



The Effect of Corporate Governance on Islamic Banking Performance: A *Maqasid Shari'ah* Index Approach on Indonesian Islamic Banks

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Abstract

This study aims to provide empirical evidence on the *Maqasid al-Shari'ah* performance of Islamic banks in Indonesia for the period from 2012 to 2016. The Simple Additive Weighting (TSAW) is employed to obtain the performance of IBs according to the *Maqasid al-Shari'ah*. This study found that the *Maqasid* Index for Indonesia IBs within the range between 11% and 28% with only few banks achieved above 20%. The impact of SSB characteristics and board structures are then tested on the IBs *Maqasid al-Shari'ah* performance. Regression result indicates that SSB characteristics (SSB size, SSB cross membership, SSB Education and SSB reputation) and board structures (Board size and Board independence) have an essential role in improving the performance of IBs. The findings denote SSB with smaller size, higher portion of SSB cross membership, lesser SSB hold doctorate degree, lesser reputable scholar, more members on board of directors, and less independence non-executive directors enhance the performance of IBs. This study offers practical implication and regulators in Indonesia should set up and impose a more robust and new tool to evaluate the *Maqasid al-Shari'ah* performance index in order to assess how far the role of IBs have contributed to the society. This will help all stakeholders to have informed decision which not only concentrates on performance based on financial ratios but also the entire dimensions of IBs that reflect the main purpose of IBs.

Keywords: *Maqasid al-Shari'ah*, Corporate governance, Islamic banks, *Shari'ah* Supervisory Board

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1. Introduction

The practices of Islamic banking is more attuned to the goals of profit maximization rather than obtaining ethical profit (Asutay, 2012). According to Asutay, ethical profit is obtained from interest-free earnings and to give an impact which benefits the growth of society and economy. Good Corporate Governance (CG) practices are needed to assure the sustainability of Islamic Banks (IBs) in order to achieve *Maqasid al-Shari'ah* with the main purpose of boosting people well-being (Asutay, 2012). Mohammed and Taib (2015) for example used the *Maqasid al-Shari'ah* performance measurement to measure the duties and responsibilities expected to be performed by IBs. The measurement covers not only unification dimension like financial measurement, but also many other dimensions to reflect the main purpose of IBs. The implementation of good CG is essential because it covers the interests of the stakeholders and facilitates effective monitoring to encourage IBs to utilize resources more efficiently in order to achieve the *Maqasid al-Shari'ah* (Ginena and Hamid, 2015). In addition, CG should observe the rights of all stakeholders (Chapra and Ahmed, 2002). Prioritizing the justice and fairness, and preserving the rights of all stakeholders are the matters to be fulfilled.

Many studies have been conducted to measure the impact of CG on IBs performance. Some of the measurements used to measure the performance of IBs, which take profitability into account are Tobins-Q, return on assets (ROA), return on equity (ROE) and return on investment (ROI) (see for examples; Nomran *et al.* (2017); Nomran *et al.* (2018); Almutairi and Quttainah (2017); Mollah and Zaman, 2015; Muttakin and Ullah, 2012; Hoque *et al.* (2012); Syam and Najda (2012), and mixed results were recorded in those studies. Mollah and Zaman (2015), Almutairi and Quttainah (2017) and Nomran *et al.* (2017) found that SSBs

attributes enhance financial performance of IBs based on Tobin's Q, ROA and ROE. The SSB has a key role in the IBs operation as an extra layer on its governance (Mollah and Zaman, 2015). The SSB supervises and monitors the operation of IBs, for example supervising the board of directors and the management from offering prohibited products like Collateralized Debt Obligations (CDOs), Mortgage Backed Securities (MBS), and Credit Derivative Swap (CDS).

The board structure represented by the board of directors (BODs) and board independence has a significant role to direct the IBs. The pivotal role of boards is to determine the strategic goals of the IBs and the codes of conducts for senior executive and staffs (Chapra and Ahmed, 2002). They need to make sure that the goals are achieved, executed and a continuous conformity with the codes of conducts in all of the IBs operation while any mismanagement and inefficiency are reduced to protect all the stakeholders' interest. Muttakin and Ullah (2012) found that the size of the BODs positively affects the ROA; Hoque *et al.* (2012) found not only BODs but also audit committee positively affects the ROA. However, Syam and Najda (2012) claimed that CG quality has no influence on the IBs performance when measured by the ROA. Almutairi and Quttainah (2017) on the other hand, emphasized the appropriate size of corporate boards and SSBs to enhance the oversight capability, management conduct and institutional accomplishment.

As IBs has different features compared to conventional banks (CBs), the performance measurement should be different as well (Nomran *et al.*, 2017; 2018). Mohammed and Taib (2015) and Haron and Ibrahim (2016) argued that IBs focus on the participatory way of business enterprises whereby risk and profit are shared among the partners, money and debts are not treated as commodities and the bank and the customer should have relationship as investor partners not as debtor and creditor. IBs are constructed not only based on the financial dimensions to maximize profit but also religious dimensions to generate the ethical financial system as the value of Islamic Moral Economy is embedded on the *Maqasid al-Shari'ah* (Asutay, 2012). Abu Zahrah (1958) classified the *Maqasid al-Shari'ah* into three categories i.e. *tahzib al-fard* (education for individuals), *iqamah al-adl* (justice), and *maslahah* (benefit/welfare). Mohammed *et al.* (2008) and Antonio *et al.* (2012) used to measure the performance of IBs.

This study differs from the previous studies and contributes to the literature in several ways. Firstly, this study examines the performance of IBs based on the *Maqasid al-Shari'ah* performance evaluation model in contrast to the past studies that measure IBs according to accounting measures such as Tobins-Q, ROA, ROE and ROI. This measurement is able to capture wider aspects of IBs performance such as income distribution and social aspects compared to the accounting measures which merely emphasize on the profitability aspect. In continuation to this, secondly, this study examines the impact of CG aspects i.e. the SSB and the board structure on performance as measured by the Maqasid based performance evaluation model (MPEM).

2. Literature Review and Hypothesis Development

2.1 Performance Measurement Using the *Maqasid* Index

Several past researchers examined the performance of IBs by employing the *Maqasid Index* based on the *Maqasid al-Shari'ah* developed by Abu Zahrah (1958). IBs are constructed not only based on the financial dimensions to achieve maximum profit but also religious dimensions to generate the ethical financial system (Asutay, 2012). Ethical financial system promotes the Islamic Moral Economy (IME) as an embodiment of the ontology of Islam originating from the Quran and the Sunnah. IME upholds the economic and sustainable development, social justice and social investing oriented principles (Asutay, 2012). The value of IME are embedded on the *Maqasid al-Shari'ah*. Abu Zahrah (1958) classified the *Maqasid al-Shari'ah* into three categories i.e. *tahzib al-fard* (education for individuals), *iqamah al-adl* (justice) and *maslahah* (benefit/welfare). These concepts were then converted by researchers to measure the performance of IBs.

