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THE DISCLOSURE PRACTICES ON MAQASID SHARIAH OBJECTIVES AMONG MALAYSIAN ISLAMIC BANKS USING FUZZY TOPSIS ASSESSMENT

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ABSTRACT

Background and Purpose: The Maqasid Shariah ratio is operationalized based on Maqasid Shariah objectives. Shariah fraternity, such as scholars, investors, and customers, still assesses how the business, specifically the financial institutions, delivers Maqasid Shariah's objectives according to their business goals. Thus, this becomes a genuine concern for society, especially for users of financial information and shariah financing or investing customers, depositors, or borrowers. Therefore, this study intends to examine Islamic banks' application level of Maqasid Shariah objectives using their financial reporting data.

Methodology: The Maqasid Shariah ratio is measured based on the two objectives of Maqasid Shariah, namely Justice (Al-Adl) and Welfare (Al-Maslahah). The determinants of the Maqasid Shariah ratio as a performance score for the Shariah scale of Islamic banks are assessed using the sophisticated Fuzzy TOPSIS technique.

Findings: Malaysian Islamic banks' achievement is based on the Shariah objectives, specifically on Justice (Al-Adl) at 84.51% and Welfare (Al-Maslahah) at 67.53%. However, the top score for

Malaysian Islamic banks could achieve an above-average level of 44.1% out of 70% on the overall average score on Maqasid Shariah's objectives application in their reporting practice.

Contributions: The results help improve and understand the application levels of Maqasid Shariah's objectives and the disclosure practice of Maqasid Shariah's financial reporting for Islamic banks in Malaysia. Islamic banks need full disclosure and specific standards or provisions for reporting the Maqasid Shariah elements. This is needed to assist the users and provide insights into making the right decision, especially in Shariah-compliant investment products, financing alternatives, or services.

Keywords: Maqasid Shariah, Islamic banks, disclosure, maslahah, fuzzy TOPSIS.

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1.0 INTRODUCTION

The Maqasid Syariah, as fundamental Islamic law, has gained more popularity lately. There has been an increase in research on Maqasid Syariah in economics, econometrics, finance, business, management, and accounting (Tubarad et al., 2022). The government of Malaysia used the Maqasid Syariah as the most critical objective of Syariah as the driving value in assembling its fight against the COVID-19 pandemic (Povera, 2020). Islamic financial institutions are expected to undertake the aspects of Maqasid Shariah as one of their business objectives to integrate the goals into their company, based initially on the conventional financial systems of institutions.

Maqasid Shariah was originally formulated in the 12th century by one Shariah scholar pioneer, Imam Al-Ghazali. Imam Al-Ghazali defines Maqasid Shariah as the objectives of Shariah to promote the well-being of all humankind that lies in safeguarding their faith (*Din*), their human self (*Nafs*), their intellect (*'Aql*), their posterity (*Nasl*), and their wealth (*Mal*). Auda (2008) concludes that the Maqasid Shariah is the branch of Islamic knowledge for the interest of humanity or 'human well-being' (Asutay & Harningtyas, 2015). Thus, these objectives align with the desire to serve the public interest. Therefore, under Islamic finance principles, Islamic banks are expected to disclose as much information as possible as part of their social accountability and responsibility to God and human beings (private & public interest). However, Islamic banking is now accused of operating similarly to its conventional

counterpart and being skewed to more profit and business-driven interests than serving a different level of society's needs (Ahmadi, 2016). Thus, Islamic banks must abide by more rules, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Financial Reporting Standard (IFRS), than conventional banks. For this purpose, Islamic banks need to disclose specific details that traditional banks are not expected to reveal (Ullah et al., 2018). The entire disclosure principle is vital for raising public confidence to recognise Shariah-compliant investments, specifically Muslim investors. In Islamic finance, assessing the performance-based Maqasid Shariah ratio among Islamic banks is crucial to delivering Maqasid Shariah objectives.

This study intends to determine the performance of Islamic banks as the evaluation on delivering and fulfilling the Maqasid Shariah objectives. The assessment is based on the estimation of the application level on delivering and fulfilling the objectives of Maqasid Shariah among Islamic banks in Malaysia, using the disclosed data on their financial reporting statement.

2.0 LITERATURE REVIEW

2.1 Islamic bank disclosure on Maqasid Shariah

There is a need for Islamic finance institutions (IFIs) to enhance their financial statement disclosures to improve comparability for users of financial statements and better facilitate their assessment of the IFIs' financial position, performance, and Shariah compliance (Bank Negara Malaysia, 2016). Abdul Rahman (2010) highlighted four accounting disclosure objectives for an Islamic firm: the prohibition of riba, zakat payment, social accountability, and full disclosure. From the Islamic perspective, a company should be willing to provide full disclosure regardless of whether it is making a profit (Haniffa, 2002). Moreover, IFIs should publish valuable information to demonstrate their compliance with Islamic Sharia law (Farook, 2008). However, Sairally (2007) argued that the lack of transparency in information reporting could cause lower reported income spent and the underlying values that charitable contributions better held unrevealed. Thus, Ahmad and Ismail (2017) suggested maintaining the Maqasid Shariah through a comprehensive reserve system. Equally important, the Islamic banks encourage endorsement of the standard, such as the AAOIFI. However, as a leader in Islamic financial institutions, Malaysia used the AAOIFI standards as the voluntary basis of internal guidelines. Thus, this study expected the potential variations of disclosure practice based on AAOIFI standards among Islamic banks in Malaysia. The financial disclosure requirement falls under the jurisdiction of IFRS. The compulsory adoption of the Malaysia

Financial Reporting Standard (MFRS) is inadequate compliance with the IFRS; this is applied to all Islamic financial institutions in Malaysia. Using similar IFRSs may not be appropriate because conventional accounting has been criticised for its failure to support Islamic goals (Ibrahim & Yaya, 2005).

