

IS IT FAIR TO ASSESS THE PERFORMANCE OF ISLAMIC BANKS BASED ON THE CONVENTIONAL BANK PLATFORM?

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Abstract

Several studies found the weakness of using conventional performance measurement tools such as CAMELS and RGEC in Islamic banking and the lack of performance measurement tools following the characteristics of Islamic banks. This is the solid reason to have a performance measurement system that integrates the objectives of sharia and the business objectives of sharia banking. This study explores the application of maqāṣid al-sharī'ah values in Islamic banking and initiated a Sharia Integrated Performance Measurement (SIPM) structure. This is a library research. The primary data were collected through in-depth interviews with practitioners, experts, and academics of Islamic banking, while secondary data was taken from the literature and previous research that discussed the measurement of Islamic banking performance. The data were analyzed through several stages: data reduction, data display, and concluding with the help of the Atlas.ti application version 8. This study wants to contribute to the idea of building a Sharia Integrated Performance Measurement (SIPM) platform through three components: Islamic commercial performance, Islamic social performance, and Islamic macroeconomics performance in Islamic banking.

Banyaknya penelitian menemukan kelemahan penggunaan alat ukur kinerja konvensional seperti CAMELS dan RGEC pada perbankan syariah serta kurangnya perangkat pengukuran kinerja yang sesuai dengan karakteristik Bank Syariah. Hal ini menjadi alasan perlunya suatu sistem pengukuran kinerja yang terintegrasi antara tujuan syariah dan tujuan bisnis perbankan syariah. Penelitian ini berusaha mengeksplorasi penerapan nilai-nilai maqâsid al-shari'ah pada perbankan syariah dan menggagas struktur Sharia Integrated Performance Measurement (SIPM). Studi ini termasuk dalam library research. Data dikumpulkan dari wawancara mendalam pada praktisi, pakar, akademisi perbankan syariah dan data sekunder dari literatur-literatur dan riset terdahulu yang membahas pengukuran kinerja perbankan Syariah. Data dianalisis melalui tahapan reduksi, tampilan data dan penarikan kesimpulan dengan bantuan aplikasi Atlas.ti versi 8. Penelitian ini berkontribusi pada gagasan membangun platform Sharia Integrated Performance Measurement (SIPM) melalui komponen kinerja komersial Islam, komponen kinerja sosial Islam dan komponen kinerja makro ekonomi Islam pada perbankan syariah.

Keywords: CAMELS; conventional bank platforms; Islamic bank performance; RGEC; SIPM

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Introduction

Globalization, intense competition, and the financial industry's growth have led to dynamic changes in the organizational environment leading to high demand for accounting information systems, especially a more comprehensive organizational performance measurement system, including in Islamic banking. However, measuring the performance of Islamic banks has been a debate for more than a decade (Rosmanidar, Hadi, and Ahsan 2021).

Research on the use of traditional performance platforms in Islamic Banking (IB) has resulted in claims that IB has lower performance than conventional banking (CB) (Hazman et al. 2018; Mohammed, Razak, and Taib 2008). This low performance is because, among others, IB implements Islamic law as its theoretical and operational basis and offers products different from what CB does (Hazman et al. 2018; Khan et al. 2017; Rafiq and Rafiq 2016; Soediro and Meutia 2018). The conventional performance

platforms are indeed very good at assessing financial performance, but measuring the performance of IB is not as simple as measuring that of public financial institutions, especially in terms of sharia aspects (Mohammed and Taib 2015). Using conventional benchmarks on IB causes opportunistic behavior by management in creating profits, being indifferent to social and environmental aspects (Frag, Mallin, and Ow-Yong 2018; Niswatin 2017; Sofyani, Ulum, and Syam 2012).

The difference in philosophy, theory, product, and objectives of IB and CB is also a logical reason that measuring their performance should not use the same way. IB performance measurement must consider sharia foundation and vision. Islamic banking, being profit-oriented, is also carrying out Islamic social and macroeconomic goals under sharia ethics (Bedoui & Mansour 2015; Hudaefi & Noordin 2019; Triyuwono 2011) and Islamic economic morals (Asutay and Harningtyas 2015), in favor of equity and distribution of welfare (Dusuki 2008; Khan et al. 2017; Yuliana 2013), and trying to improve the quality of life of the people and maintain national economic and monetary stability (Sudarsono 2018).

In Indonesia, the Financial Services Authority Regulation (POJK) No. 8/POJK.03/2014 regulates the method of measuring IB performance, including the levels of risk, good corporate governance, earnings, and capital (RGEC). This is developed based on the CAMELS method, which assesses the risk level based on Basel II regulations. Like CAMELS, RGEC also works in CB before finally being applicable to measure IB performance. The indicators on the two measuring instruments comprise financial aspects (75%) and management aspects (25%) (Bastan, Mazraeh, and Ahmadvand 2016), which actually support financial aspects (Triyuwono 2011). Another drawback is that the measurement instrument does not accommodate IB social performance, such as CSR, as a factor in assessing its contribution and alignment to the community and the environment.

