Intellectual Discourse, 23: Special Issue (2015) 401-424

ISSN 0128-4878 (Print); ISSN 2289-5639 (Online)

Measuring the performance of Islamic banks using maqāsid based model

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Abstract: The vision and mission of Islamic banks were supposed to reflect the adherence of their activities and aspiration to *Maqāṣid al-Sharī'ah*. However, there are contentions that Islamic banks have been converging towards conventional banking system. Efforts have been expended to reverse the tide and harmonise Islamic banking to its *Sharī'ah* objectives. Hitherto, the existing conventional yardsticks have failed to measure the impact of the harmonisation exercise on Islamic banks' performance. Therefore, using *maqāṣid* based yardstick to measure the performance of Islamic banks becomes imperative. This study has made use of al-Imām al-Ghazālī's theory of *Maqāṣid al-Sharī'ah* and Ibn 'Āshūr's reinterpretation, adopting content analysis and Sekaran (2000) behavioral science methods to develop a *Maqāṣid* Based Performance Evaluation Model (MPEM) to measure the performance of Islamic banks. Experts' opinions have validated the model and its acceptability. Suggestions are provided to policy makers and future research.

Keywords: Harmonisation; Islamic banks; *Maqāṣid al-Sharī'ah;* performance evaluation; *Sharī'ah*.

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Abstrak: Visi dan misi bank-bank Islam sepatutnya mencerminkan pematuhan aktiviti-aktiviti mereka dan aspirasi untuk *Maqāṣid al-Sharīʿah*. Namun begitu, terdapat pandangan bahawa bank-bank Islam telah menjurus ke arah sistem perbankan konvensional. Usaha-usaha untuk memperluaskannya bagi mengembalikan arus dan menyelaraskan perbankan Islam dengan berobjektifkan *Sharīʿah*. Sehingga ini, ukuran konvensional yang sedia adalah gagal untuk mengukur kesan usaha pengharmonian prestasi bank-bank Islam. Oleh itu, dengan menggunakan pengukuran yang berdasarkan pengukuran *Maqāṣid,* prestasi bank-bank Islam menjadi penting. Kajian ini telah menggunakan teori al-Imām al-Ghāzalī's tentang *Maqāṣid al-Sharīʿah* dan interpretasi semula Ibn 'Āshūr', menggunakan analisis isi kandungan dan kaedah sains perlakuan yang diutarakan oleh Sekaran (2000) demi untuk membangunkan *Maqāṣid* Berdasarkan Penilaian Prestasi Model (MPEM) bagi mengukur prestasi bank-bank Islam. Pendapat pakar-pakar telah mengesahkan model tersebut dan penerimaannya. Cadangan-cadangan turut diberikan kepada pembuat polisi dan untuk kajian yang akan datang.

Kata Kunci: Pengharmonian; bank-bank Islam; *Maqāṣid al-Sharī'ah;* penilaian prestasi; *Sharī'ah*.

OIC member countries have agreed to establish Islamic banks in their respective countries in an effort to build a sustainable and comprehensive socio-economic system imbued with Islamic values. This was also to ensure a viable alternative for the Muslim ummah by presenting *ribā* free financial system that could ensure justice, fairness and equitable distribution of income and wealth, in line with *Maqāṣid al-Sharī'ah*. The vision and mission of Islamic banks were supposed to reflect this same aspiration and *Sharī'ah* objectives.

Since its inception in 1975, the Islamic banking industry has achieved a phenomenal growth over the years. This is in spite of the fact that the market share of Islamic banking compared to global banking assets is only 1.5%. From 2006 to 2011, the asset size of Islamic banking institutions doubled to $900 billion (Financial Times, 2011). In 2012, there was a sharp rise in *Sharī'ah* compliant assets to $1.54 trillion, which then increased to $1.7 trillion by the end of 2014 (Ernst & Young, 2014). Furthermore, Ernst and Young (2014) reports that the average ROE of top twenty Islamic banks in 2012 was found to be 12.6% compared to 15% in the case of the conventional banks.

In spite of the tremendous growth and achievements, many studies have documented evidences that overtime, Islamic banks are seen as shying away from the very objective of their establishment, *al–maqāṣid*. Instead, the Islamic banking industry has been converging towards its conventional banking counterpart. Critics see the Islamic banking products as replicating its conventional counterparts, its pricing is unfair and it largely operates on debt structure. For example, Mustafa (2011, 2015) argued that Islamic banks are simply mimicking the conventional bank under the disguise of an Islamic cover. It is argued that this convergence goes against the very objective of the establishment of Islamic banks, which is *Maqāṣid al-Sharī'ah*. Muslim scholars had expected the industry to adhere to *Maqāṣid al-Sharī'ah* once it was operationalised. For example, Islamic banking was expected to contribute to economic growth and to uphold justice in all its activities.