Furthermore, the Malaysian Accounting Standard Board (MASB) admits that the conventional framework lacks treatment of Shariah-compliant financial transactions and events to disclose the information deemed necessary from an Islamic perspective. Thus, MASB decided to provide complimentary guidance in compliance with Shariah's precepts and the conventional framework when necessary based on the accounting principles of substance over form. However, Dusuki (2009) mentioned that overemphasis on form over substance leads to the potential violation of the principles of Shariah by justifying those contracts which contradict the Shariah text and ultimately undermine the higher objectives of Shariah. Moreover, according to the Malaysian Institute of Accountants (2020), significant accounting standards impacted the IB's financial statement under *MFRS 9: Financial Instruments*, *MFRS 132: Financial Instruments Presentation*, and *MFRS 7: Financial Instruments Disclosures*. Consequently, the impacts of these standards on Islamic banks are the recognition and measurement of finance income, such as principal and interest payments.

Many studies have released various methods to measure banks' performances, and the need for such studies is growing with the most widely used ratio analysis (Seçme et al., 2009). Subsequently, the *Maqasid Shariah* output ratio decides how banks accomplish any predetermined *Maqasid* objectives. The financial ratio and total assets are essential elements in the Shariah screening process to determine financial ratio benchmarks. Debt to Total Assets measures the debt only covers interest-bearing debt in computing the financial ratio benchmark. Simultaneously, cash in conventional accounts and instruments is used to calculate Cash to Total Assets ratios. At the same time, Islamic financing or Sukuk and cash in Islamic accounts and instruments are excluded from the calculation. Each rate is calculated to measure riba and riba-based elements within a company's financial position statement, which must be less than 33%. However, Sulong et al. (2018) predicted that the Shariah Advisory Council (SAC) might not be appropriate depending on the Shariah screening process. The Fiqhi council has highlighted that the two main ratios are debt ratio and account receivable over a total asset ratio (ARTA). These two indicators are insufficient financial risk control elements in Shariah-compliant listed companies based on the study on MyETF Dow Jones Islamic Market Malaysian Titan 25 financial performance in 2008.

Banks' performance evaluation has crucial results for creditors, investors, and stakeholders to determine the capabilities to compete and develop the sector (Seçme et al., 2009). Correspondingly, Laldin and Furqani (2013) indicated that Islamic banks and financial institutions consider Maqasid as a set of corporate objectives and policies and use them to verify compliance with true Islamic principles. Additionally, Rahman and Haron (2019) proposed establishing and introducing a more comprehensive and new method to assess the performance index of Maqasid Shariah to determine the degree to which the position of IBs has contributed to society. As a result, the progress of Islamic finance is monitored by how well it realises the Maqasid. Maqasid Al Shariah can be fulfilled by the achievement of three objectives, namely educating individuals (*Tahdhib Al-Fard*), establishing Justice (*Al- 'Adl)* and public interest (Welfare – *Al-Maslahah*). The Islamic bank promoted the first objective of the Maqasid Index (*Tahdzibul Al-Fardh*) if the Islamic bank allocated more budget for educating individuals consisting of four ratios. This objective describes the role of the Islamic bank in improving the quality of human resources, such as providing training (Saoqi, 2017). The second goal of Maqasid Shariah is *to translate Al-Adl's (Establishing Justice) objective* into three ratios. If the percentage is growing, Islamic banks play an unstoppable role in the community's economic growth by funding justice with benefits such as reducing wealth inequality, reducing injustice, and financing profit-sharing principles.

Furthermore, three ratios are included in the *Al-Maslahah* definition of the third goal of Maqasid Shariah. If the Maqasid rate is high, Islamic banks offer more *Maslahah* or Welfare for themselves and society. The three great objectives of measuring the Islamic bank performances for Maqasid Shariah's fulfilment are based on the developed Maqasid framework and Sekaran's operationalisation concept adopted from Mohammed et al. (2008). Each of the objectives or concepts is operationally defined, then translated into nine dimensions and 10 measurable performance ratios or elements. Figure 1 below illustrates the Maqasid Framework with Sekaran's (2000) Operationalisation Method on three objectives, nine dimensions, and 10 aspects of the Maqasid Shariah.

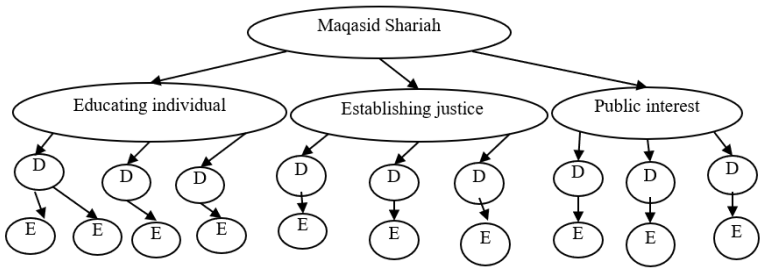

Figure 1: Maqasid framework with Sekaran Operationalization method

Several Shariah scholars have provided empirical evidence indicating a lack of achievement in the objectives of Maqasid Shariah as part of the Islamic bank and finance (Asutay & Harningtyas, 2015). Unsurprisingly, Shaukat and Feroskhan's (2018) study found variations in the selected performance of global samples. Although Islamic banks offer decent financial growth, they still lack meeting similar standards in delivering to Maqasid Al-Shariah. Besides, only Malaysia is said to align with the higher financial performance of GCC on both grounds. Furthermore, Syafii et al. (2012) mentioned that the performance measurement of Islamic banking industries merely uses the financial ratio measurement (shareholder-oriented). In theory and practice, Islamic banking differs from conventional banking and needs a changing paradigm in evaluating efficiency, not relying only on financial ratios (Rusydiana et al., 2018). Mohammed et al. (2008) also stated that almost all the present Islamic banks had adopted conventional yardsticks to measure their performance. Admittedly, Islamic banks' adoption of international standards for financial reporting enhances their credibility and fuels their growth worldwide (Abdullah et al., 2011). However, Abdullah and Chee (2014) mentioned that Islamic finance institutions have specific requirements that cannot fully comply with IFRS. One common difference between Islamic and conventional banks is that they prohibit receiving and paying interest (Riba).

