



An Analysis of Islamic Banking Performance: *Maqashid* Index Implementation in Indonesia and Jordania

Muhammad Syafii Antonio^a, Yulizar D. Sanrego*^a, Muhammad Taufiq^a

^a*Tazkia University College of Islamic Economics. Jl. Ir. H. Djuanda No. 78 Sentul City Bogor Indonesia*

Abstract

The discourse on the presence of Islamic banking in the global era went broadly and extensively. It is because the society has begun realizing the existence of Islamic banking. Islamic banking does able to show its resilience and endurance facing the global financial crisis. A part from its positive growth, there exist a critical issue related to it performance measurement. For the time being, the performance measurement of Islamic banking industries merely uses the financial ratio measurement (shareholder oriented). Indeed, this financial ratio measurement is necessary but unfortunately not sufficient. Therefore, Islamic banking that is different from conventional banking both in theory and practice, needs a shifting paradigm in term of their performance measurement which not only limited to the financial ratios (stakeholders oriented). This paper would like to apply Maqashid Index approach for the measurement of Islamic banking industry performance. The object of this research is Islamic banking industries in Indonesia (Bank Syariah Mandiri and Bank Muamalat Indonesia) and Jordan (Jordan Islamic Bank and Islamic International Arab Bank Jordan)). Using Maqashid Index approach with SAW (Simple Additive The weighting) method, it can be concluded from the first measurement using Maqashid Index that Islamic banking industries in Indonesia which represented by BMI (0.17839) and BSM (0.16190) show better performance in comparison with Islamic banking industries in Jordan, namely IIABJ (0.10295) and JIB (0.08152).

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Keywords: Performance Measurement; Islamic Banking; Maqashid Index

1. Introduction

1.1. Background

The discourse on the presence of Islamic banking in the global era went broadly and extensively. It is because the society has begun realizing the existence of Islamic banking. Islamic banking does able to show to the society its resilience and endurance facing the ongoing global financial crisis. *World Islamic Banking Competitiveness Report 2011-2012* stated that dramatical growth in the past twelve months – including Arabic spring season, Euro zone crisis and occupy Wall Street movement encourages the growth of Islamic banking. Global islamic banking assets estimated will reached US\$ 1,1 trillion by the end of 2011 (compared with year 2010 amounted to US\$ 826 billion).

The growth of islamic banking assets are related to the growth of global islamic finance has significant trend. The growth of global islamic finance assets since year 2000 has reached US\$ 80 billion and US\$ 1,1 trillion by the end of 2011. Average growth for the year 2000-2007 recorded to 30%, but since year 2009 it has declined because of negative impact from global financial crisis.

Average growth of islamic banking increased by 15-30% each year. Those encourages tight competition between islamic banking also conventional banking that have influence to growth and performance for each banking. In this process, performance level measurement on islamic banking could determine how good is their performance measurement and monitoring system. Moreover, those can help

* Corresponding author. Tel.: +62-21-87962291-93; fax: +62-21-87962294.
E-mail address: senapatie@yahoo.com

the determination of banking prospect in the future to become a good and sustainability islamic banking (Kuppusamy, et al., 2010).

Generally, in the practices of company performance measurement including islamic banking are only limited to financial ratio such as CAMELS (*Capital, Asset, Management, Earning, Liquidity, Sensitivity of Market Risk*) and EVA (*Economic Value Added*). Basic indicators for company performance measurement using only financial ratio has many weaknesses. Therefore, Islamic banking that is different from conventional banking both in theory and practice, needs a shifting paradigm in term of their performance measurement which not only limited to the financial ratios (stakeholders oriented) (Yuwono, et al., 2004).

Attempts to leave performance measurement of islamic banking is no longer dominated by the use of financial ratios alone, it is actually because of a shifting paradigm based on triple bottom lines concept with performance indicators covering economic, environmental and social indicators. This means that when islamic banking system wants to have a sustainable growth, their main activities must be focused on benefit approach not only for the shareholders, but also to the wider stakeholders that is the community and the environment (Siddiqi. S.H., 2001).

Triple bottom lines concepts are in line with the concept of *maqashid syariah* as stated by Ibn Qayyim Al-Jauziyah that syariah basis is to realize benefit to society (Al-Jauziyah, 1973). Efforts to develop evaluation on islamic banking performance measurement which are in line with the concept of *Maqashid Syariah* has been discussed by Mohammed, Dzuljastri, and Taib (2008:7), Kuppusamy, Saleha and Samudhram (2010:38-42), Mohammed and Taib (2009:6), Hameed, et. al (2004:24-26). Results showed that *Maqashid* index approach could be the strategical alternative approach that can describe how good is the performance of islamic banking more universal and able to implemented in form of comprehensive policy strategy.

According to the background, this study would like to offer *Maqashid* Index approach as a benchmark the performance level of islamic banking which more directed at the aims and objectives of syariah. This study take a case study based on the largest islamic banking industry in Indonesia and its comparison with islamic banking industry in Jordan, such as Bank Syariah Mandiri (BSM), Bank Muamalat Indonesia (BMI), Islamic International Arab Bank Jordan (IIABJ), Jordan Islamic Bank (JIB). Selection of the islamic banking industry in Indonesia and Jordan are due to the assumption in previous studies on *Maqashid* index. It was stated that islamic banking industry in Jordan have the highest performance ratio followed by Indonesia (Dzuljastri and Taib, 2008).

However, according to the assessment of the Global Islamic Financial Report (GIFR) in 2011, Indonesia ranked the fourth country that has the potential and conducive to the development of islamic banking industry after Iran, Malaysia and Saudi Arabia with concern to some aspects on index calculation, such as the number of islamic banking, number of islamic non-bank financial institution also islamic financial assets measurement that has the greatest score. While Jordan was ranked 20th.

The reason above become an interest thing to be further discussed in order to produce a study that is useful for improving the system of islamic banking in both countries, but more further this could be the result research for the development of islamic banking industry in Indonesia (IB) in particular on performance level measurement. In this study, measurement on how good is the islamic banking represented by the performance level measurement.

1.2. Problems of Research

Through the above ideas and background, the problem of this study transformed into several questions:

- How does the performance of islamic banking in Indonesia if measured by *Maqashid* Index?
- How does the performance of islamic banking in Jordan if measured by *Maqashid* Index?
- How does the comparison of the performance of islamic banking both in Indonesia and Jordan if measured by *Maqashid* Index?

2. Study Literature

2.1. Theoretical Basis

2.1.1. Performance Level Measurement

To asses the health of a company or organization needs some assessments that can be represented through performance measurement. Performance measurement is part of the management control system

that includes actions imply planning decisions, assessment of employee performance and operations. Performance appraisal is the management tools to determine how far is the company goal that have been achieved, evaluate business performance, manager, division and individuals within the company, also to predict company expectations in the future (Yuwono et al., 2004). Superior performance is characterized by and effective and efficient job well (Mangkuprawira, 2009). Reliable performance measurement system is one of the key factors to the success of the organization (Mardiasno, 2004).

