Harmonizing and constructing an integrated maqāṣid al-Sharīʿah index for measuring the performance of Islamic banks

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Abstract
Purpose – This paper aims to develop a performance measure for Islamic banks (IBs) by harmonizing related studies. Furthermore, this work uses the developed yardstick to analyze the performance of a sample of 11 IBs from across different countries.

Design/methodology/approach – This paper uses the mix-mode method. The qualitative approach is engaged first to construct the IBs performance yardstick. Following this, the quantitative approach is applied through the use of the performance yardstick to measure the sample’s performance.

Findings – This study develops a maqāṣid-based performance yardstick adapted from previous works. The developed model in this study is called an integrated maqāṣid al-Sharīʿah–based performance measure (IMSPM). By using this performance measure, the present paper finds that the sample performed highest on the objective of nafs (self) over the three-year period. In addition, this study identifies the information which best indicates the sample’s performance during the analysis.

Research limitations/implications – This paper uses the sample’s annual reports. The analysis is thus limited to informational disclosure.

Practical implications – Islamic banking and financial institutions may use the IMSPM to communicate a measurable report on their promotion of the maqāṣid al-Sharīʿah (objectives of Islamic law).

Social implications – The evidence from 11 IBs is indicative of their efforts to realize maqāṣid al-Sharīʿah in the banking industry. This point may best challenge the practice of stigmatizing IBs for not being in line with the Sharīʿah (Islamic law) or of imitating conventional banks.

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**Originality/value** – The novelty of this study lies in two points. First, this study harmonizes previous works to integrate financial and religious measures in a single yardstick. Second, by using the developed standard, this study offers a fresh insight into the global IBs’ performance, represented by 11 IBs worldwide.

**Keywords** Harmanization, Islamic banks (IBs), Banking performance, maqāṣid al-Sharīʿah index (MSI)

**Paper type** Research paper

**Introduction**

The debate on how to correctly measure the performance of Islamic banks (IBs) has been proceeding for at least a decade. It began when some experts employed conventional yardsticks to compare the performance of IBs and conventional banks (CBs), which resulted in the claim that IBs are inferior to CBs in performance (Mohammed et al., 2008). The most beneficial outcome in employing conventional yardsticks to analyze banks’ performance is their strength in revealing financial circumstances. This result is important given that the banking industry is profit-oriented.

The main disadvantage of employing conventional benchmarks to measure IBs’ performance is that they fail to investigate Sharīʿah (Islamic law) facets (Muhammed and Md Taib, 2015). The rationale for the establishment of IBs is the promotion of equitable distribution of wealth (Khan, 1997), Sharīʿah ethics and values (Bedoui, 2012; Hudaefi and Bisyri, 2014; Bedoui and Mansour, 2015), religious business philosophy (Haniffa and Hudaib, 2007), Islamic moral economy (Asutay, 2012) and Islamic worldview (Laldin and Furqani, 2013). Thus, IBs are expected to bring maṣlaḥah (public interest) for human well-being. With this in mind, IBs’ performance should be measured by considering not only their financial aspects but also their religious features.

Former studies that attempted to develop IBs’ performance measure include the Islamicity disclosure index (IDI) and Islamic quantitative index (IQI) (Mohamed Ibrahim et al., 2004), ethical identity index (EII) (Haniffa and Hudaib, 2007), maqāṣid al-Sharīʿah index (MSI) (Mohammed et al., 2008), the adoption of Law of Sines on maqāṣid al-Sharīʿah-based performance measure (Bedoui, 2012; Bedoui and Mansour, 2015), social performance evaluation (Sairally, 2013; Asutay and Harningtyas, 2015), Islamicity measurement (Ascarya and Sukmana, 2016) and Sharīʿah compliance rating (Ashraf and Lahsasna, 2017; Hanif, 2018).

In this work, the authors attempt to harmonize the above studies to develop a yardstick which best measures both religious and financial performances. Following this, the benchmark is used to analyze the performance of the sampled 11 IBs. The purpose of doing so is to evaluate the performance of the IBs based on the comprehensive yardstick developed in this study, called an integrated maqāṣid al-Sharīʿah-based performance measure (IMSPM).

The importance and originality of this study lie in two aspects. First, this study synchronizes previous works to advance the existing IBs’ performance measure. Second, this work offers fresh evidence of the global IBs’ performance by using the developed yardstick. This work is relevant to academics, industry professionals and other related stakeholders in gaining reasonable insight on the extent to which IBs have been promoting maqāṣid al-Sharīʿah.

The remaining part of this paper is organized as follows: the second section elaborates the literature review. The third section discusses the research method used in developing the IBs’ performance yardstick. The fourth section discusses the results using the developed measure. The last section concludes the paper.
Literature review

Previous studies which have measured IBs’ performance can be classified into three categories. The first group comprises comparative works analyzing IBs and CBs with conventional yardsticks, such as CAMELS rating and other financial ratio benchmarks of profitability and efficiency.

The second group consists of mix-mode studies which have modified the measure of the “S” component in CAMELS, which is “sensitivity to market risk,” into “Sharī’ah” performance measurement[1]. However, the Sharī’ah benchmarks proposed within those studies have not clearly identified the subject matters. The third group includes theoretical and exploratory works, which usually begun with a qualitative approach to construct the yardsticks, followed by their use in analyzing the IBs’ performance.

Limitation of conventional yardstick in measuring Islamic banks’ performance

The CAMELS rating system is an internationally standardized approach (Muhmad and Hashim, 2015) that academic works have extensively employed to examine the financial condition of a bank. It refers to “Capital adequacy,” “Asset quality,” “Management quality,” “Earnings,” “Liquidity,” and “Sensitivity to market risk” (Koch and MacDonald, 2015). The efficacy of CAMELS as a standard benchmark has been proven in numerous studies (Nik Mohd Rashid et al., 2017).

