

Sharia Financial Performance Perspective: Business or Compliance Oriented

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ABSTRACT

There is a lot of controversy in the literature on how to measure the performance of an Islamic Bank (IB). In short, the business model of Islamic banks is different from that of traditional banks. Therefore, the effectiveness of Islamic banks should be measured using the Sharia approach. One of the important pillars of the development of Sharia banking is Sharia compliance. This pillar is the main difference between Islamic banks and traditional banks. A Sharia supervisory board, or Sharia supervision, is necessary to ensure the implementation of Sharia principles in banking institutions. In this article, we consider the zakat (Islamic tax) as an alternative indicator for measuring the effectiveness of Islamic banks. Zakat in business is very important, both from an Islamic point of view and from the point of view of poverty reduction. Zakat spending by banks can enhance the image of Islamic banks that exist as banking companies operating in accordance with Islamic law.

Keywords: Financial Performance, Business, Risk and Return.



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INTRODUCTION

The Islamic financial sector has grown rapidly over the past decade. For example, according to the Islamic Financial Services Commission (2020), the industry's growth rate increased from 3% in 2018 to 11.4% in 2019. Islamic banking, which offers a wide range of financial products and services, is one of the key components of this sector. Islamic Banks are business organizations that specifically attract Muslim clients interested in fulfilling their religious obligations (Nomran et al., 2018). The religious aspect is one of the main reasons for the significant growth of Islamic banks in recent years, pushing Muslims to use Sharia (Islamic Law) compliant banks.

There is much controversy in the literature about how to measure the performance of an Islamic Bank (IB). In short, the business model of Islamic banks is different from that of traditional banks. Therefore, the effectiveness of Islamic banks should be measured using a Sharia approach. In this article, we consider the zakat (Islamic tax) as an alternative indicator for measuring the effectiveness of Islamic banks.

Although it has shown considerable growth, Islamic Bank (IB) has been criticized for decades. Customer skepticism continues to emerge (Ashraf & Lahsasna, 2017). Expression of dissent in the ecosystem Islamic Bank can be summarized into two points. First, Islamic Bank claimed to be un-Islamic because it was operated conventionally. Second, Islamic Bank does not promote the aspirations of Islamic moral economy because of excessive profit maximization, and thus appears to be a social failure (Hassan et al., 2017).

Presence Islamic Bank expected to be able to articulate Sharia (Islamic law) into practice in the banking industry (Ashraf & Lahsasna, 2017). This carries philosophical consequences beyond mere commercial transactions. However, there is no standard tool for measuring performance Islamic Bank (Ascarya & Yumanita, 2007). B Sharia children generally apply financial ratios and efficiency as performance measures, similar to conventional banks.

One of the main pillars of Sharia in the development of banks is Sharia compliance. This is the main difference between pillar Islamic banks and regular banks. Enforcement of sharia principles in banking institutions requires sharia supervision, ie a sharia supervisory board. In survey highlights, Bank Indonesia find that a number of customers who use Islamic banking services tend not to become a customer out of doubt on consistency in the application of sharia principles. Clients often question compliance Islamic banks against the principles of sharia. This indirectly suggests that Islamic banking practices have not yet paid attention to the principle of Sharia, which is becoming one of the banks' public trusts in Sharia. Case this will also influence loyalty residents to service Islamic Bank. Increase customer trust is one of success indicator banking sharia and can be as predictor success banking sharia. Consequence, sharia compliance is application sharia principles in the system employment. Characteristics the institution itself, specifically institution bankingsharia. From the point of view of society, especially userssharia banking services, Sharia compliance is key integrity and credibility banking sharia. It is given that trust and public trust to Islamic Bank built and maintained through application of principles Islamic law applied according to rule agency operations. This is because non-compliance with sharia principles will have a negative impact to image banking sharia and can leave the candidate customers and users banking services sharia.