Several attempts are being made relentlessly to harness the Islamic banking industry towards *al-maqāṣid*. In Malaysia for example, amendments were made to the Islamic Financial Services Act (IFSA) in 2013, regulating the Islamic stock market and capacity building are some of the efforts towards that direction. The pertinent question that arises are the extent to which these efforts are effective and how they are measured. Unfortunately, most of the existing studies have focused on measuring the conventional results of Islamic banks such as profitability ratios, capital adequacy ratios, among others. There is hardly any attempt to measure the extent to which the performance of Islamic banks is converging towards *al-maqāṣid*. Besides, the existing conventional yardstick is not suitable for measuring *maqāṣid* based performances. Therefore, it is vital to use a model based on *Maqāṣid al-Sharī'ah* to measure the performance of Islamic banks. This study makes use of *al-Imam al-Ghazalī*'s theories of *Maqāṣid al-Sharī'ah* and Ibn 'Āshūr's reinterpretation, adopting content analysis and Sekaran (2000) behavioral science methods to develop a model to measure the performance of Islamic banks. The authors have called this model *maqāṣid* Based Performance Evaluation Model (MPEM).

Literature review

It is common knowledge that conventional banking is an interest based debt system guided by human theories. While Islamic banking is supposed to operate on rules, regulation and techniques governed by the

Sharī'ah and its objectives (*al-maqāṣid*).Thus, the guiding principles of Islamic banks are significantly different from the conventional banks. Islamic banks by definition have to follow the *Sharī'ah* rules and have to restrain themselves from all sorts of operation that involves negative elements such as *ribā* (Interest). However, as stated in the introductory section, evidences show that Islamic banking has been converging towards its conventional counterpart. For example, Carla (2009) opines that many people see the Islamic banking products as mirroring those products available from conventional banks, which makes Islamic banks look a lot like conventional finance in disguise. According to el-Gamal (2006) Islamic banks attempt to replicate the substance of contemporary financial practice and by so doing they have arguably failed to serve the objectives of the *Sharī'ah*. There have been considerable effort to harmonise Islamic banking towards *Maqāṣid al-Sharī'ah*. For example, Malaysia ammended the Islamic Financial Service Act (IFSA) in 2013 to harmonise Islamic banking towards its *maqāṣid* (Bank Negara Malaysia, 2013).

Hitherto, there has not been any effort to measure the extent of the success of this harmonisation exercise and how it has reflected on the performances of Islamic banking. Worse still, there is lack of proper *maqāṣid* based yardstick to capture the impact of the experiment on Islamic banking performance. Instead, the literature has focused on measuring the conventional results of Islamic banking such as profitability ratios: Return on Assets (ROA), Return on Equity (ROE) and, efficiency, social objectives, among others. For example, Rosely and Abu Bakar (2003) calculated the profitability of Islamic banks using traditional accounting ratios like ROA, Profit Margin (PM) and Net Operating Margin (NOM) and found that the results are slightly higher for the Malaysian Islamic banks during the period of the years 1996 to1999 compared to the conventional banks. Ashraf and Rehman (2011) scrutinised the performance of Islamic banks in Pakistan using bank level data from 2007-2010.They used ratios of: (1) profitability; (2) earnings; (3) liquidity; (4) credit risk; and (5) assets activity to compare the performance of Islamic and conventional banking. Meanwhile Usman and Khan (2012) studied three Islamic and conventional banks by analysing their profitability ratios such as ROA, ROE and EPS. The results revealed that the profitability of the Islamic banks was greater than the conventional banks.

There have also been a significant number of efficiency studies of the Islamic banking performances. For instance, Yudistira (2004) took a global sample of 18 Islamic banks and found that the Islamic banks are more efficient than the conventional banks. Hassan (2006) studied a sample of 43 Islamic banks and found them to some extent less cost efficient than the conventional banks. Shahid and Raoof (2010) compared the efficiency of Islamic and conventional banks in Pakistan under constant returns to scale (CRS) and variable returns to scale (VRS) approach. The result showed that technical efficiency of conventional banks was better than Islamic banks, but cost efficiency and allocative efficiency showed a healthy competition. Reni, Muklis and Cholisini (2014) investigated the perception of the managers of Islamic banks towards the banks' goals. The perceptions were solicited for social objectives and commercial objectives using factor analysis. Structural Equation Modelling (SEM) was adopted to test the effects of social objectives on social performance and commercial objectives on economic performance.

It is obvious from the above examples, and many others, on Islamic banking performances, that most of the literature has adopted the conventional yardsticks, which are incapable of capturing the performances of Islamic banks in the light of *Maqāṣid al-Sharī'ah*. Meanwhile there are a few extant *maqāṣid* based measurement literature, but to what extent have they provided the answer to measuring the impact of harmonising Islamic banking towards *al-maqāṣid*?

