

Maqashid Shariah-Based Performance and Islamic Social Responsibility; An Empirical Study of Islamic Bank in Asean

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Abstract— The measurement of the financial performance of Islamic banking mostly still use the financial performance indicator of the conventional banking system. Necessarily, it should be linked with the purpose of Islamic banking that is to provide benefits to human beings and to implement the principles contained in the maqashid shariah. The excellent performance can provide an opportunity for Islamic banks to continue to grow, develop, and sustain. This study aimed to examine the effect of Maqashid Shariah-based Performance (MSP) on Islamic Social Responsibility (ISR) activity. This study used the ISR index consisting of 66 items, then analyzed content to 29 Islamic banks from 4 countries in ASEAN: Indonesia, Malaysia, Brunei Darussalam, and the Philippines from 2014 until 2017. Bank age and Gross Domestic Product (GDP) were used as the control variable. Using panel data from 113 observations, the results showed that MSP had a significant positive effect on ISR activity. This showed that the higher performance of Islamic banks would provide more exceptional ability to conduct ISR activities. The implication of this research is the Islamic bank should pay attention to Maqashid Shariah-based Performance to improve bankability in ISR activity

Keywords—Maqashid Shariah-based Performance, Islamic Social Responsibility, Islamic Bank

I. INTRODUCTION

In the Islamic finance industry, the banking sector dominates the industry, with about 75% of all Islamic finance assets managed [1]. The assets of the Islamic finance industry are domiciled in Gulf Cooperation Council (GCC) countries (922 billion USD), Southeast Asia (473 billion USD), and the Middle East excluding GCC countries (453 billion USD). In non-Muslim majority countries such as in Europe and America, the presence of Islamic finance persists even though the numbers are still small. Interest in Islamic finance among conventional investors appears to be limited [2]. Based on [3], Islamic banking in Southeast Asia contributes to the improvement of Islamic economics in the world. This is evident from the data of the World Islamic Banking Competitiveness Report 2016, which states that ASEAN countries occupy the second position (after the GCC) concerning the most significant asset bank contributor.

Sustainability lies in the meeting between the three aspects of economic, environmental, and social [4]. One of the sustainable business implementations can be realized in Corporate Social Responsibility (CSR). CSR in Islamic perspective that can be called Islamic Social Responsibility (ISR) should be able to reflect the principles of Islam by prioritizing the welfare of society, therefore Islamic banks in running their business should not be solely profit-oriented, but should strive to improve social health and to protect the needs of community as a whole [5]. One of the company's performance indicators is profitability. States that companies with high profitability characteristics and secure long-term growth will have an impact on the sustainability of the company's business [6]. In line with research [7] states that the level of profitability has a significant and positive influence on CSR disclosure, which will ultimately improve the welfare of society.

Based on the above discussion, this study will examine the effect of performance-based on maqashid Syariah against ISR in the Islamic Bank in Southeast Asia (ASEAN). Based on research by [8], the existing research is still lacking in using the right dimension weight to measure CSR in Islamic banks. So the first contribution of this research is by measuring Islamic Social Responsibility using a new index of CSR in an Islamic bank that is oriented to the business process (Business Process Oriented) and Outcome Oriented for Islamic Banking with reference to research [8], as well as added from other studies and adapted to the object of research. Until now, the measurement of the financial performance of Islamic banking mostly still use the financial performance indicator of the conventional banking system. This should be associated with the purpose of Islamic banking is to provide benefits to humans as well as carrying out the principles contained in the maqashid shariah. Therefore, the contribution of these two studies is to use the syariah maqashid index in measuring the performance of Islamic banks, to measure the performance of Islamic banks following the objectives of sharia. Furthermore, the contribution of these three studies is to add empirical evidence about intellectual capital (IC), banking performance, and Islamic Social Responsibility (ISR).

