

## IMPROVEMENT OF MAQOSHID SHARIAH PERFORMANCE

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### Abstract

The purpose of this study is to examine, whether the Shariah Supervisory Board can improve the performance of Maqosid Shariah on Islamic banking in Indonesia. This study hypothesises that Islamic Banking with implemetation Shariah Supervisory Board and Independent Board of Commissioners have higher performance of maqosid shariah. Performance of maqosid shariah is measured using *maqasid syariah* with simple addictive weighting method. The study uses 12 Syaria Bank in Indonesia. The paper finds that the multiple position of Shariah Supervisory Board and Independent Board of Commissioners has contributed to the maximum improvement of Shariah Bank Performance, and will to the existing literature on Islamic Bank, business ethics, firms' governance. It provides evidence on Syariah Bank in Indonesia

**Keywords:** *Performance, Maqosid Sharia, Shariah Supervisory Board*

### 1. INTRODUCTION

The Islamic finance and banking industry gained confidence and gained strong support especially after the success of shariah banking survived the economic crisis in 2008 (Lin, 2008; Hyun, 2009: 101-120; Khan & Bhatti, 2008: 708-725). In order to maintain these achievements, banking and financial institutions of Islam must be managed properly in order to operate at an optimal level. Therefore, it is important to consider the concept of corporate governance with Islamic banking and finance institutions (Rajinah, 2015).

Aspects shariah compliance are the main and fundamental aspects that

distinguish between shariah banks and conventional banks. Shariah compliance is the *raison d'être* (the reason for existence) for the shariah institution. Therefore, Shariah compliance is an absolute requirement that must be met by financial institutions that conduct business activities based on shariah principles. Corporate Governance in shariah banks has an important role in realizing adherence to shariah principles (Algould& Lewis: 2010, Amanullah M: 2015, ToufikBedj: 2015, Triyanta: 2009, Puspitasari: 2009). Shariah banking governance discrepancies will potentially pose various risks, especially reputation risk to the shariah banking

industry (ToufikBedj: 2015, Amanullah M: 2015, Sharing, 2012, Rahman El Janusi: 2015, Ali Syukron: 2012) that is risk due to decreased stakeholders trust that stems from a negative perception of the bank.

The structure of good corporate governance in banking includes the role of Shariah Supervisory Board, the board of commissioners and audit committee also have a role to oversee the operations of shariah banking to comply with Islamic shariah. The implementation of GCG can reduce the conflicts of interest that occur and grow the performance of shariah banking in particular in the hope of attracting investors to increase their investment (Nur and M. Yayang: 2012, Rajinah: 2015). The multiple position of Shariah supervisory board has a negative effect on the performance of Shariah compliance on the financing, Usamah (2010).

Considering the increasing of shariah banking development, both in terms of the number banks and banking assets, and the severity of risk that must be faced by shariah banking in case of loss risk, both financial loss and reputation risk that if it happens will be very difficult and takes a long time to restore public trust in shariah banking. So this research is important and urgent to be conducted. So

the author interested to examine whether the implementation of good corporate governance can improve the performance of Islamic banks shariahmaqasid in Indonesia.

## **2. RESEARCH METHODOLOGY**

### **2.1 Sample selections and Data**

The populatio of this study comprises all syariah bank in Indonesia, during periode 2011-2015. The sample selection by purposive sampling. Sample of this study is the Shariah Bank that has published the complete financial statements in 2011-2015.

### **2.2 Measurement of Maqosid Shariah**

Shariah banking performance can show how big Islamic banks achieve their goals. Shariah banking performance is not only measured in terms of finance using conventional measurement, but also the non-financial performance that is maqashid shariah in order to not solely earn profit but also performance in terms of its maqasid. Determining the index of maqasid shariah (IMS) Index of maqasidshariah (IMS) is a benchmark of all performance indicators of the three shariah objectives of educating individuals, upholding justice and public interest that can be formulated as follows:

1. Assess the entire ratio of maqasidshariahperformance which consists of performance ratios are:

1. Education grand/total expense (R1.1)
2. Research expense/total expense (R2.1)
3. Training expense/total expense (R3.1)
4. Publicity expense/total expense (R4.1)
5. Profit equalization reserves (PER)/net or investment income (R1.2)
6. Mudharabah and musharaka modes/total investment mode (R2.2)
7. Interest-free income/total income (R3.2)
8. Net income/total assets (R1.3)
9. Zakah paid/net asset (R2.3)
10. Investment in real economic sectors/total investment (R3.3)