Information used to take performance measurement or appraisals are grouped into two categories (Ulum, 2005):

a. Financial Performance

Financial report measurement assessed based on the budget that have been made. The measurement is done by analyzing the variance between the actual performance and budget. Analysis of variance largely focused on 2 (two) variants that is: (1) Income varian and (2) Expenditure varian that covers routine and investment/capital expenditure.

According to Kasmir (2008:50), in banking system, to determine the condition or performance of a bank typically uses CAMELS analysis (*Capital, Asset, Management, Earning, Liquidity, Sensitivity of Market Risk*). This measurement and evaluation model has been declared by Bank Indonesia (BI) so that banks in Indonesia are required to make a routine and regular report.

Along with the development of evaluation tools to measure company performance including banking industry, appear evaluation tools called Economic Value Added (EVA). EVA is the added value provided by the management to shareholders for a given year (Bringham and Houston in Endri, 2008:4). Simply way, EVA numbers obtained from operating income minus the costs of invested capital (Stern et. al, 2001:15).

b. Non-Financial Information

Non-financial information could be another benchmark. Non-financial information could increase the confidence in the quality control management process. Comprehensive performance measurement technique that has been developed by various organizations are the Balance Scorecard involves four aspects: the financial perspective, customer satisfaction, efficiency of internal processes and learning and growth.

Practically, the process of company performance measurement generally used financial ratios. However, the use of financial benchmark as the sole measure of company performance has many weaknesses. *First*, the use of financial performance as the sole determinant of company performance could encourage managers to take short-term action and ignored long-term plan. *Second*, ignore non-financial measurement aspects and intangible assets, from both internal and external will give erroneous view of the managers of the company in the present time even more so in the future and *Third*, financial performance based solely on past performance less able to lead the company toward corporate goals (Yuwono, 2004).

2.1.2 The Concept of Maqashid Index

Complete understanding of *Maqashid Index* was taken from islamic noble value (*maqashid syariah*) that are understood as the ultimate goal of syariah which promoting welfare and benefit values (*Jalb al-Masalih*) also eliminate misery (*Dar' al-Mafasid*) (Al-Jauziyah, 1973, Yubi, 1998, Asyur, 2000, Al-Fasy, 1993). As for more detailed *maqashid syariah* according to Al-Ghazali consists of 5 things: guarding religion, soul, mind, family and wealth. So anything that guarantees the preservation of those five essential is called *maslahah* and every matter that escape from it called *mafsadah* (damage) (Al-Ghazali, 1991).

In another view, *maqashid syariah* divided into 3 categories *tahdzib al-fard* (education for individuals), *iqamah al-adl* (justice), and *maslahah* (benefit/welfare) (Zahrah, 1958). This concept are being transformed into a measurement to evaluate the performance of islamic banking. That is because the islamic banking system is very different from conventional banking. The most fundamental difference is related to the reference value (*Islamic Worldview*) for each financial institution.

This fundamental differences will lead to the differences on formulation or creation of the product for both banking model including each performance evaluation model. Umar Chapra concluded that the

differences in economic systems and other economic system rests on three main things: (1) *Islamic Worldview* (2) *Purposes* (3) *Strategy or Policy* (Chapra, 2005). Different worldview from the conventional will have an impact on objective formulation of islamic banking. Different objective formulation also will have an impact to different strategical formulation process or evaluation model. Those value not only expressed in the form of *fiqh* legality of particular product, but more than that it should have broad impact on economic and social aspect as a consequences of efforts to achieve *Maqashid syariah* (Sanrego, 2010, Rosly, 2010).

Mohammed and Taib on their research titled *Testing the Performance Measured Based on Maqashid al-Shariah (PMMS) Model on 24 Selected Islamic and Conventional Banks* have been formulated performance evaluation for islamic banking with reference to the *maqashid syariah* concept. The variabel being used is referring to *Maqashid Syariah* theory by Abu Zahrah covering *Tahdzib al-Fard (Educating the individual)*, *Iqamah Al-Adl (Establishing justice)*, and *Maslahah (Welfare)*. Through Sekaran Concept, those three *maqashid* has translated into dimensional and then classified into several elements (Mohammed and Taib, 2009).

Those three *maqashid* can be transformed into 9 dimensions and 10 elements. The ten elements are transformed into performance ratio. *Educating the individual* in the first *Maqashid* means the development of knowledge and expertise to individuals so that the spiritual values increase. Islamic banks have to design educational program and training with moral values so they will able increase their knowledge and expertise to employees. Banks have also provide information to the stakeholder that the products offered are in accordance with syariah. Ratio in the first *Maqashid* is *education grant, research, training, and publicity* (promotion) (Mohammed and Taib, 2009).

The second *Maqashid* is justice, islamic banks must ensure honesty and fairness in all transactions and business activities covered in the product, pricing and contract provisions. In addition, the entire contract (*aqad*) must be free from injustice elements such *maysir, gharar* and *riba*. Ratio in the second *Maqashid* is *PER (Profit Equalizatio Reserve) ratio, the share of Mudharabah and Musyarakah financing schemes (functional distribution) as well as interest free income ratio*. As for the third *Maqashid* called *Maslahah*, in this case bank should develop investment projects and social services to improve community welfare. It can be seen from the zakat ratio issued by banks and investments in the real sector. Ratio in the third *Maqashid* is *Profit Returns, Personal Income Transfer (Zakah), and Investment Ratios in Real Sector*.

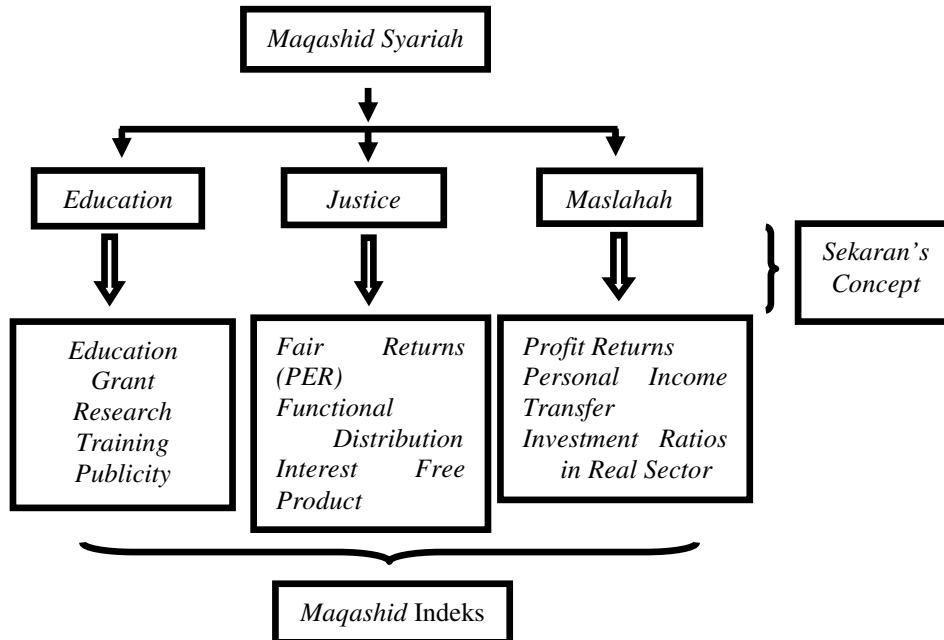


Figure 2.1 *Maqashid Index* Figure

Source: Adapted from Mohammed and Taib (2009)

2.2 Previous Studies

Some researchers that are evaluating the performance of islamic banking using *Maqashid* Index has been done by Mohammed, Dzuljastri, and Taib in their study entitled *The Performance Measures of Islamic Banking Based on the Maqashid Framework*. The concept of *Maqashid* Index was developed using SAW method (*The Simple Additive Weighting*). There are six samples of islamic banks (Bank Muamalat Malaysia, Islamic Bank Bangladesh, BSM Indonesia, Bahrain Islamic Bank, IIABJ Jordan, and Sudanese Islamic Bank) which is the object of the study in the span of six years (2000-2005) (Mohammed, Dzuljastri and Taib, 2008).