II. LITERATURE REVIEW

A. Stakeholder Theory

The concept of stakeholder theory is based on the fact that in a corporate business entity cannot be separated from the stakeholders that influence business sustainability so that business entities are required to provide benefits for stakeholders [9]. Stakeholders have the power to control the economic resources used by business entities. CSR is a meaningful way to address corporate concerns against multiple stakeholders [10]. Stakeholder theory asserts that because social contracts bind companies, they must act responsibly and communicate them to their various stakeholders. Disclosed ISR activities help companies deliver their activities in fulfilling their responsibilities to stakeholders. This can be considered as a means of communication between companies and stakeholders [11]; [12].

B. Maqashid Shariah-based Performance (MSP)

The term 'maqāsid' (plural) is derived from the word 'maqṣad' (single), which means purpose, objective, and objective. The name Maqāsid al-Shari'ah then means the goal or use of the Shari'ah [13]. The Syariah maqashid index measures the performance model of Islamic banking following the objectives and characteristics of Islamic banking. Uses the concept of shari'a goals [14] from [15] and also some previous research. There are three concepts of sharia objectives set by [15] in his study, the three main goals to be achieved by Islamic banks are: 1) Tahdhib al-fard (personal education), 2) Iqamah al-adl (creating justice), and 3) Jalb al-maslahah (producing benefit).

C. Islamic Social Responsibility (ISR)

Islamic Social Responsibility (ISR) or Islamic Corporate Social Responsibility (ICSR) is an extension of CSR with Islamic values. According to [16], Islam assumes a relatively holistic approach to CSR. This approach shows the spiritual vision integrated with the shari'a (law) based on the [17]. The definition of ISR or ICSR is a concept of social responsibility that covers not the only corporate responsibility to society but also includes corporate responsibility towards [18]. Based on research by [8], previous research is still lacking in using the right dimension weight to measure CSR in Islamic banks. Corporate CSR actions related to business practice require more pressure than results-oriented or unrelated measures [8]. Developed a CSR index for Islamic banks [8]. The study contributes by using dimensions that are divided into two parts, namely the aspects of business transactions and from oriented activities. In developing the items on each index, the study refers from 18 articles, resulting in a compilation of 115 items, seven dimensions, and 23 sub-dimensions. The items are selected based on business process dimensions (BPD) and oriented outcome dimensions (OOD). Company information regarding items contained in the index can be obtained from secondary and primary data.

D. The relationship between Maqashid Shariah-based Performance (MSP) and Islamic Social Responsibility (ISR)

Shows that the company's financial performance has a strong positive, and significant influence on CSR [19]. States that higher corporate profits tend to exhibit higher social responsibility while those with lower profits show lower social responsibility [20]. One measure of company performance is profitability. States that companies with high profitability characteristics and secure long-term growth will impact on the continuity of the company's business [6]. Noted that financial performance showed a significant positive impact on CSR disclosure [30]. Disclosure of CSR with perceived Islamic value (ISR) can illustrate that the company has been doing ISR activities. From the above explanation can be concluded that the better the performance of maqashid sharia then the more capable of Islamic banks perform ISR activities. So the hypothesis is expressed as follows:

H1: MSP has a positive effect on ISR.

III. METHOD

This study aims to examine the effect of performance-based on maqashid Syariah against Islamic social responsibility (ISR). This research is a quantitative research using panel data regression model. The object of this study is all Islamic banks located in Southeast Asia with a period of observation for five (4) years from 2014 until 2017. The sample of this study was selected by using purposive sampling, the criteria for determining the specimen are as follows: 1) A Islamic bank that publishes complete financial statements for the period 2014, 2015, 2016 and 2017; 2) The Islamic bank publishes an annual report in Indonesian or English; and 3) Having a complete financial statement and annual report in accordance with the data required in this research. The data in this study are secondary data, where financial data and information disclosure are obtained from the annual report issued by the company received from the website of each company, and other financial data necessary collected from ORBIS.

