

CONSTRUCTING A MAQASID (OBJECTIVE) BASED PERFORMANCE MEASUREMENT INDEX FOR ISLAMIC BANKS

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ABSTRACT

The current study aims to develop a *Maqasid al-Shari'ah* (objective of Islamic Law) based new performance evaluation index for Islamic banks. In order to achieve the objective, the current study conducted twelve semi-structured interviews of academics and practitioners who specialize in Islamic banking and finance (IBF) to select the variables for the index. In order to validate the selected variables, a focus group discussion was arranged that consisted of five experts in IBF. Then, in order to prioritize the selected *Maqasid* variables, items and sub-items, the Analytic Hierarchy Process (AHP) was employed. The thirty respondents included industry experts, *Shari'ah* scholars and academics. Lastly, an index was developed and tested on some selected Islamic banks in Malaysia and Bangladesh to rank their *Maqasid* based performance. The findings revealed that RHB Islamic bank ranked first among the sampled Islamic banks.

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Overall, Malaysian Islamic banks performed better than Bangladeshi Islamic banks. The novelty of this study lies in its contribution to the theory of *Maqasid al-Shari'ah* with respect to banking performance evaluation. The index is expected to assist policy makers, practitioners and other stakeholders to determine whether the performance of Islamic banks is in line with *Maqasid al-Shari'ah* and therefore adopt necessary policy changes accordingly.

Keywords: Islamic banks; performance evaluation; *Maqasid al-Shari'ah* based index; Analytic Hierarchy Process

1. Introduction

In the present era, banks rank highest in importance among all financial institutions. In a modern economy, no individual firm or government can afford to avoid them. The central bank of every country supervises and regulates the health of their economy through commercial banks. Banks facilitate the activities of firms and individuals by providing savings and investment services. Due to changes in technology, government regulations and globalization, banks are now offering various innovative services. Some of the prominent services include automatic teller machines, debit cards, credit cards, electronic-banking, etc. (Mohammed, 2011).

However, there is a void in the industry when it comes to catering to the banking needs of Muslims. The Muslim community abides by the law of the Almighty (*Shari'ah*) and must refrain from giving and receiving interest (*riba*). Since conventional banks are purely based on interest, God-fearing Muslims are not able to participate in the fruits of banking facilities. Even though banks have existed for 400 years, it was not until 1975 that an Islamic bank emerged. After the establishment of Dubai Islamic bank in UAE, the world has seen rapid growth of Islamic banks and other Islamic financial service institutions in the Muslim world. Different western countries also began introducing Islamic banks after being impressed by the success of Islamic banks and the growing demand for them. Today, the conventional bank HSBC has opened an Islamic banking facility "HSBC Amanah" as its subsidiary. In summary, the financial service industry has now become more competitive and mature with the introduction of Islamic banks.

Even though the market size of Islamic banking assets in comparison with global banking assets is only 1.5%, the sector has achieved phenomenal growth. Between 2006 and 2011, the assets of Islamic banking institutions doubled and stood at \$900 billion (Financial Times, 2011). In 2019, the *Shari'ah* compliant assets rose 3% and were \$2.5 trillion in comparison to \$2.4 trillion in 2018. The experts forecast that by 2024, *Shari'ah* compliant assets will rise to \$3.5 trillion (IFDR, 2019). The Islamic banks will make up 70% of the forecasted \$3.5 trillion assets which is \$1.76 trillion (IFDR, 2019).

The major chunk of global Islamic assets is shared by Iran, Saudi Arabia, and Malaysia (IFDR, 2019). In 2019, 62% of global Islamic banking assets were shared among these countries (IFDR, 2019). A bullish economy and expanding customer base prompted this impressive growth and made these countries a lucrative market for Islamic banks. Among these countries, Malaysia is aspiring to become a regional hub for Islamic banking and finance (IFDR, 2019).

Even though the proponents of Islamic banks consider it a recent innovation when compared to 400 years of conventional banking history, the critics are already questioning their objectives and success. This is due to the lack of evidence in the finance sector to support the huge expectations of change that were supposed to be a result of Islamic banking. The claims of growth and popularity made by the Islamic banking industry have not fulfilled the industry expectations (Mohammed, 2011; Usmani, 2008; Choudhury, 2006; Obaidullah & Latiff, 2008).

1.1 Statement of problem

The biggest complaint against Islamic banks is with regard to *Shari'ah* compliance. Many scholars and researchers have questioned the *Shari'ah* validity of the asset and liability products that are offered by the banks. Usmani (2008) asserts that Islamic banking products seem to be *Shari'ah* compliant on the surface, but are not when examined separately within the gambit of social effects. Many Islamic banking products are too complex in nature (Obaidullah & Latiff, 2008). By combining two or three *Shari'ah* compliant mechanisms into one financing product, they are simply mimicking the conventional products when considering the economic effect (Obaidullah & Latiff, 2008). This complexity also increases the transaction cost (Obaidullah & Latiff, 2008). However, this persistence and innovation in developing new Islamic banking products has kept the industry moving forward (Akhter et al., 2009).

There are also misgivings expressed by the scholars regarding the fulfilment of *Maqasid al-Shari'ah* through the activities of Islamic banks. As mentioned, many scholars have suggested that *Maqasid al-Shari'ah* should be the objective of Islamic banks. However, Siddiqi (2006) expressed his concern regarding the failure to realize *Maqasid al-Shari'ah* by Islamic banks in a changing environment. Even though the Islamic banks (IBs) are growing fast, this rapid growth results in a failure to fulfill *Maqasid* (Dusuki & Bouheraoua, 2011). Mohammed and Shahwan (2013) found that the objectives of Islamic banks are mostly profit oriented rather than a social based entity. Ahmed (2011) states that by fulfilling both the substance and form of Islamic law at the time of agreement between customer and bank, the IBs can promote the objective of Islamic economics, which will help fulfill *Maqasid al-Shari'ah* in a holistic manner.

There are very few studies on the performance of Islamic banks anchored in *Maqasid al-Shari'ah*. In their annual reports, Islamic banks focus mainly on financial performance rather than *Maqasid* based performance. The form of the products and services offered by Islamic banks may differ from conventional banks, but the substance in many cases is similar. As a result, the performance measurement system of IBs requires profound study (Mohammed, 2011). Further, the concept of social well-being, equity and equality is somewhat absent in IB's activities. Therefore, it is essential to conceptualize the *Maqasid* related issues with respect to the performance of IBs. Also, an index needs to be developed to assess the *Maqasid* based performance of Islamic banks.

1.2 Objectives of the study

The main objectives of the present study are the following:

- To identify an appropriate *Maqasid al-Shari'ah* based theoretical framework to develop a *Maqasid* (objective) based performance evaluation index (MPEI);

- To identify the dimensions, elements and measures that are necessary to operationalize the components of *Maqasid al-Shari'ah*;
- To test the acceptability and validity of MPEI as a viable model;
- To establish the priority of the components and their variables representing the index; and
- To test the index by measuring the performance of selected Islamic banks in Malaysia and Bangladesh.

2. Literature review

The pioneering work on the functions and objectives of Islamic banks was initiated by Chapra (2000). According to Chapra (2000), IBs should play a significant role in achieving the socio-economic goals of Islam along with providing quality financial services to the Muslim community.

