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Analysis of the Performance of Islamic Commercial Banks in Indonesia in 2021-2023 (Maqashid Sharia Index and Islamicity Performance Index Approach)

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Abstract

Background: The Islamic banking sector in Indonesia has seen rapid growth. To support this expansion, performance measurement methods adhering to Shariah principles are essential.
Objectives: This study evaluates the performance of Islamic Commercial Banks (ICBs) in Indonesia using the Maqashid Syariah Index (MSI) and the Islamicity Performance Index (IPI).
Novelty: Unlike previous studies, this research addresses gaps in prior findings and reexamines the alignment of Islamic banking practices with Shariah principles.
Research Methodology / Design: A purposive sampling technique was employed to select 10 ICBs. The study adopts a quantitative approach using secondary data from financial reports and applies descriptive analysis to assess bank performance.
Findings: The results reveal that many ICBs in Indonesia do not fully align with MSI or IPI metrics, indicating inconsistencies in achieving Shariah objectives.
Implication: Further research with expanded sample sizes and refined methodologies is essential. Islamic banks must enhance the transparency and comprehensiveness of financial disclosures to better reflect Shariah compliance. Additionally, theoretical advancements are required to bridge gaps in current performance measurement frameworks.

Keywords: Islamic banking performance, Maqashid Syariah Index, Islamicity Performance Index, Shariah compliance, performance measurement

JEL Classifications: E42, E58, G21, Z12

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A. Introduction

Conventional and Islamic banking are two competing models, both subject to academic and professional scrutiny, particularly after the global financial crisis of 2007-2008, which challenged the resilience of conventional banking systems. The crisis shifted attention toward Islamic banking, which demonstrated strong performance during the downturn (Ahsan & Qureshi, 2022). According to data from the Financial Services Authority (Otoritas Jasa Keuangan, 2023), the number of Islamic banks in Indonesia reached 21 by the end of 2023, with total assets of IDR 579.9 trillion and financing amounting to IDR 390.9 trillion. Despite the increase in assets and financing from the previous year, Islamic banks have not yet been able to compete with conventional banks in terms of market size and reach.

Islamic and conventional banking differ fundamentally in their philosophy, operational principles, and objectives. Conventional banking operates on an interest-based system, focusing primarily on profitability and economic efficiency as key performance indicators. In contrast, Islamic banking is founded on principles of justice, partnership, and the prohibition of riba (usury). Its orientation is not only toward financial gain but also toward social and spiritual welfare (Antonio, 2001). This distinction is significant in academic discourse, as it reveals different perspectives on the role of financial institutions in society and their contributions to economic stability and social equity.

In operational terms, Islamic banking employs contract-based systems such as mudharabah (profit-sharing) and musyarakah (joint venture), grounded in the principle of shared risk and reward. These models reflect fairness and sustainability in transactions, unlike the interest-based loan system of conventional banks, which is often perceived as unfair and potentially leading to economic disparities (Ahsan & Qureshi, 2022; hameed dkk., 2004). This approach emphasizes not only profitability but also adherence to Islamic values, making it an important subject of research to evaluate how effectively Shariah principles are integrated into banking practices.

The importance of this distinction in academic studies lies in its implications for policy design and the development of the financial industry. Evaluating Islamic banking using tools such as the Maqasid Shariah Index and the Islamicity Performance Index provides new insights into how financial institutions can integrate economic, social, and spiritual dimensions into their operations (Yusnita, 2019). This perspective enriches the academic discussion surrounding the sustainability of a more inclusive and equitable global financial system.

Despite the rapid growth of Islamic banking, it faces numerous challenges, one of which is the intense competition in attracting third-party funds between both banking and non-banking financial institutions. Islamic banks must build trust among stakeholders, not only through financial performance but also in terms of their Shariah compliance and social responsibility. This trust is crucial for Islamic banks as they aim to expand further. To establish such trust, there is a need for tools to measure and evaluate Islamic banking performance based on financial reports that are built upon Shariah principles. Hence, an appropriate measurement tool is necessary to assess and evaluate the performance of Islamic banks.

Shariah performance refers to the achievements and outcomes of an institution that adheres to Islamic principles, measured periodically. As business entities, Islamic banks are not only expected to pursue profit but also to fulfill their roles and purposes as Shariah-compliant institutions, grounded in the concept of Maqasid Shariah. (Puteri, 2018) notes that measuring the performance of Islamic banks differs from measuring that of conventional banks, as these two types of banks have very different core functions and operational characteristics. Therefore, measuring the performance of Islamic banks requires specific metrics based on Shariah principles to align with the ultimate goals of Shariah (maqashid shariah) for these institutions.

The performance of Islamic banks can be assessed from the perspective of Shariah goals, or Maqasid Shariah. This allows for an evaluation of how well an Islamic bank's activities align with Shariah-compliant financial practices. The primary objectives of Shariah, as outlined by Imam Abu Hamid Al-Ghazali, aim to promote the welfare of humanity through the protection of five essential elements: religion (Din), life (Nafs), intellect (Aql), lineage (Nasl), and property (Maal). Anything that ensures the protection of these five elements is in line with public interest and should be encouraged, whereas actions that harm these elements are contrary to public interest and must be avoided. The Maqasid Shariah Index represents an alternative model for assessing the performance of Islamic banks, generally using profitability ratios such as ROA, ROE, or ROI as financial performance indicators.

Contemporary assessments of Islamic banking performance tend to prioritize economic goals, particularly profit generation, and may overlook the institution's social function (maslahah). (Chapra, 2000) argues that this tendency to focus on financial performance, while important, should not overshadow the bank's primary social responsibility, which is to contribute to the public good and align with the broader objectives of Shariah. Thus, integrating both financial and social performance measures in the evaluation of Islamic banks is essential for ensuring that these institutions fulfill their dual role as both profit-making entities and as institutions that serve the welfare of society.

In addition to the Maqasid Shariah, the performance assessment of Islamic banking has gained an alternative approach through the use of the Islamicity Performance Index (IPI). This index serves as a performance measurement tool for Islamic banks, focusing not only on financial aspects but also evaluating key principles such as justice, halal practices, and purification (tazkiyah). The IPI's primary goal is to provide stakeholders with a comprehensive understanding of how well Islamic banks are adhering to the ethical and spiritual principles of Islam through their operational ratios. Its application is particularly important because it uncovers both the materialistic and spiritual values embedded in the operations of Islamic banks. Moreover, it helps raise awareness among Muslim communities about how effectively these banks are achieving their broader goals. As highlighted by(hameed dkk., 2004), the use of the Islamicity Performance Index allows for a broader perspective in evaluating Islamic banks, moving beyond financial performance to encompass values that align with Islamic teachings.

The Maqasid Shariah Index (MSI) and the Islamicity Performance Index (IPI) are both designed to measure the performance of Islamic banks while considering the holistic principles of Shariah. MSI focuses on the primary objectives of Shariah, which aim to promote human welfare by protecting the five essential elements: religion (din), life (nafs), intellect (aql), lineage (nasl), and property (maal). This approach evaluates not only financial success but also how well an Islamic bank supports the development of education, social justice, and the welfare of society (Chapra, 2000; Mohammed dkk., 2008). In this context, MSI provides a comprehensive framework for assessing how Islamic banks contribute to broader societal goals, highlighting their role in advancing social and economic well-being.

