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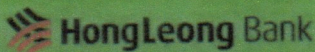


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Optimization Model of the Application of Sharia Principles in Islamic Banks in Central Java Province

Ibnu Khajar, Imam Munadjat
Faculty of Economics, UNISSULA, Semarang, Indonesia

Abstract

In the last four years (2008-2011), Islamic bank assets in Central Java had an average growth of 49.98 %. However, the challenge the Sharia Bank today has to face despite its improving performance is still not optimal in the application of Sharia principles at the operational level in Central Java Islamic Bank in its roles as a collector and distributor of public funds institution. This research is aimed at identifying the application of Sharia principles in Islamic Banks in Central Java and the effects on the Islamic banks performance and the employees' welfare. The research respondents were the employees of Islamic banks in four cities, as many as 180 respondents. The data were collected by using questionnaires and interviews. The data analysis used partial least square (PLS) and SPSS for windows 12.00 version as well. The results showed that the application of Sharia principles affected the performance of Islamic Banks in Central Java. The better the application of Sharia principles in Islamic Banks in Central Java, the better the performance of Islamic banks in Central Java would be. The improved performance of Islamic Banks in Central Java affected the employees' welfare to be positive and significant. The Islamic Banks' performance gave impact on employment availability. The Islamic banking institutions in Central Java have applied the principles/values of Sharia in carrying out Islamic banking institutions. This proved by the existence of the application of Sharia values in the implementation of contract/agreement between depositors as stated in Act No.10/1989 Article 1, paragraph 13 and article 1, paragraph 13 of Act No.21/2008. The results of this study prove that these provisions have been implemented by Islamic Banks in Central Java.

Key words: Islamic Banks, Sharia Principles, Islamic Bank Performance, Employees' Welfare, Maqashid Syari'ah

INTRODUCTION

Since the operation of Islamic Banking institutions in Indonesia (1992), in Central Java, there have been several Islamic banks operating, either Sharia Commercial Bank (BUS), Sharia Business Unit (UUS), or Sharia Financing Citizenry Bank (BPRS). In the last four years (2006-2009), Islamic Bank assets in Central Java had an average growth of 49.98%. Meanwhile, the financing and DPK had an average growth of 49.88% respectively. The relatively high growth of Sharia Banking performance indicators in Central Java resulted from the expansion of the Sharia banking business areas. It was initiated by the opening of branch offices of new Islamic Banks in some areas. In 2006 in Central Java, there were 26 branches of Sharia Banks. In 2011, the branch offices of Sharia Banks increased to 43 branch offices.

The increasing number of these offices has a positive influence on the Financing to Deposit Ratio (FDR) which increases up to 109.97%. The increasing FDR is also balanced with an increase in the quality of financing provided by the Sharia Banks in Central Java. This is reflected in the decline of Non Performing Financing (NPF) level, where in 2011, NPF Islamic Bank was noted at 2.72%. Based on the Sharia Banking development data, in Central Java (2011), the potential development of Sharia Banking in Central Java was wide open. It is expected that there will be a growing number of alternative options of banking products offered to people according to the needs of society and its benefits.

The intermediation function of Islamic Bank as a manifestation of the Bank's performance, especially in third-party funding and funds distribution, determines the success criteria of Islamic Bank function as an intermediary institution. Islamic Bank as the public funds collector and the funds distributor is expected to be one of the means to achieve welfare of the community. In accordance with these functions, Islamic Bank is expected to be able to deliver the achievement of public welfare (*Falah*), holistic welfare, temporal and hereafter welfare. Before the Islamic Bank performs its function as a carrier of public welfare, in accordance with Islamic concept, the Islamic Bank should in advance pay attention to the welfare of the bank employees as its "environment community". The efforts in achieving welfare of the Islamic Banks "closest group" should also affect the comfort of the employees/staffs in the environment.

The implementation of Sharia principles refers to a contract / agreement / transaction conducted between Islamic Bank with customers in accordance with the provisions of Bill No. 10 year 1998 article 1, paragraph 13. Bill No. 21 year 2008 Article 1, paragraph 12 states that Sharia principle refers to Islamic law principles in banking activities in accordance with the decree (*fatwa*) issued by institution which has an authority in setting the *fatwa* in the field of Sharia. Article 1, paragraph 13 of Bill No. 21 year 2008 states that "Contract is a written agreement between Sharia Bank or UUS and other parties that contains rights and obligations of each in accordance with Sharia principles"

The compilation of Sharia Economic Law (2008, book II on Contract) Section I Article 20 paragraph 1, states that contract is an agreement in a pact between two or more parties to conduct or not to conduct certain legal actions. (Media Editor Team, 2008: 14). Article 28 in the Compilation of Sharia Economic Law (2008) states that; legitimate contract is an agreement which meets its pillars and terms. The Compilation of Sharia Economic Law (2008) Article 22 states that the pillars and the terms of the contract consist of: Parties involved in the contract, contract Object, principal aim of the contract, and Agreement, (Media Editor Team, 2008: 19).

The comprehensive and consistent implementation of Sharia principles (*Kaffah and Istiqomah*) conducted by the Islamic Banks in Central Java is expected to have an impact on the bank's performance and employee's welfare. The effects of Sharia principles implementation on the bank's performance are identified through the development of third-party funds collection and funds distribution for a certain period of time. The effects of Sharia principles implementation on the employees' welfare refer to the concept of 'welfare' according to Islamic teachings which include holistic welfare, balanced covering material and spiritual dimensions. The welfare is viewed through the concept of *maq'asid syari'ah* welfare or the goals of Islamic law that guarantee the fulfillment of welfare which can be implemented or fulfilled in needs covering religion (*al-din*), wealth (*al maal*), intellect (*al'aql*), and heredity (*al nasl*) and soul (*al-nafs*). Besides, it will also be seen dealing with influence of the bank's performance on the employees' welfare and the effect of the bank's performance on the employment of Islamic Banks in in Central Java.

