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ROLE OF GOOD CORPORATE GOVERNANCE MECHANISM BASED ON SYARIAH MAQASID INDEX

Sri Hartono
Dept. of Management, Faculty of Economics, UNISSULA, Semarang, Indonesia
srihartono@unissula.ac.id

Abstract

The development of Islamic banks in Indonesia very rapidly demonstrated with the development of assets, financial performance and employment. That condition can not be separated from the system of good governance. Many empirical evidence shows the effect of implementation of corporate governance on the performance of Islamic banks. However, the measurement of the performance of Islamic banks, is still dominated by financial performance, such as ROA and ROE. So the success of corporate governance is also oriented to the achievement of financial performance (ROA and ROE) just as applicable in conventional banks. As already tried to use the performance measurement indicators that more komprehenship accordance with the objectives of sharia. Performance analysis of several Islamic banks using sharia maqashid Index performed relatively low, especially for the benefit of the people. Under these conditions, it is necessary to do the analysis and application of corporate governance mechanisms affect the performance based on Sharia Maqashid Index as well as the extent of the application of corporate governanace is in conformity with the purpose of sharia

Keyword : GCG mechanisms, implementation GCG and Maqashid Syariah Index

INTRODUCTION

The development of Islamic bank in Indonesia is quite rapid, in order to perform the intermediary function of public funds. This is indicated by the development of a very large assets, which amounted to 198 248 billion in January 2015 to 209 613 billion as of January 2016, up about 5.86%. It showed relatively high growth compared to conventional bank growth. In terms of financial performance as measured by ROA also showed significant growth, which amounted to 0.88% per January 2015 rose to 1:01% by January 2016, up about 14.77%. While the performance of the financing shows that compassion performance is relatively low, due to the non performance financing is still above 5% that is equal to 5.56% per January 2015 to 5.46 as of January 2016. While the demonstrated performance increases, but is still relatively under the NPF standards healthy is a maximum of 5%. In terms of the distribution of funds-sharing is still relatively small. Financing revenue-sharing in January 2015 amounted to 33.17% of the total financing and slightly increased in January 2016 to 35.3%. Likewise with pembiayann which is oriented on SMEs, both in terms of investment and working capital in 2015 and 2016 are still in the range of 16%. This shows the commitment of Islamic banking to SMEs is still relatively low.

Improved performance of Islamic banking can not be separated from good governance. Good governance can be realized in good corporate governance mechanisms which are expected to impact on the performance of Islamic banking. Of the various empirical studies show that the corporate governance mechanism which is indicated by the Board of Directors, CEO and SSB affect the financial performance of ROA and ROE (Matoussi and Grassa, 2012)

Similarly, research conducted Ghaffar (2014) shows that the policy of good corporate governance as measured by Board Size and Board indipendent affect the profitability of Islamic banks in Pakistan. In that study the profitability measured using return on assets (ROA) and return on equity (ROE).

Implementation of good corporate governance in Islamic banks there is a difference with conventional banks associated with the implementation of sharia compliance. The application of the Sharia compliance is an important factor associated with the sustainability of Islamic banks. One form sayariah compliance is their Sharia Supervisory Board. The Sharia Board has the task of overseeing the operations of Islamic banking in order not to deviate from the principles of sharia. Indonesia's banking supervision has been carried out by the Central Bank (Bank Indonesia) and the FSA in order to manage the health of the banking activities. Changes in banking services with a variety of amenities, including Islamic services have revolutionized society in investing in Islamic financial institutions and the real sector.

In order to achieve the performance of Islamic banking needs good governance. Although many studies have been conducted on the governance of banks on the performance of Islamic banking, but the size of the banking performance is still plenty simply emphasis on financial performance, as seen in conventional banks, policy corporate governance or the elements tested here include the size of the Board of Directors and Board Independent Directors. The bank's profitability has been measured on the basis of the bank's profitability ratios. profitability ratios used are return on assets (ROA) and return on equity (ROE). The samples used for this study is the Islamic bank of Pakistan. The findings showed that all corporate governance variables have a significant relationship with the bank's profitability. Pakistan Islamic banks' profitability is likely to increase with the implementation of good corporate governance. corporate governance should be adopted by all banks that have greater profitability and the government should encourage the practice of good corporate governance in all sectors. This study was limited in the limited time and a different approach to corporate governance practices by each bank. More awareness relating to corporate governance must be brought to the bank's employees by providing training on components improve their corporate governance. In this way, by acting on the corporate governance policies, the profitability of Islamic banks can improve efficiency (Ghaffar, 2014)