Variable used were referring to the theory of *Maqashid Syariah* by Abu Zahrah that covered *Tahdzib al-Fard*, *Iqamah Al-Adl* and *Maslahah*. Those variables are operationalized by using *Sekaran's Concept*, then gained 10 ratio which becoming performance indicators. From the ten ratios, Mohammed, Dzuljastri, and Taib only use seven ratios on their research. The results shows that no single bank is able to realize high-performance by those seven ratios. However, by the ranked, obtained that IIABJ Jordan ranked highest followed by BSM Indonesia, Bahrain Islamic Bank, Islamic Bank Bangladesh, Bank Muamalat Malaysia and the last Sudanese Islamic Bank. Therefore, islamic banks need to re-evaluate their goals and objectives to conform with *maqashid syariah* (Mohammed, Dzuljastri and Taib, 2008).

In another study entitled *Testing The Performance Measured Based on Maqashid al-Shariah (PMMS) Model on 24 Selected Islamic and Conventional Banks*, Mohammed and Taib analyze the performance of islamic banking with the comparison with conventional banking. The analysis method used is Mann-Whitney U-Test and SAW (*The Simple Additive Weighting*) over a period of 6 years (2000-2005). There are two models used; first model is PMMS which composed of 10 ratios with a variable that refers to the *Maqashid Syariah* theory by Abu Zahrah which includes *Tahdzib al-Fard*, *Iqamah Al-Adl* and *Maslahah*; second model is CBPM which consists of three financial ratios such as 1) *Return on Assets (ROA)*, 2) *Net Interest Income (NII)* and 3) *Liquidity (LIQ)* (Mohammed and Taib, 2009).

The result showed that the performance of islamic banking measured by PMMS model for *Maqashid Syariah* variable ranked higher than the conventional banking. As for the CBPM model, islamic banking performance in the variable ROA and NII is lower than the conventional banking. However, in the variable LIQ islamic banking performance is higher than conventional banking. In other words, islamic banking has a higher liquidity ratios compared to conventional banking (Mohammed and Taib, 2009).

In addition, Shaikat Mughess on his research entitled *The Recent Financial Growth of Islamic Banks and Their Fulfilment of Maqashid al-Shariah: Gap Analysis* analyzes the growth and performance of three islamic banking such as Meezan Bank (Pakistan), Bank Islam (Malaysia) and Emirates Bank (UAE) in terms of *financial growth* and *maqashid syariah*. By using the SAW method (*The Simple Additive Weighting*) and the Grid Matrix found that the combined rating result of three islamic banks with the Grid Matrix is a C means rapid growth of islamic banking from the financial side, but there are lack achievement on *maqashid syariah* (Mughess, 2008).

As for the results of each bank Meezan Bank (Pakistan) has A rating means that rapid growth of the financial side with a high achievement of the *maqashid syariah*, and Emirates Bank (UAE) has B rating which means slow growth of the financial but have high achievement of its *maqashid syariah*. Bank Islam (Malaysia) has C rating which means rapid growth of islamic banking from the financial side, but there are lack achievement on *maqashid syariah* (Mughess, 2008).

Shahul Hameed et. al also provide an alternative evaluation of the islamic banking performance on his research entitled *Alternative Disclosure and Performance Measures for Islamic Banks*. There are two islamic banks are investigated, Bank Islam Malaysia Berhad (BIMB) and Bahrain Islamic Bank (BIB). The terms used to evaluate the performance is *Islamicity Disclosure Index* which consist of several indicators such as *shariah compliance*, *corporate governance* and *social environment*. These indicators are represented in the seven criteria such as *profit sharing ratio*, *zakah performance ratio*, *equitable distribution ratio*, *directors-employess welfare ratio*, *islamic investment vs non-islamic investment*, *islamic income vs non-islamic income* and AAOIFI Index. The result is the islamic banking performance are now at a level that need special attention because some of information and data have not been fully released to the stakeholders. Regarding with the sample used then the information presented by Bahrain Islamic Bank (BIB) is more complete than Bank Islam Malaysia Berhad (BIMB) (Hameed et al., 2004).

In addition, Kuppusamy, Saleha and Samudhram also evaluate islamic banking performance on their research entitled *Measurement of Islamic Banks Performance Using a Shariah Conformity and*

Profitability Model sampled four banks of Malaysia, Bahrain, Kuwait and Jordan for the years 2001–2004. The developed model is called *Shariah Conformity and Profitability (SCnP)* which is a combination from financial performance indicators of conventional and syariah. *Shariah Conformity* consists of several indicators such as *Islamic investment ratio*, *Islamic income ratio* and *Profit sharing ratio*. While the bank profitability is measured by *Return on asset*, *Return on equity*, and *Profit margin ratio*. The result showed that majority of Islamic banking are able to reach high profitability and good *shariah compliance*. However, there is one bank that has a low level of profitability and *shariah compliance* (Kuppusamy, Saleha and Samudhram, 2010).

2.1 Table of Previous Studies

Name	Title	Model and Method
Mohammed, Dzuljastri, and Taib (2008:15-16)	The Performance Measures of Islamic Banking Based on the Maqashid Framework.	Maqashid Indeks and SAW (The Simple Additive Weighting)
Mohammed and Taib (2009:10-12)	Testing The Performance Measured Based on Maqashid al-Shariah (PMMS) Model on 24 Selected Islamic and Conventional Banks	Maqashid Indeks, Mann-Withney U-Test and SAW (The Simple Additive Weighting)
Shaukat Mughess (2008:42-43)	The Recent Financial Growth of Islamic Banks and Their Fulfilment of Maqashid al-Shariah Gap Analysis	Maqashid Indeks, SAW (The Simple Additive Weighting) and Grid Matrix
Shahul Hameed et al. (2004:24-26)	Alternative Disclosure and Performance Measures for Islamic Banks	The Comparison on Islamicity Disclosure Indeks
Kuppusamy, Saleha and Samudhram (2010:35)	Measurement of Islamic Banks Performance Using a Shariah Conformity and Profitability Model	Shariah Conformity and Profitability (SCnP)

Things that differentiates this study from the previous rely on the object and year of research. This study attempted to analyze the comparative performance of Islamic banking in Jordan and Indonesia by having a sample of Bank Syariah Mandiri (BSM), Bank Muamalat Indonesia (BMI), Jordan Islamic International Arab Bank (JIAB), Jordan Islamic Bank (JIB) over the period 2008-2010. *Maqashid* Index model used refers entirely from Mohammed and Taib (2009:10-12) for more comprehensive and in accordance with *maqashid syariah* theory.