The problem in this research deals with the implementation of Sharia Islamic Banks in Central Java province is still not optimum yet. Specifically, the research questions are whether the Islamic Banks (Central Java) in their operations adhere to the provisions of Islamic Law or Sharia principles, whether the implementation of Sharia principles gives influence on the Banks' performance, whether the implementation of Sharia principles influences the employees' welfare, and whether the Islamic Banks' performance gives any effects on employees' recruitment.

LITERATURE REVIEW

The Principle of Sharia Bank

Sharia Economy which is arranged on Islamic values and as the basis / foundation of economic activities to achieve public welfare spiritually and bodily will only have a meaning if it is realized in a real activity in the community. In this strategic position, Sharia Bank can be an agent of economic development. This is because the main task of bankings in economic infrastructure of macro-economic policy is directed in the context of how to make money effective and efficient to increase economic value (Muhammad, 2005).

Since Islamic Bank is a 'part' of the Islamic Economy, the philosophy of Islamic Bank establishment should be based on the basic philosophy of Islamic Economy. The philosophy of Islamic Economy (Syibly, in Nur Khalis, 2008: 27) gives a fruitful thought about economy with Islamic values and Sharia restrictions. Islamic Economy as a science seeks to look at, review, investigate and resolve the economic problems in Islamic ways (in the corridor and guidance of Islamic Law). Khursid Ahmad said that the main Islamic principles and values underlying Islamic economy is the principle of *tawhid*, Lordship (1997: 13). Mahmud M Babali set out five principles of Islamic values regarding with Islamic economic activities, of which are fraternity (*ukhuwah*), good-deeds (*al-Ihsan*), giving advice (*al nasihah*), firm establishment (*al Istiqomah*), and the attitude of *taqwa* (*al Taqwa*) (Kara, 2005: 38). Several Islamic values underlying the philosophy of Islamic economy among others are: the principles of consensus (*at taraadi*), fairness (*al is*), mutual benefits (*al tarabukhi*) and mutual helps (mutual aid) and the prohibition of blackmailing and exploitation.

The Differences of Sharia and Conventional Bank

There is a fundamental difference between Islamic Bank and Conventional Bank especially relating to aspects of products and systems used. The orientation of Conventional Bank as an inseparable part is to maximize the welfare (read: profits) of the bank owner (*Shareholder-Oriented*). Meanwhile, the orientation of Islamic Bank is in the interests of prosperity and welfare of stakeholders and society in general (*stakeholders and society-oriented*) as a manifestation of the principle of *Rahmatan lil 'Alamin* in Sharia Bank, see details Table 1.

TABLE 1

THE PRINCIPLE DIFFERENCES BETWEEN SHARIA BANK AND CONVENTIONAL BANK IN THEIR OPERATIONAL ACTIVITIES

Sharia Bank	Conventional Bank
1. Bank Products	1. Bank Products
A. Sources of Funds	A. Sources of Funds
a. <i>Wadi'ah Yad Dhamanah</i> clearings	1. Clearings
b. <i>Yad Dhamanah and Mudharabah</i> Savings	2. Savings
c. <i>Mudharabah</i> deposits	3. Deposits
d. <i>Mudharabah muqayyadah</i> Special Savings (Restricted Investment)	4. Certificates of Deposits
B. <i>Zakat, Infaq, Sadaqah</i>	B. Disbursement and Banking Services
C. Disbursement And Banking Services	1. Valuable letters
1. <i>Mudaraba</i> Financing	2. Loans in Rupiah
2. <i>Musharaka</i> Financing	3. Loans in Foreign Currency
3. Export Financing (<i>Mudaraba, Musharaka or Murabaha</i>)	4. Assets in Foreign Currency
4. Inclusion (<i>Musharaka</i>)	5. Inclusion
D. Purchasing	6. L / C
1. <i>Murabahah</i> financing (for investment)	7. Bank Guarantee
2. <i>Bai 'Bishaman Ajil</i> (for investment in	8. Factoring
	C. Banking Services

<p>instalment)</p> <p>3. <i>Bai'us-salam</i> (for agriculture)</p> <p>4. <i>Istishna</i> '(ordered items purchasing)</p> <p>5. Banking Services</p> <p>6. <i>Hawalah</i> (Factoring)</p> <p>7. L / C (<i>Wakalah, Musharaka, Murabaha</i>) <i>Sharf</i> (Sale and Purchase of Foreign Currency)</p> <p>8. <i>Kafalah</i> (Bank Guarantee)</p> <p>9. <i>Ijarah Muntahiyah bit Tamlik</i> (Financial Lease / Hire Purchasing)</p> <p>10 <i>Rahn</i> (Pawn)</p> <p>11. <i>Wadi'ah Yad Al 'Amanah</i> (Safe Deposit Box)</p> <p>12. Collection (<i>Hawalah</i>)</p> <p>13. Transfer (<i>Kafalah</i>)</p> <p>14. <i>Al-Qardhul Hasan</i> (Social Loan / Virtue)</p> <p>2. Sharing System</p> <p>1. Determination of the profit sharing ratio is made at the time of the contract in accordance with possibility of profit / loss to be obtained</p> <p>2. If the customer fails to pay overdue effort and no fines or other liabilities.</p> <p>At the time of economic crisis, the profit sharing ratio in accordance with the ability of customers at the time revenue</p>	<p>1. Collection</p> <p>2. Transfer</p> <p>3. Safe Deposit Box</p> <p>2. Interest System</p> <p>1. Determination of the interest rate at the time the contract was made without looking at the possibility of profit / loss to be obtained</p> <p>2. If the Customer fails in businesses and is late in payment, they will get interest fines and possible bail confiscation</p>
<p>3. In Islamic banks, in economic / monetary crisis, there will not be negative spread happening.</p> <p>4. Harmonising relationships between funders</p>	<p>3. At the time of economic / monetary crisis, interest rates will rise thereby increasing overhead cost (interest cost), while income decrease.</p>