Of the various empirical findings related to the impact of governance and its impact on the banks' performance, kebanyakan studies using conventional benchmarks to measure the performance of Islamic banks. The use of conventional size because of the limitations of Muslim clerics who seriously examines the syariah-based performance measurement. Islamic bank performance measurement sub is still focus on financial performance as well as in conventional banks. Therefore there is a need to develop other performance measures that will complement Islamic bank financial goals.

Some researchers have tried malakukan study of performance measurement in accordance with the purpose of using the Index maqashid sharia sharia. The results showed Capain the performance of the Index based on sharia maqashid relatively low. The researchers also merely assess the performance of the index maqashid sharia. Therefore we need empirical test to measure the performance and coherence of the governance mechanisms of good banking.

With good governance, it is expected the presence of Islamic banking can provide the good of mankind. While placing the man with the intent and purpose for the benefit of people and leaving any rule can not be justified, and in vain. Thus, God's commands and prohibitions include some interests for all human beings. Thus, management of Islamic banking should be in accordance with the rules of God for the purpose of human benefit is "maqasidu's-shari" (Esen, M. Fevzi, 2015)

This study aims to look at the impact of governance on the performance of Islamic banks on the theory Maqasid al-Shariah. In the development of this research refers to research performance measurement conducted Sharia maqashidMustafa Omar, Mohammed., Razak, Abdul Dzuljastri and Taib, Fauziah Md. (2008) on pengukuan performance of Islamic banks on the basis of sharia amqashid, research Jazil, Thuba And Syahruddin, (2013) the comparative performance of Islamic banks Indonesia and Malaysia on the basis of sharia and research maqoshid Esen, Fevzi M., (2015) on the framework for identifying maqasid Al-Shariah for socioeconomic development index.

Corporate governance mechanisms are expected to support the achievement of the performance of Islamic banking. This research has been done related to corporate governance mechanisms and their impact on financial performance, both ROA and ROE. similar to those used in conventional banks. This resulted in many stakeholders

Islamic bank can not clearly see the difference between Islamic and conventional banking. By using the same conventional yardstick to measure Islamic banking there is a discrepancy with the broader objectives of Bank Islam. So, we need an empirical test of the impact of corporate governance mechanisms, whether in accordance with the objectives of Islamic banks, which provide for the welfare of the people. The study also seeks to reveal whether in corporate governance mechanisms have been going well so as to support the achievement of Islamic banks in upholding maqasid sharia.

Specifically the purpose of this research, to identify the ideal destination Islamic bank is based on the theory Maqasid al-Shari ah and analyze the role of corporate governance mechanisms on the performance of Islamic banks on the terms of Maashid Shariah Index

THEORITICAL REVIEW

Performance of bank

Performance measurement based on the objectives of sharia bank, grouped into three (3) objectives of sharia. According to Mohamed (2008) to measure the bank's objectives of sharia, include: educating people, creating justice and welfare. Each goal or concept detailed in several dimensions, elements and measurement. Operasionalisas destination Islamic banks and performance measurement, using the approach of financial ratios as well as the data source of the bank's financial statements relevant to the performance of the test rank,By using the method we have now, the performance assessment of Islamic banking is based on the concept of Al-maqashid Al-Sharia formulated by Mohammed, (2008) and Jazil (2013), as follows:

Table 1. Maqashid Syariah Measurement

NO	Objective	Average Weight (%)	Elements	Measurement	Average Weight (%)
1	Education *(Tahdhib al-Fard)*	30	Education Grant / Donation	Research expense / total expense	24
			Research	Training Expense / total expense	27
			Training	Publicity expense / total expense	26
			Publicity	Net profit / total assets	23
			Total		**100**
2	Justice (Al-'Adl)	41	Fair Returns	profit / income	30
			Fair Price	bad debt / total investment	32
			Interest free product	Free interest income / total income	38
			Total		100
3	Welfare *(Al-Maslahah* : *include the bank's interest plus the public interest)*	29	Bank 's Profit Ratios	Net profit / total assets ()	33
			Personal Income Transfers	Zakah / Net Income ()	30
			Ratios Investment in real sector	Investment deposits / total deposits	37
			Total		**100**

Source: Mustafa Omar, Mohammed., Razak, Abdul Dzuljastri and Taib, Fauziah Md. (2008)

Of the ten performance ratio is identified, then the result is multiplied by the weight by using Simple Additive Weighted metod (SAW). Therefore, mathematically, the evaluation of individual Islamic Bank Interest can be calculated as follows, in which the performance indicators for the 1st goal symbolized by PI (O1), Destination 2 PI (O2) and goal three PI (O3)

PI (O1) = (W1xE1.1xR1.1) + (W1xE1.2xR1.2) + (W1xE1.3xxR1.3) + (W1xE1.4xR1.4)

PI (O2) = (W2xE2.1xR2.1) + (W2xE2.2xR2.2) + (W2xE2.3xxR2.3)

PI (O3) = (W3xE3.1xR3.1) + (W3xE3.2xR3.2) + (W3xE3.3xxR3.3)

Index Maqasid Shariah Index

Maqashid Shariah Index is a total overall performance indicators for the three objectives of sharia for each bank. So that the formulation to calculate the Index maqashid Sharia can be formulated as follows:

MI = PI (O1) + PI (O2) + PI (O3)

Corporate governance

Good corporate governance contained in Bank Indonesia Regulation (PBI) No. 11/33 / PBI / 209 is a governance of banks to apply the principles of transparency, accountability, responsibility, and fairness prifesional. GCG destination, according to Bassel Committee on Banking Supervision is to press agency costs, capital costs, maximize shareholder value, encourage professional banking management, encouraging commissioners and keep going concern.

Good corporate governance is a concept proposed for improving the performance of banks through supervision or monitoring the performance and management akuntabilias towards stakeholders. When viewed from the stakeholder theory, the bank has the responsibility in a way to accommodate the wishes of stakeholders and operate in accordance with the norms that exist in society.Corporate Governance aims to controla balance between economic, social and individual. Diharpkan governance structure can produce an efficient use of resources. Corporate governance also aims to align the interests of the company to the individual and society. For the company's corporate governance is driven to achieve the desired goals and get investment. Good corporate governance practices associated with good performance, competitive financial markets, and protection for outside investors. Investors outside influence the behavior of directors and managers. Poor corporate governance practices, usually indicates the rights of minority shareholders are weak and lack of independent oversight (Anandarajah, 2004)

Asian Development Bank said that corporate governance is the way in which power is used in the management of a country's resources for development (Wescott, 2000). Corporate governance is the rules and rights, laws, structures and control methods established for the management of the company. The main objective of good corporate governance is to maintain the benefit of the stakeholders (Nielsen, 2000). Corporate governance is also an indirect mechanism that reduces agency costs and transaction issued by the manager, when they act in their own interests than in working for the interests of the company and shareholders (Kidd and Richter, 2003).

Corporate Governance Mechanism

According Matoussi and Grassa (2012), the mechanism of corporate governance can be measured using the board meeting, board size, the proportion of non-executive, outside director, woman director, old director, foreign director, director fees, CEO tenure, CEO duality, CEO founder, CEO age, number of committee, SSB size, SSB interlock, SSB afc , SSB women.

