



A MAQASID BASED PERFORMANCE EVALUATION
INDEX FOR ISLAMIC BANKS

BY

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ABSTRACT

The upsurge of Islamic banking has always been seen from the perspective of growth of assets and market share which somehow depict the profit oriented nature of a business entity. “Riba free banking” seems to be the only factor that differentiates Islamic banking from its conventional counterpart. As a result, the true objective of Islamic banking which is the fulfillment of “*Maqasid al-Shari’ah*” (Objective of Islamic law) have not been formally addressed. Currently, Islamic banks are being evaluated using the same conventional standards of other banks which mainly focus on financial measures. Hence, a paradigm shift is required in the Islamic banking industry where the framework of *Maqasid al-Shari’ah* is used for performance evaluation. The objective of this study is to develop a *Maqasid al-Shari’ah* based index by operationalising the *Maqasid* framework that combines the *Maqasid* theories of Imam al Ghazali and Abu Zaharah. At first, semi-structured interviews of 12 experts on Islamic banking and finance (IBF) were conducted to select the variables for indexing. Afterwards, a focus group discussion was arranged consisting five experts in IBF to validate the selected variables. Then, an analytic hierarchy process (AHP) is employed to determine the relative importance and weight of each *Maqasid* item and sub-items. The respondents in this case are industry experts, *Shari’ah* scholars, *Shari’ah* committee members and academics. Based upon this, an index is developed. Afterwards, the index is tested on 11 selected sample banks in Malaysia and Bangladesh. The result reveals that RHB Islamic bank rank top among the selected Islamic banks. This study contributes to the theory of *Maqasid al-Shari’ah* with respect to banking performance evaluation by identifying the necessary variables to operationalize *Maqasid* items. The *Maqasid*-based index is expected to assist stakeholders to measure how far the performance of Islamic banks are in line with the *Maqasid al-Shari’ah*.

ملخص البحث

وقد شهدت الأعمال المصرفية الإسلامية طفرة بشكل دائم من منظور نمو الأصول ومشاركة السوق التي تصور بطريقه ما؛ طبيعة وموجهة للربح في كيان تجاري. ويبدو لنا أن ربا المصرف الحر هو العامل الوحيد الذي يميز الصيرفة الإسلامية من نظيرها التقليدي؛ ونتيجة لذلك، لم يتم التصدي رسمياً للهدف الحقيقي للمصارف الإسلامية التي تفي بمقاصد الشريعة. ويجري حالياً تقييم المصارف الإسلامية باستخدام المقياس التقليدي نفسه الذي يركز أساساً على التدابير المالية، ومن ثم، فإن الأمر يتطلب نقلة نوعية في الصناعة المصرفية الإسلامية حيث؛ ستستخدم مقاصد الشريعة لتقييم الأداء. والهدف من هذه الدراسة هو تطوير مقاصد الشريعة القائم على المقصد الشرعي عن طريق تفعيل إطار المقاصد الذي يجمع بين نظرية المقاصد الخاصة بالإمام الغزالي والإمام أبي زهرة. في البداية، أجريت مقابلات شبه منظمه لاثني عشره (12) خبيراً في البنوك الإسلامية والمالية لاختيار متغيرات المؤشر، وبعد ذلك، تم ترتيب مناقشة لمجموعة مركز عليها تتألف من خمسة خبراء في المركز للتحقق من صحة المتغيرات المختارة، ثم تم استخدام عملية التسلسل الهرمي التحليلي لتحديد الأهمية النسبية والوزن لكل صنف وبند فرعي. والمجيبون في هذه القضية هم خبراء الصناعة وعلماء الشريعة وأعضاء اللجنة الشرعية والأكاديميون؛ وبناء على ذلك، يتم وضع مؤشر، وبعد ذلك يتم اختبار المؤشر على أحد عشر مصرفاً مختاراً من ماليزيا وبنغلاديش. وتكشف النتيجة أن بنك رشيد حسين الإسلامي (RHB) يحتل أعلى مرتبة بين البنوك الإسلامية المختارة. تسهم هذه الدراسة في نظرية مقاصد الشريعة فيما يتعلق بتقييم الأداء المصرفي من خلال تحديد المتغيرات الضرورية لتفعيل بنود المقاصد. ومن المتوقع أن يساعد المؤشر القائم على تحديد الهوية أصحاب المصلحة لقياس مدى تماشي أداء الرابطة مع مقاصد الشريعة.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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This Dissertation is Dedicated
to
My Respected Parents, Beloved Wife and Children

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LIST OF ABBREVIATIONS

AHP	Analytic Hierarchy Process
ATM	Automated Teller Machines
CDM	Cash Deposit Machine
DEA	Data Envelopment Analysis
et al.	(<i>et alia</i>): and others
FGD	Focus Group Discussion
HDI	Human Development Index
IBF	Islamic banking and Finance
PLS	Profit and Loss Sharing
MYR	Malaysian Ringgit
NBFI	Non-Banking Financial Institutions
NPF	Non-Performing Financing
R&D	Research and Development
ROE	Return on Equity
ROA	Return on Asset
SNCI	Shari'ah Non-Compliant Investment
UAE	United Arab Emirates

LIST OF SYMBOLS

C	Concept
W	Weight
E	Elements
Σ	Summation

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A country's economic and financial development largely depend on the performance of its financial institutions. Banks are historically one of the most important financial institutions in any economy. The banks, especially the conventional banks are based on intermediation model where they generate profit by the return earned from lending to businesses and individuals minus return paid to different types of depositors. They are instrumental for a country's economic stability. Banks as financial intermediaries, channel money from surplus unit to deficit unit to keep the economy moving. Any form of disturbance in the process may lead to enormous economic crisis.

The primary function of a financial system is resource allocation (Merton, 1995). To allocate resources effectively, the financial system first establishes a payment system to clear and settle payment in order to facilitate trade and commerce. Second, to finance large and small scale projects, they aggregate and also disaggregate wealth and flow of funds. Third, the system transfers economic resources over time, space and industries. Fourth, the system helps in accumulating, processing and disseminating the information for better decision making. Fifth, it provides direction for uncertainty and risk management. Finally, it shows ways in dealing with incentive and problems raised through asymmetric information. According to Merton (1995), financial institutions may change, but these six core functions remain relatively same.