In addition to CAMELS, other conventional benchmarks such as productivity and efficiency measures have been employed to compare IBs’ and CBs’ performances. For example, Samad (1999) examined the productive and managerial efficiency of Malaysian CBs and IBs using return on asset (ROA) and return on equity (ROE), respectively. He found that the sampled IBs were less efficient. Similarly, Yudistira (2004) measured technical, pure technical, and scale efficiency of 18 IBs. He found IBs to be less efficient. In addition, Hassan (2006) investigated the relative efficiency of IBs worldwide using conventional accounting measures. The findings supported both those of Samad (1999) and Yudistira (2004).

The studies that employ conventional benchmarks to compare IBs’ and CBs’ performance have problematic implications. This is because traditional yardsticks do not take into account the Sharī’ah-compliance aspect of IBs. Furthermore, those attempts might have worsened the social image of IBs. For example, they may supply ammunition for the portrayal of IBs as not being Islamic or of being imitative of CBs. Considering this, therefore, the performance of IBs should be correctly measured such that the yardsticks fit the nature of IBs. Consequently, the measurement should be based on the IBs’ foundations as captured in the maqāṣid al-Sharī’ah theory (Mohammed et al., 2008).

The rationale of developing Islamic banks’ performance yardsticks

The logic to developing tailor-made IB performance measures is best found by referring to Koch and MacDonald (2015), who state that evaluating banking performance should consider specific characteristics of the business, the intensity of competition and organizational and business structure. Additionally, the following facts may best support the reasons to do so:

- First, conventional yardsticks do not consider the Sharī’ah aspect as they take into account only financial measures.
- Second, (as it will be elaborated in the following sections), none of the previous developed yardsticks for measuring IBs performance have precisely represented both the financial and religious aspects that are specific characteristics of IBs.
Reviewing related works attempting at developing Islamic banks’ performance measure

The Islamicity Disclosure Index and Islamic Quantitative Index. Mohamed Ibrahim et al. (2004) developed IDI and IQI to evaluate the performance of Bahrain Islamic Bank (BIB) and Bank Islam Malaysia Berhad (BIMB). IDI measures an IB’s ability to provide relevant information to their stakeholders. The indicators of IDI include Sharī’ah compliance, corporate governance, and environmental contribution.

Meanwhile, IQI evaluates zakat (almsgiving) performance, equitable distribution, director-employee welfare, Islamic and non-Islamic investment, and Islamic and non-Islamic income. Using the developed IQI and IDI, Mohamed Ibrahim et al. (2004) found that BIB outperformed BIMB on the provision of information to stakeholders. Even though this benchmark does not include financial performance measures, the original idea of IDI and IQI is deemed essential for consideration in developing IBs performance yardstick.

The Ethical Identity Index. Haniffa and Hudaib (2007) established the EII to investigate the performance of IBs in the Arabian Gulf region. EII compares the ideal identity of an IB and its real identity as reflected in annual reports.

Haniffa and Hudaib (2007) identified five themes of IBs’ ideal ethical identity, with eight dimensions and 78 constructs. The study adopted a checklist method to evaluate the data from annual reports. A high EII implies that the actual performance of the IBs compares well with the ideal benchmark. Meanwhile, a low EII indicates that the IBs should improve their communication in their annual reports for competitive advantage purposes. Applying this methodology, they found that the Bahrain Islamic Bank (BIB) outperformed another six samples.

While EII was considerably adapted from the capitalistic context and Western influence, Sharī’ah was less specifically discussed during its construction (Haniffa and Hudaib, 2007). Even so, this paper shall consider EII due to the novelty of its contribution.

Crediting maqāṣid al-Sharī’ah theory when developing Islamic banks’ performance yardstick. Maqāṣid al-Sharī’ah index acts as the basis for determining whether particular IBs are practicing Islamic principles (Dusuki and Bouheraoua, 2011). Hence, an understanding of the subject matter is required.

Auda (2011) synchronized jurists’[2] views on maqāṣid al-Sharī’ah. The term is understood to refer to the objectives, purposes, intents and principles behind Islamic rulings. It includes the wisdom behind the texts and provides criteria for judging the appropriateness of juridical analogy. It forms the basis for juridical preference, the premise behind the presumption of continuity principle, and a large number of other tools for ijtihād (juristic efforts to obtain Islamic rulings). Further, Auda (2008) identified the authentic interpretations of Muslim scholars on maqāṣid al-Sharī’ah. These include al-Juwayni’s (d.478 AH/1085 CE) “public needs”, al-Ghazālī’s (d.505 AH/1111 CE) “order of necessities”, al-Izz’s (d.660 AH/1209 CE) “wisdom behind the rules”, al-Qarāfī’s (d.684 AH/1285 CE) “classification of prophetic actions”, Ibn Qayyim’s (d. 748 AH/1347 CE) “what Sharī’ah is all about” and al-Shāṭibī’s (d. 790 AH/1388 CE) “maqāṣid as fundamentals”.

Maqāṣid al-Sharī’ah theory of recent scholars. It is critical to refer to a new explanation of maqāṣid al-Sharī’ah adapted to the present context (Hudaefī and Heryani, 2019), notably when developing IBs’ performance measure. In this regard, the study of Chapra (2007) is compatible with the subject matter. He referred to al-Ghazālī, al-Shāṭibī, and Fakhr al-Dīn al-Rāzī to explain his symbiotic maqāṣid al-Sharī’ah. He mentioned that the five objectives – faith, self, intellect, posterity and wealth – are interdependent and support each other in realizing human well-being (Chapra, 2007).

