

THE IMPACT OF MAQASHID SYARIAH AND CORE COMPETENCY ON PERFORMANCE OF ISLAMIC BANK

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Abstract

The purpose of this study is to find solutions for problems related to the performance of Islamic banking in relation to the maqashid Sharia and Core competency. This study is a theoretical review and intended for proposing causal relationship among variables. The study results showed that Islamic banks should reevaluate their goals to conform to maqashid syariah, and the core competency has a strong and positive effect on organizational performance.

Keyword: Maqashid Syari'ah, Core Competence, Performance, Islamic Bank

INTRODUCTION

According to ICD-Thomson Reuters Islamic Finance Development Report 2015 the global Islamic financial assets are expected to reach a total of US \$ 3.2 trillion in 2020 from US \$ 1.8 trillion in 2014. The expected largest driver of this growth is the Islamic bank with a projection growth between 11 and 12% per year and Indonesia is among the top ten developed pioneers in the Islamic financial world.

In 2014, the Indonesian financial industry assets totaled Rp 16,380 trillion while the sharia financial industry was only 3 percent of it around 559 Trillion. However the growth rate of Islamic finance industry surpasses the conventional one.

The financial industry as a whole has grown 42 percent from 2010 (8 per cent since 2013) and 7 percent for CAGR (Corporate Annual Growth Rate) since 2010, while the Islamic financial industry has grown YTY 139 percent since 2010 (14 percent since 2013) and 19 percent of CAGR. Islamic banking is the largest contributor to Islamic Finance (50 percent), followed by bonds (44 percent). For the financial industry as a whole, bonds dominate (61 percent), followed by banks (35 percent).

However there is a big gap on the take-up rate for Islamic finance in comparison to the entire industry. The Islamic finance 31 times smaller than that of the financial industry as a whole. Over the last 3 years the take up rate of the Islamic finance industry is still below 5 percent.

Data on quarterly report of Financial Services Authority in fourth quarter of 2015 showed that the Islamic Banks (Bank Umum Syariah) / BUS and Sharia Business Unit / UUS until the end of the fourth quarter of 2015 amounted to 34 Banks with details of 12 BUS and 22 UUS with total of 316 offices. While the Sharia Rural Banks / SRB totaled 163 Banks with 445 Offices.

The Islamic banking industry (Islamic Banks / BUS and the Sharia Business Unit / UUS) has showed positive growth. Third party funds (DPK), CAR and ROA has increased respectively by Rp 1.05 trillion to Rp 0.66 trillion, 0.16% and 0.02%.

Total assets of Islamic banking declined by Rp 3.34 trillion due to the issuance of expired securities by BUS. However compared with the end position in 2014, the total assets showed a growth of 2.3%. Nevertheless the ratio of Islamic banking assets to the national banking assets until the end of the reporting period was still insignificant in the amount of 4.76%.

The performance of Sharia Rural Bank (SRB) in the fourth quarter of 2015 had showed an improvement from the previous quarter. Assets, deposits, financing, and CAR ratio increased respectively by Rp 0.25 trillion, Rp 0.19 trillion, Rp 0.09 trillion and 1.37%. While the ratio of NPF and ROA decreased respectively by 12:17%.

Sharia banking Roadmap of 2015-2019 launched two fundamental problems faced by the Islamic Banking in Indonesia, i.e. the small market share or known as the 5% market share trapped and the weak competitiveness of Islamic banking in the national banking environment.

The market share of Islamic banking is still below 5 percent with even a tendency to decrease from 4.88% in 2014 and 4.67% in the fourth quarter of 2015. In terms of the GDP proportion, the Sharia Banking Penetrates only 2.65% of GDP far below the conventional proportion which is 20 times higher. Data of Indonesian Islamic banking industry penetration is still very small.

Problems in Sharia Banks can be viewed from a variety of factors among others maqashid syariah to ensure its compliance with the original purpose of establishment which is different significantly from the conventional ones and the Core Competency to improve the performance of Sharia banks to be better than the conventional.

REVIEW OF LITERATURE

Maqashid Syariah

In lughawi maqasidal syari'ah consists of two words, namely maqasid and syari'ah. Maqasid is a plural form of Maqsud meaning intent or purpose. Syari'ah literally means *المواضع تحدر الى*

الماء which means the path to the water source. The path to the water source can be regarded as the way towards the ultimate source of life.

In his al-Muwafaqat, al-Syatibi uses different words associated with maqasidal-syari'ah. They are maqasidal-syari'ah, al-maqasid al-syar'iyyah fi al-syari'ah, and maqasid min syar'ial-hukm.