Mahyudin and Rosman (2020) suggested exploring potential indicators that can reasonably measure Islamic banks' efforts to meet stakeholder needs in line with Maqasid Shariah. Therefore, Islamic banks must produce the Maqasid Shariah output in financial reporting to meet the requirements if it complies with the Shariah and aligns with industry standards. Furthermore, Islamic finance contracts require guidelines to reduce information asymmetry; certain modifications must be introduced to Islamic banks' corporate governance (Al-Jarhi, 2016). Syafii et al. (2012) claimed that Islamic banking could show its resilience and endurance in facing the global financial crisis with its growth. However, a critical issue exists related to its performance measurement. Besides, Shahul Hameed and Rizal (2005) found that their analysis of the multi-dimensional approach to measure IB was not rigorous relative to Al-Maqasid.

Furthermore, Mohammed et al. (2008) stated that no single bank could realise high-performance in relation to Maqasid on the overall Shariah objectives. As evidence, a recent study by Mega et al. (2019) found that the output of Islamic banks with a Maqasid Shariah index approach is still relatively small. Thus, the realisation of Maqasid Shariah among Islamic banks is still uncertain, even though the performances and growth in the assets of Islamic financial institutions globally show developing and growing trends. Moreover, most prior

studies compared the traditional and Islamic banks' success using standard financial performance metrics, including asset return (ROA) and equity return (ROE). However, ROA and ROE appear to deteriorate (Ismail & Che Arshad, 2010; Rusydiana & Al-Parisi, 2016). Furthermore, ROE imprecise results as Islamic banks differ in scale (SEDCO Capital, 2015), limiting different financial aspects of IFI (Rabaa & Younes, 2016). The adaptation of the Maqasid Shariah ratio has varied among Islamic banks globally. Therefore, Mohammed et al. (2008) suggested further developing IB's objectives and performance measures based on the Shariah framework. Shaukat and Feroskhan (2018) recommend adopting the approach or model for IFI, especially IB, to formally adopt an industry-wide tool to gauge the performance on both grounds, particularly for Maqasid Shariah. Moreover, the Maqasid Shariah Index is the foundation for mosques' performance measurement models (Rahman et al., 2016).

Most sophisticated tools, such as the commercial Delphi score, integrated Fuzzy AHP, and Fuzzy TOPSIS, are suggested as financial performance assessment models focusing on financial ratios. The analytical method could provide the most effective results, ultimately creditworthiness IB as performance indicators using the Maqasid Shariah scale. One of the applications and uses of Fuzzy TOPSIS is benchmarking to compare the best practices among the firms (Fox & Everton, 2014). Many previous studies have assessed Islamic banks' performance compared to conventional banks using typical financial performance ratios. Wanke et al. (2016) evaluated 88 Association of Southeast Asian Nations banks' performance from 2010 to 2013 and used TOPSIS to rank bank performance. Seçme et al. (2009) proposed a fuzzy multi-criteria decision model to evaluate banks' performance and used the TOPSIS method to rank them. Percin and Aldalou (2018) also used the integrated Fuzzy AHP and Fuzzy TOPSIS in the financial performance assessment model, focusing on solvency, efficiency, and profitability ratio analysis. Therefore, this study intends to use Fuzzy TOPSIS to assess the financial performance based on Maqasid Shariah's objective scale among Islamic banks in Malaysia.

3.0 RESEARCH DESIGN

The present study collected data from the Fitch Connect database, the Thomson Reuters database, Investing.com, Annual reports, and Islamic bank websites covering seven years from 2012 until 2018. There are 16 Islamic banks in Malaysia that are listed as licensed Islamic banks, consisting of eleven local Islamic banks and five foreign Islamic banks, which are used as the population of this study. Based on the data availability census at specific intervals between 2012 – 2018, only eleven Islamic banks (ten locals and one foreign) were selected as

samples due to data availability. Mohammed et al. (2008) used a behavioural approach to operationalisation based on Sekaran's (2000) content to assess the Maqasid, observable in six global Islamic banks' performance using efficiency and liquidity ratios. Sekaran's method transforms Maqasid Shariah's three general purposes into performance output ratios. The objectives are turned into multiple dimensions and then evaluated by elements by collecting the published financial data of the Islamic banks. Thus, the Maqasid Performance Index Model was developed by Shariah scholars from the Middle East and Malaysian Islamic banking experts with practical experience in traditional and Islamic banking. Sixteen experts have defined the weighted ratio of each Performance ratio in the Maqasid Index Model (Mohammed et al., 2008), shown in Table 1 below.