Extant *maqāsid* based performance measurement of Islamic banks

There has been a serious dearth of *maqāsid* based studies to measure the impact of the harmonisation experiment on Islamic banking performance. Few studies however have examined the extent to which Islamic banking products conform to *al-maqāṣid* and the extent to which the performance of Islamic banks in general achieves the five components of *Maqāṣid*. For example, al-Mubarak and Osman (2010) suggests that *bay' al-'in*ah, along with few other contemporary practices like *bay' bithamān 'ajil* (BBA) and *ijārah ṣukūk* need to be thoroughly revised before being offered as riba-free products, as they do not comply with the *maqāṣid* of Islamic economics and banking principles like economic development, social wellbeing, individual freedom and equality, elimination of injustice and poverty. Another study by Rafidah

and Yakoob (2011) on house financing by Malaysian Islamic banks argues that the BBA contract violates the *Maqāṣid al-Sharī'ah* as the concept of *iwad* which leads to removal of hardship (*raf' al-haraj*) and preventing harm (*daf' al-dharar*) is totally ignored. Habib (2011) developed a framework to measure whether a financial product really fulfills the *Sharī'ah* objectives or not. Bedoui and Mansour (2013) developed a *Maqāṣid al-Sharī'ah* based Pentagon-shaped performance measurement scale. The objective of the scale was to measure whether Islamic banks are contributing to the promotion and development of human welfare, preventing corruption and improving social and economic stability rather than concentrating on maximising financial returns.

Muṣtafa, Abdul Razak and Taib (2008) developed a performance measures based on *Maqāṣid al-Sharī'ah* (PMMS) model. The model operationalised Abū Zaharah's theory of *Maqāṣid al-Sharī'ah* into financial ratios. The ratios were then mathematically organised to create an index to access the overall performance of both Islamic and conventional banks based on *Maqāṣid*. The result of their study shows that Islamic banks performed better when measured with PMMS model. Antonio, Sanrego and Taufiq (2012) used Mustafa et al. (2008) model to measure the performance of two Islamic banks in Indonesia and two in Jordan. Although the focus of most of these *maqāṣid* based measurements vary, Mustafa (2008) work has some relevance and can be used as a basis for developing the *maqāṣid* model in the present study.

Developing the *maqāṣid* based performance evaluation model (MPEM)

The term *'maqāṣid'*(plural) originate from the word '*maqṣad'* (singular) which literally means purpose, goal and objective. The term *Maqāṣid al-Sharī'ah* then would mean the purposes, goals or objectives of *Sharī'ah*. Many Islamic scholars argued that *maqāṣid* can also be expressed as *maṣāliḥ* or public interest (Ibn 'Āshūr, 2006). 'Abdul-Malik al-Juwainī, as the earliest contributor to *al-maqāṣid* theory, has interchangeably used the term *al-maqāṣid* and public interests (*al-maṣāliḥ al-'ammah*). Abū Ḥamid al-Ghazalī used the term 'unrestricted interests' (*al-maṣālih al-mursalah*) in his elaboration of *maqāṣid*. Hence, *maqṣad*, goal, objective, purpose, end, or principle in the *Sharī'ah* is for the 'interest of humanity' (Auda, 2008). As stated in section one of the paper above,

the study has adopted content analysis and Sekaran (2000) behavioral science method to develop the *maqāṣid* model. The following are the four salient steps:

1. Literature survey was used to identify the relevant *maqāṣid* theory and its components as the basis for developing the theory. In this case, al-Ghāzalī's theory has been adopted.
2. Content analysis was used to relate the five dimensions in al-Ghazālī's theory, namely the preservation of religion, life, intellect, progeny and wealth to their five respective elements in Ibn ʻĀshūr's *maqāṣid* theory.
3. Sekaran (2010) was employed to operationalise the elements in step two (2) above into respective measurement ratios.
4. Validation of the model through interviews

Step one: Identifying the relevant maqāṣid theory

After surveying the literature, the authors decided to adopt al-Ghazālī's (d. 505/1111) theory of *al-maqāṣid* to develop the model. Al-Ghazālī's theory is chosen because it is well established and several Muslim scholars, both past and present, have extensively made use of it in their works. For example, al-Shāṭibī (n.d) expanded the application of al-Ghazālī's three levels of *maṣlaḥah*, which he referred to as universal concepts and their classifications as final (Nyazee, 1994). Abū Zahrah (1997) extended al-Ghazālī's theory to include justice and education. Modern scholars in the areas of economics and finance have also used al-Ghazālī's *maqāṣid* theory as bases for their studies. For example Chapra (2007) has used al-Ghazālī's classification of the five essentials to develop a model of human development and wellbeing. Dusuki and Mokhtar (2010) have made use of al-Ghazālī's theory of *al-maqāṣid* to appraise sukuk issuance in the Islamic debt market. In other related works, ʻAbd al-Munʻim (1991) has used al-Ghazālī's theory in his model to classify goods and services, economic activities and the policy measures that could be adopted at the various levels to realise *Maqāṣid al-Sharīʻah.* Larbani and Mustafa (2011) developed a decision making tool based on al-Ghazālī's levels of *maṣlaḥah* for the managers of firms to use in allocating their investible resources to vital sectors of the economy.

Al-Ghazālī categorised *maṣlaḥah* into three: necessities (daruriyyat), complements (*hajiyāt*) and embellishments (*tahsiniyāt*).