On the other hand, the IPI offers a framework for evaluating an Islamic bank's compliance with Islamic values through indicators such as zakat, fair income distribution, and halal income. This approach allows for a more inclusive performance analysis that encompasses both material and spiritual aspects. By using the IPI, stakeholders can assess how effectively Islamic banks are fulfilling their role in accordance with Shariah. The index enables a broader perspective on performance, which includes not only financial outcomes but also social contributions and the alignment with Islamic ethical standards (hameed dkk., 2004; Yusnita, 2019). This makes the IPI an important tool for assessing the overall impact of Islamic banks in promoting justice, equity, and adherence to halal practices.

The Maqasid Shariah Index (MSI) also enables the measurement of Islamic bank performance based on their contribution to society, rather than focusing solely on shareholder interests. Through three main dimensions—individual education (tahdzib al-fard), justice (iqamat al-adl), and social welfare (jalb al-maslahah)—MSI helps assess how well Islamic banks fulfill the comprehensive objectives of Shariah. These dimensions ensure that the bank's operations contribute to the broader goals of Islamic finance, which include both economic and spiritual balance. MSI emphasizes the social role of Islamic banks, positioning them as agents of social change that promote economic justice and spiritual well-being (Sholichah, 2022). This is particularly relevant in assessing how Islamic banks support social balance and sustainable development, aligning their operations with the broader goals of Shariah.

The IPI, as an evaluative tool, plays a significant role in assessing how well Islamic banks implement Islamic values in their business operations. Indicators such as the Zakat Performance Ratio (ZPR), Profit Sharing Ratio (PSR), and the Islamic Income vs. Non-Islamic Income Ratio highlight the importance of ensuring that Islamic banks are not only focused on profitability but also on their adherence to halal practices and social contributions. This perspective provides an alternative to conventional financial indicators such as Return on Assets (ROA) and Return on Equity (ROE), which often dominate traditional banking performance assessments. The IPI emphasizes that Islamic banks should balance profitability with ethical practices and social responsibility (hameed dkk., 2004; Yusnita, 2019). By doing so, it offers a more holistic view of their performance, taking into account both material and spiritual values.

In conclusion, both the Maqasid Shariah Index and the Islamicity Performance Index are valuable tools in evaluating the performance of Islamic banks. They offer complementary approaches that assess not only financial performance but also how well Islamic banks adhere to the broader ethical, spiritual, and social principles of Islam. These indices help stakeholders—whether they are investors, regulators, or customers—evaluate the extent to which Islamic banks contribute to societal welfare, uphold justice, and remain faithful to Islamic values. As such, they serve as essential instruments in promoting greater accountability and transparency within the Islamic banking sector, guiding the industry towards a more inclusive and sustainable future.

By combining the Maqasid Shariah Index (MSI) and the Islamicity Performance Index (IPI), this study develops a comprehensive framework for evaluating the performance of Islamic banks. MSI focuses on the fundamental objectives of Shariah, while the IPI broadens the analysis by incorporating specific indicators such as zakat, profit-sharing, and halal investments. This combination not only allows for a more enriched assessment but also provides a more realistic understanding of how Islamic banks execute their missions within the modern context (hameed dkk., 2004).

In the context of Indonesia, where Islamic banking continues to grow, the application of both MSI and IPI is crucial in identifying the challenges and opportunities within Islamic bank operations. Previous studies have shown that many Islamic banks still face gaps in implementing Shariah principles, particularly in the areas of zakat distribution and investment in the real sector (Sholichah, 2022). By using both indices, this research can provide valuable insights into the extent to which Islamic banks have fulfilled their responsibilities toward society and adhered to Shariah principles.

The use of MSI and IPI in this study is not only relevant for assessing the financial performance of Islamic banks but also for evaluating how well they reflect the core values of Islam. Combining both indices allows for a more holistic analysis, incorporating economic, social, and spiritual dimensions, which lie at the heart of the Islamic banking system. This comprehensive approach ensures that Islamic banks are assessed not just on financial outcomes but also on their broader contributions to societal well-being and moral integrity.

Nowadays, many Muslims have become increasingly aware that it is not only about the return rates they earn, but more importantly, where their money is being invested. For non-Muslims, the Islamicity Performance Index offers a way to compare banks that are well-managed, both in terms of financial returns and social responsibility (Yusnita, 2019). The MSI and IPI framework also serves as an innovation in measuring the overall performance of Islamic banking. This approach provides policymakers with richer data to design programs and strategies that align with Islamic principles, focusing not only on economic achievements but also on social and ethical aspects (Istiqamah & Supriyanto, 2017). Such a comprehensive evaluation is essential for supporting public policies that are rooted in Islamic values, ensuring they address both economic and social needs.

The combination of MSI and IPI offers a broader view of a country or institution's performance in implementing Islamic principles, both in economic and social fields, and reflects the success or shortcomings of policies in the context of maqasid (objectives) and practical Islam. The use of these indices provides a more thorough understanding of how Islamic governance and finance systems are performing in a modern context, enabling policymakers to make more informed decisions.

As highlighted in previous studies, there is a growing need for a broad-based performance measurement system that goes beyond just economic aspects. For instance, research by (Marwal, 2023) indicates that Islamic banking in Indonesia has shown good performance when measured using both the Islamicity Performance Index and Maqasid Shariah Index. This is consistent with the findings of (Sholichah, 2022), who argues that the Maqasid Shariah Index is essential for measuring the performance of Islamic banks because it transforms the performance evaluation model into one that reflects the unique system of Islamic banking, which is different from conventional banking. The fundamental differences in these systems lead to distinct product offerings and approaches to performance evaluation. Further research, such as the study by (Sholihin dkk., 2023; WIRA dkk., 2018), , suggests that Islamic banks (BUS), Islamic business units (UUS), and Islamic rural banks (BPRS) remain inconsistent in achieving their Shariah objectives. This is attributed to factors such as reductions in educational and training budgets, decreased profitability, unimplemented zakat distribution, and diminished investments in the real sector.

These findings underline the need for comprehensive performance evaluations that go beyond traditional financial metrics. By incorporating both the Maqasid Shariah and Islamicity Performance Indices, the evaluation can more effectively measure the alignment of Islamic banks with Shariah principles and their broader societal role, providing a more nuanced and actionable understanding of their operations and impact.

Several studies have been conducted to evaluate the performance of Islamic banking using various frameworks, including the Maqasid Shariah Index (MSI) and the Islamicity Performance Index (IPI). (Solihin dkk., 2019) emphasized the importance of using MSI as a holistic performance measurement tool in Islamic banking. In their study, the MSI was developed based on three main objectives: individual education, justice, and societal welfare. The research concluded that the MSI could be an effective evaluation tool for assessing the extent to which Islamic banks have implemented Shariah principles in their operations. However, the implementation of MSI has been largely confined to academic circles and has yet to be widely adopted by regulators.

