

The Development of *Maqasid Shari'ah*-based Performance Measurement of Islamic Banks: A Review

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Abstract. This paper reviews and revisits the existing studies on the development and application of *Maqasid Shari'ah-based* in measuring Islamic banks' performance. At present there is very limited rigorous research on the application of *Maqasid Shari'ah* and the performance of Islamic banks. Despite this situation, past empirical papers relating to the application of *Maqasid Shari'ah* in measuring the performance of Islamic banks were selected for review and analysis. The literature review shows that the past study on the development of the *Maqasid Shari'ah-based* in measuring the performance of Islamic banks primarily refers to the pioneering work of Mohammed et al. (2008) and the development of the *Maqasid Shari'ah-based* index mostly focus on the component of necessities of the *Maslahah*. There is a dearth of study that provides empirical evidence on the Islamic banks' performance using the *Maqasid Shari'ah-based* index and measurement. This paper addresses the pattern and literature gaps on the past study on the *Maqasid Shari'ah-based* performance measurement that would serve the interest of the academic researchers, practitioners, regulators, and policymakers in reviewing Islamic banks' performance in attaining the objectives of *Shari'ah*.

Keywords: Islamic Banks, Performance, *Maqasid Shari'ah*

1 Introduction

Despite the unsustainability of the first Islamic interest-free bank, Mit Ghmar, Egypt, that was established in 1963, the Islamic banking industry has been growing tremendously across the globe. The Mit Ghmar project serves as a kickstart for the development of the Islamic banking industry. An inter-governmental Islamic bank Islamic Development Bank was later established in 1975 in the effort to promote social and economic growth in the member countries and Muslim communities across the globe. Today, the Islamic banking industry is the major player of the Islamic finance industry in

which it contributes about 69% of the total assets or USD 1,993 billion of the global Islamic finance industry with annual growth of 14%, consisting of 526 Islamic banks, including windows, in 72 countries across the world. Currently, Islamic banks' assets contribute 6% to the total global banking assets [1]. It has been growing fast and tremendously in contributing to the economic and social sectors.

Along with the Islamic banking industry's growth, Islamic banks need performance measurement that depicts Islamic banks' true performance in achieving their mission and vision since Islamic banks have different concepts and practices from the conventional banks [2]. Nevertheless, the debate on the ideal measurement of Islamic banks' performance has been prolonging for many years. Islamic banks are overwhelmed with the issue of inadequate and insufficient performance measurements that could cater to their unique characteristics and aberrant features. Most of the past studies focus using financial performance using similar measurements that have been used in measuring the performance of conventional banks, including ratios of profitability, efficiency, earnings, liquidity, credit risk and assets activity [3-20]. These measures, however, lack and insufficient in capturing the unique philosophies and principles of Islamic banks have achieved the *maqasid Shari'ah*. Islamic banks also need performance measurement that could cater to both shareholder and stakeholder interest in the forms of financial and non-financial ratios [21]. Islamic banking principles are underpinned by Islamic economic philosophy derived from *Shari'ah*, where the sources are divine revelations are from the Quran and Sunnah. Thus, the vision and mission of Islamic banks' business activities should be aligned towards attaining the objectives of *Shari'ah* (*maqasid Shari'ah*) [22].

However, there is still a dearth of literature concerning the usage of *maqasid Shari'ah* in Islamic banks' performance measurements. Past research on the performance measurements of Islamic banks is basically still tied to the measurements that have been used in measuring the performance of conventional banks. Hence, it is believed that *maqasid Shari'ah* shapes a critical influence on Islamic banks' performance as the Islamic banks' core business strives to offer the financial products and services that are *Shari'ah* compliance. Therefore, with the apparent relation between *maqasid Shari'ah* and Islamic banks, this study reviews the application of the *maqasid Shari'ah* explicitly relating to the development of performance measurements of Islamic banks.

2 Definition of Maqasid Shari'ah

The term *maqasid* is a plural word of the word *maqṣad* (singular) which literally means purpose, goal and objective [21]. Thus, the term *maqasid Shari'ah* means the purposes, goals or objectives of *Shari'ah*. Al-Ghazali states that the ultimate objective of *Shari'ah* encompasses the safeguarding these five cores which faith (*din*), self (*nafs*), intellect (*'aql*), posterity (*nasl*) and wealth (*mal*) that are considered as primary (*al-asliyyah*) in which others are referred as corollaries (*tabi'ah*) [21]. The omission of these five cores will bring harm to society. Al-Ghazali emphasizes the importance of preserving the *maqasid Shari'ah* as the fundamental meaning of *maslahah* [23]. Al-Shatibi further

interpreted the work of Al-Ghazali and classified it into three categories which are essential (*daruriyat*), complementary (*hajiyat*) and embellishment (*tahsiniyat*). The essential consists of those five elements: faith, life, intellect, posterity, and wealth that are regarded as necessary for the proper functioning of people's religious and ordinary affairs. The complementary complements the essential part whereby it is needed to alleviate the hardship and the embellishment refers to the those that lead to the refinement and perfection in the customs and conduct of people at all levels of achievement [24].