Algaoud and Lewis (2007) concluded that the primary objectives of Islamic banking and finance include: (1) abolition of *riba* (interest) from all financial transactions, (2) equitable distribution of wealth and income, and (3) economic development. On the other hand, Rulindo, Mardhatillah and Hidayat (2008) asserted that as a *Shari'ah* compliant financial system, the objectives and direction of the creation of Islamic banks must achieve the objectives of *Shari'ah*. However, Aliyu et al. (2017) stressed that in order to do so, IB's should strike a balance between environmental, societal, and institutional sustainability.

2.1 Theory of *Maqasid al-Shari'ah*

The term '*Maqasid*' (plural) originated from the Arabic term '*Maqsid*' (singular) which actually implies objective, goal, purpose, etc. Therefore, the term *Maqasid al-Shari'ah* can be expressed as the purposes, goals or objectives of Islamic law. Many scholars related the term *Maqasid* to the term '*Maslih*' that represents people's interest (Ashur, 2006). As an early contributor to al-*Maqasid* theory, Abdul-Malik al-Juwaini also used the term public interests (*al-masalih*, *al-ammah*) and *al-Maqasid* interchangeably. The term 'unrestricted interests' (*al-masalih al-mursalah*) was coined by Abu Hamid al-Ghazali and explains the objectives of *Shari'ah*. Therefore, it can be claimed that the *Maqsid*, objective, purpose, goal, principle or end in the Islamic law lays in the 'interest of humanity' (Auda, 2008). According to Ibn 'Ashur (al-Raysuni, 1992), the Muslim scholars of *Maqasid al-Shari'ah* such as al-Ghazali, al-Juwaini, al-Shatibi agree that the broad objectives of *Shari'ah* (Islamic law) are to attain benefits for humanity (*Maslahah*) and to avert all types of harm (*Mafsadah*).

2.2 Al-Ghazali's theory of al-*Maqasid*

The theory of *Maqasid al-Shari'ah* by al-Ghazali has lasted until the present time. Numerous Muslim scholars have made extensive use of al-Ghazali's theory in their works. In al-Mustasfa (n.d.), al-Ghazali clearly spelled out the premises of *Maslahah*. He divided them into the following three categories: *Daruriyat* (necessities), *Hajiyyaat* (complements) and *Tahsiniyyaat* (embellishments). He claimed that the *Shari'ah* was prescribed to mankind to fulfill these three objectives. In terms of their priority and importance, they should be ranked in this sequence. That is, a human being's basic

necessities should be fulfilled before fulfilling complements, and complements should be fulfilled before fulfilling embellishments (Auda, 2008).

Imam al-Ghazali states that necessities are elements that in their absence, the system of a nation can run into chaos. The elements that facilitate human lives are termed as complements. On the other hand, embellishments are factors that relate to ethical and moral conduct. Al-Ghazali further classified necessities into five protections (*al-Dharuriyat al-Khams*), namely religion (*al-Din*), life (*al-Nafs*), intellect (*al-Aql*), progeny (*al-Nasl*) and wealth (*al-Mal*) (Ashur, 2006). Al-Ghazali's theoretical framework is presented in Figure 1.

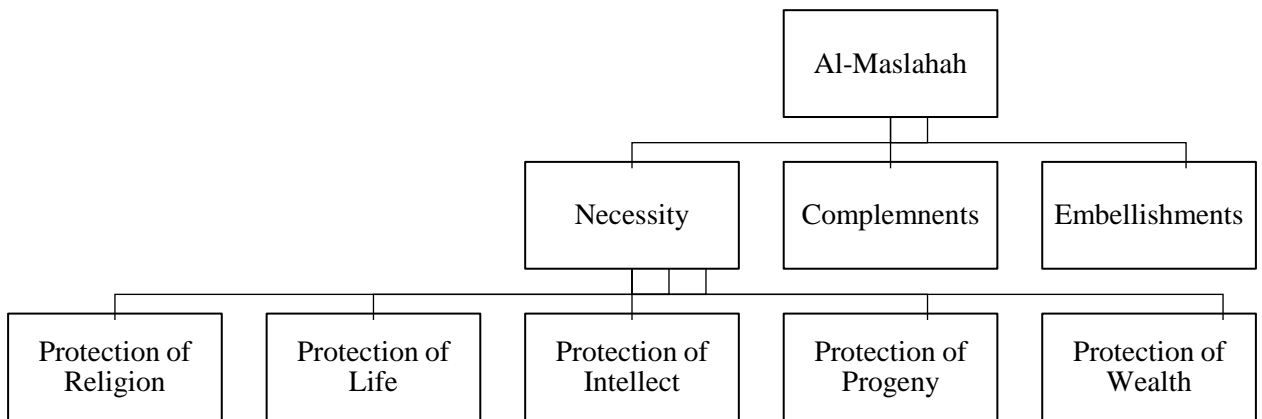


Figure 1 Al-Ghazali's *Maqasid* framework

As seen in Figure 1, Imam al-Ghazali considers *Maslahah* as *Maqasid* which can be achieved by fulfilling three elements, namely necessity, complement and embellishment. Necessity can be fulfilled with the preservation of religion, life, intellect, progeny, and wealth.

2.3 Abu Zaharah's theory of al-*Maqasid*

As discussed above, al-Ghazali's theory of *al-Maqasid* is considered a breakthrough and it has been adopted and adapted by many Muslim scholars in the past and present. However, al-Ghazali's theory has some limitations in application and dimension. Ibn Taymiyyah (d. 1327) criticized the approach for confining *Maslahah* into three levels and the necessities into five elements as something that is individualistic (Al-Raysuni, 1992). He argued that *Maslahah* is much wider than the classification adopted by the scholars of jurisprudence. He said that *Maslahah* includes other dimensions such as justice, care for the family and neighbors and faithfulness to the covenants. Ibn Taymiyya's view is also shared by modern scholars such as Atiyah (2008) who is of the opinion that *Maslahah* is very wide. It encompasses justice, education, healthcare, sustainable development and care for the environment to mention a few. This view is very pertinent, especially today when human capital is an important and a core ingredient for development. The only case

where a considerable attempt was made to broaden the view was in the work of Abu-Zaharah (1997) who added two more dimensions to al-Ghazali's *Maslahah*. Figure 2 shows Abu Zaharah's theoretical framework.

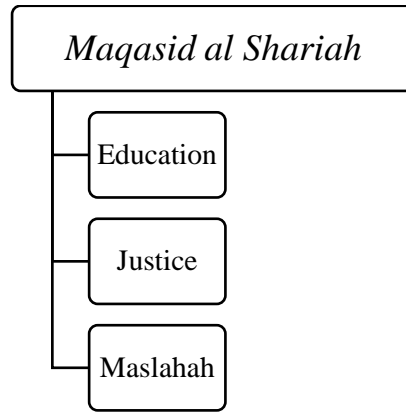


Figure 2 Abu Zaharah's framework of *Maqasid*

2.4 Conceptual framework

The framework presented in Figure 3 combines Al-Ghazali and Abu Zahara's frameworks to measure the performance of Islamic banks.

