research conducted by Muhammad Syafii Antonio, et.al (Syafii et al., 2012) on the Performance Analysis of Islamic Banking in Indonesia and Jordan. There are some differences between this study with previous research. This study uses the performance of Islamic banks in Indonesia and Malaysia. Secondly, the research conducted by previous research in the form of case studies that describe how to tally with the index *maqashid* and interpretation of the values of its *maqashid* index with quantitative descriptive approach. On the other hand this study, using a quantitative approach to statistical analysis tool to test the performance difference between the two countries *maqashid* sharia.

Based on previous studies have described the performance measurement Islamic banking can not only be measured by conventional measures, but as an Islamic institution, Islamic banking can also be measured in terms of *maqashid* Sharia to see the extent to which Islamic Bank has been carrying out the objectives of sharia well.

Based on the description of the background that have been raised, and then the problem in this research are: Is there a difference in performance implementation of Islamic banking in Indonesia and Malaysia by using *maqashid* Syariah Index (MSI) ?

## Literature Reviews

The Islamic Shari'ah is defined as the aim of Islamic law is for the good and well-being (*maslahah*) of mankind in the world and the hereafter (Nurhayati, Sri, 2016). According to Mingka (2014), the Shariah *maqashid* has the meaning of sharia goals used to create human happiness in the world and the hereafter.

Islamic law has three goals to Achieve: the purification of the soul, the upholding of justice in society, and the embodiment of human good (Zahra et al., 1997 in Mohammed et al., 2008). The purification of the soul contains the sense that human beings can play a role as a source of good for the community and its environment by performing charity worship, as it is stated in the Quran that zakat serves to purify human wealth (Triyuwono, 2006). Second is justice in society, justice covers all areas of human life Including justice from the legal, economic, and witnessing sides. The ultimate goal is to create human happiness.

Performance measurement is one part of the management control system that includes planning decisions, performance appraisals and employee operations (Syafii et al., 2012). Performance measurement is one of the tools of management to Determine the extent to the which a company has Achieved its goals, evaluating the performance and activities of the business, managers, divisions, and individuals within a company, the which is also used to predict company expectations in the future (Triyuwono, 2006). Reliable performance is one of the key factors in an organization's success. Performance measurement is usually divided into two categories : financial performance assessment and assessment of non-financial performance

The Bank's Shariah-compliant performance measurement mostly uses the same level as the conventional Bank's, the which is to calculate RGEC ratios. The maqashid Shariah Index (MSI) was developed based on three factors play: individualized education, creation of justice, and the achievement of well-being. This concept is an adaptation of the concept presented by Zahra (1997) in Mohammed and Razak. (Razak, 2008)

### Sample

Populations identified in this study are Islamic Banks in Indonesia and Malaysia for the period 2012-2015. While the sample for this study were taken by purposive sampling method. This method is used because the writer must take a sample of Islamic banking with the following considerations:

1. The Islamic banking, which is an Islamic commercial bank registered in Bank Indonesia and Malaysia since 2012-2015.
2. The data required in the study are available in full in the Annual Report and other sources that can be accessed by the author.

Based on the above considerations, the authors determine to take a number of 8 samples from a total of 11 Islamic Banks in Indonesia and 9 samples from a total of 16 Islamic Banks in Malaysia during the years 2012-2015.

## Results and Discussion

### Independent Test Results Sample t - Test

#### a. Purpose Maqashid Shariah that in terms of education

The first objective in maqashid This index has four aspects: education, research, training and publicity.by using teststatistically independent sample t-test, comparing the results obtained as follows:

**Table 1: Group Statistics**

	COUNTRY	N	mean	Std. deviation	Std. error Mean
EDUCATION	INDONESIA	8	.00288425	.001408485	.000497975
	MALAYSIA	9	.00573044	.009055039	.003018346

In Table 1 shows that the Indonesian Islamic Banks have average - average (mean) for education.00288425 different than the average - average (mean) Islamic Banks in Malaysia amounted to .00573044. It is concluded that during the period 2012 to 2015 the Malaysian Islamic Banks have MS1 achievement of educational goals is different than the Indonesian Islamic Banks.

#### b. Purpose Shariah Maqashid the terms of Delivering Justice

**Table 2: Group Statistics**

	COUNTRY	N	mean	Std. deviation	Std. error Mean
JUSTICE	INDONESIA	8	.18945200	.015201475	.005374533
	MALAYSIA	9	.20421611	.047124994	.015708331

In Table 2 shows that the Indonesian Islamic Banks have average - average (mean) justice for.18945200 different than the average - average (mean) Islamic Banks in Malaysia amounted to .20421611. It is concluded that during the period 2012 to 2015 the Malaysian Islamic Banks have the achievement of the goal of achieving justice MS1 is different than the Indonesian Islamic Banks.