<p>and users of funds through a mutually beneficial "partnership".</p>	<p>Contradictory relationship between the bank and its customers: To deposit funds, it is requested high interest but the bank is on the other sides. Similarly, the bank asks for high interest to the debtor, the customers do not, instead.</p>
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Sourcer : Hardini, 2007 : 122 (Sharia Banking Dictionary)

PREVIOUS STUDIES

Mooduto (2006)

Based on the results of his hypothesis testing research on the Effect of Sharia Implementation on Islamic Banks' Performance and Security in Indonesia, he concluded that:

1. The implementation of Sharia principles which gave significant effects on the performance of Islamic Bank was received. The meaning of such evidence is that the better, correct and consistent (*istiqomah*) implementation of Islamic Sharia in Islamic Bank operations will provide a significant effect on the positive performance of Islamic Banks.
2. The implementation of Islamic Sharia influenced the resilience of banks significantly, but it had no significant effect.
3. The performance of Islamic Bank significantly influenced the resilience of the Islamic bank was accepted.

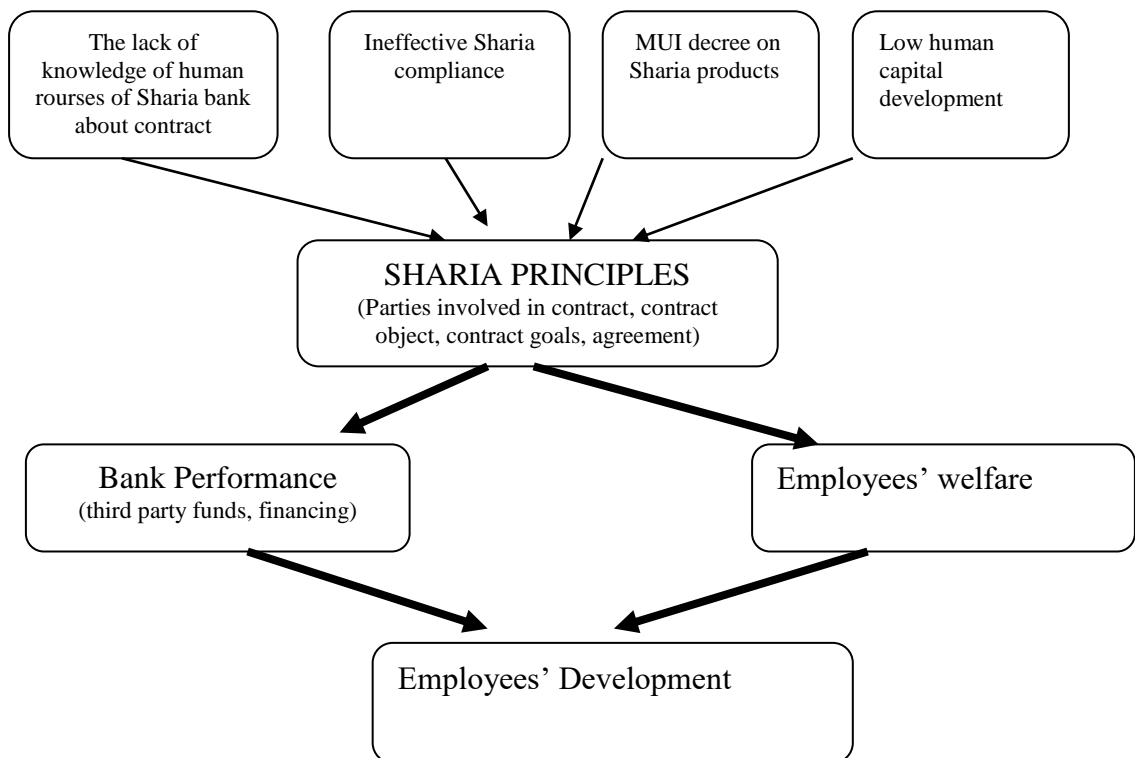
Mohammad Suyanto (2007)

His research was about the influence of the implementation of Sharia principles on the performance and welfare of the employees and community related with Sharia Banks' activities in Indonesia. He concluded that:

1. The implementation of Sharia Bank principles in Indonesia is getting better and consistent and sustainable impact turns out to higher profitability and greater solvency as well as more useful for small entrepreneurs who become customers of Sharia Bank.

2. The implementation of Shariah principles on Sharia Bank in Indonesia is getting better and consistent and continuous does not affect the increase in the portion of financing and that of *qordhul hasan*.
3. The implementation of Sharia principles on Sharia Bank in Indonesia is getting better and consistent and sustainable and does not affect an increase in salaries and bonuses of employees and that in the employees' general and religious allowance as well.
4. The better bank performance has also impacted on increased financing and increased *qardhul hasan* as well as an increase in *zakat*, *infaq*, *shodaqoh* and social activities or contributes to the public welfare related with Sharia Bank's activities in Indonesia.
5. The consistent, continuous and well-applied Sharia principles of Shariah will produce a good and getting better performance, applied to all Sharia Banks in Indonesia.