3. Data and Methodology

3.1. Data Types and Sources

Data used in this study is a secondary data taken from annual report and sourced from the official website of each bank and completed with data from *Islamic Banks and Financial Institutions Information (IBIS)* over the period 2008-2010.

1. Bank Syariah Mandiri, Indonesia (<http://www.syariahmandiri.co.id> and <http://www.ibisonline.net>). Denoted in the model with BSM
2. Bank Muamalat Indonesia (<http://www.muamalatbank.com> and <http://www.ibisonline.net>). Denoted in the model with BMI
3. Islamic International Arab Bank, Jordan (<http://IIABJank.com.jo/> and <http://www.ibisonline.net>). Denoted in the model with IIABJ
4. Jordan Islamic Bank (<http://www.jordanislamicbank.com> and <http://www.ibisonline.net>). Denoted in the model with JIB

Below is the variables and research definition are being taken to meet the research:

Table 3.1 Definition and Operational Variables

Concept (Objectives)	Dimension	Element	Performance Ratio	Sourced1
1. Educating Individual	D1. Advancement Of Knowledge	E1. Education grant	R1. Education grant or scholarship/ Total Expenses	Annual Report
		E2. Research	R2. Research Expense/Total Expenses	Annual Report
	D2. Instilling new skills and improvement	E3. Training	R3. Training Expense/Total Expenses	Annual Report
	D3. Creating Awareness of Islamic banking	E4. Publicity	R4. Publicity Expense/Total expenses	Annual Report
2. Establishing Justice	D4. Fair Returns	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 elements 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 Income/Total assets	Annual Report
	D8. Redistribution of income & wealth	E9. Personal income	R9. Zakah/Net Asset	Annual Report
	D9. Investment in vital real sector	E1 Investment ratios in real sector	R1 Investment in Real Economic Sector/ Total Investment	Annual Report

3.2 Explanation of Maqashid Index Model Variables

First, Maqashid Index I consists of four ratios (R1 to R4) called *Education grant or scholarship/ Total Expenses*; *Research Expense/Total Expenses*; *Training Expense/Total Expenses* and *Publicity Expense/Total expenses*. These ratios are included in the concept *tahdzibul fardh* (educating individual). If the budget allocated by the bank for the fourth indicator is high then the bank has been involved in the *educating individual* program. It also demonstrates the bank's role in improving the quality of human resources both from the employees and the stakeholders.

Second, Maqashid Index II consists of three ratios (R5 to R7) called *Profit Equalization Reserves (PER)/Net or Investment Income*, *Mudharabah and Musharakah Modes/ Total Investment Modes*, and *Interest free income/Total income*. These ratios covered in the concept of *Establishing Justice*. The existence of *Profit Equalization Reserves* ratio (PER) in banking is one form of injustice because the savers right to receive profits have been canceled or postponed. PER ratio have brackets sign (*parenthesis*) for the reduction of number 1. Therefore if the ratio is close to 1 means the fewer is the PER reserve. A value of 1 indicates no reserves are allocated to PER. Therefore if the ratio (1-PER) is high

then the bank has achieved a high level of justice as well. The high ratio of *Mudharabah* and *Musyarakah* show the bank had a role in improving social and economic justice as the principle of the second contract (aqad) is *profit loss sharing*. Similarly, the high ratio of *interest free income* to total income has a positive effect on reducing income inequality.

Third, *Maqashid* Index III consists of 3 ratios (R8 to R10) called *Net income/total asset*, *Zakah/net asset* and *Investment in Real Sector/ total investment*. These ratios are included in the concept *Maslahah*. The higher *net income/total asset* showed a high level profitability achieved by the bank so that it brings *maslahah* for banks. While *maslahah* for community represented by ratio of *Zakah/net asset* and *Investment in Real Sector/total investment ratio*. Therefore, the higher of these both ratio showed the bank had a role in improving community welfare.

3.3 Verification of Maqashid Index Variable

Maqashid Indeks model has been developed by some experts in the Middle East and Malaysia experienced in conventional and Islamic banking. There are 12 islamic banking experts, a jurist (fiqh experts) and islamic economists who have been interviewed. In addition, there are 16 experts who have defined the weight of each component and ensure an appropriate performance ratio (Mohammed, Dzuljastri and Taib, 2008). Weighted average provide by the experts can be seen on the table 3.2.

Table 3.2 Weighted Average *Maqashid Index* Variables

Objectives	Average Weight (Out of 100%)	Element	Average Weight (Out of 100%)
O1. Education (Tahdzib al-Fard)	30	E1.Education grant/Donations	24
		E2.Research	27
		E3.training	26
		E4.Publicity	23
		Total	100
O2. Justice (Al-'Adl)	41	E5. Fair Returns	30
		E6. Fair Price	32
		E7. Interest free Product	38
		Total	100
O3. Welfare (Al-Maslahah)*	29	E8. Bank's Profit ratios	33
		E9. Personal Income Transfers	30
		E1 Investment Ratios in real sector	37
Total	100	Total	100

**Maslahah* covered *Bank Interest* and *Public Interest*

Sourced: Mohammed, Dzuljastri, and Taib (2008:9)

3.4 Research Methodology

This study used a quantitative method, namely SAW (*The Simple Additive Weighting*). The basic concept used is the concept of *Multiple Attribute Decision Making* (MADM). *Decision Making* is the process of selecting a solution from the available alternatives (MacCrimmon in William, 2009). Whereas MADM is supporting management tools (making) a decision that is used to evaluate the comparison of alternatives based on a double references (Yoon and Hwang, 1995). MADM problems can be analogous to a vector of several elements. If the elements can be transformed into a scalar value, then that value is the solution of the decision situation. It is necessary to have index formulation to be able to calculate each alternative

value and selected the highest one. As for SAW method (*The Simple Additive Weighting*) is a method that requires decision makers to determine weights for each attribute/ reference. Total score for an alternative obtained by summing all crossing result of the rating (which can be compared across attributes) and weight of each individual. Rating for each attribute should free dimension which means have been through normalization process before (Basyaib, no year).