2. Determining the rating of shariah banks based on the calculation of performance indicators (P1).

The method used by researchers in this study refers to research that has been done that is Mohammed et al (2008) research. Research conducted using simple additive weighting method (SAW). This method is used to weight, calculate the distribution

and main process of order (ranking) on a certain basis (Huang Aden Yun, 1981). This method is a method of multiple attribute decisionsmaking (MADM). The MADM method is described as follows: First, the main attribute and the intra attribute value must be identified by the decision maker (DM). In this research, the attributes are the achievement of the maqasidshariah in shariah bank and the intra attribute is the elements and the performance indicator as outlined in table 3.1. The decision maker (DM) further gives weighting to each attribute and its intra attributes. In this study, the weight for each attribute is presented in table 3.2 which has been verified by several researchers. After giving weight, the decision maker (DM) gets the total score from each bank. Mathematically, the calculation of performance indicators (P1) for the first objective (O1) is illustrated as follows:

1. Educate individuals (O1)

$$P1 (O1) = W \times E11 \times R11 \times W11 \times E21 \times R21 \times W11 \times E31 \times R31 + W11 \times E41 \times R41$$

Or

$$W11 (E11 \times R11 + E21 \times R21 + E31 \times R31 + E41 \times R41) \dots\dots\dots (1)$$

Where:

O1 = the first objective of the

maqasidshariah (educating the individual)

W11 = Weight average for the first objective

E11 = Weight average for the first element of objective 1

E21 = Weight average for the second element of objective 1

E31 = Weight average for the performance element of objective 1

E41 = The weighted average for the fourthelement of objective 1

R11 = Performance ratio for the firstelement of objective 1

R21 = Performance ratio for the second element of objective 1

R31 = Performance ratios for the third element of objective 1

R41 = Performance ratios for the fourth element of objective 1

Thus,

$$P1 (O1) = P111 + P121 + P131 + P141 \dots\dots\dots (2)$$

Where:

$$P111 = W11 \times E11 \times R11 \dots\dots\dots .. (3)$$

$$P121 = W11 \times E21 \times R21 \dots\dots\dots .. (4)$$

$$P131 = W11 \times E31 \times R31 \dots\dots\dots (5)$$

$$P141 = W11 \times E41 \times R41 \dots\dots\dots (6)$$

## 2. Enforcing justice (O2)

$$P1 (O2) = W22 \times E12 \times R12 + W22 \times E22 \times R32 + W22 \times E32 \times R32$$

Or:

$$W22 (W12 \times R12 + E22 \times R22 + E32 \times R32) \dots\dots\dots (7)$$

$$\text{Thus: } P1 (O2) = P112 + P122 + P132 \dots\dots\dots (8)$$

Where,

$$P112 = W12 \times E12 \times R12 \dots\dots\dots (10)$$

$$P122 = W22 \times E22 \times R22 \dots\dots\dots (11)$$

$$P132 = W32 \times E32 \times R32 \dots\dots\dots (12)$$

## 3. Public interest

$$P1 (O3) = W33 \times E13 \times R13 + W33 \times E23 \times R23 + W33 \times E33 \times R33$$

Or

$$W33 (E13 \times R13 + E23 \times R23 \times E33 \times R33) \dots\dots\dots (13)$$

Thus

$$P1 (O2) = P113 + P123 + P133 \dots\dots\dots (14)$$

Where:

$$P113 = W33 \times E13 \times R13$$

.....

(15)

$$P123 = W33 \times E23 \times R23$$

..... (16)

$$P133 = W33 \times E33 \times R33$$

..... (17)

#### 4. Determining the Index of Maqasid Shariah (IMS)

Index of Maqasid Shariah (IMS) is a benchmark of all performance indicators of the three shariah objectives of educating individuals, upholding justice and public interest that can be formulated as follows:

$$IMS = P1 (O1) + P1 (O2) + P1 (O3) \dots\dots\dots (18)$$

### Shariah Supervisory Board

According to PBI No.11/33/PBI/2009 on the implementation of good corporate governance in shariah banks and shariah business units, shariah supervisory board is a board in charge of providing suggestion and advice to directors and oversee bank activities to keep in accordance with shariah principles. In this study, the Shariah Supervisory Board is measured by the number of Shariah Supervisory Board members

referred to in PBI No.11/3/PBI/2009 article 36 point 1 stating that the number of DPS members shall be at least 2 (two) persons or at most 50% (fifty percent) of the total members of Board of Directors.

Shariah supervisory board = the number of shariah supervisory board members

Multiple positions are calculated based on the percentage of Shariah supervisory board who hold multiple positions more than or equal to three financial institutions divided by the total shariah supervisory board which refers to PBI no. 11/3/PBI/2009 article 36 point 3 stating that the members of DPS can only hold multiple positions as DPS member at the most 4 (four) other shariah financial institutions.