Conceptual Framework



RESEARCH METHODS

Research design

The concept of the research conducted is included in the explanatory research with the aim at determining the relationship between variables and hypotheses testing which have been formulated, therefore, the type of research done / been selected is an explanatory (Singarimbun, 1992; 4).

Population Sample

This explanatory study took form of a census of the Islamic Banks in Central Java. The population in this study was branch offices of Islamic Banks in Central Java, which have been operating for 5 years. The number of members of the population was six (6) branches of Islamic Banks. All members of the population were observed. The time series data were taken each year for five (5) years from 2005 to 2009. Thus, there were 30 units of analysis (6 banks x 5 years).

Technique of Data Collection

The data collection was conducted by survey method, making use of secondary data provided in each Islamic Bank which became the subject of study. The secondary data were taken as to look at the implementation of Sharia principles by the bank concerned. The data were taken from the contract as stipulated in the certificate of agreement between the customer and the Islamic Bank in front of a notary. Meanwhile, the secondary data included the bank's performance, employees' welfare and employees recruitment obtained through a written record of each bank. Interview with employees was done by answering questionnaires in order to obtain additional data on employees' welfare.

Variables Research and Indicators

The variables of this research were the implementation of Sharia principles, the bank performance and other employee benefits and employees recruitment of Islamic Banks in Central Java, and operational definitions as Table 3.

TABLE 3
VARIABLES AND INDICATORS

NO	Variabel	Indikator
1	X ₁ = the implementation of Sharia principles	X _{1.1} = the Parties involved in the contract

		X _{1.2} = the Contract Object X _{1.3} = the Contract Goal X _{1.4} = the Agreement
2	Y ₁ = the Islamic Bank Performnace	Y _{1.1} = the third party funds Y _{1.2} = Financing
3	Y ₂ = the Employees' Welfare	Y _{2.1} = Al Diin Y _{2.2} = Al Nafs Y _{2.3} = Al 'Aqal Y _{2.4} = Al Maal Y _{2.5} = Al Nasl
4	Y ₃ = the Employees' Recruitment	Y _{3.1} = the number of active employees

The Technique of Data Analysis

The data analysis used factor analysis and Partial Least Square (PLS) model. The steps of Partial Least Square (PLS) based testing empirical models by using Smart PLS software is as follows:

Model Specialization

The analysis of the relationship between variables path consists of:

- a. Outer models, refers to the specification of the relationship between the latent variables and their indicators, which is also called 'outer relations' or 'measurement models', defining the characteristics of the constructs with their manifest variables.
- b. Inner Model, refers to the specification of the relationship between the latent variables (structural model), which is also called inner relations, describing the relationship between latent variables based on substantive research theory. Without losing its generality, it is assumed that the latent variables and indicators or manifest variables scaled zero means and unit variance is equal to one, so that the location parameters (constant parameter) can be removed from the model. Inner models obtained are:

- c. Weight Relation, the estimated value of latent variables cases, inner and outer models provide specifications which are followed in the estimation of PLS algorithm. After that, the definition of weight relations is required. The values for each case estimated in PLS latent variables namely:
- d. $\xi_b = \sum_k b_{kwb} \cdot x_{kb}$
- e. $\eta_1 = \sum_k i_{kwi} \cdot X_{ki}$

Where WKB and WKI were k weight used to form the estimated endogenous latent variables (η) and exogenous (ξ). The estimation of the latent variables was an aggregate linear of indicators of which weight values obtained by the estimation procedure of PLS as specified by the inner and outer model where the latent variable endogenous (dependent) is η and latent variable exogenous is ξ (independent), while ζ is a residual and β and γ was the coefficient matrix path (path coefficient).

Evaluation Model

Measurement model or outer model with reflexive indicators is evaluated by convergent and discriminant validity of the indicators and composite reliability to indicators block. Structural model or inner models is evaluated by looking at the percentage of variance explained by looking at R^2 to exogenous latent constructs using size Stone Gaiser Q Square test and also see the coefficient of structural lines. The stability of these estimates is evaluated using t-test statistics obtained through bootstrapping procedures. Outer models with reflexive indicators measured respectively by:

1. Convergent Validity is the correlation between the indicator reflexive scores and the latent variable scores. For this, loading of 0.5 to 0.6 is considered fair, because it is the early stage of development of the measurement scale and the number of indicators per construct is not large, ranging from 3 to 7 indicators.
2. Discriminant Validity is the measurement of reflexive indicators which is based on *cross loading* with latent variables. Another method is by comparing the score of *square root of Average Variance Extracted* (AVE) in each construct, with a correlation between the other CONSTRUCTS in the model. If the scores of the initial measurement of both methods is better than the score of other constructs in the model, it can be concluded that the construct has discriminant validity was good

value, and vice versa. Recommended measurement values must be greater than 0.50.

$$\text{AVE} = \frac{\sum \lambda_i^2}{\sum \lambda_i^2 + \sum_i \text{var}(\epsilon_i)}$$

3. Composite Reliability, an indicator that measures the internal consistency of indicators forming the constructs, shows the degree of which indicate common latent (unobserved). The acceptable limit value to the level of composite reliability is 0.7 although it is not an absolute standard.

$$\text{pc} = \frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + \sum_i \text{var}(\epsilon_i)}$$

Inner models R-square was measured using exogenous latent variable with the same interpretation by regression. Q Square predictive relevante was to construct the model, measuring how well the observed values generated by the model and parameter estimation. Q-square value > 0 indicated the model had predictive relevance, otherwise if the Q-square value ≤ 0 indicated lack predictive models relevante. Q-Square Calculations was done by the following formula:

$$Q^2 = 1 - (1-R1^2) (1-R2^2) \dots (1-Rp^2)$$

Where (1-R1²) (1-R2²) (1-Rp²) R-square was exogenous in the model equations. Assuming the data were distributed freely (free distribution), the structural model of PLS predictive approach was evaluated by R-Square to construct endogenous (dependent), Q-square test was for predictive relevance, t-statistic with a significance level of each path coefficient in the structural model.