Previous researchers have developed IB performance measurement methods. Resulting in ANGELS (Amanah management, Non-economic wealth, Give out, Earning, capital, and assets, Liquidity, and Sensitivity to market) (Triyuwono, 2011); Pentagon-shape Ethical Measurement of Performance (Bedoui & Mansour, 2015); *Maqâsîd* based Performance Evaluation Model (MPEM) (Asutay and Harningtyas 2015); Performance Measures based on *maqâsîd al-sharî'ah* (PMMS) (Mohammed and Taib 2015), and Integrated *maqâsîd al-sharî'ah* Index Performance Measurement (IMSPM) (Hudaefi and Noordin 2019). However, there are still some

limitations to these measuring tools, such as being partial for each indicator (Ascarya 2014), being merely a concept that does not yet have measurement indicators (Oktaviansyah, Roziq, and Sulistiyo 2018), limited to profitability and sharia compliance (Prasetyowati and Handoko 2019), and not accommodating all IB objectives (Aisjah and Hadianto 2013).

From those limitations, this paper offers a holistic performance measurement platform for Islamic banking called Shariah Integrated Performance Measurement (SIPM). The dimensions and indicators in it are simultaneous, built from reflection and interplay between the pillars of *maqâṣid al-sharī'ah*, and accommodating the objectives of establishing an Islamic bank based on Law no. 21 of 2008, namely commercial, Islamic socio-economic, and Islamic macro-economic goals.

The SIPM compiled is expected to be a standard in evaluating IB performance used by the Financial Services Authority (OJK) regulator, IB management, and external parties interested in IB performance developments that are very in line with *maqâṣid al-sharī'ah*. In addition, this research is also supposed to provide input for the Indonesian Institute of Accountants (IAI) in preparing the elements of the Principles of Financial Accounting Standards (PSAK) for Islamic banking financial reporting.

Methods

This qualitative study used a library research approach based on Sekaran and Bougie's research design (2013). The library research approach was used to provide a basic code and categorization in determining the dimensions and elements of the SIPM system at an early stage. It refers to the literature related to the measurement of Islamic banking based on sharia ethics and *maqâṣid al-sharī'ah* (Asutay and Harningtyas 2015; Haniffa and Hudaib 2007; Mohamed 2010; Mohammed and Taib 2015) and the vision of Islamic development based on *maqâṣid al-sharī'ah* (Chapra, Khan, and Al-Shaikh-Ali 2008). Informants' views and understanding of *maqâṣid al-sharī'ah* values applied to IB were explored through in-depth interviews to develop codes and categorization inductively (Sekaran and Bougie 2013). The initial codes and categories derived from the extraction of the previous literature were developed and refined during the research process with new codes and categories that emerged inductively from the interviews so that the dimensions and elements of IB performance measurement were formed based on *maqâṣid al-sharī'ah*. The final stage of this research was the

preparation of dimensions, elements, and indicators of SIPM which are measurable based on three objectives of Islamic banking, namely commercial, Islamic social, and Islamic macroeconomics using the concept of operationalizing behaviors proposed by Sekaran and Bougie (Sekaran and Bougie 2013, 200).

Eight informants (presented in Table 1) were involved in this study, comprising experts and practitioners of Islamic banking in Indonesia at central and regional levels. Interviews were conducted for four months, from April to July 2021, while library research to compile the initial construction of this research had been carried out since October 2020. The interviews were conducted 2-4 times, with an average length of 45 minutes.

Table 1
List of Informants

No	Informant	Background/Institution	Method
1	MD	Islamic Banking and Finance Expert; member of the Sharia Supervisory Board at several Islamic banks, commissioner of Islamic Bank XX.	In-depth interview via WhatsApp
2	AT	Expert in Islamic jurisprudence and fiqh, chairman of MUI, chairman of the provincial ulema fatwa commission	In-depth interview
3	AM	Sharia Economics Expert, member of the Sharia Supervisory Board at Islamic Bank XY	In-depth interview
4	LA	Islamic Economics and Finance Academic, member of the Sharia Supervisory Board at Islamic Bank YZ	In-depth interview
5	LP	Vice President Overseas Branch of Islamic Bank XZ	In-depth interview through Zoom
6	ES	Branch Manager of IB XZ	In-depth interview
7	FS	Branch Manager UUS of IB YZ	In-depth interview
8	AI	Branch Manager of IB XYZ	In-depth interview

We analyzed the primary data with the help of Atlas.ti software version 8 in three steps. The first was data reduction, including selection, coding, and categorization, to form a concept (Sekaran and Bougie 2013). The development of codes and categories inductively and deductively is from interviews data and previous literature. There are three steps involved in data reduction, namely open coding, axial coding, and selective coding. The second stage was displaying data in the form of a chart. Finally, the third one was concluding.

The validity of the data was done by reconfirming the results of interviews submitted by informants in the interview session. The use of Atlas.ti version 8 strengthened the validity and reliability of the data because each code formed would be directly connected to the primary source from interview transcripts and referenced literature. The application could also clearly present the connection that occurred between the code. These steps follow the data triangulation procedure in testing the validity of qualitative research (Sekaran and Bougie 2013, 341; Sugiyono 2019).