Meanwhile, according to Ibn Ashur, two general elements underlie *maqasid Shari'ah* which are the promotion of welfare (*jalb al-masalih*) and evasion of evil (*dar'a al-mafasid*) in which it clearly covers the promotion of welfare, combat against corruption, prudent usage of natural resources and enhancement of Islamic lifestyle [25]. Ibn Ashur's definition of *maqasid Shari'ah* foregathers the final objective of Islam whereby the benefits of individuals are guaranteed in the society that is guarded with the highest level of welfare [26]. Therefore, the authors further add those Islamic financial institutions, including Islamic banks, are supposed to be aligned with the *maqasid Shari'ah* as these institutions have idiosyncratic features such as elimination of interest, pursuance of public interest, nurturing economic well-being, promotion of social and economic justice and equitable distribution of income which are encompassed in the *maqasid Shari'ah* [26]. Abu Zahra extends the *maqasid Shari'ah* by including the components of education and justice and categorizes *maqasid Shariah* into three broader categories which are educating the individual (*Tahdhib al-Fard*), the establishment of justice (*Iqamah al- Adli*), and promotion of public interest (*al-Maslahah*) [27, 28, 29]. The promotion of public interest covers the components of complementary (*hajiyat*), necessity or essential (*daruriyat*) and embellishment (*tahsiniyat*) [26, 29].

3 *Maqasid Shari'ah*-based Performance Measurement and Islamic Banks

The previous research on Islamic banks' performance is still scarce and limited. Still, there is also a lack of studies investigating the elements of *maqasid Shari'ah* in the performance measurement of Islamic banks [21]. Moreover, none of the previous studies on the Islamic banking performance measurement combine both financial and religious aspects that are related to the characteristics of Islamic banks. Both performance measurement and the objective have a direct relationship; hence, *maqasid Shari'ah*-based performance measurement is essential in determining whether Islamic banks have achieved their ultimate objectives of *Shari'ah* [29].

A work of Mohammed et al. [27] pioneer the development of *maqasid Shari'ah*-based of performance measurement of Islamic banks named *maqasid* index (MI). Based on Abu Zahrah's theory of *maqasid Shari'ah*, the variables are assigned the weightage using Simple Additive Weighting based on three objectives: educating individuals, establishing justice, and promoting welfare, after the validation of items by the scholars. Their MI was further tested on the six selected banks from various countries. The findings showed that different banks perform highest in each of the seven performance ra-

tios, alternatives, and performance indicators, indicating the inconsistency of the individual Islamic bank's focus on the overall *Shari'ah* objectives. However, the MI does not consider the element of profitability and efficiency that are also imperative to measure the Islamic bank's financial performance.

Mohammed et al. [21] develop *Maqasid* based Performance Evaluation Model (MPEM) using the Al-Ghazali theory of *maqasid Shari'ah* and Ibnu Ashur's reinterpretation. Ibnu Ashur relates the interpretation of *maqasid* with the *masalih* or public interest. Al-Ghazali's framework focused on the human being as the subject of *maqasid*, which might not be applicable to an institution such as Islamic banks. Thus, the author adopts Ibnu Ashur's theory of *maqasid* for the interpretations and institutional elements that suit the MPEM. Al-Ghazali's dimensions of preservation of faith are synchronized with the element of freedom of faith, preservation of life is synchronized with the preservation of human dignity and protection of a human right, preservation of intellect is synchronized with the propagation of scientific thinking and avoidance of brain drain, preservation of progeny is synchronized with the family care, and lastly, preservation of wealth is synchronized with the elements of the well-being of society and minimizing income and wealth disparity, respectively. The appropriate ratios have been assigned to measure all those elements.