3.4.1 Testing Steps of Maqashid Indeks

There are several test on performance measurement with *Maqashid Indeks*, it is the determination of performance ratio, islamic banking health level according to performance indicator, and islamic banking health level based on *Maqashid* index (Mohammed, Dzuljastri and Taib, 2008). The explanation are as follows:

a. Performance Ratio Determination

In this step, performance ratios compared between sample/observation to provide a preliminary assessment results of *Maqashid Index*. For ease of calculation and based on data availability then the selected ratio are taken only 8 (eight), then the 8 (eight) performance ratios that is representattive of three *maqashid syariah* variables (*Education, Justice and Maslahah*) are shortened to:

1. Education grant/total expense (R_1^1)
2. Research expense/total expense (R_1^2)
3. Training Expense/total expense (R_1^3)
4. Publicity expense/total expense (R_1^4)
5. Mudharabah and Musharakah Modes/total investment modes (R_2^2)
6. Net income/Total assets (R_3^1)
7. Zakah/Net Asset (R_3^2)
8. Investment in real economic sector/ Total Investment (R_3^3)

b. Ranking the Sample based on their Performance Indicators (PI)

In this step, take the multiplication between the dimensional and performance ratio with their own weights. Mathematically, an evaluation of each islamic banking *maqashid* (including dimension and performance ratios) can be made the following models:

1. First *Maqashid* (*Educating Individual*)

$$PI (O1) = W_1^1 \times E_1^1 \times R_1^1 + W_1^1 \times E_1^2 \times R_1^2 + W_1^1 \times E_1^3 \times R_1^3 + W_1^1 \times E_1^4 \times R_1^4$$

Or $W_1^1 (E_1^1 \times R_1^1 + E_1^2 \times R_1^2 + E_1^3 \times R_1^3 + E_1^4 \times R_1^4)$ (1)

Where,

- (O1) shows the first *maqashid* from *maqashid syariah* that is *Tahdzib al-Fard* (*Educating Individual*)
- W_1^1 is the weight of O1 (see Table 3.2)
- E_1^1 is the weight of first element of O1
- E_1^2 is the weight of second element of O1
- E_1^3 is the weight of third element from of O1
- E_1^4 is the weight of fourth element from of O1
- R_1^1 shows the ratio corresponding to the first element of O1
- R_1^2 shows the ratio corresponding to the second element of O1
- R_1^3 shows the ratio corresponding to the third element of O1
- R_1^4 shows the ratio corresponding to the fourth element of O1

The model above can also be modeled into,

$$PI (O1) = PI11 + PI21 +PI31 + PI41$$
 (2)

where,

$$PI11 = W_1^1 \times E_1^1 \times R_1^1$$
 (3)

$$PI21 = W_1^1 \times E_1^2 \times R_1^2$$
 (4)

$$PI31 = W_1^1 \times E_1^3 \times R_1^3$$
 (5)

$$PI41 = W_1^1 \times E_1^4 \times R_1^4$$
 (6)

2. *Second Maqashid (Justice)*

$$PI (O2) = W_2^2 \times E_2^2 \times R_2^2 \dots\dots\dots (7)$$

where,

- (O2) shows the second *maqashid* from *maqashid syariah* that is *Justice*
- W_2^2 is the weight of O2 (see Table 3.2)
- E_2^2 is the weight of the second element of the O2
- R_2^2 shows the ratio corresponding to the second element of the O2

3. *Third Maqashid (Maslahah)*

$$PI (O3) = W_3^3 \times E_3^1 \times R_3^1 + W_3^3 \times E_3^2 \times R_3^2 + W_3^3 \times E_3^3 \times R_3^3$$

$$\text{Or } W_3^3 (E_3^1 \times R_3^1 + E_3^2 \times R_3^2 + E_3^3 \times R_3^3) \dots\dots\dots (8)$$

where,

- (O3) shows the third *maqashid* from *maqashid syariah* that is *Maslahah*
- W_3^3 is the weight of O3 (see Table 3.2)
- E_3^1 is the weight of first element of O3
- E_3^2 is the weight of second element of O3
- E_3^3 is the weight of third element of O3
- R_3^1 shows the ratio corresponding to the first element of O3
- R_3^2 shows the ratio corresponding to the second element of O3
- R_3^3 shows the ratio corresponding to the third element of O3

The model above can also be modeled into,

$$PI (O3) = PI13 + PI23 + PI33 \dots\dots\dots (9)$$

where,

$$PI11 = W_3^3 \times E_3^1 \times R_3^1 \dots\dots\dots (10)$$

$$PI21 = W_3^3 \times E_3^2 \times R_3^2 \dots\dots\dots (11)$$

$$PI31 = W_3^3 \times E_3^3 \times R_3^3 \dots\dots\dots (12)$$

c. *Determine Islamic Banking Number and Rank*

Then the multiplication between dimension and performance ratio with their own weight are summed so that it can be selected which have the largest total value as the best candidate. Mathematically the model is as follows:

$$MI = P1 (O1) + PI (O2) + PI (O3) \dots\dots\dots (13)$$

4. *Analysis and Discussion*

4.1. *Data Analysis*

Maqashid Index approach model in this study conducted on Islamic banking industries that have the highest assets in Indonesia and Jordan. Data in Indonesia showed that PT. Bank Syariah Mandiri (BSM) and PT. Bank Muamalat Indonesia (BMI) have the highest assets within three years in comparison with another 11 Islamic Banks (Bank Umum Syariah/ BUS). Meanwhile, in Jordan there are also two (2) Islamic banking industry that have the highest asset *Jordan Islamic Bank* (JIB) and *Islamic International Arab Bank Jordan* (IIABJ). As seen clearly on table 4.1 below:

Table 4.1 Development of Islamic Banking Assets in Indonesia-Yordania
(in Rp)

Name of Bank	2008	2009	2010
BSM	17,065,938,000,000	22,036,534,520,000	32,481,873,140,000
BMI	12,610,852,550,000	16,027,178,860,000	21,400,793,090,000

Development of Islamic Banking Assets in Jordan (in IQD)

Name of Bank	2008	2009	2010
JIB	1,848,373,080	2,183,062,940	2,603,683,927
IIABJ	907,628,014	1,040,778,000	1,133,111,000

Source: Adapted from www.ibisonline.net

Table 4.1 above shows that the assets of Islamic banking in Indonesia and Jordan have positive growth by 10-20% year to year. Looking at this phenomenon, the growth of Islamic banking assets are based on the existence of Islamic banking in both country as the alternative financial intermediary institution that can be chosen by the community. An increase in assets of the industry gives an indication of an increase in the company's performance, but the indicators are not sufficient and not able to represent a comprehensive performance according to its main purpose of *Maqashid Shariah*

4.2 Discussion

4.2.1 Maqashid Index Performance Ratio of Islamic Banking in Indonesia-Jordan

At the first step, *Maqashid* Index model is to calculate the performance of Islamic banking industry based on the determined ratio. As mention in the previous chapter that *Maqashid* Index ratio taken in this study are the first performance ratio (*Education/Tadhlib al-Fard*), second ratio (*Justice/Al-Adl*) and third ratio (*Welfare/Al-Maslahah*). The following Table 4.2 below is the performance ratio to *Maqashid* Index of Islamic banking in Indonesia (BSM, BMI) and Jordan (JIB, IIABJ).

Table 4.2 *Maqashid* Index Performance Ratio of Islamic Banking 2008-2010 (in percentage)

Banks	MI 1 st				MI 2 nd	MI 3 rd		
	R_1^1	R_1^2	R_1^3	R_1^4	R_2^2	R_3^1	R_3^2	R_3^3
BSM	0.128	0.067	2.816	4.42	37.891	1.253	4.175	95.029
BMI	0.119	0.2	1.302	5.485	48.217	0.908	3.94	98.59
JIB	0.232	0.927	0.414	3.361	1.405	1.167	n.a	69.82
IIABJ	0.27	0.612	0.375	5.125	1.62	0.576	n.a	89.238

Source: Adapted from www.ibisonline.net

1. *Maqashid* Index Performance Ratio 1st Goal (*Education/Tahdzib Al-Fard*)

a) *Education Grant/Total Expenses* (R_1^1)

Based on the assessment of the first goal *Maqashid* Index Performance Ratio regarding expenditure on human resources in the form of education grant from Islamic banking industry, IIABJ has the highest value of 0.27% as compared with other Islamic banks. Then followed by JIB and BSM by 0.232% and 0.128%. Meanwhile BMI ranks the smallest by allocating funds for education by 0.119%. These results are similar to research conducted by Mohammed, et. al (2008:14) which states that IIABJ provides highest funding allocation for education grant sector compared to BSM in Indonesia.