Chapra (2007) mainly elaborated maqāṣid al-Sharī’ah with reference to the recent case of human development. Even though his work does not explicitly relate to the context of IBs,
the authors of this paper found some relevant information which best relates to the topic in the present discussion.

Reviewing related works which developed a maqāṣīd-based performance measure

The study of the maqāṣīd al-Sharīʿah index. The innovative research of Mohammed et al. (2008) pioneered a new approach in measuring IBs’ performance derived from the maqāṣīd al-Sharīʿah theory. The study derived numerable items from the theory. Their developed yardstick is called maqāṣīd al-Sharīʿah index (MSI).

The study traverses three stages in its development of the MSI. First, they referred to Abū Zahra’s theory of maqāṣīd al-Sharīʿah and employed Sekaran and Bougie’s (2003) concept of operationalization to translate the theory. This stage resulted in the performance ratio measures. Second, they appointed 16 experts to weigh the developed MSI. This resulted in the weights for the established variables. Third, they adopted Hwang and Yoon’s (1981) method of Simple Additive Weighting (SAW). This stage was conducted to quantify the performance ratios of the samples and the weights assigned to the three objectives along with the developed variables. The findings indicate that the Islamic International Arab Bank of Jordan outperformed the other five samples.

The MSI does not cover the conventional profitability and efficiency measures, which are important for investigating a bank’s financial performance. Even so, the current study adopts the MSI as the primary reference given its substantial impact on the related literature.

From reviewing the above, one may understand that conventional measures have failed to investigate Sharīʿah aspects of IBs, while the yardsticks developed by the related scholarly articles have ignored the traditional benchmarks which are critical for a financial measure. As such, this study attempts to harmonize the related works to develop a new benchmark covering both religious and financial aspects for measuring IBs’ performance. Subsequently, the established parameters will be used to analyze the performance of the 11 IBs located worldwide.

Research methodology

Qualitative approach

This study used first the qualitative approach to harmonize previous works to construct the IBs’ performance measure based on maqāṣīd al-Sharīʿah. In doing so, this study followed Mohammed et al. (2008) in using Sekaran and Bougie (2003) concept of operationalization. The benefit of this concept is that it enables the decoding of abstract ideas into measurable criteria. The operationalization method is not meant to see the correlation, reasons, consequences or antecedents; instead, it describes its observable characteristics for measurement purposes (Sekaran and Bougie, 2003).

The operationalization concept can be understood through the abstract idea of thirst (C). To measure “thirst,” one may break it down into “drinking water,” which then is called dimension (D). The “drinking water” is then further detailed into “number of glasses,” which is called element (E). Hence, the concept of “thirst” is measurable through “drinking of water” calculable with “the number of glasses” to drink (Sekaran and Bougie, 2003). Figure 1 illustrates this concept.

In this study, the abstract concept “C” applies to maqāṣīd al-Sharīʿah as explained by Chapra (2007). “D” represents the dimensions for objectives of Sharīʿah. Element “E” comprises the indicators of the Sharīʿah objectives, along with the developed performance ratios (PRs) adapted from the relevant studies.
Table I shows the IMSPM which was established in this study. In IMSPM, the study of Sharīʿah auditing (Khan, 1997), alternative informational disclosure (Mohamed Ibrahim et al., 2004), ideal ethics benchmark (Haniffa and Hudaib, 2007), maqāsid-based performance measure (Mohammed et al., 2008; Asutay and Harningtyas, 2015; Mohammed et al., 2015) and conventional finance benchmark (Jaffar and Manarvi, 2011) were harmonized. To some degree, the IMSPM may further advance the benchmark for measuring IBs’ performance.

**Assigning weight in the developed IMSPM**

To quantify the qualitative IMSPM as in Table I, the authors used simple additive weighting (SAW), referring to Mohammed et al. (2008). SAW is one solution method in multiple attribute decision-making (MADM). A weighted sum of performance ratings is determined for each developed qualitative variable (Fishburn, 1967 cited in Darmastuti, 2013).

SAW is a value function established based on a simple addition of scores, and it represents the goal under each criterion multiplied by the particular weights (Qin et al., 2008, cited in Velasquez and Hester, 2013). The weights are then multiplied by the corresponding attribute values for each alternative and then summed up across alternatives (MacCrimmon, 1968). Therefore, it is necessary to assign the weights firstly into the developed IMSPM to determine the coefficient of the variables (Hwang and Yoon, 1981). MacCrimmon (1968) explained how to find a reasonable basis when assigning the weights. In this study, the weights are assigned equally adopting the concept of balance, as stated in Surah al-Baqarah (Qurʾan 2:143). Thus, the weights assigned to the developed IMSPM shall be as delineated in Table II.

**Quantitative analysis**

**Sample and data set.** The population for the current quantitative analysis is IBs in the world. Using the logic of purposive judgment sampling method, this paper selected a sample of 11 IBs as noted in Table III and considered the data published in their annual reports over three years from 2013 to 2015.