Table 1: The average weights of three objectives and ten elements by Shariah experts

Average Weights for The Three Objectives and Ten Elements Given by Shariah Experts Objectives	**Average Weight (Out Of 100%)**	**Elements**	**Average Weight (Out Of 100%)**
Objective one (O1): Education (*Tahdhib al-Fard*)	WO1= 30	E1. Education Grants / Donations	W1O1: 24
		E2. Research	W2O1: 27
		E3. Training	W3O1: 26
		E4. Publicity	W4O1: 23
		Total	100
Objective Two (O2): Justice (*Al- 'Adl*)	WO2= 41	E5. Fair Returns	W5O2: 30
		E6. Fair Price	W6O2: 32
		E7. Interest-free product	W7O2: 38
		Total	100
Objective Three (O3): Welfare (*Al-Maslahah*)	WO3= 29	E8. Bank's Profit Ratios	W8O3 = 33
		E9. Personal Income Transfers	W9O3 =30
		E10. Investment Ratios in the real sector	W10O3= 37
Total	100	Total	100

The weights are used for preference by similarity to choose between the best and worst as the ideal solution inputs to assess their relative efficiency (Wanke et al., 2016). For this study, the weights of the criteria obtained from the Maqasid Performance Index Model were developed by Shariah practitioners. The views of the Shariah experts were used to validate and approve the Maqasid Shariah index performance model. This study determined the application level of

delivering the Maqasid Shariah ratio and re-estimated the Maqasid Shariah ratio performance model using the Fuzzy TOPSIS approach adopted from seven steps by Fox and Everton (2014). The study highlighted the uses and application of Fuzzy TOPSIS for decision situations. These include a selection of alternatives, ranging from the most to the desirable, prioritisation according to the merit of the set of alternatives, resource allocation, benchmarking by comparing the process of one firm to the best practice of another firm, quality management and conflict resolution for incompatible goals or positions.

Furthermore, TOPSIS uses positive and negative ideal solutions, thus providing superiority against many other multi-attribute decision-making methods (Kahraman, 2006). The chosen alternative concept should have the shortest distance from the positive ideal solution (PIS) and the farthest from the negative ideal solution (NIS). The PIS is the solution that maximises the benefit criteria and minimises the cost criteria. In contrast, the NIS has the opposite logic. For instance, it maximises the cost criteria and minimises the benefit criteria (Benitez et al., 2007). The Fuzzy TOPSIS approach's step-by-step procedures consist of seven steps (Fox & Everton, 2014) and are carried out. The first (Step 1) is to create an evaluation matrix *(xij*) consisting of IBs as alternatives and dimension as a criterion from Maqasid Shariah's elements.

(1)

The second (Step 2), the evaluation matrix *(xij*), is then normalised to form the matrix r*=*(xij*) using the normalisation method for standardisation of decision matrix fuzzy numbers. The equation is shown in (2):

$$r_{ij} = \frac{x_{ij}}{\sqrt{\sum x_{ij}^2}} \tag{2}$$

In the third step (Step 3), after normalisation, the weighted normalised decision matrix is calculated based on the weightage of each element. The sum of the weights over all attributes must equal one (100%) regardless of the method used. Multiply the weights to each column entry in the matrix from Step 2 to obtain the matrix, T. The equation is shown in (3):

$$T = \left(t_{ij}\right)_{mxn} = \left(w_j r_{ij}\right)_{mxn}, i = 1, 2, \cdots, m \tag{3}$$

In the present study, the original weight (w) given to the indicator is based on the average weight of Shariah Objectives given by the Shariah experts, as adopted from Mohammed et al. (2008), and Shaukat and Feroskhan (2018). The fourth (Step 4) is to determine the worst alternative (A_w) associated with the criteria having a negative impact and the best option (A_{wb}) associated with the positive effect requirements. The equation is shown in (4) and (5):

$$A_w = \left\{ \left\langle \max\left(t_{ij} \middle| i = 1,2,\cdots,m \middle| j \in J_- \right\rangle, \left\langle \min\left(t_{ij} \middle| i = 1,2,\cdots,m \right) \middle| j \in J_+ \right\rangle \right\} \equiv \left\{ t_{wj} \middle| j = 1,2,\cdots,n \right\}, \tag{4}$$

$$A_{wb} = \left\{ \left\langle \min\left(t_{ij} \middle| i = 1,2,\cdots,m \middle| j \in J_- \right\rangle, \left\langle \max\left(t_{ij} \middle| i = 1,2,\cdots,m \right) \middle| j \in J_+ \right\rangle \right\} \equiv \left\{ t_{bj} \middle| j = 1,2,\cdots,n \right\}, \tag{5}$$

If the values indicate higher is better (profit or income), then the most significant values are the best alternative. If the values indicate lower is better (cost elements), the smallest value is the best alternative. The fifth (Step 5) is to calculate the L^{2-}distance between the target alternative and the worst condition and the distance between the option and the best state (d_{ib}), where L^{2-}norm distance from the target alternative to the worst (d_{iw}) and best conditions. The equation is shown at (6) and (7):

$$d_{iw} = \sqrt{\sum_{j=1}^{n} \left(t_{ij} - t_{wj}\right)^2}, i = 1,2,\cdots,m, \tag{6}$$

$$d_{ib} = \sqrt{\sum_{j=1}^{n} \left(t_{ij} - t_{bj}\right)^2}, i = 1,2,\cdots,m, \tag{7}$$

The sixth (Step 6) calculates the similarity to the worst condition if and only if the alternative solution has the best condition (Fox & Everton, 2014). If and only if the alternative solution has the worst state. The equation is shown in (8):

$$S_{iw} = \frac{d_{iw}}{\left(d_{iw} + d_{ib}\right)}, 0 \le s_{iw} \le 1, i = 1,2,\cdots,m. \tag{8}$$

The seventh (Step 7) is the final step to rank the alternatives, according to the Performance score (S_{iw}). The equation is shown in (9):

$$S_{iw} \ (i = 1, 2, \cdots, m) \ . \tag{9}$$

The higher value indicates an ideal best solution concerning a higher score on Maqasid Shariah within the eleven Islamic banks. Thus, it ranked at the top, followed by the second-highest score as second, and so on.