According to al-Ghazālī, necessities are those elements without which the system of a nation will run into chaos. Complements are elements that facilitate human lives. Meanwhile embellishments are articles that are related to moral and ethical conducts. He further refined necessities into the preservation of five essential elements (*al-darūriyat al-khams*), namely religion (*al-din*), life (*al-nafs*), intellect (*al-'aql*), progeny (*al-nasl)* and wealth (*al-māl*). These five essential elements are given priority according to this order. Al-Ghazālī's theory has survived until today. As stated above, many Muslim scholars both past and present have extensively made use of al-Ghazālī's theory in their works. The theoretical framework of al-Ghazālī's *maqāsid* is illustrated in Figure 1.

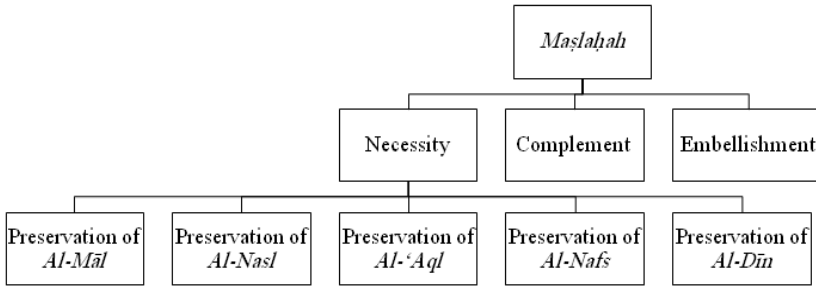

Figure 1: Theoretical framework of al-Ghazālī's Maqāṣid al-Sharī'ah

Step two: Relating al-Ghazālī's maqāṣid dimensions to Ibn 'Āshūr's maqāṣid elements

Operationalising al-Ghazālī's framework in order to develop a *maqāṣid* model to measure the impact of harmonisation on Islamic banking performance is not a straight forward task. Needless to say, in his framework, al-Ghazālī focused on human beings or humanity as the subject of al-*maqāṣid*. But in this study, the focus is on Islamic banks. Preservation of religion, life, intellect, progeny and wealth for individuals is totally different from preserving the same when we are dealing with an institution such as bank, which is not a real person. To overcome this difficulty we have taken support from Ibn 'Āshūr's theory of *al-maqāṣid*. The latter has given to al-Ghazālī's five *maqāṣid* dimensions, namely religion, life, intellect, progeny and wealth new interpretations and institutional elements that suit our subject matter of developing *maqāṣid* based model to measure

the performance of Islamic banks. Table 1 relates al-Ghazālī's five *maqāṣid* dimensions to the respective institutional elements provided by Ibn ʻĀshūr.

Table 1: Relating al-Ghazālī's maqāṣid dimensions to Ibn ʻĀshūr's elements

Al-Ghazālī's *Maqāṣid* Dimensions	**Ibn ʻĀshūr's Elements**
i) Preservation of religion/faith	Freedom of faith
ii) Preservation of life/soul	a) Preservation of human dignity b) Protection of human right
iii)Preservation of Intellect/mind	a) Propagation of scientific thinking b) Avoidance of brain drain
iv)Preservation of Progeny	Care of family
v)Preservation of wealth	a) Wellbeing of society b) Minimising income and wealth disparity

Step three: Operationalisation of the elements into measurement ratios

Ibn ʻĀshūr's interpretation of al-Ghazālī's five *maqāṣid* dimensions into elements as provided in Table 1 has given the authors enough scope to operationalise the respective elements to derive ratios needed to evaluate the performance of Islamic banks. According to Berger and Humphrey (1997), there is 'no perfect approach' to variable selection while measuring the performance of banks. Nevertheless, the measurement ratios that have been identified to correspond to the respective elements were chosen based on the following criteria:

i. Critical discussion of the five dimensions of al-Ghazālī's *maqāṣid*
ii. The ratios adopted were used in similar researches measuring the performance of Islamic and conventional banks.
iii. Statistical convenience with respect to sources of data.
iv. Ensuring the reflection of *Maqāṣid al-Sharīʻah* in Performance measurement.

The five *maqāṣid* dimensions (the preservation of religion, life, intellect, wealth and progeny) and their corresponding respective elements and measurement ratios are presented below:

Preservation of religion/faith

The basic purpose of *Sharī'ah* is to preserve one's faith or religion. Ibn 'Ashur interpreted that dimension into an element of "Freedom of faith", which means everybody has the right to practice and uphold his/her religious belief. To achieve this element, for example, the basic purpose of Islamic bank would be to establish a *riba* free economic system that enables Muslims the freedom to practice their faith. To measure how far Islamic banks have achieved the element of this dimension, the following ratios are proposed.

a. *Muḍārabah* and *mushārakah* investment/total investment
b. Interest free income/total income.