**Data analysis.** This paper referred to Mohammed et al. (2008) to develop the IMSPM equations derived from the SAW approach as follows:

**Equation (1): Performance Indicator for Objective Faith (Dīn) (PI01)**

\[
PI (O1) = W_1 \times E_1 \times R_1 + W_2 \times E_2 \times R_2
\]

or,

\[
\text{“C” Concept}
\]

\[
\text{Source: Sekaran (2003)}
\]
<table>
<thead>
<tr>
<th>Concept (C)</th>
<th>Dimensions (D)</th>
<th>Referred studies</th>
<th>Elements (E)</th>
<th>Performance ratios (PR)</th>
<th>Referred studies</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Maqāṣid al-Sharīʿah</em></td>
<td>Faith (dīn)</td>
<td>D1. Non-negative elements</td>
<td>E1. Interest-free products</td>
<td>R1. Interest-free income/Total income</td>
<td>Mohammed et al. (2008)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>E5. Zakat fund</td>
<td>R5. Zakat paid/Net assets</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>R6. Total no. of branches this year/Total no. of branches in the previous year</td>
<td>Mohammed et al. (2015)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>R10. Training/Training expense/Total expenses</td>
<td>Mohammed et al. (2008)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>E10. Training</td>
<td>R11. NPF(L)/Total investment (financing)</td>
<td>Mohammed et al. (2008)</td>
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(continued)
<table>
<thead>
<tr>
<th>Concept (C)</th>
<th>Dimensions (D)</th>
<th>Referred studies</th>
<th>Elements (E)</th>
<th>Performance ratios (PR)</th>
<th>Referred studies</th>
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<td></td>
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<td></td>
<td>financing</td>
<td>Recommendation</td>
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<td></td>
<td></td>
<td></td>
<td>E14. Restructured <em>mudārahah</em> financing</td>
<td>R14. Total restructured <em>mudārahah</em> financing/Total restructured financing</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>E15. Restructured <em>mushārahah</em> financing</td>
<td>R15. Total restructured <em>mushārahah</em> financing/Total restructured financing</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>E17. Return on Equity (ROE)</td>
<td>R17. Net income/Total equities</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>E18. Operational efficiency</td>
<td>R18. Operating expenses/Operating revenue</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Adapted from related studies
<table>
<thead>
<tr>
<th>Table III. Sample of the study</th>
<th>Country</th>
<th>Name of IB</th>
<th>Abbreviation</th>
<th>IB’s website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>Bahrain</td>
<td>Bahrain Islamic Bank</td>
<td>BISB</td>
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<tr>
<td></td>
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<td><a href="http://www.qiib.com.qa">www.qiib.com.qa</a></td>
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<td>Saudi Arabia</td>
<td>AlRajhi Bank</td>
<td>ARB</td>
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<td>Indonesia</td>
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<td>BSM</td>
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<td>Malaysia</td>
<td>Bank Islam Malaysia Berhad</td>
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<td>Faisal Islamic Bank of Egypt</td>
<td>FIBE</td>
<td><a href="http://www.faisalbank.com.eg">www.faisalbank.com.eg</a></td>
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<td>Al Shamal Islamic Bank</td>
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<td>Turkey</td>
<td>Albaraka Turk Participation Bank</td>
<td>ATPB</td>
<td><a href="http://www.albaraka.com.tr">www.albaraka.com.tr</a></td>
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<td>UK</td>
<td>Al Rayan Bank</td>
<td>UK-RYB</td>
<td><a href="http://www.alrayanbank.co.uk">www.alrayanbank.co.uk</a></td>
</tr>
</tbody>
</table>

Source: Authors’ own
\[ PI (O1) = W_1^1 \left( E_1^1 \times R_1^1 + E_2^2 \times R_2^2 \right) \]

where:

- \((O1)\) = the first of the \textit{maqāṣid al-Sharī ah}, which is faith (\textit{dīn});
- \(W_1^1\) = the weight assigned to \((O1)\) (see Table II);
- \(E_1^1\) = the weight assigned to the first element of \((O1)\) (see Table II);
- \(E_2^2\) = the weight assigned to the second element of \((O1)\) (see Table II);
- \(R_1^1\) = the evaluation for the performance ratio corresponding to \(E_1^1\) of \((O1)\) (as applied in Table I); and
- \(R_2^2\) = the evaluation for the performance ratio corresponding to \(E_2^2\) of \((O1)\) (as applied in Table I).

Furthermore,

\[ PI (O1) = PI11 + PI12 \] (1.1)

where:

- \(PI11 = W_1^1 \times E_1^1 \times R_1^1\) (1.2)
- \(PI12 = W_1^1 \times E_2^2 \times R_2^2\) (1.3)

\textit{Equation (2): Performance Indicator for Objective Self (Nafs) (PI02)}

\[ PI (O2) = W_2^2 \times E_3^3 \times R_3^3 + W_2^2 \times E_4^4 \times R_4^4 + W_2^2 \times E_5^5 \times R_5^5 + W_2^2 \times E_6^6 \times R_6^6 \]

Or,

\[ PI (O2) = W_2^2 \left( E_3^3 \times R_3^3 + E_4^4 \times R_4^4 + E_5^5 \times R_5^5 + E_6^6 \times R_6^6 \right) \]

where:

- \((O2)\) = the second of the \textit{maqāṣid al-Sharī ah}, which is self (\textit{nafs});
- \(W_2^2\) = the weight assigned to \((O2)\) (Table II);
- \(E_3^3\) = the weight assigned to the first element of \((O2)\) (Table II);
- \(E_4^4\) = the weight assigned to the second element of \((O2)\) (Table II);
- \(E_5^5\) = the weight assigned to the third element of \((O2)\) (Table II);
- \(E_6^6\) = the weight assigned to the fourth element of \((O2)\) (Table II);
- \(R_3^3\) = the evaluation for the performance ratio corresponding to \(E_3^3\) of \((O2)\) (as applied in Table I);
- \(R_4^4\) = the evaluation for the performance ratio corresponding to \(E_4^4\) of \((O2)\) (as applied in Table I);
- \(R_5^5\) = the evaluation for the performance ratio corresponding to \(E_5^5\) of \((O2)\) (as applied in Table I); and
- \(R_6^6\) = the evaluation for the performance ratio corresponding to \(E_6^6\) of \((O2)\) (as applied in Table I).

