

Developing *Maqasid al-Shari'ah* Index to Evaluate Social Performance of Islamic Banks: A Conceptual and Empirical Attempt

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Abstract

The rise of Islamic banking and finance is now a reality with *Shari 'ah* compliant financial operations existing in many different parts of the world. However, its development has recently been subjected to criticism in relation to the aspirational objectives of Islamic moral economy, which constitutes the moral foundations of Islamic finance. The aspirational objectives are general expressed with *maqasid al-Shari'ah*, which is defined as 'human well-being'.

The aim of this research, hence, is to evaluate the social performance of Islamic banks according to *maqasid al-Shari'ah* upon the realization of Islamic Moral Economy aspirations. AbdelMajid Najjar's concept of *maqasid al-Shari 'ah* with eight orientations or articulations is adopted to construct an evaluation framework aligned with the objective of rendering a critical improvement of current empirical studies.

In operationalizing the developed framework, this study conducts empirical investigations by taking 13 banks from 6 countries for 5-year period (2008–2012) as a sample. In doing so, the annual reports of the sampled banks for the period are subjected to content analysis to generate the necessary data in applying to the formulated framework.

Empirical evidence indicates that there is lack of achievement in *maqasid al-Shari 'ah* performance of Islamic bank and finance. Nevertheless, the overall industry concentrates mainly on *self, faith* and *rights and stakeholding* rather than *wealth* orientation, despite the fewer contributions in *social entity, intellect, posterity* and *ecology*. Additionally, the empirical results find that there are different orientations across the banks and countries. Finally, the industry orientation is estimated in this research, which is located to be somewhere between *faith* and *rights and stakeholding*.

Keywords: *Maqasid al-Shari 'ah*, Islamic Banking and Finance, Evaluation, Performance

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Introduction

Islamic banking and finance (IBF) emerged in mid-1970s in the form of Islamic commercial banking as a value oriented banking proposal shaped by the norms, values, and principles of Islamic ethics and also by Islamic legal norms. In referring to the nature of IBF, AAOIFI (2007: 27) describes it as: 'Islamic banks were developed on a foundation that does not permit the separation between temporal and religious matters. That foundation requires compliance with Shari'a as a basis for all aspects of life. This covers not only religious worship but also business transactions, which should comply with Shari'a precepts'.

Thus, financial and religious dimensions together constructs the nature of IBF with the objective of producing an ethical financial system, as attempted by the axiomatic approach of Islamic Moral Economy (IME), which reflects the *maqasid al-Shari'ah* or the objectives of Islamic principles with ultimate goal to promote human wellbeing (Asutay, 2012). In this contextualisation, "the foundational axioms demonstrate, as a system, that Islamic Moral Economy refers to economic and sustainable development, social justice and social investing oriented principles" (Asutay, 2012: 96).

Over the last forty years, IBF has shown important progress and is now considered as part of global financial system. Despite such success, the recent debate on IBF performance is also concerned with the observed converge of IBF towards existing neo-classical system by gradually moving away from its value proposition, as the orientation has been diverged in becoming a financial option at the expense of IME aspirations (Asutay, 2012). One of the reasons for such development is attributed to mimicking of conventional finance practices and products in fulfilling 'form' or legal requirements only, while neglecting the 'substance' or social function as identified in the *maqasid al-Shari'ah* framework (Ahmed, 2011). Since the aspirations of IME concern for multidimensional aspects, social as well as economic; the divergence is mainly attributed to social and developmental failures.

It is therefore essential to evaluate the performance of Islamic banks in relation to IME's foundational framework, as the latter provides the rationale for the emergence of IBF. This will help to locate how the IBF institutions are directed in fulfilling the multidimensional development instead of 'financialisation of the economy'; and meet both 'form' (*fiqh* rulings or Islamic principles) as well as 'substance' (social and moral filters) (Asutay, 2012: 98-99).

The existing body of knowledge reveals that there is an increasing awareness about the development of IBF performance measurements. From the evaluation frameworks presented in this literature review, this study aims to develop a comprehensive framework that address the multidimensional aspects to capture the aspirations of IME in IBF practices through an empirical research framework.

The rationale of this research stems from the fact that the unique features of the industry should be treated differently in performance evaluation apart from the conventional system in order to measure its achievement in realizing the IME aspirations. In addition, the performance of IBFs should not be limited with financial performance but also they should be subjected to social evaluation as articulated by maqasid al-Shari'ah within the IME frame.

Since the ontological framework of IME requires IBF to fulfill the ethical and social orientations, this study aims at developing a comprehensive evaluation framework for the social and economics/developmentalist performance of IBF institutions that addresses the foundations and aspirations of IME. In addition, this research conducts an empirical study within the formulated framework in measuring *maqasid al-Shari'ah* performance of sampled Islamic banks from various countries.

In the recent years, a couple of frameworks to assess the fulfillment of *maqasid al-Shari'ah* have appeared in the literature. In building on these efforts, this research proposes a framework conceptualized through the articulation of *maqasid al-Shari'ah* and adopted from the available body of knowledge. Eventually, the evaluation of Islamic banks performance across the regions within five-year time period is conducted to provide evidence for the achievement of the industry in overall.

In fulfilling these aims the following objectives are developed:

- (i) Exploring *maqasid al-Shari'ah* to develop an evaluation framework of Islamic bank's performance;
- (ii) Using annual reports of sampled Islamic banks to gather data through content analysis to be used in the established *maqasid* framework;
- (iii) Developing an index from the gathered data to chart the performance of each *maqasid* consequences for each bank, industry and the country;
- (iv) Calculating the consequence vectors to provide an ultimate understanding of the *maqasid* performance of the industry.

The following research questions are to be addressed in this research in line with aims and objectives:

- (i) What is the framework that represents the aspiration of IME to evaluate the performance of IBF industry?
- (ii) How is the *maqasid* performance of Islamic banks in relation to the suggested framework?
- (iii) What is the *maqasid* orientation of the industry?

As for the organization of the paper, after providing the overall articulation of the current context, presenting the aims and objectives of the study whilst addressing the research questions in this section, a literature survey on IBF institutions' social performance is provided in Section 2. Section 3 discusses the construction of evaluation framework to measure the *maqasid* performance of Islamic banks, including presenting data set and methodological approach. After analyzing the collated data, the empirical results per each bank, countries and industry are presented in Section 4. Finally, Section 5 provides conclusion whilst explaining the study limitations and recommendations for future research.

1. Islamic Moral Economy Foundations of Islamic Finance

The concept of IME was initiated to propose a new economic system, apart from capitalism and socialism, for solving the underdevelopment of Muslim world after regained the independence from colonial powers (Asutay, 2012). This proposed system is constructed on the ontology and epistemology of Islam, namely *Quran* and *Sunnah*, which aimed at putting generating a human wellbeing centred developmentalist objectives.

IBF as an operational form of this system was initiated to play an important role in realizing the Islamic concept of development and *maqasid al-Shari'ah* (the objectives of Islam). However, with the recent growth in IBF sector, it is claimed that the direction has diverged from the origin or the aspiration of IME (Ahmed, 2011; Asutay, 2012). IBF as the institutional forms of IME, has achieved remarkable financial performance and impressive growth in assets and the number of institutions; but has failed to serve the social and developmental needs of Muslim world, as aimed at by IME (Asutay, 2012); and therefore 'social failure' of IBF is a source of debate in various circles.

1.1. Maqasid Al-Shari'ah Paradigm

Maqasid al-Shari'ah or the objectives of *Shari'ah* is interpreted as 'human wellbeing' in whatever is done. The Ghazalian *maqasid* is defined as (Al

Ghazali, 1937; cited in Chapra, 2008a: 5-6): “The very objective of the *Shari'ah* is to promote the well-being of the people, which lies in safeguarding their faith (*din*), their self (*nafs*), their intellect (*'aql*), their posterity (*nasi*), and their wealth (*mal*)”.

Chapra (2008a) asserts that these five objectives are primary, while there are others important corollaries can be derived from Islamic ontology and epistemology. The impact and importance in short-run may be different, thus, in long run they are all important, as “They are all interdependent and play the role of supporting each other” (Chapra, 2008a: 71). Chapra (2008a) sets up an order based on importance for all primary objectives to be: the human self, faith, intellect, posterity and wealth.

In searching for the articulation of *maqasid al-Shari'ah*, Bedoui (2012: 8) provides a broader and more effective articulation of *maqasid al-Shariah* concept according to Abdel Majid Najjar within 4 objectives and 8 corollaries as depicted in Table 1.

Table 1: Najjar's Concept of *Maqasid al-Shariah*

(i) Safeguarding the value of human life	(a) Faith (b) Human rights
(ii) Safeguarding the human self	(a) Self (b) Intellect
(iii) Safeguarding the society	(a) Posterity (b) Social entity
(iv) Safeguarding the physical environment	(a) Wealth (b) Environment (Ecology)

It is noted that the accomplishment of both primary and corollary objectives are important, therefore Bedoui (2012) uses all corollaries to represent objective pillars and visualises in eight axes within the spider graph, who also (2012: 15) assumes that all the objectives should be balanced and therefore they should all have the same weight.

1.2. Social and Moral Identities of IBF

As an embodiment of Islamic economic system, Asutay (2012) classifies 4 characteristics of Islamic values and norms as filters that should be represented by IBF:

(i) IBF is derived from ontology of Islam; therefore, the Industry prohibits the practices of *riba* (interest-based transactions), *gharar* (gambling), speculation transactions, and production of products that violates Islamic norms, which

are believed to be the financialisation of the economy and the sources of financial crises (Askari *et al.*, 2012; El-Gamal, 2006; Chapra, 2008b).

(ii) The risk-sharing model in profit and loss sharing (PLS) contracts, namely *mudharabah* and *musharakah*, is proposed. Two-tier *mudharabah* was initially conceptualised as the ideal model of IBF, as it is considered promoting the social and economic objectives while reflecting *maqasid al-Shariah* as to bring social justice for human centric development (Askari *et al.*, 2012; Ahmed, 2011; El-Gamal, 2006; Ayub, 2007; Kettel, 2009; Dusuki, 2007). This is expected to lead to a 'participatory society' in the sense emancipation and empowerment of individuals are achieved with developing '*ihsan*' in the society as a social capital.

(iii) IBF proposes an embedded financing proposition, in the sense of financing being embedded in real economy as it concentrates on asset-backed transactions while promoting stability and productivity. On the contrary, as the conventional finance is not merely backed by assets or links to real economy, it triggers 'excessive and imprudent lending' which may result in financial crises (Chapra, 2008b: 1).

(iv) The embeddedness relates to financing being determined also by non-economic factors including religions (Islam), reciprocity, distribution, altruism, for example;

(v) IBF focuses on the society, a broader scope than 'market segmented' approach. In consequence, the society concerns such as poverty alleviation and environmental problems will also be covered as objectives in the system.

Thus, being ethical and socially oriented is not an option for IBF, but rather it is essentialised within the ontological framework of IME.

1.3. Social Failure of IBF

The experience of IBF indicates that it has moved away from the aspirational position identified by IME. Therefore, Asutay (2012: 101-106) evaluates the social failures of IBF based on some areas adopted from IME framework. Thus, the following is considered to be outcomes and sources of the observed social failure:

Due to the fact that the institutions operate within the conventional economic and monetary system, it is affected and there is no appropriate benchmark for the some financial transaction thus *riba* element remains.

As the dominancy of industry's main instruments has involved from two-tier *mudharabah* to *murabahah* syndrome (mark-up sale) and later,

tawarruq syndrome (synthetic loan); it sends a message that IBF is trying to replicate the conventional products to serve the market, instead of the society (Ahmed, 2011) and the real economy, far from the expectation as Islamic economic manifestation (Asutay and Aksak, 2011).

IBF has not successfully promoted socio-economic development, while focused only to economic growth. Asutay (2012) illustrates that in term of economic development: lack of long term financing and specific concentration on real estate sector instead of agriculture, industry and manufacturing, clarifies that the industry only focus to the growth but not to the development.

An important reason as to why moral or social expectations have not been incorporated in the operation of the IBs is due to the way Islamic law or *Shari'ah* treated by the *Shari'ah* scholars involved in the IB industry. Their narrow approach to *Shari'ah* is very much based on only fulfilling the 'form' by negating the 'substance' of Islam or Islamic moral economy. However, 'substance' is the main soul of IB operations and it is the source of main distinction (which makes IB 'Islamic'). The rationalistic legal reading of *Shari'ah* by the *Shari'ah* scholars have resulted in ignoring the moral dimension or the substance, as they claim that Islamic methodological approach is based on 'intention' and therefore as long as the intention is correct the rest does not matter. On the contrary, Islamic practice as well as knowledge suggests that 'intention' has to be complemented by 'consequence' and consequence can only be measured by substance. In other words, '*iman*' is essential, but *iman* without good deeds (*amal al saleh*) is not enough. Islamic methodology of *tawhid* suggests complementarity in the sense that 'intention' has to go together with 'consequences'; and therefore IB industry should also consider 'consequences' of their financing, which can be possible with the articulation of *maqasid al-shari'ah*.