RESEARCH FINDINGS

Analysis of Descriptive Statistics

The parties involved in the contract / the contract subjects

The parties involved in the contract in *Fiqih Mu'amalah* term are called *aqid / aqidain*. According to the term, a person can carry out the contract if the person concerned has the ability to act / legal capacity (*ahliyah ada' al kamilah*) and has the

authority (region) to carry out the contract. The authority may in this case be authorized to act for themselves for the family, for / on behalf of or representing the group, for / on behalf of the company and for others. In this study, the subject of the contract would be monitored through the customer side as indicated on the certificate of agreement between the client and the Islamic Bank side.

Related to legal capacity, Chapter II on law subjects, Article 2 of the Compilation of Sharia Economic Law states that someone who is considered to have skills to take legal actions in the case must have reached the lowest age of 18 (eighteen) years or happen to be married. On the legal capacity of the contract subjects are based on age group and all customers' authority to act as competent and appropriate subjects (100%). In relation to customers' authority, all customers have the authority to act (100%).

The Contract Object

Dealing with the presence of the contract object, among 210 contract certificates at the Islamic Banks in Central Java, the following data were obtained: the contract object existed and could soon be realized 80%. There was one with a process involving a third party at 6.67%, one with uncomplicated process at 13.33%.

The Contract Goal

The Contract goal / *maudlu 'al 'akad* is very clearly mentioned. A total of 36.67% of the contract specified the contract was personal /self-business ownership, 46.67% was to develop joint venture, 16.67% was for the development of self-business ownership.

The Deal/Agreement

Related to the deal / *sighat akad* which is basically an agreement between the two parties on whether or not the agreement is fulfilled, the used indicators are three pillars of the previous contract; the *aqidain*, the contract object and the contract goal. In this study, for the three pillars of the contract agreement was fulfilled (100%)

ISLAMIC BANK PERFORMANCE

Third-party funds

The Islamic Bank' performance in Central Java, especially in third party funds, during the period of 2005 - 2009 has shown a positive trend with the increasing target of third party funds each year. Even more, half of the Islamic Banks in Central Java (50%) showed a great increase of Third Party Funds during the period 2005-2009.

Financing

Related to financing development during the period of 2005 – 2009, the Islamic Banks in Central Java also showed a positive trend, because every year there has been an increasing target in each Islamic Bank. The average / mean of the Islamic Banks' performance in Central Java with those two indicators mentioned above was 4 (four) so that it can be categorized as an increase of the Islamic Banks' performance in Central Java during the period of 2005-2009.

Employees' welfare

Islam teaches that happiness (*Falah*) is a feeling of joy with dual dimension, of which are the world and hereafter sides. Happiness is the essence of Islamic teachings goal known as "*maqashid Shari'ah*". In line with *maqashid syari'ah*, when the Islamic Bank employees were raised various questions about *asasiyah al khomsah*, obtained the following replies:

1. Keeping the faith / *hifdzu al deen*, which is the presence or acquisition of a sense of security because of being able to perform the Islamic duties. Standing up with religion is a necessity for humanbeings. By implementing human values taught in religion makes man higher than animals in rank. Having religion is a human characteristic.

The average score of the answers about keeping religion in this study was obtained a value of 4.6 (Table 5:17). Thus, if the value of 4.6 were for the indicator of keeping religion of Islamic Bank into interval class of Islamic Banks in Central Java, it would give attention to the very high criteria.

2. Related to the life protection (*khifdzu al nafs*) conducted by Islamic Banks in Central Java because it actually starts from the assumption that religion can not be upright unless with a healthy soul and in a healthy body as well. Therefore to

keep the soul healthy and grow in a healthy body as well (besides a healthy soul is a means towards the right to live in dignity), Islamic Banks forbade their employees to smoke in the working environment and provided a threat to firmly take actions on employees who were caught drinking alcohol. In connection with these matters, the employees of the Islamic Banks in Central Java:

- a. did not smoke because according to 67% of employees of the Islamic Banks in Central Java, smoking was forbidden (*haram*), while the remaining 33% said that smoking was avoided (*makruh*)
 - b. did not drink alcohol, because all employees of the Islamic Banks (100%) said that liquor was forbidden (*haram*)
 - c. 33% of employees agreed that their religious activities and discourse were as a means to love the God. The rest 67% of employees stated that following such activities organized by the Islamic Banks was just to get some inner peace
 - d. 67% of employees said that the Islamic Banks provided funds to maintain the employees' mental and physical health in terms of medical aspects, meanwhile the remaining 33% say that the Islamic Banks would replace the full expense of health funds. With these four variables in keeping this spirit was obtained an average / mean of 4.25. If the score were inserted into the interbal class, it would then be obtained very high criteria.
3. To protect or maintain sense (*khifdzu al-akal*), Sharia forbids intoxicants with the aim at avoiding sense damage. The sense damage will result in the sense owner is not worthed in society due to being unable to perform their duties and functions as a good human being. The strict prevention ordered by Islamic law is intended to improve the brain capabilities and to keep the sense out of the things that harm. According to the employees of the Islamic Banks:
- a. 67% of them said that the Islamic Banks strictly prohibited their employees drinking alcohol, meanwhile 33% of them said that the Islamic Banks forbade them drinking alcohol.
 - b. It went also to gambling, 67% of employees believed that the Islamic Banks strictly prohibited their employees gambling. The remaining 33% said that the Islamic Banks forbade their employees to gamble.