Furthermore,
\[ \text{PI}(02) = \text{PI}21 + \text{PI}22 + \text{PI}23 + \text{PI}24 \] (2.1)

where:

\[ \text{PI}21 = \frac{W_2^2 \times E_2^3 \times R_2^3}{C_2^2} \] (2.2)

\[ \text{PI}22 = \frac{W_2^2 \times E_2^4 \times R_2^4}{C_2^2} \] (2.3)

\[ \text{PI}23 = \frac{W_2^2 \times E_2^5 \times R_2^5}{C_2^2} \] (2.4)

\[ \text{PI}24 = \frac{W_2^2 \times E_2^6 \times R_2^6}{C_2^2} \] (2.5)

*Equation (3): Performance Indicator for Objective Intellect (ʿAql) (PI03)*

\[ \text{PI} (O3) = \frac{W_3^3 \times E_3^7 \times R_3^7 + W_3^3 \times E_3^8 \times R_3^8}{C_2^2} \]

or,

\[ \text{PI} (O3) = \frac{W_3^3 \left( E_3^7 \times R_3^7 + E_3^8 \times R_3^8 \right)}{C_1^6 \times C_1^7} \]

where:

- \((O3) = \) the third of the *maqāsīd al-Sharī‘ah*, which is intellect (ʿaql),
- \(W_3^3 = \) the weight assigned to \((O3)\) (Table II);
- \(E_3^7 = \) the weight assigned to the first element of \((O3)\) (Table II);
- \(E_3^8 = \) the weight assigned to the second element of \((O3)\) (Table II);
- \(R_3^7 = \) the evaluation for the performance ratio corresponding to \(E_3^7\) of \((O3)\) (as applied in Table I); and
- \(R_3^8 = \) the evaluation for the performance ratio corresponding to \(E_3^8\) of \((O3)\) (as applied in Table I).

Furthermore,

\[ \text{PI}(03) = \text{PI}31 + \text{PI}32 \] (3.1)

where:

\[ \text{PI}31 = \frac{W_3^3 \times E_3^7 \times R_3^7}{C_2^2} \] (3.2)

\[ \text{PI}32 = \frac{W_3^3 \times E_3^8 \times R_3^8}{C_2^2} \] (3.3)

*Equation (4): Performance Indicator for Objective Posterity (Nasl) (PI04)*

\[ \text{PI} (O4) = \frac{W_4^4 \times E_4^9 \times R_4^9 + W_4^4 \times E_4^{10} \times R_4^{10}}{C_2^2} \]

or,
\[ PI(04) = W_4^1 \left( E_4^9 \times R_4^9 + E_4^{10} \times R_4^{10} \right) \]

where:
1. \((O4)\) = the fourth of the *maqāṣid al-Sharīʿah*, which is posterity (*nasl*);
2. \(W_4^1\) = the weight assigned to \((O4)\) (Table II);
3. \(E_4^9\) = the weight assigned to the first element of \((O4)\) (Table II);
4. \(E_4^{10}\) = the weight assigned to the second element of \((O4)\) (Table II);
5. \(R_4^9\) = the evaluation for the performance ratio corresponding to \(E_4^9\) of \((O4)\) (as applied in Table I); and
6. \(R_4^{10}\) = the evaluation for the performance ratio corresponding to \(E_4^{10}\) of \((O4)\) (as applied in Table I).

Furthermore,
\[ PI(04) = PI41 + PI42 \quad (4.1) \]

where:
1. \(PI41 = W_4^1 \times E_4^9 \times R_4^9 \quad (4.2)\)
2. \(PI42 = W_4^1 \times E_4^{10} \times R_4^{10} \quad (4.3)\)

*Equation (5): Performance Indicator for Objective Wealth (Māl) (PI05)*

\[ PI(05) = W_5^5 \times E_5^{11} \times R_5^{11} + W_5^5 \times E_5^{12} \times R_5^{12} + W_5^5 \times E_5^{13} \times R_5^{13} + W_5^5 \times E_5^{14} \times R_5^{14} + W_5^5 \times E_5^{15} \times R_5^{15} + W_5^5 \times E_5^{16} \times R_5^{16} + W_5^5 \times E_5^{17} \times R_5^{17} + W_5^5 \times E_5^{18} \times R_5^{18} \]

or,
\[ PI(05) = W_5^5 \left( E_5^{11} \times R_5^{11} + E_5^{12} \times R_5^{12} + E_5^{13} \times R_5^{13} + E_5^{14} \times R_5^{14} + E_5^{15} \times R_5^{15} + E_5^{16} \times R_5^{16} + E_5^{17} \times R_5^{17} + E_5^{18} \times R_5^{18} \right) \]

where:
1. \((O5)\) = the fifth of the *maqāṣid al-Sharīʿah*, which is wealth (*māl*);
2. \(W_5^5\) = the weight assigned to \((O5)\) (Table II);
3. \(E_5^{11}\) = the weight assigned to the first element of \((O5)\) (Table II);
4. \(E_5^{12}\) = the weight assigned to the second element of \((O5)\) (Table II);
5. \(E_5^{13}\) = the weight assigned to the third element of \((O5)\) (Table II);
6. \(E_5^{14}\) = the weight assigned to the fourth element of \((O5)\) (Table II);
7. \(E_5^{15}\) = the weight assigned to the fifth element of \((O5)\) (Table II);
8. \(E_5^{16}\) = the weight assigned to the sixth element of \((O5)\) (Table II),
$E_{17}^5$ = the weight assigned to the seventh element of $(O5)$ (Table II);

$E_{18}^5$ = the weight assigned to the eighth element of $(O5)$ (Table II);

$R_{11}^5$ = the evaluation for the performance ratio corresponding to $E_{11}^5$ of $(O5)$ (as applied in Table I);