Lastly, while IME requires more improved model of corporate governance rather than the stakeholder model to internalise the Islamic values and principles, the perceptions of the IBF institutions to the concept remain low and the ideal concept has not been captured by AAOIFI and IF SB.

1.4. Rationale for Social Performance Measurement

As defined in the previous sections, social objectives play important role in internalising Islamic values in IBF practices, which define IBF. Despite the performance failure in this orientation, there is a need to develop performance measurement framework that considers the aspects other than economic and

financial goals. The current practices to assess the performance of IBF is not really distinguished from the conventional, as it is only focus on the financial measures (Mohammed *et al.*, 2008), while the ontological reasoning, as articulated through Islamic moral economy and, hence, by *maqasid al-shari'ah*, suggests and also rationalises social performance of Islamic financial institutions.

To identify 'Islamic' in IBF performance measurements, Hasan (2004) states that social responsibilities should be included in the framework. Some further studies propose the framework by conceptualising the *maqasid al-Shariah*, such as the one conducted by Mohammed *et al.* (2008), which performs ratios calculations including the distinct identities of IBF (*e.g. zakah* obligation and investment in real sector). Nevertheless, the study deals with transparency problem so that some ratios cannot be computed. Furthermore, the framework does not cover some responsibilities to perform GCG and environmental issues.

In operationalising *maqasid al-Shari'ah* framework, Bedoui (2012) proposes some visualisation of the objectives in *Shari'ah*. The model allows the calculation of global performance and identifies the orientation focus. However, the study does not identify the indicators therefore we need to construct the evaluation framework.

In addition to *maqasid al-Shari'ah* framework, Haniffa and Hudaib (2007) explore the ethical identity disclosures that are presented in Islamic banks annual reports. In another study, Hameed *et al.* (2004) proposes Islamicity Disclosure Index, which combines the *Shari'ah* compliance, GCG and social/environmental indicators alongside some financial ratios calculation. Nevertheless, in Haniffa and Hudaib's study is more qualitative while there is no financial instrument included in the framework. The other study completes the prior by providing analysis of the social and environmental issues and provides deeper analysis of GCG compliance indicators according to the regulations.

2. Modelling *Maqasid* Evaluation Framework

2.1. Research Strategy

The empirical nature of this study aims at assessing the financial and especially social performance of Islamic banks through the disclosure in annual reports. Therefore this researcher attempts to employ mixed methods data analysis since the qualitative and quantitative data are being collected (Creswell and Clark, 2007) throughout content analysis and financial ratios calculation.

The content analysis, which according to Krippendorff (1980) and Weber (1988), "a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria" (cited in Haniffa and Hudaib, 2007: 103), is essential in this study to analyse the annual reports. This method is employed to collect the disclosed information in relations to the dimensions and aspects in this study. Thus, content analysis in the form of qualitative method is performed alongside with analysing some financial indicators and implement the multiple attribute decision- making method to generate the overall performance result.

2.2. Research Approach

Recently, a number of research approaches content analysis in relation to gauging the *maqasid al-Shari'ah* compliancy nature of Islamic banks within the form of social performance. In this evaluatory research on IBF performance, the frameworks of some of these studies are consulted in an attempt to construct the proposed framework. The frameworks of those studies are discussed below:

2.2.1. Constructing *Maqasid al-Shari'ah* Index

Mohammed *et al.*'s (2008) study is conducted based on Abu Zaharah's concept of *maqasid al-Shari'ah*. They use Sekaran's method to convert the objectives into performance measurements, in which the objectives are translated into several dimensions and later be measured by elements through collecting disclosed data. Their *maqasid* index dimensions and are disclosed in Table 2.

Mohammed *et al.* (2008: 8) construct the weights and ratios based on results of interviews and questionnaires distributed to *Shari'ah* experts from Middle East and Malaysia. In their study, seven out of ten ratios from first and third objectives are performed to assess six Islamic Banks throughout 6-year period: 2000-2005. The three ratios within second objectives could not be implemented in their study, however, the study conducted by Antonio *et al.* (2012), as an extension of Muhammad *et al.*'s (2008) improves by performing R6 ratio (the utilisation of PLS contract) while examining four Indonesian and Jordan Islamic banks throughout 3-year period (2008-2010).

Table 2: *Maqasid al-Shari'ah* Index

Concept (Objectives)	Dimension	Element	Performance Ratio	Element	Average Weight (Out of 100%)	Total Weight from column 6 (in %)
1	2	3	4	5	6	7
1. Educating Individual (30%)	D1. Advancement Of Knowledge	E 1. Education grant	R1. Education grant or scholarship/ Total	E1. Education grant/Donations	24	100
	D2. Instilling new skills and improvement	E2. Research	R2. Research Expense/ Total Expenses	E2. Research	27	
	D3. Creating Awareness of Islamic banking	E3. Training	R3. Training Expense/ Total Expenses	E3. training	26	
	D4. Fair Returns	E4. Publicity	R4. Publicity Expense/ Total expenses	E4. Publicity	23	
2. Establishing Justice (41%)	D5. Cheap product and Services	E5. Fair Returns	R5. Profit Equalization Reserves (PER)/Net or Investment Income	E5. Fair Returns	30	100
	D6. Elimination of negative elements that breed injustices	E6. Functional Distribution	R6. Mudharabah and Musharakah Modes/ Total Investment Modes	E6. Fair Price	32	
	D7. Profitability	E7. Interest free Product	R7. Interest free income /Total Income	E7. Interest free Product	38	
3. Public Interest (29%)	D8. Redistribution of income & wealth	E8. Profit ratios	R8. Net Income/Total assets	E8. Bank's Profit ratios	33	100
	D9. Investment in vital real sector	E9. Personal income	R9. Zakah/Net Asset	E9. Personal Income Transfers	30	
		E10. Investment ratios in real sector	R10. Investment in Real Economic Sector/ Total Investment	E10. Investment Ratios in real sector	37	

Source: Mohammed *et al.* (2008)

In order to perform analysis, the Simple Additive Weighting method (according to Yoon and Hwang, 1995) is implemented to calculate the total score from three attributes (objectives) and 10 intra-attribute values (ratios). Since the method requires the attributes to be independent to each other (Yoon and Hwang, 1995), this matter is considered when assigning the performance indicators for each element in the evaluation framework within this research study.

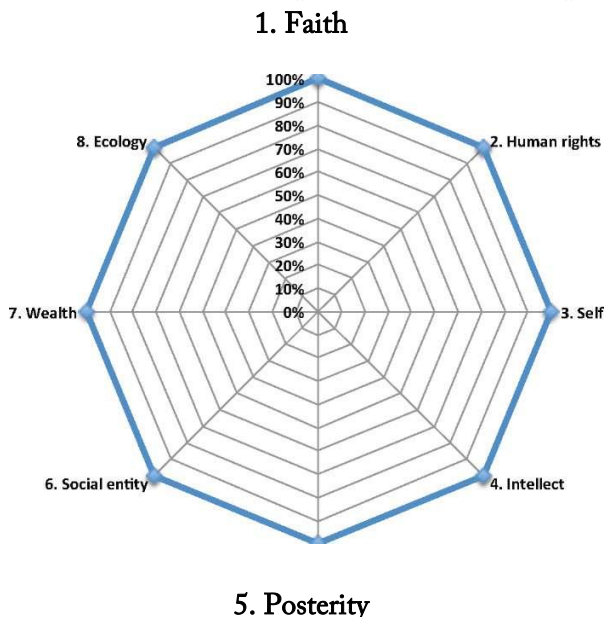
2.2.2. *Shari'ah-Based Ethical Performance*

Bedoui (2012) proposes a visual graph based on *maqasid al-Shari'ah* performance, measured from geometric and mathematical approaches.

Since this study implements Najjar's model, instead of using 4 axes for the primary *maqasid* (objectives), it uses 8 axes to represent consequences derived from the primary objectives. The reason is that the realization of the primary objectives is not accomplished without the corollaries (Bedoui, 2012: 5).

The performance of all the consequences is visualised in a spider-graph. If the institution maintains balanced performance and within the ideal (perfect) condition, Bedoui (2012) illustrates that the result will reach to the outer range of the web as in the bold line as in Figure 1.

Figure 1. Visualisation of Najjar's *Maqasid al-Shariah* Concept



Source: Bedoui (2012)

Furthermore, to measure the general performance for the balanced-orientation institution, Bedoui (2012: 6) also proposes a formula based on the law of sinus as below (where refers to the performance of each objectives):

$$\text{Balanced – Orientation Maqasid Performance (8)} = \frac{\sin(\frac{2\pi}{8})}{2} \left[\sum_1^7 p_i * p_{i+1} \right] + p_8 p_1$$

Nevertheless, in the case when the institution concentrates more to one objective rather than any other objectives, Bedoui (2012: 6) proposes the following formula:

$$\text{Unbalanced – Orientation Maqasid Performance (8)} = \frac{\sin(\frac{2\pi}{8})}{2} \left[\sum_1^7 w p_i * p_{i+1} \right] + p_8 p_1$$

Since this institution does not give equal proportion to focus on all corollaries, Bedoui introduces V indicator as the attributed weight given by the institution for each objectives.

Bedoui (2012) explains that the prioritisation of all the objectives is important to calculate the general performance. However, the prioritisation and the orientation of each institution may differ. In order to calculate the general performance for all samples, this study assumes the ideal condition of the balanced-orientation where the banks should put the objectives altogether as all *maqasid* are interrelated (Chapra, 2008a). This study analyses the individual bank performance, alongside the country and the overall industry performance. To harmonise the differentiation across the countries and the industry, therefore, this study implements the balanced *maqasid*-performance and applies one evaluation framework. Moreover, to define the prioritisation, this research implements the prioritisation order according to Najjar's model.

As regards to this research, however, it does not employ empirical study nor determines the specific details of elements to be evaluated within the Najjar's model.

3.2.3. Islamicity Disclosure Index

Islamicity Disclosure Index (Hameed *et al.*, 2004) contributes in this research's framework from the GCG, social and environmental compliancy dimensions. The assessment for three indicators is qualitative and uses the content analysis as provided in Table 3.2. Later, they attribute the weights accordingly to calculate the overall disclosure index (50%, 30% and 20%). In addition, they also perform financial ratio analyses apart from the disclosure index to form Islamic Quantitative Index. Some of the ratios are also covered in this study as included in Mohammed *et al.* (2008), namely the proportion of *halal* income, profit sharing ratio and *zakat* performance.

Table 3: Islamicity Disclosure Index

Item	
1. Shari'ah compliance Indicator	
1.1.	Shari'ah Supervisory Board
	a. The appointment of SSB
	b. The report of SSB
	c. Identification the actual activity conducted
	d. The SSB members' background (Name, Educational background, experiences)
1.2.	Basic of Information
	a. The Vision, mission and objectives
	b. Principal activity
1.3.	Financial Statement
	a. Identification of <i>Islamic</i> investment
	b. Identification of non-Islamic investment
	c. Identification of <i>Islamic</i> revenue
	d. Identification of non-Islamic revenue
	e. Provide the statement of sources and uses of funds in <i>Zakat</i> and charity
	f. Provide the statement of sources and uses of funds in the qard funds
	g. Identification sources of revenue :
	i. excluded revenue attributable to depositors
	ii. excluded revenue attributable to <i>Murabaha</i> financing
	h. The adoption of current value whenever it is possible
	i. Value added statement
2. Corporate Governance Indicator	
2.1.	Composition of board of directors
	a. 1 he board of directors comprises at least one- third of independent non-executive director
	b. The board of directors has representative from <i>Shari'ah</i> board
2.2.	Appointment and Re-appointment
	a. 1 he directors retire by rotation once in three years and subsequently eligible for reappointment
	b. The reappointment of non-executive directors is not automatic
	c. The terms of appointment of the non- executive directors are disclosed
2.3.	Board meetings
	a. Board meetings were conducted at least four times a year
	b. Number of board meetings held in a year and the details of attendance of each individual director in respect of meetings held are disclosed
	c. Directors attend at least 75% of meeting on average
2.4.	Directors' fees and remuneration
	a. Directors remuneration is disclosed
	b. Separate figures for salary and performance-related elements, and the basis on which performance is measured are explained
	c. Shareholder approve directors aggregate pay

