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ISLAMIC BANKING PERFORMANCE MEASUREMENT: A CONCEPTUAL REVIEW OF TWO DECADES

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ABSTRACT

This article aims to provide an overview of the development of research on the measurement of Islamic banking performance over the past 20 years from 89 selected papers with Scopus-indexed journals ranked Q4 to Q1 or accredited with Sinta 2 to Sinta 1. This study used a qual-quantitative meta-analysis approach using the Mendeley citation application. The distribution of the topic and the depth of research in paper samples based on keywords in publications were analyzed using the VOSviewer application. The results of the analysis showed that the research trend of Islamic banking performance in reputable journals is increasing in recent years. Most of the studies performed in the last two decades have focused on the practice and corporate governance of Islamic banks and comparisons between Islamic and conventional banks based on financial performance ratios and aspect of maqasid al-Shariah; Only a few studies that discuss efficiency, social performance on Islamic banks, regulation, intellectual capital and stability of the financial performance of Islamic banks were found. The further discussion is an empirical exposure without theoretical exploration or analysis which is supposed to become the direction of banking research in the future.

Keywords: Performance, Islamic Bank, *Maqasid al-Shariah*, Literature Review, VOSviewer.

JEL Classification Codes: G21, L25, P17, P47.

INTRODUCTION

Islamic banks come to answer the risk of endemic financial transactions that occur in the world (Hassan & Aliyu, 2018). Various studies found that interest, gambling, speculation, and derivative transactions, all of which are prohibited in the principles of Islamic law adhered to by Islamic banks, are factors that cause financial crises (Akber & Dey, 2020; Hassan & Aliyu, 2018; Khan, 2010). Besides, several studies revealed that Islamic banks as competitors of conventional ones had become a diversion in the financial world to sustain a country's resilience to exogenous shocks caused by the global financial crisis (Alexakis *et al*., 2019; Beck *et al*., 2013; Berger *et al*., 2019). Islamic banking and Islamic finances serve as alternative solutions and models to face the global financial crisis.

Islamic banks as business entities and their development need to be assessed by performance measurement. Targets, goals, and future activities are set arranged by management by looking at the

results of previous performance measurements. The assessment of the banks' health is carried out based on performance measurement, which is a significant parameter (Nurindrasari et al., 2018).

The most relevant and popular parameters used to measure banking performance in the world, including in measuring Islamic banks' performance, are Capital, Asset Quality, Management, Earnings, and Liquidity and Sensitivity to Market Risk (CAMELS), as recommended by the IMF and the World Bank (Keffala, 2020). Besides, Economic Value Added (EVA), Balance Score Card (BSC), and Data Envelopment Analysis (DEA) are parameters widely used in measuring Islamic banking performance (Maharani & Rahmawati, 2020), as used in measuring conventional banks' performance.

The application of traditional measuring instruments in Islamic banks has drawn a lot of criticism from academics who consider them inappropriate given that Islamic banks and conventional banks have different characteristics. The Islamic values require Islamic banks, in addition to achieving operational profit, to uphold the principles of justice and brotherhood and distribute income and wealth for social welfare (Dusuki, 2008). In the other words, Islamic banks' performance is not only limited to financial aspects but also to their attention to social and *da'wah* aspects in the environment in which they operate (Adib & Khalid, 2010; Maharani & Rahmawati, 2020; Triyuwono, 2011). Traditional performance measurement tools are considered to fail in describing the parameter Shariah compliance which can even worsen the social image of Islamic banks (Hudaefi & Noordin, 2019; Maharani & Rahmawati, 2020). Based on these reasons, several researchers, including Hudaefi and Noordin (2019) and Triyuwono (2011) compiled performance measurement tools that are considered appropriate to the characteristics of Islamic banks.

Hitherto, various performance measurement methods have been applied to Islamic banks. Neely (1999) said that performance measurement could be seen from sundry sides, and there is no one best way to measure business performance. This article attempts to document the development of research on the performance measurement of Islamic banks over 20 years from various aspects such as comparison of Islamic banks with their counterparts (Witjaksono & Yunistriani, 2011), Islamic banking performance with multiple perspectives, such as *maqasid al-sharia* and sharia enterprise theory, social reporting on the financial performance of Islamic banks (Arifin & Wardani, 2016; Farag et al., 2018; Sofyani et al., 2012), efficiency and stability (Mukhlis, 2012; Pramuka, 2011; Sufian, 2007), good corporate governance and sharia governance of Islamic banks, comparison between Islamic banks and conventional banks (Erol *et al*., 2014; Olson & Zoubi, 2008), intellectual capital on the performance of Islamic banks (Lestari *et al*., 2016), and measurement of Islamic banking performance with different goals.