A. Measurement of Maqashid Shariah-Based Performance (MSP)

This research uses the Syariah maqashid index in measuring the performance of an Islamic bank. The performance of maqashid Syariah in this study measures maqashid syariah index and criteria developed by [21]. This index has been used in previous research such as [14], [22], [24], and [24]. The relationship between the operational objectives of Islamic banking and measurement performance is measured by financial ratios and other financial data used for performance measurement purposes. By using the method of [25], the assessment of Islamic banking performance is based on the concept of maqashid shariah. The indicator used refers to what has been formulated by [21], [24], and [14] as follows:

Table 1. Weight of Each Objective and Element

| Concepts (Objectives) | Average Weight (Out of 100) | Dimensions | Elements | Average Weight (Out of 100) | Performance Ratios |
|---------------------------------|-----------------------------|---|---------------------------------------|-----------------------------|---------------------------------------|
| O1. Education (Tahdhib al-Fard) | 30 | D1. Advancement of Knowledge | E1. Education Grants/Donations | 24 | R1. Education grant/total expense |
| | | | E2. Research | 27 | R2. Research expense/total expense |
| | | D2. Instilling new skills and improvement | E3. Training | 26 | R3. Training Expense/total expense |
| | | D3. Creating Awareness of Islamic banking | E4. Publicity | 23 | R4. Publicity expense/total expense |
| | | | Total | 100 | |
| O2. Justice (Al-Adl) | 41 | D4. Fair dealings | E5. Fair Returns | 30 | R5. profit/total income |
| | | D5. Affordable products and Services | E6. Fair Price | 32 | R6. Bad debt/ total investment |
| | | D6. Elimination of injustices | E7. Interest free product | 38 | R7. Interest free income/total income |
| | | | Total | 100 | |
| O3. Welfare (Al-Maslahah) | 29 | D7. Profitability | E8. Bank's Profit Ratios | 33 | R8. Net profit/ total asset |
| | | D8. Redistribution of income & wealth | E9. Personal Income Transfers | 30 | R9. Zakat/ Net Income |
| | | D9. Investment in vital real Sector | E10. Investment Ratios in real sector | 37 | R10. Investment deposit/total deposit |
| Total | 100 | | Total | 100 | |

Source : Mohammed & Razak [21]; Hartono & Sobari

[14]

From Table 1. It can be seen that the purpose of achieving the first syariah index of maqashid is education or education for human (employees) is measured by the ratio of tuition fees, research costs, training costs, the cost of publication. The second objective is justice or equity is measured using profitability ratios, non-performing debt ratio, interest-free income ratio. The third objective is that welfare provides benefits to humans by measuring the ratio of net income to total assets (benefits to investors), zakah expenditures for net income (overcoming inequality) and investment ratios to ensure that funds are channeled into

the real sector, especially for small and rural businesses community [14].

The performance measures of the Islamic banks mentioned above have been verified by previous researchers namely [21]. These steps have been sufficiently credible and valid to use [14]. The concept of the methods of [25] and the weighting values developed by [21], [24], and [14] can be seen in Table 3.1. Then the results are multiplied by the weights as used in previous research [14]. It is therefore mathematically calculated by the following formula:

$$\text{Maqashid index} = \text{WR}(\text{O1}) + \text{WR}(\text{O2}) + \text{WR}(\text{O3})$$

Where:

$\text{WR}(\text{O1}) = \text{Weighted Ratios for Objective 1}$

$$= W1 \times [(E1 \times R1) + (E2 \times R2) + (E3 \times R3) + (E4 \times R4)]$$