With these figures, Islamic banking in Jordan (represented by IIABJ and JIB) has better sustainability level than Islamic banking in Indonesia for trying to apply the definition of a guarantee company sustainability from educational aspects by contributing scholarships and donations to the society. Synergy between educational institution (schools and colleges) and the Islamic banking should also be improved by the Islamic banking in Indonesia (especially BSM and BMI) in order to develop a superior Islamic economics human resources. Program conducted by IIABJ regarding education grant is to support academic institutions and research councils.

b) *Research Expense/Total Expense* (R_1^2)

Maqashid Index performance ratio as a first goal regarding research expenditure means the research budget for Islamic banking industry development. Accordingly, in 2008-2010 JIB has the highest

performance ratio compared with other Islamic banking by 0.927%. Then followed by IIABJ and BMI by 0.612% and 0.2%. This is because, JIB routine to implement program called *scientific research and professional training*.

Meanwhile, BSM is still limited of spending cost for research only by 0.067% compared with other banks. This research is similar to research conducted by Mohammed, et. al (2008:14) which states that BSM provide lowest allocation for research cost and development. With these figures, BSM and BMI need to allocate more funds in research and development because it helped the progress and sustainability of the company. Without a good research and development, Islamic banking will be difficult to compete with conventional banking that have dominant market share of more than 90%.

c) *Training Expense/Total Expense (R_1^3)*

Training cost meant in the *Maqashid* Index performance ratio is the budget allocated for training and education program in order to improve the main activities of the industry. According to this ratio, BSM ranked the highest by 2.8% compared with other banking industry. Then followed by BMI and JIB by 1.302% and 0.414%. Meanwhile, IIABJ ranked the lowest by 0.375%.

This is because the MDP program (*management development program*) conducted by BSM are able to provide learning opportunities for employees to support for their best in work so that their careers are also improving. Training and education program including *in-house training*, *public training*, and *e-learning* with *mannig analysis* (calculation method to determine employee's need based on workloads and/or number of transactions), mapping the position and corporate values).

This result can also be tentatively concluded that training pattern of Islamic banking human resources in Indonesia is better from Jordan. In the framework of *maqashid syariah*, fund allocation for employee's training are also classified into *hifzhul aql* (safeguarding the mind) and *hifzhun nafs* (safeguarding the soul). Safeguards on this aspect is very important because when banks try to improve the capability and skills of their employees, indirectly that helped drive continuous performance improvement in the long run. A good company is a company that is always ready to upgrade their employees in facing new developments in the business world. Those efforts should always be done and always identical to the type of training programs that can improve employee's skills and abilities.

d) *Publicity/Total Expense (R_1^4)*

The fourth ratio in *Maqashid* Index as a first goal is publication cost which conducted to improve the industry. In this activity, from the year 2008 – 2010, BMI has the highest publication cost by 5% compared with other banking industry. BMI program as stated in *BMI Annual Report*, this aspect is called *Muamalat Berbagi Rezeki* (Muamalat Share Rizq) by utilizing internet media, print media, electronic and reporting that is expected to increase business volume and brand awareness.

Meanwhile JIB ranked the lowest in their expenditure for publication cost by 3%. Ratio in publication aspect both in Islamic banking in Indonesia and Jordan are relatively low because to make the society have awareness on Islamic banking need continuous efforts to introduce and educate people so that they can manage finances wisely to improve the quality of living in the future and stay away from ribawi transactions in conventional banks. The lack of socialization and education of Islamic banking to the society led to a lack of information received by the society. As a result, people awareness to Islamic banking is also low.

2. *Maqashid* Index Performance Ratio 2nd Goal (*Justice / Al-Adl*)

a) *Mudharabah and Musharakah Modes/Total Investment Modes (R_2^1)*

At the second goal of *Maqashid* Index performance ratio regarding Islamic banking performance in allocating their activities for justice reason, this study only choose one ratio about how big is financing ratio that conducted based on profit sharing (*Mudharabah*) and cooperation (*Musyarakah*) scheme/aqad. Financing activities using those scheme/aqad, BMI in Indonesia is ranked as the largest with 48% of their financing is implemented with *Mudharabah* and *Musyarakah* scheme.

Meanwhile JIB ranked as the lowest one with 1.4% ratio. This result indicates that Islamic banking industry development in Indonesia better than Islamic banking industry in Jordan based on financing products. However, financing portion of *Mudharabah* and *Musyarakah* in BSM and BMI unfortunately not dominant with only reach 37% and 48%.

As for the financing portion of *Mudharabah* and *Musyarakah* in JIB and IIABJ are very small by 1.4% and 1.6%. This becomes critical issues regarding *Risk Avoidance* product (*Debt Based*) which is very dominant. Ratio of aqad that mostly used in both Islamic banks is *Murabahah*, *Leasing* and *Ijarah*.

While in the IIABJ *Annual Report* stated that ratio of *Mudharabah* aqad only 1.6%. So do not be surprised if Chapra (2009) stated that islamic banking currently has not been fully in compliance with *Maqasid Syariah*. One thing that makes it is not comply with *Maqasid Syariah* is because the use of aqad in islamic banks is still a bit adopting *profit* dan *loss sharing*. Whereby, most of the aqad used are aqads based on *margin profit* or *debt based* such *Murabahah*. Though the *profit-sharing* aqad that was more reflects justice.

Justice meant on this study is justice in the aspect of economy when the islamic banking financing are more dominant with *mudharabah* and *musyarakah* aqad, then the impact will be more felt in growing investments in the real sectors including income distribution. According to Sakti (2007:94), this is because the aqad is consistent with the nature of the business's profit and loss condition. So that whatever the outcome of the business (profit or loss), profit sharing system ensures no parties mutually agreed to do business, to feel aggrieved. Those who do business (*syarikat*) will get results in accordance with the respective portions.