In addition, (hameed dkk., 2004) introduced the Islamicity Performance Index as an alternative tool to assess Islamic banking performance from the perspective of Shariah compliance. The IPI uses indicators such as zakat, profit-sharing, and income distribution to evaluate the success of banks in achieving Shariah objectives. This study showed that the IPI is capable of revealing the balance between material and spiritual values in the operations of Islamic banks. However, the research also noted that the application of the IPI in Indonesia faces challenges, particularly due to limited data availability and differences in financial reporting standards across banks. (Yusnita, 2019) conducted an analysis of the performance of Islamic banking in Indonesia using the IPI approach for the period 2012–2016. The study found that the majority of Islamic Commercial Banks (BUS) had low scores on the zakat and income distribution indicators, reflecting a lack of focus on the social dimension in their operations. This was further supported by findings from (Sholihin dkk., 2023), who stated that fluctuations in Islamic banking performance were often due to reduced budgets for education, training, and investments in the real sector.

Moreover, (Adzhani & Rini, 2019) provided valuable insights on the importance of integrating MSI and IPI to offer a more comprehensive picture of Islamic banking performance. This study suggested that combining these two indices could help regulators and policymakers design strategies that are in line with Islamic principles. However, the study also pointed out the gap between theory and practice, particularly regarding the implementation of social justice and contributions to societal welfare.

Asutay & Harningtyas (2015) developed the Maqasid al-Shari'ah Index to evaluate the social performance of Islamic banks. Their research revealed that many Islamic banks tend to prioritize financial profitability over their social and spiritual objectives. The study recommended adopting a more holistic approach that integrates social justice and economic sustainability as key components of evaluating the performance of Islamic banks.

Further research by (Hudaefi & Badeges, 2022; Hudaefi & Noordin, 2019; Nastiti, 2023) incorporated the Maqasid al-Shari'ah Index to comprehensively assess the performance of Islamic banks. These studies emphasized the importance of balancing adherence to Islamic principles with achieving strong financial performance. The integration of both dimensions—spiritual and financial—was identified as essential for evaluating the true success of Islamic banking institutions. (Mohammed dkk., 2008) applied the Islamicity Performance Index (IPI) to assess the performance of Islamic banks from the perspective of compliance with halal principles, income distribution, and zakat. This research highlighted the critical role of transparency in financial reporting to enhance the credibility of Islamic banks among their clients, suggesting that clear and ethical reporting is vital for fostering trust and long-term relationships with customers.

In another study, (Mergaliyev dkk., 2021) developed an ethical framework to evaluate Islamic banking performance. Their findings concluded that combining the Maqasid al-Shari'ah Index (MSI) and the IPI provides a more comprehensive view of Islamic banks' success in fulfilling both the maqasid and broader stakeholder interests. This integrated approach allows for a more nuanced assessment of how Islamic banks can balance religious obligations with practical financial performance. (Wulandari dkk., 2022) pointed out that the implementation of the Maqasid al-Shari'ah Index often faces challenges due to a lack of formal education on performance measurement for Islamic banks in accordance with Islamic principles. Moreover, Islamic banks tend to adopt conventional banking performance metrics, which are often one-dimensional and not suited to the unique objectives of Islamic finance.

Building on these previous studies, there remains a gap in evaluating the performance of Islamic banks, particularly in integrating both the MSI and IPI approaches within the context of Indonesia. This study aims to fill that gap by evaluating the performance of 10 Islamic Commercial Banks in Indonesia during the 2021–2023 period using both indices. By focusing on the most recent period, this research aims to provide new insights into the challenges and opportunities faced by Islamic banking in applying Shari'ah principles in a holistic manner.

B. Literature Review

B.1. Theoretical framework

Sharia Enterprise Theory

Sharia Enterprise Theory (SET) is a framework that integrates Islamic principles with business management, specifically within the context of Islamic banking. This theory provides a philosophical foundation for financial institutions to align their operations with the ethical and moral values outlined in Islamic law (Shariah). In Islamic banking, the primary objective is to avoid activities such as charging interest (riba), engaging in speculative investments (gharar), and promoting gambling (maysir), which are prohibited by Shariah. SET guides Islamic banks to not only focus on financial profit but also consider social justice, transparency, and fairness in their operations. By ensuring that all banking practices comply with these principles, SET plays a crucial role in enhancing the overall performance and credibility of Islamic banks in the global financial market (hameed dkk., 2004).

The application of Sharia Enterprise Theory significantly impacts the operational transparency and accountability of Islamic banks. One of the fundamental aspects of SET is the emphasis on high levels of transparency, which ensures that all banking transactions and financial products are in full compliance with Islamic ethical standards. This transparency not only helps to prevent fraudulent practices but also builds trust and confidence among clients, especially in a sector that demands religious and ethical adherence. When Islamic banks demonstrate transparency, they improve their reputation, attracting more customers and investors who value ethical business practices. The higher the level of compliance with Shariah principles, the more likely a bank is to experience improved financial performance and sustainability (Karim, 2001). Consequently, SET's focus on ethical governance and clear reporting fosters a culture of trust that enhances the bank's long-term viability.

Furthermore, SET encourages innovation in the development of financial products and services that adhere to Islamic principles while remaining competitive in the global market. Islamic banks are motivated to design financing options that are based on profit-sharing (such as mudarabah and musharakah) rather than interest-based models, which are central to conventional banking. This approach helps the bank to meet customer demands for ethical financial solutions that are both Sharia-compliant and economically viable. Through this innovation, SET ensures that Islamic banks are not only adhering to religious dictates but also providing services that meet the evolving needs of the modern economy. As such, the integration of SET into business strategies allows banks to create sustainable products that offer both financial returns and social benefits, thus improving overall bank performance (hassan & Bashir, 2005).

SET also emphasizes corporate social responsibility (CSR) and sustainability, which are essential components in the operational success of Islamic banks. By adhering to Shariah principles, Islamic banks are encouraged to invest in projects that benefit the broader society, such as funding healthcare, education, and infrastructure development. These socially responsible investments help improve the well-being of communities and enhance the reputation of the bank. In turn, this boosts customer loyalty and retention, as individuals and businesses prefer to engage with financial institutions that contribute positively to society. Through the lens of SET, the social dimension of banking is as important as the financial, leading to a more holistic view of performance that includes both profit and societal impact. Therefore, banks that successfully implement SET principles are likely to see improved public image and increased customer base, leading to better financial outcomes (Jazil & Syahruddin, 2013).

The role of leadership within Islamic banks is another critical factor that influences their performance through the lens of Sharia Enterprise Theory. SET underscores the importance of ethical leadership in guiding the bank's operations and ensuring alignment with Shariah principles. Leaders who demonstrate a commitment to these values foster a culture of integrity and accountability within the organization. This leadership style can positively affect the bank's performance by creating a conducive environment for ethical decision-making and operational efficiency. Furthermore, SET suggests that a strong ethical culture, instilled by leadership, promotes employee satisfaction and retention, which can directly contribute to better customer service and organizational productivity. Effective leadership that adheres to the principles of SET enhances the long-term performance and sustainability of Islamic banks, ensuring that they remain competitive and trustworthy in the financial sector (Karim, 2001).