$\text{WR}(\text{O2}) = \text{Weighted Ratios for Objective 2}$

$$= W2 \times [(E5 \times R5) + (E6 \times R6) + (E7 \times R7)]$$

$\text{WR}(\text{O3}) = \text{Weighted Ratios for Objective 3}$

$$= W3 \times [(E8 \times R8) + (E9 \times R9) + (E10 \times R10)]$$

$W1, W2, W3$ = Average Weight for each objectives

$E1-E10$ = Average Weight for each elements

$R1-R10$ = Performances ratios

B. Measurement of Islamic Social Responsibility (ISR)

Have developed a CSR index for Islamic banks. The study contributes by using dimensions that are divided into two parts, namely the aspects of business transactions and from oriented activities. In developing the items on each index, the study refers from 18 articles, resulting in a compilation of 115 items, seven dimensions, and 23 sub-dimensions [8]. The items are selected based on business process dimensions (BPD) and oriented outcome dimensions (OOD). Company information regarding items contained in the index can be obtained from secondary and primary data. However, this study will only use index items whose information can only be derived from secondary data such as annual reports, websites, or other publication reports, resulting in 66 items. The elements used in this study are presented in the Appendix.

This study measures the ISR with content analysis using 66 items referring to the research of [8]. Furthermore, the calculation to determine the ISR index score is as follows:

1. Each item is scored one if disclosed and score 0 if not disclosed.

2. The value earned from each Islamic bank is summed to obtain the total value of the Index in each year:

$$ISR = \frac{\text{Total disclosed}}{\text{Total should be disclosed}}$$

C. Control Variables

Other factors may affect the ISR, such as the age of the company and the Gross domestic product (GDP). There is a positive relationship between age and CSR; he argues that the older the company's more involvement will be in CSR activities that have a positive impact on its reputation [26]. To control macroeconomic factors by using the natural logarithm of the country's GDP. So this research uses bank age and GDP as the control variables. The bank age is measured since the company stands [27]; [26]. GDP is measured by GDP per capita [28]; [26]; [29].

D. Research Model

This research model uses multiple regression model of panel data to test the research hypothesis, that is the effect of MSP to ISR. The equation model used to perform hypothesis testing will be the effect of MSP on ISR (H1) that is:

$$ISR_{it} = \alpha_0 + \alpha_1 MSP_{it} + \alpha_2 AGE_{it} + \alpha_3 GDP_{it} + \varepsilon_{it}$$

E. Data Analysis Method

This study is an empirical study. Method of measurement of this research is a quantitative method, where data are taken from the annual report and also quantitative analysis. Data analysis method in this research is divided into two major sections, namely descriptive statistical analysis and regression data analysis. Data regression analysis consists of classical assumption test and statistical test. This data analysis method is used to answer the hypothesis. This research uses STATA MP13 software to process research data.

IV. RESULT AND DISCUSSION

A. Sample And Descriptive Statistics

The sample used in this research is an Islamic bank in ASEAN countries. Details of sample selection results can be seen in Table 2. A list of Islamic banks from each country is obtained from an ORBIS database accessed through a Bank Indonesia server. These countries are Malaysia, Brunei Darussalam, Indonesia, Thailand, Singapore, and, Philippines. The number of Islamic banks each year from 6 countries are 31 banks. However, not all Islamic banks in these countries can be sampled. After searching through their respective websites to download the company's financial statements and annual reports, there are 3 banks in Malaysia that have not issued financial statements or annual reports for 2017 namely RHB Islamic Bank Berhad (Malaysia) Bank, Al Rajhi Banking & Investment Corporation Malaysia Berhad (Malaysia), and Alkhair International Islamic Bank Berhad (Malaysia), are automatically excluded from the research sample. The list of Islamic banks that are sampled in this study is found in Appendix 2. Also, there are 2 Islamic banks where financial statements and annual reports in 2014-2017 cannot be downloaded or not accessible online ie, Islamic Bank of Thailand

(Thailand) and Islamic Bank of Asia (Singapore), the Islamic bank is also excluded from the sample. So final samples are obtained for 2014, 2015, and 2016 amounting to 29 banks, and for 2017 as many as 26 banks. So the total observation research as many as 113 observations.