- c. The prohibition of intoxicants and gambling was so addressed that the sense would not be blocked from the guidance of Allah swt (100%). Therefore, 67% of the employees of the Islamic Banks always attended religious discourse and the remaining 33% read religious books.
 - d. In order that the employees of Islamic Banks always think and act positively, and are really far away from gambling and things that can be intoxicating, according to 50% of bank the Islamic Banks employees, it would happen if there were an awareness not to consume things that are intoxicating and away from gambling, the rest 50 % said it would happen if Islamic Banks threatened to take stern action against employees who got drunk and gambled. Overall, the answer of the Islamic Banks' employees in Central Java on maintaining mind and sense was obtained an average score / mean 4.5 and if the average were put into the interval grade, it would then be obtained very high criteria.
4. The fourth objective of Sharia / *maqashid Shari'ah* is to maintain or provide protection to offsprings / *khifdu al nasl*. In the case of giving protection to the offsprings / the employees' relatives, Islamic Banks in Central Java;
- a. argued that marriage is ordered by religion to maintain offspring, 67% of employees stated their true confirmation of the order and the remaining 33% expressed it as the right way to keep their offspring.
 - b. according to the Islamic banks' employees in Central Java (with the same percentage) said that Islamic banks are very concerned with the family income of employees (67%) and the rest 33% said to care about.
 - c. with that reality, according to 33% of the Islamic Banks' employees, Islamic banks were very concerned about the education of the employees' children and the remaining 67% said that Islamic Banks paid attention to the education of the employees' children.
 - d. For 50% of the employees stated that the Islamic Banks were very concerned about the employees' children's future, 17% of employees said the actions means that Islamic Banks paid attention to the future of the employees' children and according to 33% of the remaining employees, Islamic Banks paid sufficient attention the future of the employees' children.

The answer of the Islamic Banks' employees in Central Java concerning the protection of the Islamic Banks' employees' offspring was obtained values with an average score / mean of 4.25 and when the average score was added to the interval class, it would then be obtained a category / the criteria is very high.

5. The fifth *Maqashid Shari'ah* is the maintenance or protection of property (*khifdu al maal*). In relation to this wealth protection, the Islamic Banks' employees;
 - a. argued that Islam obliges Muslims to work. In connection with the efforts to maintain the property (*Hifzhul maal*), the Islamic Banks employees in Central Java stated that Bank Islamic Banks strongly encouraged their employees to work hard to prepare better future generations (67%) and the remaining 33% said to encourage.
 - b. with the same percentage, they stated that the wealth they gained from working was the God's surrogate which temporarily entrusted to them.
 - c. with the same percentage, they said that the Islamic Banks greatly appreciated their employees who worked hard by providing rewards to them.
 - d. with the same percentage, they also said that the Islamic Banks reminded them that the profits from their hard work or effort authorized by the God to them, there were other people's rights that should be given to those deserved. A more complete answer on the fifth *maqashid shari'ah* with an average score of 4 and when the average score was inserted into the interval class, it would then be obtained high criteria or category.

PLS Analysis Results

Outer Model's Result

The Measurement model with reflective indicators was evaluated by convergent and composite reliability for the block indicator. The convergent validity of the measurement model with reflective indicators was assessed based on the correlation between the item score and the construct score which were calculated by PLS. The indicators were considered valid if the value of the loading factor were greater than 0.5 or the $t_{\text{statistic}}$ was greater than t_{tabel} value was 1.6711 ($\alpha = 5\%$). The indicators of Islamic leadership was composed of contract 1 (X1.1), contract 2 (X1.2), 3 contract (X1.3), contract 4 (X1.4), fair (x1.5). More results are shown in Table 5:23

Table 5:25**The Result of Validity and Reliability Test of Contract Variables Indicators**

Indicators	Validity Test			Composite Reliability
	Loading	T-Statistic	Note	
X1.1	0,807	12,785	valid	0,913
X1.2	0,831	21,518	valid	
X1.3	0,832	16,068	Valid	
X1.4	0,930	38,777	Valid	

Based on the Table 5:23, the result of convergent validity test, four indicators of the contract had loading factor scores. All indicators were more than 0.5 and the T statistic score of the entire indicators was greater than T_{Table} at 1,697, so that the entire indicators of the Islamic leadership were valid. The order from strongest to weakest indicator was X1.1, X.1.4, X1.3, X.1.2.

Based on the composite reliability test of the block indicator which measures the construct, it showed satisfactory results in the amount of 0.976, meaning that the contract construct would result relatively similar when repeated measurements were taken in the same subjects.

The test results of convergent construct validity and reliability of composite performance is shown in Table 5:24.