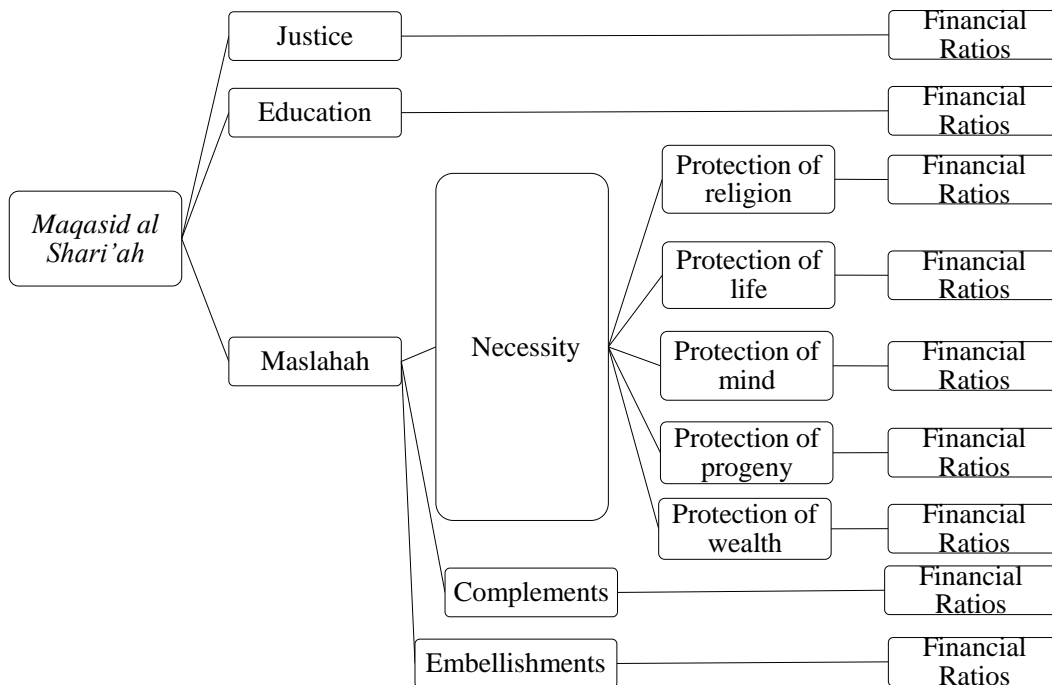


Figure 3 *Maqasid* model to measure the performance of Islamic banks

2.5 Banks' performance measurement based on *Maqasid al-Shari'ah*

The literature review revealed that there remains a dearth of study on performance measurement of Islamic banks that focuses on *Maqasid al-Shari'ah*. Among the few studies, Bedoui and Mansour (2013) constructed a pentagon shaped performance measurement scale based on *Maqasid al-Shari'ah*. The scale was developed based on five facets under necessity namely, religion, life, intellect, progeny and wealth. The purpose of the measurement scale was to look at the contribution of Islamic banks with respect to human welfare, economic and social stability, and prevention of corruption against the wealth maximization agenda of conventional banks. However, the authors admitted that the study was theoretical in nature and has limited scope for practical implementation. Mohammed (2011) operationalized Abu Zaharah's theory of *Maqasid al-Shari'ah* and constructed a model of performance measurement based on *Maqasid al-Shari'ah* (PMMS). He used financial ratios and measured the performance of some selected conventional banks and Islamic banks. The results revealed the superior performance of Islamic banks over conventional banks.

The studies conducted by Antonio, Sanrego and Toufiq (2012) and Reni, Muklis and Cholisini (2014) adopted the *Maqasid* framework of Abu Zaharah and the PMMS model of Mohammed (2011) in terms of operationalization of *Maqasid* variables. Antonio, Sanrego and Toufiq (2012) used *Maqasid al-Shari'ah* to measure the performance of Islamic banks in Indonesia and Jordan. In terms of indexing, they used the simple additive weighting (SAW) method. The findings showed that the Indonesian Islamic banking industry performed better than their Jordanian counterpart.

Some recent studies took a different approach while measuring *Maqasid* based performance. Laela et al. (2018) sought to find the link between the co-alignment of management accounting strategy and the *Maqasid al-Shari'ah* based performance of Indonesian Islamic banks. The study found that *Maqasid al Shari'ah* based performance of Islamic banks in Indonesia had a positive relationship with the co-alignment between strategic management accounting practices, low cost oriented strategies, and mechanistic management control systems. Julia and Kassim (2019) used the *Maqasid al Shari'ah* framework to evaluate the green banking performance of some selected Bangladeshi banks. The study compared five Islamic banks with five conventional banks. The findings of the study revealed that Islamic banks are ahead of conventional banks with respect to preservation of wealth, faith and intellect in relation to green banking activities. Puspitasari et al. (2017) used data envelopment analysis (DEA) to measure the efficiency of Islamic banks in Indonesia and Malaysia. The input variables used were individual education, justice and welfare. However, none of the banks were found to be totally efficient in all of the aspects.

3. Methodology

The present research adopted a mixed method approach that was comprised of an extensive literature review, Sekaran's method of operationalization, interviews, focus group discussion, prioritization and secondary data analysis. The first phase of the research focused on an extensive literature review and Sekaran's method of operationalizing a concept (C) by first breaking it down into dimensions (D). Next, the dimensions were further broken down into measurable items, namely elements (E). Then,

expert interviews were conducted involving twelve experts to finalize the primary variables. This was followed by a focus group discussion (FGD) of eight experts that was used to validate the primary variables. The experts for both the interviews and the FGD were selected by adopting judgmental and snowball sampling techniques.

In the second phase, weights were assigned for each *Maqasid* concept, dimension and sub-dimension. In most of the previous studies, the authors used equal weights for all of the *Maqasid* variables. That is, it was assumed that all of the variables have equal importance. However, while measuring performance, some variables may carry higher weight than others. The second phase of this study used the Analytic Hierarchy Process (AHP) to prioritize and determine the weights for the *Maqasid* concepts, dimensions, and sub-dimensions. The AHP is considered a highly scientific and internationally recognized method of prioritizing choices and assigning weights. Recently, the AHP was applied to prioritize *Maqasid* elements in the context of liveability determination of Malaysian cities (Dali et al., 2019).

In the last stage, an index was created to determine the score of each bank under study with respect to their achievement of *Maqasid al-Shari'ah*. These banks are ranked according to the *Maqasid* score in descending order.

3.1 Phase 1- selection of variables

Based on the model identified in Figure 3, this section attempts to operationalize the concepts of Education, Justice and *Maslahah* into dimensions, elements, and measures. By means of a thorough literature review, content analysis, and logical inductive reasoning, the key terms for each dimension were identified corresponding to their concepts. The literature corresponding to their dimensions is presented below.

Educating individual (C1) and justice (C2)

The literature review identified that Mohammed et al. (2008) and Mohammed and Taib (2009, 2015) used Sakaran's concept to operationalize *Maqasid* variables. Later, Antonio, Sanrego and Toufiq (2012) and Reni, Muklis and Cholisini (2014) also adopted the model with little change and empirically tested it in different contexts. Ibrahim and Momin (2015) also operationalized the *Maqasid* concepts using the same methodology. However, these studies only operationalized the concepts of Abu Zahrah's framework, namely educating individuals, establishing justice, and public interest. This research adopts the dimensions, elements, and measures of the above-mentioned studies with respect to educating individuals and establishing justice.

Protection of religion (Al-Din) (C3.1.1)

The Arabic word *al-Din* is derived from its root word "d-a-n-a" which literally means judgement, accountability, submission, obedience and peace (Amin et al., 2015). In summary, it means "way of life." According to Ibn'Ashur (1998), the concept of 'protection of religion' refers to safeguarding the faith of every individual from any form of distortion or confusion.

Atiyah (2008) suggested that religion should be protected on three levels, namely individual, family and *Ummah*. He opined that, in the individual realm, strengthening the belief in Allah, performing obligatory worship prescribed in the Quran, embracing good character and remaining obedient is necessary to protect or safeguard religion. He

also suggested that, at the community level, religion will be protected through praying in the congregation and performing socio-religious activities. However, contemporary scholars like Auda (2008), quoting from Ibn Ashur, gave a re-interpreted meaning of ‘protection of religion’ as ‘freedom of faith’ or ‘freedom of belief’. These two terms mean that Muslims should have the freedom to practice their religious activities, both at the individual and community level.

