

## PERFORMANCE ACHIEVEMENT OF SHARIA BANKS IN INDONESIA WITH THE MSI APPROACH: GOVERNMENT VS PRIVATE OWNED



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### Abstract

The prevalence of Islam among the Indonesian population has significant prospects for advancing Islamic banking institutions. The categorization of Islamic banks according to ownership is bifurcated into private and public ones. These researchers look at how well Islamic banks from both categories are doing using the Maqashid Sharia Index (MSI). It is essential to examine whether there are any variations in the performance of MSI (Muslim-owned banks) before and following the merger of state-run businesses (SOEs), as this merger impacts the structure of SOE-owned Islamic banks. The Mann-Whitney U-test, a quantitative approach, was employed to analyze data extracted from the financial statements of Islamic banks spanning the years 2016 to 2022. The results indicate performance variations between private and public Islamic banks, as measured by the MSI. Islamic banks that are privately owned demonstrated superior performance in terms of Maqashid Sharia, as seen by their dominance in the top five rankings. The research findings indicate that government-owned Islamic banks excel in promoting educational objectives, but private-owned Islamic banks demonstrate supremacy in advancing goals related to benefit and justice. The performance of state-owned Islamic banks in terms of MSI before and following the merger is equal.

**Keywords:** Performance Ratio, Islamic Bank, Maqashid Sharia Index

## INTRODUCTION

In 2022, Indonesia will stand out as the country with the largest Muslim population, constituting a significant demographic, according to the Royal Islamic Strategic Studies Center (RISC). With Islam being the predominant religion, approximately 86.7% of Indonesia's population adheres to it, contributing 12.30% of the global Muslim population (Rizaty, 2022). The emergence of Islamic banking aimed to address the financial needs of Muslim communities by abstaining from usury practices (Niland et al., 2020). Over time, Islamic financial institutions gained traction as a viable choice for the broader population (Budiono, 2017), operating with a broader responsibility due to adherence to Sharia regulations.

Indonesia's banking sector, instrumental in national growth, witnessed a catalytic development with the implementation of the 21<sup>st</sup> Law of 2008, specifically for Sharia banking. Despite a brief decline in Islamic banking assets from 2016 to 2019, the industry expanded notably by 13.11% in 2020, reaching IDR 608.90 trillion in total assets (Idx.com, 2023). The government's commitment to enhancing the accessibility of Islamic banking to all residents, as outlined in the Economic and Financial Master Plan (MEKSI) from 2019 to 2024, underscores the potential for Islamic banking's broader prevalence.

A noteworthy event in February 2021 was the legal merger of three state-owned Islamic banks, culminating in the establishment of Bank Syariah Indonesia (BSI). This move aligns with the government's ambition to boost the Islamic economy, evident in the MEKSI's objectives of expanding the halal industry and promoting Sharia-based financial and social banking services. Private Islamic banks continue to operate alongside BSI, emphasizing the significance of state-owned Islamic banking (Wicaksono, 2021). The rapid progress of Islamic banking necessitates performance measurement tools aligned with Sharia principles (Ramdhoni & Fauzi, 2020). Conventional financial ratio measurements are deemed unsuitable, emphasizing the need for criteria tailored to the distinct objectives of Islamic banking (Siregar, 2016). The Maqashid Syariah Index (MSI) emerges as a crucial tool, evaluating both worldly and afterlife aspects and contributing to the welfare of humanity.

The core objectives of Sharia, based on maqashid al-shari'ah, encompass individual enlightenment, justice promotion, and advancing humanity's welfare (Toha etc, 2021). The MSI becomes pivotal in assessing how well Islamic banking aligns with these objectives,

contributing to the overall well-being of individuals and society. The concept of MSI opens avenues for a new performance assessment tool grounded in *maslahah*, particularly suitable for Islamic financial institutions (et al., 2020). The Islamic banking industry in Indonesia witnesses intense competition between government-owned and privately-owned entities. The MSI, encompassing various dimensions of life, becomes a comprehensive tool for evaluating their performance (Isbahi, 2023). Prior studies have explored Islamic banking performance using MSI in different countries, emphasizing the need for a comparative study in Indonesia.

This study aims to provide an alternative perspective by utilizing MSI to assess the performance of both government and privately owned Islamic banks in Indonesia. Additionally, it seeks to determine whether there are disparities in MSI performance between state-owned Islamic banks before and after the merger, presenting a novel contribution to the existing body of knowledge. In exploring these aspects, this research not only contributes to the ongoing discourse on Islamic banking but also addresses the evolving dynamics in the Indonesian banking landscape.