Discussion

IB performance holistic measurement is an integration between sharia values, which are the ideological basis of management, and the purpose of IB establishment based on the law. Sharia values are described based on the five pillars of maintaining the *maqâşid al-sharî'ah* concept proposed by al-Ghazâlî. The pillars namely preserving religion (*ḥifẓ al-dîn*), preserving life (*ḥifẓ al-nafs*), preserving intellect (*ḥifẓ al-'aql*), preserving lineage (*ḥifẓ al-nasl*) and preserving property (*ḥifẓ al-mâl*). The purpose of establishing an IB-as stated in the Law on Islamic Banking Number 21 issued in 2008- is to carry out Islamic commercial activities. The purpose namely collecting and distributing public funds based on sharia principles; Islamic social finance activities in the form of *bait al-mâl* relating to the receipt and distribution of zakat, *infâq*, *sadaqah*, grants, *waqf*, and other social funds, and; supporting the achievement of Islamic macroeconomic goals, namely national development, improvement of justice, togetherness, and fair distribution of people's welfare.

In building the conceptual framework for preparing SIPM, this research explored the informants' understanding of *maqâşid al-sharî'ah*, its application to IB, and indicators of the achievement of *maqâşid al-sharî'ah*. Table 2 shows the informants' statements on understanding and achieving the value of *maqâşid al-sharî'ah* on IB and the coding process in the open coding stage.

Table 2
The Open Coding Process

Statement Quote	Code
"Caring for the poor, BPD provides free food or [every Friday alms]. This proves that the level of community behavior has led to the fulfillment of <i>maqâşid al-sharî'ah</i> ".	• Every Friday alms

“Explicitly, <i>maqâsîd al-sharî‘ah</i> is not listed, but our company draws it from the core value, [the noble values applied by the company]. In our terms, we say [corporate culture]”.	<ul style="list-style-type: none"> • Noble values applied by the company • Company culture
“However, it’s not just the five (things preserved). Of course, each bank has a different concept. The bottom line is the same: the truth. It could be [common sense is human values] all of those five. But, explicitly, we never judge it. We only take the core value, namely [vision and mission, or closer to the mission].”	<ul style="list-style-type: none"> • Human values • Company culture • Company vision and mission
“[The Zakat of the company and its employees] is a lot. We manage all of that. The major company's hope is [one year there should be a mosque built].”	<ul style="list-style-type: none"> • Zakat and waqf for worship infrastructure
“Derivatives of halal products, such as financing [projects that do not harm human interests]. SSB was invited to give opinions on major projects to be financed by the bank: [creating job opportunities], [encouraging the development of micro and small businesses].”	<ul style="list-style-type: none"> • Eco-friendly project • Opening new job opportunities • Encouraging Micro and Small Enterprises
‘Social friends, we have a sharing menu on mobile banking, there are [<i>infâq</i> programs, <i>duafâ</i> programs], [collaboration with kitabisa.com, ACT]. We want [to build that social awareness]. So, the tagline is [to give alms every day]’	<ul style="list-style-type: none"> • <i>Infâq</i> program • <i>Duafâ</i> program • Cooperation with social organizations • Environmental responsibility

The first row of Table 2 shows that the sentence enclosed in square brackets [...] was an idea that showed concern for the surrounding community. For example, giving doles every Friday to fulfill *maqâsîd al-sharî‘ah*, so the phrase ‘to give alms every Friday’ becomes one of the open coding units, like the formation of subsequent codes.

At the axial coding stage, determining the semantic relationship between codes is done by uniting codes that have similar meanings and goals (Sekaran and Bougie 2013; Strauss and Corbin 1994). Code labels for ‘sharia compliance guidelines,’ ‘company rules based on sharia principles,’ and ‘sharia compliance audits’ are codes combined and categorized as ‘governance.’ The merging of these three subcategories was based on the same goal, namely ‘governance’ based on POJK No. 55/ POJK.03/2016 in chapter V, which states that banks are required to ensure compliance with the laws and regulations of the Financial Services Authority and other laws and regulations (article 52), by establishing a compliance work unit and must prepare compliance guidelines, systems, and procedures (Article 53),

as well as implementing the internal audit function (Article 54) and the external audit function (Article 55). In this study, the category labels will be the SIPM dimensions. The axial coding process can be seen in Table 3.

Table 3
Categorization Process in the Axial Coding Stage

Code	Category
Sharia compliance guidelines	Governance
Company rules based on sharia principles	
Sharia compliance audit	
To give alms every Friday	Ziswaf
Zakat and waqf for worship infrastructure	
<i>Infâq</i> Program	
<i>Ḍuafâ</i> Program	
Cooperation with social organizations	Environmental responsibility
Eco-friendly project	
Environmental responsibility	
Noble values applied to the company	Company culture
Human values	
Company culture	
Vision and mission of the company	
Open new job opportunities	MSME Financing
Encouraging micro and small businesses	

Exploration of informants' understanding of *maqâṣid al-sharî'ah* values in IB in this study resulted in 118 code units with 30 categories, namely: education, governance, communication, ziswaf (zakat, *infâq*, *sadaqah*, and waqf), Islamic environment, employee benefits, environmental responsibility, MSME financing, occupational health and safety, education and training, integrity, awards for creative work, information technology, research and innovation, socialization, life balance, benevolent fund (*qarḍ*), justice, company culture, business assets, increase in wealth, wealth management, third-party funds, short-term partnerships, long-term partnership, self-owned wealth, business profits, business growth, efficiency, capital gains, and excellent service. Most of the codes, categories, and core categories in this study can be seen in Table 4 (Appendix).