This article would give a contribution in, *first*, mapping research topics regarding performance measurement in Islamic banking based on various aspects and variables and, *secondly*, providing an overview for researchers in choosing research themes related to the next performance measurement of Islamic banks.

METHOD

This research was descriptive qualitative-quantitative using meta-analysis and content analysis. To help explain the distribution of topics and the depth of research, the authors used the VOSviewer application version 1.6.16. At the initial stage, the search for sample articles was carried using relevant keywords and synonyms, namely: "Islamic Banking Performance", "Islamic Banks Performance Measured", and others. Furthermore, the selected documents were revised based on titles, abstracts, keywords, and papers that discussed subjects considered theoretically relevant. We used the Mendeley application to prepare the meta-data for these articles. The criteria for selecting these articles were, *first*, journals published in 2000-2020; *secondly*, Scopus-indexed journals ranked Q4 to Q1 or accredited with Sinta 2 to Sinta 1 with the number of citations in five years of

above 1000, and; *thirdly*, journals accessible online through the Science Direct, emerald insight, and Google Scholar site.

As many as 100 papers on the Islamic bank's performance measurement were selected. The earliest sample article was published in 2003. This was thought to happen because Islamic banks started to develop rapidly since the occurrence of the 1998 economic crisis. So, research on the performance of Islamic banking began to be performed effectively in 2003. Based on the year of publication, Islamic banking performance was not a popular topic in reputable journals before 2009. The research trend on Islamic banks' performance began to increase in 2010 until it reached the highest number of articles in 2018, namely 13 papers. The number and trend of articles on Islamic banks' performance published per year can be seen in Figure 1.

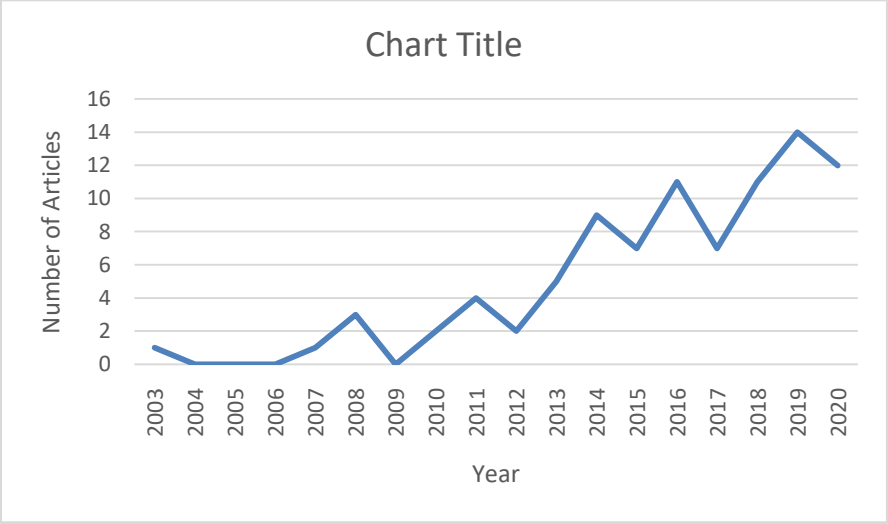

Figure 1. Islamic Banking Performance Research Trend per Year

The observation years were divided into three, with six-year periods, namely period I (2003-2008), period II (2009-2014), and period III (2015-2020). The specific issues raised in research on the measurement of Islamic banking performance varied widely. In several articles, researchers raised more than one specific issue to be discussed. The network of keyword co-occurrences analyzed using VOSviewer on Islamic banks' performance measurement can be seen in Figure 2.

