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MAPPING AND CORRELATION ANALYSIS OF EFFICIENCY AND PROFITABILITY: THE CASE OF ISLAMIC RURAL BANK IN INDONESIA

Titi Dewi Warninda & M. Nadrattuzaman Hosen¹

Abstract. *Mapping and Correlation Analysis of Efficiency and Profitability: The Case of Islamic Rural Bank in Indonesia.* This research aims to analyze efficiency and profitability of Islamic Rural Banks in Indonesia using Variable Returns to Scale model of Data Envelopment Analysis and efficiency-profitability matrix. The results of this research show that most of Islamic Rural Banks are included in the Dog quadrant (high efficiency but low profitability) and Sleeper quadrant (low efficiency but high profitability). Meanwhile, the result of correlation analysis between efficiency and profitability indicates that efficiency has a negative correlation with profitability. Negative correlation of efficiency and profitability is in accordance with the result of efficiency-profitability matrix. The results of this research show that not all of Islamic Rural Bank which have high efficiency are also having high profitability.

Keywords: Efficiency, Profitability, Data Envelopment Analysis, Islamic Rural Bank

Abstrak. *Pemetaan dan Analisis Hubungan Antara Efisiensi dan Profitabilitas: Studi BPRS di Indonesia.* Tujuan dari penelitian ini ialah untuk menganalisis efisiensi dan profitabilitas pada BPRS di Indonesia dengan menggunakan model Variable Returns to Scale pada Data Envelopment Analysis (DEA) dan matriks efisiensi-profitabilitas, hasil penelitian menunjukkan bahwa sebagian besar Bank Pembiayaan Rakyat Syariah (BPRS) termasuk dalam kuadran Dog (efisiensi tinggi dan profitabilitas rendah) dan kuadran Sleeper (efisiensi rendah dan profitabilitas tinggi). Sementara itu, hasil analisis korelasi antara efisiensi dan profitabilitas mengindikasikan bahwa efisiensi memiliki hubungan negatif dengan profitabilitas. Hubungan negatif ini sesuai dengan hasil matriks efisiensi-profitabilitas. Hasil penelitian menunjukkan bahwa untuk sebagian besar Bank Pembiayaan Rakyat Syariah (BPRS) di Indonesia, efisiensi tinggi tidak berhubungan positif dengan profitabilitas tinggi.

Kata kunci: Efisiensi, Profitabilitas, Data Envelopment Analysis, BPRS

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Introduction

Islamic Rural Bank is a rural bank that operates based on the principles of Islamic law. Islamic Rural Bank is founded to serve Micro and Small Enterprises that need fast, easy, and simple approval process. Because of its role in giving services to Micro and Small Enterprises, Islamic Rural Bank has an important role in improving financial inclusion. Islamic Rural Banks has a rapid growth experience in Indonesia. In 2005, there were only 92 Islamic Rural Banks and 158 in 2012. By 2012, they have 91 branch offices and 152 cash offices. In 2005, total net assets reached 585 billion rupiah, and increased up to 4.7 trillion rupiahs in 2012. They also have disbursed 417 billion rupiah total financing in 2005 and became 3 trillion rupiah in 2012.

Although according to Islamic Banking Statistic published by Indonesian Central Bank; the amount of asset and financing has increased, however, the profitability of Islamic Rural Banks demonstrated by Return on Assets (ROA) showed a reduction. Profitability of Islamic Rural Banks reached 4.05% in 2005, and became 2.67% in 2011. In 2012, the profitability decreased again to 2.64%. The decrease of Indonesian Islamic Rural Banks profitability becomes the background of this efficiency-profitability mapping research. Based on the study of Noor and Ahmad (2012) about Islamic bank in the world, there is a positive correlation between efficiency and profitability. It means that *Decision Making Unit* (DMU) which has high level of efficiency will have high profitability. Meanwhile, according to Abu-Alkheil, Burghof, and Khan (2012), not all of *Decision Making Units* (DMUs) which have high efficiency are also having high profitability. Research on efficiency and profitability of Indonesian Islamic Rural Banks will determine whether there are a lot of inefficient Islamic Rural Banks and whether the inefficient Islamic Rural Banks are also having lower profitability than the more efficient Islamic Rural Banks. So, there will be a map about efficiency-profitability of Indonesian Islamic Rural Banks.

In this research, Return on Assets (ROA) is used to measure the profitability Data Envelopment Analysis in non parametric approach is used to measure the efficiency. DEA is a linear programming method that is used to measure the efficiency of a Decision Making Unit (DMU). DEA formed a standard of DMU that is efficient compared to other inefficient DMU (Said, 2013). DEA model in this research uses Variable Returns to Scale (VRS) assumption. This assumption is used to determine the technical efficiency without scale efficiency (pure technical efficiency). This study uses intermediation approach to determine the inputs and outputs that are used in the DEA model. Intermediation approach is used because the main function of Islamic Rural Banks is as intermediary between the depositors

and those who need funds.

Previous research on the efficiency of Islamic Rural Banks is still rare. Most of previous researches are about efficiency of Islamic banks, microfinance, and rural banks. Some previous researches about efficiency of microfinance using DEA are as follow. Kipesha (2013) studied on technical efficiency of Microfinance Institutions (MFIs) in Tanzania, another in 2012 was about efficiency of MFIs in East Africa. The research of Hassan and Sanchez (2009) was about technical efficiency and scale efficiency of the MFIs in Latin American, Middle East and North African, and South Asian countries. Haq, Skully, and Pathan (2010) conducted a study on the efficiency of 39 Microfinance Institutions (MFIs) in Africa, Asia, and Latin America. The research of Babu, Kasilingam, and Kasilingam (2011) was about the efficiency of MFIs in India.

This research aims to analyze profitability and efficiency of Islamic Rural Banks in Indonesia. In using the efficiency-profitability matrix, this research will show whether Islamic Rural Banks that have high efficiency will also have high profitability. The result of this research will enhance the literature about efficiency and profitability of Islamic Rural Banks. This research also analyzes the correlation between efficiency and profitability and the correlation among other variables. The finding of this research will contribute in the development of Islamic Rural Banks and support the sustainability of financial inclusion in Indonesia.

There are some differentiations over previous researches. First, this research uses the data of Islamic Rural Banks in Indonesia. Second, this research gives analysis of efficiency-profitability mapping using efficiency-profitability matrix. Third, this research analyzes the correlations between efficiency and profitability and among other variables to find the consistency with the result of efficiency-profitability matrix.

Literature Review

Most of previous researches are about efficiency of conventional microfinance institutions (MFIs) and rural banks. Previous research on the efficiency of Islamic Rural Bank is still rare. Some previous researches about efficiency of microfinance using DEA are as follows.