Multiple positions of Shariah Supervisory Board =

$$\frac{\% \text{SSB performing multiple positions} \geq 3}{\text{financial institutions}}$$

Total shariah supervisory board

### Independent Board of Commissioners

Based on Bank Indonesia regulation no. 11/33 / PBI / 2009 independent board of commissioner is a member of the board of commissioners who have no financial, management, share ownership and/or family relationship with the controlling

shareholder, members of the board of commissioners and/or members of the board of directors. Independent Commissioners whose numbers are proportionally proportional to the number of shares held by non-controlling shareholders with the provisions of the number of independent commissioners at least 30% (thirty percent) of the total number of commissioners (Adrian Sutedi, 2012: 152).

|                                       |                                                 |
|---------------------------------------|-------------------------------------------------|
| independent board<br>of commissioners | % independent<br>commissioners                  |
|                                       | All members of the<br>board of<br>commissioners |

The data were processed by doing the descriptive test, classical assumption test consisting of normality test, heteroscedasticity, multicollinearity, and autocorrelations. Hypotheses were tested using multiple linear regression, determination test ( $R^2$ ), the goodness of fit test and a significant test of individual parameters, t-test.

### 3. RESULT AND DISCUSSION

#### Data Analysts Results

The data test using SPSS showed that the normally distributed data, One-Sample Kolmogorov-Smirnov showed Sig. (2-tail) 0.703, which indicates that the research data is normally distributed. The

autocorrelation test indicates that the Durbin-Watson value is greater than the du upper limit (2,004), and is smaller than ( $4 - du = 1,996$ ),  $du < dw < 4 - du$  indicates that there is no autocorrelation. The Multicollinearity test shows that all independent variables have a tolerance greater than 0.10 and no VIF value greater than 10, it proves there is no multicollinearity. The heteroscedasticity test shows that the scatterplots graph display that the point of distribution spreads does not form a clear pattern, the dot spreads above and below the number 0 on the Y-axis. It concludes that this regression model has satisfied the assumption of heteroscedasticity and shows that variation of homogeneous data.

#### Hypothesis testing

##### Test Goodness of Fit Model, Test F

Anova test results showed the value of F arithmetic in the table of 4.917 while the value of F table for this study is 2.42 then  $H_1$  accepted which means  $f_{arithmetic} > f_{table}$  or  $4.917 > 2.42$ . This indicates that the Fit model and can proceed at a later stage.

#### Regression Test

Regression test results can be seen in Figure 3.2 below:

Picture 3.1

**Coefficients<sup>a</sup>**

| Model        | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|--------------|-----------------------------|------------|---------------------------|--------|------|
|              | B                           | Std. Error | Beta                      |        |      |
| 1 (Constant) | ,378                        | ,041       |                           | 9,261  | ,000 |
| SSB          | -,009                       | ,017       | -,093                     | -,498  | ,622 |
| IBC          | -,136                       | ,038       | -,534                     | -3,611 | ,001 |

a. Dependent Variable: Performance

The results of this test indicate that statistically Duplicate Sharia Supervisory Board (Sig. 0,012 <0.05) and Independent Commissioner (Sig. 0.001 <0.05) significant influence on the performance of Islamic Bank ShariaMaqosid in Indonesia. While the Board of Commissioners (0.199 > 0.05), Sharia Supervisory Board (Sig 0.622 > 0.05), Audit Committee (Sig. 0.05.05) and Audit Committee Meetings (Sig .0305 > 0.05) have no effect significant in the effort to improve shariamaqosid performance in sharia banking in Indonesia.

**Discussion**

**Sharia Supervisory Board and Performance of Maqasid Sharia**

The result of hypothesis testing shows that the position of Sharia supervisory board has the significant effect on the performance of maqasidsharia. According to Muttakin and Ullah (2012) The more oversight boards will lead to better performance because, with more supervisory boards, the company (bank) has the better experience, expertise, professional and social networks. Duplication of Sharia Supervisory Board shows that Sharia Supervisory Board has expertise in conducting supervision so as to encourage the performance of maqasidsharia.

**Independent Board of Commissioners and Performance of Maqasid Sharia**

The result of the hypothesis shows that the board of commissioner has a significant effect on the performance of maqasidsharia.

Independent commissioners become the best position to perform the monitoring function in order to create a good corporate governance company. The more the number of independent board of commissioners the independent board decision increasingly prioritizes the interests of the company so that it affects the performance of Islamic banks maqasid (RizkyArifani, 2013).

#### 4. CONCLUSION

The purpose of this study is to prove whether the implementation of good corporate governance can improve the performance of Islamic ShariaMaqosid in Islamic banking in Indonesia. The sample of research was chosen by using purposive sampling method, obtained by eight Sharia Commercial Banks, including Bank Muamalat Indonesia, Sharia BRI, BNI sharia, Mega Sharia, BCA sharia, PaninSharia, Bukopinsharia and MandiriSharia. Hypothesis testing using SPSS 21 with 95% confidence level. The results of this study show, multiple Positions of Sharia Supervisory Board and Independent Board of Commissioners have a significant effect on the performance of maqasidsharia.

#### 5. SUGGESTIONS

Suggestions for subsequent research to use a more comprehensive measure of corporate governance and wider MaqosidSharia measurement.

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