Table 2. Samples

| Explanation | Year | | | |
|---|-----------------|------|------|------|
| | 2014 | 2015 | 2016 | 2017 |
| Islamic Banks in ASEAN countries according to ORBIS list | 31 | 31 | 31 | 31 |
| The financial statements and annual reports are not yet available | 0 | 0 | 0 | -3 |
| The financial statements and annual reports cannot be downloaded or cannot be accessed online | -2 | -2 | -2 | -2 |
| Number of samples per year | 29 | 29 | 29 | 26 |
| Total observation | 113 (unbalance) | | | |

Table 3. shows the results of a descriptive statistical analysis of research variables. Each variable is described based on the number of observations (N), the minimum value (MIN), a max value (MAX), and standard deviation (STD.DEV). From all comments on the activity level of ISR (ISR), the average disclosure value in all countries is still low, that is 58%. This shows that Islamic banks in ASEAN countries always do not pay attention to activities or activities about sharia responsibility and its social responsibility in the company's annual report and company website. A considerable distance between the minimum ISR (ISR) activity value (29%) and the maximum (79%) indicates a very variable level of disclosure between countries.

Table 3. Descriptive Statistics

| VARIABLE | N | MIN | MAX | MEAN | STD.DEV |
|------------|-----|------------|----------------|---------------|---------------|
| MSP | 113 | 90,47 | 21.656,44 | 2.809,23 | 2.681,92 |
| ISR | 113 | 0,29 | 0,79 | 0,58 | 0,12 |
| SIZE (USD) | 113 | 14.043.691 | 41.886.811.445 | 5.434.196.524 | 7.744.092.341 |
| GDP (USD) | 113 | 2.753,30 | 41.530,67 | 8.058,64 | 5.776,96 |
| AGE (Year) | 113 | 4 | 34 | 12,61 | 7,63 |

Source : Output Stata 13

Multicollinearity Test

First, this study tests the estimation model to determine the best model. The results show that Fixed Effect Model is the best model to be used in this research. Then, this study tested Pearson Correlation. The results are shown in Table 4. The correlation value (VIF) of each variable is not more than 0.75. This means that in this research model there is no multicollinearity problem.

Table 4. Pearson Correlation

| Variabel | ISR | VAIC | AGE | LnGDP |
|----------|--------|--------|--------|-------|
| ISR | 1,000 | | | |
| MSP | 0,3525 | 1,000 | | |
| AGE | 0,1597 | 0,2663 | 1,000 | |
| LnGDP | 0,0119 | 0,0983 | 0,1025 | 1,000 |

Source : Output Stata 13

Heteroscedasticity Test

After passing the multicollinearity assumption test, the test is continued with heteroscedasticity test. To detect the problem of heteroskedastisitas, Wald Test test. Here is the result of heterokedastisitas test of fixed effect model. Based on Table 5. shows through the Wald Test test obtained chi-square value of 9831.93 and Prob value > chi2 by 0,0000. The test results show the problem of heterokedastisitas, where the value (Prob > Chi2) is less than negligible (0,05).

Table 5. Heteroscedasticity Test

| Chi-Square(chi2(29)) | Prob>chi2 |
|----------------------|-----------|
| 9831.93 | 0,0000 |

Source : Output Stata 13

Autocorrelation Test

To detect an autocorrelation problem, tested with Wooldridge Test. Here is the result of autocorrelation test of fixed effect model.

Table 6. Autocorrelation Test

| F arithmetic | Prob>F |
|--------------|--------|
| 5.345 | 0.0284 |

Source : Output Stata 13

Based on Table 6. shows the results of F arithmetic of 5.345 with (Prob > F) of 0.0284. Since the value (Prob > F) is less than Alpha (0.05), it can be said that there is an autocorrelation problem. Problems of autocorrelation and heteroskedasticity, software Stata 13.0 can solve two problems at once. To overcome the problem of heteroskedasticity assumption and autocorrelation of unbalanced panel data regression, the healing method can be done using Feasible General Lears Square (FGLS). The use of FGLS is intended to minimize errors and residues in order for the estimator to remain efficient and the estimator closer to the estimates.