The evaluation of performance in Islamic banks is not solely based on financial metrics but also on their adherence to Shariah principles. SET encourages a dual evaluation system that assesses both financial outcomes and compliance with Islamic law. This balanced approach allows Islamic banks to measure their success in a more comprehensive way, ensuring that profitability does not come at the cost of ethical integrity. Banks that are able to consistently balance these two dimensions tend to have stronger customer trust, improved financial stability, and greater long-term success. By incorporating SET into their performance evaluation models, Islamic banks can ensure that they are achieving not only financial goals but also fulfilling their ethical and social responsibilities (hassan & Bashir, 2005).

Maqashid syariah Index

Maqashid al-Shariah refers to the objectives or purposes behind Islamic law, aiming to secure the welfare of humanity in both worldly and spiritual realms. It represents a framework that guides Muslims to uphold justice, equity, and human dignity through the principles derived from the Quran and Hadith. Over time, scholars have emphasized the importance of understanding the objectives behind Islamic rulings, not just their legal prescriptions, as a way to ensure that the laws are implemented in a manner that benefits the greater good of society. Maqashid al-Shariah focuses primarily on protecting religion, life, intellect, progeny, and wealth, which are considered fundamental to human well-being. This broad conceptualization is crucial in analyzing various policies and systems to see how well they align with the Islamic vision of a just society (Al-Ghazali, 2003).

In recent years, scholars and policymakers have sought to develop tools to measure the extent to which Islamic principles are integrated into public policies, particularly in Muslim-majority countries. One of these tools is the Maqashid al-Shariah Index (MSI), an instrument designed to assess how well societal systems align with the objectives of Shariah. MSI was developed as a response to the need for a comprehensive framework to evaluate socio-economic, political, and cultural practices through an Islamic lens. It aims to provide a clear, measurable indicator of a society's adherence to Islamic values by quantifying the extent to which the key objectives of Shariah are achieved. These objectives include not only the protection of life, wealth, and faith but also the promotion of social justice and equity (Ragab, 2007).

The MSI operates on both quantitative and qualitative measures. Quantitative data often involves analyzing economic indicators such as GDP per capita, poverty rates, unemployment, and wealth distribution. It also looks at social and political indicators, such as access to education, healthcare, and freedom of expression, which are essential in evaluating the protection of human dignity and the equitable distribution of resources. Qualitative analysis is equally important, particularly in assessing the application of Islamic values within societal structures such as governance, the legal system, and the treatment of minorities. This comprehensive approach allows MSI to gauge whether a country or region is successfully fulfilling the broader goals of Islam, which are centered around justice, human welfare, and the collective good (Karim, 2001).

The development and implementation of the MSI come with several challenges, especially due to the diversity of Islamic thought across different regions. Different schools of Islamic jurisprudence may interpret the objectives of Shariah in varying ways, leading to differences in how policies are implemented. In addition, there is often a lack of consistent and reliable data, particularly in countries where governance structures are less transparent or where economic and social data is incomplete. Despite these challenges, the MSI is seen as an important tool in evaluating not only the political and economic systems but also in enhancing the understanding of Shariah's relevance to contemporary governance (Karim, 2001). Furthermore, it encourages policymakers to reflect on how their decisions affect the welfare of their citizens and whether they are aligned with the broader, higher goals of Shariah.

The Maqashid al-Shariah Index provides a valuable framework for assessing the alignment of public policies with the objectives of Islamic law. By combining both quantitative and qualitative measures, MSI offers a holistic approach to evaluating societal welfare and justice from an Islamic perspective. Although there are challenges in its implementation, particularly regarding the diversity of interpretations and data availability, the MSI remains a significant tool for fostering development policies that are not only effective but also rooted in Islamic ethical principles. The continued development of the MSI can play an instrumental role in shaping future policy decisions in Muslim-majority societies, helping to bridge the gap between Islamic teachings and modern governance.

Islamicity Performance Index

The Islamicity Performance Index (IPI) is a comprehensive and multidimensional framework designed to evaluate how effectively a country adheres to Islamic principles in its socio-economic, political, and governance systems. Introduced by the Center for Islamic Economics (CIE) in 2000, the IPI was developed in response to the growing need for an objective, systematic tool that could measure the alignment of countries with the core values of Islam, especially in relation to their economic and social policies. The index reflects a vision of governance that is rooted in the moral and ethical teachings of Islam, which emphasize justice, equity, transparency, and social welfare. Its objective is not just to assess the extent to which a country practices Islamic principles, but also to guide policymakers towards a more just, equitable, and welfare-oriented approach to governance. According to (Chapra, 2000), the IPI is seen as an essential tool for guiding nations in the pursuit of socio-economic development that is consistent with Islamic values.

The IPI is made up of multiple dimensions that reflect a holistic view of an Islamic society. Among its most important criteria are economic justice, social welfare, political freedom, the rule of law, and ethical business practices. The index measures a country's performance in these areas by assessing factors such as wealth distribution, the protection of property rights, the fairness of the legal system, and the inclusivity of economic opportunities. It also evaluates whether the country's economy is operating in line with Islamic financial principles, such as the prohibition of interest (riba), avoidance of unethical trade practices, and the promotion of fairness in business transactions. By using these criteria, the IPI aims to provide a comprehensive picture of how a country's governance system aligns with the moral imperatives of Islam (Chapra, 2000). A high score on the index indicates that a country is closer to achieving an ideal Islamic society, characterized by fairness, transparency, and a commitment to social welfare. Conversely, a low score suggests that the country may need significant reforms to better align its systems with Islamic principles (Al-Qaradawi, 2001).

Central to the Islamicity Performance Index is the concept of social justice, which is deeply embedded in the teachings of Islam. Social justice, as understood in the context of Islamic governance, calls for the fair distribution of wealth and resources and the provision of basic needs to all members of society, particularly the marginalized and vulnerable. One of the most significant mechanisms in Islam for achieving social justice is zakat, the mandatory alms that Muslims are required to give to the poor and needy. Zakat represents a direct and institutionalized way of redistributing wealth, which is fundamental to an Islamic economic system. The IPI evaluates how effectively a country's social welfare system promotes such redistributive mechanisms, ensuring that wealth is not concentrated in the hands of a few but is distributed to benefit the broader society. In this regard, the IPI not only serves as a diagnostic tool but also as a catalyst for reform, highlighting areas where a country may fall short in addressing the needs of its most vulnerable populations. (Kahf, 2005) discusses the centrality of zakat and other redistributive policies in the Islamic vision of social welfare, asserting that an Islamic economic system must prioritize the eradication of poverty and the promotion of equity in wealth distribution.