Table 5.26**The Test Result of Validity and Reliability of Performance Variables Indicators**

Indicators	Validity Test			Composite Reliability
	Loading	T-Statistic	Note	
Y1.1	0,961	234,361	Valid	0,957
Y1.2	0,955	251,226	Valid	

Based on the table 5:25 the test results of convergent validity, two indicators of performance had loading factor scores. All indicators were more than 0.5 and the T

statistic score of all indicators was greater than 1,697, so that all the indicators of the contract were valid. The order of the strongest to the weakest indicator was Y1.2, Y1.1.

Based on the composite reliability test of the block indicators that measures the construct, it showed satisfactory results in the amount of 0,981, meaning that the performance construct could provide relatively similar results when repeated measurements was conducted in the same subjects.

The test results of the convergent validity and reliability composite of welfare level construct are shown in Table 5:27. Based on the Table 5:27, the test results of the convergent validity were, four indicators of the welfare had loading factor scores. All indicators were more than 0.5 and the $T_{\text{statistic}}$ score of all indicators was greater than 1,697, so that all indicators of welfare level indicators were valid.

Tabel 5.27

The Test Result of Validity and Reliability of Welfare Level Variable Indicators

Indicators	Validity Test			Composite Reliability
	Loading	T-Statistic	Note	
Y2.1	0,864	124,819	Valid	0,918
Y2.2	0,757	65,242	Valid	
Y2.3	0,867	72,877	Valid	
Y2.4	0,735	208,518	Valid	

The indicator orders from the strongest to the weakest is Y2.4 Y2.3, Y2.2, Y2.1.

Based on the composite reliability test of the block indicators that measures the construct, it showed satisfactory results in the amount of 0.918, meaning that the construct of the welfare level could provide relatively similar results when repeated measurements were conducted in the same subjects.

The Results of Inner Model (Structural Model)

Inner model describes the relationship among latent variables based on a substantive theory. The result of bootstrapping output display is in the form of a graphic of the relationship among variables which is shown in Figure 5.1. Based on the figure

5.1, it can be seen the path coefficients of each variable relationship, either directly or indirectly. The influence of the contract on the performance had a path coefficient of 0.455. The direct effect of the contract on welfare had a path coefficient of 0.162. The direct effect of the contract on the performance had a path coefficient of 0.961. The direct effect of performance on the level of prosperity had a path coefficient of 0,795. The indirect effect of the contract on the welfare level through performance was $0,455 \times 0,795 = 0,361$. It could be concluded that the direct effect of the contract on the welfare level was smaller than the indirect effect of the contract on the welfare level through performance.

The calculation result of R Square score showed that the R Square performance scores were 0.207, meaning that 20.7% of the performance variation could be explained by the contract variation, and 79.3% were described by other variables which were not included in the model. The R Square scores of welfare level were 0.776, if $t_{\text{statistic}}$ were greater than t_{table} , the hypothesis would then be proven and accepted.

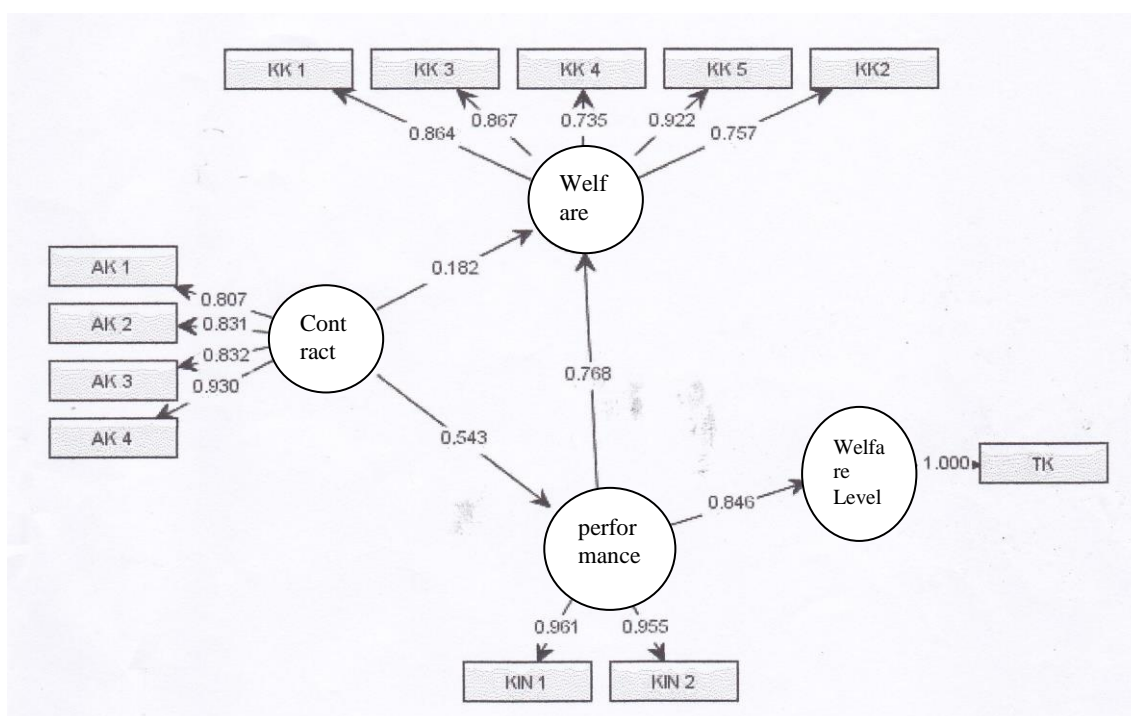


Figure 5.1
Path Way Analysis

Degree of Freedom ($31-1 = 30$), then t_{table} was 1.697, meaning that 77.6% of the welfare level variation could be explained by and the contract and performance, 12.4% described by other variables which were not included in the model. The R Square score of employment amounted to 0.716, meaning that 71.6% of the variation of employment could be explained by the contract, performance and welfare level, 18.4% described by other variables which were not included in the model. Based on the R Square scores of each variable, it could be concluded that each of these variables could be explained well.