B. Hypothesis Testing Results

To know whether independent variable individually significant to the dependent variable, hence can be seen from the result of Prob z-stat as follows. Based on Table 7. the results of testing the effect of MSP on the ISR is MSP shows coefficient 0.0000149 with p-value 0.000, which means MSP has a significant positive impact, so H1 accepted. This result supports hypothesis 1, where performance-based on maqashid Syariah increases ISR activity performed by an Islamic bank. This is because the higher the performance of Islamic banks, then it will be more able to perform exercises or activities ISR. This study is consistent with the research of the [19], which shows that the financial performance of the company has a positive and significant influence on CSR. In a study conducted by [20], it is said that high-profit firms tend to exhibit higher social responsibility while those with lower profits exhibit lower social responsibility.

Table 7. Regression Analysis Results

| $ISR_{it} = \alpha_0 + \alpha_1MSP_{it} + \alpha_2AGE_{it} + \alpha_3GDP_{it} + \varepsilon_{it}$ | | | | |
|---|----------------|--------------|-------------|----------|
| Variable | Predicted Sign | Coefficients | t-statistic | p-value |
| Cons | | 0.576271 | 3.77 | 0.000 |
| MSP | + | 0.0000149 | 3.68 | 0.000*** |
| AGE | + | 0.0011392 | 0.80 | 0.213 |
| GDP | + | -0.0056397 | -0.32 | 0.374 |
| Number of Obs. | | 113 | | |
| This table examines the effect of MSP on ISR activity. ISR (dependent variable): the total ISR activity from the content of the analysis of the company's annual report. MSP (independent variable): measured using syariah maqashid index, AGE (control variable): company age, and GDP (control variable): measured by GDP per capita. *, **, *** shows the level of significance of each 10%, 5%, and 1%. | | | | |

Source : Output Stata 13

This study is also in line with [30], which states that financial performance shows a significant positive impact on CSR disclosure. Disclosure of CSR based on Islamic values or in this study ISR can illustrate that the company has conducted ISR activities. Performance in this research is measured by maqashid syariah.

V. CONCLUSION

This study aims to examine the effect of performance-based on maqashid Syariah on ISR activities in Islamic banks in ASEAN in 2014-2017. The results of this study indicate the impact of performance-based on maqashid Syariah has a significant positive effect on ISR activity. This shows the higher the performance of Islamic banks, then it will be more able to perform ISR activities. The implication of this research is Islamic Bank should pay attention to Maqashid Shariah-based Performance to improve bankability in ISR activity.

There are some limitations in this research are: 1) This study only includes Islamic banks in the ASEAN region where there are not too many Islamic banks in the area. To produce a sample of the research that is not much. Then the results of this study are not easy to generalize on different samples, given the possible condition of Islamic banks in different countries; 2) Measurement of ISR activity in this research conducted by the researchers themselves, the possibility of the element of subjectivity in conducting the content analysis of the annual report. Besides, ISR activity is only seen from what the company disclosed in the annual report and company website; 3) This research uses only one proxy for each variable, and this research does not do robustness test, so maybe the research result is not too strong.

The suggestions that can be given to some parties related to ISR activities based on the findings of this research are: 1) For regulators, based on the results of this study indicate the low level of ISR activity expressed, it is expected to be an evaluation material to continue to encourage regulation which can improve transparency and accountability of Islamic banks. This is important because it aims to ensure the protection of

customers and investors of Islamic banks; 2) For Islamic Bank, in preparing its annual report, an Islamic bank is expected to be able to determine the benchmark clear, focused, and focused on the stakeholders faced by Islamic banks. Effective and efficient disclosure of information can reduce management costs and achieve the objectives of the preparation of the annual report itself, and 3) Suggestions for further research is to re-confirm the results of this study by using samples in a broader scope so that the results of this study can be more generalized. Besides, to reduce the level of subjectivity in performing the content of the analysis, the content of the report should be done by several people. Further research is suggested to use other proxies and perform robustness tests. Besides, it can test different factors that can affect ISR activity in an Islamic bank.

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