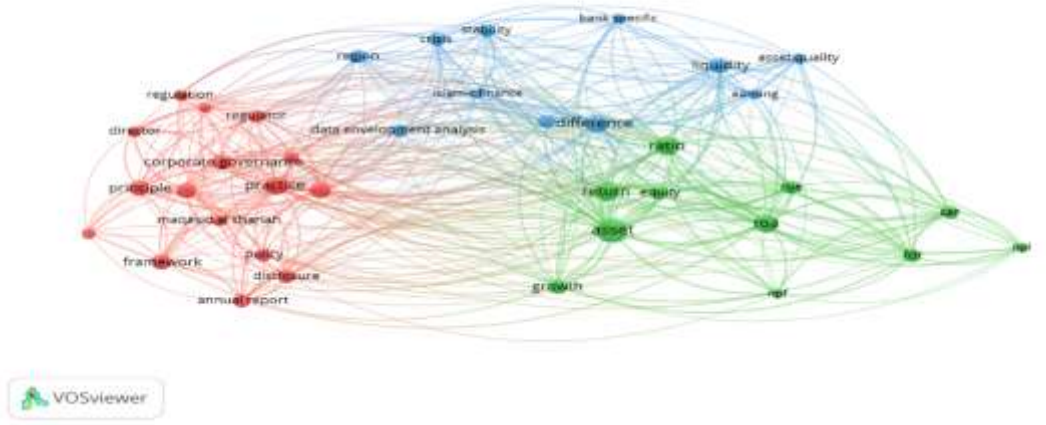

Figure 2. Keyword co-occurrence analysis on Islamic banks performance research

The analysis with the VOSviewer application showed there were 3 clusters in red, blue, and green. In the red one, the words that appear the most were: "practice," "corporate governance," "framework," "principles," and "Shariah supervisory board." In the green cluster, the most popular words were "asset," "ratio," "return," "roa," and "equity," while in the blue one were "difference," "stability," "intellectual capital," "crisis," and "data envelope analysis." Based on the above keywords and content analysis, the authors divided specific issues into eight topics, namely: (1) Financial Performance on Islamic Banks: Comparative Studies, (2) Social Performances on Islamic Banks, (3) Efficiency, (4) Stability, (5) Good Corporate Governance (GCG)/Shariah Governance (SG), (6) Crisis and Regulation, (7) Intellectual Capital, and (8) *Maqasid al-Shariah* and other approaches.

Overall, the three research issues researched most over the past 20 years were the financial performance of Islamic banking (21%), corporate governance (GCG) (21%), and aspects of *maqasid al-Shariah* and other approaches (17%). Significant increases in the three periods also occurred in these 3 issues. The financial performance of Islamic banking became the most popular topic throughout the study period (see Table 1).

Table 1. Paper Classification: Research Specific Issues

Research Specific Issues	2003-2008		2009-2014		2015-2020		Total
	Number	%	Number	%	Number	%	
IBs Financial Performance	2	67%	6	29%	11	18%	19(21%)
IBs Social Performance	0	0%	2	20%	4	6%	6(7%)
Efficiency	0	0%	4	19%	9	14%	13(15%)
Stability	0	0%	2	10%	4	6%	7(4%)
GCG/SG	0	0%	3	14%	16	24%	19(21%)
Crisis & Regulation	0	0%	1	5%	4	6%	5(6%)
Intellectual Capital	0	0%	0	0%	6	9%	6(7%)
***Maqasid al-sharia* and other approaches**	1	33%	3	114%	11	17%	15(17%)
	3	100%	21	100%	66	100%	89(100%)