$R_{12}^5$ = the evaluation for the performance ratio corresponding to $E_{12}^5$ of $(O5)$ (as applied in Table I);

$R_{13}^5$ = the evaluation for the performance ratio corresponding to $E_{13}^5$ of $(O5)$ (as applied in Table I);

$R_{14}^5$ = the evaluation for the performance ratio corresponding to $E_{14}^5$ of $(O5)$ (as applied in Table I);

$R_{15}^5$ = the evaluation for the performance ratio corresponding to $E_{15}^5$ of $(O5)$ (as applied in Table I);

$R_{16}^5$ = the evaluation for the performance ratio corresponding to $E_{16}^5$ of $(O5)$ (as applied in Table I);

$R_{17}^5$ = the evaluation for the performance ratio corresponding to $E_{17}^5$ of $(O5)$ (as applied in Table I);

$R_{18}^5$ = the evaluation for the performance ratio corresponding to $E_{18}^5$ of $(O5)$ (as applied in Table I).

Furthermore,

$$\text{PI}(O5) = \text{PI}51 + \text{PI}52 + \text{PI}53 + \text{PI}54 + \text{PI}55 + \text{PI}56 + \text{PI}57 + \text{PI}58 \quad (5.1)$$

where:

$$\text{PI}51 = W_5^5 \times E_{11}^5 \times R_{11}^5 \quad (5.2)$$

$$\text{PI}52 = W_5^5 \times E_{12}^5 \times R_{12}^5 \quad (5.3)$$

$$\text{PI}53 = W_5^5 \times E_{13}^5 \times R_{13}^5 \quad (5.4)$$

$$\text{PI}54 = W_5^5 \times E_{14}^5 \times R_{14}^5 \quad (5.5)$$

$$\text{PI}55 = W_5^5 \times E_{15}^5 \times R_{15}^5 \quad (5.6)$$

$$\text{PI}56 = W_5^5 \times E_{16}^5 \times R_{16}^5 \quad (5.7)$$

$$\text{PI}57 = W_5^5 \times E_{17}^5 \times R_{17}^5 \quad (5.8)$$

$$\text{PI}58 = W_5^5 \times E_{18}^5 \times R_{18}^5 \quad (5.9)$$

Equation (6): Overall Integrated Maqāṣid al-Sharī‘ah-based Performance (IMSPM)
Results
The sample’s performance ratios (PRs) as applied in IMSPM analysis (Table I) was computed first. Following this, the above equations were employed to multiply the sample’s PRs with the weights assigned to the developed variables (as in Table II). The computation was carried out in Microsoft Excel for accuracy and practicability reasons. The result of the present IMSPM analysis is as provided in Table IV.

As shown in Table IV, the value 0 (zero) within some columns means the sample did not provide the information as required in the first IMSPM analysis. In this respect, the sample which provided complete data for the first step analysis was BSM, while the sample with the least provided data was UK-RYB. Due to this limitation, this paper conducted a one-sample Kolmogorov–Smirnov test using IBM SPSS (Statistical Package for the Social Sciences) version 20.0 and selected significance level of 0.05. The test involved each sample’s three-year mean PR. The result indicated a Kolmogorov–Smirnov result of 0.793. Thus, the data were normally distributed.

Further, Table IV shows the results of the individual and general performance of the sample. The individual performance of the sample can be seen in the 3-year mean IMSPM column. It is evident that the range of the three-year mean IMSPM was between 0.139 and 0.995. This means that BSM and UK-RYB performed 90 (highest) and 14 per cent (lowest) on the indicators of IMSPM analysis, respectively.

Meanwhile, the general performance of the sample can refer to the overall mean PI (performance indicator) and total PI columns. The overall mean PI represents the sum of the sample’s 3-year mean of each PI. The total PI presents the sum of the sample’s PI. The highest overall mean PI was for the objective of self (1.718), followed by faith (1.007), wealth (0.530), posterity (0.084) and intellect (0.020). This inferred that the overall sample performed highest on the objective of self (nafs) in the present IMSPM analysis over the three years.

Further qualitative validation
The objective of faith (din). The sample which recorded the highest proportion for this objective is IBB with a three-year mean of 0.232. This achievement of IBB might be portrayed from Bangladeshis’ commitment to state-level initiatives towards IBs’ establishment. According to Mannan (2016):

[...] On 4 April 1981, Ministry of Finance issued a letter to Bangladeshi banks, directing all state-owned banks of the country, to open separate Islamic banking counters in all their branches in towns and villages and to keep separate ledgers for them [...] (p. 14).

The objective of self (nafs). The sample which recorded highest for this objective is BSM with its three-year mean of 0.819. This realization of BSM might be perused within its Sharīʿah committee’s commitment to continuously upgrading the quality of Sharīʿah compliance. Quoting Prof. Dr. H. Komaruddin Hidayat, Chairman of the Sharia Supervisory Board:

Sharīʿah advisory council provides guidance and reinforcement of “Contracts and Products of Islamic Banking” to the staffs at the branches by conducting “Sharīʿah Clinic Forum”, to answer the complaints and hear the recommendation to fix further and upgrade the quality of Sharīʿah-compliance aspect [...] (PT Bank Syariah Mandiri, 2015, p. 37).
<table>
<thead>
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<td>Saudi Arabia</td>
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<td>0.068</td>
<td>0.072</td>
<td>0.072</td>
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<td>0.061</td>
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<td>0.087</td>
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<td>0.089</td>
<td>0.082</td>
<td>0.085</td>
<td>0.086</td>
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<td>0.020</td>
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<td>0.005</td>
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<td>0.072</td>
<td>0.072</td>
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<td>0.105</td>
<td>0.106</td>
<td>0.097</td>
<td>0.078</td>
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<td>0.043</td>
<td>0.049</td>
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<td>Bahrain</td>
<td>BSB</td>
<td>0.213</td>
<td>0.209</td>
<td>0.209</td>
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<td>0.272</td>
<td>0.270</td>
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<td>0.141</td>
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</tr>
<tr>
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<td>BSM</td>
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<td>0.071</td>
<td>0.070</td>
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<td>0.078</td>
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</table>