Mohammed *et al.* (2008) and Antonio *et al.* (2012) used the *Maqasid* Index to measure IBs performance. The index was constructed using The Simple Additive Weighting (TSAW) method. Based on this method, Mohammed *et al.* (2008) tested the performance of six IBs from various countries such as Indonesia, Malaysia, Bahrain, Sudan, Bangladesh and Jordan for the period of six years (2000 – 2005). The selected IBs comprise of Bank Syariah Mandiri (BSM) Indonesia, Bank Muamalat (Malaysia), Bahrain Islamic Bank (Bahrain), Sudanese Islamic Bank (Sudan), Islamic Bank Bangladesh (Bangladesh) and IIABJ Jordan (Jordan). The variables employed were referring to the *Maqasid al-Shari'ah* concept which considered all the

three categories i.e. *tahzib al-fard* (education for individual), *iqamah al-adl* (justice) and *maslahah* (benefit/welfare). Seven ratios were employed to represent the performance indicators. The results showed that no IBs has achieved high performance in the seven ratios representing all the three categories of the *Maqasid al-Shari'ah*.

Antonio *et al.* (2012) employed the *Maqasid* Index approach with TSAW method to measure the IBs performance based on samples of IBs from Indonesia and Jordan for the period 2008 - 2010. The result showed that IBs in Indonesia showed better performance within all the objectives of *Maqasid* Index in comparison with the IBs in Jordan. Another study using TSAW was conducted by Mughess (2008) analyzing the growth and performance of three IBs which are Meezan Bank (Pakistan), Bank Islam (Malaysia) and the Emirates Bank (UAE) in terms of financial growth and the *Maqasid al-Shari'ah*. Mughess then ranked the banks according to TSAW in which Meezan Bank, Emirates Bank and Bank Islam obtained A rating, B rating and C rating, respectively. Thus, Meezan Bank had the highest achievement on the *Maqasid al-Shari'ah* as well as the financial performance.

2.2 Shari'ah Supervisory Board Size

Previous studies by Chapra and Ahmed (2002) and Haniffa and Hudaib (2006) examined the CG characteristics of IBs in Indonesia. Firstly, they found the existence of *Shari'ah* Supervisory Board (SSB) as a part of the CG structure. SSB has an independent role as *Shari'ah* supervision to ensure that IBs operation fully complies with the *Shari'ah*. Besides, the SSB has to probe and verify the *Shari'ah* compliance throughout any financial transactions (Almutairi and Quttainah, 2017). This is in line with the International Financial Supervisory Board (IFSB) provision in which a good CG covers the interest of the stakeholders and facilitates effective monitoring to encourage IBs to use resources more efficiently (Ginena and Hamid, 2015). In addition, the fulfillment of compliance with the *Shari'ah* rules and principles is compulsory. Bank Negara Malaysia (2013) stated that *Shari'ah* principles are the basis for the practice of Islamic finance through the conformity of the tenets, conditions and principles espoused by *Shari'ah*. The comprehensive compliance with *Shari'ah* principles would bring confidence to the general public and the financial markets on the credibility of Islamic finance operations.

A multi-layer governance were proposed by Mollah and Zaman (2015) for IBs. Board of directors, management executives, committees and SSB are together within the governance structure. The BODs are not permitted to generate credit against credit because it will create interest (*riba*). In addition, they are not allowed to offer investment products which contain doubtful (*gharar*) element, for instance, credit debt obligation (CDO), mortgage backed securities (MBS) and credit derivative swap (CDS). Mollah and Zaman (2015) emphasized on the contribution to social justice and evading aggressive risk taking as the implementation of religious beliefs and ethics commitment. This is supported by Mokhtar *et al.* (2008) whereby compliance with the *Shari'ah* rules gives the IBs a significant role to enhance social justice through the maximization of financial performance. Proponents of the SSB existence claimed that SSB will enhance reliability, credibility and legitimacy of IBs (Shaffai, 2008) whereas the opponents found that SSBs caused the IBs performance to decrease due to bureaucracy complexity (Graiss and Pellegrini, 2006).

However, Almutairi and Quttainah (2017) found that the SSBs enhance financial performance of IBs. IBs performed better when the number of SSBs increases. More members involved in SSB means more expertise and many networks connected which could give positive impact to bank performance. Mollah and Zaman (2015) claimed that SSB have significant effect on the performance of IBs and have potential to attain the ethical goals. In Indonesia, the size of SSBs in the IBs as required by the regulation is at least 2 members or the maximum of 50% from total board members (Rama, 2015) with one member from the SSB members acting as the chairman. The members of SSB are allowed to hold concurrent positions as members of SSB not more than four IFIs i.e. two IBs and two non-bank IFIs. The SSB may not concurrently serve as consultants in all Islamic business entities and Islamic business units. In addition, at most, two members of SSB may concurrently serve as a member of National *Shari'ah* Supervisory Board.

SSB size becomes the proxy for SSB. The integration of SSBs into the structure of IBs governance enhances the strategic formulation and execution, and also proposes more direction for the BODs and the management executives. Besides, the role of SSB is to ensure the products offered to customers are *Shari'ah* compliant so that it could have positive effect on IBs performance. Almutairi and Quttainah (2017) suggested that the enhancement on SSBs size would ameliorate oversight and advisory function and ultimately bank

performance. Hence, the following hypothesis is proposed: H1: SSB has positive effect on IBs performance.

2.3 SSB Cross Membership

SSB cross membership (SSBCM) is where a member of SSB also serves on another SSB of IBs. The SSBCM practice is held with the purpose to enhance and enrich the application of Islamic banking law because SSB members get opportunities to have more discussion between the various SSB members in another IBs (Farook *et al.*, 2011). SSB members with cross membership are able to take on tacit and vivid knowledge to the practice of *Shari'ah* law in the IBs (Rahman and Bukair, 2013). On the other hand, cross membership can create conflict of interest because SSB members know any confidential data and information of another IBs (Grais and Pellegrini, 2006; Alman, 2012) and they will face difficulty in asserting notion of two IBs when launching new products (Bakr, 2002).

Nomran *et al.* (2017) examined the association between SSBCM and performance of IBs. They found that SSBCM resulted a negative effect to the large IBs performance measured by ROA and ROE with argument that the SSBCM will reduce the effectiveness in work. However, Almutairi and Quttainah (2017) found a positive effect between SSB interlocks and IBs performance based on ROA, ROE and Tobin's Q. They argued that the connection made by interlocking SSB triggers good connection among the IBs, equalizes resource distribution, and raises the performance of the IBs. By having SSBCM, the advantages outweigh the disadvantages. Hence, the following hypothesis is proposed: H2: SSB cross memberships has positive effect to the IBs performance.

2.4 SSB Educational Qualification

SSB competency is a resource for the IBs (Huse, 2007). SSB roles are related to general and function-oriented knowledge because it is related to advisory task on *Shari'ah* matters. Therefore, the SSB may have knowledge in finance, accounting, Islamic law, common law or civil law, strategy and management behavior. The knowledge in *Shari'ah* is extremely important to the SSB members. SSB is usually comprised of members who are not only having specific knowledge on Islamic law but are also complemented with knowledge on business and economics. According to Ginena and Hamid (2015), SSB members have to have sufficient academic qualification to offer *Shari'ah* guidance for the IBs. In the industry, there is however no general agreement on how to determine the *Shari'ah* scholar with sufficient qualifications.

Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI) on *Shari'ah* standard No.29 argued that *Shari'ah* scholars should have knowledge on *fiqh al-mu'amalat* and Islamic finance. However, having lack of knowledge on one of them will ruin the capabilities to fully practice the principles and theory of Islamic laws (Ginena and Hamid, 2015). This will cause false *fatwa* issuance and may interrupt the development and advancement of IBs. Rahman and Bukair (2013) emphasized on the importance of having knowledge in Islamic law, business and economics in order to be able to interpret the complex financial transactions within the IBs. The SSB members with doctorate degree are better informed on the current implications of IBs (see for examples; Farook *et al.*, 2011; Ginena and Hamid, 2015). Ayedh and Echchabi (2015) found the competent SSB will enhance the technicality while doing *Shari'ah* supervision and will increase the credence and trust from the customers in IBs. Nomran *et al.* (2017) found that educational qualification has positive influence toward the IBs performance. Hence, this variable is hypothesized that, H3: The SSB educational qualification has positive effect on IBs performance.

2.5 SSB Reputation

SSB reputation represents the recognition of the ability and knowledge of the SSB members in the industry especially on *Shari'ah*, business, and Islamic finance issues. Rahman and Bukair (2013) argued that *Shari'ah* scholar is someone who has the credibility and eminent knowledge in Islam and has prominent contribution to the society. This is supported by Ginena and Hamid (2015) who observed that a reputable scholar is someone who has recognition from many established scholars and expertise on *Shari'ah* law and Islamic finance. According to Huse (2007), boards obtained advantages for bringing a highly reputable person in the board. Highly reputable SSB is expected to comprehend latest implication of IBs (Farook *et al.*, 2011; Rahman and Bukair, 2013). Nomran *et al.* (2017) found that SSB reputation has significant influence on large

IBs performance because of their reputations. However, for small IBs, the SSB reputation has negative impact on IBs performance because of a deficiency on *Shari'ah* governance implementation. Therefore, the hypothesis proposed is, H4: SSB reputation has positive effect on IBs performance.

2.6 SSB Expertise

SSB expertise contextually means SSB members who have finance or accounting knowledge besides Islamic law knowledge (Rahman and Bukair, 2013). The primary task of the SSB is to conduct examination and supervision on *Shari'ah* facet of IBs product and services. They have to examine and analyze the financial contracts, agreements, and related documents to ensure conformity with *Shari'ah* principles. Ginena and Hamid (2015) opined that finance knowledge is very important because it will help to reduce communication gap among the SSB members, thus eases problem solving measures. The AAOIFI argued in its *Shari'ah* standard No.29, that finance or accounting knowledge complements the SSB member to understand the IBs practice and helps them do the job well. Nomran *et al.* (2017) examined the influence of SSB expertise on IBs performance. They found that the SSB expertise have positive impact on the large IBs and small IBs. Based on the abovementioned arguments, the hypothesis is, H5: SSB reputation has positive effect on IBs performance.

2.7 Change in the SSB Composition

According to Ginena and Hamid (2015), the SSB changes could take place with the intention to bring new insight and knowledge among the SSB members or non-conformity of SSB member with contracts. The other factors are the inability to perform the task well and gross negligence which can lead to appointment termination as the SSB member. Alman (2012) tested the impact of changes in SSB composition to IBs risk taking behavior. The annual changes of SSB members have positive impact on loan portfolio risk taking of IBs. The SSB members need more time to comprehend the loan portfolio risk on the asset side and this results in them being more restrictive. After that, they allow the loan portfolio risk taking. Nomran *et al.* (2017) found that the change in the SSB composition has negative influence to the performance of IBs. The reason is because old SSB members have given significant contribution to the IBs and when they are replaced with newly appointed SSB, these new SSB needs time to prove their contribution to the IBs. Therefore, this study hypothesized H6: Change in the SSB composition has positive effect on IBs performance.

2.8 Board Structure

The board structure is represented by board size and board independence. Several empirical researches found different findings on how board size and board independence influence firm performance. The stakeholder theory states that the enhancement in terms of BOD numbers improves the stakeholders' representation inside the company. In the light of IBs, several studies have been conducted by Al-Saidi and Al-Shammari (2013), Bukair and Rahman (2015) and Mollah and Zaman (2015). Mollah and Zaman (2015) found that small boards tend to be profit driven while independent directors influence the decreased on IBs performance. They argued that more independent directors selected with the intention to fulfill the regulatory requirement or market and the scarcity of high independent directors are finite. However, board size and board independence interaction has a highly significant and positive influence on the IBs performance. Al-Saidi and Al-Shammari (2013) and Bukair and Rahman (2015) also studied the effect of board size on IBs performance. They found similar finding with Mollah and Zaman (2015) that size of board has negative effect on bank performance. Al-Saidi and Al-Shammari (2013) argued that smaller board size would enhance IBs performance.

In Indonesia, the Corporate Governance (CG) code does not determine the maximum or minimum number of BODs for IBs. According to the Bank Indonesia (BI) regulation No 11/3/PBI/2009 (PBI) (BI, 2009), Independent Non-Executive Director means a party which does not have financial, management, share ownership and/or family relationship with the controlling shareholders, members of the Board of Commissioners and/or members of the Board of Directors. In addition, Independent Non-Executive Director does not have financial relationship and/or share ownership relationship with the bank. Since a board structure which comprises of board size and board independence produces different results based on the previous studies, hence, the following hypotheses is proposed: H7: A higher (lower) number of board size will have

greater (lesser) effect on IBs performance. H8: A higher (lower) percentage of independent non-executive director will have greater (lesser) effect on IBs performance.

2.9 Controlled Variables

Two controlled variables were used in this study, namely bank size (Al-Saidi and Al-Shammari, 2013; Bukair and Rahman, 2015; Nomran *et al.*, 2017) and bank age (Mkadmi and Halioui, 2016; Nomran *et al.*, 2017).

3. Methodology

3.1 Measurement Model

The IBs performance is measured based on The *Maqasid* Performance Evaluation Model (MPEM). The MPEM is adopted from Al-Ghazali. Al-Ghazali divided *maslahah* into three aspects which are necessities (*daruriyyat*), complements (*hajiyyat*) and embellishments (*tahsiniyyat*). He further divided necessities to 5 aspects such as preservation of religion (*al-din*), life (*al-nafs*), intellect (*al-'aql*), progeny (*al-nasl*), and wealth (*al-mal*). Al-Ghazali's framework focused on the human beings. However, this framework can also be adjusted to fit within the IBs context because IB is classified as inanimate objects. Therefore, Mohammed *et al.* (2015) solved this problem by incorporating Ibn Ashur (2006) theory of *Maqasid*. The association between Al-Ghazali dimensions and Ibn Ashur (2006) elements are as follows:

Table 1: Associating Al Ghazali dimensions to Ibn Ashur's elements

Al Ghazali <i>Maqasid</i> Dimensions	Ibn Ashur's Elements
1.Preservation of religion	Freedom of faith
2.Preservation of life	(i) Preservation of human dignity (ii) Preservation of human right
3.Preservation of intellect	(i) Propagation if scientific thinking (ii) Avoidance of brain drain
4.Preservation of progeny	Care of family or Care of stakeholder
5.Preservation of wealth	(i) Wellbeing of society (ii) Minimizing income and wealth disparity

Source: Adopted from Mohammed *et al.* (2015)

Mohammed *et al.* (2015) applied content analysis to connect the five aspects of necessities which are the preservation of religion, life, intellect, progeny and wealth with Ibn Ashur's elements as mentioned above. It will help to match the interpretation and institutional elements for an institution like IBs. Mohammed *et al.* (2015) used the Ibn Ashur interpretation on Al-Ghazali five *Maqasid* dimensions to assist the operationalization of the Ibn Ashur's elements to obtain the ratios in order to analyze the IBs performance. The ratios are obtained by conducting the selection based on several criteria such as adopting the ratios used by identical studies assessing performance of IBs, statistical convenience based on data source and by assuring the reflection of *Maqasid al-Shari'ah* on the performance measurement i.e. the *Maqasid al-Shari'ah* Performance Evaluation Model (MPEM).

This study employed the MPEM adopted from Mohammed *et al.* (2015) with certain adjustment and new inclusion. This model provides a comprehensive measurement on all aspects of the *Maqasid al-Shari'ah* (Refer Appendix 1 for definition and operational variables used).

Firstly, *Maqasid* performance measurement on the preservation of *faith* comprised of two ratios (R1 to R2). These preservations mean that the IBs should protect the society from exercising *riba*. It aims to safeguard *ummah* to have freedom performing their religion. IBs bear crucial responsibility in furthering socio-economic development without charging *riba* with moral and ethical attributes that can effectively motivate business to flourish in a more conducive financing environment in realizing the *maqasid al-Shari'ah* (Haron and Ibrahim, 2016). In order to measure this dimension, two ratios are proposed which are (i)

mudarabah and *musharakah* investment/total investment and (ii) interest free income/total income. First ratio is employed to comprehend how many percentage of profit and loss sharing investment to total investment and the second ratio is used to examine the total interest free income with respect to total income. Secondly, preservation of life is measured with two ratios (R3 to R4) which are (i) corporate social responsibility (CSR) Expenditure/Total expenses, (ii) *Zakat* distribution/Net Asset. CSR expenditure and *zakat* portray IBs purpose to protect human dignity and human rights. The higher the ratio means IBs concern to human life and dignity.

Thirdly, the *Maqasid* performance measurement on protecting mind comprised of two ratios (R5 to R6). These ratios aim to protect the intellect with regards to the prohibitions i.e. intoxicants. Ibn ‘Ashur modified this dimension into two elements which comprised of propagation of scientific thinking and avoidance of brain drain. This dimension is measured with (i) investment in technology/total asset to ascertain IBs commitment to the advancement of technology in order to support their operation; (ii) number of employees’ turnover/total number of employees to ensure this ratio stays as low as they can to maintain the stability of bank’s performance.

Fourthly, the measurement focuses on preserving the offspring. This ratio refers to the term care for family and also stakeholders. It includes the shareholders, customers, employees and government servants. These elements are measured with R7 to R12. Shareholders are represented with R7 and R10. R7 related to market value divided by book value. Most of IBs are unlisted in the Indonesia Stock Exchange. Since the market value data cannot be obtained except for the Bank Panin Syariah which was listed on January 2015, the market value divided by book value ratio is replaced with return on equity (ROE). ROE measures the firms’ profitability by showing how much profit the IBs obtained from invested shareholders’ fund. ROE is widely employed in several studies measuring IBs performance (see for examples; Mollah and Zaman, 2015; Almutairi and Quttainah, 2017; Nomran *et al.*, 2017). Employees are represented with R8 and R9, customers are depicted with R11 and government servants are portrayed by R12. R11 is related to the credit risk in which the performance ratio has not been defined by Mohammed *et al.* (2015). This study measures credit risk based on non-performing financing (NPF) by dividing the NPF divided over total financing. NPF means financing which has been overdue for more than 90 days. This proxy has been applied in several studies (see for examples; Ahmad and Ahmad, 2004; Haryono *et al.*, 2016).

Fifth, the preservation of wealth is also belong to necessity because it aims to protect the society wellbeing and lessen the income disparity. R13-R15 portrayed on how much the IBs invested into real sector business activities which can improve the society wellbeing and dampen the gap between the rich and the poor.

3.1.1 Weightage Allocation of Banks’ Performance Variables

According to Bedoui (2012), the *Maqasid al-Shari’ah* performance measurement can be conducted based on the balance concept. It is based on Surah Al-Baqarah verse 143 which stated that;

“And thus we have made you a just community that you will be a witnesses over the people and the Messenger will be a witness over you”.

From this verse, many scholars argued that Islam and *Shari’ah* have a position as a middle way. Therefore, the balance can be applied on companies as well. In terms of IBs, the balance can be applied between all the five objectives (*Maqasid al-Shari’ah*). By taking into consideration the relationship between dimension, elements and performance ratios, this study uses a quantitative method namely TSAW (The Simple Additive Weighting) adopted from Multiple Attribute Decision Making (MADM) (Yoon and Hwang, 1995). This method has been applied in several studies like (Antonio *et al.*, 2012; Asutay and Harningtyas, 2015; Mohammed and Taib, 2015). The MADM is a supporting management tool for decision making to assess many options with multiple attributes which are usually in contrary (Yoon and Hwang, 1995). The methodology attempts to get the valuable index from multidimensional data to assess various options. The analysis is embarked with setting up the attributes to quantify the pertinent objectives achievement. It can be done by conducting the literature review and interviewing experts to discover the attributes in the problem scope after that the options are compared over the selected attributes. As for TSAW method, it requires decision makers to determine weights for each attribute/reference. Total score for an alternative is obtained by summing up all crossing result of the rating which can be contrasted across attributes and weight of each

individual.

In order to get the dimension score, the formula of TSAW is as follows:

$$V(Di) = Vi = \sum_{j=1}^n W_j V_j (Xij), i= 1, \dots, m$$

V (Di) means the dimension score, whereas W_j and $V_j(Xij)$ are the weight and value function of the element (Yoon and Hwang, 1995). The weights are assumed to be equally proportioned because (Bedoui, 2012) argued that the balance is applicable to all 5 objectives of *Maqasid al-Shari'ah*. In this case, the weights for the elements and the performance ratios are also equally proportioned (refer Appendix II for details).

3.1.2 Steps of *Maqasid* Index Calculation

Performance ratios are compared between samples of observation to provide a preliminary assessment results of the *Maqasid* Index. Fifteen performance ratios are the representative of the five *Maqasid al-Shari'ah* objectives (preservation of faith, life, intellect, progeny and wealth) (refer Appendix II).

