

EXPLORING DISCLOSURE OF CORPORATE GOVERNANCE IN INDONESIA'S ISLAMIC BANKING : A MAQASHID SHARIA PERSPECTIVE

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ABSTRACT,

“Conventional” corporate governance and “Sharia” or Islamic corporate governance may be different. The main research question is how Islamic Banking disclose their corporate governance? Author would like to find an answer according to maqashid Al-Shari’ah upon the realization of Islamic Ethical or Moral’s rule. In operationalizing the disclosure, this study conduct empirical investigations by taking 3 Islamic Commercial Banking and 3 Islamic Business Unit Banking in 2016 as a sample. The annual report for the sampled bank are using content analysis to generate the formula on disclosing corporate governance with maqashid al-Sharia’ah approach. Evidence showed that there is a lack of achievement on disclosure of corporate governance using maqashid Al-Shari’ah approach. Nevertheless, the overall industry focus mainly on rights and stakeholding, prosperity, and wealth rather than faith, self, intellect or ecology consequences. Additionally, the empirical results showed that there is no differences orientation between Islamic Commercial Banking and Islamic Business Unit Banking.

Key words : Corporate Governance, Islamic Banking, Maqashid Sharia

INTRODUCTION

In Indonesia, Islamic Banking emerged in 1992 in the form of conventional banking as a value oriented banking proposal shaped by the principles of Islamic ethics and also by Islamic legal norms. AAOIFI (2007) described it as: “Islamic Banks were developed on a foundation that does not permit the separation between temporal and religious matters”. It requires Islamic Banking to comply with Sharia rules as a basis for all aspects of life. Since “Shariah” is being a backbone of how Islamic Institution, including Islamic Banking, Islamic Banking experts assert issue of corporate governance should be considered as main important and unique distinction between conventional and Islamic Banking.

Thus, this perspective together constructs the nature of Islamic Banking with the objective of producing an ethical financial system, which reflects the maqashid al Shari’ah or the objective of Islamic Principles with ultimate goal to promote human wellbeing (Asutay, 2012). Over the last twenty years, Islamic Banking has shown important progress and is now considered as a part of Indonesian financial system. Despite such success, it is still debated on Islamic Banking performance is also concerned with the observed converge of Islamic Banking towards existing neo classical system by gradually moving away from its value proposition (Asutay, 2012). One of the reasons for such development is attributed to mimicking of conventional banking has practiced and their products fulfilling “form” or legal requirement, while neglecting the “substance” as identified in the maqashid al Sharia framework (Ahmed, 2011).

LITERATURE REVIEW

Maqashid Al-Shari’ah Paradigm

Chapra (2008a) defined “The very objective of the Sharia’ah is to promote the well-being of the people, which lies in safeguarding their faith (din), their self (nafs), their

intellect (‘aql),their posterity (nasl) and their wealth (mal). Chapra (2008a) said that these five objectives are primary, while there are others important corollaries can be derived from Islamic ontology and epistemology. The impact and importance in Short-run may be different, thus, in long run they are all important, as “They are all independent and play the role of supporting each other”. Then Chapra (2008a) sets up an order based on importance for all primary objectives to be : the human self, faith, intellect, posterity and wealth.

In searching for the articulation of *maqashid al-Shari’ah*, Bedoui (2012) provides a broader and more effective concept within 4 objectives and 8 corollaries as shown in Table 1.

Table 1. Concept of Al Maqashid Shari’ah

1) Safeguarding the value of human life	a) Faith b) Human rights
2) Safeguarding the human self	a) Self b) Intellect
3) Safeguarding the society	a) Posterity b) Social Entity
4) Safeguarding the physical environment	a) Wealth b) Environment (Ecology)

Bedoui (2012) uses all colloraries to represent objective and visualizes and also assumed that all objectives should be balanced and therefore they should all have the same weight.