Kipesha (2013) has done research about technical efficiency of Microfinance Institutions in Tanzania for the period of 2009-2011. The result of the research indicated a high level of production efficiency and low level of intermediation efficiency. The research of Kipesha (2013) has recommended that MFIs in Tanzania should reduce their operation costs, increase revenues, and increase resource allocation to get higher intermediation efficiency. The research of Mohindra and

Kaur (2011) was about regional rural banks efficiency in India after reformation period. The result of the research using DEA showed a decrease of rural banks technical efficiency after deregulation policy. The research of Khankoje and Sathye aimed (2008) analyzed the impact of regional rural banks restructuring in India on production efficiency, using DEA. The result of the research indicated that restructuring program on Indian rural banks showed a positive impact.

The study of Hassan dan Sanchez (2009) analysed about technical and scale efficiency of MFI in Latin America countries, Middle East and North Africa (MENA) countries, and South Asia countries. The result of the study showed that formal MFIs (banks and credit unions) have higher technical efficiency level than non formal MFIs (non profit organization and non financial institutions). MFIs in South Asian have higher technical efficiency than Latin American and MENA MFIs.

Haq, et.al. (2010) had a research about efficiency of MFI in Africa, Asia, and Latin America using DEA. The research showed that non government MFIs had highest level of production efficiency. Meanwhile, MFIs that are banks have highest intermediation efficiency. Babu, Kasilingam, and Kasilingam (2011) studied about efficiency of MFI in India. The study found that the average efficiency score was very low and more than 65 percent of the MFIs have below mean efficiency level. The cost per borrower variable has significant influence in measuring efficiency of MFIs. The study also revealed that non-profit microfinance institutions have shown a high efficiency compared to profit organization. Jayamaha and Mula (2010) studied about efficiency of Cooperative Rural Banks in India using DEA and analyze the correlations between efficiency and financial factors. The result of the study indicated that asset quality, loan portfolio yield, operational efficiency, and operational self sufficiency variables have significant correlations with technical efficiency.

Methods

The scope of the study is Islamic Rural Banks in Indonesia. It is because the DEA software for calculating efficiency only can be used in the positive input and output variables. The research only uses Islamic Rural Banks that have a positive net income. The data is taken from 2012 financial reports of Indonesian Islamic Rural Banks.

The proxy of profitability is Return on Assets (ROA). This research uses Data Envelopment Analysis (DEA) for efficiency measurement. DEA is a linear programming method that is used to measure the efficiency of a Decision Making Unit (DMU). DEA form is a standard that a DMU is efficient compared to other inefficient DMU (Said, 2013).

This research will analyze the pure technical efficiency of Islamic Rural Banks. Technical efficiency is the ability of a DMU to produce as many outputs as possible by using a particular input, or produce a certain amount of outputs using a minimum amount of inputs. This study uses the DEA output-orientation. This is because Islamic Rural Banks operate in a competitive environment and should strive for providing the best products and services to customers. Islamic Rural Banks are more likely to have a competitive advantage by increasing the output produced rather than reducing the inputs used.

The measurement of pure technical efficiency uses Variable Returns to Scale (VRS) model. VRS models or BCC (Banker, Charnes, and Cooper) model were made by Banker, Charnes, and Cooper in 1984 and were an improvement of CRS model by adding variable returns to scale assumptions. VRS model provides a measurement of pure technical efficiency, which is technical efficiency without scale efficiency. DEA-model in this research consists of two inputs and two outputs. This research uses cost of wages and salaries, and total customer deposits (total deposits) as inputs, while the outputs using total financing and net income, as used by Onour and Abdalla (2011).

Islamic Rural Banks efficiency-profitability mapping uses efficiency-profitability matrix that has a structure such as the product portfolio matrix (Abu-Alkheil, et.al, 2012). Efficiency-profitability matrix consists of four quadrants as follows: *First*, Star quadrant: consists of a DMU that has a high level of profitability and efficiency. This is the best DMU. *Second*, Sleeper quadrant: consists of a DMU that has higher profitability but lower efficiency. This is not a good sign from long-term perspective. The high profitability is due to primarily more favorable environmental conditions than good management. *Third*, Question Mark quadrant: consist of a DMU that has a low level of profitability and efficiency. This DMU has the potential to achieve higher level of profitability and efficiency. *Fourth*, Dog quadrant: consists of a DMU which has a low level of profitability but high efficiency. The DMU is efficient but still make less profit. The DMU operates efficiently but has low profitability due to unfavorable environment.

Table 1: Efficiency-Profitability Matrix

Profitability		
High	Sleeper	Star
Low	Question Mark	Dog
Efficiency	Low	High

Star quadrant consists of Islamic Rural Banks that have high efficiency and profitability. Dog quadrant consists of Islamic Rural Banks that have high level of efficiency but low profitability. Sleeper quadrant consists of Islamic Rural Banks that have low level of efficiency but high profitability. While Question Mark quadrant consists of Islamic Rural Banks that have low efficiency and profitability.

The criteria for high or low level of profitability and efficiency are based on the median value of the overall profitability and efficiency data. Islamic Rural Bank which has a higher profitability or efficiency than the median value or equal with the median value is Islamic Rural Banks with high level of profitability or efficiency. While Islamic Rural Bank which has a lower profitability or efficiency than the median value is Islamic Rural Bank with low level of profitability or efficiency.

Correlations test aims to find the correlations between efficiency and profitability, and among other variables. Other variables in the correlations test are equity capital to total assets (CAP), natural logarithm of total assets (SZE), financing to deposits ratio (FDR), and operating expense to total assets (OXN).

Discussion

After calculating the profitability (ROA) and the efficiency based on pure technical efficiency, the profitability and efficiency are grouped into the high and low groups of efficiency and profitability. Efficiency-profitability mapping in the efficiency-profitability matrix based on the high and low groups of efficiency and profitability will show which Islamic Rural Bank that is included in the Star quadrant, Dog quadrant, Sleeper quadrant, or Question Mark quadrant.

Some of Islamic Rural Banks are included in the Star quadrant of efficiency-profitability matrix, means that they have high profitability and high efficiency. Islamic Rural Banks that are included in the Star quadrant are as follows.

Table 2. Islamic Rural Banks in the Star Quadrant

No	Islamic Rural Banks	Efficiency	Profitability (%)
1	Bangka	1	4.350
2	Dana Hidayatullah	1	7.700
3	Situbondo	1	5.990
4	Surya Sejati	1	3.780
5	Harta Insan Karimah	0.977	4.400
6	Baitul Muawanah	0.937	5.100
7	Dinar Ashri	0.926	6.000

8	Amanah Rabbaniah	0.862	3.240
9	Jabal Tsur	0.848	42.070
10	Barkah Gemadana	0.834	5.070
11	Metro Madani	0.825	4.820
12	Artha Mas Abadi	0.779	5.280
13	Bumi Rinjani Kepanjen	0.771	7.200
14	Artha Pamenang	0.746	7.250
15	Khasanah Ummat	0.739	14.580
16	Bangun Drajat Warga	0.734	4.210

Some of Islamic Rural Banks are included in the Dog quadrant of efficiency-profitability matrix. It means that they have high efficiency but low profitability. Islamic Rural Banks that are included in the Dog quadrant are as follows:

Table 3. Islamic Rural Banks in the Dog Quadrant

No	Islamic Rural Banks	Efficiency	Profitability (%)
1	Al Hijrah Amanah	1	0.610
2	Al Ihsan	1	2.310
3	Al Salaam Amal Salman	1	2.360
4	Amanah Ummah	1	2.690
5	Dana Mulia	1	1.450
6	Gunung Slamet	1	2.290
7	Bumi Rinjani Probolinggo	1	0.410
8	Hareukat	1	1.440
9	Indo Timur	1	1.820
10	Barakah Nawaitul Ikhlas	1	0.700
11	Carana Kiat Andalas	1	0.180
12	Barokah Dana Sejahtera	0.964	1.670
13	Amanah Sejahtera	0.947	2.880
14	Insan Madani	0.946	1.380
15	Buana Mitra Perwira	0.943	2.910
16	FORMES	0.912	1.020
17	Margirizki Bahagia	0.903	2.850
18	Bhakti Haji	0.902	2.800
19	Hikmah Wakilah	0.885	2.600

20	Danagung Syariah PT BPRS Gajah Tongga Kota	0.856	1.710
21	Piliang	0.847	2.260
22	Berkah Ramadhan	0.84	1.890
23	Al Ma'soem Syari'ah	0.821	2.760
24	Bumi Artha Sampang	0.816	2.490
25	Lantabur	0.805	2.910
26	Ikhsanul Amal	0.801	1.930
27	Tanggamus	0.784	2.150
28	Muamalat Harkat	0.776	2.730
29	Amanah Insani	0.752	2.400
30	Arta Leksana	0.748	2.390
31	Karya Mugi Sentosa	0.703	2.940

Some of Islamic Rural Banks are included in the Sleeper quadrant of efficiency-profitability matrix. It means that they have low efficiency but high profitability. Islamic Rural Banks that are included in the Sleeper quadrant are as follows:

Table 4. Islamic Rural Banks in the Sleeper Quadrant

No	Islamic Rural Banks	Efficiency	Profitability (%)
1	Artha Surya Barokah	0.701	9.400
2	Sukowati Sragen	0.653	4.780
3	Mentari	0.632	7.230
4	Al-Yaqin	0.631	4.330
5	Baktimakmur Indah	0.626	3.980
6	Harta Insan Karimah Parahyangan	0.624	3.400
7	Cilegon Mandiri	0.622	6.740
8	Al Hidayah	0.614	3.210
9	Mitra Cahaya Indonesia	0.613	3.280
10	Cempaka Al Amin	0.612	5.430
11	Safir	0.602	4.280
12	Bumi Rinjani	0.599	4.090
13	Madinah	0.598	6.600
14	Tanmiya Artha	0.597	4.960
15	Al Mabror	0.596	3.480

16	Daya Artha Mentari	0.589	3.920
17	Artha Madani	0.588	4.660
18	Artha Amanah Ummat	0.571	3.540
19	Jabal Nur	0.561	4.640
20	Patuh Beramal	0.56	7.280
21	Rajasa	0.551	23.390
22	Bumi Rinjani Batu	0.512	34.880
23	Mulia Berkah Abadi	0.501	16.390
24	Way Kanan	0.492	11.850
25	Baiturridha Pusaka	0.479	5.610
26	Al Mabrur Babadan	0.476	4.890
27	Kotabumi	0.446	3.720
28	Artha Fisabilillah	0.414	5.700
29	Bhakti Sumekar	0.362	6.220
30	Harta Insan Karimah Cibitung	0.35	7.210
31	Investama Mega Bakti	0.317	3.480

Some of Islamic Rural Banks are included in the Question Mark quadrant of efficiency-profitability matrix. It means that they have low efficiency and profitability. Islamic Rural Banks that are included in the Question Mark quadrant are as follows:

Table 5. Islamic Rural Banks in the Question Mark Quadrant

No	Islamic Rural Banks	Efficiency	Profitability (%)
1	Bumi Rinjani Malang	0.700	1.390
2	Mitra Amal Mulia	0.693	1.860
3	Bina Amanah Satria	0.665	3.120
4	Asad Alif	0.660	2.300
5	Suriyah	0.657	2.810
6	PNM Binama	0.640	1.760
7	Adeco	0.623	1.360
8	Ampek Angkek Candung	0.621	2.500
9	Puduarta Insani	0.590	1.920
10	Harta Insan Karimah Bekasi	0.561	2.600
11	Mandiri Mitra	0.557	0.400

12	Bina Rahmah	0.529	2.530
13	Bandar Lampung	0.526	2.490
14	Haji Miskin	0.460	0.220
15	Artha Sinar Mentari	0.338	3.130

According to tables above, there are 16 Islamic Rural Banks included in the Star quadrant and 31 Islamic Rural Banks in the Dog quadrant. There are 31 Islamic Rural Banks included in the Sleeper quadrant and 15 Islamic Rural Banks in the Question Mark quadrant. Efficiency-profitability matrix is as follows:

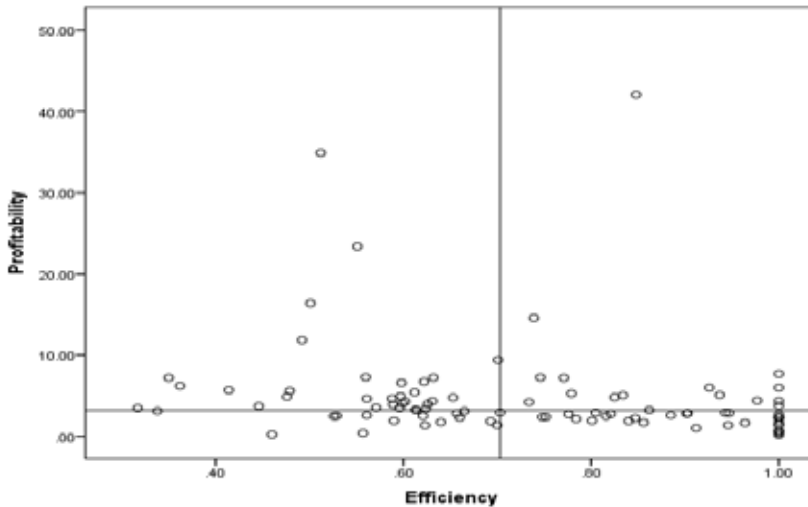


Figure 1: Efficiency-Profitability Matrix

Four quadrants in efficiency-profitability matrix above show the most of Islamic Rural Banks that included in the Dog quadrant and Sleeper quadrant. The quadrants consist of Islamic Rural Banks which have high efficiency but low profitability and Islamic Rural Banks which have low efficiency but high profitability, respectively. The result shows that most of Islamic Rural Banks that have high efficiency do not have high profitability, vice versa.

Based on the result of efficiency-profitability matrix above, it is needed to analyze the correlations between efficiency and profitability and among other variables, especially to analyze the consistency with the result of efficiency-profitability matrix.