According to al-Syatibi as quoted from his own words:

هذه الشريعة... وضعت لتحقيق مقاصد الشارع في قيام مصالحهم في الدين والدنيا معا

"Indeed, the Sharia is aimed at establishing human goodness in this world and in the hereafter."

In other phrases said by al-Syatibi

الأحكام مشروعة لمصالح العباد

"The laws are ordained for the servants' goodness."

Maqashid is an objective to be achieved in doing something. There are various definitions raised by scholars of usul fiqh on the term maqasid. According to Wahbah Zuhaili, maqashid al-syari'ah is: the sharia values and objectives implied in all or most of the laws, they are considered as the objectives and meaning set by the sharia in every rule of law.

According to Abdul Wahhab Khallaf, Maqasid Al syari'ah is an aid to understanding the Qur'an and Hadith, to resolve conflicting arguments and establish the law for cases unspecified in the Qur'an and Hadith. Thus, maqasidal-syari'ah is the God's purpose and His Messenger in formulating Islamic laws. It means something that is being targeted (to be achieved) or the reasons why Allah and His Messenger formulates the laws of Islam. Meanwhile, the God's purpose of ordaining his laws is to preserve human goodness through the demands (takhlif) whose implementation depends on an understanding of the main sources of law, namely the Qur'an and hadith.

In his book Maqashid Al-syariah Al-Islamiyah, Ibn 'Ashur states that maqashidsyari'ah is the meanings and lessons of wisdom noted / shown by Allah SubhanahuwaTa'ala in all or most of His sharia, including the properties or general purposes of it. According to 'Allal Al-Fasiy, maqashid syariah is: Objectives intended by Sharia and secrets set by Sharia (of Allah) on every law. While the core of maqashid syari'ah is to bring goodness and avoid evil, or reach well-being and refuse harm, or in other words, is to achieve goodness, because the purpose of determination of law in Islam is to create goodness in order to maintain the objectives of Sharia. Thus the God's purpose in ordaining His laws is for the goodness of mankind by preserving the life of Muslims in order not to deviate from everything that has been ordered or forbidden by Allah.

In order to realize this goodness, according to Muhammad Said Ramadhan Al-Buthi there are five criteria to be fulfilled, namely: First, prioritizing the purposes of Sharia, Second, consistent with AlQur'an, Third, consistent with al-Sunnah, Fourth, consistent with the principle

of qiyas, because qiyas is a method in exploring the laws with primary intention to provide goodness for mukallaf. And the Fifth, paying attention on greater goodness that can be achieved.

There are two roles and contributions of scholars in developing maqashid syariah to become a discipline. These roles are described as: First, providing explanation of maqashid in every law. The scholars in this phase had given great contribution in the implementation of maqashid syariah, i.e. by providing explanation on every law with their respective maqashid. They are, among others: (1) At-Tirmidhi al-Hakim (3rd Century AH), (2) Abu Mansur al-Mathuridi (died 330 AH), (3) Al-Qoffal al-Kabir (died 365 AH), (4) Abu Bakr al-Abhari (died 375 AH) and (5) Al-Baqilani (died 403 AH). The scholars did not only give explanation of the laws and provisions in the texts of the Qur'an and Sunnah, but they also gave explanation of the intention and purpose of Allah behind the implementation of the provisions of the law. For example, the verses about adultery, not only explained about the ban in adultery, but also explained that the ban is intended to nasab / human hybrids awake and clear who his parents. Second, providing explanation of the theory of maqashid in detail. The scholars in this phase describes maqashid syariah as a concept that has become a basic foundation of the science of maqashid syariah as a reference in applying maqashid syariah. They are among others: (1) Imam al-Haramain (died 478 AH), (2) Abu Hamid al-Ghazali (died 505 AH), (3) Saefuddin al-Amidi (died 631 AH), (4) Ibn al-Hajib (died 646 AH), (5) Al-Baidhowi (died 685 AH), (6) Al-Isnawi (died 772 AH), (7) Ibn as-Subki (d 771 AH), (8) Izzudin bin Abdu Salam (died 660 AH) and (9) Ibn Taymiyyah (died in 728 AH).

These scholars gave explanation on the important parts in maqashid syariah as a discipline. They described the forms and coverage of maqashid as well as the method for identifying maqashid and its application in the fatwa and ijihad. Accordingly we can conclude that the notion of maqashid syariah began with implementing Sharia in every law and then narrate them into a concept.