After indicating the understanding of *maqâṣid al-sharî'ah* values and their application to IB, there were several aspects of reflection of *maqâṣid al-sharî'ah* values shown in several pillars of preservation. Such as in the governance category (dimension), which reflected the preservation of

religion and the preservation of lineage. These findings followed the research performed by Bedoui and Mansour (2015) and Bedoui (2012) that found that several dimensions of performance measurement fulfill more than one pillar of *maqâşid al-sharî'ah*. However, these were different from the research design of Islamic banking performance measurement conducted by Mohammed and Taib (2015), who partially reduced the dimensions and elements of performance measurement from the three objectives of the *maqâşid al-sharî'ah* concept of Abu Zahrah, Hudaefi & Noordin (2019) who broke down that of al-Ghazâlî, as well as research by Asutay and Harningtyas (2015), who referred to that of al-Najjâr.

Table 5 presents the effect of crossing over on the pillars of *maqâşid al-sharî'ah* in this study.

Table 5
Dimensions Affecting Several Pillars of *Maqâşid al-Sharî'ah*

Dimension	Preservation of Religion	Preservation of Life	Preservation of Intellect	Preservation of Lineage	Preservation of Property
Governance	√			√	
Social Education	√		√		
Education and Training		√	√	√	
Ziswaf	√				√
Occupational Health and Safety		√	√		
Environmental responsibility		√		√	

Because there were dimensions that affected over one pillar of *maqâşid al-sharî'ah*, the authors continued to group and develop performance measurement dimensions based on the objectives of establishing an IB as stipulated in Law No. 21 of 2008 concerning Islamic Banking. The performance measurement components formed comprised Islamic commercial performance, social performance, and macroeconomic performance. With a cross-grouping approach, preparing the dimensions, elements, and indicators of the SIPM system would be more realistic, following sharia goals and objectives based on law. At this stage, the authors used the concept of operationalizing behavior proposed by Sekaran & Bougie (2013) to arrange the objectives (concept), dimensions (key characteristics), elements (expected behavior), and measurable performance indicators schematically.

Islamic Commercial Performance

The components of the Islamic commercial performance of SIPM are composed of dimensions related to Islamic banking commercial objectives. IB's sustainability as a business entity depends on profit acquisition. Profit acquisition depends on several components, namely: *first*, assets, liabilities, and equity. These three components are the constituents of the accounting equation where assets are a combination of debt (liabilities) plus owner's capital (equity). Assets are resources with economic benefits, controlled by the company; Liabilities are assets obtained by the company from third parties as obligations that must be repaid later to increase equity in developing the business (Kamla, Gallhofer, and Haslam 2006; Mulawarman 2007). The dimensions extracted from the exploration of the informant's understanding of the *maqâsîd al-sharî'ah* values in IB related to assets are 'business wealth,' 'increase in wealth,' and 'wealth management.' The 'business wealth' dimension in SIPM is proxied by the Total Asset Classes indicator, namely the amount of core capital owned by IBs following the grouping of Commercial Bank based on Business Activities (BUKU) as regulated in OJK Regulation Number 6/POJK.03/2016. This grouping becomes the basis for determining the business activities a bank may carry out in Indonesia. BUKU 4 is the group with the highest core capital allowed to carry out all business activities of commercial banks or often referred to as systemic banks. The 'increase in wealth' dimension is the company's ability to create a profit proxied by the Return on Assets (ROA) ratio. The 'wealth management' dimension is calculated from the company's ability to manage financing, the bank's primary business. This dimension is proxied by the financing-to-deposit ratio (FDR) to measure total financing and the non-performing financing ratio (NPF) to measure non-performing financing. These two ratios refer to the OJK Circular Letter (SEOJK) No. 10/SEOJK.03/2014. Similar to this paper, previous studies by Hudaefi & Noordin (2019) and Prasetyo (2019) used those three ratios.

In terms of liability, our study is dissimilar from those by Asutay and Harningtyas (2015), Bedoui and Mansour (2015), Mohammed and Taib (2015), and Prasetyo (2019). We proposed the dimension extraction of liabilities, including 'self-owned partnership,' namely the amount of fundraising using a current account and savings scheme, and 'long-term partnerships' with the deposit, *sukûk*, and *waqf* cash schemes. The next

proposal was equity, which was indicated by the 'self-owned wealth' dimension and proxied by core capital compared to total liabilities (CCL).

Second, the financial performance reflects the level of profits obtained through the operation of company activities in managing assets. The dimension that extracted financial performance was 'business profit,' which was proxied by the Net Operational Margin (NOM) ratio. This ratio referred to SEOJK No. 10/SEOJK.03/2014 and Prasetyo (2019); the 'business growth' dimension was proxied by asset growth; the 'efficiency' dimension was proxied by the ratio of Operating Costs to Operating Income (BOPO), and the 'capital gain' dimension was proxied by the Return On Equity (ROE) ratio. Asutay and Harningtyas (2015) and Prasetyo (2019) also used the last two ratios.

Third, human resources (HR) drive the company's operational wheels extracted by seven dimensions. The 'rewards' dimension was proxied by the amount of salary and allowances received by employees by considering the inflation rate and the consumer price index (CPI) (Asutay and Harningtyas 2015; Prasetyo 2019). Following the research by Bedoui & Mansour (2015), the 'Islamic environment' dimension was proxied by the number of religious activities and facilities. The 'reward for creative work' dimension was proxied by the number of incentives received by employees (Asutay and Harningtyas 2015; Bedoui and Mansour 2015), while the 'education and training' dimension were proxied by the cost of education and training in the total cost of HR. This proxy was also used by Asutay and Harningtyas (2015), Hudaefi and Noordin (2019), Mohammed and Taib (2015), and Prasetyo (2019).