IBs = Islamic Banks, GCG = *Good Corporate Governance* SG = *Shariah Governance*

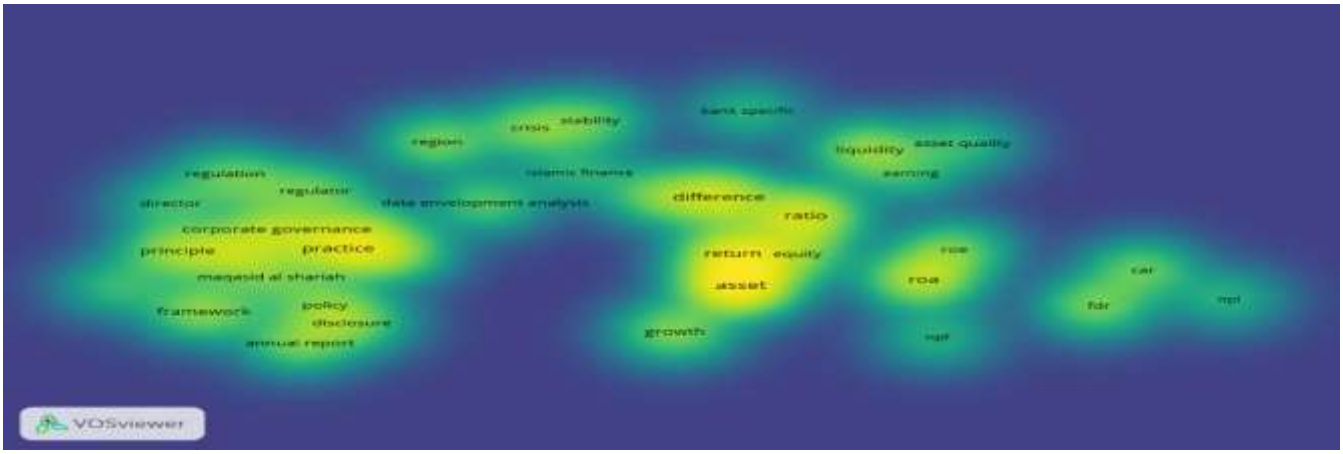

Figure 3. Analysis of research depth per keyword

Based on the results of the VOSviewer (Figure 3), most of the research on the measurement of the Islamic banks' performance focused on financial performance (ratio, return, assets, difference, equity, ROA), Islamic banking practices, and governance. Meanwhile, bank-specific, *maqasid al-Shariah*, efficiency, and stability of Islamic banks were studied rarely. This indicates that the current scientists' attention focuses on Islamic banks' financial performance and governance. Measuring the performance of Islamic banks using *maqasid al-Shariah*, profitability, efficiency, and stability of Islamic banks is an important agenda for further research on the performance of Islamic banking.

RESULTS

Islamic Banking Financial Performance: Comparative Study

Comparative studies have always been an interesting issue for research on the performance of Islamic banking, both between Islamic banks (IBs) in one country, with conventional banks (CBs), foreign banks, and those across countries. Most of the studies use several financial ratios such as Return on Asset (ROA), Return on Equity (ROE), Return on Risk Asset (RORA) and Gross Profit Margin (GPM) to measure profitability, Capital Adequacy Ratio (CAR) to measure capital, Loan to Deposit Ratio (LDR) to measure liquidity, and the overall CAMELS ratio.

ROA is the best estimation in measuring the profitability of IBs. An important determinant of profitability is the fee received by IBs (Alhamditia & Heykal, 2013; Islam, Alam, & Hossain, 2014; Azad et al., 2019). Rosly and Bakar (2003) who examined the financial performance of Shariah-schemed banks in Malaysia found that Islamic banks recorded high ROA achievements but with low efficiency due to the utilization of their overhead costs. In a comparative study with CBs, Toin (2014) assessed that the level of profitability of CBs is better than that of IBs. Ramlan and Adnan (2016) in Malaysia and Olson and Zoubi (2008) in the Gulf Cooperation Council (GCC) found that in IBs, profitability was influenced by ROA and ROE, while in CBs only influenced by ROE. They concluded that IBs was more profitable than BK. Research in OIC countries and the UK found that the profitability of IBs depends on the dynamics different from CBs (Yanikkaya *et al*., 2018). Sukmana and Suryaningtyas (2016) found that profit earned CBs will be allocated as liquid funds. Otherwise, IBs, when earns a profit, prefer to provide financing or improve fixed assets and technology rather than add liquid assets.

Comparative research on financial performance between IBs and CBs using the CAMELS ratio already conducted by Witjaksono and Yunistriani (2011) in Indonesia, Daly, and Frikha (2017) in Bahrain and found that the performance of IBs and CBs is homogeneous and similar; IBs only acts as a complement to CBs. Erol *et al*. (2014) in Turkey found that IBs performed better on profitability ratios and asset management but lagged on the sensitivity of market-risk criteria. However, in Malaysia, CBs performed better, notably on long-term capital and asset effects because they are more mature in management and operational systems (Hazman *et al*., 2018). Findings in Pakistan conducted by Rashid and Jabeen (2016) found that operating efficiency, reserves, and overhead are significant determinants of CBs' performance while operating efficiency, savings, and market concentration significantly affect the performance of IBs.

In another study, the capital adequacy ratio proxied by CAR in IBs and CBs in Indonesia is affected by macroeconomic factors, but this influence is preponderant for IBs (Rudianto & Rahmiati, 2018). Tarek Al-Kayed *et al*. (2014) proved that the greater the capital, the better the IBs' performance.

In a comparative study of performance between IBs, CBs, and Islamic banking windows, Doumpos *et al*. (2017) proved statistically that IBs, Islamic banking windows, and CBs were not significantly different. CBs perform the best, compared to IBs and Islamic banking windows in Asia and GCC at the regional level, while IBs perform better in MENA and Senegal. The aforementioned occurred because of the influence of the unique characteristics of each country and their governments. The findings of Wasiuzzaman and Gunasegavan (2013) in Malaysia showed that the average return value of assets, bank size, and board size of CBs are higher than those of IBs.