Safeguarding the Value of Human Life

In achieving the first objective, each consequences is distributed to some dimensions, elements or indicators of disclosure aspect according to concept introduced by Mohammed et.al (2008), Haniffa and Hudaib (2007) and Hameed et.al as can be seen in Table. In faith, the first two dimensions and indicators are taken from Mohammed et. All (2008) and modify component of Educating Individual by using dimension of Advancement of Islamic Knowledge.

Table 2 . Disclosure Index for Safeguarding the Value of Human Life Framework

No.	Key Objectives	Consequences	References	Dimension	Elements	Disclosure Aspect
	Safeguarding the Value of Human Life Framework	1.Faith	Mohammed et.al (2008)	Advance of Islamic Knowledge	Aqidah Reinforcement	Training, research, and education grant to strengthen Aqidah.
				Elimination of Injustices	Interest Free Products	Available products has legalized by MUI.
				Underlying Philoshopy and Values	Vission and Mission Statement Disclosure	Commitments in operating within Sharia principles Commitments in providing returns within Sharia principles Focus on maximizing stakeholder returns or values Directions in serving the needs of Muslim community Commitments to engage only in permissible investment activities Commitments to engage only in permissible financing activities Commitment to fulfill contracts statement Appreciation to stakeholders
		2.Rights & Stakeholding	Haniffa & Hudaib (2007)	Interest-free and Islamically Acceptable Deals – Product Aspects	Product	No involvement in non permissible activities Reason for involvement in non permissible activities Handling in non permissible activities Approval by SSB for new product Basis of Sharia Concept in approving new product
			Haniffa & Hudaib (2007)	Interest-free and Islamically Acceptable eals – Employee Aspects	Employees	Employees Appreciation Number of Employees Equal Opportunities Policy Employees Welfare Reward for Employees
			Mohammed et.al (2008)	Advance of Islamic Knowledge	Aqidah Reinforcement	Training, research, and education grant to strengthen Aqidah
				Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	BOD (Composition, Appointment and Reappointment, Board Meetings, and Director's Fees)	The board of directors comprises at least one-third of independent non-executive director The board of directors has representative from Shari'ah board The directors retire by rotation once in three years and subsequently eligible for re- appointment The reappointment of non-executive directors is not automatic The terms of appointment of the non- executive directors are disclosed Board meetings were conducted at least four times a year Number of board meetings held in a year and the details of attendance of each individual director in respect of meetings held are disclosed Directors attend at least 75% of meeting on average Directors remuneration is disclosed Separate figures for salary and performance-related elements, and the basis on which performance is measured are be explained Shareholder approve directors aggregate pay
				Corporate Governance Indicator (Fairness and Transparency) – Committees Aspects	Nomination, Remuneration and Audit Committees	The company has nomination committee The committee should exclusively consists of non-executive directors which majority are independent There is a Remuneration Committee Remuneration consisting wholly or mainly of non-executive directors Membership of the remuneration committee should appear in the directors' report There is an audit committee The Audit Committee consists of at least three non-executive directors, whom majority are independent Audit committee include someone with expertise in accounting Audit committee recommends the external auditor at the annual shareholders meeting At least, once a year the committee met with the external auditors without executive board members present, to review financial statementDetails of the activities of audit committees, the number of audit meetings held in a year and details of attendance of each individual director in respect of meetings are disclosed Audit committee members attend at least 75% of meetings on Average
				Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	SSB	Include someone with expertise in accounting SSB meets with audit committee and/ or external auditor to review financial statement Details of the activities of SSB, the number of board meetings held in a year and details of attendance of each individual member in respect of meetings are disclosed SSB committee members attend at least 75% of meetings on average SSB is independent body

Corporate Governance Indicator (Fairness and Transparency) – Other Aspects

Others

Directors, senior management are qualified persons in terms of Chairman and CEO are different persons There is a Risk Management Committee English disclosure exists There is statement on Corporate Governance The maintenance of an effective system of internal controls is disclosed here is director's report