## **REVIEW OF LITERATURE**

Syariah Enterprise Theory incorporates Islamic principles into enterprise theory, highlighting Allah SWT as the exclusive creator and proprietor of all resources. According to Kalbarini (2014), researchers argue that Allah is the ultimate authority and stakeholders must utilize resources by Allah's principles. The Quranic verses, including Al-Baqarah 215, 254, 267, 273, or An-Nur 56, are significant in defining concepts such as *zakat*, justice, *maslahah*, duty, and *falah*. Iwan Triyuwono, (2000) proposes a framework that links Islamic accounting to the responsibility towards both interested parties and Allah. Shariah economics is explained by (Meutia, 2008), who talks about concepts like *maslahah*, justice, and *rahmatan lil alamin*, which means "mercy for all creation. The fundamental idea is that humans, acting as Allah's caretakers, are responsible for distributing prosperity among all parties while strictly avoiding the accumulation of wealth for personal gain (Bushman et al., 2004).

Within the realm of accounting, the term "performance" pertains to the accomplishments of an organization or firm. Financial statements' financial aspects are frequently used to define performance within financial institutions. Financial ratios like the

balanced scorecard, EVA, and CAMELS are typically used in performance measurement (Toha & Supriyanto, 2023). Nevertheless, Islamic financial institutions deem evaluations that rely only on profitability incongruous with their *falah*-oriented goals. (Mursyid et al., 2021) highlighted the necessity of performance evaluation techniques that consider the distinctive attributes of Islamic financial institutions, incorporate social aims, and adhere to Sharia principles to foster a harmonious society.

Commercial banks in Indonesia can follow either traditional banking practices or sharia principles, according to Law of the People's Republic of Indonesia No. 10 of 1998, which amends Law No. 7 of 1992 about banking. Islamic banks adhere to Islamic values by abstaining from usury practices and drawing guidance from the Qur'an & Hadith (Wahyuni, 2018). According to AAOIFI, the responsibilities of Islamic banks encompass the administration of investments, fund investments, financial services, payment flow, and social activities. Islamic banks prioritize profit-sharing and cooperation over interest, distinguishing them from traditional banks. The categorization of Islamic banks encompasses both state-owned financial institutions (BUMN and BUMD) and domestic commercial banks (e.g., BRI Syariah, Bank Muamalat, and others in Indonesia) (Wahyuni, 2018).

Derived from the terms "maqsid" (purpose) and "sharia" (route to water), Maqashid Sharia describes the principles and objectives that Islamic law prioritizes. According to Wahbah Al-Zuhaili, it can be defined as the inherent significance and aim that the Sharia upholds inside its legal framework. Maqashid Sharia, as per ash-Syatibi's doctrine, seeks to generate human welfare in both the present life and the afterlife, encompassing the satisfaction of fundamental necessities such as belief, spirituality, intellect, progeny, and possessions. As it develops, the idea is divided into three dimensions by Ibn As-Syur & Muhammad Abu Zahrah. At the same time, scholars like Al-Juwaini and Al-Ghazali emphasize *maslahah* as the central idea. Financial institutions implementing Maqashid Sharia can offer broader advantages to society (Mohammed, 2018; Ramdhoni & Fauzi, 2020; et al., 2020).

Islamic banks should apply Sharia-compliant performance evaluation procedures as they are Sharia-based financial organizations. Using the Maqashid Sharia index to measure the success of Islamic banks could help figure out how well sharia values are being followed. Indonesian Islamic banks have higher Maqashid Sharia index scores than Malaysian ones,

according to research by (Noufal, 2014). Nevertheless, the ownership structure of banks also has a significant impact, as government-owned banks often exhibit inferior performance due to political intervention in the decision-making process (Islam et al., 2023; Sabrina & Muharam, 2015).

To improve prospects and advance the growth of Islamic banking in Indonesia, the three government owned Islamic banks (BSM, BNISyariah, and BRISyariah) merged. Qibtiyah and (Fitra et al., 2022) conducted research indicating that this merger is anticipated to address the limitations and transmit the benefits of both banks, by enhancing the quality of state-owned Islamic banking. (Ulfa, 2021) highlights that this merger, spearheaded by government agencies, can benefit several stakeholders, including the Islamic banking sector, MSMEs, education, Hajj money management, and the growth of the Islamic ecosystem overall. Consequently, the financial health of Islamic banks is perceived to have changed following the merger (Toha & Habibah, 2023).