Board Size, Board of Sharia and Islamic Bank Performance

Corporate governanace Islamic bank different from conventional banks, also the case with the State differences also show differences implentasi Corporate Governance (Matoussi and Grassa, 2012). The results showed that the mechanism govenance general corporate impact on financial performance, except as indicated by the characteristics GCG Syariah Board does not affect the performance of Islamic banks (ROA and ROE) in Asia and the Gulf corporation Shoutheast Council (Matoussi and Grassa, 2012)

Similarly, research conducted Ghaffar (2014) shows that the policy of good corporate governance as measured by Board Size and Board indipendent affect the profitability of Islamic banks in Pakistan. In that study the profitability diuukur use return on assets (ROA) and return on equity (ROE). Matoussi and Grassa (2012), confirms the theoretical number of boards of directors is an indicator of governance mechanisms are important, because the board can ensure that managers follow the interests of the council. The size of the board of directors included in the indicators of corporate governance mechanisms and positive effect on performance. It can be concluded size of the board of directors and board of shariah effect on bank performance. Based on the study, it can be hypothesized as follows:

H1. : Size (Total) Board of Directors of Bank Islam affect the performance on the basis of Maqashid Sharia Index

H2. : Sharia Council affect the performance of Islamic Bank on the basis of Maqashid Sharia Index

Institutional Ownership and Performance Islamic Bank

The concentration of institutional ownership is a stock company owned by the institution or institutions such as insurance companies, investment companies and other institutional ownership. Institution is an institution that has a great importance to the investment made, including a stock investment. So that institutions usually assign responsibility in certain divisions to manage the investments of the company.

Study on institutional ownership, Hartzell and Starks (2003) argues that institutional ownership advances firm performance. Maury (2006). suggests that institutional ownership affects the relationship between ownership and firm value whereby increased in voting power and control enhances the firm performance. Further, studies which looked at the direct impact of institutional ownership on performance such as Smith (1996) and Guercio and Hawkins (1999) find that institutional ownership is positively related to firm performance.

Institutional ownership has an important role in minimizing the agency conflict that occurs between managers and shareholders. The existence of institutional investors are considered capable of being an effective monitoring mechanism in any decision taken by the manager. Institutional ownership has significance in monitoring the management, because of the presence of institutional ownership will encourage more optimal monitoring of the performance of management, so that management would be more cautious in making decisions.

Activity monitoring institution able to change the structure of the management of the company and is able to increase the prosperity of shareholders. Monitoring done by institutions capable of substituting another agency fee, so the agency cost decreases and the value of the company increases. In Malaysia, the institutional ownership of banking heavily concentrated in the institution that, institution ownership influence on financial performance (ROE and ROA) bank in Malaysia (Azureen and Farida, 2015)

H3: Institutional ownership affect the performance of Islamic banking based on Maqashid Sharia Index.

Mangement Ownership and Performance Management Bank Islam

A frequent problem arising from the ownership structure is the agency conflict, where there is interest between the company's management as decision decision maker and shareholders as the owner of the company. Management ownership will encourage management to enhance shareholder value. These results are consistent with studies Jensen and Meckling (1976), which proved that the ownership structure of shares by the management have a positive effect on firm value.

Ownership management is the proportion of shareholders from management who actively participate in corporate decision. With the management ownership in a company, will create interesting conjecture that the value of the company increased as a result of increased management ownership. Ownership by management that are most effective in monitoring the company's activities. With the proportion of ownership is high enough, then the manager will feel involved have company, so it will try everything to make actions that can maximize their own welfare. It is based on logic, that the increase in the proportion of shares owned by the manager will reduce the tendency of managers to do overreact. Thus, it will unite the interests of managers and shareholders, it had a positive impact to increase the value of the company.

Ownership management is also merupkan one form of corporate governance mechanisms. The greater the share ownership by management can be used to limit the tendency of management to optimize the use of resources, thereby increasing the performance of the company. Conversely low ownership and lack of ownership by manaejmen can lead to opportunistic behavior of managers that hurt the company. Management ownership of the shares of companies seen to align the potential divergence of interests between management and external stakeholders, especially shareholders (Jensen and Meckling, 1976). So the agency issues were assumed to be lost if a manager is also as an owner.

Moldenhauer (2006), finds that the existence of insider ownership in a firm increases the firm‘s performance. Chen, Guo, and Mande (2003) in their study of firms in Japan finds a positive relationship between insider ownership and performance. Similarly, Davies, Hillier, and McColgan (2005) in their study of UK firms, in his study of firms in Switzerland find that insider ownership has a positive relationship with firm performance. However, a study by Gugler, Mueller, and Yurtoglu, (2008), finds that insider ownership has an unambiguous negative effect on firm performance while

Sullivan and Spong (2007), indicates that insider ownership boost risk taking strategies among managers. Similarly Azureen research and Farida (2015), also showed that management ownership affect the financial performance (ROA and ROE) on a bank in Malaysia. Thus management ownership is expected to improve the company's performance. In the context of Islamic banking is expected to increase management ownership in accordance with the purpose of performance enhancement sharia.