Safeguarding the Human Self and Society

On the second key objective, safeguarding the human self, there are 2 consequences (self and intellect) adopted from Mohamed et.al (2008). Self consequence addresses one indicator to measure the bank contribution in the economic empowerment. The intellect consequence covers 3 indicators to see disclosure for educating individuals. Meanwhile, the third objective (safeguarding the society) consists of 3 consequences. In posterity, researcher adopt 4 indicators from Hameed et. al's (2004) study to fulfill the needs of their stakeholders in order to eliminate the irritants factor : fear and conflict (Chapra, 2008). For the other consequence, researcher utilize the frameworks developed by Mohammed et. al

(2008), Haniffa and Hudaib (2007) and Hameed et. al (2004) to evaluate disclosure of bank's social distribution from zakat, charity, and qardh hasan.

Safeguarding the Physical Environment

The last objective, safeguarding physical environment, covers 2 consequences : wealth and ecology. This dimensions with their consequences, dimensions and elements are presented in Table 4.

Wealth consequence adopts CAMEL analysis as performed by Jaffar and Marnavi (2011). Ecology adopts Hameed et.al's (2004) study. To improve the indicator for this objectives.

Table 3 . Disclosure Index for Safeguarding the Human Self and Society

No.	Key Objectives	Consequences	References	Dimension	Elements	Disclosure Aspect
B.	Safeguarding the Human Self	1.Self	Mohammed et.al (2008)	Advancement of Islamic Knowledge		
		1.Intellect		Installing New Skills and Improvement	Training	Training of Skills
				Creating Awareness of Islamic Banking	Publicity	Publicity
C.	Safeguarding the Society	1.Posterity	Mohammed et.al (2008)	Redistribution of Income and Wealth	Personal Income	Zakat of Employees
		1.Social	Haniffa and Hudaib (2007)	Developmental and Social	Zakat, charity, and benevolent loans	Bank liable for zakah Amount paid for zakah Sources of zakah Use/ beneficiaries of zaka Balance of zakah not distnbuted- amount Reasons for balance of zakah SSB attestation that sources and uses of zakah according to Shari'ah SSB attestation that zakah has been computed according to Shari'ah Zakah to be paid by individuals-amount
					Community	Creating job opportunities that provide benefits for society
			Hameed et.al (2004)	Social Indicators	Policy Objectives and Environmental Issues	Mission statement Social target and objectives Consumer Care Community Involvement

Table 4. Disclosure Index for Safeguarding the Physical Environment

No.	Key Objectives	Consequences	References	Dimension	Elements	Disclosure Aspect
D.	Safeguarding the Physical Environment	1. Wealth	Jaffar and Marnavi (2011)	CAMEL	CAR, Asset Quality, Management Quality, Earning Ability, Liquidity	Disclosure of ratio in annual report
		1.Ecology	Hameed et.al (2004)	Environment Indicators	Policy Objectives and Environmental Issues	Statement of environmental policy Environmental target and objective View on environmental issues Environmental Management System Energy Saving Environmental Indicator Carbon Emission Report

METHODE

The empirical nature of this study aims at assessing the disclosure of corporate governance in annual reports. Therefore researcher attempts to employ throughout content analysis. The content analysis, which according to Krippendorff (1980), “A method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria”. This method is employed to collect the disclosed information in relations to the dimensions and aspects of this study.