Bank sharia has been show that they can finance their operations and make a profit while obey Sharia requirements not to charge interest. Bank sharia has been adjust the profit and loss distribution to various ways. First approach is through partnership (musharakah) or split investation in bank which is not part of the management team. There is also a mudraba approach based on a surcharge resale or rent that called ijarah, which is an interest-bearing western bank (Cipta, 2020). The function of this bank will increase the stability of the banking system as it encourages banks to diversify their investments to minimize risk and increase profitability. These methods in turn attract more investors and thus help the bank to operate more efficiently. The banking system Islam is governed by four different business laws. The first is the principle of co-ownership between the borrower and the borrower. Profit and gross loss. The second is the fixed costs which has been determined previously. The third one is free level flowers, and the fourth is lender-borrower combination.

The main income also comes from financing activities. The main risk for Islamic banking is a risk financing, because every profit is always accompanied with risk. In Sharia, risk can't removed and could transferred, shared, or managed. Therefore, the economy Islam push financing, leasing, buying and selling on the basis of for results where benefits and risks shared with the parties which cooperate.

Mudharabah, or investment, is a transfer capital monetary to the merchant to receive a certain percentage of profit (Putri & Suprayogi, 2020). There is two parties in this cooperation agreement. The first party (shahibul times) takes care of all the resources and the other party is Madarib or Manager. Technically, Mudharabah is a business cooperation agreement between two parties where the first party (shahibul times) provides the full (100%) of capital and the other is the manager.

Mudharabah deposit products dominate funds third party Islamic banks, the proportion always more than 50% of total third party funds and on increase every year. One factor which increases the magnitude third-party funds in product stash is income share the results given by banks. Besides performance Islamic Bank impressive, system profit distribution for deposit Mudharabah more stand to shockmacro economics. This mattershow public trust to place their funds at the bank sharia in the form of long-term investment. Besides it's a deposit muharabah own level share the results much more high compared with current accounts and savings, so that many customers which use deposit muharabah product (Rismayani & Nanda, 2019).

Regarding the purpose Islamic Bankand religious beliefs, alternative measures were developed. As an example; amalgamation of Islamic disclosure, Islamity Performance Index, ethical identity, Islamic moral economy, and Maqasid al-Shari'ah (goals of Islamic law) (Ibrahim et al., 2004). This research represents a novelty in measuring performanceIslamic Bank adopted from Islamic theory. Providing indicators to measure the effectiveness of Islam is very important for ethical and marketing reasons. Ethically, Islamic finance can play an important role in overcoming the challenges of reducing extreme poverty and promoting communal prosperity. Indeed, the goals of Islamic banks are determined by the achievement of the main goal of the Islamic economy: economic prosperity in this regard, it is pointed out that (Nugroho, 2012), Islamic banks have to pay zakat (Islamic tax) every year because the principle of Sharia also includes the imposition of zakat to Muslims. This levy applies to Muslims, both private individuals and companies. Based on Sumiyati, (2019) "The responsibility to pay the yakat lies not only with Muslims, but also with companies. Business activity is a way of accumulating wealth and requires payment of Zakat." Therefore, every Muslim must pay Zakat, including that of Muslims (Fuadah & Hakimi, 2020). In general, Islamic banks operate and operate differently from Islamic institutions and are profitable, must be present and contribute well-being Efficiency should be evaluated based on indicators that reflect sharia-based business activities, for example, the zakat ratio can be an indicator of financial performance (Badruzaman, 2020).

METHODS

This research is a literature study with the aim of describing the problem under study. The technique of collecting data is by studying literature from various sources such as books, the internet and research journals that have the same topic as the researcher discussed.