Meanwhile, operational efficiency, asset quality, liquidity, capital adequacy, and board independence were higher in IBs. In terms of capital and funding, mainly fully-fledged IBs adequately optimize several funding sources such as capital injections and increased tentative investment savings although *Murabaha* still dominates loans in IBs over profit-sharing due to its low risk and fixed income (Siswantoro, 2014).

Islamic Banks' Social Performances

A company's social performance is measured based on the Corporate Social Responsibility (CSR) report. Islamic ethics in IBs should pay attention to the social aspects of the environment in which they stand. Islamic banks have a vital role in improving social welfare, both for those who directly contribute to the companies' operations and those who do not directly contribute, such as society and nature (Triyuwono, 2011). CSR is also a part of sustainable practices in balancing economic growth with environmental protection and social equality that arises from a company's awareness that the community will assess its position in terms of environmental issues.

Sofyani *et al*. (2012) found that all IBs in Indonesia and Malaysia had not implemented 100% ISR or achieved primely performance. Meanwhile, research by Arifin and Wardani (2016) showed that ICSR does not affect ROA performance. It is indicated that this occurs because the disclosure of the ICSR in Indonesia has not been extensive, especially about the information on profit-making activities of all company assets. Mallin *et al*. (2014) found that In general, IBs pay more attention to financial disclosure, as recommended by AAOIFI, but do not to the voluntary aspect, namely CSR. However, better financial performance encourages them to be involved in social activities, except in the dimension environment.

A study conducted by Jan *et al*. (2019) found the market is only interested in IBs' practices for economic sustainability rather than environmental and social sustainability. However, increasing sustainability practices will simultaneously add financial value to IBs' management, shareholders, and industrial markets as a whole. Meanwhile, Yudhiyati and Sholihin (2016) found political rights and personal freedom of a country, Muslim population, quality of Shariah governance, state economic conditions, and the size of Islamic banks are contextual variables that significantly influence social disclosure.

Efficiency

Efficiency is one indicator of banking performance that has received the attention of previous researchers. The theory of producers is based on the efficiency concept, which states that a company must achieve economic efficiency by producing maximum output from a certain amount of input (technical efficiency) and producing with the right combination at a certain price level (allocative efficiency) (Farrell, 1957).

In Indonesia, Pramuka (2011) found that an Islamic bank with a "full-fledged" scheme was more efficient than another one with an "Islamic window" scheme. Majdina *et al*. (2019) found a significant difference in efficiency in IBs and CBs: ROA had a significant positive impact on CBs' efficiency, while CAR had a significant positive effect on IBs'.

The relationship between efficiency and performance in Malaysia was investigated by Sufian (2007) by observing both domestic and foreign IBs. The results showed that domestic IBs were more efficient than foreign ones, and the efficiency was positive significantly correlated with profitability. Wanke *et al*. (2016) found that the efficiency of IBs in Malaysia was lower than that of IBs in US and European banks. IBs' inefficiency was related to the cost structure and the banks' origins, while efficiency was due to the work cultural traditions.

In Bangladesh, Miah and Sharmeen (2015) proved that CBs are more efficient in managing costs, compared to IBs. For cross-border IBs, Mostafa (2011) showed that several IBs had less than optimal efficiency performance, but had the potential to experience significant improvement, and

Beck *et al*. (2013) found that IBs had less efficiency because they were less cost-effective but had a high intermediation risk.

In the Middle East (MENA), Mezzi (2018) found that IBs experienced increased cost efficiency, and Financial variables contributed to efficiency. Research conducted by Rosman *et al*. (2014) found that the technical efficiency of IBs in Asia was higher than that of IBs in the Middle East. IBs were able to sustain their operation through the financial crisis that occurred, but the study also showed that most of the IBs had an inefficient scale. The main determinants of efficiency in Islamic banks were profitability and capital.

Stability

The world financial crisis in 2007 claimed to have occurred due to the limitations of the traditional financial system. Interestingly, when all financial institutions experienced economic destabilization and paralysis, the Islamic financial system remained stable and secured its sustainability. The interest-free scheme is supposed fairer and able to maintain the stability of IBs with a higher shock absorption capacity than that of CBs (Fakhfekh *et al*., 2016; Ftiti *et al*., 2013; Trabelsi & Trad, 2017).