The past literature shows that the performance measurement index's development based on *maqasid Shari'ah* is developed following the same qualitative approach [28, 29, 34]. Using this approach first started with the literature review before proceeding with Sekaran's method of operationalization of the dimensions and elements. It is then followed by the finalizing and selecting the variables using the interview process with the expertise and concluded with a validation of the selected variables by focus group discussion. The development performance measurement based on *maqasid Shari'ah* by these studies [28, 29, 34] is still limited and only developed based on Abu Zahrah's and al-Ghazali's five components under necessity. The other two elements of *maqasid Shari'ah*, which are complements and embellishments, are yet explored by the researchers due to the problem of operationalization of the components [28].

Using the similar approach of Mohamed et al. [27], Hudaefi and Noordin [29] and Antonio et al. [30], Tarique et al. [28] proposed a more comprehensive *maqasid Shari'ah* performance index by covering the component of complements and embellishment in their *maqasid Shari'ah*-based performance measurement model for Islamic banks. Previously, Bedoui and Mansour [26] developed a *maqasid Shari'ah* based on the Pentagon-shaped scheme performance measurement scale. Their five-pillar Pentagon-shaped *maqasid Shari'ah* performance is based on Al-Ghazali's five cores: faith, intellect, posterity, wealth, and human self. Their Pentagon-shaped *maqasid Shari'ah* performance is more comprehensive because rather than focusing on profit maximization, the scale was developed comprising the objective of promoting and developing human welfare, preventing corruption, and improving social and economic stability.

Adopting the previous work of Mohammed et al. [27], Hudaefi and Noordin [29] enhanced the work of Mohammed et al. [27] by combining both religious and financial aspects in establishing the integrated *maqasid Shari'ah*-based performance measure (IMSPM). The financial performance measurements, which are non-performing loans,

return on assets, return on assets and operational efficiency, are included in the *maqasid Shari'ah* element of wealth.

Concerning the empirical evidence, several studies have tested the *maqasid Shari'ah* performance index. Mohammed and Taib [31] test the PMSS they have initially developed in Mohammed et al. [29] on the sample of 24 banks comprised of Islamic and conventional banks. Interestingly, they also compare those banks' performance with the conventional banking performance measures (CBPM) model, which consists of three ratios: return on assets, net interest income, and liquidity. Their finding shows that Islamic banks' performance supersedes conventional banks using the PMSS model compared to the CBPM model. The authors conclude that the assertion of Islamic banks' performance is left behind its conventional counterparts is not true and it happened because conventional measurement could not capture the objectives of the Islamic banks. This finding indicates that Islamic banks' performance should be measured using the right measurement that suits their nature of the operation and underlying philosophies underlies that is gearing toward the achievement of the *Shari'ah* objective.

Asutay and Harningtyas [32] measure the social performance of the Islamic banking and finance industry according to the three levels: banks, country, and industry level performance. Their study conceptualizes Najjar's view of *maqasid Shari'ah* on the sample of 13 Islamic banks from six countries for five years. Their findings show that Bank Syariah Mandiri and Indonesia score the highest at the bank and country levels even though the overall performance is unexceptional. The industry's orientation puts weightage according to the following self, faith and rights and stakeholding, followed by the wealth and social entity, intellect and posterity, and lastly, ecology. Besides, the findings of Rahman and Haron [33], specifically on the sample of Indonesian banks, based on the adaption of MPEM by Mohammed et al. [21], show that characteristics of the *Shari'ah* Supervisory Board and the structure of board have a significant influence on the *maqasid Shari'ah*-based performance during the period from 2012 to 2016. Consistent with the findings of Asutay and Harningtyas [32], the overall score of the *maqasid Shari'ah* index for Indonesian Islamic banks is still low, and most of the individual Islamic banks show fluctuating value. However, the findings of Antonio et al. [30] also prove that the *Maqasid* Index of Indonesian banks is higher than Islamic banks in Jordan. Using Mohammed et al. [27], Antonio et al. [30] concluded that no specific bank could represent a high index value.

Julia and Kasim [36] apply the *Maqasid Shari'ah* framework of Al-Ghazali in comparing the green performance of Islamic and conventional banks in Bangladesh. Their study found that none of the banks fully meet the green policy requirements. However, Islamic banks perform better in the preservation of faith, intellect, and wealth circulation. Mergaliyev et al. [37] also developed a comprehensive *Maqasid Shari'ah* Evaluation Framework to measure the determinants of Islamic banks' performance in light of *Maqasid Shari'ah*. Adapting the previous works of Bedoui and Mansour [26], Mohammed et al. [27] and Asutay and Harningtyas [32], this unweighted approach index has four primary objectives, which are invigoration the value of human life, human self, society and physical environment. Using the sample of panel data of 33 Islamic banks from nine years periods covering from 2008 to 2016, their findings show that Islamic banks in Jordan scored the highest average of the *maqasid Shari'ah* index, and *maqasid*

Shari'ah is influenced mainly by the political and socio-economic factors. The significance of political and socio-economic factors infers the importance of Islamic banks to adhere to the *Shari'ah* compliance in their activities to protect from deterioration their public image and reputational risk that might jeopardize the financial performance and stability of Islamic banks.