2.5.	Nomination committee
	a. The company has nomination committee
	b. The committee should exclusively consists of non-executive directors which majority are independent
2.6.	Remuneration Committee
	a. There is a Remuneration Committee
	b. Remuneration consisting wholly or mainly of non-executive directors
	c. Membership of the remuneration committee should appear in the directors' report
2.7.	Audit Committee
	a. There is an audit committee
	b. The Audit Committee consists of at least three non-executive directors, whom majority are independent
	c. Audit committee include someone with expertise in accounting
	d. Audit committee recommends the external auditor at the annual shareholders meeting
	e. At least, once a year the committee met with the external auditors without executive board members present, to review financial statement
	f. Details of the activities of audit committees, the number of audit meetings held in a year and details of attendance of each individual director in respect of meetings are disclosed
	g. Audit committee members attend at least 75% of meetings on average
2.8.	Shari'ah Supervisory Board
	a. Include someone with expertise in accounting
	b. SSB meets with audit committee and/or external auditor to review financial statement
	c. Details of the activities of SSB, the number of board meetings held in a year and details of attendance of each individual member in respect of meetings are disclosed
	d. SSB committee members attend at least 75% of meetings on average
	e. SSB is independent body
2.9.	Others
	a. Directors, senior management are qualified persons in terms of educational background, working experience etc
	b. Chairman and CEO are different persons
	c. There is a Risk Management Committee
	d. English disclosure exists
	e. There is a statement on Corporate Governance
	f. The maintenance of an effective system of internal controls is disclosed
	g. There is director's report
3. Social & Environmental Indicator	
3.1.	Policy and objective
	a) Mission statement/statement of environmental policy
	b) Mission statement/statement of social policy
	c) Environmental target and objective
	d) Social target and objective
3.2.	Community issues
	a) Consumer care
	b) Community involvement
3.3.	Employees issues
	b) Health and safety

	b) Employee training
	c) Reporting on other issues
3.4.	Environmental issues
	a) Environmental protection
	c) View on environmental issues
	d) Environmental Management System
	e) Energy saving
	f) Environmental indicators and target
4. Financial Index *	
4.1.	Profit Sharing Ratio
	(Mudarabah + Musharakah) / Total Financing
4.2.	Zakat Performance Ratio
	Zakat / Net Asset
4.3.	Equitable Distribution Ratio
	Distributed Income to Stakeholders / (Total Revenue - Zakat and tax)
4.4.	Directors-Employee Welfare Ratio
	Average Directors' Remuneration / Average Employees' Welfare
4.5.	Islamic Investment vs Non-Islamic Investment
	Islamic Investment / (Islamic + Non Islamic Investment)
4.6.	Islamic Income vs Non-Islamic Income
	Islamic Income / (Islamic + Non-Islamic Income)
4.7.	AAOIFI Index
	Number of AAOIFI Principles implemented / Total Accounting Principles applied

* Excluded from the composite index computation for Islamicity Disclosure Index and evaluated separately per each of ratio.

Source: Hameed et al. (2004)

2.2.4. Ethical Identity Index

In defining the Ethical Identity Index (EII), Haniffa and Hudaib (2007) present the framework as in Table 4, which identifies the dimensions and elements in their study. It should be noted that Haniffa and Hudaib (2007: 103) assess 7 Islamic Banks across the Arabian Gulf region for the period of 2002-2004.

Table 4: Dimensions and Elements of Ethical Identity Index

Theme	Dimension	Instrument
1. Underlying Philosophy and Values	A. Vision and Mission Statement	i. Commitments in operating within Shari'ah principles/ideals
		ii. Commitments in providing returns within Shari'ah principles
		iii. Focus on maximising shareholders returns
		iv. Current directions in serving the needs of Muslim community
		v. Future directions in serving the needs of Muslim community
		vi. Commitments to engage only in permissible investment activities
		vii. Commitments to engage only in permissible financing activities
		viii. Commitments to fulfil contracts via 'contract (uqud) statement'
		ix. Appreciation to shareholders and customers
	B. BOD and Top	i. Names of Board Members
		ii. Positions of Board Members

	Management	<ul style="list-style-type: none"> iii. Pictures of Board Members iv. Profile of Board Members v. Shareholdings of Board Members vi. Multiple-directorships exist among Board Members vii. Membership of Audit Committees viii. Board Composition: Executive vs Non-Executive ix. Role Duality: CEO is Chairman of Board x. Names of Management Team xi. Positions of Management Team xii. Pictures of Management Team xiii. Profile of Management Team
2 & 3. interest-tree and Islamically Acceptable Deals	C. Product	<ul style="list-style-type: none"> i. No involvement in non-permissible activities ii. Involvement in non-permissible activities-% of Profit iii. Reason for involvement in non-permissible activities iv. Handling of non-permissible activities v. Introduced new product vi. Approval ex ante by SSB for new product vii. Basis of Shari'ah concept in approving new product viii. Glossary/definition of products ix. Investment activities-general x. Financing projects-general
4. Developmental and Social Goals	D. Zakah, charity and benevolent loans	<ul style="list-style-type: none"> i. Bank liable for zakah ii. Amount paid for zakah iii. Sources of zakah iv. Use/beneficiaries of zakah v. Balance of zakah not distributed-amount vi. Reasons for balance of zakah vii. SSB attestation that sources and uses of zakah according to Shari'ah viii. SSB attestation that zakah has been computed according to Shari'ah ix. Zakah to be paid by individuals-amount x. Sources of charity (saddaqa) xi. Uses of charity (saddaqa) xii. Sources of qard al-hassan xiii. Uses of qard al-hassan xiv. Policy for providing qard al-hassan xv. Policy on non-payment of qard al-hassan
	E. Employees	<ul style="list-style-type: none"> i. Employess appreciation ii. Number of employees iii. Equal opportunities policy iv. Employees welfare v. Training: Shari'a awareness vi. Training: Other vii. Training: Student/recruitment scheme viii. Training: Monetary ix. Reward for employees
4. Developmental and Social Goals	F. Debtors	<ul style="list-style-type: none"> i. Debt policy ii. Amount of debts written off iii. Type of lending activities-general iv. Type of lending activities-detailed
	G. Community	<ul style="list-style-type: none"> i. Women branch ii. Creating job opportunities iii. Support for org. that provide benefits to society iv. Participation in govt. social activities v. Sponsor community activities vi. Commitment to social role

		vii. Conferences on Islamic economics
5. Reviews by Shariah Supervisory Board	H. Shan ¹ ah Supervisory Board (SSB)	i. Names of members
		ii. Pictures of members
		iii. Remuneration of members
		iv. Report signed by all members
		v. Number of meetings held
		vi. Examination of all business transactions ex ante and ex post
		vii. Examination of a sample of business transactions ex ante and ex post
		viii. Report defects in product: specific and detailed
		ix. Recommendation to rectify defects in product
		x. Action taken by management to rectify defects in product
		xi. Distribution of profits and losses comply to Shari'ah

Source: Haniffa and Hudaib (2007)

Methodologically, the scoring approach is 'dichotomous' (Haniffa and Cooke, 2000:14), which one score is given for the instrument if disclosed and no score if it is not; otherwise, no penalty given when the instrument is not relevant. To eliminate bias, "the entire annual report is read before any decision is made" (Cooke, 1996 cited in Haniffa and Hudaib, 2007: 103). Furthermore, in their attempt, all the instruments are treated equally by assigning the same weight as Haniffa and Hudaib (2007: 103) explain that the scoring is 'additive and equally weighted'. Those aforementioned methods will be implemented in this study.

2.2.5. CAMEL Ratios

In addition to the aforementioned studies, the framework in this study also covers the evaluation of financial performance to assess *wealth-consequence*. This study uses Jaffar and Manarvi's (2011) as a reference by performing CAMEL ratios calculation as depicted in Table 5. Jaffar and Manarvi (2011) use these ratios in assessing the performance of Islamic banks in comparison to conventional banks. However, instead of constructing the overall index, they only evaluate the performance within the ratios and parameters.

Table 5: CAMEL Ratios

Parameters	Ratios
Capital Adequacy	Debt to Equity
	Capital to Risk Assets
Asset Quality	Non performing loan
	Loan loss average
Management Quality	Operating expense
	Cost per money lent
Earning Ability	Return on asset
	Return on equity
Liquidity	Loan to asset
	Deposit to asset

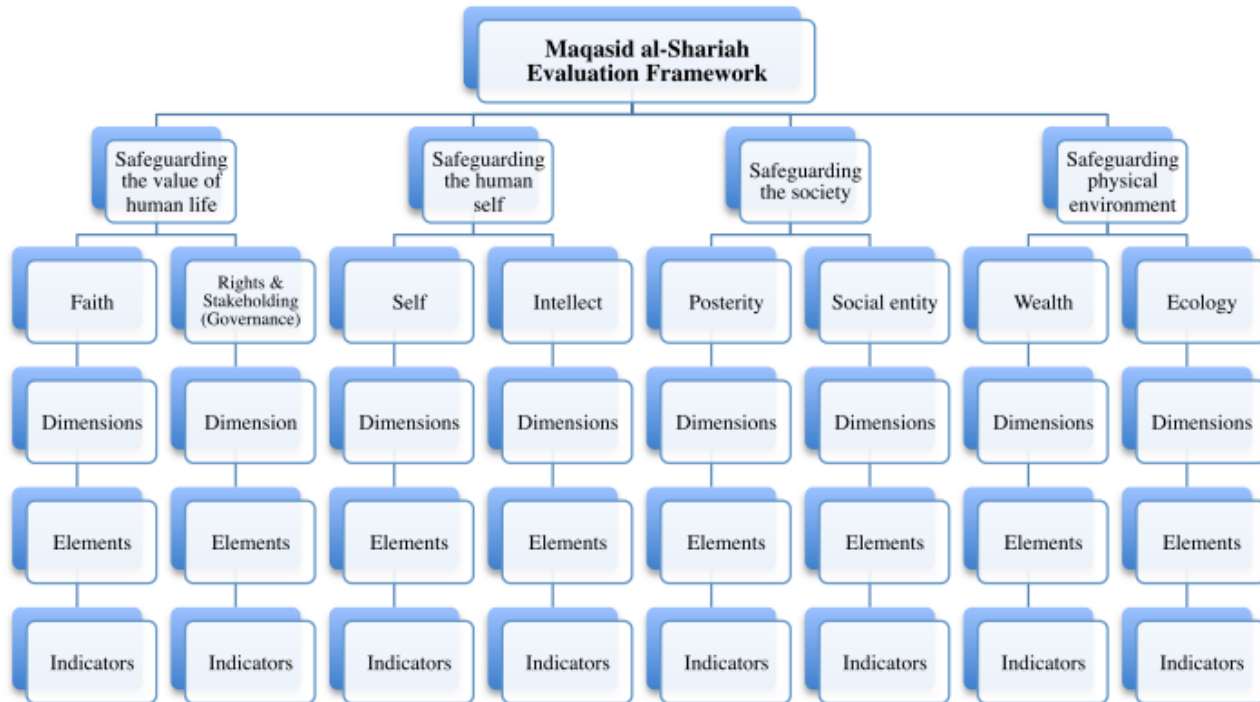
Source: Jaffar and Manarvi (2011)

Nevertheless, not all the financial ratios performed by Jaffar and Manarvi (2012) are calculated in this study. Several ratios are selected by considering their impact to the global performance score.

3.3. Framework Construction in Assessing Islamic Banks Performance: Model Selection

In constructing the evaluation framework, firstly, Najjar's model of *maqasid al- Shari 'ah* is implemented with 4 objectives and 8 corollaries. The dimensions, elements and indicators are distributed to each relevant corollary according to the critical assessment of the aforementioned frameworks. Not all indicators from the references are implemented since only relevant indicators are used and assigned by referring to the consequences. In addition, the concept of dimensions, elements and indicators are adopted from Mohammed *et al*'s (2008) approach to measure general objectives by deriving it into some specific indicators. Thus, the overall evaluation framework is depicted in Figure 2.

Figure 2: Constructing the Evaluation Framework



The assignment of dimensions to the secondary *maqasid* is defined according to the literature review. Bedoui (2012) provides an example in the study to evaluate the framework within some primary objectives and criteria as well as to assign some weights. In addition, Chapra (2008) renders some specific examples to determine the correlation amongst the objectives and other corollaries. These help to construct the framework used in this study.

For the second corollary, instead of *human rights* we use *rights and stakeholding* to measure how good institutions in fulfilling their responsibilities to their stakeholders throughout the good corporate governance practices.

The following sections, hence, detail the chosen dimensions and their corollaries.

2.3.1. Safeguarding the Value of Human Life

In constructing the first objective, each consequence is distributed to some dimensions, elements and indicators or disclosure aspect according to the concepts introduced by Mohammed *et al.* (2008), Haniffa and Hudaib (2007), Hameed *et al.* (2004) as can be seen in Table 6.

In *faith*, the first two dimensions and indicators are taken from Mohammed *et al.* (2008), which are quantitative data to measure the use of PLS contract and the percentage of *halal* income as truly representatives of Islamic principles. The others are qualitative disclosures to measure the commitment of the institution to implement *Shari'ah* principles; their contribution to treat the employee as a way to develop human wellbeing; fulfillment of the internal stakeholder (BOD and Committees) and independent party (SSB) responsibilities, and other GCG practices.