3. *Maqashid Index Performance Ratio 3rd Goal (Welfare/Al-Maslahah)*

a) *Net Profit/Total Asset (R_3^1)*

In *Maqashid* Index performance ratio, the third goal regarding the *maslahah* is becoming the major element in the islamic financial system. It can also mean the extent to which the existence of islamic banking industry can be felt it benefits by the *stakeholders* (shareholders and the society). The first ratio from this goal is could be seen from the profit ratio of Islamic banking. Based on this ratio, BSM in Indonesia has the highest profitability level over the past 3 (three) years by 1.25% compared to others. Then followed by JIB, BMI, and IIAB with each ratio of 1.167%, 0.908%, and 0.576%. In the *framework* of *maqashid syariah*, this ratio classified as the *hifzhul maal* aspect since islamic banking has tried to utilize and to manage their wealth optimally and prudentially. This also could be meant that when a financial institution has not produced the maximum profit then there is no income redistribution to the stakeholders.

b) *Zakah/Net Income (R_3^2)*

As for the allocation of *Zakah* funds channeled by Islamic banking industry is as their social activities. Based on the facts during the years 2008-2010, the management of BSM *zakah* run by Lembaga Amil Zakat Nasional Bangun Sejahtera Mitra (LAZNAS BSM) gave positive results with a higher value than the ratio of BMI to 0.2% (see Table 4.2). Unfortunately, the data for fund allocation of Islamic banking *zakah* in Jordan is not published. Unavailability data for this ratio is also similar to studies conducted by Mohammed, et. al (2008:14).

This study using *zakah/net asset* variable due to the similarity to the reaserch conducted by Mohammed and Taib (2009:6) and Hameed, et.al (2004:38) in which the net asset or net worth pointing out the difference in total assets and total liabilities. This is because the ratio reflects the wealth performance of islamic banking. In other words, when the amount of bank wealth increased, it will be followed by an increase in the amount of *zakah* paid by the bank. According to Hameed, et.al (2004:26) this variable does not use the denominator net profit, but use net asset because the net profit variable are the ratio used by the conventional calculation.

However, the study conducted by Mohammed, et.al (2008:12), Mohammed and Taib (2009:6) does not distinguish between the increase or decrease amount of *zakah* paid by islamic banks. In other words, the ratio only used to compare each banking performance in *zakah* payment. Because by paying *zakah*, means islamic banking have shown the important role of social responsibility. This awareness indicates the belief in the importance of harmonious coexistence life and peace loving. Such conditions could potentially prevent the occurrence of jealousy in the society that possibly lead to criminal behaviour (Ridwan, 2005:203). *Zakah* orientation has a very clear goal, empowering people who are still lagging behind and meet the social needs required (Ridwan, 2005:189-190).

The more detailed according to BSM *Annual Report* in 2010, BSM put *zakah* as part of their corporate social responsibility (CSR) which is the core strategy and make it as a source of innovation and efficiency

to enhance competitive advantage of the company. This differs from the company that put CSR activities limited only as a company donations (corporate philanthropy). As BSM commitment to make CSR activities as the part of core strategy, company consistently provide reasonable and adequate budget to support CSR programs that are consistently increase. Implementation of CSR in BSM has two source of funds, namely Charity/Social fund and Zakat fund.

c) Investment in Real Sector/Total Investment (R33)

The third performance ratio look at how much investment banking in favor of the real sector of the total investments made. In the year 2008 – 2010 in Indonesia, BSM and BMI provides an excellent growth performance by penetrating the rate ratio of 95-98%. While the ratio of JIB and IIAB by 69.82% and 89.238%. These results were similar to the research conducted by Mustafa, et.al (2008:12) which stated that investing ratio of BSM in real sector is above 90% and IIAB by 82%.

It means that investments of BSM and BMI almost entirely touch real sector and a very few allocated on non-real sector. This shows that the level of partisanship and the orientation of islamic banking in the real sector in Indonesia better than Jordan since Islamic Banking in Indonesia has optimized the actual intermediary function of a bank and improve quality of life of the societies. In addition, it is also in accordance with islamic banking vision in Indonesia “to establish a competitive islamic banking system, efficient and comply with prudence principle that are able to support the real sector significantly through the share-based financing activities and the real transactions in terms of justice, mutual help and towards the betterman condition for the sake of achieving *maslahah al ummah*.”

4.3 Health Level of Islamic Banking Under Performance Indicators

In accordance with the performance evaluation proposed by Mohammed, Dzuljastri and Taib (2008) that the *Maqashid* Indeks model of performance ratio then sorted by the weight obtained from the observations by the islamic economic experts in different countries. The following table 4.4 is the rank result that has been adapted with the weight from Mohammed, Dzuljastri and Taib (2008:9) of the four islamic banks are used as the object of the research.

Based on these weights, as for *Maqashid* Index model on the first goal, BSM is as the largest islamic bank in Indonesia ranked as the highest on educational activities in the performance process of islamic banking. This result can be seen that BSM has differentiation on providing educational activities in order to improve Islamic banking human resources quality. Weight ratio produced for educational activities cumulatively amounting to 0.5%.

While for the second and third goal of *Maqashid* Index model that is improving justice and welfare, BMI ranked as the highest performance compared to three others banks. It is based on BMI activities as the first islamic bank in Indonesia that improve fairness in society through social programs undertaken by BMM (Baitul Mal Muamalat) such as economic empowerment and other activities.

Table 4.4 Ranked of 4 Islamic Banks based on Performance Indicators

Banks	PI of the 1st Objective				Total	PI of the 2nd Objective	PI of the 3rd Objective			
	R_1^1	R_1^2	R_1^3	R_1^4			R_2^2	R_3^1	R_3^2	R_3^3
BSM	0.00009	0.00005	0.00220	0.00305	0.00539	0.04971	0.00120	0.00363	0.10197	0.10680
BMI	0.00009	0.00016	0.00102	0.00378	0.00505	0.06326	0.00087	0.00343	0.10579	0.11008
JIB	0.00017	0.00075	0.00032	0.00232	0.00356	0.00184	0.00120	0	0.07492	0.07612
IIABJ	0.00019	0.00050	0.00029	0.00354	0.00452	0.00213	0.00055	0	0.09575	0.09630

Source: Adapted from www.ibisonline.net

4.4 Islamic Banking Health Level based on Maqashid Index

The following table 4.5 is the rank result that has been adapted with the weight from Mohammed, Dzuljastri and Taib (2008:9) of the four Islamic banks the object of the research. Based on the weights, as for *Maqashid* Index model on the first goal, BSM is as the largest islamic bank in Indonesia ranked as the highest on educational activities in the performance process of islamic banking. These result can be seen that BSM has differentiation on providing educational activities in order to improve islamic banking human resources quality. Weight ratio produced for educational activities cumulatively amounting 0.539%. Then followed by BMI by 0.505%, IIABJ by 0.452%, and JIB by 0.356%.

While for the second and the third goal of *Maqashid* Index model that is improving justice and welfare, BMI ranked as the highest compared to three others with the ratio of 6% and 11%. Then followed by BSM with the ratio of 4.9% and 10.68%, IIABJ with 0.2% and 9.6%, and JIB with 0.18% and 7.6%. It is based on BMI activities as the first islamic bank in Indonesia that is tried to improve fairness in the society through social programs undertaken by BMM (Baitul Mal Muamalat) such as economic empowerment and other activities.