The first ratio in a) above is used to understand the percentage of investment made by Islamic banks with profit and loss sharing method with respect to total investment. The second ratio, b) is used to understand the percentage of *riba* free income with respect to total income. Higher ratios in both cases a and b above will reflect the bank's intention to uphold the true spirit of *Maqāṣid al-Sharī'ah*. The definitions of the components of the ratios are given below:

- *Muḍārabah* is basically an Islamic business contract based on profit sharing. Under the contract, the capital provider (*rab-al-māl*) owns the business and the manager (*muḍārib*) manages the business (Bank Negara Malaysia, 2013). In the case of Islamic bank, the customer is the capital provider and the bank is the manager.
- *Mushārakah* is a partnership contact based on profit and loss sharing where all the partners contribute capital to invest. The profit will be distributed according to the agreement between the partners and losses will be distributed according to the capital ratio. In this instance, both the bank and the customer will be capital providers (Khan, 2003).
- *Total investment* refers to the total amount of money placed to produce income. Investment is also defined as the asset an owner puts into the business (Weygandt, Kieso, & Kimmel, 2008).
- *Total income* is the total amount of money received from an investment (Collin, 2007).

- *Interest free income* refer to the income earned without any form of interest.

Preservation of life/soul

Both al-Ghazālī and al-Shāṭibī stated that the preservation of life is at the necessity stage, which makes it a basic purpose of *Sharī'ah*. Ibn 'Āshūr redefined the dimension into two elements, namely the preservation of human dignity and the preservation of human right. The following ratios can be used to measure whether Islamic banks fulfill the elements of this dimension.

a. Corporate Social Responsibility (CSR) Expenditure/Total expenses
b. *Zakāh* distribution/net Asset

The amount of CSR expenditure and *zakāh* will depict the bank's intention to preserve human dignity and human right. Higher ratios in "a" and "b" above indicate higher contributions of Islamic banks towards preserving human life, honor and dignity. The definitions of the components of the two ratios are:

- *CSR expenditure* means the amount of money spent on social activity. Currently, it is mandatory to report the amount of money spent on CSR activities.
- *Expenses* are the cost of assets consumed or services used in the process of earning revenue (Weygandt, Kieso, & Kimmel, 2008). Thus, total expenses represent all such expenses.
- *Zakāh* is the amount charged on all individuals who have wealth above certain limit (*niṣāb*). The *Sharī'ah* imposes 2.5% of net wealth as *zakāh* (Khan, 2003).
- *Net Asset* is equal to total asset minus total liability upon which *zakāh* is calculated.

Preservation of intellect/mind

The preservation of intellect (*'Aql*) is also a basic purpose of *Sharī'ah*. The term was generally used for the preservation of the intellect against prohibitions such as intoxicants. Ibn 'Āshūr has reinterpreted this dimension into two elements: "Propagation of scientific thinking" and "Avoidance of brain drain". These two elements can be measured by the following ratios:

a. Investment in technology/ total asset
b. Number of employees turnover/total number of employees.

These two ratios are used to measure Islamic bank's intention to invest in technology and retain good employees which in turn will reflect on the bank's intention to preserve intellect or mind. High investment in technology reflects the bank's intention to become technologically advanced. On the other hand, the bank is expected to keep the second ratio (b) as low as possible. The components of the ratios are defined below:

- *Technology* is the use of science in industry, engineering, etc., to invent useful things or to solve problems (Merriam Webster dictionary, 2015). Thus investment in technology means money spent on technology.
- *Total asset* is the sum total of all assets including cash, investment and other assets shown in the balance sheet.
- *Number of employees turnover* means the number of employees that have left the job.
- *Total number of employees* is self-explanatory.

Preservation of progeny

Ibn ʿĀshūr reinterpreted the dimension of "preserving progeny" into a more family oriented concept. For example it can refer to terms such as "Care for family" and "Stakeholders since most Islamic banks today act as Public Limited Company (PLC). Stakeholders would include shareholders, customers, employees and government servants. Showing care for family would be showing care for the stakeholders. These elements can be measured by the following ratios:

a. Market value/ book value
b. Research expense/total expense
c. Training and development expense/ total expense
d. Net income/ total asset
e. Credit risk
f. Tax paid/ profit before tax.

The market to book value ratio and net income to total asset ratio relate to the shareholders, research and training expenses relate to employees. Credit risk relate to customers and tax ratio relate to contribution to the government servants. The components of these six elements are defined below.

Market value means the current market price of each unit of shares of a bank.

Book value means the price of the share at the time of IPO (Initial Public Offering)

- *Research expense* is the amount of money spent on research and development.
- *Training and Development expenses* is the amount of money spent to train and develop the employees.
- *Net income* refers to an organisation's income after deducting all expenses and taxes (Weygandt, Kieso, & Kimmel, 2008).
- *Non-performing investment* refers to the investment on which no income is forth coming.
- *Tax paid* is the amount of money spent as tax on income.
- *Profit before tax* is the income after all the expenses and before tax deduction.

Preservation of wealth

The dimension of the preservation of wealth was translated into the element of "wellbeing of society" or "Minimising income and wealth disparity". These elements are measured by the following ratios:

a. Investment in the real economic sector/total investment.
b. Investment in SME/total investment.
c. Investment in agriculture/total investment.