In order to simplify the evaluation, especially for *rights and stakeholding*, not all indicators from Haniffa and Hudaib's (2007) and Hameed *et al.*'s (2004) studies are adopted since some indicators are irrelevant. For some indicators that are relatively similar, Hameed *et al.*'s (2004: 15-16) framework is utilised, since there are more regulatory aspects in relation to GCG rather than only disclosure, as according to the Code of Best Practice for Corporate Governance in Islamic and Malaysian Code on Corporate Governance.

Table 6: Index for Safeguarding the Value of Human Life Framework

No.	Key Objectives	Consequ	References	References	Dimension	Elements	Indicator/Disclosure Aspect
A.	Safeguarding the value of human life	1. Faith	Mohammed et al. (2008)	Maqasid Index 2. Establishing Justice (D5)	Cheap product and	Functional Distribution	Mudharabah and Musharakah Modes/Total Investment Modes
			Mohammed et al. (2008)	Maqasid Index 2. Establishing Justice (D6)	Elimination of negative elements that breed injustices	Interest free Product	Interest free income/total revenue
			Haniffa & Hudaib (2007)	Ethical Identity Index	Underlying Philoshopy and Values	Vission and Mission Statement Disclosure	Commitments in operating within Shari'ah principles/ideals Commitments in providing returns within Shari'ah principles Focus on maximising stakeholders returns or values Directions in serving the needs of Muslim community Commitments to engage only in permissible investment activities Commitments to engage only in permissible financing activities Commitments to fulfil contracts via 'contract (uqud) statement' Appreciation to shareholders and customers
			Haniffa & Hudaib (2007)	Ethical Identity Index	Interest-free and Islamically Acceptable Deals - Product Aspects	Product	No involvement in non-permissible activities Involvement in non-permissible activities-% of Profit Reason for involvement in non-permissible activities Handling of non-permissible activities Approval ex ante by SSB for new product Basis of Shari'ah concept in approving new product
		2. Rights & Stakeholding	Haniffa & Hudaib (2007)	Ethical Identity Index	Interest-free and Islamically Acceptable Deals - Employee Aspects	Employees	Employess appreciation Number of employees Equal opportunities policy Employees welfare Training: Shari'a awareness Training: Other Training: Student/recruitment scheme Training: Monetary Reward for employees

				Corporate Governance Indicator (Fairness and Transparency) - BOD aspects	BOD (Composition, Appointment and Re-appointment, Board meetings, and Director's fees	<p>The board of directors comprises at least one- third of independent non-executive director</p> <p>The board of directors has representative from Shari'ah board</p> <p>The directors retire by rotation once in three years and subsequently eligible for re- appointment</p> <p>The reappointment of non-executive directors is not automatic</p> <p>The terms of appointment of the non- executive directors are disclosed</p> <p>Board meetings were conducted at least four times a year</p> <p>Number of board meetings held in a year and the details of attendance of each individual director in respect of meetings held are disclosed</p> <p>Directors attend at least 75% of meeting on average</p> <p>Directors remuneration is disclosed</p> <p>j. Separate figures for salary and performance-related elements, and the basis on which performance is measured are explained</p> <p>k. Shareholder approve directors aggregate pay</p>
		Hameed et al. (2004)	Islamicity Disclosure Index	Corporate Governance Indicator (Fairness and Transparency) - Committees aspects	Nomination, Remuneration and Audit Committees	<p>The company has nomination committee</p> <p>The committee should exclusively consists of non-executive directors which majority are independent</p> <p>There is a Remuneration Committee</p> <p>Remuneration consisting wholly or mainly of non-executive directors</p> <p>Membership of the remuneration committee should appear in the directors' report</p> <p>There is an audit committee</p> <p>The Audit Committee consists of at least three non-executive directors, whom majority are independent</p> <p>Audit committee include someone with expertise in accounting</p> <p>Audit committee recommends the external auditor at the annual shareholders meeting</p> <p>j. At least, once a year the committee met with the external auditors without executive board members present, to review financial statement</p> <p>k. Details of the activities of audit committees, the number of audit meetings held in a year and details of attendance of each individual director in respect of meetings are disclosed</p> <p>l. Audit committee members attend at least 75% of meetings on average</p>

					Corporate Governance Indicator (Fairness and Transparency) - SSB aspects	SSB	<p>Include someone with expertise in accounting</p> <p>SSB meets with audit committee and/ or external auditor to review financial statement</p> <p>Details of the activities of SSB, the number of board meetings held in a year and details of attendance of each individual member in respect of meetings are disclosed</p> <p>SSB committee members attend at least 75% of meetings on average</p> <p>SSB is independent body</p>
					Corporate Governance Indicator (Fairness and Transparency) - Other aspects	Others	<p>Directors, senior management are qualified persons in terms of</p> <p>Chairman and CEO are different persons</p> <p>There is a Risk Management Committee</p> <p>English disclosure exists</p> <p>There is statement on Corporate Governance</p> <p>The maintenance of an effective system of internal controls is disclosed</p> <p>There is director's report</p>

3.3.2. Safeguarding the Human Self and Society

On the second key objective, *safeguarding the human self*, there are 2 consequences (*self* and *intellect*) adopted from Mohammed *et al.*'s (2008) study. Self-consequence addresses one indicator to measure the bank contribution in the economic empowerment of the real sector. According to Aizenman *et al.* (2011), financing to financial sector (includes insurance and real estate) should be excluded to perform the calculation. The intellect-consequence covers 4 indicators to measure the fund allocation for educating individuals.

Meanwhile, the third objective (*safeguarding the society*) consists of 2 consequences. In *posterity*, we adopt 4 indicators of Islamic Quantitative Index (Hameed *et al.*, 2004) to measure how good the institution fulfil the needs of their stakeholders in order to eliminate the irritants factor, *e.g.* fear and conflicts (Chapra, 2008a).

For the other consequence, *social entity*, we utilise the frameworks developed by Mohammed *et al.*, (2008) Haniffa and Hudaib (2007) and Hameed *et al.* (2004) to evaluate the bank's social contribution from *zakat*, charity and *qardh hasan* (loans with special terms for the poor) contribution. In assessing *zakat*, although Mohammed *et al.* (2004) and Antonio *et al.* (2012) use net income as the denominator, this study proposes net asset method, according to AAOIFI (2007) in Financial Accounting Standard No.9 *zakah*.

All these dimensions with their consequences, dimensions and elements are presented in Table 7.

Table 7: Index for Safeguarding the Human Self and Society Framework

No.	Key Objectives	Consequ	References	References	Dimension	Elements	Indicator/Disclosure Aspect			
B.	Safeguarding the Human self	3. Self	Mohammed et al. (2008)	Maqasid Index 3. Public Interest (D9)	Investment in vital real sector	Investment ratios in vital real sector	Investment in Real Economic Sector/Total Investment			
		4. Intellect	Mohammed et al. (2008)	Maqasid Index 1. Educating Individual (D1)	Advancement of Knowledge	Education grant Research	Education grant or scholarship/total expenses Research expense/total expenses			
					Installing new skills and improvement	Training	Training expense/total expenses			
					Creating Awareness of Islamic Banking	Publicity	Publicity expense/total expenses			
C.	Safeguarding the society	5. Posterity	Hameed et al. (2004)	Islamicity Disclosure Index	Islamic Quantitative Index Equitable Distribution Ratios	Qard&Donation to obligation	1. Qard&Donation/(Total Revenue-Zakat&Tax Paid)			
						Employee welfare obligation	2. Employess Expenses/(Total Revenue-Zakat&Tax Paid)			
						Shareholder welfare obligation	3. Dividend to Shareholders/(Total Revenue-Zakat&Tax Paid)			
						Net Profit to obligation	4. Net Profit/(Total Revenue-Zakat&Tax Paid)			
		6. Social	Mohammed et al. (2008)	Maqasid Index 3. Public Interest (D8)	Redistribution of income & wealth	Personal Income	Zakah/net asset	Zakah, charity and benevolent loans	i. Bank liable for zakah	
									ii. Amount paid for zakah	
			Haniffa & Hudaib (2007)	Ethical Identity Index	Developmental and Social	Zakah, charity and benevolent loans	Zakah, charity and benevolent loans		Zakah/net asset	iii. Sources of zakah
										iv. Use/beneficiaries of zakah
										v. Balance of zakah not distributed-amount
										vi. Reasons for balance of zakah
vii. SSB attestation that sources and uses of zakah according to Shari'ah	viii. SSB attestation that zakah has been computed according to Shari'ah	ix. Zakah to be paid by individuals-amount								

No.	Key Objectives	Consequ	References	References	Dimension	Elements	Indicator/Disclosure Aspect
							x Sources of charity (saddaqa) . Uses of charity (saddaqa) i. Sources of qard al-hassan ii. Uses of qard al-hassan xiv. Policy for providing qard al-hassan xv. Policy on non-payment of qard al-hassan
						U. Community	ii Creating job opportunities Support for org. that provide benefits to society . Participation in govt. social activities . Sponsor community activities Commitment to social role . Conferences on Islamic economics
			Hameed et al. (2004)	Islamicity Disclosure Index	Social Indicators	Policy Objectives and Environmental Issues	a. Mission statement/statement of social policy b. Social target and objective c. Consumer Care d. Community involvement

2.2.3. Safeguarding the Physical Environment

The last objective, *safeguarding physical environment*, covers 2 consequences: *wealth* and *ecology*. This dimension with their consequences, dimensions and elements are presented in Table 8.

Table 8: Index for Safeguarding the Physical Environment

No.	Key Objectives	Consequences	References	References	Dimension	Elements	Indicator/Disclosure Aspect
D.	Safeguarding physical environment	7. Wealth	Mohammed et. al (2008)	Maqasid Index 2. Establishing Justice (D4)	Fair Returns	Fair Returns	R.5. Profit Equalization Reserves (PER)/Net or Investment Income
			Jaffar and Marnavi (2011)	CAMEL	Capital Adequacy	Funding Structure	Capital to Risk Assets Ratio
					Asset Quality	Loan loss ratio	Loan loss provision/total loans
					Management Quality	Operational efficiency	Operating Expenses/operating revenue
					Earning Ability	Return on Asset Return on Equity	Net income/total assets Net income/total equities
			Liquidity	Loan to asset ratio Deposit to asset ratio	Loan/total assets Deposits/total assets		
		8. Ecology	Hameed et al. (2004)	Islamicity Disclosure Index	Environment Indicators	Policy Objectives and Environmental Issues	a. Mission statement/statement of environmental policy b. Environmental target and objective c. Environmental protection d. View on environmental issues e. Environmental Management System f. Energy Saving g. Environmental indicator and target h. Carbon Emission Report
		<i>Recommendation</i>	<i>Recommendation</i>	Contribution to Environment	Allocation of fund in CSR to environmental issues	Ecological donation/Qard and total donation	

Wealth consequence adopts CAMEL analysis as performed by Jaffar and Marnavi (2011). Furthermore, this consequence also covers PER ratio.

In accordance with the contradictions of PER implementation in Islamic banks in return smoothing, Antonio *et al.* (2012: 18) mentions PER as "one form of injustice because the savers rights to receive profits have been cancelled or postponed". The higher ratio means the higher degree of fairness in profit distribution. Mohammed *et al.* (2008) and Antonio *et al.* (2012) include this ratio in their frameworks; however, none performed the calculation due to the data availability.

Ecology adopts Hameed *et al.*'s (2004) framework. To improve the indicator for this objective, this study recommends assessing the commitment in environmental issues by calculating the donation for the environment over the total donation.

In sum, a total of 25 dimensions, 32 elements and 112 indicators within the framework will be evaluated.

2.3. Constructing the Data Set

This study utilizes the information disclosure in annual reports of Islamic banks over 5 years period: 2008 - 2012. The sample selection is determined by the annual reports availability in banks' websites and with preference of well-established bank in each country. 13 Islamic banks from 6 countries are chosen, which is motivated by the fact to eliminate the different legal regimes determination. In other words, different regions are considered to be included in the sample. The sampled banks and the respective countries are depicted in Table 9. Two Islamic banks from each country are selected, except for Malaysia considering its large market share.

Table 9: Sample Selection

No.	Country	Islamic Bank
1	Malaysia	Bank Islam Malaysia Berhad
		RHB Islamic Bank Berhad
		Hong Leong Islamic Bank
2	Indonesia	Bank Muamalat Indonesia
		Bank Syariah Mandiri
3	Pakistan	Meezan Bank
		Bank Al Falah
4	Turkey	alBaraka Turk
		Bank Asya
5	Qatar	Qatar Islamic Bank
		Qatar International Islamic Bank
6	UK	Islamic Bank of Britain
		European Islamic Investment Bank

2.4. Estimation Method

In operationalising the research and hence conducting the estimations, the following procedure followed:

Firstly, the arithmetic mean of each indicator is calculated. For the quantitative ratios, the average of 5-year period is calculated. Furthermore, to quantify the qualitative disclosure indicators, the scoring approach is derived from Haniffa and Hudaib's (2007) study. One score is given for the disclosure of the required information and zero is given when there is no disclosure. Otherwise, no penalty is given if the indicator is irrelevant.