A bank has no religion, but the objective behind the establishment of Islamic banks is to protect the religious beliefs of Muslims through establishing a *riba* free banking system. All Muslims should have the opportunity to conduct business transactions, free of *riba*, *gharar*, *maysir*, etc. (Ashur, 2006). In relation to Islamic banking performance measurement, Zaheer and Rasool (2017) suggested three dimensions of protection of religion. These are *Shari'ah* compliance, funding structure, and interest free funding.

Protection of life (*Al-Nafs*) (C3.1.2)

Protection of life (*Al-Nafs*) can be defined in a number of ways. According to Atiyah (2008), protection of life means preventing life from being destroyed in the form of death, as well as protecting certain parts of the body from being harmed or damaged, so that the life can benefit by using those parts of the body. Ashur (2006) reinterpreted the term protection of life as protection of human dignity, honor, and human rights. Atiyah (2008) supports Ibn Ashur by arguing that human beings have psychological needs like dignity and honor which differentiates them from other creatures.

In an attempt to operationalize the protection of life, different studies have emphasized issues like healthcare, poverty reduction, human rights, education, and good governance among others (Esen & Esen, 2015; Bedoui, 2014; Hapsari & Herianingrum, 2014; Mili, 2014; Seman & Dzolkarnaini, 2019). In the case of banks, Zaheer and Rasool (2017) used *qard hasan* loan, charitable activities, and equity financing while operationalizing the protection of life.

Protection of intellect (*Al-Aql*) (C3.1.3)

Atiyah (2008) considered the protection of intellect (*Aql*) a three-step process as follows: to develop, preserve, and utilize the mind. Al-Ghazali considered intellect as the foundation and starting point of knowledge (Chapra, 2008). Protecting intellect also means safeguarding it from harm with things like drugs, alcohol, etc. Ibn Ashur reinterpreted the concept as “propagation of scientific thinking” or “avoiding brain drain” (Chapra, 2008).

The studies attempting to operationalize ‘protection of intellect’ emphasize proper education, training, research facilities, and freedom of expression (Esen & Esen, 2015; Bedoui, 2014; Haspari & Herianingrum, 2015; Mili, 2014; Seman & Dzolkarnaini, 2019). However, all of these dimensions were already captured under the concept of educating individuals.

Protection of progeny (*Al-Nasl*) (C3.1.4)

The protection of progeny (*al-Nasl*) can be defined as safeguarding everything that would ensure the progress and survival of the family and develop the future generations (Amin et al., 2015). Islam encourages an effective, productive, and healthy society. As a result, it legitimizes marriage, prohibits adultery and emasculation to preserve progeny.

The prime objective of marriage is to ensure the continuity of the human race and to preserve posterity (Ashur, 2006). Married couples also enjoy sexual, emotional, and materialistic benefits (Al Sari, 2010). However, the twentieth century scholars of *Maqasid* have reinterpreted the concept of “preservation of progeny” to a more family-oriented concept. Ibn Ashur, for example, referred to the term as “care for family” (Ashur, 2006). Currently, in Malaysia or Bangladesh (in these two countries the Islamic banking system has a strong foothold), all Islamic banks are registered under the security and exchange commission and operate as a public limited company. As a result, for Islamic banks the term ‘family’ can be replaced by “stakeholder” which consists of customers, employees, shareholders, and government. Accordingly, caring for the family would mean caring for the interests of the stakeholders (Mohammed et al., 2015).

Protection of wealth (*Al-Mal*) (C3.1.5)

Property or wealth (*Al-Mal*) is considered an important issue in the *Shari'ah*. When referring to ‘protection of wealth’, Ashur (2006) defined it as safeguarding the wealth of the *Ummah* from being destroyed or a shift of ownership to others without any benefit to the *Ummah*. Al-Shatibi in Al-Raysuni (2005) defined it as prevention from injustice, denial of orphans from their property, corruption, wastefulness, envy, and fraud.

The concept of ‘protection of wealth’ is more in line with the functions and operations of Islamic banks, which can be measured more objectively when compared with other *Maqasid* concepts. An Islamic bank accepts the deposits of its customers as *Amanah* or *Qard* in the current account, and as investment in a fixed or savings account. As a result, the bank has to play the role of trustee and *Mudarib* (manager) (Auda, 2008). In both cases, the bank needs to protect the wealth from all sorts of harm while at the same time increasing wealth by effectively utilizing its assets. The bank management must also increase the wealth of its shareholders.

Operationalizing complement (C3.2) and embellishment (C3.3)

According to Al-Shatibi in Al-Raysuni (2005), complements are related to interests or objectives when fulfilled, and contribute to relieving hardship and difficulty. Embellishment on the other hand, refers to the interests that are less important than necessities and complements but function to enhance and complete their fulfillment. When defining complement, Attiyain Al-Raysuni (2005) gave the example of a hungry person who will suffer hardship, but will not die, if he does not find food. A person’s craving for sweets, chocolates, mutton and silk garments is an example of embellishment. Al-Shatibi in Al-Raysuni (2005) also mentioned commendable customs and habits, observing rules of etiquette and a high moral standard as examples of embellishment.

Operationalizing complements and embellishment with respect to Islamic banking performance measurement is tricky, as no studies have operationalized these two concepts. As a result, the authors have operationalized the concepts on their own.

Next, the selected variables were presented to the experts for their opinions. Twelve experts who were carefully selected from academics, a pool of *Shari'ah* scholars and practitioners by adopting judgmental and snowball sampling techniques were interviewed. The opinions of the interviewees were recorded and then transcribed. The

transcribed data were then analyzed for common themes. The interviewees suggested quite a number of changes in the dimensions and measures. The results of the analysis are synthesized and presented in Table 1.

Table 1
Synthesis of the modified dimensions, elements and measures

Concepts	Dimensions	Elements	Measures
C1-Educating individuals	D1-Advancement of knowledge	Scholarship	Education grant/ Total expense
		Research	Research grant /Total expense
	D2-Instilling new skills	Training	Training expense/Total expense
C2-Establishing justice	D3-Creating awareness of Islamic banking	Publicity /Marketing	Publicity or marketing expense / Total expense
		Product disclosure sheet (PDS) available?	Yes/no
	D4-Fair dealings with customers	Fair return Risk sharing vs. Risk transferring	ROE -ROD Mudarabah & musharakah Investment/ Total investment
C3.1.1-Protection of religion	D5-Fair dealing with community and environment	Fair compensation to community and environment	CSR/Total expenses
	D6-Fair dealing with employees	Protection against mistreatment & unfair dismissal	Employee Association (Yes/No)
	D7-Shariah compliance	<i>Shari'ah</i> compliance report Disclosure	Number of incidence per year. Shariah non-compliance Income (SNCI) / Net income
C3.1.2 -Protection of life	D8: Shariah audit committee	Adequacy of Shariah audit committee member	Number of members in Shariah audit team
	D9: Supporting religious activity	Amount spent on religious activity	Donation for mosques, Madrasahs & other religious activity / Total expense
	D10-Fulfilling basic needs	Zakat	Zakat + Sadaqah distribution /Net Asset
C3.1.4 Protection	D-11 Fulfilling social needs	Donation in Medicare and hospital	Amount spent on Medicare and hospital /Total expenses
		Investment in microfinance	Investment in microfinance/ Total investment
	D-12 Technological facility	Reporting on ESG in annual report Investment in	Yes/No Investment in technology/