#### c. Purpose Realizing that reviewed Shariah Maqashid Public Welfare

**Table 3: Group Statistics**

	COUNTRY	N	mean	Std. deviation	Std. error Mean
WELFARE	INDONESIA	8	.05840100	.051385203	.018167413
	MALAYSIA	9	.04574322	.035283385	.011761128

In Table 3 shows that the Indonesian Islamic Banks have average - average (mean) for public welfare.05840100 no different than the average - average (mean) Islamic Banks in Malaysia amounted to .04574322. It is concluded that during the period 2012 to 2015 Indonesian Islamic Banks have MS1 attainment of the purpose of the public welfare is not different compared to the Malaysian Islamic Banks.

#### d. Maqashid Shariah Index (MSI) Islamic Banks and Islamic Banks Malaysia

Maqashid shariah index (MSI) was developed by three major factors that are universal. The third measure of the performance of Islamic banking requires to be able to design education and training programs that include moral values so that the bank is able to raise the skills of employees. Aspects of justice require that the bank must be honest and fair in operation as well as the need to develop an investment that can improve people's welfare.

**Table 4: Group Statistics**

	COUNTRY	N	mean	Std. deviation	Std. error Mean
MSI	INDONESIA	8	.25073725	.043748242	.015467339
	MALAYSIA	9	.25568989	.063833311	.021277770

In Table 4 shows that the Indonesian Islamic Banks have average - average (mean) MSI for.25073725 no different than the average - average (mean) Islamic Banks in Malaysia amounted to .25568989. It is concluded that during the period 2012 to 2015 Indonesian Islamic Banks have the achievement of performance in terms of MS1 is no different than the Malaysian Islamic Banks.

#### Hypothesis testing

**Table 5: Independent Samples Test**

		Levene's Test for		t-test for Equality of Means						
		Equality of		t	df	Sig. (2-tailed)	mean Difference	Std. error Difference	95% Confidence Interval of the Difference	
		F	Sig.						Lower	Upper
EDUCATION	Equal variances assumed	5,081	.040	-.877	15	.395	-.002846194	.003247110	-.009767246	.004074858
	Equal variances not assumed			-.930	8,434	.378	-.002846194	.003059149	-.009837875	.004145487
JUSTICE	Equal variances assumed	15 649	.001	-.845	15	.411	-.014764111	.017467514	-.051995235	.022467013
	Equal variances not assumed			-.889	9829	.395	-.014764111	.016602328	-.051843973	.022315751
WELFARE	Equal variances assumed	2,102	.168	.598	15	.559	.012657778	.021159032	-.032441631	.057757186
	Equal variances not assumed			.585	12,219	.569	.012657778	.021642066	-.034402698	.059718253
MSI	Equal variances assumed	2,002	.177	-.184	15	.856	-.004952639	.026907131	-.062303831	.052398553
	Equal variances not assumed			-.188	14 167	.853	-.004952639	.026305552	-.061309938	.051404660

Source: SPSS data that have been processed, 2019

From table 5 can be seen F count for Education variables with aqual variances assumed (assumed to be two variants of the same) was 5,081 with a probability of 0.040. Since the probability of data <0.05, then it can be said that there are differences in the variance in the data comparison of the performance of Indonesian Islamic Banks with Islamic Banks for Education variables.

From table 4.5 can be seen F count for variable Realize Justice with a equal variances assumed (assumed to be two variants of the same) is 15 649 with a probability of 0.001. Since the probability of data  $< 0.05$ , then it can be said that there are differences in the variance in the data comparison of the performance of Indonesian Islamic Banks with Islamic Banks to Realize Justice variables.

From table 4.5 can be seen F count for variable Achieve Prosperity with a equal variances assumed (assumed to be two variants of the same) was 2,102 with probability .168. Since the probability of data  $> 0.05$ , it can be said that there is no difference in the variance in the data comparison of the performance of Indonesian Islamic Banks with Islamic Banks to Achieve variables Public Welfare.

From table 4.5 can be seen F count for MSI variables with a equal variances assumed (assumed to be two variants of the same) was 2,002 with probability .177. Since the probability of data  $> 0.05$ , it can be said that there is no difference in the variance in the data comparison of performance based MSI Indonesian Islamic Banks with Islamic Banks for MSI variables.

## Discussion

Based on research that has been done, it is known to comparison maqashid premises syariah Islamic Banks and Islamic Bank Malaysia. Here are the results obtained from all of the variables in accordance with the hypothesis of the study.

### 1. Comparison Maqashid Syariah Islamic Banks in Indonesia with Malaysia Islamic Bank in terms of education

The first hypothesis states that there are differences in the performance of Indonesian Islamic Banks in Malaysia Islamic Banks in terms of education during the period 2012 to 2015.