Considering the relations between the dimensions, elements and indicators, we use the Simple Additive Weighting (SAW) concept from the Multiple Attribute Decision Making (MADM) method (Yoon and Hwang, 1995: 32) to get the dimension score, as explained below:

$$V(A_i) = V_i = \sum_{j=1}^n w_j v_j(x_{ij}), i = 1, \dots, m$$

$V(A_i)$ in this study refers to the dimension score, while w_j and $v_j(x_{ij})$ are the weight and value function of elements attribute, respectively. Nevertheless, we assume that the weights are equally proportioned.

According to Bedoui's simulation (2012), the weights for the dimensions are defined since each dimension is interrelated with others. Therefore, weights were assigned to define the correlation amongst the dimensions according to the literatures, which are depicted in Table 10. The results are the scores for each consequence.

Table 10: Weight Allocation of the Dimensions

No.	Key Objectives	Consequences	Dimension	1. Faith	2. Human rights	3. Self	4. Intellect	5. Posterity	6. Social entity	7. Wealth	8. Ecology	
A.	Safeguarding the value of human life	1. Faith	Cheap product and services (% of PLS Financing Mode)	30%	30%					40%		
			Elimination of negative elements that breed injustices	30%	30%					40%		
			Underlying Philosophy and Values	50%	30%				20%			
			Interest-free and Islamically Acceptable Deals - Product Aspects	100%								
		2. Rights & Stakeholding	Interest-free and Islamically Acceptable Deals - Employee Aspects		50%		50%					
			Corporate Governance		100%							

			Indicator (Fairness and Transparency) - <i>BOD aspects</i>										
			Corporate Governance Indicator (Fairness and Transparency) - <i>Committees aspects</i>	100%									
			Corporate Governance Indicator (Fairness and Transparency) - <i>SSB aspects</i>	100%									
			Corporate Governance Indicator (Fairness and Transparency) - <i>Other aspects</i>	100%									
B.	Safeguarding the Human self	3. Self	Investment in vital real sector			50%				50%			
		4. Intellect	Advancement of Knowledge				50%			50%			
			Installing new skills and improvement	50%		50%							
			Creating Awareness of Islamic Banking				50%			50%			
C.	Safeguarding the society	5. Posterity	Islamic Quantitative Index - Equitable Distribution Ratios			12.5%	12.5%	25%		25%	12.5%	12.5%	
		6. Social entity	Redistribution of income & wealth	15%	10%	10%	10%	10%	25%	15%	5%		
			Developmental and Social Goals	15%	10%	10%	10%	10%	25%	15%	5%		
			Social/Environment Indicator (<i>Social Objectives</i>)	15%	15%	15%			55%				
D.	Safeguarding physical environment	7. Wealth	Fair Returns								100%		
			Capital Adequacy									100%	
			Asset Quality										100%
			Management Quality										100%
			Earning Ability										100%
		Liquidity										100%	
		8. Ecology	Social/Environment Indicator (<i>Environmental Objectives</i>)								30%		70%
Contribution to Environment									30%		70%		

In the estimation and scoring, if the perfect score is attributed for each indicator, all of the consequence will be 100%. Nevertheless, the overall performance score will be 282.84%. The overall performance scored 75% does not mean it performs 75 from 100 points, but it rather measures the achievement compared to the others. The higher score is literally the better performance. However, achieving the perfect score is unlikely, as the framework constitutes the financial ratios, which could be translated into several interpretations. Rather than implementing a scoring performance for

financial matter, this study takes the ratio as it is and does not assign a scoring approach by implementing some benchmarks.

Bedoui (2012) sets the scoring performance to evaluate the bank achievement in each consequence. Nevertheless, since there is no benchmark to measure the appropriate financial performance, we use the original data instead and then evaluate the performance for each consequence.

Finally, we perform the calculation of general *maqasid* performance by using Bedoui's formula. The general performance for 8 corollaries is calculated with equally balanced formula. In addition, to analyse the overall industry orientation, we use the sum vector as suggested by Bedoui (2012).

3. Measuring *Maqasid* Performance of Islamic Banks: Empirical Evidence

In this chapter, the evaluation results for each bank as well as industry and country level results are presented. In doing so, the performance results are interpreted according to the rank of the bank and in comparison to other banks within the country, followed by the industry performance. Eventually the overall industry performance from all six countries is discussed and the industry orientation is estimated.

3.1. Bank-Level Findings

As can be seen from the results presented in Table 11, Indonesian IBs have the best performance, which is followed by Malaysian Bank (BIMB) in the third position. The full-fledge IBs from the UK (IBB and EIIB) and QSC remain on the bottom list.

Table 11: Overall *Maqasid* Performance for Individual Islamic Bank

Bank Rank	Islamic Banks	Country	Maqasid Performance
1	Bank Syariah Mandiri (BSM)	Indonesia	59.41%
2	Bank Muamalat Indonesia (BMI)	Indonesia	54.27%
3	Bank Islam Malaysia Berhad (BIMB)	Malaysia	50.21%
4	Meezan Bank	Pakistan	49.72%
5	Qatar Islamic Bank (QIB)	Qatar	37.33%
6	Hong Leong Islamic Bank (HLIB)	Malaysia	32.77%
7	Al Baraka Turk	Turkey	29.58%
8	Bank Asya	Turkey	29.11%
9	RHB Islamic Bank	Malaysia	24.45%
10	Bank Al Falah	Pakistan	22.19%
11	Islamic Bank of Britain (IBB)	United Kingdom	14.45%
12	Qatar International Islamic Bank (QSC)	Qatar	12.92%
13	European Islamic Investment Bank (EIIB)	United Kingdom	7.01%

Table 12: Overall *Maqasid* Performance per Country

Country Rank	Country	Maqasid Performance
1	Indonesia	56.83%
2	Pakistan	34.67%
3	Malaysia	33.53%
4	Turkey	29.34%
5	Qatar	23.82%
6	United Kingdom	11.44%

For the country performance, as can be seen in Table 12, Indonesia scored the best *maqasidal-Shari'ah* performance result with 56.83%, followed, in order, by Pakistan, Malaysia, Turkey, Qatar and United Kingdom. Nevertheless, these scores indicate lack of accomplishment if compared with the perfect score of 282.84%.

3.2. *Maqasid Al-Shari'ah* Performance of Islamic Banks: Country Level Analysis

As depicted by Table 13, Bank Syariah Mandiri (Indonesia) achieves the highest score in 5 objectives (namely *faith, rights & stakeholding, self, intellect and social entity*). While Qatar Islamic Bank predominantly attains highest performance in *posterity*, Pakistani Bank (Meezan Bank) is superior to other Islamic banks in *ecology* disclosure.

Table 13: *Maqasid al-Shari'ah* Performance

Maqasid al-Sharia	INDONESIA		PAKISTAN		MALAYSIA			TURKEY		QATAR		UNITED KINGDOM	
	1	2	1	2	1	2	3	1	2	1	2	1	2
	Bank Syariah Mandiri	Bank Muamalat	Meezan Bank	Bank Al Falah	BIMB	Hong Leong Islamic Bank	RHB Islamic Bank	Al Baraka Turk	Bank Asya	QIB	QSC	IBB	EIIB
1. Faith	72.92%	72.49%	68.98%	39.92%	64.22%	45.34%	46.53%	29.90%	29.97%	52.72%	35.63%	57.72%	36.77%
2. Rights & Stakeholding	64.91%	61.36%	47.14%	36.88%	59.00%	52.84%	60.37%	45.22%	45.93%	44.03%	24.89%	35.63%	51.23%
3. Self	76.08%	74.19%	70.75%	65.22%	65.78%	59.31%	38.53%	65.81%	66.19%	58.41%	38.54%	35.50%	3.54%
4. Intellect	22.67%	21.99%	20.12%	11.50%	20.41%	14.14%	11.42%	16.76%	18.03%	21.07%	10.23%	6.68%	5.06%
5. Posterity	22.44%	24.42%	18.45%	10.02%	19.04%	11.59%	5.33%	9.45%	8.65%	28.32%	20.40%	-9.80%	-14.48%
6. Social entity	42.91%	41.08%	40.66%	27.32%	39.22%	33.16%	18.27%	33.47%	33.38%	38.08%	19.65%	12.88%	3.21%
7. Wealth	42.10%	41.18%	40.73%	38.99%	39.12%	32.00%	40.68%	41.07%	40.15%	34.10%	31.34%	69.24%	78.20%
8. Ecology	18.52%	13.07%	29.86%	2.46%	24.39%	16.68%	5.05%	15.31%	11.97%	16.84%	2.82%	-1.36%	-2.00%
<i>Maqasid Performance</i>	<i>59.41%</i>	<i>54.27%</i>	<i>49.72%</i>	<i>22.19%</i>	<i>50.21%</i>	<i>32.77%</i>	<i>24.45%</i>	<i>29.58%</i>	<i>29.11%</i>	<i>37.33%</i>	<i>12.92%</i>	<i>14.45%</i>	<i>7.01%</i>
Country Score	56.83%		34.67%		33.53%			29.34%		23.82%		11.44%	

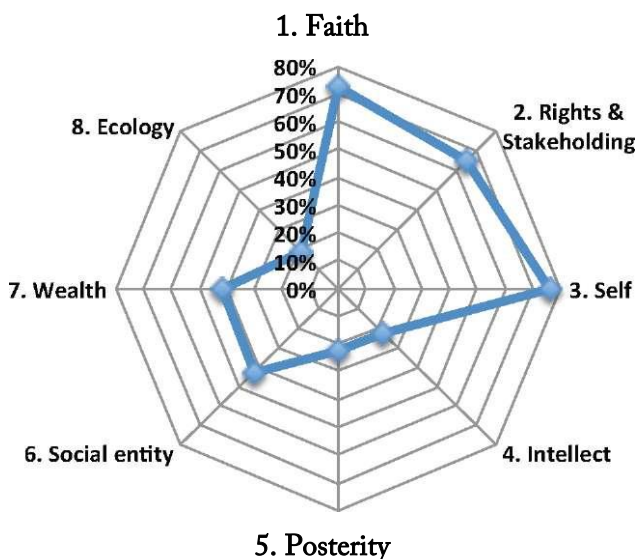
3.2.1. The *Maqasid* Performance of Indonesian IBs³

The analysis of the *maqasid* performance of IBs and countries are presented according to rank order (countries performance, followed by banks performance rank).

According to Figure 3, Bank Syariah Mandiri or BSM shows high performance in first three important objectives, while gaining the lowest performance in *ecology*.

Nevertheless, for the *ecology* disclosure, BSM reaches the second highest performance after Meezan Bank. The bank's overall performance is the best overall score in comparison to other sampled banks.

Figure 3: Bank Syariah Mandiri *Maqasid* Performance



According to the Table 14, in the first consequence, *faith*, BSM earns high score in implementing PLS financing mode; disclosing the non-*halal* income (e.g. late instalment penalty and interest) and committing in *Shah 'ah* principles.

From the overall performance in *rights and stakeholding*, BSM recognises their stakeholder's rights and maintain their interest by fulfilling their obligations in disclosing some GCG practices.

³ Due to limited space and length, this paper only provides detailed analysis of Indonesian Islamic banks so that the methodology can be understood; for the rest of the sampled countries general results are presented.