Al-Juwaini elaborated maqashid syariah further in conjunction with illat. Al-Juwaini described three objectives of tasyri, namely:

1. Dharuriyat, that is the fateful continuity of religion and human life in the world and in the hereafter, anyone who lose it will suffer the misery in the world, loss of favor and punishment in the hereafter. According to the scholars, there are five kinds of dharuriyat: Preserving religion, life, intelligence, lineage and property.
2. Hajiyat, that is anything needed to eliminate human suffering, or affliction. Without this human will fall in distress, yet not to destroy life. For example, various rukhshah (remission) in worship.

3. Makramat (Tahsiniyat), that is something to ensure the human to be always in a noble manners and decent morality, and without it, human life would be contrary to the values of decency, morality, and a healthy nature. For example, covering up the genitals and well dressed in prayer.

Al-Syatibi also divided maqashid into three levels, namely:

1. Maqashidd haruriyat. Dharuriyat means it is necessary for the goodness of the servant, without which will cause damage, for example pillars of Islam
2. Maqashid hajiyat. Hajiyat means something that is needed to remove the distress, such as rukhsah (remission) of not fasting for the sick.
3. Maqashid tahsinat. Tahsiniat means something for the good life and avoid vices, such as a noble character, eliminating unclean, and cover up the genitals.

Core Competency

Hamel and Prahalad in 1990 defined Core Competency as limited to the collective learning of an organization, especially how to coordinate diverse production skills with a variety of advances in technology, then in 1994 he renewed the definition of "core competency", by adding the customer value. Thus, it is considered as core competence only if the results of a whole production skills and techniques are unique and provide value to the customers. According to Hamel and Prahalad (1994; 1990), there are three criteria to be considered as Core Competence, they are:

- a. Customer Value: Core Competence should make a significant contribution to the value received by the customer
- b. Competitor Differentiation: any competence may not be considered to be the core unless the competency level of the company is superior to the competitors and difficult to be imitated
- c. Extendibility: competence must be able to be applied to the arena of new product.

According to Ireland, Hoskisson, and Hitt (2011: 74-77) "core competency is the capability that provides source of competitive advantage for the company against its competitors.". They argued that the core competency distinguishes a company competitively and reflects its personality and this core competency arise in a long time in an organization through the process of accumulation and learning in the use of resources and capabilities.

When the capacity is already well underway, the core competency will become the uniqueness of a company, reflected in the range of company's activities that is much better than that of the competitors, and through which the company adds unique value to the products and services provided in the long term.

Ireland, Hoskisson, and Hitt (2011: 74-77) also suggested the use of four criteria or test tool or indicator to facilitate the resources and capability to function as a core competency and become a source of competitive advantage of the company, they are: Valuable, Rare, costly to imitate, social complexity, and Non-substitutable.

Performance of Islamic Bank

The performance actually has a broader meaning not only about the work but it also includes the progress of work. According to Armstrong and Baron (1998; 15) performance is the result of work with a strong relationship with the strategic objectives of organization, customer satisfaction, and economic contribution.

While Helfert (1996) defined performance as a whole image of a company within specific period and resembling the result or achievement effect by the company's operational activities in utilizing the available resources

While according to Mulyadi, performance is a periodical determination of operational effectiveness of the organization, organizational parts and its employees based on the predetermined objectives, standards and criteria.

The main purpose of the evaluation on performance is to motivate individual employees to achieve organizational goals and fulfill the preset standards of conduct, in order to achieve the action and the results desired by the organization (Mulyadi and Johny Setiawan, 1999)

The performance however can be assessed quantitatively as follows: a. Superior performance measure: a Performance Measure that only uses one measure of measurement. With the use of one measure of measurement, the management and employees will tend to concentrate their efforts on that specific criteria and ignoring other criteria that may be just as important in determining the success or failure of the company or a particular section. b. Diverse performance measure: a Performance Measure that uses a variety of measures to assess performance by identifying the standard criteria of various aspects of performance. c. Combined performance measure: based on considerations that for the company some criteria are more important than the others, the company defines values for the Performance Measure.

In the traditional management, the Performance Measure commonly used is finance since it is easy to assess. Though however, the financial facts alone cannot describe the real condition the company. Therefore Kaplan and Norton (1996) had made an approach known as the balanced scorecard. Balance scorecard is a method of measurement of corporate performance by considering four perspectives, specifically finance, customer, internal business processes, learning and growth.

