

ANALYSIS OF ISLAMIC BANKING EFFICIENCY USING MAQASHID SHARIAH APPROACH (STUDY ON ISLAMIC BANKS IN INDONESIA AND MALAYSIA)

Novi Puspitasari, Devi Hardiyanti Rukmana, Hari Sukarno

¹University of Jember, Jl. Kalimantan 37 Jember, 681121, Jember, Indonesia

²University of Jember, Jl. Kalimantan 37 Jember, 681121, Jember, Indonesia

³University of Jember, Jl. Kalimantan 37 Jember, 681121, Jember, Indonesia

ABSTRACT

This research aims to analysis of Islamic banking efficiency in Indonesia and Malaysia based on maqashid syariah approach. This research used individual education, creation of justice, and achievement of welfare to measure the efficiency variable. The research period was covered from 2011 to 2015 using data envelope analysis (DEA). The result showed that there were three (3) Islamic banking which reached efficient in Malaysia. They were Affin Islamic Bank Berhad which achieved efficiency in terms of distribution and profitability output, CIMB Islamic Bank achieved efficiency in terms of distribution output, and RHB Islamic Bank Berhad achieved the efficiency in terms of Distribution output. Meanwhile, there were two (2) Islamic banking which got efficient level in Indonesia. They were Bank Panin Syariah achieved efficiency level based on Distribution output and Bank Mega Syariah which got efficient based on output of Profitability and Personal Revenue output.

Type of Paper : Empirical

Keywords : Islamic banking, Efficiency, Maqashid Shariah, DEA

1. Introduction

Islamic banking as a business entity is not only required to pursue profit but also must account for all activities to Allah SWT. This is embodied in the concept of Shariah Enterprise Theory which declares God as the creator and the sole owner of all the resources that exist in this world. Allah is the source of the main mandate and resources owned by the stakeholders. The resource contains a responsibility to the use, manner and purpose set by the Giver of Amanah (Triyuwono, 2004). Islamic banking in carrying out its functions and objectives as a sharia entity should be based on the concept of sharia goals or known as maqashid syariah. Sahroni and Karim (2015) state that every maqasid (goal) in the maqashid syariah is any mashlahat either in the form of achieved benefits or mudharat that is avoided. The substance of maqashid syariah is mashlahat.

Islamic banking has a mandate to account for all its performance that is interpreted in the financial statements and other supporting reports as a tool to evaluate the company's performance for a period. Assessment of the performance of Islamic banking based on CAMELS financial ratios (Capital, Asset, Management, Earning, Liquidity, and Sensitivity of Market Risk) and EVA (Economic Value Added) has some disadvantages. First, by making financial ratios, the primary determinant of banking performance appraisals will make managers act on a short-term basis and ignore long-term plans. Second, neglecting aspects of nonfinancial measurements and fixed assets will provide a false view for bank managers both present and future. Third, the performance of banks based solely on past financial performance has not been able to bring the company to achieve its goals in the future (Antonio et al., 2012).

In line with maqashid syariah, to measure the performance of Islamic banking, it needs a measurement of financial performance that is different from conventional banking financial performance measurement. The assessment of Islamic banking performance requires financial measurement that reflects its sharia objectives. Mohammed et al (2008) formulate a concept of Islamic banking finance measurement with a maqashid syariah approach called performance measure of maqashid syariah (PMMS). The concept of PMMS is the concept combination of maqashid shari'ah Ibn Ashur with Abu Zahrah. The thought of Abu Zaharah (1997) regarding maqashid syariah of Islamic banking is contained in three main objectives to be achieved: (i) individual education (Tahdzibul al-Fard), (ii) creation of justice (Iqamah al-'All) and (iii) welfare (Jalb al-Maslahah) (Mohammed et al, 2008).

Research related to performance measurement with the maqashid syariah framework has been done by several researchers; some of them were Mohammed and Taib (2010), Antonio et al (2012), and Jazil and Syahrudin (2013). They described that PMMS is getting known but it is still conducted for measuring the performance of Islamic banking and no one has used it to measure Islamic banking efficiency. This research used variables in PMMS to measure the banking efficiency. The measurement of efficiency was generally done by quantitative approach that used numbers and statistical tools. Efficiency means doing something right, precise and accurate, efficiency is emphasized on savings in the use of inputs to produce a particular output (Tasmara in Mukhotib, 2008).