Another important aspect of the IPI is its ability to assess the political and governance dimensions of a country's performance. Islam emphasizes the importance of accountability, transparency, and the rule of law in ensuring that governments serve the best interests of their people. The IPI evaluates how well a country’s political institutions uphold these values, with particular attention to the protection of civil liberties, political freedoms, and the prevention of corruption. Islam advocates for a government that is just, transparent, and accountable to its citizens. Therefore, the index takes into account the degree to which a country’s political system is inclusive and participatory, ensuring that people’s voices are heard and their rights are respected (Chapra, 2000). The role of Islamic governance is not merely to implement Shariah law but also to create a system that facilitates justice, upholds human dignity, and ensures the well-being of all members of society. The IPI provides a measure of how effectively these principles are being implemented in the political sphere.

Moreover, the IPI is a valuable comparative tool, as it enables cross-country comparisons based on their adherence to Islamic economic and governance principles. This comparative aspect allows policymakers, scholars, and other stakeholders to benchmark their country's performance against others and identify best practices that can be adapted to local contexts. It also promotes a broader discourse about the application of Islamic principles in governance, encouraging an exchange of ideas and experiences that can contribute to better governance practices. By comparing performance on the IPI, countries can learn from each other's successes and challenges in implementing Islamic governance models. (Chapra, 2000) suggests that the comparative analysis facilitated by the IPI is vital for advancing the practical application of Islamic economic thought, as it provides tangible examples of how Islamic principles can be implemented in modern governance systems.

In conclusion, the Islamicity Performance Index provides a unique and valuable tool for assessing the degree to which a country’s governance, policies, and economic practices align with Islamic principles. It offers a comprehensive evaluation of a country's performance across multiple dimensions, including economic justice, social welfare, the rule of law, and political freedom. By using the IPI, countries can identify areas for reform and work towards creating more just, equitable, and welfare-oriented societies. The index not only offers a framework for measurement but also serves as an advocacy tool for the promotion of Islamic values in governance. Ultimately, the IPI underscores the importance of aligning socio-economic and political systems with Islamic principles, ensuring that they serve the collective good and promote justice and fairness for all members of society.

C. Research Methodology

This study adopts a quantitative descriptive research method to evaluate the performance of Sharia Commercial Banks (BUS) in Indonesia. The performance is assessed using two integrative frameworks: the Maqashid Syariah Index (MSI) and the Islamicity Performance Index (IPI). These frameworks go beyond traditional financial metrics by incorporating Islamic principles and values, providing a holistic perspective on the operational and ethical performance of Islamic banks. The study leverages secondary data obtained from annual financial reports published by the banks and regulated by the Financial Services Authority (OJK). The sample consists of 14 Sharia Commercial Banks selected through purposive sampling, based on their availability of complete data and adherence to criteria relevant to the research objectives.(Triwuyono, 2006)

The decision to analyze the performance of BUS over a three-year period, from 2021 to 2023, was strategic and grounded in several key justifications. First, these years represent the most recent period with publicly accessible data, ensuring the study reflects current conditions and challenges in the Islamic banking industry. The availability of complete and verifiable annual reports on the official websites of these banks further strengthens the reliability of the dataset. Second, this timeframe allows the research to capture the influence of dynamic economic and regulatory environments, including the recovery phase following the COVID-19 pandemic. This context is particularly important, as the pandemic created significant economic shifts, testing the resilience and adaptability of Islamic financial institutions. Third, by focusing on this concise yet meaningful period, the research can offer actionable insights that address contemporary issues while serving as a benchmark for future studies (Triwuyono, 2006).

The choice to focus exclusively on Sharia Commercial Banks (BUS) is deliberate and based on their unique position within the Islamic banking ecosystem. Compared to Sharia Business Units (UUS) and Sharia Rural Banks (BPRS), BUS operate with broader mandates, serve larger and more diverse customer bases, and manage a wider portfolio of services. These characteristics make them more representative of the practical implementation of Islamic principles, such as maqashid syariah, in modern banking. Furthermore, the financial reports of BUS tend to be more detailed and standardized, allowing for more accurate and comprehensive analysis. This focus also acknowledges that BUS, as the primary drivers of the Islamic banking industry, play a critical role in shaping the sector's overall trajectory and compliance with Islamic values (Antonio, 2001).

By combining the MSI and IPI frameworks, the study achieves a nuanced evaluation of the financial, ethical, and social dimensions of Islamic banking performance. The Maqashid Syariah Index emphasizes three core objectives: individual education (tahdzib al-fard), upholding justice (iqamah al-adl), and promoting public welfare (jalb al-maslahah). Meanwhile, the Islamicity Performance Index provides a broader view of compliance with Islamic principles, incorporating metrics such as the profit-sharing ratio, zakat performance, equitable income distribution, and the ratio of Islamic versus non-Islamic income. Together, these indices capture both the material and spiritual aspects of Islamic banking, offering a holistic view that aligns with the ethical goals of sharia.

Through this rigorous approach, the study provides valuable insights for stakeholders, including policymakers, regulators, and practitioners, to better understand the gaps and opportunities within the Islamic banking sector. The findings are expected to contribute to the ongoing development of policies and strategies that enhance the alignment of Islamic banks with maqashid syariah principles, fostering an industry that not only achieves financial success but also fulfills its moral and social responsibilities.

D. Result & Discussion

D.1 Result

Performance Ratio of Maqahid Syariah Index (MSI)

The MSI framework measures the performance of Islamic banks against three key Shariah objectives: individual education, justice, and societal welfare.

Table 1. Maqashid Syariah Index Performance Ratio

Bank	Tahun	IK1	IK2	IK3	MSI
BSI	2021	0.44%	16.27%	0.98%	17.69%
	2022	0.22%	18.76%	0.42%	19.41%
	2023	0.30%	19.31%	0.44%	20.05%
MUAMALAT	2021	0.24%	15.62%	0.80%	16.66%
	2022	0.44%	15.69%	0.24%	16.37%
	2023	0.87%	18.85%	0.38%	20.09%
BAS	2021	0.13%	16.56%	0.13%	16.82%
	2022	0.14%	15.25%	1.45%	16.84%
	2023	0.03%	15.66%	1.64%	17.33%
BTPN	2021	1.49%	19.58%	0.76%	21.83%
	2022	0.11%	20.22%	0.80%	21.14%
	2023	0.30%	16.56%	0.48%	17.34%
PANIN	2021	0.07%	13.63%	-0.54%	13.15%
	2022	0.13%	19.12%	0.38%	19.63%
	2023	0.09%	20.02%	0.36%	20.47%
Victoria	2021	0.05%	17.63%	0.04%	17.73%
	2022	0.06%	17.40%	0.04%	17.50%
	2023	0.16%	17.52%	0.05%	17.74%
BJB	2021	0.17%	15.91%	0.02%	16.10%
	2022	0.82%	16.99%	0.08%	17.89%
	2023	0.55%	16.26%	0.04%	16.85%
Mega S	2021	0.17%	19.54%	0.65%	20.36%
	2022	0.19%	18.33%	0.47%	18.99%
	2023	0.49%	17.81%	0.44%	18.75%
Bukopin	2021	0.11%	14.97%	-0.36%	14.72%
	2022	0.53%	14.06%	-0.09%	14.50%
	2023	0.09%	14.32%	-0.64%	13.77%
BCAS	2021	0.17%	17.63%	0.08%	17.88%
	2022	0.38%	17.83%	0.09%	18.30%
	2023	0.23%	18.17%	0.10%	18.50%

In general, based on the data obtained in the table above, Bank Bukopin Syariah is the first best BUS to achieve the implementation of sharia objectives (MSI) in the 2018-2020 period compared to other sharia commercial banks. This is supported by the achievement of Bank BTPN Syariah which has a high average score. Meanwhile, the bank with the lowest MSI value is the Bukopin sharia bank, this is because in 2021-2023 the Bukopin bank experienced losses. However, every sharia commercial bank also has superior scores in every ratio value in achieving maqashid sharia goals. And as a sharia institution that plays a role in helping improve the economy of the people, sharia banks must increasingly play a role in the social and public benefit side so that the implementation of the expected sharia goals can achieve maximum results.