Social activities undertaken by BMM sourced from fund allocation of CSR Bank Muamalat, ZIS funds of the company (*Zakat, Infaq, Shodaqoh*), employee and customer of Bank Muamalat, also Non-ZIS fund of the company and other social funds. During the year 2010 social funds by BMM has been channeled amounting to Rp 22,8 billion. The funds channeled in form of the program:

1. Economic Empowerment (Komunitas Usaha Mikro Muamalat Berbasis Mesjid (KUM3) and Koperasi Jasa Keuangan Syariah (KJKS) KUM3)
2. Educational Donation (*Islamic Solidarity School* (ISS) and Orphan Kafala, Scholarships for Yatim)
3. Social and Humanity Donation
4. Health Donation
5. Corporate Social Responsibility
6. Non-ZIS Program
7. Berbagi Cahaya Qurban Program
8. Wakaf Empowerment

Table 4.5 Rank of Islamic Banking based on *Maqashid* Index

No	Name of Bank	PI (O1)	PI (O2)	PI (O3)	MI [PI(O1)+PI(O2)+PI(O3)]	Ranked
1	BSM	0.00539	0.04971	0.10680	0.16190	2
2	BMI	0.00505	0.06326	0.11008	0.17839	1
3	JIB	0.00356	0.00184	0.07612	0.08152	4
4	IIABJ	0.00452	0.00213	0.09630	0.10295	3

Table 4.5 above is a ranked based on *maqashid* index by including the ratio of *zakah/net asset*. To avoid bias in the calculation results because the data of *zakah* was not published, this study will recalculate the rank of islamic banking based on performance indicators and *maqashid* index exclude the ratio of *zakah/net asset* to determine whether the calculation results are still the same or there is a difference with the previous one.

Tabel 4.6 Ranked of 4 Islamic Banks based on Performance Indicators Exclude the Ratio of Zakah (in Percentage)

No	Nama Bank	PI (O1)	PI (O2)	PI (O3)	MI [PI(O1)+PI(O2)+PI(O3)]	Ranking
1	BSM	0.539	4.971	10.317	15.828	2
2	BMI	0.505	6.326	10.666	17.497	1
4	JIB	0.356	0.184	7.612	8.154	4
5	IIAB	0.452	0.213	9.630	10.298	3

Tabel 4.7 Ranked of Islamic Banks based on *Maqashid* Indeks Exclude the Ratio of Zakah (in Percentage)

Banks	PI of the 1 st Objective				Total	PI of the 2 nd Objective	PI of the 3 rd Objective			
	R_1^1	R_1^2	R_1^3	R_1^4		R_2^2	R_3^1	R_3^2	R_3^3	Total
BSM	0.009	0.005	0.22	0.30	0.539	4.971	0.12	0	10.19	10.317
BMI	0.009	0.016	0.102	0.37	0.505	6.326	0.08	0	10.57	10.666
JIB	0.017	0.075	0.032	0.23	0.356	0.184	0.12	0	7.49	7.612
IIABJ	0.019	0.050	0.029	0.35	0.452	0.213	0.05	0	9.57	9.630

Based on the above calculation and measurement of *Maqashid* Index (Table 4.7) excluding the ratio of *zakah/net asset*, BMI remains as the islamic bank with a relatively better performance with *Maqashid* Index ratio of 17%. While BSM as the islamic bank with the largest growth of the financial ratio in Indonesia ranked as the second place with the *Maqashid* Indeks ratio of 15.8%. As for the two banks in Jordan IIABJ and JIB ranked as the third and fourth sequently with the total ratio of *Maqashid* Indeks for each of 10% and 8%.

These results indicates that, for the time being, the performance of islamic banking in Indonesia is better than the performance of islamic banking in Jordan. This study showed different results with the study by Mohammed, at.al (2008:15) which demonstrated that islamic banking in Jordan has the higher rank of its *maqashid* Index. Tha factors causing the low value of *maqashid* indeks of JIB dan IIAB is the low ratio of *Mudharabah* and *Musyarakah* with 1.4% and 1.6%. This is affecting the calculation of the islamic banking rank based on performance indicator with the ratio of 0.18% and 1.2% (see Table 4.6).

5. Clonclusion and Recommendations

5.1 Conclusion

Through an analysis and discussion made above, there are some points that can be concluded, as follows. Through *Maqashid Index* approach which consists of three indicators within the scope of measurement: 1) *Education/Tahdzib Al-Fard*, 2) *Justice/Al-Adl* and 3) *Welfare/Al-Maslahah*, it is shown that Islamic banking in Indonesia and Jordan has different performance. The first measurement included in *Education* section through indicators of *Education Grant/Total Expenses*, *Research Expense/Total Expense*, *Training Expense/Total Expense*, *Publicity Expense /Total Expense* shows analysis result that islamic banking industry in Indonesia are represented respectively by BSM (0.539%) and BMI (0.505%) showed better performance than the islamic banking in Jordan by JIB (0.356%) and IIABJ (0.452%). Meanwhile, the second indicator incorporated in the measurement of the *Justice* with indicator of *Mudharabah and Musharakah Modes/Total Investment Modes* showed islamic banking industry in Indonesia also presented better performance than Jordan whereby BMI (6.326%), BSM (4.971%), IIABJ (0.213%), and JIB (0.184%). The last measurement on *Maqashid Index* is *Welfare* with indicator of *Net Profit/Total Asset*, *Zakah/Net Asset*, *Investment In Real Sector/Total Investment* presented the performance of islamic banking in Indonesia is better than Jordan where BMI (11.008%), BSM (10.680%), IIABJ (9.63%), and JIB (7.612%).

Researchs conducted on islamic banks in Indonesia and Jordan represented by BSM, BMI, JIB, and IIABJ provide different result that shown health level performance of the four islamic bank using

Maqashid Index approach. Between the index value resulted there are no single islamic bank on the research objects able to represented high value of *maqashid* index. However, it is found that BMI (Bank Muamalat Indonesia) in Indonesia obtained total ratio of *Maqashid Index* of 17.839%. It means that BMI shows better performance than other three Islamic banks in according to *Maqashid Index* approach. Then followed by BSM with not much different result with BMI (gap 1%) of 16.19%. Meanwhile, IIABJ and JIB ranked as the third and fourth with the ratio of 10.295%, and 8.152%.

5.2 Recommendations

Through the analysis and discussion above, there are some important points to be recommended, as follows:

- For policy makers in islamic banking industry, this study provide more clearly explanation that performance measurement in islamic banking industry in particular is no longer focus on using financial ratio (*focus on shareholders*), but more of that a broad and universal approach to the islamic banking activities aspects (*focus on stakeholders*) should be used as a strategical alternative solutions to realize islamic banking industry more in achieving the *maqasid sharia*.
- To support the availability of the data in calculation and measurement of *Maqashid Index*, for every practitioners in islamic banking industry are encouraged to prepare the report on data related to indicators of *Maqashid Index* calculation; for example comprehensive *shareholder* activity report, bank activity report with the internal employee (GCG), banking activity related to the customers (*funding, financing, service*), and CSR.
- For further research is expected to enhance this study, such as: the more object of the research (not only Indonesia and Jordan), adjustment of the data and complete some other indicators on the calculation of *Maqashid Index* that possibly the data may not be available when this study were conducted.

5.3 Limitations of Study

- No publication of zakah data on islamic banking in Jordan (represented by JIB and IIAB).
- Few object of research and only observe at two countries so that the achievement of islamic banking to the value of global *maqashid syariah* have not been known.
- There are two ratios that are not used in this study, PER ratio and *interest free income* due to the limited data so that the results of this study do not cover all ratio of *maqashid* index.

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