These ratios measure investments in the real economic sector, in SMEs and in agriculture by the banks. Higher investments in these sectors will enhance the wellbeing of the society and reduce the gap between rich and poor. The salient components are defined as follows:

- *Real economic sector* refers to the sector in which there are production of goods and services through combined utilisation of raw materials and other factors of production like land, labour and capital (Bank of Thailand, 2011).
- *SME* represents small and medium enterprise. SMEs are businesses with the number of employees between 10 to 250

(European Union website). Investment in SME means, money invested on small and medium enterprise.

- *Agriculture* means the science, art, or practice of cultivating the soil, producing crops, and raising livestock and in varying degrees the preparation and marketing of the resulting products (Merriam Webster dictionary, 2015). Thus investing in agriculture means the banks' participation in agriculture to support poor farmers.

Table-2: Elements and measurement ratios of the five maqāṣid dimensions

Dimensions	**Elements**	**Ratios**
Preservation of Faith	Freedom of Faith	*Muḍārabah* & *Mushārakah* Investment/ Total Investment
		Interest free income/Total income
Preservation of life	a) Preservation of human dignity b) Protection of human right	Corporate Social Responsibility(CSR) Expenditure/Total expenses
		Zakāh distribution/net Asset
Preservation of Intellect	a) Propagation of scientific thinking b) Avoidance of brain drain	Investment in technology/ total asset
		Number of employee left/ Total number of employees.
Preservation of Progeny	Care for family [in case of Public Limited Company (PLC)]	Market value/ Book value
		Research expense/total expense
		Training and development expense/ total expense
		Net income/ total asset
		Credit risk
		Tax paid/ Profit before tax
		Market value/ Book value
Preservation of wealth	a. Wellbeing of society b. Minimising income and wealth disparity	Investment in the real economic sector/total investment
		Investment in SMEs/total investment
		Investment in Agriculture/total investment

Table 2 provides the summary of the above discussion on operationalising the five *maqāṣid* dimensions into elements and identifying the

appropriate ratios to measure those elements. In the light of these dimensions, elements and ratios, the preliminary model, the *Maqāṣid* Based Performance Evaluation Model (MPEM) is presented in Figure 2.

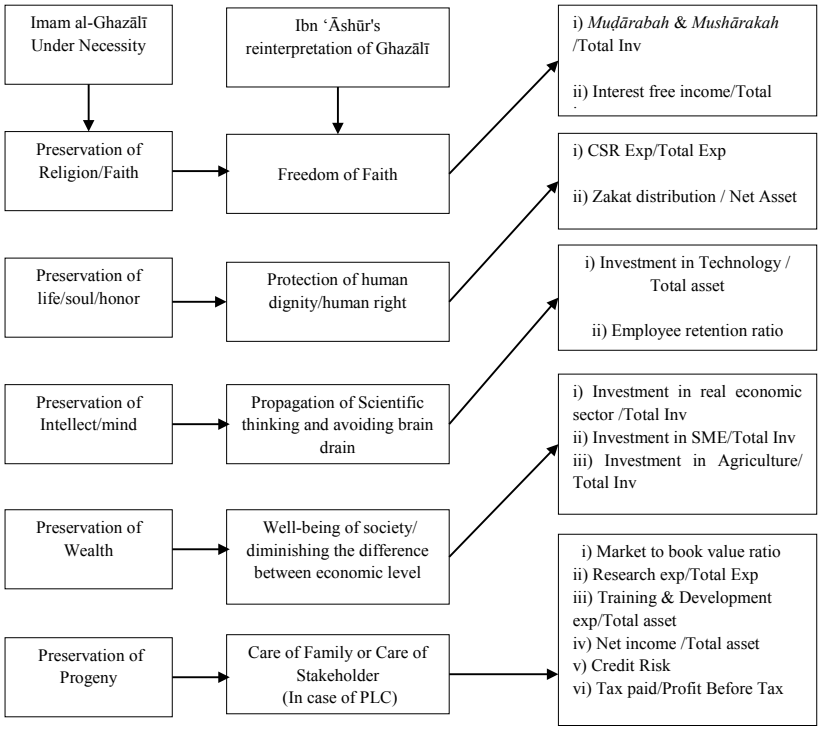

Figure2: Maqāṣid -based performance evaluation model (MPEM)

The following section focuses on the final step of the methodology used to develop MPEM. It discusses how the validity and acceptability of MPEM was tested by soliciting the views of experts in the area through interviews.

Step four: Validation of MPEM through expert interview

Since this is an exploratory study, in-depth interviews are deemed appropriate for data collection (Jan, Zain, & Jehangir, 2011). Five experts were selected from the faculty members of the International Islamic University Malaysia (IIUM), specifically from the departments of Finance and Economics. The faculty members were selected based on their teaching experience, banking experience and publications in

the field of *maqāṣid* and Islamic banking. The respondents' profile is given in Table 3:

Table 3: Respondents' profile.