4.0 ANALYSIS AND DISCUSSION

This section provides a discussion of the analysis and findings of this study. The sample of eleven Malaysian Islamic banks with the coding list was used for this study. Each bank is represented by the code displayed in Table 2 below.

Table 2: The Islamic banks coding list

Code	Islamic Banks
IB1	Islamic bank 1
IB2	Islamic bank 2
IB3	Islamic bank 3
IB4	Islamic bank 4
IB5	Islamic bank 5
IB6	Islamic bank 6
IB7	Islamic bank 7
IB8	Islamic bank 8
IB9	Islamic bank 9
IB10	Islamic bank 10
IB11	Islamic bank 11

Table 3 below displays the descriptive statistics result based on six elements used in this study to measure the Maqasid Shariah performance ratio.

Table 3: The descriptive statistics on six elements of MSR

Code	Criteria / Elements	Mean	Standard Deviation	Minimum	Maximum
C1	Fair Returns	0.115	0.858	0.006	7.545
C2	Fair Price	1.477	0.834	0.330	4.700
C3	Interest-free product	0.065	0.046	0.000	0.183
C4	Bank's Profit Ratios	0.942	2.971	0.005	10.869
C5	Personal Income Transfers	0.014	0.022	0.000	0.145
C6	Investment Ratios in real sector	10.651	34.141	0.005	150.784

Based on Table 3 above, the mean value for fair returns is 0.115, fair price 1.477, interest-free product 0.065, the bank's profit ratio is 0.014 and investment ratios in the real sector of 10.651 are considered lower. To be compared with the result based on Shaukat and Feroskhan (2018) for Malaysia at 0.50 for fair returns, 4.95 for a fair price, 17.0 for the interest-free product, 2.4 personal income transfer, 90 for investment ratio in the real sector except for bank profit ratio slightly higher by 0.082. Accordingly, Islamic banks extensively use public interest and justice as performance measures (Mohamad et al., 2016). Moreover, banks could not report the Maqasid Objective one on educating individual estimates (Shaukat & Feroskhan, 2018). Besides, Wasiuzzaman and Tarmizi (2010) mentioned that several Islamic banks and Islamic banking windows have just begun to publish annual reports on their Islamic banking operations; thus, it is fair to assume that more data will be available in future. During the data collection on the annual report of Islamic banks, most of the Islamic banks lack disclosure on components of Maqasid Shariah ratio in the financial statements, especially on the numerator of elements for the first objective of Maqasid Shariah, namely 1) educational grant/total income ratio, 2) research expense/total expense ratio, 3) training expense/total expense ratio and 4) publicity expense/total expense ratio as a measurement of the first objective Maqasid Shariah on Educating Individual.

Objective one concerns the bank educating individuals or citizens in its program, improving human resource efficiency, and creating knowledgeable customers about their product. Objective one concentrates more on the individual level, including customers, workers, and the bank. Simultaneously, objectives two and three are more comprehensive in fulfilling the financial Maslahah concept that provides benefits that cover the organisation level and the wide range of stakeholders, including customers and society. Therefore, this study

exclusively concentrates on the second and third objectives of Maqasid Shariah. Both objectives are weighted as 100% each. As shown in Table 4 below, objectives two and three contributed 41% and 29%, respectively. As a result, the Maqasid Shariah ratio determines at least a total score of 70%.

Table 4: The average weights for the objectives and elements by Shariah experts

Average Weights for The Objectives and Elements Given by Shariah Experts Objectives	**Elements**	**Performance Ratio**	**Average Weight (Out Of 100%)**
Justice (*Al- 'Adl*)	C1.	Net Income / Risk Weighted Asset	30
	C2.	Non-Performing Loans / Gross Loans	32
	C3.	Interest-free income / total income	38
	0.41	Total	100
Welfare (*Al-Maslahah*)	C4.	Net profit / total asset	33
	C5.	Zakah / Net Income Annual Report	30
	C6.	Short Term funding / Total assets	37
	0.29	Total	100
(MSR)	**0.70**	**Maqasid Al-Shariah Performance Ratio**	

The Maqasid Shariah Performance ratio of Islamic Banks using the seven-step Fuzzy TOPSIS method is discussed in this section. The decision matrix is developed from data extracted from six Maqasid Shariah ratio elements used for this study from 2012 until 2018. Each Islamic bank is treated as an alternative, whereas the elements of Maqasid Shariah are the criteria. Thus, the first step for Fuzzy TOPSIS is to create an evaluation matrix *(xij*) consisting of IBs as alternatives and dimension as a criterion from the average data of Maqasid Shariah's ratio elements for the year 2012- 2018, as displayed in Table 5 below.

Table 5: The fuzzy decision matrix numbers of the average MSR

Code	C1	C2	C3	C4	C5	C6
IB1	1.0884	1.7886	0.1311	0.0077	0.0614	0.1975
IB2	0.0120	1.3143	0.0404	0.0102	0.0020	0.0508
IB3	0.0099	1.7186	0.0015	0.0092	0.0066	0.0316
IB4	0.0165	1.1129	0.1117	0.0143	0.0230	0.0453
IB5	0.0107	2.6857	0.0697	0.0080	0.0358	0.0786
IB6	0.0197	0.9043	0.0570	10.2658	0.0007	116.1838
IB7	0.0140	1.1386	0.0322	0.0112	0.0014	0.0549
IB8	0.0236	0.8114	0.0430	0.0111	0.0139	0.0921
IB9	0.0173	2.5900	0.1417	0.0112	0.0004	0.2486
IB10	0.0200	0.7286	0.0277	0.0091	0.0006	0.0968
IB11	0.0302	1.4586	0.0587	0.0063	0.0039	0.0854

Note: This table demonstrates the average data for six Maqasid Shariah ratios extracted from 11 Islamic banks in Malaysia for 2012 -2018. IB1 – IB11 represent Islamic banks, and C1 – C6 represent the criteria of the elements.