Constructing the Data Set

The study utilizes the information disclosure in annual reports of Islamic Banking in Indonesia in 2015. In Indonesia, there are two kinds of Islamic Banking : Islamic Commercial Banking and Islamic Business Unit (Banking). The sample selection is determined by top three of total assets which both of Islamic Commercial Banking and Islamic Business Unit have. The sample banks are depicted in Table

Table 5 : Sample Selection

Islamic Commercial Banking	Islamic Business Unit Banking
Bank Muamalat Indonesia	Bank Permata Syariah
Bank Syariah Mandiri	Bank BTN Syariah
Bank Mega Syariah	Bank CIMB Niaga Syariah

Estimation Method

In operationalizing the research and conducting the disclosure, the following procedure followed: Firstly, to quantify the qualitative disclosure indicators, the scoring approach is derived from Haniffa and Hudaib's (2007) study. One score is given for the disclosure of the required information and zero is given for no disclosure. According to Bedoui's simulation, the weights for the dimensions are defined since each dimension is interrelated with others. Therefore, weights are assigned to define the correlation amongst the dimensions according to the literatures, which are shown in Tabel .The results are the scores for each consequences.

Table 6. Weight Allocation of The Dimensions

No.	Key Objectives	Consequences	Dimension	Faith	Rights	Self	Intellect	Posterity	Social Entity	Wealth	Ecology
A.	Safeguarding the value of human life	Faith	Advancement of Islamic Knowledge	30%	30%	40%					
			Elimination of Injustice Underlying Philosophy and Values	100%							
			Interest-free and Islamically Acceptable Deals – Product Aspects	100%							
		Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects		100%						
			Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects		100%						
			Corporate Governance Indicator (Fairness and Transparency) – Committees Aspects		100%						
			Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects		100%						
			Corporate Governance Indicator (Fairness and Transparency) – Other Aspects		100%						
B.	Safeguarding the Human Self	Self	Advancement of Islamic Knowledge	30%	30%	40%					
		Intellect	Installing New Skills and Improvement				100%				
			Creating Awareness of Islamic Banking				100%				
C.	Safeguarding the Society	Posterity	Redistribution of Income and Wealth					50%		50%	
		Social Entity	Developmental and Social Social Indicators					50% 100%		50%	
D.	Safeguarding Physical Environment	Wealth	CAMEL							100%	
		Ecology	Environment Indicators					50%		50%	

FINDINGS

As depicted by Table 7, Bank Syariah Mandiri (Indonesia) achieves the highest score in 7 objectives (faith, rights and stakeholding, self, intellect, posterity, social entity, and wealth)

In evaluating Rights and Stakeholding, Intellect, Posterity, and Wealth, Bank Muamalat Indonesia disclose every relevant information. Lastly, in Faith and Ecology consequences, Bank Muamalat Indonesia's disclosure are unsatisfying. Bank Muamalat Indonesia doesn't disclose their effort to improve aqidah reinforcement both for employee or other stakeholder. And Bank Muamalat

Indonesia also doesn't disclose any relevant information about how they treat or give an added value to society, any social performance or other indicator's related to ecology awareness.

In evaluating Rights and Stakeholding, Intellect, Posterity, and Wealth, Bank Mega Syariah disclose every relevant information. Lastly, in Faith and Ecology consequences, Bank Muamalat Indonesia's disclosure are unsatisfying. Bank Mega Syariah doesn't disclose their effort to improve aqidah reinforcement both for employee or other stakeholder. And Bank Mega Syariah also doesn't disclose any relevant information about how they treat or give an added value to society, any social performance or other indicator's related to ecology awareness

Table 7. Overall Corporate Governance Disclosure in Indonesia Islamic Banking

Corporate Governance Disclosure	Islamic Commercial Banking			Islamic Business Unit Banking		
	Bank Muamalat Indonesia	Bank Syariah Mandiri	Bank Mega Syariah	Bank Permata Syariah	Bank BTN Syariah	Bank CIMB Niaga Syariah
1. Faith	75%	100%	75%	25%	25%	50%
2. Rights and Stakeholding	100%	100%	100%	100%	100%	80%
3. Self	0%	100%	0%	0%	0%	0%
4. Intellect	100%	100%	100%	50%	50%	50%
5. Posterity	100%	100%	100%	100%	100%	100%
6. Social Entity	0%	100%	0%	0%	50%	50%
7. Wealth	100%	100%	100%	100%	100%	100%
8. Ecology	0%	0%	0%	0%	0%	0%
Total Disclosure	59.38%	87.50%	59.38%	46.88%	53.13%	53.75%