The results showed that there were differences between the two, during the period 2012 to 2015 the Malaysian Islamic Banks have the achievement of performance based maqashid syariah terms of the purpose of education is higher than the Indonesian Islamic Banks. Performance of Islamic banking in Indonesia by using maqashid index on aspects of education on average is 0.29%, while the Malaysian Islamic banks is 0.57%.

### 2. Comparison Maqashid Syariah Islamic Banks in Indonesia with Malaysia Islamic Bank in terms of Realize Justice.

The second hypothesis states that there are differences in the performance of Indonesian Islamic Banks in Malaysia Islamic Banks in terms of Mewujudkan Justice during the period 2012 to 2015.

The results showed that there were differences between the two, during the period 2012 to 2015 the Malaysian Islamic Banks have the achievement of performance based maqashid syariah terms of the goal of achieving justice higher than the Indonesian Islamic Banks. Performance of Islamic banking in Indonesia to the aspect of justice on average is 18.95%, whereas in Islamic banks in Malaysia amounted to 20.42%.

### 3. Comparison Maqashid Syariah Islamic Banks in Indonesia with Malaysia Islamic Bank in terms of Delivering Public Welfare.

The third hypothesis states that there are differences in the performance of Indonesian Islamic Banks in Malaysia Islamic Banks in terms of Realizing Public Welfare during the period 2012 to 2015.

The results showed that there was no difference between the two, during the period 2012 to 2015 the Malaysian Islamic Banks have the achievement of performance based maqashid syariah terms of the goal of achieving well-being is no different than the Indonesian Islamic Banks. Performance for the welfare aspects of Islamic bank in Indonesia on average is 5.84%, while Malaysia amounted to 4.57%.

### 4. Comparison Maqashid Syariah Index (MSI) Islamic Banks in Indonesia with Bank Syariah Malaysia

The fourth hypothesis states that there are differences in the performance of Indonesian Islamic Banks in Malaysia Islamic Banks in terms of Maqashid Syariah Index (MSI) for the period 2012 to 2015.

The results showed that there was no difference between the two, during the period 2012 to 2015 the Malaysian Islamic Banks have the achievement of performance based maqashid syariah index (MSI) is no different than the Indonesian Islamic Banks. Performance of Islamic banking in Indonesia by using index maqashid years 2012-2015 the average was 25.07%. Performance of Islamic banking in Malaysia by using maqashid index is 25.57%.

## Conclusion

This study aims to measure and compare the performance of Islamic banking in Indonesia and Malaysia for the period 2012-2015 using maqashid syariah index. Based on the results of research and data analysis discussed above, the conclusion that can be drawn from this study are:

1. There are differences between Indonesian Islamic Banks and Bank Syariah Malaysia during the period 2012 to 2015 in the achievement of performance based maqashid syariah terms of the purpose of education, Islamic Bank of Malaysia showed an index higher than the Indonesian Islamic Banks. Performance of

Islamic banking in Indonesia by using maqashid index on aspects of education on average is 0.29%, while the Malaysian Islamic banks is 0.57%.

2. There are differences between Indonesian Islamic Banks and Bank Syariah Malaysia during the period 2012 to 2015 in the achievement of performance based on shariah maqashid justice in terms of destinations where Malaysia Islamic Bank showed an index higher than the Indonesian Islamic Banks. Performance of Islamic banking in Indonesia to the aspect of justice on average is 18.95%, whereas in Islamic banks in Malaysia amounted to 20.42%.
3. There were no differences between Indonesian Islamic Banks and Bank Syariah Malaysia during the period 2012 to 2015 in the achievement of performance based maqashid shariah terms of the goal of achieving well-being, the index achieved both can be said to be not much different. Performance for the welfare aspects of Islamic bank in Indonesia on average is 5.84%, while Malaysia amounted to 4.57%
4. There were no differences between Indonesian Islamic Banks and Bank Syariah Malaysia during the period 2012 to 2015 in the achievement of performance based maqashid Shariah Index (MSI). Performance of Islamic banking in Indonesia by using index maqashid years 2012-2015 the average was 25.07%. Performance of Islamic banking in Malaysia by using maqashid index is 25.57%.

### Acknowledgment

1. For investors and prospective investors, should include criteria for Shariah compliance in every decision will be taken.
2. For the banks in order to give more attention to the disclosure aspects of shari'a and continued to maintain operational systems are in accordance with Islamic principles.
3. For further research
  - a) Expected to be examined overall Islamic banking in Indonesia and Malaysia in order to gain a better conclusion.
  - b) Expected to measure all the ratios that exist in maqashid method shariah index.
  - c) Expected to add the period of study or sharia segment more, such as insurance companies and pawnshops sharia.

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