Table 6. Correlation Test Result

	CAP	EFF	FDR	OXN	ROA	SZE
CAP	1.000000					
EFF	0.184463	1.000000				
FDR	-0.007775	0.000796	1.000000			
OXN	0.059928	0.000636	0.931688	1.000000		
ROA	-0.444132	-0.478985	-0.053812	-0.051274	1.000000	
SZE	0.029996	0.098393	-0.045359	-0.060634	0.032244	1.000000

Table 6 shows that efficiency has negative correlation with profitability. It also shows the variable that has a positive correlation with profitability. However, we still need further reaseach related to other variables that have negative correlations with profitability such as equity capital, financing, and operating expenses.

Conclusion

Based on the findings and analysis of the efficiency-profitability mapping of Islamic Rural Banks in Indonesia, not all of Islamic Rural Banks that have high efficiency are also have high profitability. Most of Islamic Rural Banks are included in the Dog and Sleeper quadrants It means that those Islamic Rural Banks have high efficiency but low profitability and have low efficiency but high profitability, respectively.

The result of correlations analysis shows that Islamic Rural Banks efficiency has negative correlation with profitability. This result is in accordance with the result of efficiency-profitability mapping that most of Islamic Rural Banks have high efficiency but low profitability (in the Dog quadrant) and have low efficiency but high profitability (in the Sleeper quadrant). The result of this research is in accordance with the research of Abu-Alkheil, Burghof, and Khan (2012) that not all of Decision Making Units (DMUs) which have high efficiency are also having high profitability.

Islamic Rural Banks that are in the Dog quadrant should have more favorable environment to increase their profitability. Meanwhile, Islamic Rural Banks that are in the Sleeper quadrant should improve their management because they have high profitability but low efficiency. Some Islamic Rural Banks are included in the Question Mark quadrant, means that they have the potential to achieve higher level of profitability and efficiency if they get more favorable environment and additional appropriate resources.

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EVALUATING THE MODELS OF SHARIA MICROFINANCE IN INDONESIA: AN ANALYTICAL NETWORK PROCESS (ANP) APPROACH

Euis Amalia & Mahmudah Atiqah¹

Abstract. *Evaluating The Models of Sharia Microfinance in Indonesia: An Analytical Network Process (ANP) Approach.* This study focuses on evaluating the performances of three sharia microfinance models, i.e. cooperative model represented by BMT al Fath, Grameen model represented by MBK, Ltd.co, and mixed model represented by Baytul Amanah Ikhtiar cooperative. ANP approach is used to evaluate the performances of those models from five important aspects (clusters) as the determiners, such as human resource, finance, management, sharia compliance, and marketing. The findings of this research show that the most important aspect (priority) among the clusters is human resource. Thus, the best strategy is the mixed-based; the model which integrates the cooperative system with grameen system. It becomes the best model inasmuch as it implements values of both co ownership and co responsibility, in addition to power of collectivity resulting in no cash collateral.

Keywords: Sharia Microfinance, Performance, ANP, Strategy

Abstrak. *Evaluasi Model Keuangan Mikro Syariah di Indonesia: Suatu Pendekatan ANP.* Fokus dari kajian ini ialah untuk melakukan evaluasi atas tiga model keuangan mikro syariah, yaitu model koperasi yang direpresentasikan oleh BMT Al-Fath, model Grameen yang direpresentasikan oleh MBK, Ltd. co, dan model campuran yang direpresentasikan oleh koperasi Baytul Amanah Ikhtiar. Pendekatan ANP dipergunakan untuk evaluasi atas kinerja dalam model ini pada lima aspek utama yaitu sumber daya manusia, keuangan, manajemen, kepatuhan syariah, dan pemasaran. Temuan dari kajian ini menunjukkan bahwa aspek yang paling penting antar kluster ialah sumber daya manusia, dan strategi terbaik yang dipergunakan strategi campuran, yaitu yang mengintegrasikan sistem koperasi dengan sistem grameen. Hal ini menjadi model yang terbaik untuk diimplementasikan dalam keuangan mikro syariah.

Kata Kunci: keuangan mikro syariah, kinerja, ANP, strategi

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Introduction

Economic activity will not be separated from human life. From the point of view of the jurisprudence science, economic activities not included chapter worships, but muamalah chapter. National economic conditions are still recovering today that have an impact on the difficulty or fear in the form of bank financial institutions for lending, especially for the development of the real sector in small land medium scale. Currently, the most dominating economic problem is poverty. One of the main causes of poverty in developing countries is the lack of access to productive capital (Todaro, 2009). Indonesian economy not only face structural imbalances in the acquisition of value-added and employment among sectors but also face the added value inequality between actors or between group scale economic activities and sectors (Amalia, 2008).

Indonesia must find a way out quickly in some strategies, one of them is the reinforcement various aspects of the Micro sector and Small Enterprises (SMEs) which have important role as a major source of employment and income in developing countries (Arsyad, 2008). In addition to proven current global crisis sometimes ago, SMEs present as a solution of the system.

A healthy economy is when the industrial sector little or not at all affected by the global crisis sweeping the world. With this evidence, it is clear that SMEs can be taken into account in increasing competition in the market and stabilization of the existing economic systems in Indonesia. SMEs development is the main priority of the Government in Indonesia (Hill, 2001). Difficulty capital became a major issue in the development of SMEs. Community Under almost untouchable (underserved) and it is not considered to have potential funding by formal financial institutions like banks, so it causes an stunted economic acceleration.

One strategy in many countries have grown in overcoming the problems that have been focused on improving access to credit facilities with the establishment of a microfinance institution (MFI) that offer credit to the poor (Haryati, 2007). Alternative financial institutions fund agencies rooted in the midst of a society where the distribution process funds is done in a simple, expensive, and fast with the principle of alignments to small communities and fair (Lestiadi, 2008). Indonesia with various forms of existing MFIs, was expected by the agency can be run in accordance with the expectations. So any type of institutional Microsharia is still varied, like legal entities and cooperatives around 30 percent are cooperatives or other legal entities are not even incorporated. In connection to this problem the authors need to do research about the model of microfinance institutions in Indonesia, which has opportunities to develop operations with sharia system, both of the financial and non-financial related to the strengthening of the role of business small micro.

Literature Review

Microfinance institution is indicated by regulations, innovation, and flexibility designed on the basis of social environment and local economy. Microfinance is a phenomenon, that complicated and dynamic economic and socio-cultural dimensions. The definition is used by Microcredit Summit 1997 and Microcredit Summit in New York 2002 stated that: *“programmes extend small loans to very poor for self employment project to generate income, allowing them to care for themselves and their families* (Amalia, 2008). Another definition is used by The European Banking Federation stated that microcredit in European Banking Industries refers to small loans and micro entities, and small commercial customer groups (RohmatulAjjja, 2010).

Microfinance is committed to serve people ignored by formal banking sector “unbankable”. The development of Microfinance sector is based on the assumption that poor people have economic capacity to conduct their own project to get return. But unfortunately, they have limited access to some banking products such as saving accounts, credits, and insurance facilities. World bank predicts that the general condition of market and demands to microfinance come from households and small companies that unregulated operating in informal economic sector. World Bank predicts that potential market for micro credit around the world today is less than 100 million customers.