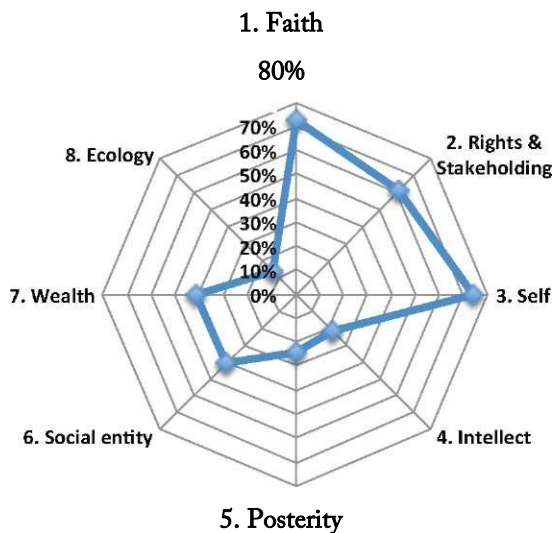
Table 14: *Maqasid al-Shari'ah* Performance Performance of Bank Syariah Mandiri

No.	Key Objectives	Consequences	No.	Dimension	2012	2011	2010	2009	2008	Average per Dimension
A.	Safeguarding the value of human life	1. Faith	1	Cheap product and services	23.71%	27.50%	36.84%	41.06%	42.01%	34.22%
			2	Elimination of negative elements that breed injustices	99.97%	99.95%	99.95%	99.92%	99.91%	99.94%
			3	Underlying Philosophy and Values	75.00%	75.00%	75.00%	62.50%	62.50%	70.00%
			4	Interest-free and Islamically Acceptable Deals - Product Aspects	83.33%	83.33%	83.33%	83.33%	83.33%	83.33%
		2. Rights & Stakeholding	5	Interest-free and Islamically Acceptable Deals - Employee Aspects	100.00%	100.00%	66.67%	66.67%	66.67%	80.00%
			6	Corporate Governance Indicator (Fairness and Transparency) - BOD aspects	72.73%	72.73%	72.73%	63.64%	63.64%	69.09%
			7	Corporate Governance Indicator (Fairness and Transparency) - Committees aspects	83.33%	75.00%	83.33%	83.33%	83.33%	81.67%
			8	Corporate Governance Indicator (Fairness and Transparency) - SSB aspects	40.00%	40.00%	40.00%	20.00%	20.00%	32.00%
			9	Corporate Governance Indicator (Fairness and Transparency) - Other aspects	85.71%	100.00%	100.00%	100.00%	100.00%	97.14%
B.	Safeguarding the Human self	3. Self	10	Investment in vital real sector	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
			4. Intellect	11	Advancement of Knowledge	0.27%	0.38%	0.11%	0.06%	0.08%
		12		Installing new skills and improvement	1.76%	2.44%	2.43%	3.68%	2.39%	2.54%
		13	Creating Awareness of Islamic Banking	3.85%	4.68%	5.33%	4.05%	3.95%	4.37%	
C.	Safeguarding the society	5. Posterity	14	Islamic Quantitative Index - Equitable Distribution Ratios	8.24%	6.88%	8.34%	7.18%	6.30%	7.39%
			6. Social entity	15	Redistribution of income & wealth	0.67%	0.62%	0.72%	0.99%	0.00%
		16		Developmental and Social Goals	85.71%	85.71%	80.95%	80.95%	76.19%	81.90%
		17	Social Indicators	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
D.	Safeguarding physical environment	7. Wealth	18	Fair Returns	95.36%	81.04%	75.18%	74.82%	64.59%	78.20%
			19	Capital Adequacy	13.82%	14.57%	10.60%	12.39%	12.66%	12.56%
			20	Asset Quality	2.82%	2.42%	3.52%	4.84%	5.66%	3.85%
			21	Management Quality	73.00%	76.44%	74.97%	73.76%	78.71%	75.38%
			22	Earning Ability	13.65%	13.10%	32.90%	23.22%	24.02%	21.38%
			23	Liquidity	45.68%	46.12%	46.58%	45.91%	45.03%	45.87%
		8. Ecology	24	Environment Indicators	37.50%	25.00%	50.00%	50.00%	12.50%	35.00%
			25	Contribution to Environment	3.14%	0.42%	0.27%	0.01%	0.00%	0.77%

From the *self*-consequence, all the financings are allocated from real sector since no disclosure is mentioned for the financial sector and real estate. In evaluating the *intellect* and *posterity* consequences, BSM discloses all relevant information, allowing to do further analyses even though showing lack of amount attributed for the intellectual development and equitable distributions to stakeholders.

In *social entity*, BSM reaches highest performance amongst other banks with comprehensive disclosure about its commitment to the society, CSR, *zakat* sources and distribution. BSM shows improving performance in *wealth* since it is using lesser PER, complying with the capital requirement regulation from the central bank, operationalising with higher efficiency (compared to the other Indonesian IB), improving its profitability and liquidity. Lastly, in *ecology* consequence although the performance is not satisfying, BSM still discloses the donation amount allocated for ecology, which is rarely found in other banks reports.

Figure 4: Bank Muamalat Indonesia *Maqasid* Performance



From the overall score, BMI scored second rank after BSM. Each consequence performance of BMI is closest but still remains under the BSM's performance. While Figure 4 depicts the performance of BMI, the performance for each dimension is presented in Table 15.

Table 15: *Maqasid al-Shari'ah* Performance Performance of Bank Muamalat Indonesia

No .	Key Objectives	Consequences	No .	Dimension	2012	2011	2010	2009	2008	Average per Dimension
A.	Safeguarding the value of human life	1. Faith	1	Cheap product and services	45.79%	44.12%	47.19%	52.51%	49.29%	47.78%
			2	Elimination of negative elements that breed injustices	99.85%	99.92%	99.88%	99.94%	99.97%	99.91%
			3	Underlying Philoshopy and Values	87.50%	75.00%	75.00%	87.50%	75.00%	80.00%
			4	Interest-free and Islamically Acceptable Deals - Product Aspects	83.33%	83.33%	83.33%	83.33%	50.00%	76.67%
		2. Rights & Stakeholding	5	Interest-free and Islamically Acceptable Deals - Employee Aspects	88.89%	88.89%	88.89%	55.56%	66.67%	77.78%
			6	Corporate Governance Indicator (Fairness and Transparency) - BOD aspects	81.82%	72.73%	63.64%	45.45%	45.45%	61.82%
			7	Corporate Governance Indicator (Fairness and Transparency) - Committees aspects	83.33%	83.33%	66.67%	58.33%	8.33%	60.00%
			8	Corporate Governance Indicator (Fairness and Transparency) - SSB aspects	60.00%	60.00%	60.00%	0.00%	0.00%	36.00%
			9	Corporate Governance	100.00 %	100.00 %	100.00 %	100.00 %	85.71%	97.14%

				Indicator (Fairness and Transparency) - Other aspects						
B.	Safeguarding the Human self	3. Self	10	Investment in vital real sector	96.99%	96.85%	100.00 %	100.00 %	100.00 %	98.77%
			4. Intellect	11	Advancement of Knowledge	0.69%	0.85%	0.74%	0.86%	0.92%
		12		Installing new skills and improvement	1.07%	1.50%	0.80%	1.49%	1.62%	1.29%
		13		Creating Awareness of Islamic Banking	4.19%	4.05%	4.75%	5.17%	6.54%	4.94%
C.	Safeguarding the society	5. Posterity	14	Islamic Quantitative Index Equitable Distribution Ratios	17.64%	26.32%	23.31%	11.09%	13.06%	18.28%
			6. Social entity	15	Redistribution of income & wealth	0.28%	0.21%	0.07%	0.59%	0.78%
		16		Developmental and Social Goals	76.19%	71.43%	61.90%	61.90%	47.62%	63.81%
		17		Social Indicators	100.00 %	100.00 %	100.00 %	100.00 %	75.00%	95.00%
		D.	Safeguarding physical environment	7. Wealth	18	2. D4. Fair Returns	81.11%	75.98%	70.89%	19.84%
19	Capital Adequacy				11.57%	12.01%	13.26%	11.10%	10.81%	11.75%
20	Asset Quality				2.09%	2.60%	4.32%	4.73%	4.33%	3.61%
21	Management Quality				84.47%	85.25%	87.38%	95.50%	78.94%	86.31%
22	Earning Ability				15.35%	11.16%	9.57%	4.24%	17.87%	11.64%
23	Liquidity				47.26%	46.82%	45.91%	47.20%	46.27%	46.69%
		8. Ecology	24	Environment Indicators	50.00%	37.50%	25.00%	0.00%	0.00%	22.50%
			25	Contribution to Environment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

As the first Islamic bank in Indonesia, BMI is inferior to its closest rival, BSM in terms of *maqasid* performance. For the overall disclosure, both banks provide comprehensive disclosure although there is a slight difference and in almost all consequence BMI get lower score than BSM, except in *posterity*.

BMI is the best bank in the sample in implementing the PLS contracts (*mudharabah* and *musharakah*) with an average of 47.78% from the total financing modes. Nevertheless, the amount of *non-halal* income is larger than BSM's. Furthermore, in *faith*, there are lack of disclosure in serving the *Muslim* community, commitment in fulfilling contracts in the statement and both banks disclose the source and distribution of *non-halal* income.

The contributions through financing the real sectors, fund allocating to the intellectual interests are quite similar to BSM, as well as in disclosure of the *social entity*, *wealth* and *ecology* consequences. However, in the *posterity*, since BSM does not distribute dividend to shareholders for the whole research period, BMI is outperforming by constantly distributing dividend (except in 2012). In addition, BMI is financing its customer for booking payment of *hajj* by using *qard hasan*, which impacted in the high performance of *posterity*.

As for the Indonesia's IB sector, since BSM and BMI show the same orientation, the industry performance indicates high performance in disclosing *faith*, *rights and stake holding* and *self* indicators, while demonstrating relative low performance score in *intellect*, *posterity* and *ecological* matters as shown in Figure 5. In addition, the industry maintains equally moderate performance in *social* and *wealth*.

Figure 5: Maqasid Performance of Indonesian Islamic Banks

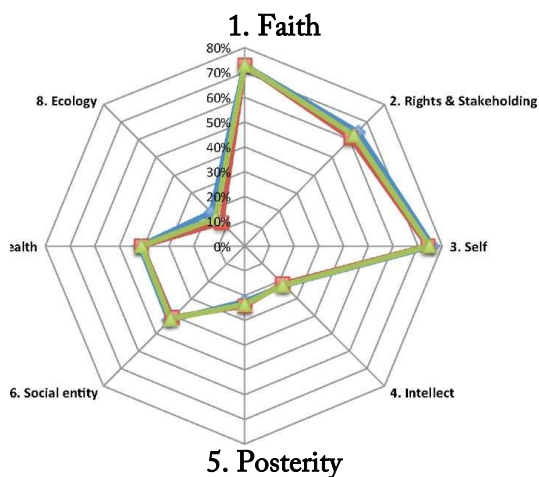


Table 16 presents that the country performance is in between the performance of both Islamic banks performances; as by definition provides the average of these two banks, which constitute the sample for Indonesia.

Table 16: *Maqasid* Performance of Indonesian Islamic Banks

<i>Maqasid al-Shari'ah</i>	BSM	BMI	INDONESIA
1. Faith	72.92%	72.49%	72.71%
2. Rights & Stakeholding	64.91%	61.36%	63.13%
3. Self	76.08%	74.19%	75.14%
4. Intellect	22.67%	21.99%	22.33%
5. Posterity	22.44%	24.42%	23.43%
6. Social entity	42.91%	41.08%	41.99%
7. Wealth	42.10%	41.18%	41.64%
8. Ecology	18.52%	13.07%	15.79%
Overall Performance	59.41%	54.27%	56.83%

There are several characteristics of the Indonesian IB industry that should be mentioned, such as the Central Bank requires IBs to have Board of Commissioners (BOC) apart from BOD (Bank Indonesia, 2009). Therefore, under *rights and stakeholding*, in GCG implementation from BOD aspects, the terms of BOD in the framework includes the BOC and BOD. Furthermore, the Central Bank's requires IBs to disclose the non-*halal* income and its distributions.

In social contribution, both banks collaborating with other institution to distributing its *zakat* and other social donations to the society. Regarding some government regulations, Indonesian IBs only have limited functions as the collector not as the administrator of *zakat* (Indonesian Institute of Accountant, 2003). Both banks calculate *zakat* amounting to 2.5% from the net income. However, there is no statement from SSB to confirm that the calculation is in accordance with *Shari'ah* principles.

3.2.2. The *Maqasid* Performance of Pakistani IBs

The country performance in Figure 6 is similar to Meezan Bank's orientation. The comparison of the Pakistani Islamic banks and country performance is depicted in Table 17.