**Table IV.** Results of the sample’s performance analyzed using IMSPM

**Source:** Computed by authors
<table>
<thead>
<tr>
<th>Country</th>
<th>Bangladesh</th>
<th>Pakistan</th>
<th>Qatar</th>
<th>Sudan</th>
<th>United Kingdom</th>
<th>Total</th>
<th>Overall</th>
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<tr>
<td>Faith (Dīn) (PIO1)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Pi11</td>
<td>0.190</td>
<td>0.179</td>
<td>0.171</td>
<td>0.035</td>
<td>0.038</td>
<td>0.038</td>
<td>0.091</td>
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<td>Pi12</td>
<td>0.055</td>
<td>0.050</td>
<td>0.052</td>
<td>0.001</td>
<td>0.002</td>
<td>0.002</td>
<td>0.004</td>
</tr>
<tr>
<td>Pi1(01)</td>
<td>0.245</td>
<td>0.229</td>
<td>0.223</td>
<td>0.036</td>
<td>0.041</td>
<td>0.040</td>
<td>0.095</td>
</tr>
<tr>
<td>Total Pi (O1)</td>
<td>0.696</td>
<td>0.117</td>
<td>0.285</td>
<td>0.073</td>
<td>0.075</td>
<td>0.073</td>
<td>0.191</td>
</tr>
<tr>
<td>3-year Mean (O1)</td>
<td>0.232</td>
<td>0.039</td>
<td>0.095</td>
<td>0.068</td>
<td>0.065</td>
<td>0.065</td>
<td>0.109</td>
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<tr>
<td>Total</td>
<td>0.966</td>
<td>0.130</td>
<td>0.285</td>
<td>0.147</td>
<td>0.134</td>
<td>0.134</td>
<td>0.288</td>
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<tr>
<td>Total Pi (O1)</td>
<td>0.735</td>
<td>0.100</td>
<td>0.261</td>
<td>0.130</td>
<td>0.134</td>
<td>0.134</td>
<td>0.288</td>
</tr>
<tr>
<td>3-year Mean</td>
<td>0.245</td>
<td>0.039</td>
<td>0.095</td>
<td>0.068</td>
<td>0.065</td>
<td>0.065</td>
<td>0.109</td>
</tr>
<tr>
<td>Self (Nafs) (PIO2)</td>
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<tr>
<td>Pi21</td>
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<td>0.050</td>
<td>0.052</td>
<td>0.001</td>
<td>0.002</td>
<td>0.002</td>
<td>0.004</td>
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<tr>
<td>Pi22</td>
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<td>0.001</td>
<td>0.001</td>
<td>0.007</td>
<td>0.007</td>
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<td>Pi2(02)</td>
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<tr>
<td>Total Pi (O2)</td>
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<td>3-year mean</td>
<td>0.036</td>
<td>0.000</td>
<td>0.133</td>
<td>0.036</td>
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<tr>
<td>Intellect ('Aql) (PIO3)</td>
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<tr>
<td>Pi31</td>
<td>0.001</td>
<td>0.001</td>
<td>0.001</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
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<tr>
<td>Pi32</td>
<td>0.001</td>
<td>0.001</td>
<td>0.001</td>
<td>0.007</td>
<td>0.007</td>
<td>0.008</td>
<td>0.005</td>
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<tr>
<td>Pi3(03)</td>
<td>0.00001</td>
<td>0.00005</td>
<td>0.00005</td>
<td>0.00002</td>
<td>0.00002</td>
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<tr>
<td>Total Pi (O3)</td>
<td>0.0008</td>
<td>0.0001</td>
<td>0.0001</td>
<td>0.0003</td>
<td>0.0003</td>
<td>0.0003</td>
<td>0.0003</td>
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<tr>
<td>3-year mean</td>
<td>0.0003</td>
<td>0.00004</td>
<td>0.00004</td>
<td>0.0001</td>
<td>0.0001</td>
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<td>Pi41</td>
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<td>0.001</td>
<td>0.001</td>
<td>0.011</td>
<td>0.012</td>
<td>0.016</td>
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<td>Pi42</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.007</td>
<td>0.008</td>
<td>0.009</td>
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<tr>
<td>Pi4(04)</td>
<td>0.004</td>
<td>0.004</td>
<td>0.004</td>
<td>0.011</td>
<td>0.013</td>
<td>0.016</td>
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<td>Total Pi (O4)</td>
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<td>0.013</td>
<td>0.039</td>
<td>0.057</td>
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</tr>
<tr>
<td>3-year mean</td>
<td>0.005</td>
<td>0.013</td>
<td>0.013</td>
<td>0.039</td>
<td>0.057</td>
<td>0.054</td>
<td>0.054</td>
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<tr>
<td>Wealth (Miṣal) (PIO5)</td>
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<tr>
<td>Pi51</td>
<td>0.000</td>
<td>0.000</td>
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<td>0.090</td>
<td>0.095</td>
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<td>Pi52</td>
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<td>0.002</td>
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<td>0.007</td>
<td>0.006</td>
<td>0.008</td>
<td>0.007</td>
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<td>Pi5(05)</td>
<td>0.000003</td>
<td>0.00003</td>
<td>0.00003</td>
<td>0.00004</td>
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<td>Total Pi (O5)</td>
<td>0.015</td>
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<td>0.116</td>
<td>0.243</td>
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<tr>
<td>3-year mean</td>
<td>0.005</td>
<td>0.013</td>
<td>0.013</td>
<td>0.039</td>
<td>0.057</td>
<td>0.054</td>
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<tr>
<td>Total IMSPM</td>
<td>0.265</td>
<td>0.302</td>
<td>0.291</td>
<td>0.304</td>
<td>0.422</td>
<td>0.330</td>
<td>0.422</td>
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<tr>
<td>3-year mean IMSPM</td>
<td>0.286</td>
<td>0.320</td>
<td>0.301</td>
<td>0.304</td>
<td>0.422</td>
<td>0.330</td>
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</table>
The objective of intellect (ʿaql). The sample which recorded highest for this objective is again BSM with a three-year mean of 0.008. This achievement might be portrayed in its 2014 annual report slogan “Strengthening the Foundation, Growing Sustainably”. According to its annual report (2014):