Hypothesis Testing Results

The hypothesis testing result of the relationship between the variables is shown in Table 5:28

Table 5:28
Hypothesis Testing Results

Hypothesis	Among Variables Influence	Estimate Coefficient	t -Statistic	Decision
1	Contract > Performance	0,543	4,961	Significant
2	Performance > Welfare	0,768	35,589	Significant
3	Performance > Employment	0,846	16,929	Significant
4	Contract > Welfare	0,182	2,894	Significant

Source: Processed Data year 2010

Note: $t(0,05, 30) = 1.697$

Based on the calculation results of PLS testing in Table 5:26 which examined the first hypothesis, which was the effect of the contract on performance, it was obtained $t_{statistik}$ score at 4.961 and 1.697 t_{table} . Meanwhile, the score of the estimated coefficient (β) was 0.455. So it could be concluded that there was a significant positive effect of the contract variable on the performance, meaning that the better the contract was, the better the performance would be. In other words, the higher the implementation

of the contract, the better result it would be, giving a very positive impact on performance. Thus, the first hypothesis was proven and accepted.

Based on the calculation results of PLS testing in Table 5:26 which examined the second hypothesis, which was the effect of performance on the welfare level, it was obtained $t_{\text{statistik}}$ score at 19,566 and 1.697 t_{table} . Meanwhile, the score of the estimated coefficient (β) was 0.795. So it could be concluded that there was a significant positive effect of the performance variable on the welfare level, meaning that the better performance was, the better the welfare level would be. Thus, the second hypothesis was proven and accepted.

Based on the calculation results of PLS testing in Table 5:26 which examined the third hypothesis, which was the effect of performance on the welfare level, it was obtained $t_{\text{statistik}}$ score at 57,003 and 1.697 t_{table} . Meanwhile, the score of the estimated coefficient (β) was 0.846. So it could be concluded that there was a significant positive effect of the performance variable on the employment, meaning that the better performance was, the better the employment would be. Thus, the fifth hypothesis was proven and accepted.

Based on the calculation results of PLS testing in Table 5:26 which examined the fifth hypothesis, which was the effect of the contract on the welfare level, it was obtained $t_{\text{statistik}}$ score at 2,337 and 1.697 t_{table} . Meanwhile, the score of the estimated coefficient (β) was 0,162. So it could be concluded that there was a significant positive effect of the performance variable on the welfare level. In other words, the better the implementation of the contract was, it would give a very positive impact on welfare level. Thus, the second hypothesis was proven and accepted.

CONCLUSIONS AND SUGGESTIONS

Conclusion

The implementation of Sharia principles influences the performance of the Islamic Banks in Central Java. The better the implementation of Sharia principles in the Islamic Banks in Central Java is, the better the performance of the Islamic Banks in Central Java will be. The better the implementation of Sharia principles with indicator of the better contract implementation, the healthier investment will result on its own. That is why, the banks with small sharing principle will likely to suffer a financial loss.

By the implementation of better contract will result in healthy investment. The healthy investment will bring a healthy performance. The implementation of Sharia principles influences the welfare of the Islamic Banks' employees in Central Java. It can be concluded that there is a positive influence of the Sharia implementation on the employees' welfare as proven in the previous hypothesis testing result, which shows that the better implementation of the Islamic Sharia principles will be a positive influence on the the Islamic Banks' employees' performance. The good performance influences the employees' welfare. Therefore, a good performance will provide a good welfare anyway.

The influence of Islamic Banks' performance in Central Java on the employees' welfare is very positive. Healthy investment which has a positive influence on the performance of Islamic banks in Central Java, will lead to a positive influence on the employees' welfare. The good performance will result in good sharing profit in Islamic Banks as well. The Islamic Banks' performance gives effects on employment which can be concluded that there is a positive influence between the performance and the employment. Theoretically, it is understood that started from healthy investment yield for healthy sharing results, which reflects good performance. (The good performance has a positive influence on the employees' welfare). The employees' welfare causes a positive effect on employment because of feeling of safety and comfort perceived by the employees.

The Islamic banking institutions in Central Java have implemented the principles / values of Sharia in carrying out Islamic banking institutions. This is proven by the implementation of the Sharia values of in the implementation of the contract / agreement between depositors as stated in Bill No. 10/1989 Article 1, paragraph 13 and article 1 paragraph 13 of Bill No. 21/2008. The results of this study prove that these provisions have been implemented.

Suggestion

The results of this study indicate that Sharia principles have been implemented by the Islamic Banks in Central Java and their significant influences on the performance, employees' welfare and employment as linked to the research conducted by M. Suyanto (2007), there is an increase in the welfare of the Islamic Banks' employees. Because the results of this study indicate something positive for the

Islamic Banks, therefore, this condition should be maintained and increased in the future times.

The research results on the influence of Sharia implementation on the performance, employees' welfare and employment at the Islamic Banks in Central Java show positive symptoms for the education of the Islamic world. The well implementations of Sharia principles will give a positive influence on the performance, employees' welfare and employment.

As it is expected, the better role of the Islamic Banks in national economic development is, it is worth that governments are supposed to increasingly pay attention to the Islamic Bank as they do it toward Conventional Banks, particularly in facilitating their comprehensive needs and regulatory requirements of Islamic Bankings.

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