1. Individual Education (Tahdzib al-Fard)

   Islamic banks are expected to contribute to education and capacity building for employees and society. This is evaluated through four main indicators: education, research, training, and publications.

Table 2. First Goal of Maqashid Sharia Performance Ratio

Bank	Year	Education	Study	Training	Publication	RK1
BSI	2021	3.721%	0.000%	2.226%	0.000%	0.442%
	2022	0.612%	0.000%	2.318%	0.000%	0.225%
	2023	1.481%	0.000%	2.460%	0.000%	0.299%
MUAMALAT	2021	0.539%	0.000%	2.569%	0.000%	0.239%
	2022	2.550%	0.000%	3.321%	0.000%	0.443%
	2023	8.357%	0.000%	3.389%	0.000%	0.866%
BAS	2021	0.357%	0.000%	1.375%	0.000%	0.133%
	2022	0.180%	0.000%	1.625%	0.000%	0.140%
	2023	0.374%	0.005%	0.005%	0.000%	0.028%
BTPN	2021	1.977%	0.000%	0.637%	0.259%	1.491%
	2022	0.671%	0.000%	0.658%	0.211%	0.114%
	2023	2.982%	0.000%	1.058%	0.000%	0.297%
PANIN	2021	0.127%	0.000%	0.208%	0.660%	0.071%
	2022	0.607%	0.000%	0.315%	0.825%	0.125%
	2023	0.438%	0.000%	0.239%	0.560%	0.089%
Victoria	2021	0.222%	0.000%	0.435%	0.000%	0.050%
	2022	0.153%	0.000%	0.513%	0.118%	0.059%
	2023	1.500%	0.000%	0.497%	0.210%	0.161%
BJB	2021	0.772%	0.054%	1.356%	0.000%	0.166%
	2022	7.761%	0.392%	2.906%	0.000%	0.817%
	2023	5.683%	0.006%	1.799%	0.000%	0.550%
Mega S	2021	0.745%	0.000%	1.479%	0.000%	0.169%
	2022	0.863%	0.000%	1.685%	0.000%	0.194%
	2023	1.687%	0.000%	1.841%	3.332%	0.495%
Bukopin	2021	0.746%	0.000%	0.289%	0.486%	0.110%
	2022	5.866%	0.000%	0.427%	1.107%	0.532%
	2023	0.532%	0.000%	0.384%	0.360%	0.093%

Bank	Year	Education	Study	Training	Publication	RK1
BCAS	2021	0.988%	0.000%	1.303%	0.000%	0.173%
	2022	1.590%	0.000%	3.198%	0.289%	0.384%
	2023	0.837%	0.000%	2.166%	0.000%	0.229%

a) Education Ratio

Bank Muamalat demonstrated the highest allocation toward education (8.36% in 2023), reflecting a strong commitment to knowledge enhancement. In contrast, Bank Panin recorded the lowest (0.13% in 2021), indicating minimal efforts in this area. Overall, most banks allocated less than 1%, showing limited focus on educational development.

b) Research Ratio

Research investments, crucial for fostering innovation, were notably absent in most banks, with almost all reporting 0% allocation. This underscores a lack of strategic emphasis on research for product and service innovation.

c) Training Ratio

Employee training is essential for skill enhancement. Bank Muamalat again stood out with the highest training ratio (3.35% in 2021), while Bank Aceh reported the lowest (0.005% in 2023). This disparity highlights significant gaps in workforce development across banks.

d) Publication Ratio

Publications and promotions play a vital role in increasing public awareness of Islamic banking. Bank BTPN led this category with a 1.5% ratio in 2021. However, most banks allocated minimal resources, reflecting a lack of prioritization for outreach and education.

2. Justice (Iqamah al-Adl)

   This objective evaluates the social and economic justice created by Islamic banks through three indicators: fair returns, functional distribution, and interest-free income.

Table 3. Maqashid Sharia Performance Ratio for Second Objective

Bank	Year	PA	FD	Int. Free Income	RK2
BSI	2021	5.67%	0.00%	99.95%	16.27%
	2022	22.08%	3.59%	99.98%	18.76%
	2023	27.87%	2.28%	99.99%	19.31%
MUAMALAT	2021	0.33%	0.00%	99.98%	15.62%
	2022	0.93%	0.00%	99.94%	15.69%
	2023	0.43%	24.51%	100.00%	18.85%
BAS	2021	9.04%	0.00%	99.13%	16.56%
	2022	1.39%	1.15%	95.83%	15.25%
	2023	1.08%	3.81%	96.45%	15.66%
BTPN	2021	31.34%	1.11%	99.99%	19.58%
	2022	33.12%	4.38%	99.95%	20.22%
	2023	1.88%	5.72%	99.98%	16.56%
PANIN	2021	-10.41%	0.00%	95.68%	13.63%
	2022	24.08%	4.40%	100.00%	19.12%
	2023	20.00%	15.11%	100.00%	20.02%
Victoria	2021	5.23%	10.75%	100.00%	17.63%
	2022	3.78%	10.31%	100.00%	17.40%
	2023	3.65%	11.39%	100.00%	17.52%
BJB	2021	2.70%	0.00%	99.99%	15.91%
	2022	11.50%	0.00%	99.99%	16.99%
	2023	5.56%	0.00%	99.99%	16.26%
Mega S	2021	32.22%	0.00%	99.95%	19.54%
	2022	22.48%	0.00%	99.92%	18.33%
	2023	18.23%	0.00%	99.95%	17.81%
Bukopin	2021	-4.96%	0.00%	99.99%	14.97%
	2022	-11.99%	0.00%	99.69%	14.06%
	2023	-10.15%	0.00%	99.92%	14.32%
BCAS	2021	16.73%	0.00%	99.96%	17.63%
	2022	18.29%	0.00%	99.98%	17.83%
	2023	21.10%	0.00%	99.95%	18.17%

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a) Fair Returns

Bank BTPN recorded the highest fair return ratio (33.12% in 2022), whereas Bank Bukopin had the lowest (-11.9% in 2022), reflecting challenges in ensuring equitable profit-sharing mechanisms.

b) Functional Distribution

This indicator measures the proportion of mudharabah and musyarakah financing, which reflect profit-sharing schemes. Bank Muamalat achieved the highest ratio (24.51% in 2023), while many banks reported 0%, indicating limited use of these Shariah-compliant financing methods.

c) Interest-Free Income

This metric represents the proportion of income derived from Shariah-compliant activities. Several banks, such as Bank Panin, achieved 100% in 2023, demonstrating full compliance with Shariah principles.