Figure 6: *Maqasid* Performance of Pakistani IBs

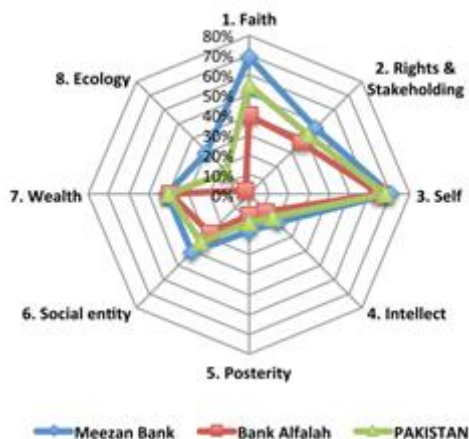


Table 17: *Maqasid* Performance of Pakistani Banks

<i>Maqasid al-Shari'ah</i>	Meezan Bank	Bank Alfalah	PAKISTAN
1. Faith	68.98%	39.92%	54.45%
2. Rights & Stakeholding	47.14%	36.88%	42.01%
3. Self	70.75%	65.22%	67.99%
4. Intellect	20.12%	11.50%	15.81%
5. Posterity	18.45%	10.02%	14.23%
6. Social entity	40.66%	27.32%	33.99%
7. Wealth	40.73%	38.99%	39.86%
8. Ecology	29.86%	2.46%	16.16%
Overall Performance	49.72%	22.19%	34.67%

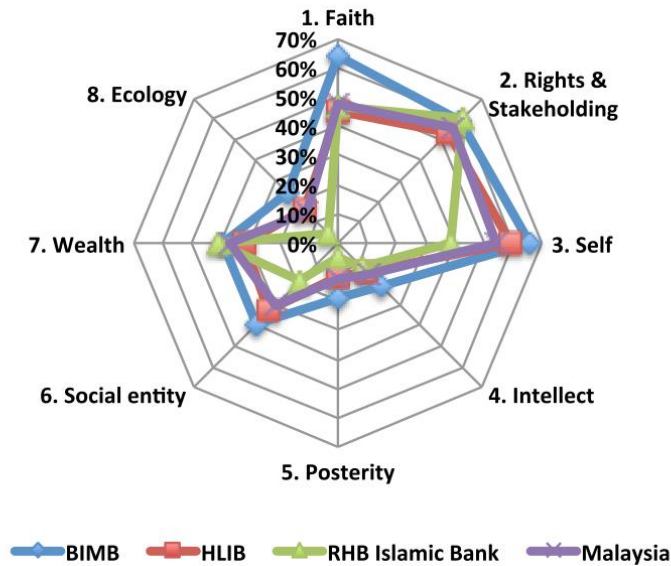
Several characteristic of the Pakistan performance, such as the role of *Shari'ah* Advisor, the implementation of PLS contract, regardless of the lack of GCG disclosure and environmental disclosure; and no *zakat* obligation recognised. If the banks are compared, there is better information in full fledge Bank, namely Meezan Bank, since Bank Alfalah, being an Islamic window, discloses less information about the bank operation based on *Shari'ah* principle and the details in financial results reporting. Eventually, Islamic bank's performance is superior to the Islamic window bank's performance.

In Pakistani performance, it can be concluded that since we assign some prioritisation and consider some *maqasid* to be more important than others, the overall performance will be impacted. The performance of the country in the first few *maqasid* are superior to Malaysian performance, therefore the overall performance is higher for Pakistan compared to Malaysia.

3.2.3. The *Maqasid* Performance of Malaysian IBs

In this section, initially individual Malaysian IB cases are provided before discussing the country performance in relation to *maqasid* performance.

Figure 7: *Maqasid* Performance of Malaysian IBs



According to Figure 7 and Table 18, Malaysian industry is quite similar to Indonesian and Pakistani industries with the orientation in the first three *maqasid*. However, Indonesian and Pakistani IBs put the order on *self* first, followed by *faith* and then *rights and stakeholding*. Since selected Malaysian Islamic banks concerns more on the GCG implementation, for the whole industry performance, the highest performance comes from *rights and stakeholding*, followed by *self* and *faith*. Nevertheless, the concerns for the social function and complying with *Shari'ah* principles have improved in some banks.

Table 18: *Maqasid* Performance of Malaysian IBs

<i>Maqasid al-Shari'ah</i>	BIMB	HLIB	RHB Islamic Bank	Malaysia
1. Faith	64.22%	45.34%	46.53%	47.83%
2. Rights & Stakeholding	59.00%	52.84%	60.37%	55.45%
3. Self	65.78%	59.31%	38.53%	54.54%
4. Intellect	20.41%	14.14%	11.42%	15.16%
5. Posterity	19.04%	11.59%	5.33%	11.99%
6. Social entity	39.22%	33.16%	18.27%	30.26%
7. Wealth	39.12%	32.00%	40.68%	37.27%
8. Ecology	24.39%	16.68%	5.05%	15.37%
Overall Performance	50.21%	32.77%	24.45%	33.53%

The high scores in BIMB are compromised by other banks scores, HLIB and RHB. Apart from the different disclosure approach, the Malaysian IBs have similar characteristics with the lack of PLS contracts. In the implementation of PLS contract, as the results show RHB Islamic Bank is superior to other banks with realisation of *musharakah*, yet, it is still minority.

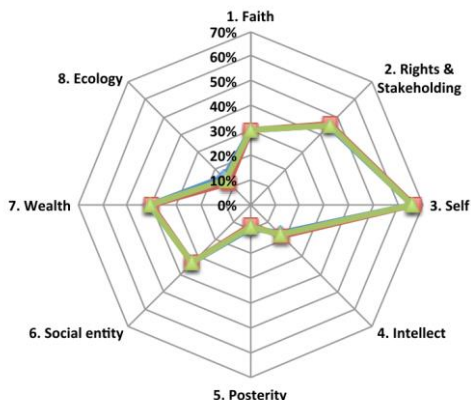
Most of the banks use the net asset method in calculating *zakat*, which differs to the method used by Indonesian Islamic banks. Malaysia is the only country where the SSB has taken the role in approving the *zakat* computation (and distribution for BIMB) as in accordance with *Shari'ah* principles.

3.2.4. The *Maqasid* Performance of Turkish IBs

This section aims to discuss the *maqasid* performance of the Turkish Islamic bank by first detailing the performance of individual banks.

As depicted in Figure 8, the country's performance is similar to the individual IBs performance. Therefore, based on the finding evidence from Figure 8, the orientation of the industry is mainly focus on *self, rights and stakeholding, wealth* and *social entity*. The Turkish banks have SSB roles in their management committees; nevertheless, there are lack of disclosures about their profiles and activities.

Figure 8: *Maqasid* Performance of Turkish IBs



In *wealth*, there is a lack of PER implementation which impact to provide justice to depositors and compliance to the *Shah 'ah* principles. Furthermore, in this consequence, the high amount of operating expenses contribute to the performance, however, this should be interpreted as low degree of operational efficiency. Banks perform well in *social entity*, as they contribute throughout their CSR, yet, the industry does not recognise the *zakat* obligation and distribution.

As can be seen in Table 19, the least *maqasid* performance of Turkish IB sector is in *posterity* due to small contribution of *qard* and donation, employee expenses, dividends and net profit compared to the banks income minus the tax and *zakat* obligation.

Table 19: *Maqasid* Scores of Turkish IBs

<i>Maqasid al-Shari'ah</i>	Albaraka Türk	Bank Asya	TURKEY
1. Faith	29.90%	29.97%	29.94%
2. Rights & Stakeholding	45.22%	45.93%	45.57%
3. Self	65.81%	66.19%	66.00%
4. Intellect	16.76%	18.03%	17.39%
5. Posterity	9.45%	8.65%	9.05%
6. Social entity	33.47%	33.38%	33.42%
7. Wealth	41.07%	40.15%	40.61%
8. Ecology	15.31%	11.97%	13.64%
Overall Performance	29.58%	29.11%	29.34%

3.2.5. The *Maqasid* Performance of Qatari IBs

This section first presents the *maqasid* performance of Qatari Islamic banks, which will be followed by the overall performance of the country.

As depicted in Figure 9, Qatari Islamic banking industry is characterised by high performance in the most three important of *maqasid* (e.g. *faith*, *rights and stakeholding* and *self*); followed by *wealth* and *social entity*.

Figure 9: *Maqasid* Performance of Qatari IBs

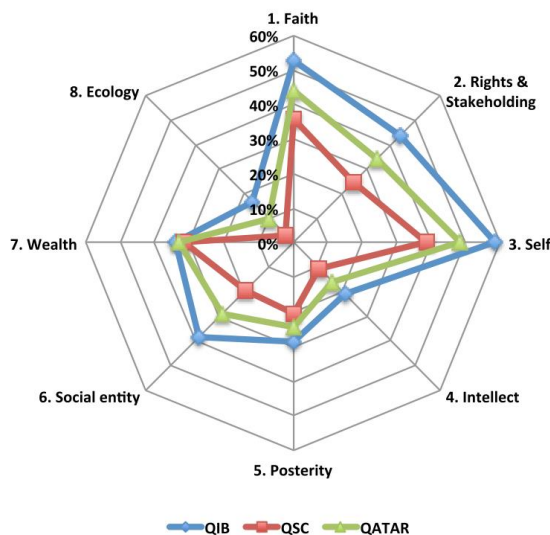


Table 20: *Maqasid* Scores of Qatari IBs

Maqasid al-Shari'ah	QIB	QSC	QATAR
1. Faith	52.72%	35.63%	44.18%
2. Rights & Stakeholding	44.03%	24.89%	34.46%
3. Self	58.41%	38.54%	48.47%
4. Intellect	21.07%	10.23%	15.65%
5. Posterity	28.32%	20.40%	24.36%
6. Social entity	38.08%	19.65%	28.87%
7. Wealth	34.10%	31.34%	32.72%
8. Ecology	16.84%	2.82%	9.83%
Overall Performance	37.33%	12.92%	23.82%

The performance of the industry is lies between both banks; however, the rank order is similar to QSC's, as described in Table 20.

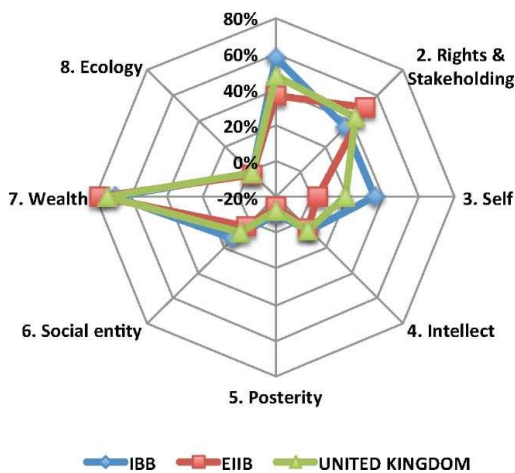
Qatar is characterised with few implementation of PLS financing modes; lack of GCG, intellectual and ecological indicator disclosures; but high performance in *wealth* and income allocated for the shareholders and banks its self. Individually, QSC mainly allocates their financing to the consumer and housing sectors, QIB puts real estate as their primary sector to be financed. However, the real sector financing remains dominantly above 50%.

3.2.6. The *Maqasid* Performance of the UK IBs

This section presents the analysis results for the sampled UK IBs initially and then the industry in general.

According to Figure 10 and the discussion in the previous sections, the high percentage in *wealth* of this country, performance should not be interpreted as good performance, since Islamic banks have struggled with their efficiency and profitability problems. The operational loss resulted in the negative performance in *posterity*. The country performance is illustrated in Figure 19.

Figure 10. United Kingdom *Maqasid* Performance



The detail performance of the Islamic banks and country is provided in Table 21.

Table 21: *Maqasid* Scores of the UK Islamic Banks

Maqasid al-Shari'ah	IBB	EIIB	UNITED KINGDOM
1. Faith	57.72%	36.77%	47.25%
2. Rights & Stakeholding	35.63%	51.23%	43.43%
3. Self	35.50%	3.54%	19.52%
4. Intellect	6.68%	5.06%	5.87%
5. Posterity	-9.80%	-14.48%	-12.14%
6. Social entity	12.88%	3.21%	8.05%
7. Wealth	69.24%	78.20%	73.72%
8. Ecology	-1.36%	-2.00%	-1.68%
Overall Performance	14.45%	7.01%	11.44%

As the results indicates, the industry achieves good performance in *faith* since IBB and EIIB commit to comply with the *Shari'ah* principles; and there is a role and report from SSB. Nevertheless, the industry mainly focuses on financing the financial sectors as shown in lowest performance of *self* or investment in real sectors. It should be noted that there is more exposure to comply with GCG principles while no attention is given to *environmental* consequence.

3.3. Measuring IB Industry *Maqasid* Performance

As depicted in Figure 11, the industry performance, which is derived from the average estimates of the selected Islamic banks, achieves high performance in first three most important *maqasid*. Furthermore, according to Table 22, all of the countries have different priority (orientation), however, most of the countries (except Turkey and UK) consider *faith, rights and stakeholding,* and *self* as the most important consequences.