Research on the stability and performance of IBs by Trad *et al*. (2017) in MENA countries and Pakistan found that bank and capital sizes were the main factors that led to improved financial performance and stability of IBs and their reduced credit risks. While IBs operating in the Gulf region were more profitable, more able to pay, and had reduced risks, compared to IBs in Southeast Asia. Bank capital had been proven to be the predominant indicator in maximizing profitability and stability and reducing credit risks. Researchers also found that the inflation rate in Southeast Asia increased the stability of IBs (Trabelsi & Trad, 2017).

The stability of IBs in Indonesia is also influenced by bank capital (CAR) and inflation. Other factors that affect are the size and efficiency of IBs (Widarjono, 2020). Meanwhile, a cross-country study on the stability of IBs was conducted by Beck *et al*. (2013) found that IBs have better capital and higher asset quality to be more stable and less likely to become intermediaries during a crisis.

Good Corporate Governance (CG) dan Shariah Governance (SG)

Good corporate governance (GCG) is an essential aspect of Islamic banking. Weak GCG practice is alleged to be one of the causes of banks' barriers to recovery after the financial crisis some time ago (Siswanti, 2016). GCG is a system that functions to control the company and regulate the relationship between shareholders, the board of commissioners, the board of directors, and other stakeholders.

The IBs' performance is not only influenced by quantitative variables such as financial ratios but also by qualitative variables such as managerial qualifications as notable points in good IBs' governance (Ghayad, 2008). IBs' management still adheres to agency theory, strategic alignment theory, property theory, and trade-off theory, all of which are characteristics of CBs (Al-Malkawi & Pillai, 2018). Meanwhile, increased transparency would prevent potential earnings manipulation and putting investors in a better position in managing the funds they invested (Lahrech et al., 2014).

The Islamic banking system becomes unique and different from conventional banks due to the existence of the Sharia Supervisory Board (SSB), which is responsible for the compliance of the IBs in operations and transactions with Islamic principles and rules. The SSB quality has a stronger impact on accounting disclosure in the decentralized Shariah governance model than in the centralized model. In the decentralized model, at a high level of SSB quality -even when performance decreases- IBs still adhere to the principle of full disclosure to inform stakeholders of the actual situation of the banks (Ajili & Bouri, 2018). Ulama as SSB members acted more as advisors than supervisors, thus allowing managers to change their decisions. Also, because independent SSB members did not have complete information about the internal operations of the

IBs, they needed to meet more frequently to coordinate. This increased the cost of holding meetings which affected the IB's income and performance (Khan & Zahid, 2020; Alsartawi, 2019).

In Indonesia, Laela (2014) found a misfit between the educational strategy and its contingent variables led to a decrease in IBs' financial performance but did not affect IBs' social performance. This means that IBs needed to pay attention to the suitability between educational strategy with the competencies to improve organizational performance and achieving its sharia objectives. However, the effectiveness of SSB and the Board of Commissioners is proven to reduce the negative impact of misfit on IBs' performance (Wijayanti et al., 2020).

Mukhibad and Khafid (2018) and Siswanti (2016) found there was an indirect influence between the implementation of GCG on the performance of the IBs. A disclosure of GCG, SSB, temporary syirkah funds, and NPF affect the profitability of Islamic banks. Mukhibad et al. (2020) found that *maqasid al-sharia* is not a goal that must be achieved by IBs' management because a large amount of financing indicates that IBs' prefer fixed income and avoids the profit-sharing system.

Research by Dewindaru et al. (2019) and Farag et al. (2018) proved that SSB characteristics and the frequency of SSB meetings affect the financial performance and social performance of IBs. However, a study conducted by Kholid and Bachtiar (2015) obtained different results. The number of SSBs did not affect IB performance. Contrarily, the research of Bukair and Rahman (2015) and Al-Malkawi and Pillai (2018) found that the size and composition of the board of directors harm the performance of IBs.

Ali and Azmi (2016) found that IBs' boards of directors' members which are non-Muslims can run a business as great as that run by the Muslim members. They concluded that religious orientation does not affect the performance of IBs. Aslam and Haron (2020) found a direct impact of GCG on the performance of IBs, and intellectual capital (IC) mediates the CG mechanism on the performance.

Apart from SSB, the board of directors, management, and the ownership structure are aspects that influence IBs' governance. Research conducted by Zouari and Taktak (2014) found that IBs' with foreign ownership structures did not perform better than how those with domestic ownership structures did. The findings of Mateev and Bachvarov(2020) showed that ownership structures play a limited role in the performance of IBs, while foreign ownership structures have a significant positive effect on IBs.