3. Societal Welfare (Jalb al-Maslahah)

This dimension focuses on the impact of Islamic banks on societal development.

Table 4. Maqashid Syariah Performance Ratio, Third Objective

Bank	Year	PA	FD	Int. Free Income	RK2
BSI	2021	0.35%	10.91%	0.00%	0.98%
	2022	1.39%	3.32%	0.00%	0.42%
	2023	1.61%	3.33%	0.00%	0.44%
MUAMALAT	2021	0.02%	9.18%	0.00%	0.80%
	2022	0.04%	2.76%	0.00%	0.24%
	2023	0.02%	4.34%	0.00%	0.38%
BAS	2021	1.39%	0.00%	0.00%	0.13%
	2022	15.18%	0.00%	0.00%	1.45%
	2023	14.12%	3.34%	0.00%	1.64%
BTPN	2021	7.90%	0.00%	0.00%	0.76%
	2022	8.41%	0.00%	0.00%	0.80%
	2023	5.04%	0.00%	0.00%	0.48%
PANIN	2021	-5.67%	0.00%	0.00%	-0.54%
	2022	1.69%	2.54%	0.00%	0.38%
	2023	1.41%	2.60%	0.00%	0.36%
Victoria	2021	0.31%	0.18%	0.00%	0.04%
	2022	0.24%	0.19%	0.00%	0.04%
	2023	0.32%	0.24%	0.00%	0.05%
BJB	2021	0.21%	0.00%	0.00%	0.02%
	2022	0.82%	0.00%	0.00%	0.08%
	2023	0.43%	0.00%	0.00%	0.04%
Mega S	2021	3.83%	3.28%	0.00%	0.65%
	2022	1.45%	3.79%	0.00%	0.47%
	2023	1.64%	3.28%	0.00%	0.44%

Bank	Year	PA	FD	Int. Free Income	RK2
Bukopin	2021	-3.73%	0.00%	0.00%	-0.36%
	2022	-0.98%	0.00%	0.00%	-0.09%
	2023	-6.66%	0.00%	0.00%	-0.64%
BCAS	2021	0.82%	0.00%	0.00%	0.08%
	2022	0.93%	0.02%	0.00%	0.09%
	2023	1.06%	0.03%	0.00%	0.10%

a) Profitability

Bank Aceh demonstrated the highest profitability ratio (15.18% in 2022), while Bank Bukopin reported the lowest (-6.66% in 2023), highlighting a wide disparity in financial performance.

b) Zakat Distribution

Zakat distribution remains critically low across the board. Several banks, including Bank Aceh and Bank Bukopin, did not report zakat disbursements, reflecting a lack of commitment to social responsibility.

c) Real Sector Investments

None of the banks disclosed detailed information on investments in the real sector, indicating a lack of transparency in this critical area of societal impact.

Performance Based on Islamicity Performance Index (IPI)

The IPI framework evaluates the ethical and Islamic principles upheld by Islamic banks through indicators like profit-sharing, zakat distribution, income equality, and adherence to halal income sources.

Table 5. Islamic Performance Index Performance Ratio

Bank	Year	PSR	ZPR	EDR			IVSNI
				Qard and Donation	EE	Net Profit	
BSI	2021	30.00%	3.82%	0.03%	10.20%	2.12%	29.99%
	2022	30.00%	1.16%	0.18%	9.68%	8.33%	30.00%
	2023	30.00%	1.16%	0.16%	9.49%	10.75%	30.00%
MUAMALAT	2021	15.55%	32.14%	0.01%	8.82%	0.12%	29.99%
	2022	17.49%	9.67%	0.02%	7.86%	0.33%	29.98%
	2023	30.00%	15.19%	0.01%	7.28%	0.15%	30.00%
BAS	2021	4.23%	0.00%	0.58%	9.06%	4.24%	29.74%
	2022	7.75%	0.00%	2.66%	18.43%	8.39%	28.75%
	2023	30.00%	1.17%	2.98%	11.58%	5.99%	28.94%
BTPN	2021	0.03%	0.00%	0.01%	9.42%	12.03%	30.00%
	2022	0.16%	0.00%	0.02%	8.57%	12.79%	29.99%
	2023	0.05%	0.00%	0.01%	8.75%	6.94%	29.99%
PANIN	2021	27.46%	0.00%	0.02%	4.09%	-3.67%	28.70%
	2022	27.69%	0.89%	0.00%	3.47%	8.48%	30.00%
	2023	27.74%	0.91%	0.01%	3.71%	7.06%	30.00%

Bank	Year	PSR	ZPR	EDR			IVSNI
				Qard and Donation	EE	Net Profit	
Victoria	2021	20.22%	0.06%	0.00%	7.79%	1.84%	30.00%
	2022	22.61%	0.07%	0.05%	4.37%	1.34%	30.00%
	2023	18.81%	0.08%	0.00%	2.09%	1.31%	30.00%
BJB	2021	30.00%	0.00%	0.03%	8.20%	1.03%	30.00%
	2022	30.00%	0.00%	0.01%	9.57%	4.13%	30.00%
	2023	30.00%	0.00%	0.01%	8.53%	1.98%	30.00%
Mega S	2021	30.00%	1.15%	0.02%	3.94%	12.54%	29.99%
	2022	30.00%	1.32%	0.03%	7.78%	8.90%	29.98%
	2023	30.00%	1.15%	0.02%	6.97%	6.76%	29.99%
Bukopin	2021	30.00%	0.00%	0.01%	6.45%	-17.38%	30.00%
	2022	30.00%	0.00%	0.13%	5.21%	-4.19%	29.91%
	2023	30.00%	0.00%	0.04%	5.61%	-3.55%	29.98%
BCAS	2021	2.08%	0.00%	0.04%	8.92%	6.09%	29.99%
	2022	2.11%	0.01%	0.03%	8.06%	6.70%	29.99%
	2023	2.11%	0.01%	0.05%	9.72%	7.79%	29.99%

1. Profit Sharing Ratio (PSR)

   Most Islamic banks achieved strong results in this category, with an average score of 30%. Bank Syariah Indonesia (BSI) consistently performed well, underscoring its role in facilitating profit-sharing financing.

2. Zakat Performance Ratio (ZPR)

   ZPR scores were universally low (<30%) across all banks, indicating insufficient attention to zakat as a pillar of Islamic finance. This shortfall highlights the need for greater awareness and commitment to purification (tazkiyah).

3. Equitable Distribution Ratio (EDR)

   This ratio, which measures income distribution to stakeholders, also fell below acceptable levels for all banks. This reveals a significant gap in promoting equitable wealth distribution, a fundamental tenet of Islamic economics.