The novelty in this study is the 'life balance' dimension proxied by the total of working hours following the Job Creation Law No.11/2020, the amount of family allowances received, and the family gathering program to strengthen the relationships and the employee loyalty to the company. The 'integrity' dimension was proxied by employee compliance with employee integrity and ethical SOPs and the number of annual audits. The next proposed dimension was 'occupational health and safety,' which was proxied by the value of occupational health and safety insurance and workplace facilities.

Fourth, consumers as users of goods and services produced by the company in IB are called customers. No research mentioned this aspect in assessing IB performance. In this paper, the dimensions of 'service excellence' and 'fairness' represent the extraction of these components. The

former was proxied by the number of customer complaints per year, referring to the RGEC reputation risk indicator and customer loyalty index (CLI). The latter was with the ratio of funds with special ratio to third party funds (TPF) and the ratio of shareholder profit-sharing to total revenue (SPS).

Fifth, good corporate governance is reflected in compliance with the regulations and laws that apply to the company. Good governance improved the company value due to the increased trust from stakeholders, investors, and customers. This aspect referred to SEOJK No. 14/SEOJK.03/2017 and Asutay & Harningtyas (2015) research with four proxies, namely Good Corporate Governance compliance, sharia compliance, management compliance, and business compliance.

Islamic Social Performance

As a business entity based on sharia values, IB operates not only to pursue profit but to achieve *maṣlahah* or prosperity. Benefits in the sharia corridor are addressed to individuals and to the wider community. According to Triuwono (2001), those entitled to enjoy the welfare created by Islamic companies are not only individuals who are directly involved in the company such as owners (shareholders), investors, management, employees, government, suppliers, and so on, but also other parties who are indirectly involved with the company's operations, namely recipients of zakat (*mustahiq*) and the environment. In addition to achieving profits, Islamic banks have a social function in the form of *bait al-māl*, namely collecting *zakat*, *infâq*, *ṣadaqah*, or other social funds including cash *waqf*, as stated in Article 3 of Law no. 21 of 2008 concerning Islamic banking. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as an institution providing international reporting standards for IB, also emphasizes in Statement of Financial Accounting (SFA) No. 2 that in addition to acting as investment managers, investors, and providers of financial services, IBs also play a role in providing social services through the provision of zakat funds, *qard al-ḥasan*, or other charitable funds, in accordance with sharia principles.

Maali *et al.* (2006) suggested three categories of social reporting that must be met by IB, namely (1) demonstrating compliance with sharia principles and fair treatment to various parties; (2) showing the extent to which business operations have affected the welfare of the people; and (3)

assisting the people in carrying out their obligations such as paying zakat. The consequences of the three categories are financial and non-financial information submitted by IBs related to social responsibility, including information on sources and distribution of zakat, information, and distribution of *qard al-hasan* funds, reporting of social activities, and Islamic banking involvement in community empowerment.

Based on these facts, the Islamic social performance of SIPM proposed in this research consists of, *first*, the ‘Zakat, *Infâq*, *Ṣadaqah* (ZIS)’ dimension proxied by the amount of collected and distributed ZIS (Asutay and Harningtyas 2015), and the ‘waqf’ dimension proxied by the waqf collection and management indicator; *second*, the ‘education’ dimension, which was proxied by scholarships, grants, and educational assistance with two indicators, namely the annual growth of scholarship recipients (AGSR) and the growth of distributed scholarship funds (GDSF). Several Banks in Indonesia have established divisions to manage these scholarships, including Laznas BSM (Bank Syariah Indonesia) through the BSI School of Community Education program and Bank Indonesia through the Gen BI program, in collaboration with the public and private universities. This research also proposed an indicator for the assessment of low-cost multi-service education financing for the poor as proxied by the ratio of multi-service financing to total financing (MSF). *Third*, the distribution of benevolent funds (*qard*) for poor people who need urgent short-term bailouts to protect them from the snares of moneylenders. The ‘*qard*’ dimension was proxied by the annual growth of *qard* funds (AGQF) and *qard* recipients (AGQR).

Islamic Macroeconomic Performance

In terms of the macro-economy, IB is expected to become a systemic bank that supports national financial stability (Berger et al. 2019). Sharia principles that require economic activity in the real sector will strengthen the relationship between the real sector and the financial sector, thereby suppressing the rate of derivative transaction instruments and speculation, which have been proven to cause the global economic crisis (Alexakis et al. 2019). Financial stability has also been proven to be triggered by large investments in the real sector, especially micro, small and medium enterprises (MSMEs) (Ansong 2017; Noorjaya 2001). Systemic sharia banking services can be achieved if the penetration of IB in the financial

system is large. The widespread use of Islamic financial instruments is related to community literacy and inclusion of Islamic finance, which can be increased by education, socialization, and communication to the public. To measure that, the dimensions proposed in this research were 'MSME financing,' 'education,' 'communication,' and 'socialization.' The 'MSME financing' dimension was proxied by the ratio of MSME financing to total financing (MSMEF) and the MSME financing growth (MSMEFG). The 'education' dimension was proxied by the practice of role model and the amount of annual publication fee which refers to POJK No.6/POJK.03/2015. Meanwhile, the 'communication' dimension was proxied by the SOP for the disclosure of the vision and mission. Finally, the 'socialization' dimension was proxied by the total annual cost for socialization and public education (CSPE). These two dimensions were in accordance with research by Asutay and Harningtyas (2015), Hudaefi and Noordin (2019), and Mohammed and Taib (2015).