Concepts	Dimensions	Elements	Measures
of intellect (Aql)	D-13 Avoid brain drain	technology Employee Attrition	Total expense Employee attrition ratio
	D-14 Research and development	Investment in product innovation and R&D	Investment in R&D/ Total expense
	D-15 Succession plan		Succession program (Yes/No)
C3.1.4 Protection of Progeny (Nasl)	D16-Protecting shareholders	Return on capital	Net Income/Total capital
	D-17 Protecting customers	Marriage and housing	Marriage assistance (Yes/No)
	D-18 Protecting employees	Employee benefit	Home financing/ Total investment Allowance & bonus expenses/Total expenses
	D19 -Supporting government	Payment of tax	Tax paid/ Profit before tax
	D20-Financial performance	Wealth maximization asset utilization	Market value / Book value Net income /Total asset
3.1.5 Protection of Wealth (Mal)	D-21 Reducing wealth gap	Investment in real sector	Investment in the real economic sector/Total investment Investment in SME/ Total investment Investment in agriculture/ Total investment
	D-22 Minimizing risk	Credit risk Liquidity risk Solvency risk SNCI Risk	Non-performing investment/ Total investment Cash & purchased fund/ Total deposit Total equity /Total asset SNCI/ Total investment
C3.2 – Complements	D-23 Facilitate withdrawal, deposit and transfer of fund	Transfer Mechanisms	Number of ATMs & CDM / Total number of branches
	D-24 Products that are not considered as core banking product	Investment in salam, Khafala, ar-Rahnuetc contract	Investment in salam, Khafala, ar-Rahnu/ Total investment
C3.3- Embellishment	D-25 Facilitate transfer of fund	Transfer Mechanisms i) Online Banking ii)Mobile Banking	Yes/No

Concepts	Dimensions	Elements	Measures
	D-26 Beautification/Renovation	Renovation expenditure	Renovation expenditure/ Total expenses
	D-27 Special Services	Deposit linked with Takaful	Yes/No
		Mobile top-up service	Yes/No
		Priority Banking	Yes/No

3.2 Phase -2: Prioritization and assigning weights to *Maqasid* dimensions

After finalizing the dimensions of *Maqasid* and its measures, in phase two, a weight for each *Maqasid* concept and dimension was assigned. In a summated scale, all of the independent variables do not carry equal weight when measuring a dependent variable. Therefore, prioritization is necessary. This research uses Thomas L. Saaty's decision-making method, popularly known as the Analytic Hierarchy Process (AHP) to carry out the prioritization task (Saaty, 2010).

Step 1: Identification of the goal, criteria, and the sub-criteria: In this case, the goal is to prioritize the concepts, dimensions and elements of the *Maqasid* model to evaluate banking performance. The criteria, which are directly aligned to the goal, are the three major concepts *Maslahah*, Justice and Educating Individuals. The sub-criteria under *Maslahah* are necessities, complements and embellishments. Under necessity, there are five sub-criteria as follows: protection of life, religion, intellect, wealth and progeny. The hierarchy of the dimensions and sub-dimensions are presented in Figure 4.

Step 2: Construction of the pair-wise comparison matrices (PCMs) for all three criteria and five sub-criteria. AHP-based questionnaires were used to collect data from 30 respondents comprising academics, practitioners, *Shari'ah* experts and *Shari'ah* committee members. Normally, the sample size for AHP data collection is small and the present sample size is considered adequate (Takala, Suwansaranyu, & Phusavat, 2006). After this, the weights from the PCMs are computed using SuperDecisions software, version 3.0.

Step 3: Synthesis of the weights: The weights derived from the SuperDecisions software have been synthesized. The synthesis process provides the overall priorities of the sub-criteria.

In order to appropriately rank the dimensions and sub-dimensions, respondents were carefully selected from different groups. While selecting the respondents, it was ensured that they had appropriate knowledge of *Maqasid al-Shari'ah* as well as Islamic banking. Accordingly, the research identified four groups of respondents, namely academics, *Shari'ah* experts, *Shari'ah* committee members and practitioners. The academics are involved in teaching and research on Islamic banking and finance, but have limited *Shari'ah* background. The *Shari'ah* experts had sound knowledge of and a background in *Shari'ah* and also have knowledge about Islamic banking. The *Shari'ah* committee members are members of a bank's *Shari'ah* supervisory committee. Lastly, the practitioners work at the decision making level of an Islamic bank. Altogether, thirty respondents were interviewed. A sample pairwise comparison matrix is shown in Table 2.

This pairwise comparison matrix was developed by aggregating the individual judgments using the geometric means of the individual judgments. Here, the five protections of necessity namely, protection of religion (POR), protection of life (POL), protection of intellect (POI), protection of progeny (POP) and protection of wealth (POW) are compared with each other. Finally, all of the local weights need to be synthesized to obtain a global or overall weight. The results of the analysis with priority values and rank are presented in Table 3.

Table 2
A sample average pairwise comparison matrix

Concept	POR	POL	POI	POP	POW
POR	1	1.99	3.72	4.74	4.49
POL		1	4.55	4.36	2.89
POI			1	0.633	0.883
POP				1	0.699
POW					1

Table 3
Synthesis of AHP ranking and priority values

Level: Criteria and sub-criteria	Items	Rank (Priority values)
1. Level 2: Criteria/Dimensions	Maslahah	2 (0.343)
Level 3: Sub-criteria/Sub dimensions	Necessities	1 (0.707)
Level 4: Sub criteria	Protection of religion	1 (0.430)
Level 5: Sub criteria	Shariah Compliance	1 (0.581)
	Shariah audit committee	2 (0.262)
	Supporting religious activities	3 (0.157)
Level 4: Sub criteria	Protection of life	2 (0.303)
Level 5: Sub criteria	Fulfilling basic needs	1 (0.774)
	Fulfilling social needs	2 (0.226)
Level 4: Sub criteria	Protection of intellect	5 (0.079)
Level 5: Sub criteria	Technological facilities	4 (0.158)
	Avoid brain drain	2 (0.251)
	Research & Development	1 (0.363)
	Succession Plan	3 (0.228)
Level 4: Sub criteria	Protection of progeny	4 (0.087)
Level 5: Sub criteria	Protecting Shareholders	3 (0.212)
	Protecting Customers	1 (0.433)
	Protecting Employees	2 (0.279)
	Supporting Government	4 (0.076)
Level 4: Sub criteria	Protection of wealth	3 (0.101)

Level: Criteria and sub-criteria	Items	Rank (Priority values)
Level 5: Sub criteria	Financial Performance	3 (0.311)
	Reducing wealth Gap	1 (0.377)
	Minimizing Risk	2 (0.312)
Level 3: Sub-criteria/Sub dimensions	Complements	2 (0.208)
Level 4: Sub criteria	Facilitate withdrawal, deposit and transfer of fund	1 (0.766)
	Supplementary products	2 (0.234)
Level 3: Sub-criteria/Sub dimensions	Embellishments	3 (0.085)
Level 4: Sub criteria	Facilitate online transfer of fund	1 (0.604)
	Beautification/Renovation	3 (0.151)
	Special services	2 (0.245)
2. Level 2: Criteria/Dimensions	Educating Individuals	3 (0.229)
Level 3: Sub criteria	Advancement of knowledge	3 (0.237)
	Instilling new skills	2 (0.297)
	Creating awareness of Islamic banking	1 (0.466)
3. Level 2: Sub-criteria/Sub dimensions	Justice	1 (0.428)
Level 3: Sub criteria	Fair dealings with customers	1 (0.414)
	Fair dealings with employees	3 (0.265)
	Fair dealings with community and environment	2 (0.321)