4. Islamic Income vs Non-Islamic Income

   All banks maintained a high proportion of halal income (>90%), indicating strong adherence to Shariah principles regarding permissible income sources.

D.2. Discussion

Maqashid Syariah Index (MSI)

1. Tahdzib Al-Fard (Individual Education)

   This study revealed that the contribution of Islamic banks to individual education, measured through allocations for education, training, research, and publication, remains limited. Most Islamic banks in Indonesia have not achieved significant ratios in this aspect, with the highest allocation being 8.36% by Bank Muamalat in 2023. This finding aligns with Sholichah (2022), who emphasized the importance of the maqashid syariah framework as a transformative tool for performance measurement in Islamic banking. However, she also noted that individual education is often underprioritized by many banks.

   In terms of employee training, while some banks, like Bank Muamalat, performed relatively well, the overall allocation across Islamic banks is low. This corroborates the findings of (Sholihin dkk., 2023), who highlighted fluctuations in training and education budgets as a (Adzhani & Rini, 2019) Regarding publications, the results show minimal efforts across Islamic banks, which supports the conclusions of (WIRA dkk., 2018). They asserted that limited public awareness and inadequate dissemination of Islamic banking principles hinder broader acceptance and understanding among the masses.

2. Iqamah Al-Adl (Upholding Justice)

   The findings of this study indicate that justice-related indicators, such as investment in mudharabah and musyarakah schemes, remain underutilized. Although Bank Muamalat achieved the highest ratio of 24.51% in 2023, many banks showed ratios close to zero. This finding resonates with (hameed dkk., 2004), who pointed out that Islamic banks often prioritize profit-oriented financing schemes like murabahah, which undermines the social equity component of maqashid syariah.

   Similarly, noted that Islamic banks frequently focus on profitability while neglecting equitable profit distribution, a conclusion that this study reinforces. Furthermore, (Chapra, 2000) argued for the necessity of social justice through equitable distribution of resources, a principle still underachieved by Islamic banks according to the present findings.

3. Jalb Al-Maslahah (Enhancing Welfare)

   This study found that investments in the real sector by Islamic banks are insufficient, with no significant data demonstrating impactful contributions to community development. This finding aligns with (Yusnita, 2019), who emphasized that real-sector involvement, a core component of maqashid syariah, is often neglected by Islamic banks. Moreover, this result supports the argument of (Triwuyono, 2006) that welfare in maqashid syariah should not only focus on financial gains but also encompass broader social justice and community benefits.

Islamicity Performance Index (IPI)

1. Profit Sharing Ratio (PSR)

   The study indicates that many Islamic banks have achieved optimal performance in the Profit-Sharing Ratio (PSR). Banks like Bank Syariah Indonesia (BSI) and Bank Muamalat reached a PSR of 30% in 2023. These findings align with (hassan & Bashir, 2005), who highlighted the PSR as a distinguishing element of Islamic banking, reflecting its unique nature compared to conventional systems. However, some banks still struggle to optimize profit-sharing financing. This is consistent with (Mergaliyev dkk., 2021), who identified operational challenges and a preference for fixed-return financing as barriers to implementing PSR in Islamic banks effectively.

2. Zakat Performance Ratio (ZPR)

   The zakat distribution performance of Islamic banks in Indonesia remains low, with all banks scoring below 30% during the study period. This finding supports (Chapra, 2000), who noted that many Islamic banks fail to integrate zakat as a fundamental part of their operations. It also aligns with (Yusnita, 2019), who found that zakat, as a core indicator of purification (tazkiyah), is often underutilized by Islamic banks, reflecting a lack of institutional commitment to achieving social objectives.

3. Equitable Distribution Ratio (EDR)

   The Equitable Distribution Ratio (EDR) findings indicate that all Islamic banks have low scores, failing to distribute wealth in a manner consistent with Islamic justice principles. This supports (Triwuyono, 2006), who argued that distributive justice remains an unfulfilled aspect of Islamic banking, particularly regarding the allocation of wealth to broader stakeholders, including employees and the community.

4. Islamic vs Non-Islamic Income Ratio

   The study found that most Islamic banks maintain a high ratio of halal income, reflecting strong adherence to sharia principles. This finding corroborates the results of (hameed dkk., 2004), who highlighted the ability of Islamic banks to sustain income sources compliant with sharia, despite challenges in diversifying revenue streams. This study extends the insights of previous research by providing empirical evidence on the current performance of Islamic banks in Indonesia. While notable progress has been achieved in some areas, significant gaps remain in fulfilling the maqashid syariah and Islamicity Performance Index frameworks, particularly in areas like zakat distribution, real-sector investment, and equitable wealth allocation. These results offer a comprehensive understanding of how Islamic banks perform against their dual financial and social mandates.

E. Conclusions & Policy Recomendation

E.1. Conclusions

This study evaluated the performance of Islamic Commercial Banks (BUS) in Indonesia from 2021 to 2023 using two frameworks: the Maqashid Shariah Index (MSI) and the Islamicity Performance Index (IPI). The findings highlight several key insights.

First, investments in education and training, essential for individual development, remain minimal, with Bank Muamalat showing relatively better performance compared to other banks. Second, justice-oriented financing mechanisms, such as mudharabah and musyarakah, are underutilized, as many banks prioritize profit-driven schemes, neglecting social equity. Third, contributions to societal welfare through zakat distribution and real sector investments are notably insufficient, indicating a lack of focus on fulfilling social responsibilities. However, most banks maintain high compliance with Shariah principles regarding income sources, ensuring adherence to halal income practices. Despite this, their performance in zakat distribution and equitable wealth sharing remains low, highlighting the need for greater institutional commitment to social justice.

E.2. Recommendations and Future Research Agenda

To address the gaps identified, several recommendations are proposed. Islamic banks should increase their allocation of resources toward education and training for employees and society to better align with maqashid shariah principles. Additionally, banks need to expand their implementation of justice-oriented financing, such as mudharabah and musyarakah, to ensure equitable profit distribution and support community-based economic activities. Efforts should also focus on enhancing zakat collection and distribution as well as increasing transparency in real sector investments to strengthen their societal contributions. Furthermore, improving transparency and standardization in financial and social performance reporting is essential to build stakeholder trust and accountability. Lastly, Islamic banks should adopt balanced performance metrics that give equal weight to financial, social, and ethical dimensions to reflect a comprehensive measure of success.

Future research should extend the evaluation period to capture long-term trends and provide deeper insights into the development of Islamic banking. Comparative studies between Islamic and conventional banks using similar frameworks could highlight areas of strength and opportunities for improvement. Expanding the geographic scope to include Islamic banks in other regions could offer a broader perspective on global practices and benchmarks. Incorporating qualitative data, such as stakeholder feedback, can provide a more holistic view of Islamic banking performance. Finally, future studies should explore innovative frameworks or indices that address emerging challenges and opportunities in Islamic banking, ensuring continuous relevance and improvement in the sector.

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