Improvements in Islamic banking information technology (IT) and innovation in IB products and services have also increased sharia banking penetration. High technology-based services such as e-banking and e-money will make it easier for customers to access Islamic banking, speed up transaction processes, save costs, thus ultimately improving IB efficiency. On the SIPM platform, the dimensions of 'information technology and 'research and innovation' are proposed to measure the performance of these aspects. Both are proxied by the number of increases in annual IT spending (ITS) and the number of increases in annual research spending (RS).

The macro aspect of Islamic banking that should be the IB's next concern is environmental responsibility, which is contained in corporate social responsibility (CSR), as well as IB's support for sustainable development commitments (Jan, Marimuthu, and Mat Isa 2019; Julia and Kassim 2019). In the context of sharia enterprise theory, the environment is part of indirect stakeholders whose rights must be considered since the establishment of IB (Triyuwono, 2001). In line with Asutay and Harningtyas (2015) and Prasetyo (2019), the dimension of environmental responsibility proposed in this research is proxied by the ratio of CSR for the environment (CSRE).

Structure of the Sharia Integrated Performance Measurement System of Islamic Banking

SIPM, proposed as an alternative for measuring Islamic banking performance, integrates the objectives of establishing Islamic banking in general based on Islamic values. The basis for the preparation of the SIPM system is the *maqâşid al-sharî'ah* initiated by al-Ghazâlî that is combined with the three aspects mandated to be achieved in Law No. 21 of 2008, namely Islamic commercial, Islamic social, and Islamic macroeconomics. The complete SIPM model framework can be seen in Table 6 (Appendix).

In this study, the 'customer' dimension that did not exist in previous studies was proposed. Customers are users of shari'a banking products, which have implications for the IB's profit. They are IB's business partners who act as third parties in obtaining IB operational funds in deposits, current accounts, and savings. In contrast to previous studies, which only proposed one indicator for one measurement, we used more than one indicator to measure performance dimensions, such as the 'ZIS' dimension which was measured by the indicators of 'ZIS collection' and 'ZIS distribution.' Likewise, in the dimensions of 'MSME financing,' *qard*, and 'education' in the social performance component of SIPM, the use of these indicators aims to measure not only the magnitude of the value but also the growth rates of those dimensions. We also found that several dimensions of performance could not be measured because they were not supported by data in the annual report of Islamic banking. For example, *qard*. Currently, there is no accounting system for distributing benevolent funds with the *qard* scheme. PSAK 101 only requires IBs to report receipts and distributions of benevolent funds without regulating the time the funds are rolled out. In fact, at this time, if the funds are rolled out with a *qard* scheme, the accounting system will record it as financing and if it fails, it will charge the company's NPF. Given the *qard* high benefits, IAI needs to make standards related to the *qard* accounting system.

Conclusion

Conventional performance measurement tools applied to IB still have shortcomings because they have not accommodated the measurement of Islamic social and Islamic macro-economic performances. In Islamic banking, some reflections on *maqâşid al-sharî'ah* fulfill not only one pillar, but there is a cross-relationship between several reflections on the pillars of

maqâsîd al-sharî'ah. Therefore, SIPM was developed as an innovative new model based on integrating the *maqâsîd al-sharî'ah* concept initiated by al-Ghazâlî with IB's general purpose. SIPM includes, *first*, Islamic commercial performance with five components, namely: assets, liabilities, and equity (ALE), human resources, financial performance, customers, and governance; *second*, Islamic social performance with three components, namely ZISWAF, education, and *qard*; and *the last*, Islamic macroeconomic performance with four components, namely MSME financing, education, communication, socialization, innovation and technology, and environmental preservation.

The SIPM offered can be used as a standard measure for the Financial Services Authority in evaluating IB performance developments that are truly in line with *maqâsîd al-sharî'ah*. However, the support of IAI, as PSAK maker, is needed in preparing accounting standards for several dimensions, such as *qard* if managed as a short-term bailout fund (revolving fund), so that the information needed to run SIPM can be obtained from the IB's annual report. Having identified indicators and ratios used in its measurement, SIPM is still an idea and needs to be further tested for its implementation as a performance measurement tool for IBs to obtain empirical evidence on its use in Islamic banking.