The TSAW method attains an index by summing up the contributions from each attribute (Yoon and Hwang, 1995). In this study, the attributes comprise of five dimensions of *Maqasid al-Shari'ah* and the intra-attributes consist of eight elements and 15 performance ratios. The weights are assigned to be equally proportioned because (Bedoui, 2012) argued that the balance is applicable to all the 5 objectives of *Maqasid al-Shari'ah*. In this case, the weights for the elements and the performance ratios are also equally proportioned. The assessments for the 15 performance ratios are generated from the annual reports for the five years period (2012-2016). Total score for each IB is generated from the multiplication of the scale rating for each attribute with each appropriate intra-attribute, then summing up all these multiplication results. Mathematically, an evaluation of each IBs *Maqasid al-Shari'ah* performance (dimension, elements and performance ratios) can be made by the following models (refer Appendix II for details).

First *Maqasid* (Preservation of Faith)

W1 is the weight for Preservation of Faith

$$PI (D1) = W1 (E1 (R1 + R2)) \dots \dots \dots (1)$$

where,

- (D1) shows the first *Maqasid al-Shari'ah* that is Preservation of Faith
- W1 is the weight of D1
- E1 is the weight of first element of D1
- R1 is the weight of first performance ratio of E1
- R2 is the weight of second performance ratio of E1

Second *Maqasid* (Preservation of Life)

$$PI (D2) = W2 x (E2 x R3 + E3 x R4) \dots \dots \dots (2)$$

where,

- (D2) shows the second *Maqasid al-Shari'ah* that is Preservation of Life
- W2 is the weight of D2
- E2 is the weight of the second element of the D2
- E3 is the weight of the third element of the D2
- R3 shows the weight of third performance ratio of E2
- R4 shows the weight of fourth performance ratio of E3

Third *Maqasid* (Preservation of Intellect)

$$PI (D3) = W3 (E4 x R5+ E5 x R6) \dots \dots \dots (3)$$

where,

- (D3) shows the third *Maqasid al-Shari'ah* that is Preservation of Intellect
- W3 is the weight of D3
- E4 is the weight of fourth element of D3
- E5 is the weight of fifth element of D3

- R5 shows the weight of fifth performance ratio of E4
- R6 shows the weight of sixth performance ratio of E5

Fourth *Maqasid* (Preservation of Progeny)

$$PI (D4) = W4 (E6 \times (R7 + R8 + E9 + E10 + E11 + E12)) \dots \dots \dots (4)$$

where,

- (D4) shows the fourth *Maqasid al-Shari'ah* that is Preservation of Progeny
- W4 is the weight of D4
- E6 is the weight of sixth element of D4
- R7 shows the weight of seventh performance ratio of E6
- R8 shows the weight of eighth performance ratio of E6
- R9 shows the weight of ninth performance ratio of E6
- R10 shows the weight of tenth performance ratio of E6
- R11 shows the weight of eleventh performance ratio of E6
- R12 shows the weight of twelfth performance ratio of E6

Fifth *Maqasid* (Preservation of Wealth)

$$PI (D5) = W55 (E51 \times R51 + E52 \times R52 + E53 \times R53) \dots \dots \dots (5)$$

where,

- (D5) shows the fifth *Maqasid al-Shari'ah* that is Preservation of Wealth
- W5 is the weight of D5
- E7 is the weight of seventh element of D5
- E8 is the weight of eighth element of D5
- R13 shows the weight of thirteenth performance ratio of E7
- R14 shows the weight of fourteenth performance ratio E8
- R15 shows the weight of fifteenth performance ratio E8

Then the multiplication between dimensions and performance ratios with their own weight are summed to determine the largest total value as the best candidate. Mathematically the model is as follows:

$$MI = PI (D1) + PI (D2) + PI (D3) + PI (D4) + PI (D5) \dots \dots \dots (6)$$

3.1.3 Empirical Model

This study analyzed the CG variables and its impacts on the *Maqasid* Index performance of IBs in Indonesia. The completed yearly data are obtained from each IB annual report from 2012-2016. The multiple regression models will be used to test the relationship between SSB characteristics, board structure, bank size, and bank age variables to the extent of IBs performance.

$$IBP_{i,t} = \alpha_0 + \alpha_1 * SSBS_{i,t} + \alpha_2 * SSBCrossmemb_{i,t} + \alpha_3 * SSBEdu_{i,t} + \alpha_4 * SSBRep_{i,t} + \alpha_5 * SSBExp_{i,t} + \alpha_6 * SSBChComp_{i,t} + \alpha_7 * BoardSize_{i,t} + \alpha_8 * BoardInd_{i,t} + \alpha_9 * BSize_{i,t} + \alpha_{10} * BAge_{i,t} + \epsilon_{i,t}$$

Table 2 summarizes the definition of the dependent, independent and controlled variables which illustrates how the dependent, independent, and control variables are measured in this study.

Table 2: Definition of the Dependent, Independent, and Controlled variables

Variable	Definition	Reference
<i>Dependent Variable</i>		
<i>Maqasid Performance Evaluation Model (MPEM) Index</i>	Total value of MPEM by using TSAW (The Simple Additive Weighting)	Mohammed <i>et al.</i> (2015)
<i>Independent Variable</i>		
<i>Shari'ah Supervisory Board (SSB) Size (SSBS)</i>	Total number of SSB members	Rahman and Bukair (2013); Mollah and Zaman (2015) Almutairi and Quttainah (2017); Nomran <i>et al.</i> (2017)
<i>SSB cross membership (SSBCrossmemb)</i>	% of SSB member who serve on another SSBs	Farook <i>et al.</i> (2011); Rahman and Bukair (2013); Almutairi and Quttainah (2017); Nomran <i>et al.</i> (2017)
<i>SSB educational qualification (SSBEdu)</i>	% of SSB member who hold PhD/Doctorate title	Farook <i>et al.</i> (2011); Rahman and Bukair (2013); Nomran <i>et al.</i> (2017)
<i>SSB reputation (SSBRep)</i>	% of SSB member who sit on National Supervisory Board of Indonesia (<i>Majelis Ulama Indonesia</i>) and at least another SSB	Farook <i>et al.</i> (2011); Rahman and Bukair (2013); Nomran <i>et al.</i> (2017)
<i>SSB expertise (SSBExp)</i>	% of SSB member with accounting, business or finance knowledge	Nomran <i>et al.</i> (2017, 2018)
<i>Change in the SSB composition (SSBChComp)</i>	Dummy variable (1 if the SSB composition changed annually and 0 otherwise)	Nomran <i>et al.</i> (2017)
<i>Board Structure: Board Size (BoardSize)</i>	Number of members on the board of directors	Al-Saidi and Al-Shammari, (2013); Bukair and Rahman (2015); Mollah and Zaman (2015) Almutairi and Quttainah (2017)
<i>Board Independence (BoardInd i,t)</i>	% of Independent Non-Executives Directors on the board	Mollah and Zaman (2015)
<i>Controlled Variable</i>		
<i>Bank Size (BSize)</i>	Natural logarithm of total revenues	Nomran <i>et al.</i> (2018)
<i>Bank Age (BAge)</i>	Age of bank	Nomran <i>et al.</i> (2017)

3.2 Data Collection and Sample Selection

This study examines 11 IBs in Indonesia. Data were obtained from the annual report of each bank. According to OJK (2017), there are 13 Islamic Banks in Indonesia as per June 2017. The study period is five years from 2012-2016. Banks that are founded after 2012 (Bank Aceh Syariah and Bank Tabungan Pensiunan Nasional Syariah) were excluded in order to get a balanced panel data.