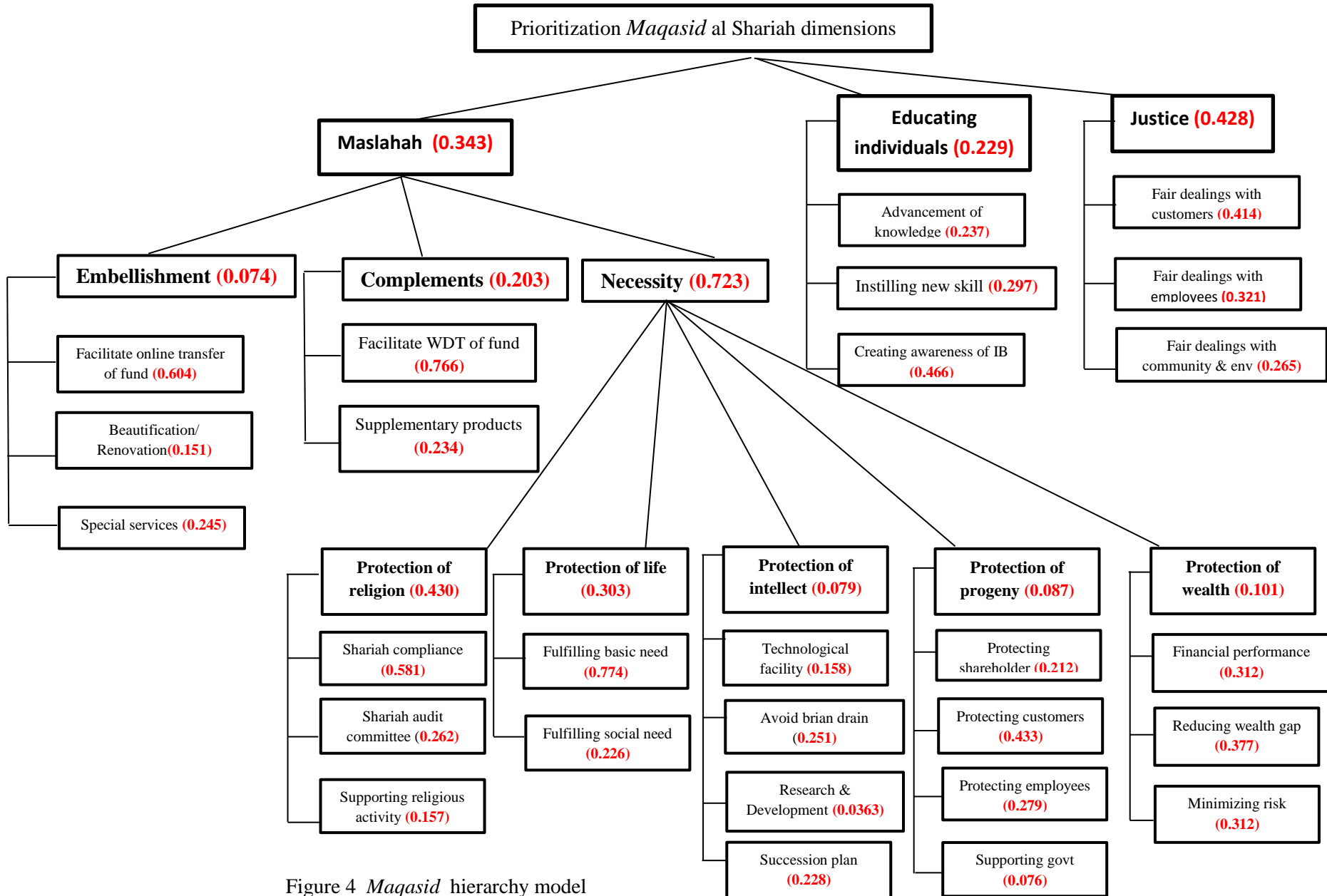


Figure 4 *Maqasid* hierarchy model

3.3 Stage 3: Index development and empirical test

After the prioritization of the variables and assignment of weights, the *Maqasid* index or MI was developed. After developing the MI, data from the annual reports of some selected banks were collected to empirically test the model. The MI for banks was developed in two stages. In the first stage, *Maqasid* scores (MS) for the sampled banks were calculated. Next, the MI was developed by following the methodology of the well-known indices such as Human Poverty Index (HPI), Gender related Development Index (GDI), and the Human Development Index (HDI).

Calculation of Maqasid score (MS) for individual banks

The calculation of the MS of the individual bank requires the application of a three-step process. According to the model, the final step is the weighted summation of the three concepts (C): Educating individual (C₁), Justice (C₂) and *Maslahah* (C₃). The mathematical formula is:

$$MS_i = \sum_{i=1}^n W_i C_i \dots \dots \dots (1)$$

where, W_i = weight of the ith element and n = number of elements

In order to calculate the MS, first, the weights of C₁, C₂, C₃ need to be determined. The justice and educating individuals are directly measured through financial ratios (E_{1.i...1.n}) and (E_{2.i...2.n}). The mathematical formula is the following:

$$Educating\ Individual\ (C_1) = \sum_{i=1}^n W_i E_{1.i} \dots \dots \dots (2)$$

and

$$Justice\ (C_2) = \sum_{i=1}^n W_i E_{2.i} \dots \dots \dots (3)$$

The *Maslahah* (C₃) has three components as follows: Necessity (C_{3.1}), Complements (C_{3.2}) and Embellishment (C_{3.3}). *Maslahah* is determined in the following manner:

$$Maslahah\ (C_3) = \sum_{i=1}^n W_i C_{3.i} \dots \dots \dots (4)$$

Complements (C_{3.2}) and embellishments (C_{3.3}) are directly calculated using financial ratios. The mathematical expressions are:

$$Complements\ (C_{3.2}) = \sum_{i=1}^n W_i C_{3.2.i} \dots \dots \dots (5)$$

and

$$Embellishments\ (C_{3.3}) = \sum_{i=1}^n W_i C_{3.3.i} \dots \dots \dots (6)$$

Necessity (C_{3.1}), according to Imam al-Ghazali, has five components. Protection of religion (C_{3.1.1}), protection of life (C_{3.1.2}), protection of intellect (C_{3.1.3}), protection of

progeny (C_{3.1.4}) and protection of wealth (C_{3.1.5}). As a result, the derivation of the necessity is calculated as:

$$Necessity(C_{3.1}) = \sum_{i=1}^n W_i C_{3.1.i} \dots \dots \dots (7)$$

The five elements under necessity (C_{3.1}) are calculated using the financial ratios, as follows:

$$\text{Protection of religion } (C_{3.1.1}) = \sum_{i=1}^n W_i C_{3.1.1.i} \dots \dots \dots (8)$$

$$\text{Protection of life } (C_{3.1.2}) = \sum_{i=1}^n W_i C_{3.1.2.i} \dots \dots \dots (9)$$

$$\text{Protection of intellect } (C_{3.1.3}) = \sum_{i=1}^n W_i C_{3.1.3.i} \dots \dots \dots (10)$$

$$\text{Protection of progeny } (C_{3.1.4}) = \sum_{i=1}^n W_i C_{3.1.4.i} \dots \dots \dots (11)$$

$$\text{Protection of Wealth } (C_{3.1.5}) = \sum_{i=1}^n W_i C_{3.1.5.i} \dots \dots \dots (12)$$

3.4 Calculation of the *Maqasid* index (MI)

As mentioned above, the computation of the MI adopted the methodology used to develop similar OECD indices (JRC-EC, 2008). First, the Linear Scale Technique (LST) was used for the MS of each bank, as follows:

$$MI_i = \frac{MS - m_i}{M_i - m_i} \dots \dots \dots (13)$$

where, MS = Actual score of an individual bank
 m_i = minimum score
 M_i = maximum score

The score of each bank will remain in the interval between 0 and 1, where 0 means the bank did not fulfill the *Maqasid al-Shari'ah* at all, and 1 means the bank fulfilled the *Maqasid al-Shari'ah* to the fullest.

