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Determinants of Maqashid Syariah Performance: Evidence from Islamic Banking in Indonesia and Malaysia

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ABSTRACT

The measurement of Islamic banking financial performance has only been measured according to business parameters to date. This study renews this view so that the view on Islamic banking is more comprehensive and fair. Good performance can provide opportunities for Islamic banks to continue to grow and be sustainable. This study aims to evaluate the role of Islamic Social Reporting (ISR), company size, and company age in influencing the performance of maqashid sharia Islamic banking in Indonesia and Malaysia for the period 2016-2021. With the quantitative method of panel data regression, simultaneously ISR, company size, and company age have a significant effect on the performance of maqashid sharia. Partially, the only company size has a significant effect, while ISR and company age do not. This study motivates Islamic banks to be consistent in developing ISR, company size, and company age in every aspect of bank operations.

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1. INTRODUCTION

During the last ten years, there has been a debate on how to properly measure the performance of Islamic banks. It started when experts claimed that the performance of Islamic banks was lower than conventional banks by comparing the performance of Islamic banks and conventional banks using conventional benchmarks (Mohammed et al., 2008).

To date, the performance in Islamic banking has been measured using CAMELS and EVA ratios (Antonio et al., 2012). Conventional bank measurement tools cannot be applied to Islamic banks. Ghayad (2008) states that the performance of Islamic banks and conventional banks should not be measured by the same method because they have different level of objectives. Therefore, it is necessary to change the measurement in accordance with sharia principles, because Islamic banking is not only concerned with financial ratios but, with the growth of its social function.

Previous studies explained that financial performance is based on sharia principles through the role of Islamic social reporting, company size, and company age (Deza & Sofyani, 2019; Heni & Emawati, 2022; Mardliyyah et al., 2020; Marfuah et al., 2022; Mulyani, 2018; Rahma & Atiqah, 2021; Wahyulaili et al., 2018). However, there are no studies that specifically connect these three variables with the maqashid sharia performance in Islamic banking. For sharia banking, an analysis of the effect of Islamic social reporting on the maqashid sharia performance is required to determine the size of the company's social performance activities from sharia perspective (Mardliyyah et al., 2020). In addition, an estimation of the company size on the maqashid sharia performance is required to describe the size of the bank, which is getting bigger that will increase in proportion to the growth of its assets. Finally, the age of the company against the maqashid syariah performance is necessary to reveal how long the bank has been measuring financial performance.

Experts have not undertaken much research on maqashid sharia performance prediction, although some of them have achieved promising findings. The existing study only predicts components of GCG, intellectual capital, and so on. However, this study examines the performance of maqashid sharia in relation to the role of ISR, firm size, and company age. This study addresses the shortcomings of earlier studies by incorporating three variables into the performance analysis of maqashid sharia. Furthermore, the absence of distinct study objects on Indonesia and Malaysia indicates that studies on Indonesia and Malaysia are critical. As a result, this study assesses the success of maqashid sharia in Islamic finance by looking at the function of Islamic social reporting, business size, and firm age Islamic banking in Indonesia and Malaysia.

This study has gaps in the maqashid syariah literature, this index study aims to predict the ability of Islamic social reporting, company size, and company age simultaneously so that the performance view of maqashid syariah becomes more comprehensive and fair. This study determines the object of Indonesia and Malaysia on the reason that these two countries have a Muslim majority population in the Southeast Asian Region with a total of 87% of Muslims in Indonesia as well as the country with the largest Muslim population in the world and 66% of Muslims in Malaysia of the total population (Statista, 2020). These two countries also have the largest share in the growth of Islamic banking in Southeast Asia (Satria et al., 2021). On the other hand, these two countries still use business parameters and the maqashid sharia performance has not been widely implemented in these countries. Thus, predictions about the performance of Maqashid sharia in Indonesia and Malaysia will increase competition between Islamic banking and conventional banking in these two countries with global coverage.