A robust firm does not look at a material benefit in a short period. A firm, as a business community, has perpetual responsibility in addition to maintaining the growth of profit balance [...] BSM has a certain direction to becoming a firm which strongly commits on sustainable growth[...](p. 1).

The objective of posterity (nasl). The sample which made the highest contribution for this objective is QIIB with a three-year mean of 0.019, followed by SHIB with 0.018. The achievement of QIIB might be a result of the commitment of both the Government and the Qatari people in supporting Islamic banking. Citing Al-Thani (2015):

[...] QIIB was able to achieve significant increase and growth in its various banking activities over the past year which was reflected in the positive reaction of clients and shareholders as well as their confidence in the bank’s ability, status and strong financial position (p. 21).

The objective of wealth (māl). The sample which registered highest under this objective is MB with a three-year mean of 0.166 followed by ATPB with a three-year mean of 0.100. The achievement of MB may best be explained from the following quote:

[...] Meezan Bank has always had a calling higher than that of achieving business success: to spearhead the spread of Islamic banking in the country, living up to its vision statement of establishing “Islamic banking as banking of the first choice.” The success of Meezan Bank in the industry, evidenced by its classification amongst the top ten banks of the country, has paved the way for other Islamic banks to grow [...] (Meezan Bank, 2015).

Discussion of results
This paper has engaged firstly a qualitative approach to establish IMSPM. By further employing the benchmark, the present work has analyzed the performance of a sample of 11 banks. The results, as described in the above section, did not provide any evidence to assert that one particular IB is better than the other IBs, or, one sampled IB is more Islamic than the other sampled IBs.

Even though BSM was found to perform highest in the individual performance with the three-year mean IMSPM of 0.99, this finding suggests that BSM provided enough information as required during the IMSPM analysis. This interpretation disproves that of the previous studies of Antonio et al. (2012), Ascarya and Sukmana (2016) and Saoqi (2017), who claimed that one particular bank they studied was better than other sampled banks, and one specific bank in a country was more Islamic than the sampled IBs of other countries.

The sample’s highest overall performance on IMSPM was with regard to the objective of self (nafs). This finding is best interpreted as providing insight into the sample’s achievement in promoting maqāṣid al-Sharīʿah in the banking sector. The authors do not interpret this as the IB sector falling short with regard to maqāṣid al-Sharīʿah as did Asutay and Harningtyas (2015). A possible explanation for this different interpretation is the fact that all the sampled banks did not disclose the information needed for the analysis. In addition, the nature of the concept of operationalization, which grounds the establishment of IMSPM, is not meant to see the correlation, reasons, consequences or antecedents (Sekaran and Bougie, 2003); thus, this best provides the rationale to interpret the results in this way.
Conclusion
The current study set out to develop a model for measuring IBs’ performance based on scholarly works. The paper established the IMSPM, which measures both religious and financial aspects of IBs. By further using the IMSPM, the paper analyzes the performance of a sample of 11 banks worldwide. The overall sample performed highest on the objective of self (nafs) in the three-year selected period. To some degree, this evidence can best challenge the issue of IBs not being in line with the Sharīʿah.

This paper contributes in several ways to our understanding of the appropriate benchmark for measuring IBs’ performance and provides a basis for interpreting the results of IBs’ performance using IMSPM. An implication from these findings is that both financial and religious measures should be taken into account when analyzing an IB’s performance. The Islamic banking industry may employ the IMSPM to communicate the maqāsid al-Sharīʿah performance in their reports for business and Sharīʿah-compliance advantages. In addition, future studies may employ the IMSPM to measure the recent performance of Islamic financial institutions, so that more evidence indicating their positions in promoting maqāsid al-Sharīʿah in the financial industry is further supported by scholarly discussion.

Notes
1. For example, Muljawan (2005) adjusted financial ratios measures in CAMELS rating to be compatible with IBs nature. Nevertheless, the study did not take Sharīʿah discussion into account. The study of Sarker (2006) proposed to add Sharīʿah rating in “S” of CAMELS becoming CAMELLS, yet the proposed rating was not based on the maqāsid al-Sharīʿah theory. The study by Ratnaputri (2013) used Sharīʿah conformity along with CAMEL(S) rating system. Nonetheless, the elaboration of Sharīʿah conformity was unclear. The work of Abdul Rahman and Masngut (2014) used Sharīʿah compliance in CAMELS analysis. However, Sharīʿah compliance of the study was limited to Sharīʿah rules and regulation issued by a Sharīʿah advisory council. It neither formed a method nor considered the theory of maqāsid al-Sharīʿah. Ismail and Che (2015) studied the indicators of IBs financial soundness covering both financial and Sharīʿah facets. However, neither an index of Sharīʿah measurement was developed nor empirical evidence was presented.


References


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Further reading


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