Table 8. Corporate Governance Disclosure of Bank Muamalat Indonesia

No.	Consequences	Dimensions	Score
1	Faith	Advancement of Islamic Knowledge	0%
		Elimination of Injustice	100%
		Underlying Philosophy and Values	100%
		Interest-free and Islamically Acceptable Deals – Product Aspects	100%
2	Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Committees	100%
		Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Other Aspects	100%
3	Self	Advancement of Islamic Knowledge	0%
4	Intellect	Installing New Skills and Improvement	100%
		Creating Awareness of Islamic Banking	100%
5	Posterity	Redistribution of Income and Wealth	100%
6	Social Entity	Developmental and Social	50%
		Social Indicators	0%
7	Wealth	CAMEL	100%
8	Ecology	Environment Indicators	50%

Table 9. Corporate Governance Disclosure of Bank Mega Syariah

No.	Consequences	Dimensions	Score
1	Faith	Advancement of Islamic Knowledge	0%
		Elimination of Injustice	100%
		Underlying Philosophy and Values	100%
		Interest-free and Islamically Acceptable Deals – Product Aspects	100%
2	Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Committees	100%
		Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Other Aspects	100%
3	Self	Advancement of Islamic Knowledge	0%
4	Intellect	Installing New Skills and Improvement	100%
		Creating Awareness of Islamic Banking	100%
5	Posterity	Redistribution of Income and Wealth	100%
6	Social Entity	Developmental and Social	50%
		Social Indicators	0%
7	Wealth	CAMEL	100%
8	Ecology	Environment Indicators	50%

Table 10. Corporate Governance Disclosure of Bank Syariah Mandiri

No.	Consequences	Dimensions	Score
1	Faith	Advancement of Islamic Knowledge	100%
		Elimination of Injustice	100%
		Underlying Philosophy and Values	100%
		Interest-free and Islamically Acceptable Deals – Product Aspects	100%
2	Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Committees	100%
		Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Other Aspects	100%
3	Self	Advancement of Islamic Knowledge	100%
4	Intellect	Installing New Skills and Improvement	100%
		Creating Awareness of Islamic Banking	100%
5	Posterity	Redistribution of Income and Wealth	100%
6	Social Entity	Developmental and Social	50%
		Social Indicators	100%
7	Wealth	CAMEL	100%
8	Ecology	Environment Indicators	50%

In evaluating Rights and Stakeholding, Intellect, Posterity, Self, Faith, and Wealth, Bank Syariah Mandiri disclose every relevant information. Lastly, in Social Entity and Ecology consequences, Bank Syariah Mandiri disclosure are unsatisfying. Bank Syariah Mandiri doesn't disclose any relevant information about how they treat or give an added value to society, any social performance or other indicator's related to ecology awareness. But, Bank Syariah Mandiri shows their commitment to improve Aqidah reinforcement by holding training related to fiqh.

In evaluating Rights and Stakeholding, Wealth and Posterity, Bank Permata Syariah disclose every relevant information. But, in Faith Self, Intellect, Social Entity and Ecology consequences, Bank Permata Syariah's disclosure are unsatisfying. Bank Permata Syariah doesn't disclose any relevant information about how their assurance on fiqh muamalah or improving employee or stakeholder's aqidah. Bank Permata Syariah also doesn't disclose any

effort to create an awareness of Islamic Banking and there is no social indicators or something that related to ecology in their business process.

In evaluating Rights and Stakeholding, Wealth and Posterity, Bank BTN Syariah disclose every relevant information. But, in Faith Self, Intellect, Social Entity and Ecology consequences, Bank BTN Syariah's disclosure are unsatisfying. Bank BTN Syariah doesn't disclose any relevant information about how their assurance on fiqh muamalah or improving employee or stakeholder's aqidah. Bank BTN Syariah also doesn't disclose any effort to create an awareness of Islamic Banking and there is no social indicators or something that related to ecology in their business process.