Table 1. Proportion of Size Business in Indonesia Year 2012

Category	Number of SMEs (%)
Small and Micro	94%
Medium	3%
Large	3%

Source: Ministry of Cooperation and SMEs, Republic of Indonesia

Based on that data, it is clear that small medium enterprises or SMEs are very potential in economic world. The general condition of informal sectors are often described as an institution that has a limited access to capital. It is owned or managed by a family, which is usually small scale and no legal, is running in unregulated markets that is easy to escape from the market, employs tons of people who usually have lower education and limited skills (Edratna, 2013).

Therefore, it can be classified that SMEs are based on the number of employees, the rate of income, and the size of asset. According to Hubeis (2009), SMEs are defined in many different ways depending on the countries and other aspects.

In general, the Microfinance in Indonesia operates either sharia-based or

conventional-based model. The sharia-based microfinance is mostly set up in the form of *Baitul Maal wa Tamwil* (BMT) operating normally like other Sharia banks. However, it is running legally under the cooperative regulation on the basis of Act No 25 year 1992 about cooperative rules and PP No. 9 year 1995 which rules the saving and credit cooperative businesses. Therefore, BMT has similar products to the ones that Sharia banks have. Yet it is different from the amount of financing that away less than the Sharia banks can provide (Baihaqi, 2000). In Some cases, there is another kind of BMT operating with totally pure cooperative system. All the cooperative terms are used for its products such as basic contribution/deposit, obligatory deposit, and voluntary deposit. This is of course the kind of BMT also runs under the same cooperative regulations. On the other hand, microfinance in Indonesia either conventional or sharia also can operate grameen model under a venture capital company legally running under No.18/PMK 010/2012. Recently, a brand new regulation has just been released in act No. 1 year 2013 about microfinance institutions. It regulates that all microfinance models must have an operation licence from the Financial Services Authority, both in running with cooperative legals or company. Nevertheless, the position of microfinance nowadays in Indonesia is still debatable depending on the interests, needs, motives, and purposes of stakeholders. Consequently, it is not focusing on regulation issue only.

Shariah microfinance institutions appeared in reality as a social business model movement which rapidly develops in Indonesia. There are at least three models of this microfinance; firstly - BMT running with a cooperative model, secondly - microfinance institution operating with a grameen model, and thirdly - the one operating with both cooperative and grameen model, called mixed microfinance model. In practice, those three models operate with shariah principles such as fairness (Amalia, 2008), cooperation (Alma, 2005), transparency (Daniri, 2005), and, universal values such as prohibition of interest, gambling, speculation activities, and other harmful activities. In operating this microfinance, those institutions are similar to the banks in terms of funding, financing and other kinds of services offered to their customers.

Table 2. The Comparison of Three Sharia Microfinance Models

No	Specification	Sharia Microfinance Models		
		Grameen	Cooperative	Mixed
1.	Legals	Co. ltd (PT)	Cooperative	Cooperative
2.	Customers	Financing for small groups of poor women	Financing for individuals (anyone can be a member)	Financing for small groups of poor women

3.	Products	Profit Sharing Financing, No Saving	Saving and Financing Products (using Cooperative terminologies)	Saving and Financing Products (using Cooperative terminologies)
4.	Financing Purposes	Productive activities	Productive activities, Housing, Education, Investment, others	Productive activities, Housing, Education, Investment, others
5.	Transaction System	Profit Sharing (mudharabah)	Profit Sharing (mudharabah-musarakah), Soft Loan (QardhulHasan), Sales & Purchases (murabahah), Lease (Ijarah), the transfer of debt (Hiwalah)	Profit Sharing (mudharabah-musarakah), Soft Loan (QardhulHasan), Sales & Purchases (murabahah), Lease (Ijarah), the transfer of debt (Hiwalah).
6.	First Amount of Financing	Rp. 500.000 – Rp. 1.000.000	Rp. 300.000 – Rp. 500.000	Rp. 300.000 – Rp. 500.000
7.	Mentoring	No	No/Yes	Yes

The following are the three models of microfinance, which become the object of research in this paper: *first*, sharia microfinance as cooperative represented by BMT al Fath. Besides implementing the sharia principles, this model uses special cooperative terms for its products and management. In terms of financing, this model provides the credits to individuals, not groups. *Second*, Sharia microfinance operating with grameen model. This model which has been successful in Bangladesh is triggered and led by Muhammad Yunus who has won a Nobel award. The basic principle of Grameen model is financing the small groups particularly groups of lower-income or poor women who have the ability to conduct any productive economic activity. In Indonesia, PT MBK Ventura is one sample that totally adopts this grameen system even though it integrates this grameen system with sharia principles. *Third*, mixed-model microfinance is a combination between cooperative and grameen model. *Koperasi Baytul Ikhtiar* (BAIK) is a sharia microfinance institution which is implemented this model; on one side, it operates using the terms and management of cooperative. However, it also implements the financing program for small groups of women as it is developed by grameen system.

There are several variables that can be compared between the model of microfinance with grameen system, cooperative model, and mixed model, i.e. legal

aspects, target of customers, products, size of financing, operation systems or type of financing transaction, first amount of financing, and monitoring programs. Those three models have both differences and similarities.

Furthermore, in term of performance, any institutions should have a certain standard as indicators to measure its development and sustainability. This study elaborates some factors that may affect the performance of a microfinance institution, as well as the indicators found for evaluating the models. The factors are human resource, finance (Robbin and Coulter, 2012), management (Robbin and Coulter, 2012), sharia compliance, and marketing, including both spiritual aspect and material aspect.

Methods

To evaluate and analyze the finding of research, *Analytic Network Process* (ANP) is used as the study approachment and measurement of some criteria (Ascarya and Cahyono, 2010). The approach will identify and classify three models of sharia microfinance into 5 clusters that each of them has 4 main aspects of category. The criteria of clusters are divided into human resources, finance, management, sharia compliance, and marketing. In human resource, there are have 4 main aspects such as cooperation, solidarity sharia principles knowledge and division of the obligations including the rights of officer and reward for the employee.

In finance cluster, there are source of fund, efficiency of cost, rate of late payment or non-performing loan, and financing service. The third cluster is management which has the following four main aspects: *first*, institution; *second*, standard operating management; *third*, standard operating procedures; *fourth*, technology. In the cluster of Sharia Compliance, the 4 main aspects comprise include; collateral type of transactions regulation and product. The last cluster is marketing that consists of these main aspects: *first*, price; *second*, communication; *third*, assistancy of the customers; *fourth*, quality of the products.

Overall, the tendency of all respondents toward the problems and strategies found in the sharia microfinance institutions can be shown by the value of geometric mean. The degree of rater agreement between respondents in term of problems and strategies can be represented by value or score of Kendall's Coefficient of Concordance (W). The result of each respondent can be found by using the ANP analysis software called "Superdecision". To obtain the desired findings of geometric agreement from all respondents, the data are collected from respondents and later will at first need to be exported to the Microsoft Excel program, calculated, and then imported to the "Superdecision" of ANP Network. The next phase is to

ensure that all the results are correct by validating every single procedure. At this stage, the concordance of Kendall's Coefficiency is possible to be calculated to see the agreement among respondents. Eventually, either the specific interpretation (individuals) or overall interpretation (geometric mean) can obviously be identified and concluded.

