

The Effect of Corporate Governance to Islamic Banking Performance Using Maqasid Index Approach in Indonesia

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Abstract : The practices of Islamic banking are more attuned to the goals of profit maximization rather than obtaining ethical profit. Ethical profit is obtained from interest-free earnings and to give an impact which benefits to the growth of society and economy. Good corporate governance practices are needed to assure the sustainability of Islamic banks in order to achieve Maqasid Shariah with the main purpose of boosting the well-being of people. The Maqasid Shariah performance measurement is used to measure the duties and responsibilities expected to be performed by Islamic banks. It covers not only unification dimension like financial measurement, but also many dimensions covered to reflect the main purpose of Islamic banks. The implementation of good corporate governance is essential because it covers the interests of the stakeholders and facilitates effective monitoring to encourage Islamic banks to utilize resources more efficiently in order to achieve the Maqasid Shariah. This study aims to provide the empirical evidence on the Maqasid performance of Islamic banks in relation to the Maqasid performance evaluation model, to examine the influence of SSB characteristics and board structures to Islamic Banks performance as measured by Maqasid performance evaluation model. By employing the simple additive weighting method, Maqasid index for all the Islamic Banks in Indonesia within 2012 to 2016 ranged from above 11% to 28%. The Maqasid Syariah performance index where results reached above 20% are obtained by Islamic Banks such as Bank Muamalat Indonesia, Bank Panin Syariah, and Bank BRI Syariah. The consistent achievement above 23% is achieved by BMI. Other Islamic Banks such as Bank Victoria Syariah, Bank Jabar Banten Syariah, Bank BNI Syariah, Bank Mega Syariah, BCA Syariah, and Maybank Syariah Indonesia shows a fluctuating value of the Maqasid performance index every year. The impact of SSB characteristics and board structures are tested using random-effects generalized least square. The findings indicate that SSB characteristics (Shariah Supervisory Board size, Shariah Supervisory Board cross membership, Shariah Supervisory Board Education, and Shariah Supervisory Board reputation) and board structures (Board size and Board independence) have an essential role in improving the performance of Islamic Banks. The findings denote Shariah Supervisory Board with smaller size, higher portion of Shariah Supervisory Board cross membership; lesser Shariah Supervisory Board holds doctorate degree, lesser reputable scholar, more members on board of directors, and less independence non-executive directors will enhance the performance of Islamic Banks.

Keywords : Maqasid Shariah, corporate governance, Islamic banks, Shariah supervisory board

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