## RESEARCH METHOD

The study employed a quantitative methodology, utilizing descriptive and comparative techniques. Descriptive methods elucidate the initial study purpose, while comparative approaches are utilized for the second & third objectives. BUS, registered with the OJK, is the subject of the study. The study spanned seven periods, from 2016 to 2022. Conduct research by utilizing secondary data obtained from annual reports. A comparison with the necessary research data is made using the data from the sustainability report (Kathryn Alsegaf, 2022).

**Table 1**  
**Number of BUSs in Indonesia**

Ownership	Years							Total
	2016	2017	2018	2019	2020	2021	2022	
Government	5	5	6	6	6	4	5	37
Private	8	8	8	8	8	8	8	56
Total	13	13	14	14	14	12	13	93

Each macro dimension or indicator's proportional importance to the overarching goal of Maqashid Sharia is reflected in its weight.

**Table 2**  
**MSI Assessment Weight Matrix**

Concept (Purpose)	Weight	Elemen	Bobot Elemen
<i>Tahdhib al Fardhu</i> (educating the individual)	30%	R1. Education Grants	24%
		R2. Research	27%
		R3. Training	26%
		R4. Publications	23%
		<b>Jumlah</b>	<b>100%</b>
<i>Iqamah al-Adl</i> (upholding justice)	41%	R5. Fair return	30%
		R6. Functional distribution	32%
		R7. Interest-free products	38%
		Total	<b>100%</b>
<i>Jabl al- Maslahah (maslahah)</i>	29%	R8. Profit ratio	33%
		R9. Personal income	30%
		R10. Investment ratio in the real sector	37%
		Total	<b>100</b>

(Mohammed, Razak, & Taib, 2008)

The process of evaluating performance with MSI entails multiple steps:

$$IK (T1) = W_1 \times E1 \times R1 + W_1 \times E2 \times R2 + W_1 \times E3 \times R3 + W_1 \times E4 \times R4 \dots\dots\dots (1)$$

$$IK (T2) = W_2 \times E5 \times R5 + W_2 \times E6 \times R6 + W_2 \times E7 \times R7 \dots\dots\dots (2)$$

$$IK (T3) = W_3 \times E8 \times R8 + W_3 \times E9 \times R9 + W_3 \times E10 \times R10 \dots\dots\dots (3)$$

$$MSI = IK(T1) + IK(T2) + IK(T3) \dots\dots\dots (4)$$

## RESULTS AND DISCUSSION

### Educational Indicators (*Tahdhib al Fard*)

Islamic banks, guided by the principles of maqashid sharia, primarily aim to provide financial education to people (*tahdhib al fard*). (Wira et al., 2018) highlighted the significance of Islamic banks allocating funding towards educational endeavours, with a focus on employees and the wider community. The education criterion in the MSI analysis gave BPD Riau Kepri Syariah the highest value (0.64%), demonstrating the organization's emphasis on staff and community education. The education ratio is deemed essential for enhancing the calibre of human resources in Islamic banks (Almashhadani & Almashhadani, 2023; Almomani et al., 2022; Mohammed, 2018).

**Table 3**  
**Average Score of Sharia Objectives "*Tahdhib al Fard*" BUS in Indonesia (2016-2022)**

Islamic Commercial Bank	Performance Element "Education"			
	E1	E2	E3	E4
Bank Aceh Syariah	0,01614	0,00395	0,13996	0,06288
BPD NTB Syariah	0,03415	0,00000	0,14495	0,25395
Bank Jabar Banten Syariah	0,00135	0,00691	0,13870	0,00000
Bank BRI Syariah	0,00450	0,00000	0,04258	0,11763
Bank BNI Syariah	0,01455	0,00000	0,19909	<b>0,32555</b>
Bank Syariah Mandiri	0,02440	0,00054	0,10764	0,15251
Bank Syariah Indonesia	0,02714	0,00000	0,07502	0,28173
Bank Riau Kepri Syariah	<b>0,09861</b>	0,00000	<b>0,35586</b>	0,18553
Bank Muamalat Indonesia	0,01365	<b>0,02144</b>	0,14515	0,11653
Bank Victoria Syariah	0,00057	0,00000	0,06064	0,04994
Bank Mega Syariah	0,00111	0,00000	0,07097	0,00000
Bank Panin Dubai Syariah	0,00207	0,00000	0,04383	0,11071
Bank Syariah Bukopin	0,00000	0,00000	0,11338	0,13769
Bank BCA Syariah	0,00000	0,00000	0,16027	0,03589
Bank Aladin Syariah	0,00432	0,00000	0,07128	0,13741
Bank BTPN Syariah	0,00000	0,00000	0,16457	0,03780

Data source: processed by the authors

The average score for *Tahdhib al-Fard's* work from 2016 to 2022 is shown in the table above. BPD Riau Kepri Syariah excels in the education grant component, achieving the highest median rating of 0.09861%. In 2022, the conventional Bank Riau Kepri was converted into a Sharia bank. This bank has allocated 7.2 billion rupiah for education grants as part of its social duty. These awards aim to support education in Islamic boarding schools and offer scholarships in Pekanbaru (Chaldun, 1963).