Geometric Mean describes the priority of results from respective clusters and criteria or nodes. These results are in the form of the most important priority of others. The calculating the geometric mean is used to find out the individual judgment among respondents and to determine the results of group's evaluation or perception (Rusydia and Devi, 2010). The questions from respondents will be combined and compared to the form an agreement. Geometric Mean is an average scoring system showing tendencies or certain scores with the following formulation (Ascarya, 2012):

$$GMk = (R1 * R2 * \dots * Rn) \frac{1}{N}$$

GM = Geometric Mean

R = Responden

N = Number of Respondens

After counting the geometric mean, agreement rater can be calculated. Value of rater agreement as a measure shows suitable degree among respondents (R1-Rn) toward problem in a cluster. The measure formula to get the rater agreement is *Kendall's Coefficient of Concordance* (W; $0 < W < 1$). $W=1$. $W=1$ which shows the perfect suitability. The next step is finding rater agreements such as, transpose ranking counted by ordering normalized value from the biggest to the smallest and then to sum, to count W. If the score of appraisal W is 1 ($W=1$), it means that perception or opinion from respondents is perfect suitability. Nevertheless, when the score W is 0 or is closed to 0, it means that there is no suitability among the answers from respondents or more various answer.

Discussion

Based on the findings of research, it can be concluded that the three models of sharia microfinance institutions (i.e. Sharia Cooperative model, Grameen Model, and Mixed Model) have their own operating systems and procedures. BMT al Fath and *Baytul Amanah Ikhtiar* with cooperative legals declare that the ownership and responsibility of the institution belong to all of members, while the Grameen Model of MBK Ventura Ltd.co with corporation legals declares that the ownership and responsibility of the company belong to shareholders.

The following are Geometric Mean scores of respective clusters:

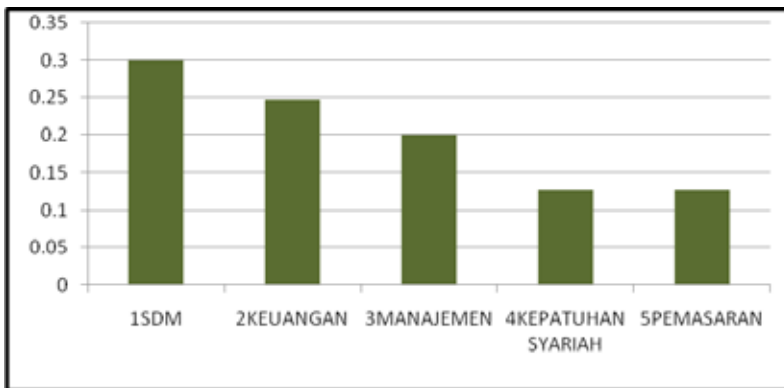
Table 3. Score of Rater Agreement (W) in All of Clusters of ANP

No	Cluster	W (rater agreement)
1.	Alternative	0,40
2.	Criteria	0,32
3.	Human Resource	0,612
4.	Finance	0,27
5.	Management	0,54
6.	Sharia Compliant	0,628
7.	Marketing	0,24

From the aspect of customer target, there are some differences among the three models of this microfinance. BMT al Fath focuses on customers individually, while *Baytul Amanah Ikhtiar* Cooperative focuses on cutomers not only in individuals but also in groups by providing ample financing for women who have productive businesses or economic activites. However, MBK Ventura Ltd.co, the third model, only focuses on providing some financing to the groups of women.

Priority of supported criteria of the models sharia microfinance can be shown in the picture below:

Figure 1. The Priority of the Problems



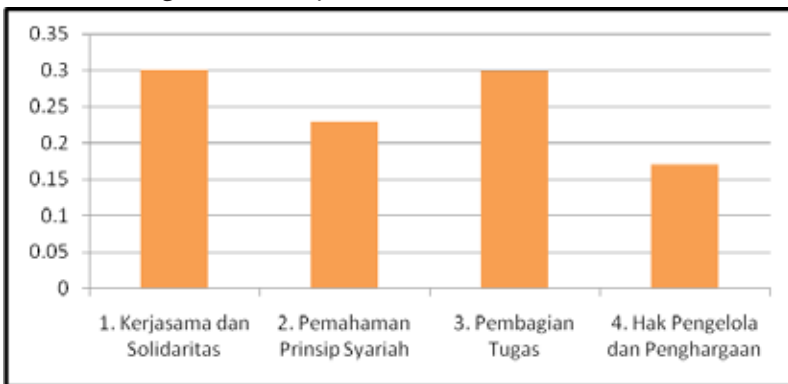
From the aspect of product, both BMT al Fath and BaytulAmanah cooperative offer the same products like saving and financing, yet the latter has additional product namely Qard al Hasan or Benevolent Loan. Unlike the two previously mentioned models, MBK Ventura Ltd.co just provides a financing for customers' businesses under profit sharing principles. In relation with financing products, the first two models also actually provide such services with specific purposes, for example housing, education, and other kinds of investment, besides basic financing. The similarities of all models are that all their financing products apply the sharia-

based transactions such as profit sharing (*mudharabah* and *musyarakah*), sales (*bay' murabahah*), and others that embrace sharia principles. In addition, BMT *Baytul Ikhtiar* and MBK Ventura provide special assistance, guidance, or mentoring for their customers or members.

The highest priority assessment of each respondent on supporting existing criteria on aspects of human resources in accordance with the order of ranking are, the value of human resources geo mean 0.29; 0.24 geo mean financial value; value management geo mean is 0.19; sharia compliance and marketing the value of geo mean are the same, namely 0.12.

In total, the first priority of supported criteria is human resource aspect with rater agreement $W = 0.27$. Second, priority of criteria problems is finance, third is management, fourth is sharia compliance, and the fifth is the aspect of marketing.