This study uses sharia enterprise theory as a rationale. Sharia enterprise theory explains company ownership and management as executive responsibility to stakeholders by applying

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Islamic principles to earn the pleasure of Allah (Triyuwono, 2015). This theory is not the same as conventional enterprise theory because according to this theory, the company's responsibility is only to achieve stakeholder satisfaction (Santoso, 2022). Shariah enterprise theory is useful in developing businesses that are fair and in accordance with maqashid sharia because it encourages economic revival that is in accordance with the real needs of people's lives. This theory is suitable for sharpening predictions on the performance of Islamic banks in achieving maqashid sharia. Therefore, the selection of sharia enterprise theory as the basis for thinking about this study is the right solution to improve people live.

Maqashid sharia is an orientation designed by sharia to fulfill the benefit of Muslims (Rachmah, 2018). Imam Al-Ghazali divides maqashid sharia into five important aspects, namely soul (nafs), religion (din), descent (nasl), reason (aql), and wealth (maal) (Hudaefi & Badeges, 2022). Imam Asy-Syathibi explained that maqashid sharia maintains and seeks to fulfill three types of human needs, namely basic needs (dharuriyyat) which are needs that must be met by humans both in this world and in the hereafter, complements (hajiyyaat) which are everything that complements basic needs, and beauty (tahsiniyyaat) is something beyond basic and complementary needs related to morals and ethics (Rachmah, 2018). Among the three types of needs, dharuriyyat is the most important because it can ensure the continuity of human life. Therefore, sharia banking needs to contribute to fulfilling dharuriyyat needs through various sharia financing activities so that the benefit of society can be properly met.

The Maqashid Sharia Index is a measure for evaluating the success of sharia banking in accordance with sharia aims and principles. This study employs the Abu Zahrah idea, which was expanded upon by Mohammed et al., (2008). This notion defines three goals: tahdzib al-fard (individual education), iqamah al-adl (justice), and jalb al-maslahah (prosperity). The aim of the first maqashid sharia is to educate individuals. Sharia banks create training programs by applying Islamic values so as to improve employee skills. The second goal is to uphold justice. Sharia banks must create fairness in every business transaction and be free from unfair practices such as gharar, maysir, and usury. The third goal is to live a prosperous life. Sharia banks are able to invest in socio-economic projects so that they can improve community welfare.

ISR (Islamic Social Reporting) is a disclosure of sharia banking social responsibility to the public regarding the business and social activities of these financial institutions (Santoso, 2022). ISR includes usury-free transactions, absence of speculation or uncertainty, disclosure of zakat, Islamic social actions such as shadaqoh, endowments, and so on (Mardliyyah et al., 2020; Risqi & Septriarini, 2021). In this study, ISR is an indicator of corporate CSR reporting based on AAOIFI standards. Experts reveal that ISR has a positive effect on MSI (Hasan, 2019; Mardliyyah et al., 2020; Mutmainah, 2022). Based on previous research, this study suspects that the greater the ISR, the greater the performance of maqashid sharia. Therefore, we develop the following hypothesis.

H_1: ISR has a positive effect on the performance of maqashid sharia.

Total assets, stock market value, log size, and sales volume all affect a company's size (Novari, 2016). This study limits the size of the company based on total assets because this parameter is the most representative of the company's condition. The total assets are published by the company periodically. Experts reveal that company size can positively influence the performance of maqashid sharia (Mulyani, 2018; Wahyulaili et al., 2018). Based on these findings, this study assumes that a large company size will result in large total assets so that the company can easily attract investors and improve company performance more quickly (Khoiriyah & Salman, 2020; Trilaksono et al., 2021). Thus, we construct the following hypothesis.

H_2: Company size has a positive effect on the performance of maqashid sharia.

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The literature explains that company age is a variable that can assess a company's ability to maintain its activities (Deza & Sofyani, 2019). In Islamic banking, the age of the bank describes the period of the company's operational activities since its establishment until now (Khoiriyah & Salman, 2020; Marfuah et al., 2022). Previous studies found that company age has a relationship with company performance (Coad et al., 2013). This opinion encourages the writer to assume that company age also has a positive relationship with the performance of maqashid sharia in Islamic banking. Based on this opinion, we formulate the following hypothesis.

H_3: Company age has a positive effect on the performance of maqashid sharia.