Nevertheless, just 25% of Islamic banks set aside money for scientific studies. Bank Muamalat Indonesia (BMI) achieved a pioneering status by allocating 29.6 billion rupiah for 2016-2022, corresponding to the highest score of 0.02144%. Evidence indicates that most banks must allocate their research budgets effectively (Suhada, 2014). BMI, being the inaugural Islamic bank in Indonesia, demonstrates its commitment to innovation and scientific advancement in the realm of Islamic banking (Chaldun, 1963).

BPD Riau Kepri Syariah has again demonstrated exceptional performance, achieving the best score of 0.35586% in the training activities ratio. This bank dedicates 24.3 billion

rupiah towards enhancing the proficiency of its employees in both soft and hard abilities. The success of BPD Riau Kepri Syariah in education and training demonstrates its commitment to developing human resources with the purpose of sharia to safeguard the intellect and spirit (Almashhadani & Almashhadani, 2023; Monawer et al., 2022; Tarique et al., 2020).

BNI Syariah achieves the maximum score of 0.32555% in the publication performance category. With a budget of 366.5 billion rupiah allocated from 2016 to 2020, BNI Syariah employs media channels to disseminate knowledge about Sharia-compliant products to the general population. Publications play a crucial role in developing a favourable perception of Islamic banks and enhancing public knowledge about Islamic services. Nevertheless, Bank Jabar Banten the Syariah and Bank Mega Syariah have yet to set aside funds to conduct publication operations (Fahmi Ali Hudaefi, 2022; A. Yusup et al., 2023; M. Yusup & Nasution, 2020).

In Indonesia, Islamic banking has recognized the significance of spending money towards research, education, training, and publications. A favourable brand image and faster growth of the Sharia-based economy in Indonesia are anticipated as a result of banks like BPD Riau Kepri Syariah and BNI Syariah demonstrating their dedication to the Sharia cause (Fahmi Ali Hudaefi, 2022; Solikhin & Parasetya, 2023; Tarique et al., 2020).

**Indicator of *Iqamah al-'Adl***

Islamic banks have a responsibility to uphold justice (*iqamah al-'adl*) according to sharia principles. This includes ensuring fairness in operations and the distribution of wealth. A high fairness ratio, exemplified by Panin Dubai Syariah Bank's score of 39.86%, indicates a significant role in mitigating economic inequality. The Maqashid Syariah Index evaluates equity by measuring the proportion of performance factors, such as just returns, equitable distribution, and interest-free items. The bank's fair returns demonstrate its sincerity, while the disbursement function facilitated by profit-sharing-based financing positively influences the real sector, bolstering the country's economic progress. Islamic banks offer interest-free services, ensuring fairness and financial stability (Rachmah, 2018).

**Table 4**  
**Average Shariah Compliance Score of "*Iqamah al-'Adl*" Sharia Commercial Bank (BUS) in Indonesia (2016-2022)**

Sharia Commercial Bank	Performance Element " <i>Fairness</i> "		
	E5	E6	E7

Bank Aceh Syariah	12,20732	1,63256	15,54048
BPD NTB Syariah	12,15023	7,43241	<b>15,58000</b>
Bank Jabar Banten Syariah	<b>12,28921</b>	3,74883	15,57916
Bank BRI Syariah	12,11149	5,21092	15,57470
Bank BNI Syariah	12,14182	3,72286	15,57634
Bank Syariah Mandiri	12,16582	4,61820	15,57933
Bank Syariah Indonesia	12,18341	4,55720	15,57529
Bank Riau Kepri Syariah	12,00796	1,74053	15,57773
Bank Muamalat Indonesia	11,98724	6,93691	15,57635
Bank Victoria Syariah	11,99938	10,20527	15,57232
Bank Mega Syariah	12,10963	4,78144	15,57406
Bank Panin Dubai Syariah	12,05418	<b>12,22830</b>	15,57982
Bank Syariah Bukopin	12,14916	8,98216	15,56114
Bank BCA Syariah	12,02742	8,05250	15,57830
Bank Aladin Syariah	12,26386	0,61108	15,52036
Bank BTPN Syariah	12,24480	0,01935	15,57769