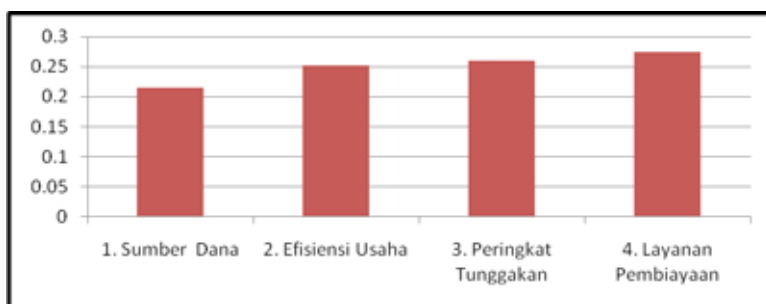
Figure 2. Priority of Human Resource Problem



In human resource clusters it has priority value The highest of the assessment of each respondent contained on cooperation and solidarity and division of tasks in order to rank is, the cooperation/team work and solidarity and job description. This value geo mean 0.30, comprehension Islamic principles geo mean value of 0.22. Finally rights managers and the award geomean value of 0.17. The first supporting criterion is human resource. They are cooperation or team work, solidarity, job description according to expert and practitioners with rater agreement $W = 0.612$, in supporting priority in human resource aspect there are two similarities aspects about cooperation and solidarity (Chapra, 2008). The most important value of this rater agreement (W) is team work. It is needed for the sustainability of the institutions as well as the same score in the division of job. In the standard of operational procedures of sharia cooperative services finance models stated that the division of job is important to avoid double burden or double job in one division

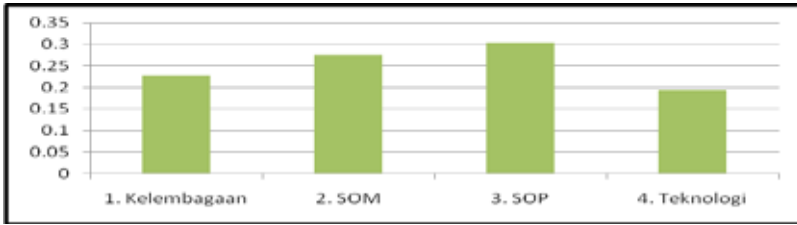
or in one officer than others (SOP KJKS, 2012). According to the experts and practitioners the second priority is human resources or their employee perception of sharia principles. Knowing of officer of microfinance institutions should be best in sharia principles knowledge otherwise it influences the institution's reputation and lack of participation of all members. In the last priority is the rights and award for the employees. All employees of the institutions need to receive proper wage or salary for their welfare and prosperity as well as important to give award for the officer or employee who has a good performance or achieve of the targets. This way can be encouraging for themselves and other persons in work and influencing for the creative thinking and skill in marketing strategy.

Figure 3. Priority of Financial Aspect



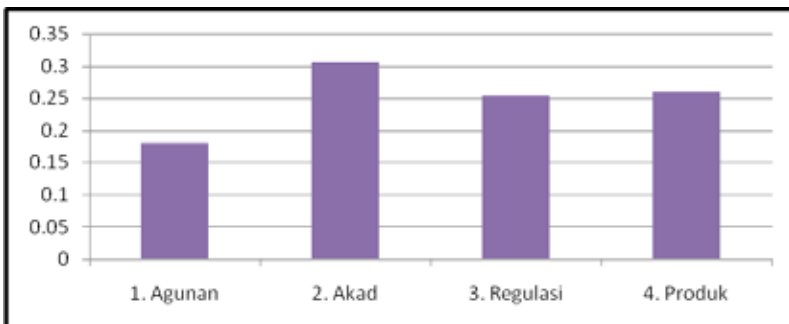
On the financial aspects of the cluster mentioned that the highest priority value to the assessment of each respondent that is found in the service financing in accordance with the order of ranking. The service financing has a value geo mean of 0.27, the second of the ranking arrears have value geo mean 0.26, the next order of business efficiency with the value geo mean of 0.25, and the last of the financial cluster source of funds to have a value of 0.21 geo mean. The first priority criteria of finance in general is service of financing aspect with the rater agreement score of $W=0.27$. According to Nurmanaf, financing services such as a complex administration in microfinancial institutions cause of users or customers problem to get money soon for their business continuity (Nurmanaf, 2007). Furthermore according to the experts and practitioners the second priority is a number of non-performing loan or performing financing in sharia term. The NPL or NPF needs to reduce continuously from time to time because of this in a large number make the institutions cannot be running well or stop the operation. The third priority is efficiency of the business activities. Every microfinance institution must have efficient cost including the reduction of expenditure. The last priority is source of fund. It is needed for the institutions to get fund from the external to help the healthy cash condition and make more products to serve for the society as well as customers (Ascarya, 2012).

Figure 4. Priority Management Elements



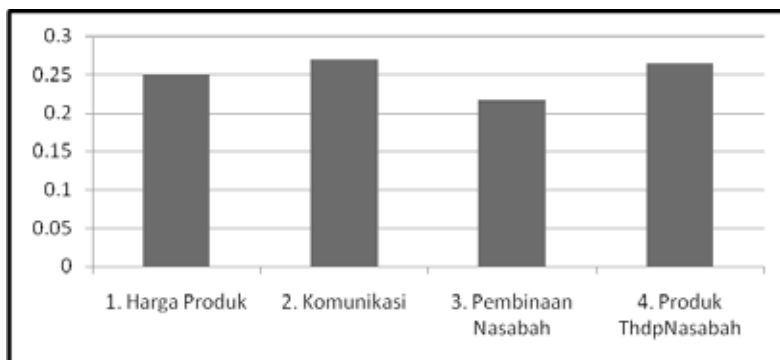
In the cluster management aspects, the highest priority value to the assessment of each respondent is found in the standard operational procedures in accordance with the order of ranking, the standard operating procedure value is 0.30 geo mean, the second order of the operational standards of management geo mean value of 0.27, next institutional geo mean value of 0.23, the last of the cluster management technology with a value of 0.19 geo mean. On the management element, the first priority is problem criteria which discusses the aspect of Standard of Operating Procedure (SOP) with rater agreement $W = 0.54$. Excellent and detailed SOP will assist an organization in operation and will be a guide in operating various policies and regulations related to the management of the institution, as described on the Standard of Operating Management (SOM) (SOP KJKS, 2012). Furthermore, practitioners and experts agree that the second priority is Standard of Operating Management (SOM). According to the SOP of Islamic financial services cooperative, SOM is a task structure, working procedures, management systems and standards of work that can be used as a guide for the management to provide good services. The third priority is the institution. An institution with social capital has an enormous influence on the environment. Hence, the institution needs to be strengthened. The last priority is technology. Better technology will make the operations easier and faster.

Figure 5. Priority elements of Sharia Compliance



Incompliance aspects of sharia cluster has the highest priority value to the assessment of each respondent that is found in the contract of financial institutions in accordance with the value of the priority ranking order is, on aspects of the contract has a value of 0.30 geo mean, the second order of the views of the product given a value of 0.26 geo mean, the regulation with geo mean value of 0.25, the last of the collateral cluster sharia compliance with geo mean value of 0.18. In complying with elements of sharia, the first priority is the ratio of rater agreement contract with $W = 0.628$. Every contract was made by the Islamic microfinance institutions should be based on sharia. The first contract agreed will determine whether it is a sharia or non-Islamic sharia based transaction (Afandi, 2009).