Respondent	Designation
A	Professor of Finance
B	Professor of Economics
C	Professor of Business
D	Associate Professor of Finance and Banking
E	Assistance Professor of Finance

The interviews took place in different locations at IIUM. The average length of an interview was 30 minutes. After seeking prior consent from the interviewees, their responses were audio recorded. The following questions asked during the interview:

i. What are the purposes of Islamic banks?
ii. What is their current state?
iii. How do you think the performance of Islamic banks should be measured?
iv. How do you think *Maqāṣid al-Sharī'ah* can be operationalised to measure the performance of Islamic banks?
v. Can you please look at our model and comment whether the elements and ratios used to capture the five dimensions of *maqāṣid* are valid and acceptable?

The interview data was transcribed using "Transcribe Lite" software. Then the transcribed data was converted to Microsoft word document and analyzed by looking at common themes. The findings are very interesting. Generally speaking almost all the respondents are unanimous that MPEM is valid and acceptable, although with some suggestions of minor modification for improving the model. The following are some of the salient responses.

Q1: What are the purposes of Islamic banks?

All the experts have acknowledged that banks are business entities and hence they need to make profits. But the purpose of Islamic banks should be beyond the material profit making. Their activities should follow the

Sharī'ah and Islamic ethics such as upholding justice, avoiding any resemblance to *riba* based system, and also work for the development of the society. Such development would require their direct investment in the real sector.

Q2: What is the current state of Islamic banks?

Most of the respondents are unanimous that presently Islamic banks seem to be mimicking the conventional banks. They have focused on maximising material profit losing site of other aspects of *al-maqāṣid*. Expert A says that most of the Islamic banking products being offered in the market have embedded flaws that burden the customers, which goes against *al-maqāṣid*. Another expert, C, says, "Though Islamic banks have shown progress over the years, unfortunately they are still far behind in terms of achieving the *Maqāṣid al-Sharī'ah*".

Q3: How do you think the performance of Islamic banks should be measured?

The experts have mixed opinion about the measurement of Islamic banking performance. One of the interviewees, D, has no problem modifying the conventional yardstick to measure the results of Islamic banks. Other two experts see the need for developing suitable measures for Islamic banks but they had no clue how it could be done. Meanwhile two other experts opine that *Maqāṣid al-Sharī'ah* can be used for measuring the performance of Islamic banks. There is therefore a need to identify the right proxy variables to measure the extent to which these banks can contribute to the *maqāṣid* .

Q4: How do you think Maqāṣid al-Sharī'ah can be operationalised to measure the performance of Islamic banks?

This question was asked to get an idea about the current development in the field of *Maqāṣid* and its use in developing indexes. Three experts agree that Islamic banks' performance should be measured by operationalising *maqāṣid*. One interviewee, B, however, suggests that we should first use *maqāṣid* to estimate macro variables like GDP and per capita income of a country. Then we can try to link how much Islamic banks are contributing to those variables. Another interviewee, E, replied the question by negating that operationalisation is not an issue. There are already somewhat available studies that could be used

to address the issue of banking performance and operationalisation. Interviewee E has this to say:

> "I think the issue is not about operationalisation, there are articles on operationalisation. I think the issue now is, how do we take it from there? How do we expand the oprationalisation of *Maqāṣid al-Sharī'ah* to include other aspects of Islamic banks? Because I think the challenge would be that you have certain latent variables, meaning the variables that are not measurable and how to convert those variables into measurable units without compromising the Sharī'ah values."

Q5: Can you please look at our model and comment whether the elements and ratios used to capture the five dimensions of maqāṣid are valid and acceptable?

All the experts are unanimous that the elements and ratios used in MPEM to capture the five dimensions of *maqāṣid* are valid and acceptable. They also provided comments on the individual ratios used to measure the elements of the five dimensions as follows:

i. *Freedom of faith*: The opinions of the experts reveal that the ratios used to operationalise freedom of faith are acceptable although they do not fully address the issue at hand. They suggest that preservation of faith depends upon the level of Iman and cooperation from legal and legislative authorities. So, the level of government support towards Islamic banking and the religiosity of shareholders and top managers of Islamic banks should be considered in order to fully capture the concept of faith.
ii. *Preservation of human dignity and protection of human rights*: The experts again agree on the ratios used to measure the two elements, but have suggested two new ratios to be considered, namely *zakāh* distribution to net assest and investment on Muslims to total investment. This would require examining the amount of *zakāh* and investment funds channeled to Muslims, especially the poor Muslims.
iii. *Propagation of scientific thinking and avoidance of brain drain*: The experts have mixed opinions on the ratios used to measure these two elements. One expert, B, disagrees with

the use of the term "avoidance of brain drain". Rather he suggests the use of the term retention. Another expert, D, suggests that banks' investment in creating better Muslim should be investigated and a ratio could be generated and included. Meanwhile the other three experts opine that investment on R&D and CSR can also be included as potential ratios. One of the three experts, C, has this to say, "in terms of intellectual matter, we have to look into the contribution to R&D, scientific progress and innovation. The spending on CSR in the case of educational development and *waqf* should also be examined".