The second step is the normalisation stage to a standardised decision matrix. It is created by the normalised method to form the matrix, as displayed in Table 6 below.

Table 6: The normalized fuzzy decision matrix numbers of the average MSR

Code	C1	C2	C3	C4	C5	C6
IB1	0.9986	0.3352	0.5082	0.0008	0.8035	0.0017
IB2	0.0110	0.2463	0.1566	0.0010	0.0261	0.0004
IB3	0.0091	0.3221	0.0059	0.0009	0.0858	0.0003
IB4	0.0151	0.2086	0.4328	0.0014	0.3008	0.0004
IB5	0.0098	0.5033	0.2700	0.0008	0.4687	0.0007
IB6	0.0181	0.1695	0.2207	1.0000	0.0094	1.0000
IB7	0.0128	0.2134	0.1250	0.0011	0.0186	0.0005
IB8	0.0216	0.1521	0.1667	0.0011	0.1818	0.0008
IB9	0.0158	0.4854	0.5490	0.0011	0.0048	0.0021
IB10	0.0184	0.1365	0.1074	0.0009	0.0073	0.0008
IB11	0.0277	0.2734	0.2277	0.0006	0.0507	0.0007

Note: This table demonstrates the normalised average data for six Maqasid Shariah ratios based on 11 Islamic banks in Malaysia for 2012 -2018. IB1 – IB11 represent Islamic banks, and C1 – C6 represent the criteria of the elements.

The third step is to calculate the weighted fuzzy normalised decision matrix. This was done by

multiplying with the weightage of each element as criteria for each Fuzzy normalised number. The original weight is given to the indicator based on the average weight of Shariah Objectives given by the Shariah experts (Mohammed et al., 2008; Shaukat & Feroskhan, 2018). The calculated weighted fuzzy normalised decision matrix is shown in Table 7 below:

Table 7: The weighted normalized fuzzy decision matrix numbers of the average MSR

Code	**C1**	**C2**	**C3**	**C4**	**C5**	**C6**
Weight	**0.30**	**0.32**	**0.38**	**0.33**	**0.30**	**0.37**
IB1	0.2996	0.1073	0.1931	0.0002	0.2411	0.0006
IB2	0.0033	0.0788	0.0595	0.0003	0.0078	0.0002
IB3	0.0027	0.1031	0.0022	0.0003	0.0257	0.0001
IB4	0.0045	0.0667	0.1645	0.0005	0.0902	0.0001
IB5	0.0029	0.1611	0.1026	0.0003	0.1406	0.0003
IB6	0.0054	0.0542	0.0839	0.3300	0.0029	0.3700
IB7	0.0038	0.0683	0.0475	0.0004	0.0056	0.0002
IB8	0.0065	0.0487	0.0683	0.0004	0.0546	0.0003
IB9	0.0048	0.1553	0.2086	0.0004	0.0014	0.0008
IB10	0.0055	0.0437	0.0408	0.0003	0.0022	0.0003
IB11	0.0083	0.0875	0.0865	0.0002	0.0152	0.0003

Note: This table demonstrates the weighted average data for six elements of Maqasid Shariah ratios based on 11 Islamic banks in Malaysia for the year 2012 -2018. IB1 – IB11 represent Islamic banks, and C1 – C6 represent the criteria of the elements.

In the fourth step, the total value of distances for the ideal solution was determined by classifying each criterion as beneficial or non-beneficial. The maximum value is the best solution for beneficial elements such as profit or income, whereas the selected minimum value is the worst. On the other hand, for non-beneficial elements like cost elements, the minimum value was chosen as the ideal best solution. Then, the maximum value is selected as the ideal worst solution.

For criteria 1 and 3, both elements were on the net income to risk-weighted asset and interest-free income on total income, respectively. Thus, the higher the income, the better the firm's performance. As for criteria four on Banks' profit, the higher the profitability, the higher the financial Maslahah. For criteria 5, the higher the Zakah to net asset ratio shows the transfer of income and wealth to the poor and the needy, thereby helping to bridge the inequality gap. As for criteria 6, the short-term funding to total assets ratio indicates if the bank directly invests in long-term projects, often proxied for contribution to the real sector investments. The

importance of these real economic sector investments has direct implications for the broader population, especially those in the rural areas and the long-term capital formation of a country.

Criteria one, three, four, five and six were classified as beneficial elements that benefit the Islamic bank and the gamut stakeholders. On the other hand, for criteria number two or element 2 of Maqasid Shariah, the objective on non-performing loans to gross loans implied that the high ratio rate shows the growing gap in income distribution due to debt. Hence, banks may impose penalties or repossess assets or projects. For this reason, this criterion is classified as a non-beneficial element. Table 8 below shows the classification of beneficial and non-beneficial elements of the six Maqasid Shariah objectives and the determinants of the maximum and minimum value for each criterion based on the distances for the ideal solution's best and worst score. Thus, the total value of distances is determined based on the ideal solution score for the best and the worst for six MSR elements based on the average data below.