Crisis and Regulation

The world financial crisis in 2007 occurred due to the inefficiency of the banking framework and weak regulations and supervision in the provision of credit and issuance of financial instruments by banks (Alam *et al*., 2019). Interestingly, the current crisis did not have a severe impact on Islamic banking because IBs' operations were built upon Islamic law, which prioritizes real transactions between two parties, ensures risk-sharing in contracts, and prohibits usury. No derivative of interest transactions and distribution of funding led to projects with added economic values (Alam *et al*., 2019; Khan, 2010).

Differences in IBs and CBs business models have caused different effects of their respective liquidity on the country's financial stability. IBs create liquidity by using assets to channel funding, while CBs do through securities and off-balance sheet loan commitments. As a result, when the crisis occurred, IBs could withstand it because their operations were based on real projects. The creation of liquidity in CBs reduces national financial stability in high-income countries and does not affect low-income countries. On the other hand, the IBs liquidity creation does not affect high-income countries but significantly increases stability in low-income countries (Berger *et al*., 2019). The improvement of Conventional banking technology had caused the global financial crisis. IBs needs a long time to equalize the profitability of CBs after the global financial crisis because of the CBs' profit smoothing management practices used by IBs (Alexakis et al., 2019).

To reduce the impact of the crisis on the stability of the banking system, the government made several regulations, which would assuredly affect the performance of Islamic banks. The research found that the variable regulations positively and significantly influenced IBs' performance in the South and Southeast Asia (SSA) region but did not in the GCC region because, in countries in the SSA region that used Islamic law as its fundamentals, IBs did not need special regulations, and needed them in countries that were not based on Shariah law. Separate laws for IBs would help to improve their performance (Alam et al., 2019). The regulation size had an influential effect on driving the profitability of IBs (Mateev & Bachvarov, 2020).

Intellectual Capital

Intellectual capital (IC) is a structure that cannot be seen with naked eyes (intangible asset) but is an important asset in building an organization. IC is usually measured by Value Added Intellectual Coefficient (VAIC), which is an added value obtained by the company because it has employees who have the skills according to the needs and the efficiency of the organizational structure that encourages increased company performance.

In Indonesia, Lestari *et al*. (2016) found that IC affects a company's financial performance and that IC of the previous period affected IBs' financial performance in the current period. Rahajeng and Hasibuan (2020) obtained different results: IC does not significantly affect the financial performance of IBs, but partially human capital and structural capital have a significant effect on profitability. Anggani and Widagdo (2019) found that GCG has significant implications for IC performance, while family ownership and foreign ownership do not.

Reports by Nawaz and Haniffa (2017) from 18 countries in the world, Ousama *et al*. (2019) from Bahrain, Qatar, South Asia, and the UAE, and Buallay (2019) from GCC found that there was a positive and significant influence between IC and IBs' financial performance.

Maqasid Shariah and another approach

One of the main objectives of establishing IBs within the framework of Shariah objectives is to create and distribute wealth fairly to improve social welfare, benefit all people, and not only focus on fulfilling economic aspects for stakeholders (Hassan & Aliyu, 2018; Dusuki, 2008). The objectives of Shariah require a balance between the achievement of socio-economic goals and upholding justice for the accomplishment of maslahah by fulfilling the five elements of *maqasid al-sharia*, namely; safeguarding religion (*deen*), safeguarding human self (*nafs*), safeguarding intellect (*aql)*, safeguarding posterity (*nasl*) and safeguarding wealth (*mal*) simultaneously. The five elements should be a performance measurement framework by transforming them directly into aspects of management and governance (Ishak & Asni, 2020; Soediro & Meutia, 2018).

Nowadays, the vision, mission, and objectives of Islamic banks are still profit-oriented rather than social-oriented (Mohammad & Shahwan, 2013). Besides, traditional performance measurement systems such as CAMELS are built based on property theory and agency theory emphasizing financial aspects more than non-financial regards such as social welfare and the environment. To ensure that their activities are by Shariah objectives, IBs require a performance measurement tool that is certainly different from that of CBs. The IBs' performance measurement model should ideally integrate the dimensions: finance, brotherhood and justice, and social welfare (Adib & Khalid, 2010; Azmy, 2015).