2. RESEARCH METHODOLOGY

The data used is secondary data obtained from the annual reports of each bank. Details of data sources used are the Bank Indonesia, Financial Services Authority, Bank Negara Malaysia. This study employs a quantitative strategy in conjunction with a descriptive approach. Panel data regression was employed as the analytical approach. The capacity to evaluate data that includes cross-section and time-series data gives panel data regression an edge. This study's demographic coverage includes Islamic banking in Indonesia and Malaysia. A purposive selection strategy was utilized to pick Islamic banks, with numerous parameters, including samples that routinely provide ISR reports and have the biggest overall assets. In obtain a MSI value, the equation in this study is as follows:

$$\mathrm{MSI} = \alpha + \beta_1 \mathrm{ISR}_{it} + \beta_2 \mathrm{SIZE}_{it} + \beta_3 \mathrm{AGE}_{it} + \varepsilon_{it}$$

Information:

MSI : Maqashid Sharia Index

α : Constant

β_{1-3} : Coefficient of Independent Variable

ISR : Islamic Social Reporting

SIZE : Company Size

AGE : Company Age

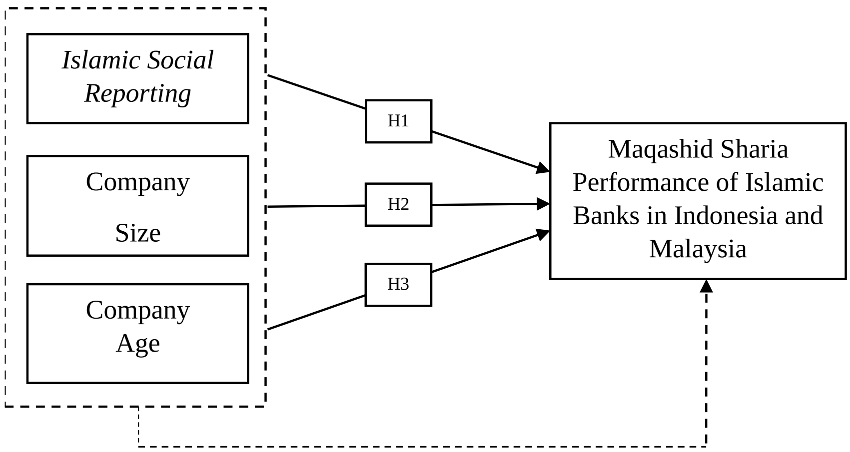

Figure 1. Research Model

3. RESULT AND DISCUSSION

Based on the stages of data processing that have been carried out, the following are the descriptive statistical results of each research variable:

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Table 1. Descriptive Analysis Estimation

Var.	N	Max.	Min.	Mean.	St. Dev.
MSI (Y)	72	0.229000	0.001000	0.084625	0.069331
ISR (X1)	72	0.875000	0.479000	0.715889	0.124123
SIZE (X2)	72	9.658000	6.533000	8.074222	0.898582
AGE (X3)	72	61.00000	6.000000	24.66667	15.22970

Source: Data processed by authors, 2023

Table 1 is the result of a descriptive analysis that explains the criteria for the average, maximum, minimum, and standard deviation variables of the MSI, ISR, Size, and Age. This study identified 72 observations from 12 Islamic banks in Indonesia and Malaysia during 2016 – 2021. Judging from the MSI (Maqashid Sharia Index) performance variable, it shows the value of St. Dev smaller than the average (0.069331 < 0.084625). Then in terms of corporate social responsibility, Islamic social reporting (ISR) has a mean value of 0.715889 and a St. Dev value of 0.124123. Furthermore, company size has a mean value of 8.074222, and St. Dev has a good value because it is less than the average (0.898582 < 8.074222). Finally, firm age shows a good standard deviation value because it is smaller than the average (15.22970 < 24.66667).