4. Empirical Findings and Discussion

4.1 *Maqasid* Performance of Islamic Banks

The *Maqasid* index performance ratios of the preservation of *faith* are measured with the *mudharabah* and *musharakah* Investment/ Total Investment (R1) and the Interest Free Income/Total Income (R2). The highest score for the first objective is achieved by the Bank Jabar Banten Syariah (BJBS) that reached up to 0.1972 in 2013. This is because the BJBS had the highest *mudharabah* and *musharakah* Investment and lower investment on the securities due to the maturity of *Shari'ah* Government Bond (SBSN) IFR 004 in 2013. In addition, BJBS had less non-*halal* income in 2013 so the accumulation of R1 and R2 has led the BJBS get the highest score compared to other IBs. The high ratios for both show that the BJBS intent to maintain the attainment of *Maqasid al-Shari'ah*. On the other hand, Maybank Syariah Indonesia (MSI) obtained the lowest score which accounted for 0.0983 in 2012. The MSI had not provided the *mudharabah* and *musharakah* Investment in 2012 but they provided the receivables based on *murabahah*, *istishna* and *ijarah*.

The *Maqasid* index performance ratios of the preservation of life are quantified with the Corporate Social Responsibility (CSR) Expenditure/Total Expenses (R3) and the *Zakat* distribution/Net Asset (R4). The highest score for the second objective is obtained by the Bank BNI Syariah (BBNS) with R3 reached up to 0.00087 in 2016. The reason is that there was an increase in CSR fund from 7.55 billion rupiahs in 2015 to 8.32 billion rupiahs in 2016. In addition, total *zakat* distributed also increased from 12.79 billion rupiahs in 2015 to 15.74 billion rupiahs in 2016. However, MSI scored the lowest accounted for 0.0000048 in 2015. According to MSI 2015 annual report, the bank has not started to manage the *zakat* fund and distribute *zakat* fund so the statements of source and uses of *zakat* funds are not available. According to OJK (2015a,b), the regulation of transparency and publication on the article number 14 requires the IBs to have a report on source and distribution of *zakat* fund. When the MSI starts to pay and manage the *zakat* fund, the report on source and distribution of *zakat* fund have to be available. Non-payment of corporate *zakat* can occur because there is no clear accounting standard which regulate the corporate *zakat* for IBs (Atmahadi and Dewi, 2011). However, the practice of corporate *zakat* are still done by IBs, for example, BSM determined the *zakat* rate at 2.5% from the profit before *zakat* and tax in 2016 which was based on the general meeting of shareholders. The total amount CSR distributed reached up to 60 million rupiah. This amount is relatively small if compared with the total expenses incurred by MSI.

The *Maqasid* index performance ratios of the preservation of intellect are measured with the Investment in technology/total asset (R5) and the Number of employees left/Total number of employees (R6). The highest score for the third objective is obtained by Bank Mega Syariah (BMS) which reached up to 0.0261 in 2015. In 2014, there are 4,767 employees but drastically decreased to 2,316 employees in the upcoming years. Based on the BMS annual report in 2015, there was an alteration and transformation of BMS business model in order to improve their organization and distribution networks. The total technology invested until 2015 showed 43 billion rupiahs recorded in the office equipment section. On the other hand, Bank Syariah Bukopin (BSB) attained the lowest figure accounted for 0.000002 in 2015. Their employees increase year by year as their business grows. From 2014 to 2015, their total employees increased by 2.97%. Employee turnover was maintained at a low rate by implementing a strategy for new employees, who are majority fresh graduates, by giving them work contract for graduate management development program. The total technology invested until 2015 showed 25 billion rupiahs recorded in the technology section and another allocation was added making the total investment of 243 million rupiahs.

The *Maqasid* index performance ratios of the preservation of progeny are quantified with the Net Income/Shareholder's Equity (R7), Research Expense/Total Expense (R8), Training and development expense/total expense (R9), Net Income/total asset (R10), Credit Risk (R11), and Tax Paid/Profit before tax (R12). BMS obtained the highest score of 0.0290 in 2012. The biggest contribution comes from the ROE which accounted for 57.98%. BMS obtains 0.57 rupiahs of net income for every rupiahs invested by the shareholders. This is because BMS had a significant contribution on the 61 billion rupiahs of tax paid which resulted on tax paid/profit before tax ratio equal to 25.07%. On the contrary, the lowest score was obtained by BJBS amounted to -0.0219 in 2016. This problem arose due to the significant increase of losses occurred in 2016. The total loss was 545 billion rupiahs due to the increase which was approximately 10 times on the provision for possible losses on the earnings asset from 2015. This had impacted the result of ROE, ROA, and tax paid/profit before tax showing negative results.

The *Maqasid* index performance ratios of the preservation of wealth are measured by Investment in the real economic sector/total investment (R13), Investment in SMEs/total investment (R14) and Investment in Agriculture/total investment (R15). Bank BRI Syariah (BBS) obtained the highest score which accounted for 0.0625 in 2013. The highest contribution for this objective derived from R14. BBS had significant portion of *mudharabah* and *musharakah* investment in SME. For *mudharabah* investment, the total figure was 868 billion rupiahs or 92.7% from total *mudharabah* Investment. For *musharakah* investment, the total figure reached up to 1.55 trillion rupiahs or 89% from total of *musharakah* investment. However, MSI gets the lowest score of 0.000 in 2012. MSI did not have any *mudharabah* and *musharakah* Investment in 2012 but they had product of receivables based on *murabahah*, *istishna* and *ijarah*. Table 3 shows the highest score of *Maqasid* index which is obtained by BBS at 0.2815 while MSI the lowest with 0.1137.

Table 3: *Maqasid* Index based on MPEM

Islamic Banks	2012	2013	2014	2015	2016
Bank Muamalat Indonesia (BMI)	0.2399	0.2319	0.2330	0.2341	0.2386
Bank Victoria Syariah (BVS)	0.1570	0.1690	0.1888	0.1960	0.1905
Bank BRI Syariah (BBS)	0.2789	0.2815	0.2616	0.2239	0.1951
Bank Jabar Banten Syariah (BJBS)	0.2051	0.2612	0.2353	0.2215	0.1433
Bank BNI Syariah (BBNS)	0.1782	0.1815	0.1923	0.2009	0.1905
Bank Syariah Mandiri (BSM)	0.2474	0.2486	0.2316	0.2045	0.2139
Bank Mega Syariah (BMS)	0.1480	0.1351	0.1344	0.1547	0.2001
Bank Panin Syariah (BPS)	0.2087	0.2398	0.2478	0.2400	0.2251
Bank Syariah Bukopin (BSB)	0.2180	0.2081	0.2213	0.2294	0.2362
BCA Syariah (BCAS)	0.1906	0.2098	0.2303	0.2170	0.2068
Maybank Syariah Indonesia (MSI)	0.1137	0.1197	0.1490	0.1347	0.1301

From all the sample observations, the lowest contribution comes from the second objective which is preservation of life. The total amount of CSR and zakat contribution must be improved by raising the amount given to the society. Therefore, the *Maqasid al-Shari'ah* attainment will increase as well.