Data source: processed by the authors

Islamic banks must maintain equity in their wealth distribution and transaction practices. The fair return is determined by calculating the ratio of the Profit Equity Reserve (PER) to the Net Income. This ratio indicates that Bank Jabar Banten Syariah has achieved the highest performance, with a rate of 12.29%. We measure the distribution function by looking at profit-sharing-based financing. Bank Panin Dubai Syariah has the highest percentage (12.23%). Interest-free goods demonstrate how Islamic banks adhere to the ban on usury, and Bank Panin Dubai Syariah leads the field with an average rate of 15.58%. Based on Maqashid Sharia, these findings show that Islamic banks are successful in enforcing justice (Rachmah, 2018).

### **Welfare Indicators (*Jalb al-Maslahah*)**

The primary objective of Islamic banks is to foster economic well-being by effectively managing funds that contribute to the provision of social services and the distribution of zakat. The maqashid sharia index transforms real sector finance, wealth distribution, and profitability measures into welfare evaluations. According to (Adzhani & Rini, 2019), Islamic banks aim to get higher advantages by engaging in economic activities that are focused on social objectives.

**Table 5**  
**Average Score of Sharia Objectives "Jalb al-Maslahah" BUS in Indonesia**

BUS	Performance Element "Maslahat"		
	E7	E8	E9
Aceh Syariah	0,20917	0,00917	1,32677
NTB Syariah	0,18738	0,00375	6,07849
Jabar Banten Syariah	-0,13849	0,00160	3,06592
BRI Syariah	0,05761	0,01735	4,26167
BNI Syariah	0,14010	0,04752	3,04468
BSM	0,10336	0,03560	3,77693
BSI	0,17178	0,04436	3,72704
BRK Syariah	0,22107	0,00087	1,42347
BMI	0,00820	0,02209	5,67325
Victoria Syariah	-0,00191	0,00076	8,34606
Mega Syariah	0,19714	0,02409	3,88895
Panin Dubai Syariah	-0,20179	0,00923	9,58121
Bukopin Syariah	-0,08025	0,00000	7,34593
BCA Syariah	0,11211	0,00031	5,33968
Aladin Syariah	0,07970	0,00004	0,45873
BTPN Syariah	1,03124	0,00000	0,00000
Mean Government-owned BUS	<b>0,11900</b>	<b>0,02003</b>	<b>3,33812</b>
Mean Private milk BUS	<b>0,14305</b>	<b>0,00706</b>	<b>5,07923</b>

Data source: processed by the author

The profitability ratio, as indicated by the attainment of ROA (Return on Asset), demonstrates the effectiveness of Islamic banks in managing their commercial operations. ROA is a metric utilized to evaluate financial performance. When deciding where to put money into investments, investors and prospective investors should look for a high-profit ratio. Therefore, a higher ROA ratio indicates a more robust company operations performance. With an average score of 1.03%, BTPN Syariah had the highest rating.

Zakat is a means of redistributing wealth from individuals with surplus assets to those lacking it to narrow the gap in wealth between the affluent and the less fortunate. BNI Syariah demonstrates exceptional performance in this ratio, with a median score of 0.05%. However, a few Islamic banks, specifically BTPN Syariah, Bukopin Syariah, BCA Syariah, and Aladin Syariah, still need to disburse their zakat.

At 9.58% on average for the years 2016–2022, Panin Dubai Syariah does well in the real sector investing performance evaluation. Panin Dubai Syariah's financing mainly

revolves around profit-sharing arrangements in the real sector, utilizing mudharabah and increasing mus transactions. This aligns with the goals of Indonesian Islamic banking, which aim to establish an environmentally friendly, competitive, and efficient banking system that adheres to sensible principles. This system should be capable of effectively supporting the real sector through financing based on profit-sharing (Rachmah, 2018).

### Maqashid Sharia Index

To determine how well an Islamic bank is doing, the sharia objectives used to judge its success affect its average MSI score. Nevertheless, Islamic banks in Indonesia share commonalities, particularly in their proficiency in evaluating the objective of justice. This implies that Islamic banks guarantee fairness in all transactions and economic operations they undertake. This is demonstrated by the superior rating assigned to the objective of maintaining justice in comparison to the other two objectives of sharia law. The educational assessment score indicates a need for more to meet the goals of justice and benefit. Consequently, Islamic banks' commitment to education for employees and the community requires further enhancement. This improvement is necessary to achieve the objective of enhancing knowledge and skills, as well as increasing spiritual value.