RESULTS AND DISCUSSION

Sharia compliance is part of a good sharia banking system. Bank managementsharia no can be separated from adherence to principles sharia, especially in operateintermediary function. At the level of operations, collection and distribution of public funds must be according to the principlesharia. Sharia compliance is one of thefactor in assess continuity bank sharia. Maintain resilience bank is directly proportional to guard public trust, so that if bank carelessly keep level resistance with do not apply the principle sharia so will lose public trust in bank. In Case Syariah banking, Obedience Sharia increases knowledge about Sharia and create innovation creative in products and services while obeying DSN rules. The role of the DPS not enough optimal can affect risk management. One kind close risk management relation with the role of DPS is a risk reputation, the one on in turn affects biased commercial risk such as liquidity risk and other risks.

Compliance with sharia is factor primary customers establish partnerships use Islamic Bank, the therefore customer set for permanent maintain related Islamic banks use case belief in the obedience of Islamic banks in sharia principles onrun their business. Inmain-main output Bank Indonesia research states that customers which use Islamic banking services, in part have similarity for stop as

customer of them because doubts about the consistency of the application of sharia principles. Obedience and bank compliance with sharia principles often questionable the customers. By implied Case earlier explain that the practice of sharia banking so far has not paid attention to sharia principles, wrong one cause of low religion customer in Islamic Bank. Enhancement religion in Islamic Bank is wrong an indicator of the performance of Islamic banks on raise its market share, as a result can concluded that use implementing sharia governance will affect the religion customer. Increase religion on long term will raise customer loyalty which in will eventually raise Islamic bank market share.

Profit-sharing system (Mudharabah) is the basis of investment and is a feature general sharia bank for avoid usury practice. The high risk (high risk) of ambitious managers (Mudharabah) as a result moral hazard and lack human motivation Syariah banking be one the factor that shape the composition of the distribution of funds to the public is more in the form of purchase. Sale financing (Mudharabah) as stock investment (Mudharabah). Moreover, there are limitations the one that can taken to optimize financing this wasteful. You need to have a guarantee or collateral in the form of fixed assets and determine ratio maximum cost operational and profit sharing based on profit sharing.

Mudharabah deposit products dominate funds third party Islamic banks, the proportion always more than 50% of total third party funds and on increase every year. One factor which increases the magnitude third-party funds in product stash is income share the results given by banks. Besides performance Islamic Bank impressive, system profit distribution for deposit Mudharabah more stand to shock macro economics. This matters show public trust to place their funds at the bank sharia in the form of long-term investment. Besides it's a deposit muharabah own level share the results much more high compared with current accounts and savings, so that many customers which use deposit muharabah product. (Ibrahim et al., 2004).

Islamic banking has the same system as other aspects of the Islamic worldview. according to (Falikhatusun & Assegaf, 2012) from the point of view of Islam, the main goals of Islamic finance and finance have been achieved: (1) interest deduction and resumption of banking activities in accordance with Islamic principles, (2) equitable distribution of income and wealth; (3) Progress in economic development. On the other hand, from the point of view of stakeholders [14], the goal of Islamic banking is to maximize profits, contribute to social welfare, reduce poverty, promote sustainable development projects, minimize operating costs, improve product quality and service. Improve, and the survival of financial products and competitiveness and the promotion of Islamic values and lifestyles through employees, customers and the general public. [8] By formulating the Islamic Performance Index it is possible to measure the performance of sharia banking in terms of sharia targets to know if the banking performance is in line with sharia principles. In this study, the researcher used the profit sharing ratio, the Zakat implementation ratio and the fair share ratio, which are the coefficients of the islamicity performance index.

Profit sharing is one of the main goals of Islamic banks. Therefore, it is very important to understand how successful the Islamic banking system is in denying its existence on the basis of profit sharing (Ibrahim et al., 2004). Profit sharing is calculated by adding up the funds from the contract between Mudharabah and Musyarakah and comparing them to the total funds.