Triyuwono (2011) tried to formulate performance measurements based on Shariah Enterprise Theory, which consists of Amanah management, Non-economic Wealth, Give out, Earning, capital and assets, Liquidity and Sensitivity to market, and Socio-economic wealth (ANGELS), to be tested by Oktaviansyah *et al.* (2018), resulting in that IBs' health rating was categorized as good. Several inputs were given, such as in terms of the indicators of trust management which were still contrary to what was practiced in IBs.

The IBs performance measurement formulations based on *maqasid al-sharia* have been done by several scientists. Bedoui & Mansour (2015) compiled performance measurements by using a Pentagon-shaped approach based on *maqasid* Al-Ghazali, who was qualified by Chapra, then transformed them into performance ratios. If the company's orientation is only in the wealth sector, then the performance calculation results will be zero and the performance will be considered as low in the perspective of *maqasid al-Shariah*.

Tarique *et al*. (2020) developed performance measurement based on *Maqasid* Ibnu Ashur, called the *Maqasid* based Performance Evaluation Model (MPEM). Mohammed & Taib (2015) produced Performance Measures based on *Maqasid al-Shariah* (PMMS) consisting of education, justice, and *maslahah*. PMMS was tested and compared with CBs performance measurements (ROA, NII, and LIQ) in 24 Islamic banks and their counterparts. As a result, the performance of the IBs measured using PMMS was better than the CBs. In contrast, with traditional performance ratios, IBs underperform, compared to CBs. The same results were obtained by Sutrisno (2017) in Indonesia and Julia and Kassim (2019) in Bangladesh. Hudaefi and Noordin (2019) developed the Integrated *Maqasid al-Shariah* index for Measuring the Performance of Islamic banks (IMSPM) and tested it on 11 IBs in the world. They found that the highest performance achieved by the sample IBs was on self-goals (*nafs*). In Southeast Asian countries, Mutia and Musfirah (2017) found no significant difference in the performance of all IBs as measured by *Maqasid al-Shariah* Index.

DISCUSSION

We found that previous researchers measured IBs performance with financial ratios such as ROA, ROE, CAR, Equity, and Asset. Most of the literature of comparative investigation proved that CBs performed better than how IBs did, and some claimed that IBs only act as a complement to CBs with practices similar to CBs. However, what was unique is that in several countries that use Islamic law as its fundamentals, IBs had an optimal performance. Also, the high performance of IBs was influenced by the capital size. These provided evidence that the operation of IBs is different from that of CBs, thus requiring separate regulations according to the characteristics, such as the capital-related requirements that must be met by the IBs.

Most of IBs have not fully implemented CSR. Empirical studies from various studies proved this happened because IBs focused more on improving financial performance while social and environmental disclosure activities in CSR would not affect improving financial performance. However, a recent study on corporate social responsibility disclosure found that CSR activities have a long-term positive effect on Islamic banking performance. It is necessary to develop policies related to this matter because CSR is a real reflection of the sharia objectives adopted by IBs in improving optimal social and environmental welfare.

Although most of the research in the early decades revealed that IBs were inefficient in cost, recent studies proved that they performed better and efficiently in times of crisis. Other research showed that high capitalization and size development make IBs more resilient to crises and stabler, indicating that regulation and supervision of capital adequacy and stable funding ratios will increase the soundness and financial stability of Islamic banking.

Empirical research that explored IBs in the attainment of *maqasid al-Shariah* was very limited, but most of them concluded that the accomplishment of maqasid in IBs was still inadequate. It seems that profit orientation is still the operational trend of IBs. *Maqasid al-Shariah* is not the primary goal that must be achieved by IBs' management, seen in several IBs choosing Murabaha financing transactions that generate fixed income other than adopting the profit-sharing system (Mukhibad *et al*., 2020). Besides, the existing *maqasid al-Shariah*-based performance measurement system is still inadequate as a tool in predicting future IBs activities because most of the financial and non-financial information needed to build a *maqasid* framework is not yet available in the IBs' annual reports. For this reason, it is necessary to formulate Islamic bank reporting indicators that accommodate the information needed for measuring the performance of *Maqasid al-Shariah*.

CONCLUSIONS

Measuring the performance of Islamic banks should be based on three aspects: financial, social, and its contribution to financial system stability. We found that in the last two decades, researchers focused on Islamic banks' financial performance. Social performance in the form of CSR and the relationship between IBS performance on financial system stability are only discussed in a few papers. However, in the last six years, researchers tended to focus on GCG and maqasid al-Shariah, meaning that there was concern in the application of Shariah banking governance and performance measurement systems that were deemed not in accordance with the characteristics of Shariah banks and Shariah objectives.

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