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Appendix
Table 4
Exploration of *maqâsid al-shari'ah* values in Islamic Banking

Preservation Concept (core category)	Definition	Reflection (code)	Dimension (category)
Religion (<i>hifz al-din</i>)	Sharia values are the basis for the character, faith, and manners of all personnel in the company and become the company culture	Role model for the implementation of character, faith, and manners by sharia values	Education
	Institutional compliance with sharia principles	Written guidelines for sharia compliance	Governance
	Institutional compliance with the rules that bind all elements in the institution	Company rules based on sharia principles	
	Company vision and mission under sharia principles	Statement of vision and mission under sharia principles	Communication
	Collecting and distributing waqf to strengthen the preservation of Muslim religion within the company	Distribution of waqf to build or renovate worship facilities Distribution of Zakat to fulfill individual worship of the less fortunate	Ziswaf
	Directions for mobilizing operational activities and ensuring compliance with sharia principles in every aspect of the company's activities	Sharia compliance audit	Governance
Life (<i>hifz al-nafs</i>)	Maintaining the spirituality of personnel: freedom to practice religion, have a madhab and obtain independence, justice, education, and intellectual property rights	A conducive environment for practicing religion	Islamic environment
	Maintain physical personnel: healthy life, fulfilled primary needs, protection for orphans, underprivileged, disabled, and the elderly	Fair, just, and appropriate remuneration for the work done.	Rewards
	Halal products and their derivatives must be considered by Islamic banks, including projects that do not endanger the community and the environment	Eco-friendly project Environmental responsibility	Environmental responsibility
	Encouraging the development of SMEs and creating new jobs	MSME Financing Low-cost financing Creating new job opportunities	MSME Financing
	Making policies related to maintaining the safety of employees' lives and guaranteeing work and physical and spiritual health of employees	Occupational health and safety policy	Occupational Health and Safety
	Building the character and quality of human resources	Employee character and personality development program	Education and training
	Preventing fraud from the employee side	Integrity facts for employees	Integrity

Preservation Concept (core category)	Definition	Reflection (code)	Dimension (category)
	Caring for the poor in the company environment	<i>Infâq</i> program <i>Duafa</i> program	Environmental responsibility
Intellect (<i>hifz 'alaql</i>)	Protecting the minds and intellects of company personnel from damage	Prohibition of smoking and consuming alcohol and mind-destroying media	Occupational Health and Safety
	Providing HR by the field of work and improving HR competencies	Employee education, training, and professional development programs	Education and training Award for creative work
	Provision of the best technology to support company operations under sharia principles	Continuous improvement in IT aspects Mobile banking	Information Technology
	Performing innovation sustainably	Research and innovation on products and services	Research and innovation
	Providing scholarships for orphans and underprivileged children	Educational scholarships and grants	Education
	Multi-service financing for customers who are sending their children to school	Financing for school needs for customers	Education
	Increasing the understanding of stakeholders and the public about the existence of Islamic banking	Annual reports of publications, exhibitions, and socialization to the public	Education Socialization
Lineage (<i>hifz al-nasl</i>)	Paying attention to personnel in the company and their families as a unit	Family health benefits Child education allowance Family gathering program Caring programs for elderly children and parents	Life balance
	Determine real working hours for employees	Calculation of employee hours	Life balance
	Maintaining the continuity and sustainability of the company (going concern) as well as maintaining product quality, product continuity, and reasonable prices to survive and be accepted by the community	Company management by applicable rules and sharia principles	Governance
	Protecting the community, especially small traders, from the snares of moneylenders	Distribution of <i>Qarḍ</i> funds	<i>Qarḍ</i>
	Fair distribution of profits to stakeholders	Distribution and redistribution of company profits to stakeholders	Justice
	Improvement of social and environmental conditions affected by	Social- and environmental-related activities	Environmental

Is It Fair to Assess the Performance of...

Preservation Concept (core category)	Definition	Reflection (code)	Dimension (category)
	company activities		responsibility
	Maintaining the honor and image of the company	Carrying out good governance within the company Company culture	Company culture
Property (hifz al-māl)	Property protection through policies and strategies to maintain the company's economic wealth	Making policies and strategies for the protection and management of wealth	Business wealth Increase in wealth Wealth management
	Ensuring that there are no problems in developing and maximizing the economic potential	Dealing with bad financing	Wealth management
	Managing owner's (shareholder) and third party's (customer) funds into halal projects	Managing shareholder's funds according to the type of partnership	Third-party funds Short-term partnership Long-term partnership Self-owned wealth
	Generating sustainable profits from wealth management	Financial performance Profit Financing growth Company efficiency level	Business profit Business growth Efficiency Capital gain
	Improving the welfare of the people and reducing differences in socio-economics	Collecting and distributing Zakat and <i>infāq</i>	Ziswaf
	Providing good service and treatment for customers and being fair to customers	Excellent service for customers	Excellent service

Table 6. Sharia Integrated Performance Measurement (SIPM) Model Framework

Component (Preservation Objective)	Dimension	Element	Ratio/Indicator	Reference
Commercial Performance				
Assets, Liability, Equity (Preservation of Property)	Business Wealth	Total Assets	Total Asset Classes	The authors' proposal, referring to POJK No.6/POJK.03/2016
	Wealth Increase	Return on Assets	Profit/Total Assets (ROA)	RGEC; Asutay & Harningtyas (2015); Huaefi & Noordin (2019)
	Wealth Management	Financing	Total Financing/Total Assets (FDR)	RGEC; Prasetyo (2019)
		Non-performing Financing	Bad Financing/Total Financing (NPF)	
	Third-party Financing	Third-party Financing	Third-party Financing/Total Liability (TPFL)	Ardianto & Firmansyah (2019)
	Short-term Partnership	Low-cost Fund	(Current Accounts+Savings)/TPF (LCF)	The authors' proposal
	Long-term Partnership	Long-term Fund	(Deposits+Sukuk)/TPF (LTF)	The authors' proposal
	Self-owned Wealth	Capital	Core Capital/Liability (CCL)	Ardianto & Firmansyah (2019)
Human Resources (Preservation of Life, Preservation of Intellect, Preservation of Lineage)	Rewards	Salary and Allowances	Salary and Allowance Scale	Asutay & Harningtyas (2015); Prasetyo (2019);
	Islamic environment	Real Working Hours	Average real working hours of employees	The authors' proposal, referring to UU Ciptaker No.11/2020
		Family health benefits, children's education allowances, and child and elderly care	Family and child allowance scale	The authors' proposal, referring to PP No.7/1977
			Family Gathering	Bedoui & Mansour (2015)
	Islamic environment	Islamic environment	Congregational prayers, studies, religious facilities, leave permit	Bedoui & Mansour (2015)
	Occupational Health and Safety	Occupational Health and Safety	Occupational Health and Safety Insurance	The authors' proposal
		Job Guarantee	Workplace Facilities	The authors' proposal
	Award for Creative Work	Employee incentives related to work	Number of Employee Incentives	Bedoui & Mansour (2015); Asutay