A bottom up approach was used to derive the *Maqasid* index. First, the *Maqasid* score for the lowest level of dimensions was calculated; these are the five protections under necessity. Then, the summated weighted value of the five protections gave the score for the concept necessity. Next, the scores for complements and embellishment were calculated. Then, the weighted summated score of necessity, complement and embellishment provided the score for *Maslahah*. Next, the scores for justice and educating individuals were calculated. Finally, the summated weighted score of *Maslahah*, justice and educating individuals provided the index value for a particular bank.

The developed index was used to measure the *Maqasid* performance of some selected banks in Malaysia and Bangladesh. The top five Islamic banks from Malaysia and six banks from Bangladesh were selected based on their asset size. Banks from only Malaysia and Bangladesh were chosen to maintain a standardized data set because it would be difficult to harmonize the annual report data of different banks from different countries due to difference in accounting and reporting practices. Moreover, *Shari'ah* permissibility of banking products differs from one country to another. The profiles of the sampled banks are provided in Table 4.

Table 4
Profile of the banks

Bank Name	Code	Total assets in million local currency	Country
Bank Rakyat	BR	92,285,928	Malaysia
Bank Islam Malaysia Barhad	BI	49,767,067	Malaysia
RHB Islamic Bank	RHB	44,076,741	Malaysia
May Bank Islamic	MI	156,352,454	Malaysia
CIMB Islamic	CIMB	54,559,181	Malaysia
First Security Islamic Bank	FSI	256,604	Bangladesh
EXIM Bank	EXIM	264,653	Bangladesh
Social Islamic Bank	SI	180,112	Bangladesh
Islamic Bank Bangladesh Limited	IBBL	725,768	Bangladesh
Shahjalal Islamic Bank	SIB	141,262	Bangladesh
Al-Arafa Islamic Bank	AAI	229,106	Bangladesh

Table 5
Maqasid score and ranking of sample banks

Bank	<i>Maqasid</i> Score	Rank
Bank Rakyat	0.4892	3
Bank Islam Malaysia Barhad	0.4434	4
RHB Islamic Bank	0.5152	1
May Bank Islamic	0.3667	9
CIMB Islamic	0.4911	2
First Security Islamic Bank	0.3225	10
EXIM Bank	0.4234	6
Social Islamic Bank	0.3738	8
Islamic Bank Bangladesh Limited	0.4219	7
Shahjalal Islamic Bank	0.3007	11
Al-Arafa Islamic Bank	0.4412	5

Table 5, which provides the overall *Maqasid* scores of the 11 banks, reveals that RHB bank topped the *Maqasid* index with the highest *Maqasid* score of 0.5152. The second and third positions were held by CIMB Islamic and Bank Rakyat, respectively. The index also shows that Malaysian Islamic banks performed better than the Bangladeshi Islamic banks.

4. Analysis of results

This research stands on the *Maqasid al-Shari'ah* framework which is multi-dimensional in nature. According to the conceptual framework, *Maqasid al-Shari'ah* can be achieved by the fulfillment of three *Shari'ah* objectives, namely *Maslahah*, educating individuals and justice. Fulfilment of *Maslahah* again depends on fulfilling necessity, complements and embellishments of the society. Last, but not least, in order to fulfill necessity, the protection of the five essentials needs to be ensured. All of these dimensions and sub-dimensions have significant impact on the overall value of the *Maqasid* index. Table 6 provides the pertinent descriptive statistics on all the concepts discussed in the preceding section.

Table 6
Descriptive statistics of *Maqasid* index and its components

Dimensions	Statistics					
	Min	Max	Mean	Standard Deviation	Skewness	Kurtosis
<i>Maqasid</i> Index (MI)	.3007	.5152	.4171	.0696	-.321	-.865
Educating individuals	.0000	.9999	.7808	.3809	-1.906	2.006
Justice	-	.9998	.4409	.2623	.757	1.440
Maslahah	.4607	.8209	.6387	.1297	-.020	-1.506
Embellishments	.0000	1.000	.7708	.3171	-1.845	2.970
Complements	.0000	1.083	.4687	.4128	.187	-1.699
Necessity	.3011	.8615	.6728	.1912	-1.023	.123
Protection of religion (POR)	.0000	1.000	.6452	.3273	-.730	-.469
Protection of life (POL)	.0002	.9998	.8798	.2923	-3.292	10.885
Protection of intellect (POI)	.0000	.9999	.2071	.3012	2.101	4.833
Protection of progeny (POP)	.0007	1.000	.5161	.3923	.055	-2.090
Protection of wealth (POW)	.3054	1.7153	.6691	.4310	1.718	2.815

The mean score of the index among the sampled banks is 0.42. A low mean score suggests that overall the banks that were evaluated are not fully adhering to the *Maqasid al-Shari'ah*. This is evidence for the claim of some scholars who maintain that Islamic banking activities are not fully in line with *Maqasid al-Shari'ah* (Siddiqi, 2006;

Mohammed & Shahwan, 2013; Dusuki & Bouheraoua, 2011). Decomposition of the index revealed that the mean score for educating individuals and *Maslahah* are quite high, 0.78 and 0.64, respectively. However, the mean score for justice of the sampled banks is 0.44. This may be the cause for the overall low means scored by the sampled banks. The low score of justice by the banks is evidence for the claim of the critics that IBs are not operating on the basis of justice. However, Mohammed (2011) claimed that the concept of justice, equity and equality are ambiguous in the activities of Islamic banks.

From the descriptive statistics in Table 6, it is clear that the variations in index value are very high in all five protections. In most of the cases, the minimum value is 0.00, whereas the maximum value is close to 1. In the case of POR, Bank Rakyat scored the highest with a value 1.00 against the mean value of 0.6452 and a standard deviation (SD) of 0.3273. In the case of POL, POI and POP, First Security Islamic bank was first in all three with a value of 0.9998, 0.9999 and 1.00 against the mean value of 0.8798, 0.2071 and 0.5161, respectively. Lastly, the descriptive statistics on POW reveal that CIMB Islamic bank scored the highest with a value of 1.7153 against the mean value of 0.6691 and a SD of 0.4310.

Next, the discussion highlights the scores related to necessity, complements and embellishments. First, the scores on necessity indicate the superiority of First Security Islamic bank with a value of 0.8615. CIMB Islamic and Al-Arafa bank ranked second and third with values of 0.8587 and 0.8541, respectively. The mean value and SD in this case are 0.6728 and 0.1912. Second, in the case of complements, EXIM bank ranked first with a score of 1.083 against a mean of 0.4687 and SD of 0.4128. Finally, the analysis of embellishments showed the superiority of EXIM bank with a value of 0.9999. CIMB Islamic and First security bank also scored very close (0.9963 and 0.9962, respectively). The mean value and SD in this category are 0.7708 and 0.3171. Figure 5 presents the graphical view of the comparisons across the 11 banks.