Chong (2008) suggested that the relatively accurate measurement of performance is the hybrid approach, i.e. combination of financial and non-financial measurement. The financial measurements are divided into short-term and long-term. Short-term measurement consists of turnover, profit and return on investment (ROI) while the long term consists of revenue growth rate and the employee growth rate. The non-financial measurement is also divided into two, specifically the short-term that consists of customer satisfaction, waiting time in the delivery of goods to the customer and employee turnover, and the long-term measurement that consists of the market share.

THEORETICAL FRAMEWORK

Relationship between Maqashid Syariah and Performance

Mohammed, Dzuljastri and Taib (2008) conducted a study using maqashid syariah index as an instrument to assess the performance of Islamic banking with the title "The Performance Measures of Islamic Banking Based on the maqashid Framework". This study used a sample of four Islamic bank, i.e. Bank Muamalat Malaysia, Islamic Bank Bangladesh, Bahrain Bank and Bank Syariah Mandiri Indonesia during the period 2004-2005. This research applied seven ratios as indicator of performance. The results showed that none of these banks has good performance under the seven ratios, therefore the Islamic banks should reevaluate their goals to conform to the maqashid syariah.

Mohamed and Taib (2009) in their research entitled "Testing the Performance Measured Based on Maqashid Syariah (PMMS) Model on 24 Selected Islamic and Conventional Banks" made comparison on the performance of the Islamic banks and the conventional banks. The results showed that the performance of Islamic banks is better than the conventional banks under the PMMS measures or maqashid syariah variable.

Antonio, Sanrego and Taufiq (2012) conducted a study entitled "An Analysis of Islamic Banking Performance: Maqashid Syariah Implementation in Indonesia and Jordan". The concept of MSI was developed by the method of Simple Additive weighting (SAW). This study involved four samples of Islamic banks, two banks were from Indonesia, i.e. Bank Syariah Mandiri (BSM) and Bank Muamalat Indonesia (BMI) while the two others were from Jordan i.e. the Islamic International Arab Bank of Jordan (IUABJ) and the Jordan Islamic Bank (JIB). The research was conducted during the period 2008-2010. Antonio, et al only used eight ratios. The results showed that Islamic banking in Indonesia and Jordan have different performances. None of them had a high value based on the maqashid syariah index method. However, BMI had the highest value compared to the other three banks.

Relationship between the Core Competence and Performance

Core competency as the source of competitive advantage with effect to the performance has been suggested by the teacher of core competency a few decades ago, i.e. by Prahalad (1990) based on the results of the survey on several global-scale companies at the time such as Xerox, Kodak, etc. A survey conducted by Prahalad suggests that *"The findings revealed that there is a relationship between competences and competitive advantage and, in turn, on performance"*.

In addition, the results of research conducted on 18 industrial companies in America conducted by Hitt and Ireland (1985) to assess the effect of core competency or distinctive competence to the performance had showed a positive effect despite varying from one industry to another. The research showed briefly that the distinctive advantage / core competency has effects to the performance, though in various level based on the grand strategy used. Distinctive competency / core competency for all strategies and types of industry had been successfully identified.

Study of the effect of uniqueness of resources and capability or known as the core competency of the LKS performance was also conducted by Tan Li, and Li (2006). An empirical research by taking a great number of samples amounting 12,047 SMEs in the industrial areas of the People's Republic of China with the retrieval of data from 1991 to 1992 collected from the Bureau of Statistics of the People's Republic of China. This research found that most resources and specialized capabilities or core competency have positive effects to the performance of SMEs in the industrial areas of the People's Republic of China.

Similar research in the Middle East to assess the effect of core competency to the company's performance was also conducted by Agha, Alrubaii, and Jamhour (2012) on the paint industry in the United Arab Emirates by taking a sample of 77 managers from the industry through questionnaires via the internet. This study aimed to investigate the effect of core competency to the competitive advantage and its implications to the performance. In summary the results of this study indicate that while the core competency has a strong and positive effect on organizational performance, competitive advantage also has a significant impact on organizational performance. The results also show that flexibility that is one dimension of competitive advantage has greater impact on performance than the dimension of flexibility.

CONCLUSION

The results showed that Islamic banks should reevaluate their goals to conform to maqashid syariah. So that the public will notice the significant difference to the conventional banks since the Islamic bank really brings goodness. In summary the results of several studies suggest that the core competency has strong and positive effect on organizational performance.

Therefore the Islamic banks are expected to have a core competency that will improve performance and increase market share of Islamic banking in Indonesia. Future Research can examine Maqashid Shari'ah, Market and Resource Based View to get sustainable competitive advantage.

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