In evaluating Wealth and Posterity, Bank CIMB Niaga Syariah disclose every relevant information. But, in Faith, Rights and Stakeholding, Self, Intellect, Social Entity and Ecology consequences, Bank CIMB Niaga Syariah's disclosure are unsatisfying.

Table 11. Corporate Governance Disclosure of Bank Permata Syariah

No.	Consequences	Dimensions	Score
1	Faith	Advancement of Islamic Knowledge	0%
		Elimination of Injustice	0%
		Underlying Philosophy and Values	100%
		Interest-free and Islamically Acceptable Deals – Product Aspects	100%
2	Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Committees	100%
		Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Other Aspects	100%
3	Self	Advancement of Islamic Knowledge	0%
4	Intellect	Installing New Skills and Improvement	100%
		Creating Awareness of Islamic Banking	0%
5	Posterity	Redistribution of Income and Wealth	100%
6	Social Entity	Developmental and Social	0%
		Social Indicators	0%
7	Wealth	CAMEL	100%
8	Ecology	Environment Indicators	0%

Table 12. Corporate Governance Disclosure of Bank BTN Syariah

No.	Consequences	Dimensions	Score
1	Faith	Advancement of Islamic Knowledge	0%
		Elimination of Injustice	0%
		Underlying Philosophy and Values	100%
		Interest-free and Islamically Acceptable Deals – Product Aspects	100%
2	Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Committees	100%
		Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Other Aspects	100%
3	Self	Advancement of Islamic Knowledge	0%
4	Intellect	Installing New Skills and Improvement	100%
		Creating Awareness of Islamic Banking	0%
5	Posterity	Redistribution of Income and Wealth	100%
6	Social Entity	Developmental and Social	50%
		Social Indicators	0%
7	Wealth	CAMEL	100%
8	Ecology	Environment Indicators	50%

Table 13. Corporate Governance Disclosure of Bank CIMB Niaga Syariah

No.	Consequences	Dimensions	Score
1	Faith	Advancement of Islamic Knowledge	0%
		Elimination of Injustice	100%
		Underlying Philosophy and Values	100%
		Interest-free and Islamically Acceptable Deals – Product Aspects	100%
2	Rights and Stakeholding	Interest-free and Islamically Acceptable Deals – Employee Aspects	0%
		Corporate Governance Indicator (Fairness and Transparency) – BOD Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Committees	100%
		Corporate Governance Indicator (Fairness and Transparency) – SSB Aspects	100%
		Corporate Governance Indicator (Fairness and Transparency) – Other Aspects	100%
3	Self	Advancement of Islamic Knowledge	0%
4	Intellect	Installing New Skills and Improvement	100%
		Creating Awareness of Islamic Banking	0%
5	Posterity	Redistribution of Income and Wealth	100%
6	Social Entity	Developmental and Social	50%
		Social Indicators	0%
7	Wealth	CAMEL	100%
8	Ecology	Environment Indicators	50%

Bank CIMB Niaga Syariah doesn't disclose any relevant information about how their assurance on fiqh muamalah or improving employee or stakeholder's aqidah. Bank CIMB Niaga Syariah also doesn't disclose any effort to create an awareness of Islamic Banking and there is no social indicators or something that related to ecology in their business process.

IMPLICATIONS

The data availability issues are found in finding the secondary data due to sample selection. This paper try to give another perspective on how Islamic Banking should disclose their corporate governance using maqashid al-sharia'ah approach. So, though majority of this sampled banks disclose low level of disclosure, thus it doesn't mean that the Islamic Banking in Indonesia don't comply with the maqashid al-shari'ah. Any recommendation and any new methodology should be applied for the next research.

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