**Table 6**  
**Average Score of Maqashid Sharia Index of BUS in Indonesia (2016-2022)**

Sharia Commercial Bank	Sharia Objectives			MSI	Rating
	O1	O2	O3		
Panin Dubai Syariah	0,15661	39,86229	9,38865	49,40755	1
Victoria Syariah	0,11114	37,77695	8,34491	46,23300	2
Syariah Bukopin	0,25108	36,69247	7,26568	44,20922	3
NTB Syariah	0,43305	35,16264	6,26962	41,86531	4
BCA Syariah	0,19615	35,65822	5,45209	41,30647	5
BMI	0,29677	34,50050	5,70354	40,50081	6
BRI Syariah	0,16472	32,89711	4,33664	37,39846	7
Mega Syariah	0,07208	32,46513	4,11018	36,64739	8
BSI	0,38388	32,31589	3,94318	36,64296	9
BSM	0,28509	32,36335	3,91588	36,56432	10
BNI Syariah	0,53919	31,44102	3,23231	35,21251	11
Jabar Banten Syariah	0,14696	31,61719	2,92904	34,69320	12
BRK Syariah	0,63999	29,32621	1,64540	31,61161	13
Aceh Syariah	0,22293	29,38037	1,54512	31,14842	14
Aladin Syariah	0,21301	28,39530	0,53847	29,14678	15

BTPN Syariah	0,20237	27,84184	1,03124	29,07544	16
<b>Mean BUS Government</b>	<b>0,35198</b>	<b>31,81297</b>	<b>3,47715</b>	<b>35,64210</b>	
<b>Mean BUS Private</b>	<b>0,18740</b>	<b>34,14909</b>	<b>5,22934</b>	<b>39,56583</b>	

Data source: processed by the author

Only "educating individuals" (sharia goal 0.35% on average) do Government-owned businesses do better than the other two goals when measuring success. Private BUS had a meager score of 0.19% for the initial performance indicator. Private BUS outperforms Government BUS regarding "upholding justice" and "achieving benefit," with average scores of 34.15% and 5.23%, respectively. Conversely, the Government BUS achieves an average score of 31.81% and 3.48% for the second and third sharia objectives, respectively. As indicated in, the privately operated BUS in Indonesia achieved a higher value than the government-owned BUS. The average MSI score for a privately owned business was 39.57%, compared to 35.64% for a government-owned business. Buses provide superior performance in terms of MS achievement.

### Government BUS (BUMD and BUMN) vs Private BUS

#### Descriptive Analysis

**Table 7**  
**MSI of State-Owned and Private Banks (2016-2022 Period)**

Ownership	N	Minimum	Maximum	Mean	Std. Deviation
Government	37	29.94023	47.85353	35,70248	4.14203
Private	56	26.86941	50.87031	39.56583	7.52878

Data source: processed by the authors

Aceh Syariah's performance value for the government-owned BUS is the lowest at 29.94023, while NTB Syariah's performance value is the greatest at 47.85353, out of the 93 Sharia Business Organizations (BUS) that were explored between 2016 and 2022. The privately owned BUS, Aladin Syariah, obtained the lowest score of 26.86941, while Panin Dubai Syariah achieved the greatest score of 50.87031. The average MSI score shows that private BUS (39.56583) outperforms Government-owned BUS (35.70248), suggesting superior performance in the maqashid part of sharia.

#### Hypothesis Test

**Tabel 8**  
**Uji Mann-Whitney U-Test**

	MSI
Mann – WhitneyU	703,000
WilcoxonW	1406,000

Z	-2,614
Asymp.Sig.(2-tailed)	,009

Data source: processed by the authors

The Asymp. Sig. (2-tailed) value of the MSI results for BUS in Indonesia, depending on ownership, as determined by the Mann Whitney U-Test, is 0.009. Since the significance level is less than 0.05, there is a performance difference between privately owned and government-owned BUS (BUMD and BUMN). The two BUS groups exhibit distinct variations in their maqashid performance.