The principle of efficiency can be said also how much goods or capital can be utilized for other needs and purposes, how much we can avoid the things that are not useful, which in Arabic is called mubadzir. Efficiency is a mission undertaken by government institution, in

this case Bank Indonesia, to realize the vision of the Directorate of Islamic Banking. The mission is the realization of Islamic banking system that is healthy, strong and istiqamah based on sharia principles in the framework of justice, benefit and balance, to achieve a material prosperous society and spiritual (falah) (Bank Indonesia, 2012)

Islamic banking in Indonesia has been around for 25 years with a dynamic level of development from year to year. Syariah banking in Indonesia recorded a fairly good development in the year of 2000 – 2013. This period was recorded to have total offices of commercial banks and sharia business units of 2588 offices. In 2014 and 2015, however, declined, 2014 fell to 2438 and in 2015 fell to 2301 (Financial Services Authority, 2015). Despite the decline in the number of BUS and UUS offices, there has been an increase of 41,393 workers in 2014 to 51,413 in 2015. This condition may render inefficient in sharia banking operations for the future due to the decrease in the number of BUS and UUS offices followed by increase in the number of workers.

Meanwhile, Malaysia implements an Islamic economic system but there are differences in achievement by both countries. Malaysia became the top-ranked country for the Islamic Economics Indicator in 2013 – 2015 based on ratings released by Thomson Reuters ((<https://www.slideshare.net/EzzedineGHLAMALLAH/state-of-the-global-islamic-economy-report-201617>)). The possible cause of this was due to the political will of both countries. Since the beginning of the implementation of Islamic economics in Malaysia is the official policy of the Malaysian state government (top down policy). The Malaysian government strongly supports the implementation of Islamic economics in all sectors.

This research aims to analyze the efficiency of Islamic banking in Indonesia and Malaysia using maqashid syariah approach. It was done to determine whether the Islamic banking in both countries was efficient on the components contained in the PMMS. The research benefits were (1) to provide new information in Islamic banking using *maqashid syariah* approach to measure efficiency, (2) to give input to Islamic bank which was a research sample on the achievement of efficiency level or not yet achieved in order to realize better efficiency (3) as a new reference for researchers in the field of Islamic finance related to the PMMS and the efficiency of Islamic banks. This research used data envelope analysis (DEA) to answer the research objectives.

2. Literature Review

Shari'ah enterprise theory is the development of enterprise theory. Shari'ah enterprise theory is proposed by Triyuwono (2001) because it considers enterprise theory is not fully in accordance with Islamic values and sharia objectives. Therefore, enterprise theory, according to Triyuwono (2001), needs to be modified; so that, it will be in line with the values of sharia, by basing on the values of justice, honesty, trust, and responsibility. Triyuwono (2001) argues that the most important axiom that should be underlying in any shari'ah enterprise theory determination is God as the creator and the sole owner of all resources in the world. God is the main source of trust and resources owned by stakeholders. These resources are inherent responsibility in its use, the manner and purpose set by the Giver of Amanah. The form of the mandate of sharia accounting manifests itself in accountability.

The spirit of Islamic disclosure in the shari'ah enterprise theory concept is actually a form of the realization of the sharia goals (maqashid syariah) in the practice of business entities. Maqashid Shariah is incorporated from the word maqashid and shariah. Maqashid is the plural form of the word maqshad which means purpose; whereas shari'a is anything that Allah has established and explained to His servants both relating to matters of faith and law (Mustafa, 2012). The substance of maqashid shariah is mashlahat. Sahroni and Karim (2015: 42) explain in his book that maqashid shariah or maslahat has two positions. First, maslahat is one of the law sources, especially in the problem which is not explained in the text. Maslahat becomes very important because the provision of jurisprudence related to many sharia businesses that are not explained in Al-Quran and Al-Hadist. Therefore, the arguments maslahat like maslahat mursalah, sad dzarai ', urf and so forth are an important legal sources. Second, maslahat is the target of law, then every result of ijthad and sharia law must be ensured to fulfill the aspect of maslahat and human intention. In short, maslahat becomes product indicator of ijthad.

Maqashid shariah must be implemented in sharia financial practice. One of them is in sharia banking practice; thus, measuring the performance of sharia banking needs to be adjusted with the purpose of sharia. The concept of performance measurement with the maqashid syariah approach is proposed by Mohammed et al (2008) and Antonio et.al (2012). This research referred to the proposed maqashid shariah of Antonio et al (2012). It was based on the researcher's thinking that the distribution function was preferred in the sharia objective of an Islamic financial institution, which was an important component in the application of Islamic Economy which must prioritize the existence of the distribution function to achieve

the benefit in the world and the hereafter. Table 1 contains the complete goals, dimensions, elements, and measurement ratios proposed by Antonio et al (2012).