Zakat is one of the commandments of Islam, so it should be one of the goals of Sharia Accounting. As a result, the effectiveness of Islamic banks must be based on the zakat the bank pays to replace the traditional performance indicator, earnings per share. A bank's wealth should be based on wealth, not net income, as is done in the traditional way. So the higher the bank's wealth, the more zakat it has to pay (Ibrahim et al., 2004). There are technically several reasons why zakat paid by Islamic banks is an appropriate and reliable performance indicator. The first is the dynamic capacity of zakat for the profitability and soundness of Islamic banks. More profitable Islamic banks pay more for

zakat (Wahid et al., 2018). The second reason is the bigger the total asset bank sharia then the more big too the amount of zakat they must take it out. Third, as emphasized by (Hashim S.A, Shahida S, 2012), one of indicator profitability is tax rate which is calculated as tax paid over amount total assets. Zakat is different from tax in many Case. Zakat is a command Islam and tax is government decision. Zakat aims to meet the needs person poor, and tax aims to cover costs society as a whole. Besides difference the, zakat and taxes noted as burden in the income statement. Some may go beyond draft accounting and argues that the payment of zakat is no different from taxation in the Western context. This is why a number of research defines zakat as an Islamic tax or religious tax in some other countries or in the form of incentives tax. It is supported by (Sumiyati, 2019), which think that zakat basically a tax on wealth. Therefore, zakat can used as indicator profitability and rates tax. ZOA, measured as "amount of zakat per total assets. When the total asset value reaches value, Islamic Bank promise to pay. To count impact zakat on the performance of Islamic banks using the ratio of total zakat to total assets. As discussed earlier, zakat can be used as a profitability measure, as in the case tax rate, and calculated as "amount of zakat" on total asset". The ZOE indicator divides the "amount of zakat" with total capital" used by (Nomran & Haron, 2020). Metric third, ZOR, is "The amount of zakat is divided" with net income". According to (Nomran et al., 2020) "Zakat is total usually deducted from income clean bank, and this ratio is the ratio suggested in banking literature Islam as factor alternative to measure Islamic Performance based on profitability. On basically by increasing income so zakat payment also increase.

The equitable distribution percentage indicates the income distribution between (stakeholder) interests. The division itself is also the labor cost plus the labor cost, etc., divided by the income withheld from the zakat and tax. The distribution of stakeholders reflects the performance level of Islamic banks. This is because the greater the diversification among stakeholders, the better the performance of Islamic banks.

CONCLUSION

Implementation sharia compliance on Islamic banks, especially the issue of reducing market share and sharia compliance, should ideally initiate the implementation of sharia governance to increase trust in Islamic banks and ultimately increase market share for Islamic Bank. Although it has shown considerable growth, Islamic Bank (IB) has been criticized for decades. Customer skepticism continues to emerge. Expression of dissent in the ecosystem Islamic Bank can be summarized into two points. First, Islamic Bank claimed to be un-Islamic because it was operated conventionally. Second, Islamic Bank does not promote the aspirations of Islamic moral economy because of excessive profit maximization, and thus appears to be a social failure.

In general, Islamic banks must ensure that their businesses and transactions, unlike those of Islamic institutions, are profitable and promoted for the benefit of society. Their performance should be assessed against indicators that reflect operational activity under Sharia law. For example, the zakat ratio is an indicator of financial performance.

This result has some important implications for many stakeholders. Contribution article this is new knowledge in existing literature that Islamic bank performance must be measured in an Islamic way. In addition to the general advantages of measuring tables, measurement profitability. Implications of conclusion this for Islamic banks are we should attach importance to zakat ratio, especially ZOA and ZOE, as an indicator to measure and evaluate performance according to Sharia. Islamic Bank highly recommend for calculate and disclose this ratio in the report yearly. This matter will help meet stakeholder expectations interest Islamic Bank, especially with regard to aspects Sharia principles. With thoughts In this case, Islamic bank marketers should focus on measuring ISPER as a factor important in attract new Muslim customers and increase customers which has existed. Trust Islamic Bank. Therefore, this finding has some implications for regulator in a number of country,

especially in countries Islam. Regulator should ensure that Islamic bank calculation and zakat ratio published so Islamic Bank can be evaluated from aspect.

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