Al Mubarak and Osmani [38] analyze the Islamic banking products against the *maslahah* and *maqasid Shari'ah*. Their finding found that Islamic banking's products based on the *Bai Al-Inah*, *Bai Bithaman Ajil* and *Ijarah* sukuk are against *maqasid Shari'ah* and should be done detailed revision. On the other note, Rahman et al. [39] develop performance measures based on *maqasid Shari'ah* for the halal industry. Al-ziyadat and Ahmed [40] integrate *maqasid Shari'ah* with the "plan.do.check.and act" (PDCA) cycle in developing a framework to assess the ethical aspects of Islamic financial operations. Combining Abu Zahrah and Al Ghazali's framework, Siddiqi et al. [35] formulate stakeholder well-being for the Islamic banking and finance industry. In view of the above literature review, Table 1 summarizes the main literature of the *maqasid Shari'ah*-based performance measurement of Islamic banks highlighted in this paper.

Table 1. A summary on the main literature of *maqasid Shari'ah*-based performance measurement of Islamic banks

Author	Basis	Dimension	Model
Mohammed et al. [27]	Abu Zahrah	<ul style="list-style-type: none"> • Educating individual • Establishing justice • Public interest 	<i>Maqasid</i> Indexes (MI)
Mohammed et al. [21]	Al-Ghazali and Ibnu Ashur's interpretation (public interest)	<ul style="list-style-type: none"> • Necessity element of <i>Maslahah</i> • Prevention of religion/faith • Preservation of life/soul • Protection of intellect/mind • Preservation of progeny • Preservation of wealth 	<i>Maqasid</i> based Performance Evaluation Model (MPEM)
Tarique et al. [28]	Al-Ghazali and Abu Zahrah	<ul style="list-style-type: none"> • Justice • Education 	<i>Maqasid Shari'ah</i> based performance measurement model

		<ul style="list-style-type: none"> • <i>Maslahah</i> (Necessity, complements and embellishments) 	
Hudaefi and Noordin [29]	Harmonization of the previous works of Khan (1997), Mohamed Ibrahim et al. (2004), Haniffa and Hudaib (2007), Mohammed et al. (2008), Asutay and Harningtyas (2015), Mohammed et al. (2015) and Jaffar and Manarvi (2011)	<ul style="list-style-type: none"> • Necessity element of <i>Maslahah</i> 	Integrated <i>maqasid Shari'ah</i> -based performance measure (IMSPM)
Mergaliyev et al. [37]	Mohammed et al. (2008), Bedoui and Mansour (2014) and Asutay and Harningtyas (2015)	<ul style="list-style-type: none"> • Invigoration the value of human life, human self, society and physical environment 	<i>Maqasid Shari'ah</i> Evaluation Framework

4 Conclusion

The purpose of this study is to review the past literature on the *maqasid Shari'ah*-based performance measurement of Islamic banks. It is found that the study on the *maqasid Shari'ah*-based performance measurement of Islamic banks is still scarce and limited. It can be concluded the previous research refers to the works of Al-Ghazali, Ibnu Ashur and Abu Zahrah in creating the dimension of the *maqasid Shari'ah*. The literature review shows that the work of Mohammed et al. [27] is the pioneer, still relevant, and in

fact becomes the basis of the subsequent empirical research on the *maqasid Shari'ah*-based performance measurement of Islamic banks. The existing empirical research of the *maqasid Shari'ah*-based performance measurement of Islamic banks is also dearth and still has ample room to be explored. However, this study still has limitations in a way that the selection of the studies only comprises the journals and proceedings and exposed to the bias from keywords used in Scopus and Google Scholar features search. This study focuses exclusively on the application of *maqasid Shari'ah*-based performance measurement in Islamic banks and provides insights to the researchers, academicians, practitioners, and regulators and policymakers in reviewing the development of the *maqasid Shari'ah*-based performance measurement of Islamic banks and its pathway of application in the empirical research. It is imperative for Islamic banking's industry players to align Islamic banks' objectives with *maqasid Shari'ah*-based performance measurement, and this paper addresses the literature gaps and serves as a guide for the future research related to this area.

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