Table 1. The Operational of Maqashid Shariah of Islamic Bank

Objective	Dimensions	Elements	Performance Ratios	Source of data
1.Educating Individual	D1.Advancement Of Knowledge	E1.Education grant	R1. Education grant/total income	Annual Report
		E2. Research	R2. Research expense/total expense	Annual Report
	D2. Instilling new skills and improvements	E3 Training	R3. Training Expense/total expense	Annual Report
	D3. Creating Awareness of Islamic banking	E4 Publisity	R4. Publicity expense/total expense	Annual Report
2.Establishing Justice	D4. Fair dealings	E5. Fair Returns	R5. Profit Equalization Reserves (PER)/Net or Investment Income	Annual Report
	D5.Cheap product and Services	E6.Functional Distribution	R6. Mudharabah and Musharakah Modes/Total Investment Modes	Annual Report
	D6. Elimination of negative lements that breed injustices	E7. Interest free product	R7. Interest free income/ total income	Annual Report
3.Public Interest	D7. Profitability	E8. Profit ratios	R8.Net profit/ total asset	Annual Report
	D8. Redistribution of income & wealth	E9. personal income	R9. Zakah/ Net Income	Annual Report
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment deposit/total deposit	Annual Report

3. Research Methodology

This research was quantitative descriptive research. The research population was Islamic banks in Indonesia which has registered in Bank Indonesia and Islamic bank in Malaysia which has registered in Bank Negara Malaysia from 2011 to 2015. The sample was chosen by using purposive sampling method. The criteria were Islamic bank having complete financial report during 2011 – 2015. Based on sample selection criteria, it was elected 11 Islamic banks in Indonesia; they were Bank Jabar Banten Shariah, Bank Maybank Shariah, Bank Mega Shariah, Bank Muamalat Indonesia, Bank Panin Shariah, Bank Shariah Bukopin, Bank Shariah Mandiri, Bank Victoria Shariah, BCA Shariah, BNI Shariah, BRI Shariah. Meanwhile, it was elected 9 Islamic bank in Malaysia; they were Affin Islamic Bank Berhad, Al Rajhi Banking & Investment Corporation (Malaysia) Berhad, Asian Finance Bank Berhad, Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, HSBC Amanah Malaysia Berhad, OCBC Al-Amin Bank Berhad, RHB Islamic Bank Berhad, Standard Chartered Saadiq Berhad.

This research used secondary data obtained from annual financial reports in the period of 2011 – 2015 which have been audited through the official website of Bank Indonesia (www.bi.go.id) and Malaysian state bank (www.bnm.gov.my). This research used data envelope analysis (DEA) with DEAOS where required input and output variables. The identification of input and output variables of this research were as follows:

1. The input variables: Educational Grant, Research and Training Costs, and Publicity Cost
2. The output variables: Distribution, Profitability, and Personal income

The measurement scale of the research variables is summarized in Table 2.

Table 2. Variable Measurement Scale

No	Variable names	Measurement	Scale
1	Education Grant	Education Cost	nominal
2	Research and Training	Total of Research and Training Cost	nominal
3	Publicity	Publicity Cost	nominal
4	Distribution	Mudharabah and Musharakah Financing	nominal
5	Profitability	Net Income	nominal
6	Personal Income	Employezakah	nomina

4. Results

Table 3 shows the achievement of efficiency in Islamic banking in Indonesia and Malaysia during 2011-2015. Based on Table 6, it was known that Islamic banks in Indonesia which has reached 5 years efficiency level were Bank Panin Syariah based on the Distribution output and Bank Mega Syariah based on the Profitability and Personal Revenue output. While Islamic banks in Malaysia achieving 100% efficient were Affin Islamic Bank Berhad based on the Distribution and Profitability output and CIMB Islamic Bank Berhad and RHB Islamic Bank Berhad based on the Distribution output.

Table 3. Summary of Efficiency Levels on Islamic banks in Indonesia and Malaysia in Review of 3 Outputs from 2011 to 2015

Name of Islamic Bank	<i>Output</i>		
	Distribution	Profitability	Personal Income
<u>Indonesia</u>			
Bank Panin Shariah	100%	-	-
Bank Mega Shariah	-	100%	100%
<u>Malaysia</u>			
Affin Islamic Bank Berhad	100%	100%	-
CIMB Islamic Bank Berhad	100%	-	-
RHB Islamic Bank Berhad	100%	-	-

5. Discussion

The result showed that Bank Panin Shariah could maintain the efficiency level during 2011 - 2015 in terms of the distribution variable that was financing activity of syaria bank using *mudharabah* and *musyarakah* contract. The efficient value reached 100% which means that the cost incurred by Islamic bank in the form of tuition, research and training cost has made Islamic bank be able to do *mudharabah* and *musyarakah* financing maximally. It indicated that the educated employees have gained knowledge about the purpose of sharia in the realization of implementing justice among the people realized by financing by using *mudharabah* and *musyarakah* contracts. *Mudharabah* and *musyarakah* financing was a financing for a joint business between the bank and the customer in accordance with the terms and conditions that have been determined. Efforts made by both parties were expected to obtain results that would be divided between banks and financing customers. The concept of profit sharing was the manifestation of justice sense in the maqashid sharia of an Islamic financial institution.