4.2 Random Effect – Generalized Least Square Regression Results

Table 4: SSB characteristics, board structure of IBs and performance of IBs

R^2	0.4638					
Adjusted R^2	0.3419					
Standard Error	0.0333					
F-statistic	3.8065					
F-significance	0.0009					
Number of observations	55					
Variables	Coefficient	Standard Error	t-statistic	Significance	Hypotheses	Result and sign
Constant	-0.1400	0.1437	-0.9742	0.3353	-	---
<i>Corporate Governance Variables</i>						
SSBS	-0.0394	0.0107	-3.6996	0.0006*	H ₁	Supported (-)
SSB						
Crossmemb	0.0792	0.0358	2.2139	0.0321**	H ₂	Supported (+)
SSBEdu	-0.0393	0.0192	-2.0470	0.0467**	H ₃	Supported (-)
SSBRep	-0.0426	0.0240	-1.7704	0.0836***	H ₄	Supported (-)
SSBExp	0.0118	0.0446	0.2642	0.7928	H ₅	---
SSB						
ChComp	-0.0058	0.0170	-0.3416	0.7343	H ₆	---
BoardSize	0.0090	0.0044	2.0607	0.0453**	H ₇	Supported (+)
BoardInd	-0.0911	0.0533	-1.7093	0.0944***	H ₈	Supported (-)
<i>Bank specific variables as controlled variables</i>						

BSize	0.0146	0.0060	2.4458	0.0185**
BAge	0.0001	0.0011	0.0844	0.9331

Notes: This Table exhibits the full sample result of RE-GLS for the all variables. No issue on multi-collinearity since VIF for each variable is < 10 (Haron and Ibrahim, 2012). The sign of *, **, and *** on the variable shows the significance at 1%, 5%, and 10% respectively. N = number of observations, MPEM = Maqasid performance evaluation model, SSBS = SSB size, SSBCrossmemb = SSB Cross membership, SSB Edu = SSB educational qualification, SSBRep = SSB reputation, SSBExp = SSB expertise, SSBChComp = Annual changed SSB composition, BoardSize = Board Size, BoardInd = percentage Independent non-executive directors on the board, BSize = Bank size, BAge = Bank age.

The result of RE-GLS is significant ($p=0.05$) and produces R^2 of 0.3419, indicating that the SSB characteristics (SSBS, SSBCM, SSB Edu, SSBRep, SSBExp, SSBChComp), board structure (BoardSize, BoardInd) and controlled variables (BSize, BAge) are able to explain 34 percent of the variation in the MPEM. It means that all the independent variables have a significant influence on the performance of IBs.

Ten hypotheses are examined in this study. SSB Size (H1) is statistically significant at one percent level and has a negative relationship with the performance of IBs. The negative relationship exhibits that IBs with large SSB size tend to reduce the performance of IBs. The SSB size of all the 55 observations in Indonesia ranged from two to three. However, this result is distinct from Mollah and Zaman (2015); Almutairi and Quttainah (2017) where statistically significant and positive association was recorded with the performance of IBs. Cross-membership (H2) is statistically significant at 5% level and has a positive association with the performance of IBs. If more SSB members have cross membership within IBs, the IBs performance will increase. This result is consistent with Almutairi and Quttainah (2017), where SSB cross membership makes SSB members well connected, and it will create a better resource allocation. Thus, it has positive and statistically significant relationship with the performance of IBs. In Indonesia, SSB cross membership is regulated based on the BI Regulation Number 6/24/PBI/2004. It is stated that SSB can only be concurrent member of SSB not more than four IFIs, i.e. two other IBs and two other non-bank financial institutions. By having this regulation, restriction on cross-membership of SSB will reduce the independence issues and conflict of interests. Furthermore, it will increase the effectiveness of SSB to monitor and advise the IBs (Nomran *et al.*, 2017). Therefore, the SSB members can focus more and be more effective in preparing an evaluation report to National Supervisory Board of Indonesia (*Majelis Ulama Indonesia*) related to the *Shari'ah* principles implementation in IBs (Rama, 2015).

SSB Education (H3) is statistically significant at 5% level and has a negative influence on the performance of IBs. SSB members with doctorate degree do not have positive impact on the performance. This result is similar with Nomran *et al.* (2017) which found a negative relationship of SSB educational qualification with the IBs' performance. In Indonesia, all the SSB members in several IBs such as BMI, BVS, BBNS, BSM, BCAS hold a doctorate degree. Most of the members hold the doctorate degree specialization on the *Shari'ah* field. More SSB members need to have doctorate degree specializing in the banking and finance to strengthen the advisory tasks and to be better informed on the current implications of IBs. However, this education requirement is not required by BI regulation and National Supervisory Board of Indonesia (*Majelis Ulama Indonesia* - MUI) (Rama, 2015). Based on the BI regulation Number 11/3/PBI/2009, SSB member should have a competence in the field of *fiqh muamalat*. MUI decision Number 03/2000 stated that SSB member must have knowledge and experience in *Shari'ah* and have general finance and banking knowledge. This has an implication on SSB members who do not have doctorate degree, which accounted to 32% from all the sample observations of IBs in Indonesia.

SSBRep (H4) is statistically significant at 10% level and has a negative association with the performance of IBs. The increase on the percentage of SSB members who sits on the MUI and at least another SSB will decrease the performance of IBs. In Indonesia, *Shari'ah* governance allow the SSB members from MUI to sit on the SSB of IBs which can lead to a conflict of interest (Rama, 2015). The implication of this regulation is that there is one scholar who sits at three IBs (27% of SSB IBs) and two non-bank financial institutions in 2016. By having good reputation, the demand to hire this type of *Shari'ah* scholar is very high. This will have an impact on the effectiveness to deliver task as *Shari'ah* scholar and ultimately impact the performance of IBs.

Board Size (H7) is statistically significant at 5% level and has a positive influence on the performance of IBs. An increase in the number of board of directors will lift up the performance of IBs. This result is in agreement with a notion of stakeholder theory which stated that as the number of BOD increase, the stakeholders' representation increases. This will result in a more balanced decision making because it is not

dominated by a person or group of people. In the Indonesian context, the appointment and/or replacement of members of the board of directors have to go through general meeting of shareholders which takes into account the recommendations of the remuneration and nomination committee. Thus, the selected board of directors with appropriate competencies and skills will lead the IBs. This result is different from the findings from Al-Saidi and Al-Shammari (2013); Bukair and Rahman (2015); Mollah and Zaman (2015) who found a negative relationship between board size and IBs performance. All of these studies argued that large BOD size leads to an ineffectiveness in performing their function. It will complicate the coordination and communication which could then cause ineffectiveness in monitoring the performance of IBs.