H4: Ownership of management on the performance of the banking based on maqashid Sharia Index.

Implementation of Corporate Governance

Implementation of banking corporate governance are well done will impact positively to performance improvement. The research findings Bai et.al. (2004) and Wardayati and Maryam (2011) showed that the implementation of syariah governance has a significant relationship with reputation, trust and marketshare Islamic banking. Similarly Siagallan research (2014) shows that corporate governance is the dominant variable affecting bank performance. Is an indicator of the extent to which the bank running the BI about the rules and regulations GCG. Measurement of quality ratings based on the bank GCG implementation conformance with the implementation of aspects of GCG. Based on the implementation of sharia governance is expected to improve the performance of Islamic banks in accordance with the objectives of sharia. Therefore tu sebagari following hypothesis can be drawn:

H.5 : Implementation of corporate governance affect the performance of Islamic banking based on Maqashid Sharia Index

Corporate Corporate Size and Age

The longer the bank operation will be more and more experience in management. Similarly, large dengansemakin bank assets, will also support good governance, because it has sufficient funds for the implementation of good governance obedient. According Matoussa and Grassa (2012), which is a great asset ownership and the longer tau older the bank, then the bank's governance, the better. Hence the age and size of Islamic bank assets will have an impact on governance, so the age can make control in analyzing impact corporate governance mechanisms on the performance of Islamic banking based on Maqashid Sharia Index

EMPIRICAL MODEL

Of the various theories and empirical studies, related to the impact of corporate governance mechanism on the performance of Islamic banking in the empirical model can be described as follows:

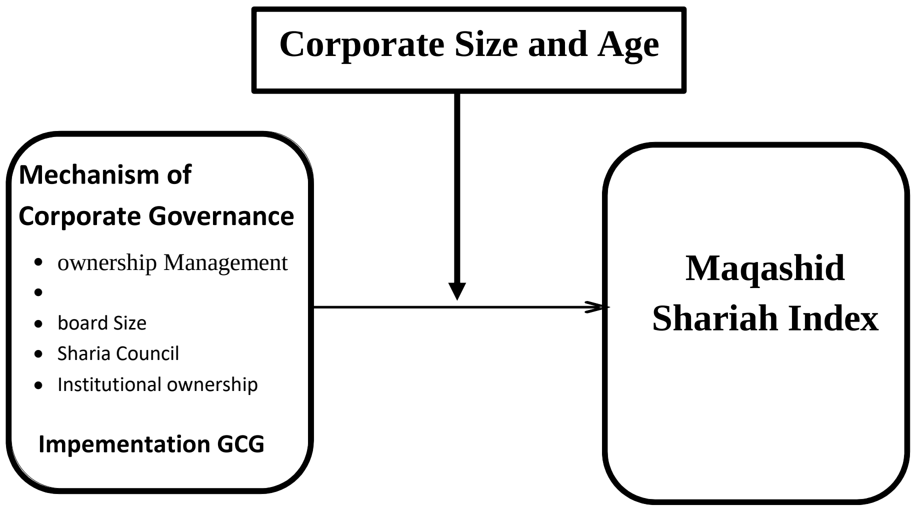

Figure 1. Empirical Model of Corporate Governance Mechanisms relationship with Sharia maqashid Indekx

CONCLUSION

Mechanism of Corporate Governance in Islamic banking is expected to support the achievement of the objectives of sharia banking based maqashid. The concept of this study is expected to motivate authors to find empirical evidence related to corporate governance mechanisms Islamic banking in an effort to achieve the objectives of Islamic banking based on Sharia Index maqashid. This concept is also expected to inspire the development of good governance that can support the achievement of performance objectives based on sharia. While the practice of governance for this new reoriented to the achievement of financial performance as it applies to conventional banks.

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