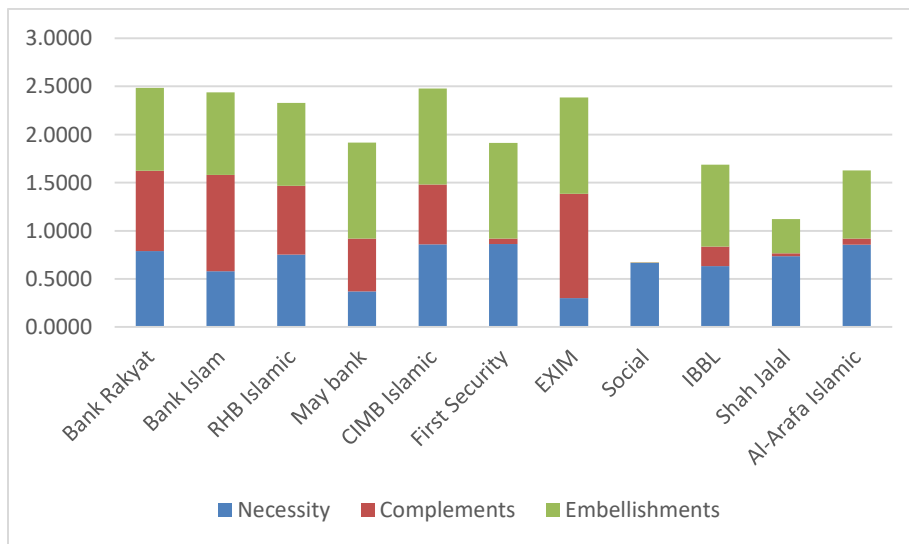


Figure 5 *Maqasid* score of necessity, complements and embellishments for the selected banks (n=11)

The analysis of the scores on *Maslahah* reveals the superiority of RHB Islamic with a value of 0.8209. The mean and SD in this case are 0.6387 and 0.1297. A low SD value in this case indicates that the *Maslahah* scores for all of the sampled banks are close. In the case of educating individuals, Exim bank scored the highest with a score of 0.9999 against a mean value of 0.7808 and SD of 0.3809. Lastly, the descriptive statistics of the *Maqasid* scores of justice revealed the superiority of RHB Islamic bank with a score of 0.9998 against a mean value of 0.4409 and SD of 0.2623. The graphical presentation of these scores for the sampled banks can be found in Figure 6.

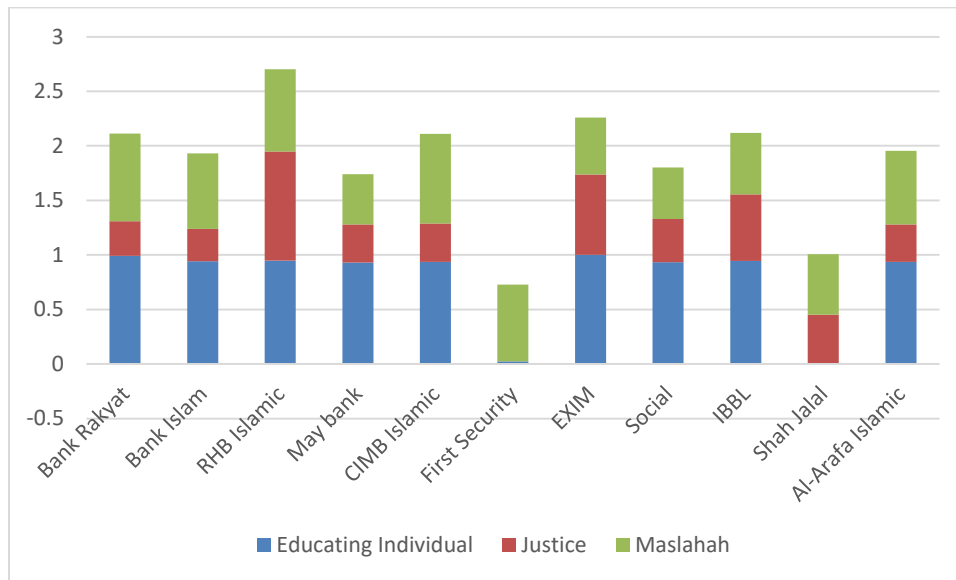


Figure 6 *Maqasid* score of educating individual, justice and Maslahah for the selected banks (n=11)

5. Specific contribution of the work

Performance evaluation of banks is an ongoing process. There are continued efforts to develop new and improved methods to capture the true performance of banks. As discussed earlier, with reference to objectives as well as operations, Islamic banks are different from conventional banks. Performance evaluation of Islamic banks demands scrutinizing not only the financial performance, but also gauging how completely the banks have fulfilled the *Maqasid al-Shari'ah*. There are very few studies that have used *Maqasid al-Shari'ah* to evaluate Islamic banks. In doing so, those studies either used Al-Ghazali's theory or Abu Zahrah's theory. This study has combined both the theories to develop a new model.

The previous studies that used *Maqasid al-Shari'ah* to measure the performance of Islamic banks did not use any rigorous technique to assign weights to different *Maqasid al-Shari'ah* variables. Most of the studies assigned equal weights to the variables. The studies that used unequal weights used expert opinions regarding the weights of *Maqasid*

al-Shari'ah variables and later averaged them. This study used the Analytic Hierarchy Process (AHP) to prioritize the *Maqasid* variables and items that are used to operationalize *Maqasid*. The use of a scientific method such as AHP to evaluate Islamic banking performance is the first of its kind. Finally, the implementation of the *Maqasid* index will not only help banks reach their social objective, but will also be fruitful commercially. Fulfilling *Maqasid* will create a positive brand image for Islamic banks which will attract more Muslims and non-Muslim customers. Therefore, this will create a larger scope for earning more revenue.

6. Conclusion

The most important job in the process of developing an index is the selection of appropriate, meaningful and measurable variables. In the present research, the use of an extensive literature review and Sekaran's method of operationalization helped select the primary variables. Expert interviews and focus group discussion were arranged to finalize and validate the variables. The experts' opinions greatly improved the measurability of the selected variables with respect to performance measurement of Islamic banks based on *Maqasid al-Shari'ah*. Next, appropriate weights were assigned for each *Maqasid* concept, dimension and sub-dimension through another level of expert interviews. The data were analyzed using the Analytic Hierarchy Process (AHP), a multi-criteria decision making tool. The results of the AHP analysis showed that the banks should give higher priority to justice followed by *Maslaha* and educating individuals in order to achieve *Maqasid al-Shari'ah*.

Finally, an index was developed in accordance with the internationally acclaimed methodology by JRC-EC (2008). The developed index was then tested on some selected banks from Malaysia and Bangladesh. The results revealed that RHB Islamic bank ranked top among the sampled banks. Overall, the Islamic banks of Malaysia performed better than the Islamic banks of Bangladesh. The *Maqasid* scores for the Bangladeshi Islamic banks were higher than the Malaysian Islamic banks with respect to fulfilling necessity; however, the low scores in complements and embellishments resulted in an overall low score for the Bangladeshi banks. The index value was scaled within 0 to 1. The highest score earned by RHB Islamic Bank was 0.5152. The mean score of the sampled banks is 0.4171, which is evidence for the critics' claim that Islamic banks fall short in fulfilling the *Maqasid al Shari'ah*. Necessary steps should be taken by Islamic banks to improve the score on justice, necessity and complements to forge ahead in fulfilling *Maqasid al-Shari'ah*.

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