**BUMN BUS before vs after merger**

**Descriptive Analysis**

**Table 9**  
**MSI of BUMN BUS before and after Merger (2016-2022 Period)**

MSI	N	Minimum	Maximum	Mean	Std. Deviation
Before the merger	15	33.39543	38.81205	36.39176	1.387408
After merger	2	36.55888	36.72704	36.64296	.118907

Data source: processed by the authors

Before the merger, BUMN BUS had a minimum value of 33.39543 or BNI Syariah. The BUMN BUS's highest value before the merger was 38.81205, which was attributed explicitly to BRI Syariah. BRI Syariah achieved the highest performance compared to other state-owned Islamic banks, as evidenced by the computation of the MSI performance. Only two years have passed since the BUMN BUS merger began in 2021; the lowest value attained is 36.55888 (BSI in 2021), and the highest value is 36.72704 (BSI for 2022). The results suggest that BSI's performance has increased due to acquiring MSI results, enhancing the quality of attaining its maqashid sharia requirements over the previous two years. The average value acquired by BUMN BUS before the merger was 36.39176, but the average value obtained through BSI was 36.64296. BSI achieved a higher average value than BUMN BUS before the merger, indicating that the merger has improved the performance of BUMN BUS in attaining maqashid syariah objectives.

## Hypothesis Test

**Table 10**  
**Mann-Whitney U-Test**

	MSI
Mann - WhitneyU	13,000
WilcoxonW	16,000
Z	-,298
Asymp.Sig.(2 - tailed)	,766

Data source: processed by the authors

The computed significance value of  $0.766 > 0.05$  indicates the rejection of the study hypothesis. According to the results of this test, BUMN BUS performed differently before and following the merger.

### Performance of Maqashid Sharia Index

Performance evaluation for Indonesia's business sector should prioritize examining maqashid sharia principles. Islamic banks have distinct attributes that differentiate them from conventional banks, necessitating an evaluation that extends beyond financial considerations. Adherence to Sharia principles is crucial in operating an Islamic financial enterprise. This is evident from the appropriateness of Islamic banks' goods and operational activities. The fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) is the guiding document for financial institutions in Indonesia to ensure Sharia compliance (Muqorobin & Cahyo, 2019).

The MSI, or Maqashid Syariah Index, is a performance metric constructed based on the principles of Maqashid Syariah, as stated by Imam Abu Zahra. MSI prioritizes three assessment indicators: tahdzib al-fard, iqamah al-all, and jalb al-maslahah, as identified by Mohammed and Taib in 2015. The evaluation of the three metrics of performance aligns with the responsibilities of Islamic banks, which include: a) engaging in social and educational initiatives within as well as outside the company to uphold Islamic principles as a guiding framework in social and economic affairs, b) actively contributing to poverty eradication efforts, and c) actively contributing to the enhancement of social welfare.

Comparing the mean MSI value of the Government-controlled BUS and the Privately-held BUS reveals that it achieved a higher score in attaining its objectives. The higher the achievement of the MSI rating, the more effectively the sharia objectives are

achieved. The average MSI assessment score for privately owned buses was 39.57%, while government-operated buses had an average score of 35.64%. The level of achievement of maqashid sharia by both ownership organizations of Islamic banks in Indonesia still needs to be higher, as indicated by their respective scores, below 50%. When assessing MSI, none of the Islamic banks can attain high-value rankings. This aligns with the findings of the research carried out by Mohammed and Razak in 2008.

The government-owned BUS outperformed the privately-owned BUS in terms of educational attainment, according to the performance assessment metrics. This demonstrates how, in implementing the OJK's Grand Strategy for the Development of the Islamic Banking Market, the government-owned BUS has fulfilled its function more effectively than the privately held BUS. The allocation of funds allocated by Islamic banks for both internal and external purposes can facilitate the realization of the advantages of Islamic banks for the community. Nevertheless, the educational objective score for each Islamic bank's ownership in Indonesia needs to be higher than the other two Sharia objectives. According to Larasati and Kahfi's (2020) research, Islamic banks' socialization and educational efforts need improved effectiveness and efficiency. Gaining insight into the evolution of Islamic banking is crucial as it forms the foundation for fostering an Islamic economy in Indonesia. By means of Bank Indonesia Regulations, the government has established guidelines for the minimum allocation of education money by BUS to enhance knowledge and skills. This allocation shall amount to at least 5% of the HR budget.

Justice serves as the second objective indication. The average score achieved by public and private BUSs surpasses the educational and beneficial goals. Based on the findings of a study conducted by (Juanda et al., 2019), it can be concluded that businesses in Indonesia have demonstrated a significant focus on justice in their operational activities, encompassing both the products and services they offer. The performance of each ownership group of Islamic banks is rated significantly higher than the weight of the performance assessment. This suggests that businesses in Indonesia have adopted principles based on sharia by ensuring a fair level of profit distribution as agreed upon. This contributes to the socio-economic development by providing financing based on profit-sharing, without involving any interest, through providing products and services.