Is It Fair to Assess the Performance of...

Component (Preservation Objective)	Dimension	Element	Ratio/Indicator	Reference
		performance	(EI)	& Harningtyas (2015)
	Education and Training	Personality and Leadership Development	Education and training costs/ Total HR costs	Asutay & Harningtyas (2015); Hudaefi & Noordin (2019); Mohammed & Taib (2015); Prasetyo (2019)
	Integrity	Employee Integrity	Integrity SOP Number of annual audits	The authors' proposal, referring to POJK No.1/POJK.03/2019
		Employee Ethics	Employee Ethics SOP	
Financial Performance (Preservation of Property)	Business Profit	Profitability	Operating Income/Average Earning Assets (NOM)	RGEC
	Business Growth	Business Wealth Growth	Asset Growth (AG)	RGEC
	Efficiency	Efficiency	Operating Expenses/Operating Income (OEIOI)	RGEC; Asutay & Harningtyas (2015); Hudaefi & Noordin (2019)
	Capital Gain	Profit from Capital	Profit/Equity (ROE)	RGEC, Asutay & Harningtyas (2015); Hudaefi & Noordin (2019)
Customer (Preservation of Property, Preservation of Lineage)	Excellent service	Excellent service	Number of customer complaints/year	The authors' proposal
			Customer Loyalty Index (CLI)	
	Justice	Fair Treatment	Funds with special ratio/TPF (SR)	The authors' proposal
Deviden Pemegang Saham		Shareholder Profit Sharing/Total Revenue (SPS)	Asutay & Harningtyas (2015)	
Governance (Preservation of Religion)	Governance	GCG Compliance	GCG Compliance SOP	Asutay & Harningtyas (2015); referring to SE OJK No.14/SEOJK.03/2017
		Management Compliance	Management Compliance SOP	
		Business Compliance	Business Compliance SOP	
		Sharia Compliance	Sharia Compliance SOP	
Social Performance				
ZISWAF (Preservation of Property, Preservation of Life, Preservation of Religion)	ZIS	ZIS Collection	ZIS Growth/Year (ZISG)	Asutay & Harningtyas (2015)
		ZIS Distribution	ZIS Distribution SOP	
	Waqf	Waqf Collection	Waqf Growth/Year (WAFG)	The authors' proposal
		Waqf Management	Waqf Management SOP	
Education	Education	Education Scholarships and Grants	Annual Growth of Scholarship	The authors' proposal

Component (Preservation Objective)	Dimension	Element	Ratio/Indicator	Reference
(Preservation of Intellect)			Recipients (AGSR)	
			Growth Distributed Scholarship Funds (GDSF)	Asutay & Harningtyas (2015); Hudaefi & Noordin (2019); Mohammed & Taib (2015)
			Multi-service Financing for education	Multi-service Financing/Total Financing (PMJ)
Qaḍ (Preservation of Lineage)	Qaḍ	Qaḍ and Donation	Annual Growth of Qaḍ (AGQ)	Asutay & Harningtyas (2015)
			Annual Growth of Qaḍ Recipients (AGQR)	The authors' proposal
Islamic Macroeconomic Performance				
Financing in the MSME sector (Preservation of Life)	MSME Financing	MSME Financing	MSME Financing/Total Financing (MSMEF)	The authors' proposal
			MSME Financing Growth (MSMEFG)	The authors' proposal
Education, Communication, and Socialization (Preservation of Religion, Preservation of Intellect)	Education	Corporate Culture	Role Model	The authors' proposal
		Published Annual Report	Publication Fee	The authors' proposal, referring to POJK No. 6/POJK.03/2015
	Communication	Vision and mission	SOP for Disclosure of Vision and Mission	Asutay & Harningtyas (2015)
	Sosialization	Sosialization	Cost of socialization and public education/year (CSPE)	Asutay & Harningtyas (2015); Mohammed & Taib (2015); Hudaefi & Noordin (2019)
Innovation and Technology (Preservation of Intellect)	Information Technology	Information Technology	Increase in IT spending/year (ITS)	The authors' proposal
	Research and Innovation	Research and Innovation	Increase in Research spending/year (RS)	The authors' proposal
Preservation of Environment (Preservation of Life, Preservation of Lineage)	Environmental Responsibility	Environmental Responsibility	CSR for the Environment/Total CSR (CSRE)	Prasetyo (2019); Asutay & Harningtyas (2015)