Table 8: The total value of distances for the best and worst ideal solution score

Elements	**Beneficial / Non-Beneficial**	**Ideal Solution**	
		Ideal Best (Si+)	**Ideal Worse (Si-)**
C1	Beneficial	0.2996	0.0027
C2	Non-Beneficial	0.0437	0.1611
C3	Beneficial	0.2086	0.0022
C4	Beneficial	0.3300	0.0002
C5	Beneficial	0.2411	0.0014
C6	Beneficial	0.3700	0.0001

Note: C1 – C6 represent the criteria on Maqasid Shariah ratios based on 11 Islamic banks in Malaysia for the year 2012 -2018.

In the fifth step, the value of closeness coefficients and final performance scores determine each objective. The ideal best and worst scores, as well as the performance score for each objective, are displayed in Table 9.

Table 9: The closeness coefficients of the best and worse ideal solution and average scores

Code	**FO1**			**FO2**		
	Si+	**Si-**	**Pi**	**Si+**	**Si-**	**Pi**
IB1	0.0654	0.3570	0.8451	0.4951	0.2396	0.3261
IB2	0.3335	0.1002	0.2310	0.5476	0.0064	0.0115
IB3	0.3664	0.0580	0.1367	0.5403	0.0243	0.0431
IB4	0.2992	0.1877	0.3854	0.5178	0.0888	0.1464
IB5	0.3362	0.1004	0.2299	0.5055	0.1392	0.2159
IB6	0.3197	0.1345	0.2961	0.2382	0.4956	0.6753
IB7	0.3377	0.1032	0.2341	0.5485	0.0042	0.0075
IB8	0.3272	0.1280	0.2812	0.5293	0.0531	0.0912
IB9	0.2980	0.2065	0.4092	0.5505	0.0007	0.0013
IB10	0.3386	0.1236	0.2674	0.5499	0.0008	0.0014
IB11	0.3188	0.1120	0.2600	0.5445	0.0138	0.0247

Note: This table demonstrates the closeness and coefficient scores based on objectives for 11 Islamic banks in Malaysia for the year 2012 -2018. FO1 represents Fuzzy objective one, FO2 is Fuzzy Objective two, Si+ is the ideal best solution, Si- is the ideal worst solution, Pi is performance score IB1 – IB11 to represent Islamic banks.

As shown in Table 9 above, for Maqasid Shariah's objective one on Justice (FO1), IB1 scores the best, above the average at 84.51%, and for objective two on Welfare (FO2), IB6 scored above the average at 67.53%. Thus, both IBs consistently rank as Top 1 and 2 based on MSR scores. As a result, this shows the IBs' commitment to pursuing the Maqasid Shariah goal and their commitment to accountability and free sharing of as much information as possible.

In the sixth step, the final score of MSR was determined based on the weightage for each objective, while in the seventh step, each of the Islamic banks' scores was ranked based on the highest to the lowest score, and was also based on the average data for 2012 – 2018. Overall, Fuzzy TOPSIS's result ranks performance scores based on the Maqasid Shariah elements of eleven Islamic banks in Malaysia. Therefore, the final scores of coefficients after MSR ranking are displayed in Table 10 below.

Table 10: The overall ranking performances for average MSR

Code	**FO1**	**FO2**	**FMSR**	**Rank**
Weight	**0.41**	**0.29**	**0.70**	
IB1	0.3465	0.0946	0.4411	1
IB2	0.0947	0.0033	0.0981	10
IB3	0.0560	0.0125	0.0685	11
IB4	0.1580	0.0425	0.2005	3
IB5	0.0943	0.0626	0.1569	5
IB6	0.1214	0.1958	0.3173	2
IB7	0.0960	0.0022	0.0982	9
IB8	0.1153	0.0264	0.1417	6
IB9	0.1678	0.0004	0.1682	4
IB10	0.1096	0.0004	0.1100	8
IB11	0.1066	0.0072	0.1138	7

Note: This table demonstrates the overall ranking performances based on the Maqasid Shariah ratios' average scores for 11 Islamic banks in Malaysia. IB1 – IB11 represents Islamic banks, FO1 represents Fuzzy objective 1, FO2 represents Fuzzy Objective 2, and FMSR represents the Fuzzy Maqasid Shariah ratio.

Based on Table 10 above, the overall ranking of the eleven Islamic banks according to the distance values of alternatives (CC_i) shows that IB1 has the highest score of 0.4411, followed by IB6 at 0.3173. As the Fuzzy Maqasid Shariah ratio weightage is 70% in total, the result shows the fulfilment of six elements of Maqasid Shariah objectives. This shows that only IB1 reached an above-average achievement score of 0.4411 and achieved the highest score on average among the available sample of eleven Islamic banks in Malaysia. IB6 resulted slightly below 0.3173 out of 0.35. Another nine out of eleven received below 0.20 application level on the Maqasid Shariah scale's objectives. Even though Malaysian Islamic banks consistently performed on the other ground and maintained their status in the Islamic capital market industry, they still lack the best practices (Mergaliyev et al., 2019). Overall results show variations of scores for each Islamic bank every year, indicating the application level's inconsistency on the Maqasid Shariah ratio based on financial reporting. This result reflects the variation of disclosure on Maqasid Shariah ratio elements due to the voluntary adoption of AAOIFI standards, and is supported by similar findings by Shaukat and Feroskhan (2018).