Islamic banks are anticipated to contribute to the well-being of the broader society. The third objective of Sharia law is precisely the pursuit of benefit. The performance outcomes of government-owned and privately-owned businesses still need improvement. The limited efficacy of the benefit stems from many aspects associated with the assessment indicators. Currently, multiple Islamic banks in Indonesia exhibit negative profitability, indicating that they are incurring losses and failing to deliver profitable outcomes for their stakeholders. These findings align with (Bartolucci et al., 2018) research, which asserts that the profitability performance of Islamic banks in Indonesia is comparatively lower than that of surrounding nations like Malaysia.

Furthermore, by Law No. 21 in 2008 for Islamic Banking, Islamic banks function as social entities that gather zakat, infaq, and sadaqah funds distributed to eligible recipients.

Nevertheless, several Islamic banks still need to include the disbursed zakat monies due to a lack of collaboration with zakat administration authorities. These findings align with (Ariston Gabriel et al., 2020) research, which asserts that implementing zakat management in Indonesia, as stipulated by Law No. 21 in 2008, has not yielded optimal outcomes despite the Muslim community's increased recognition and support for zakat institutions. The role and function of Islamic banking face challenges due to the absence of explicit provisions regarding cooperation between BAZNAS and Islamic banking in Article 7, part (2) of Law No. 23 of 2011 on the Management of Zakat Funds. This leads to ambiguous forms of cooperation in zakat management and a need for more norms concerning the social function of Islamic banking in assisting with zakat management.

Furthermore, it is worth noting that Islamic banks in Indonesia continue to employ the *murabahah* financing plan instead of the *mudharabah* and *musyarakah* schemes. From a Sharia perspective, *murabahah* is permissible in Islamic banking transactions. However, financing methods such as *mudharabah* and *musyarakah* are more suitable for promoting genuine economic operations (Hameed et al., 2004).

### **Government-owned BUS (BUMD and BUMN) vs Private-owned BUS**

Test results indicate that government-controlled and private BUS perform differently using the Sharia maqashid index approach. This phenomenon can arise due to the absence of any rule mandating a minimum threshold for the attainment of values about the performance indicators of maqashid sharia thus far. Therefore, there is no obligatory duty to

meet specific minimal requirements for the performance of maqashid sharia. Due to a Bank Indonesia regulation requiring a minimum value limit to be met before Islamic banks can be grouped under the health category, Islamic banks in Indonesia have focused their reporting thus far on the financial performance overview. This is done to ensure that their value acquisition is compliant with relevant regulations. As indicated by the MSI, the disparity in performance highlights the contrasting capabilities of the government and Private-owned BUS in fulfilling their respective roles to attain sharia objectives. Financial organizations operating according to Sharia principles consider it crucial to attaining its objectives.

### **SOE Businesses Before vs After Merger**

The creation of BSI is part of the government's plan to position Indonesia as a global hub for Islamic finance. The merger is anticipated to enhance its impact by consolidating the strengths of the three Islamic banks into a unified company with worldwide competitiveness. The results of the tests, however, reveal that the MSI-based performance of state-owned Islamic banks (BSI) was identical to that of state-owned Islamic banks (BNI Syariah, BRI Syariah, and BSM) before the merger. This occurred due to the absence of disparities in policy for allocating monies for sharia objectives both before and after the merger. Based on the MSI ranking, BRIS, BNIS, BSM, and BSI are all classified within the same position group, specifically in the middle position (Aulia & Hadinata, 2019; Ramdhoni & Fauzi, 2020).

### **CONCLUSION**

This study assesses the efficacy of Islamic business entities (BUS) in Indonesia by employing the Maqashid Sharia Index (MSI) as a quantitative metric that aligns with Shariah principles. Private-owned buses demonstrate superior performance compared to government-owned buses, with the top five positions predominantly occupied by private buses. The attainment of Sharia goals exhibits variation, with privately held business units (BUSs) demonstrating exceptional performance of justice and benefit. Government-owned businesses excel in fulfilling the Shariaia objective of education. The Mann-Whitney statistical test can compare the performance of the two BUS groups according to MSI. The test findings of State-Owned Enterprises (BUMN) BUSs exhibited no discernible disparity in performance pre and post-merger. The implications encompass the regulatory inclusion of

performance metrics specific to Islamic banks, the significance of Islamic banks disclosing their adherence to Sharia principles, and the need for customers to prioritize the fulfillment of maqashid sharia when selecting Islamic banking services. Two problems with this study are that it only used a small sample size and didn't look at Islamic business units or Islamic people's funding banks.

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