The other Islamic bank in Indonesia achieving 100% efficient value was Bank Mega Syariah. However, the achievement of efficient value by Bank Mega Syariah was reviewed by the variable profitability and personnel income. The profitability variables in this research were measured by the net profit earning, while personal income was measured by the value of zakah paid by employees and customers. The existence of efficient value reaching 100% for this profitability variable showed that Bank Mega Syariah has been able to maximize the cost incurred to generate net profit very efficiently. Bank Mega Syariah spent much the cost of education, research, training, and publications but it could increase the net profit of Islamic banks.

Employees who have got additional education and training would have knowledge of Islamic bank operations. Thus, the employees could provide understanding and explanation to the customer; so that, customers became happy and loyal. Bank Mega Syariah promoted maximally on products and programs that have passed the previous research stage. The research phase was needed to know exactly what products and programs were able to accommodate customers needed. Customers and communities used the products and programs offered by Bank Mega Syariah; so that, net income could be achieved with maximum value. Net profit was the manifestation of the general interest of maqashid shariah Islamic financial institutions distributed to the parties involved in Islamic bank operations. Net income was net proceeds after deducting operating expenses

including employee salaries and taxes. This net profit would be shared to the parties contributing in the business run by Islamic banking. The government also obtained the distribution share of profits through taxes paid by Islamic banks according to the prevailing tax rules.

Zakah showed that a person had an income because zakah was paid 2,5% of the income received by the employee. Islamic banking also has managed zakat received from business income of customers. Zakah was a manifestation of the public interest by redistributing the income and welfare obtained from both employees and customers of Islamic banks. It would be managed in accordance with the rules and laws of zakat in Islam. Zakah would be distributed to the eight categories of recipients of zakah where the recipient of zakat was not directly involved in Islamic bank operations. The profitability and personnel income variables were in line with the concept of shariah enterprise theory which stated that the company was responsible to the stakeholders either directly or indirectly contributing to the company's activities.

Meanwhile, Islamic banks in Malaysia achieving 100% efficient value in terms of distribution variable achieved by Bank Affin Islamic Bank Berhad, CIMB Islamic Bank Berhad, and RHB Islamic Bank Berhad. The number of Islamic banks achieving 100% efficient based on distribution variables was more than with Islamic banks in Indonesia. Based on these results, it could be concluded that Islamic banks in Malaysia more focused to realize the goal of sharia in terms of distribution of property through financing programs with *mudharabah* and *musharakah* contracts. It was understandable because the three banks were owned by the Malaysian government which strongly supported the practice of Islamic economics as evidenced by the implementation of the Islamic Economy system in Malaysia as the government policy.

Affin Islamic Bank Berhad also achieved 100% efficiency in terms of profitability variable. It showed that Affin Islamic Bank Berhad was able to maximize the cost of publicity, education, research and training to get maximum net profit. Affin Islamic Bank Berhad has been able to realize the maqashid sharia of Islamic bank institution. Achieving efficiency of 100% net profit provided evidence that Islamic banks embodying the maqashid sharia in its operations were still able to generate efficiency for the achievement of net profit bank. Therefore, Islamic banks must be convinced that the implementation of maqashid shariah would give maximum results and even oriented not only on worldly profits but also as an investment for the afterlife.

6. Conclusion

Islamic banks in Indonesia that reached the level of efficiency were Bank Panin Shariah and Bank Mega Shariah. Bank Panin Shariah achieved an efficiency level in terms of Distribution output, and Bank Mega Shariah achieved the Profitability output and Personal Revenue output. Meanwhile, Islamic banks in Malaysia which achieved efficiency were Affin Islamic Bank Berhad, CIMB Islamic Bank Berhad, and RHB Islamic Bank Berhad. Efficiency achieved by Affin Islamic Bank Berhad in terms of output Distribution and Profitability output, while CIMB Islamic Bank Berhad and RHB Islamic Bank Berhad achieve efficiency level in terms of Distribution output. Next researcher should try to research on the scale of the population and extend the period of research to provide results that can illustrate the level of efficiency achieved by Islamic banks more comprehensively. Islamic banking population has a limited number, so it is possible to obtain complete data.

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