5.0 CONCLUSION

Since Islamic banks' investment scope is limited and must be free from riba transactions, any

investment decision is subject to the Islamic banks' Shariah advisor's approval. Thus, Shariah non-compliance risk is lower depending on the non-interest income such as fee, commission, or trading income to raise earnings to compete with other financial competitors (Mat Isa et al., 2015). Furthermore, the higher the interest-free revenue to total income helps minimise the income and wealth inequalities favourably as the interest moves wealth mainly from the poor to the rich. Based on the Fuzzy TOPSIS approach, the third element of the Maqasid Shariah objective used in this study generally reported that Malaysia's best Islamic banks could reach 0.2086 out of 0.38 interest-free income over total income. This study's findings also indicate that performance evaluation of the Islamic bank's performance is essential for all parties - depositors, bank managers, and regulators. For instance, Islamic bank depositors share the income of every investment they make with the bank, and thus, both parties share the same rate of return with no fixed interest rate payment for their deposits (Alzoubi, 2017). Hence, Islamic bank performance signals depositor-investors in the current competitive financial market whether to invest or withdraw funds from the bank. As the fourth element of Maqasid Shariah's objective in this study, it is generally reported that the best Islamic banks in Malaysia could reach the maximum weight of 0.33 net profit over total assets and, at worst, 0.0002. These findings suggest that in the variations of Maqasid Shariah's fulfilment by Islamic banks in Malaysia, the highest rank score is IB6, for example, generating the profit with Maqasid Shariah's realisation objective, which may be due to their investment in Shariah assets.

The findings reveal that only one IB achieves above the average score on the overall MSR scale. The findings also prove that Malaysia's Islamic banks' achievement based on the Shariah objectives, specifically on Justice (objective one), achieved a higher 84.51% and Welfare (objective two) score of 67.53%. The lower scale in the MSR application level among Islamic banks might be due to the reporting disclosure requirement based on adopting the current accounting standard, specifically on recognition, measurement, and financial disclosure. This result is consistent with the findings on Islamic banks' performances explicitly measured based on the MSR index, which is still relatively low, limited, and lack of best practice (Mohammed et al., 2008; Shaukat & Feroskhan, 2018; Mega et al., 2019). Besides, Mukhibad et al. (2020) mentioned that Islamic banks have not yet fully applied the MSR to measure their performance. Islamic banks that score at the lowest Maqasid Shariah score, not because of non-performing, may be due to the reporting of disclosure matters. These findings are consistent with Mohammed et al. (2008).

Transparency in reporting (Shaukat & Feroskhan, 2018) is still what those specific ratios to be determined. A few Islamic banks can consistently perform on both grounds, and

some even lack on the other basis to deliver their performance on Maqasid Shariah objectives. For a few elements of Maqasid Shariah's goals, most Islamic banks lack the disclosure of precise elements on objective one dimensions and the fifth element explicitly on Zakah disclosure. It can be inferred that Islamic banks do not take this aim seriously enough to disclose or mention any sub-measures/ratios as reports in financial statements. Zakah is obligatory and considered a worship, measured according to Islamic Shariah's provisions and principles. As stated in the financial report, the shareholders should pay their portion of Zakah on their shares. Thus, the findings also create awareness for the Shariah fraternity, scholars, regulators, practitioners, or academicians to provide inputs on the differences in the interpretation among the Shariah advisory committee or board. The differences in opinion of the Shariah board advisory or committee are possible. Therefore, there is a need to standardise the disclosure requirements so that comparability reporting can be produced and the sustainability of Islamic financial institutions, particularly Islamic banks within Islamic windows, maintain their shariah-compliant status. Khoiriyah and Salman (2020) mentioned that the more extended Islamic banks are in the industry, the more they control the credibility of their environment. Thus, it indicates that the Islamic bank has a strong performance foundation for achieving the Maqasid shariah objectives for an extended period. Furthermore, the longer the firm is in the industry, the more significant its effect on compliance level and financial reporting disclosure (Ullah et al., 2018).

This study's first and foremost limitation is that it only focuses on objectives two and three of Maqasid Shariah due to the lack of data available for the elements on objective one. Thus, the Maqasid Shariah ratio only contributes 70% of the total score of MSR. Therefore, future researchers need to consider the remaining 30% score on other elements cum dimensions of the Maqasid Shariah ratio, particularly objective dimensions for educating individuals or citizens. The second limitation is that the sample used only eleven Islamic banks in Malaysia, almost all local banks. Hence, future studies may extend to other IFIs such as insurance, takaful, and foreign or international Islamic banks in Malaysia to picture better whether the legal or cultural barriers may influence their performance in delivering the Maqasid Shariah objectives.

Furthermore, the recommendations on the Shariah screening process by Shariah Advisory need to be fully automated or digitalised for Islamic financial institutions. Therefore, using sophisticated tools such as integrated Fuzzy AHP and TOPSIS embedded with Maqasid Shariah's objectives and elements guided by Fatwa is crucial. For instance, financial technology (FinTech) can improve Islamic finance's efficiency and effectiveness in Islamic bank transactions. Furthermore, a fully digital Islamic bank can become a quick assessment and

assist in the investment decision for low risk, reasonable return, or portfolio to mitigate the risk. Besides, using the digital or fully automated review of Sharia investment for investors, managers, and customers may serve people within the Shariah and Islamic Capital markets.

In a nutshell, the finding's implications provide insights into Islamic Finance players such as bankers, Muslim investors, depositors, customers, and other Islamic banks' financial information users. The information assists them in investing, selecting financing, and managing costs and risks. Furthermore, it is essential for Islamic Financial Institutions, specifically Islamic banks, to sustain growth and efficiency in the Islamic finance industry by ensuring the compliant status and developing sustainable growth with the alignment of Maqasid Shariah objectives fulfilment. These objectives can be fulfilled through the Islamic banks' social responsibility by ensuring Zakah payment, riba prohibition, and transparency via full disclosure and Islamic social accountability, thus maintaining their shariah-compliant status.

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