The result of the panel data regression analysis in table 2 below:

Table 2. Panel Data Estimation Models

Var.	Coeff.	Std. Error	t-Stat.	Prob.	Result
ISR (X1)	-0.242049	0.064823	-3.733988	0.0004	Supported
SIZE (X2)	0.060194	0.008580	7.015564	0.0000	Supported
AGE (X3)	0.000793	0.000442	1.793341	0.0774	Not Supported
Probability (F-stat.) 0.000000					

Source: Data processed by authors, 2023

The panel data regression model is created based on the chosen estimate model as follows:

$$MSI = -0.247686 - 0.242049ISR + 0.060194SIZE + 0.000793AGE$$

Based on table 2, ISR is able to significantly influence MSI because p-value of 0.0004 less than 0.05 or (0.0004 < 0.05), so H_0 is rejected and H_1 is supported. Company size is able to significantly influence MSI because p-value of 0.0000 less than 0.05 or (0.0000 < 0.05), so H_0 is

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rejected and H_2 is accepted. Meanwhile, company age was not able to significantly influence MSI because p-value of 0.0774 greater than 0.05 or (0.0774 > 0.05), so H_0 is supported and H_3 is not supported.

This study shows that Islamic social reporting and maqashid sharia performance in Indonesian and Malaysian sharia banking have a significant negative effect. This data shows that social, speculative, and environmental empowerment carried out by Indonesian and Malaysian Islamic banks are not the right solution to improve financial performance. This means that there are still other factors that determine the performance improvement of maqashid sharia. This study does not support the results of previous studies (Aisyah et al., 2021; Atiqah & Rahma, 2018; Mardliyyah et al., 2020; Rahmania & Suryaputri, 2020). Thus, this research encourages to find variables that are more precise in predicting the performance of Islamic maqashid in Islamic banking.

This study shows that company size has a significant effect on the performance of maqashid sharia in Indonesian and Malaysian sharia banking. These findings explain that companies with large assets can more easily attract investors and more quickly improve the performance of a company to achieve sharia goals (maqashid sharia). This study supports the findings of previous research (Mulyani, 2018; Rahma & Atiqah, 2021; Wahyulaili et al., 2018). Thus, a large company size can improve financial performance in accordance with sharia objectives.

This study shows that company age is not significant in influencing the performance of maqashid sharia in Indonesian and Malaysian sharia banking. These findings explain that the age of a bank is not an appropriate indicator for disclosing maqashid sharia. This means that there are still additional aspects that influence maqashid sharia performance development. However, this study contradicts the results of previous research (Coad et al., 2013). Thus, tracking the more precise predictor variables of maqashid sharia performance is a good solution for further studies.

Simultaneously, this study states that ISR, company size, and company age can influence the performance of maqashid sharia in Indonesian and Malaysian sharia banking. These findings explain that Islamic banks that care about social activities, company size, and company age are able to improve financial performance in accordance with sharia goals. Therefore, these three variables need to be present continuously in improving the performance of Indonesian and Malaysian Islamic banking.

4. CONCLUSION

This study evaluates the effect of ISR, company size, and company age on Islamic banks. Partially, company size successfully influenced the performance of maqashid sharia positively and significantly. Meanwhile, ISR and company age did not optimally influence the performance of maqashid sharia. Meanwhile, ISR, company size, and company age can affect maqashid sharia's performance simultaneously.

Theoretically, this study enriches public views regarding the performance of maqashid sharia in Indonesian and Malaysian sharia banking. Partially, with the only active company size in influencing the performance of maqashid sharia, company size becomes very important in improving the performance of maqashid sharia. Based on the ability of ISR, company size, and company age to influence the performance of maqashid sharia simultaneously, increasing social activity, company size, and good company age are crucial in the capability of Islamic banks to fulfill public benefits. Thus, increasing the partial role of firm size and the simultaneous role

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of ISR, company size, and company age will change the future of Indonesian and Malaysian Islamic banking for the better.

Managerially, this study generates two implications. First, because of the ability of company size to influence the performance of maqashid sharia, business innovation, socialization, and promotion are essential. Second, this study reveals that simultaneously ISR, company size, and company age can affect the performance of maqashid sharia. These findings show the importance of Islamic banking directors creating strategies that can improve the quality of social programs, the size of the company, and how many levels of the company age simultaneously because this business is the main capital for improving the performance of Islamic banking at this time. Thus, the application of these two implications will achieve all the expectations of Islamic banking stakeholders.

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