BoardInd (H8) is statistically significant at 10% level and has a negative association with the performance of IBs. An increase in the percentage of independent non-executive directors on board decrease the performance of IBs. This result is in contrast with the role of independent non-executive directors based on the stakeholder theory in which they should reinforce religious matters, social justice, and welfare rather than focus solely on maximizing shareholders' wealth (Nienhaus, 2006). Then, it will lead to better improvement on the *Maqasid* performance. However, this result is consistent with prior studies conducted by Al-Saidi and Al-Shammari (2013); Bukair and Rahman (2015); Mollah and Zaman (2015). The justification is that the independent BODs selected tend to correspond with the regulatory requirements (Mollah and Zaman, 2015). In Indonesia, the selection process of independent non-executive directors have to comply with the BI regulation No.11/3/PBI/2009. They should not have financial, management, share ownership and/or family relationship with the controlling shareholders, members of the board of commissioners and/or members of the board of directors. Another possible justification related to the independent non-executive directors who do not have strong *Shari'ah*, banking, and finance knowledge (Rahman and Bukair, 2013). It leads to an inefficiency in conducting monitoring to control executives and shareholders performing their authorities and responsibilities in IBs.

5. Conclusion

In this study, the effects of CG on Indonesia IBs performance between the periods of 2012 to 2016 are examined. This study enhances the existing literature which focuses on the CG by examining the influence of the characteristics of SSB and board structures on the performance of IBs that are measured by the *Maqasid* performance index. The measurement utilizes the *Maqasid* Performance Evaluation Model (MPEM) to compute performance score and a quantitative method called The Simple Additive Weighting (TSAW) to obtain the *Maqasid Shari'ah* achievement of IBs.

The *Maqasid* index for all the IBs in Indonesia between 2012 and 2016 ranged from above 11% to 28% with only one bank (BMI) achieved a consistent achievement. Other IBs however show a fluctuating value of the *Maqasid* performance index every year. The *Maqasid* index for all the IBs in Indonesia is relatively low. This study recommends the improvement on the achievement of *Maqasid al-Shari'ah* in Indonesia IBs especially on the second objective namely preservation of life. The increasing amount of CSR and zakat is very important to enhance human life and dignity. The existing accounting standard number 101 regulates that IBs should make the report for sources and uses of *zakat*. It will help to determine the effectiveness and efficiency of *zakat* funds managed by IBs. However, on the accounting standard number 101, there is no detail explanation related to the accounting treatment of *zakat* except on the reporting and disclosure aspects. However, AAOIFI FAS 9 regulates not only reporting and disclosure aspects but also the percentage, calculation and recognition of *zakat*. The improvement needs to be made to the existing accounting standard for uniformity on *zakat* rate of IBs and the calculation and recognition mechanism on *zakat* for IBs. The application of net asset method and net invested funds based on AAOIFI FAS 9 will potentially increase the amount of *zakat* paid by IBs. Furthermore, the regulators should set up and impose a more robust and new tool to evaluate the *Maqasid* performance index in order to have an illustration on how far the role of IBs have contributed to the society. This will help investors to have an informed decision which not only concentrates on the financial ratios but also the entire dimensions of IBs that reflect the main purpose of IBs.

The impact of SSB characteristics (SSB size, SSB Cross membership, SSB Education, SSB Reputation) and board structures (Board Size, Board Independence) are found to have significant influence on the *Maqasid* performance of IBs in Indonesia during the period. The role of CG mechanism through SSBs and BODs should be strengthened to lift up to the *Maqasid al-Shari'ah* achievement.

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Appendix I: Definition and Operational Variables

Dimension	Element	Performance Ratio	Ratio Explanation	Source
D1. Preservation of Faith	E1. Freedom of Faith	R1. <i>Mudarabah</i> and <i>Musharakah</i> Investment/Total Investment	Comprehend on how many percentage of profit and loss sharing investment to total investment	Annual Report
		R2. Interest Free Income/Total Income	Find out the total interest free income with respect to total income	Annual Report
D2. Preservation of life	E2. Preservation of human dignity	R3. Corporate Social Responsibility (CSR) Expenditure/Total Expenses	CSR expenditure and <i>zakat</i> portray the Islamic bank purpose to protect the human dignity and human rights	Annual Report
	E3. Protection of human right	R4. <i>Zakat</i> distribution/Net Asset		Annual Report
D3. Preservation of Intellect	E4. Propagation of scientific thinking	R5. Investment in technology/total asset	Ascertain bank's commitment to the advancement of technology in order to support their operation	Annual Report
	E5. Avoidance of brain drain	R6. Number of employees left/Total number of employees	Maintain the stability of bank's performance by having low percentage of employee turnover	Annual Report
D4. Preservation of Progeny	E6. Care for family [in case of Public Listed Company (PLC)]	R7. Net Income/Shareholders' Equity	Contribution to Shareholders	Annual Report
		R8. Research Expense/ Total Expense	Contribution to Employees	Annual Report
		R9. Training and development expense/total expense	Contribution to Employees	Annual Report
		R10. Net Income/total asset	Contribution to Shareholders	Annual Report
		R11. Credit Risk	Contribution to Customers	Annual Report
D5. Preservation of Wealth	E7. Wellbeing of society	R13. Investment in the real economic sector/total investment	How much the Islamic banks invested into real sector business activities which can improve the society wellbeing and dampen the gap between the rich and the poor	Annual Report
	E8. Minimising income and wealth disparity	R14. Investment in SMEs/total investment		Annual Report
		R15. Investment in Agriculture/total investment		Annual Report

Source: Mohammed *et al.* (2015) with Authors' adjustment and new inclusion

Appendix II: Weighted of *Maqasid* Index Variables

Dimension	Weight (W)	Average Weight (Out of 100%)	Element	Average Weight (Out of 100%)	Performance Ratio	Average Weight (Out of 100%)
D1. Preservation of Faith	W1	20	E1. Freedom of Faith	100	R1. <i>Mudarabah</i> and <i>Musharakah</i> Investment/Total Investment	50
					R2. Interest Free Income/Total Income	50
			Total	100		100
D2. Preservation of life	W2	20	E2. Preservation of human dignity	50	R3. Corporate Social Responsibility (CSR) Expenditure/Total Expenses	50
			E3. Protection of human right	50	R4. <i>Zakat</i> distribution/Net Asset	50
			Total	100		100
D3. Preservation of Intellect	W3	20	E4. Propagation of scientific thinking	50	R5. Investment in technology/total asset	50
			E5. Avoidance of brain drain	50	R6. Number of employee left/Total number of employees	50
			Total	100		100
D4. Preservation of Progeny	W4	20	E6. Care for family [in case of Public Listed Company (PLC)]	100	R7. Net Income/Shareholders' Equity	16.67
					R8. Research Expense/ Total Expense	16.67
					R9. Training and development expense/total expense	16.67
				R10.Net Income/total asset	16.67	
				R11.Credit Risk	16.67	
				R12. Tax Paid/Profit before tax	16.67	
			Total	100		100
D5.Preservation of Wealth	W5	20	E7.Wellbeing of society	50	R13. Investment in the real economic sector/total investment	33.33
			E8.Minimising income and wealth disparity	50	R14. Investment in SMEs/total investment	33.33
					R15. Investment in Agriculture/total investment	33.33
Total		100	Total	100		100

Source: Adopted from (Bedoui, 2012; Mohammed *et al.*, 2015)