Figure 11: IB Industry *Maqasid* Performance

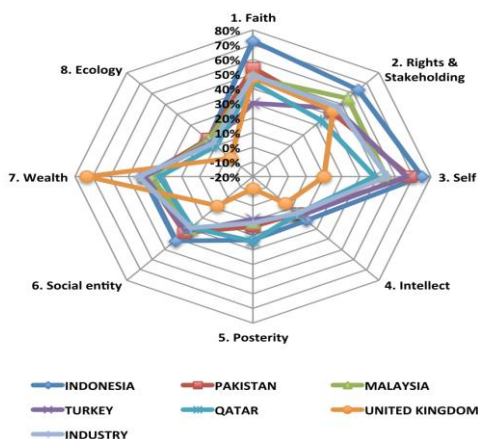


Table 22: Islamic Banking Industry *Maqasid* Performance

<i>Maqasid al-Shari'ah</i>	INDONESIA		PAKISTAN		MALAYSIA		TURKEY		QATAR		UNITED KINGDOM		INDUSTRY	
	Scores	Rank Order*	Scores	Rank Order*	Scores	Rank Order*	Scores	Rank Order*	Scores	Rank Order*	Scores	Rank Order*	Scores	Rank Order*
1. Faith	72.71%	2	54.45%	2	47.83%	3	29.94%	5	44.18%	2	47.25%	2	49.39%	2
2. Rights & Stakeholding	63.13%	3	42.01%	3	55.45%	1	45.57%	2	34.46%	3	43.43%	3	47.34%	3
3. Self	75.14%	1	67.99%	1	54.54%	2	66.00%	1	48.47%	1	19.52%	4	55.28%	1
4. Intellect	22.33%	7	15.81%	7	15.16%	7	17.39%	6	15.65%	7	5.87%	6	15.37%	6
5. Posterity	23.43%	6	14.23%	8	11.99%	8	9.05%	8	24.36%	6	-12.14%	8	11.82%	7
6. Social entity	41.99%	4	33.99%	5	30.26%	5	33.42%	4	28.87%	5	8.05%	5	29.43%	5
7. Wealth	41.64%	5	39.86%	4	37.27%	4	40.61%	3	32.72%	4	73.72%	1	44.30%	4
8. Ecology	15.79%	8	16.16%	6	15.37%	6	13.64%	7	9.83%	8	-1.68%	7	11.52%	8
Overall Performance	56.8%		34.6%		33.5		29.34%		23.8%		11.44%		30.8%	

* Rank Order is determined by the performance for each Maqasid. 1 is given for the highest performance while 8 means the least performance.

As can be seen in Table 22 and Figure 11, *self* is considered to be the orientation of the industry and most of the countries, followed by *faith* and *rights and stakeholding*; which means there are some orientation to provide the investment to the real economic sectors. Meanwhile, UK, providing the least investment to this sector, attains the highest performance in *wealth*. However, it should not be interpreted literally as the good performance, since the Islamic banks still have problems with efficiency and profitability.

Table 23: Correlation Coefficients Matrix

Sample size: 5 (years)	Critical value (5%): 3.18245		Method:		Pearson Correlation Coefficient				
	1. Faith	2. Rights & Stakeholding	3. Self	4. Intellect	5. Posterity	6. Social entity	7. Wealth	8. Ecology	Global Performance
1. Faith	1.0000	0.9084	0.9432	0.8218	0.2170	0.9660	0.5849	0.8514	0.9324
2. Rights & Stakeholding	0.9084	1.0000	0.8208	0.9756	0.5966	0.9575	0.2116	0.9704	0.9905
3. Self	0.9432	0.8208	1.0000	0.7667	0.1258	0.9433	0.7043	0.8057	0.8792
4. Intellect	0.8218	0.9756	0.7667	1.0000	0.6839	0.9254	0.0930	0.9925	0.9720
5. Posterity	0.2170	0.5966	0.1258	0.6839	1.0000	0.3771	-0.5981	0.5991	0.5178
6. Social entity	0.9660	0.9575	0.9433	0.9254	0.3771	1.0000	0.4586	0.9489	0.9859
7. Wealth	0.5849	0.2116	0.7043	0.0930	-0.5981	0.4586	1.0000	0.1716	0.3068
8. Ecology	0.8514	0.9704	0.8057	0.9925	0.5991	0.9489	0.1716	1.0000	0.9804
Overall Performance	0.9324	0.9905	0.8792	0.9720	0.5178	0.9859	0.3068	0.9804	1.0000

Furthermore, with the intention of providing further substantiation, the Pearson correlation coefficient amongst the consequences and the global performance is provided in Table 23. The evaluation is based on the industry performance through the sampled banks within the research period. All of the consequences have positive correlations with the global performance; which means the higher performance in each of the consequences will result in positive impact for the overall performance. The highest correlation between the consequence and overall performance is found in *rights and stakeholding*, which indicates nearly positive perfect correlation for the global performance; followed by *social entity*. It should be noted that the *ecology* has high correlation in the third rank, despite the unimpressive performance of Islamic banks in this consequence. *Faith* and *self*, which are considered to be the most orientation of the industry, have less correlation than *ecology* in the overall performance. The least correlation to the global performance is found on *wealth*.

According to the findings, there are high correlations amongst *faith*, *rights and stakeholding*, *self*, *social entity*, and *ecology*. However, in assessing

the *maqasid* performance of the sampled Islamic banks, the only negative correlation is established between *wealth* and *posterity*.

3.4. Estimating the Industry Orientation

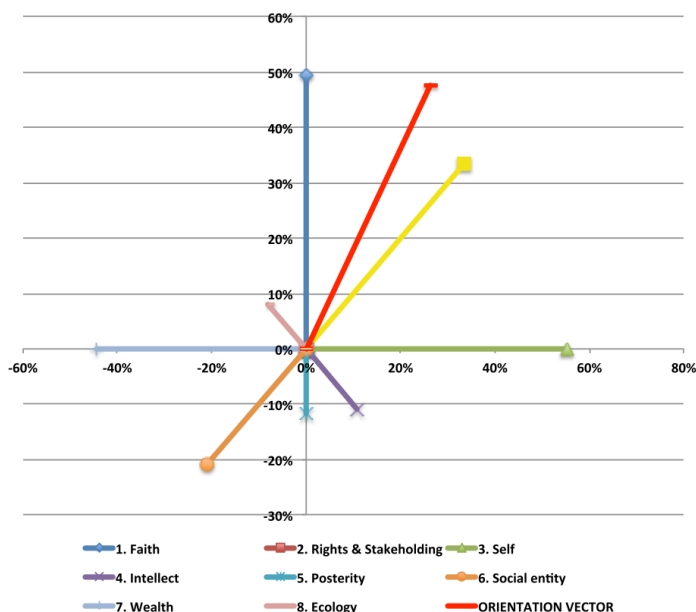
To identify the industry orientation, Bedoui (2012) proposes sum vector of all the objectives, which can be measured through adding the individual's vector to estimate the resultant (Lipschutz *et al.*, 2009). Therefore, in this study the consequences are considered to be vectors, whilst the industry orientation is the resultant. In order to obtain the magnitude and angle of the resultant, the trigonometry and Pythagoras concepts are utilised. The estimates are depicted in Table 24.

Table 24: Sum Vector Calculation

<i>Maqasid al-Sharia</i> Consequences	INDUSTRY PERFORMANCE	Angle from X or Y Coordinates	X COMPONENT	Y COMPONENT
1. Faith	49.39%	90	0.00%	49.39%
2. Rights & Stakeholding	47.34%	45	33.48%	33.48%
3. Self	55.28%	0	55.28%	0.00%
4. Intellect	15.37%	45	10.87%	-10.87%
5. Posterity	11.82%	90	0.00%	-11.82%
6. Social entity	29.43%	45	-20.81%	-20.81%
7. Wealth	44.30%	0	-44.30%	0.00%
8. Ecology	11.52%	45	-8.15%	8.15%
Overall Performance	30.82%	Sum Vector	26.36%	47.52%
		Resultant	$Z^2 = X^2 + Y^2$	54.34%
		Angle	$\tan^{-1} (y/x)$	60.98

As can be seen in Table 24, for each consequence vector, the components of x and y coordinates are determined to obtain the coordinates for sum vector. Furthermore, after X and Y coordinates for the sum vector are defined; the resultant is, then, calculated based on the Pythagoras formulas, whilst the direction is the inverse tangent of Y over X. The results for all of the vectors are illustrated in Figure 12.

Figure 12: IB Industry *Maqasid* Performance Orientation



According to the Figure 12, the industry orientation is between *faith* and *rights and stakeholding*. In *faith* consequence, the highest performance is given to interest free income dimension and the lowest is the utilisation of PLS contracts. As the results indicate, some Islamic banks disclose the management of non-*halal* income in the charity report or as reported by SSB in the annual reports. Furthermore, moderate performance is given to the disclosure of commitments to comply with *Shari'ah* principles.

Most of the banks consider *rights and stakeholding* important, while achieving moderate performance in this consequence. Despite this achievement, there is a lack of disclosure of SSB in all of their annual reports.

Eventually, despite its high performance in the first three consequences; all of the countries except Indonesia reached higher performance in *wealth* rather than *social entity*.

Conclusion

This study attempts at measuring the social performance of IBF industry according to *maqasid al-Shari'ah* framework. In doing so, an evaluation framework is developed as to capture the achievement in realising IME aspirations, which provides the foundational rationale for the existence of IBF. The framework is constructed based on some empirical studies in assessing

Islamic bank performance. The analysis is conducted in three levels: banks level, country level and industry level performance.

Conceptualising Najjar's view of *maqasidal-Shari'ah*, 8 corollaries were developed; which are articulated through 25 dimensions, 32 elements and 112 indicators. For this, 13 banks from 6 countries are evaluated within 5-years period. Some filter characteristics of Islamic values and norms are included in the framework; namely the *riba* prohibition, utilisation of PLS contracts, financing the real sector and the society orientation (Asutay, 2012).

The highest score is performed by Indonesian bank (BSM) with 59.41% out of 282.84%; whilst the least score of 7.01% is given to EIIB. Meanwhile, for the country performance, Indonesia is leading with 56.83%, followed by Pakistan, Malaysia, Turkey, Qatar and United Kingdom. The overall performance is unimpressive, with lack of achievements in social and environmental responsibilities.

The industry performance, however, puts the first three most important *Maqasid* in Najjar's approach as the most orientation, namely *self*, *faith*, and *rights and stakeholding*; followed by *wealth* and *social entity*. The industry puts small contributions in *intellect* and *posterity*; whilst performing on the *ecology* front in the last place. Nevertheless, each of the banks has different orientations but most of them put *self*, *faith* and *rights and stakeholding* as the main *Maqasid*. The findings also led to the conclusion of the industry orientation, which is between *faith* and *rights and stakeholding*.

Self or the orientation to provide financing for the real sectors is scored high. However, while some banks are focusing on the sector, there are others to serve the financial sectors, mainly investing in the real estate, such as Qatari (QIB and QSC) and UK (IBB and EIIB) banks.

In *faith*, there is lack implementation of PLS contracts, except in Indonesia. Interestingly, some of the banks mainly use these contracts to finance the real estate sectors such as Turkish, Qatari and UK banks. These findings provide evidence for the tendency in using debt financing over asset based financing, moreover the implementation of PLS to finance the non-real sectors. According to the disclosures, there is small amount of non-*halal* income, which is provided in the charity reports or as stated by the SSB in their report.

In the next orientation, *rights and stakeholding*, there is an improving of GCG implementation. Nevertheless, there are some banks that still have problems to comply with GCG principles. In addition, the study finds that

there is lack of disclosures in their distinct identity such as the information about SSB, its activities and responsibilities.

The industry accomplishes lower performance in *social entity* than in *wealth*. Despite their ethical identity, some banks do not contribute in social development. There is also lack of recognition and disclosure in *zakat* and its distribution. In *wealth*, some banks still have problem with efficiency and profitability. According to the findings, a number of recommendations are provided in the next section as a result of analysing *wealth* consequence.

Furthermore, there is also lack of contributions in improving *intellectuals* throughout education grant, research, training and publicity; as well in *posterity*, in relation of distributing income to stakeholders. Regarding *ecology*, there is lack of awareness of the banks obligations to contribute in environment.

Eventually, data finding provides evidence for positive correlations between the consequences to the global performance; the highest is for *rights and stakeholding*, while the lowest comes from *wealth*. Nevertheless, the positive correlations are also found amongst the consequence, except between *wealth* and *posterity*. In response to the changes in consequence, there will be strong positive changes in global performance and other consequences; except between *wealth* and *posterity correlation*, where the changes in *wealth* will change the average performance of *posterity* negatively and vice versa.

Indeed, this study is not immune of some shortcomings. For example, in evaluating the framework, the study is initiated by the assumptions of (ideal) balanced performance in all consequences according to Bedoui (2012). In addition, all of the indicators within one dimension are equally weighted; while the weights assigned for interrelated consequence are deliberated according to the literature review. Nevertheless, the future research may implement different weight approach and assignment of priorities according to the assumptions, as Bedoui (2012) also stated that the individual bank might even have different orientations.

While it is believed that the use of financial ratios could represent in true value of some dimensions, some issues were raised within the implementation in *wealth*. Therefore, Bedoui (2012) use rating for each of the objectives to score the performance. The rating score could be implemented for analysing *wealth* indicators; however, appropriate benchmark should be decided in order to give fair score according to the achievement.

Finally, the data availability issues are also found in finding the secondary data due to sample selection. Furthermore, QSC only publishes

financial statements instead of annual reports for the year 2008, which gives impact in lower score for GCG and social contributions disclosures. Due to data availability, the Islamic window bank of Pakistan, Bank Alfalah is selected. Nevertheless, for some indicators as they are not presented in unit data, the group data are utilised in evaluating some indicators. For example, some group data are selected since the bank does not disclose unit data; *e.g.* dividend, which represents the responsibility to the shareholder as the institution; and the capital risk-weighted asset information, as the accountability of institution risk management to the central bank.

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