iv. *Care of family (stakeholder*): The experts were at first confused about the term "Stakeholder" used in the follow up question, wondering about the connection between family and stakeholder. The issue was then clarified to them that family is assumed as a stakeholder because most of the banks are now public limited companies. All the experts then supported the ratios used to measure the elements. They also suggest to include customer satisfaction and use of *zakāh* to bail out customers who are not able to repay loan as potential ratios.

v. *Wellbeing of the society and minimising income and wealth disparity*: The ratios used to measure these two elements have received total support from the experts. One of them, expert B, suggests that Islamic banks can only bring wellbeing to the society if the present monetary system is modified. Otherwise this faulty monetary system creates money and as a result the rich becomes richer and poor becomes poorer. For example, even after having 100% Islamic banking system in Sudan, the system has failed to improve the wellbeing of the society because it operates on faulty monetary system.

The experts have therefore suggested the inclusion of some new elements and ratios to improve the MPEM. Accordingly, the new MPEM now includes the following new elements and ratios:

i. The element of freedom of faith now includes another element, 'Government support', which is measured by the ratio of policy support to the Islamic financial institutions.

ii. The ratio Investment on Muslims/total investment is included to measure the element of amount of fund channeled to the Muslims.
iii. The ratio CSR in education and *waqf* / total CSR is included to measure banks willingness to develop and protect the intellect of the ummah.
iv. Finally, customer satisfaction is added under protection of progeny which could be measured through customer survey.

The modified MPEM is presented in Figure 3. The new ratios suggested by the experts in Figure 3 are denoted by bold letters, namely *Government support, Investment on Muslims/Total investment, CSR in education and Waqf / Total CSR and Level of customer satisfaction.*

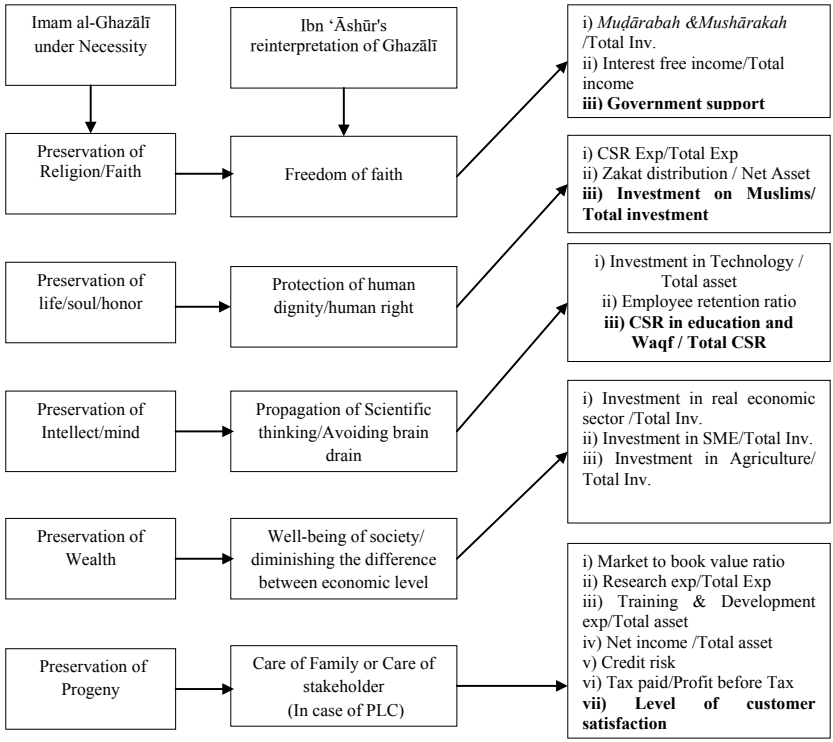

Figure 3: Revised MPEM

Conclusion

There are valid concerns that in practice, Islamic banks still do not strictly adhere to their *Sharī'ah* objectives. Rather they have become profit oriented like conventional banks. There are continuous efforts to harmonise the role of Islamic banking and extend its objectives beyond the material profit making to encompass total societal *maṣlaḥah*. The impact of these efforts can be properly assessed using *maqāṣid* based measures of the performance of Islamic banks. It is possible to operationalise *Maqāṣid al-Sharī'ah* to measure the performance of Islamic banks, but care must be taken in choosing the appropriate ratios to explain the latent variables.

Therefore, this paper has pioneered the idea of operationalising al-Ghazālī's five dimensions of *al-maqāṣid* from Ibn 'Āshūr's theory of *al-maqāṣid* to develop MPEM, a model that can be used to measure the performance of Islamic banks. Experts interviewed see bright prospect for MPEM. It will surely help to understand the degree of conformity of the Islamic banks with respect to the achievement of *Maqāṣid al-Sharī'ah*. The use of MPEM will also help policy makers, researchers and regulators to push for a change away from the conventional rules and regulations. The study has relied on views of experts selected from the academia. The inclusion of industry experts could give a new dimension to future research in the area. There is also ample scope for empirical research using MPEM, which the authors hope to pursue in the near future.

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