Figure 6. Priority Elements of Marketing



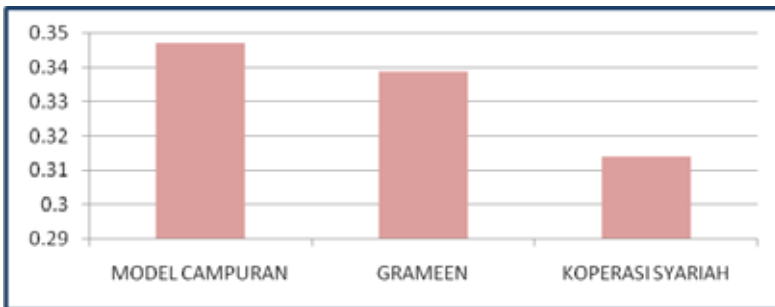
Furthermore, according to practitioners and experts of priorities, the second supporting element is products. The products offered by the Islamic financial institutions must comply with the Shariah aspects and will be supervised by a Shariah Supervisory Board (DPS). The third priority is regulation. A clear legal basis is highly important for an agency to develop and progress more easily (Amalia, 2008). The last priority is the collateral. Angela said that the collateral is burdensome requirements for micro businesses. The absence of collateral in the financing will ease SMEs.

On the cluster marketing aspect, the highest priority value of the respondent is communication. It has a value of 0.27 geo mean, the second order of the views of the product to the customer has a value of 0.26 geo mean, the price of the product geo mean value of 0.25, Last of cluster marketing the guidance to customers with value geo mean 0.21. The last element is marketing. The top priority lies in the aspect of communication with rater agreement $W=0.24$. Good communication between Islamic microfinance institutions and customers should be maintained. Furthermore, according to practitioners and experts of priorities, there is only a

slight difference among the priorities. The first priority is product quality that should always be customized by the customers' needs. The third priority is that the price of the product offered must be appropriate and affordable for customers. The last priority is providing guidance especially for clients who have been able to sustain their businesses. Supporting the statement, M. Asdar said that customers who have been recruited are not supposed to be left alone running their own businesses by themselves, but they must be fostered in order to keep their businesses running well.

If the overall opinions of experts and practitioners have rater agreement for 0.27 on the aspect of the problem, then their opinions on the aspect of strategy, as a whole, have a rater agreement which is equal to $W = 0.40$ as shown in the figure below:

Figure 7. Priority Elements of Alternatives



In the alternative cluster has the highest priority value to assessment of each respondent is found in the model agencies Islamic microfinance namely the mixed model, the value corresponding priority with the order of ranking is, the mixed model has value geo mean 0.34, the second sequence with the Grameen model has value geomean 0.33, the last node on the cooperative model of sharia with geo mean value of 0.31. The last priority of strategy is on a model of sharia Islamic microfinance institutions that is cooperative-based. Gaining the rater agreement with $W = 0.40$, those three models (mixed-based, Grameen-based, and cooperative-based) are the models of sharia microfinance institutions, that have been successfully implemented in Indonesia.

Priority of strategy toward the three models of Islamic microfinance institutions was selected by experts and practitioners as a whole. It puts on the mixed model of Islamic microfinance institutions. The second priority strategy is on the model of Islamic microfinance institutions that are Grameen-based. The strategy of the Islamic microfinance institutions that apply mixed model is actually a fairly new system introduced in Indonesia. In fact, the Grameen model has existed for a long

time in community, especially in Bangladesh. For the very first time, this system was introduced in Bangladesh by Muhammad Yunus. According to Mahmud Toha, the role and effectiveness of the Grameen Bank model have their own appeal in the ease of the procedures and installment loans, relatively low interest rate, and last but not least, the convenience, attention, guidance, and marketing support given to the whole members (Toha, 2000). Consequently, it is more than just cooperative model that has long been in society and that applies the concept of cooperative savings and loans, and more than just the Grameen model that only applies its finance concept.

Microfinance becomes the most important factor in poverty reduction, especially in Indonesia. The number of small and micro enterprises reaches around 99.39 %. It is very significant compared to the large and medium-sized businesses. From those data, it can clearly be seen that small and micro enterprises have an important role in the development and the growth of economy, not only in developing countries but also in developed countries. Many institutions provide microfinance services for small enterprises, not only Islamic banking but also followed by many non-bank Islamic financial institutions operating in the micro sectors. Islamic microfinance institutions based on profit and loss sharing or based on sharia is a reality that has been growing rapidly in Indonesia.

In support of the development of Sharia microfinance institutions, the presence of an appropriate model of institution is required for strengthening the micro sector in Indonesia. Based on the findings of research conducted with the approach of the Analytic Network Process (ANP) toward the practitioners and experts of micro enterprises, strategic priorities of every element have been identified, namely: *first*, mixed-based models of Sharia microfinance institutions; *second*, Grameen-based models of Islamic microfinance institution; and *third*, models of Islamic microfinance institutions in the form Sharia cooperatives.

The findings of ANP show that the mixed-based model of Islamic microfinance institutions is the most appropriate model to encourage the real sector in Indonesia. The model integrates two systems in operation; sharia cooperative system and Grameen system (group financing).

Ascarya's research compares microfinance institutions in Indonesia to conventional and sharia types, concludes that the cooperative model like *Baitul Maalwa Tamwil* (BMT) is a model of Sharia microfinance institution, that can be a sustainable and balanced business which operates as a social institution (Ascarya and Cahyono, 2010). Meanwhile, the research in this paper shows that the mixed model of microfinance institutions embracing sharia system along with its several advantages is the most appropriate alternative model of microfinance institutions to

be applied in Indonesia, in comparison to the Grameen model and sharia cooperative model.

Based on the ANP, the mixed-based model of Sharia microfinance institutions is encouraged by various aspects of supporting priorities.

First: Human Resources (HR). The core of rater agreement is $(W) = 0.088$ with the first priority elements i.e. cooperation, solidarity, and division of tasks. According to experts and practitioners, human resource is the most important aspect in a microfinance institution because having a strong and good human resource will be a positive influence on the institution, and of course it is supported by good cooperation and solidarity among employees. Based on ANP results, in addition to cooperation and solidarity, the division of tasks between HR has the same level of priority, score of rater agreement $(W) = 0.612$. Clear and well organized division of tasks is expected to be able to avoid the human resources having multiple responsibilities (SOP KJKS, 2012). Human resources should be given responsibilities in accordance with the skills and abilities of each individual.

Second: Finance. The highest priority element that supports the financial aspect is financial services with rater agreement $(W) = 0.048$. For instance, a long-time process of administration in a microfinance institution will also make the micro business doers wait for a long time to receive the financing while they are in need of the funds fast (Nurmanaf, 2007). Having a maximum service in providing financing for customers will lead to a positive value of financial institutions.

Third: Management. The highest element of priority in management aspects is the Standard Operating Procedures (SOP) with rater agreement score $(W) = 0.54$. Good and detailed SOP will assist an organization to operate and will a guidance to implement the policies and regulations related to the management of the institution, which contains detailed procedures outlined on the Standard Operations Management (SOM) (PINBUK, 2000). The Guidelines containing standard operating procedures within an organization are used to ensure that all decisions and actions, as well as the facilities used in the organization can be efficient, effective, consistent, standardized, and systematic.

Fourth: Sharia Compliance. The highest element of priority that supports sharia compliance aspects is the contract (akad) with rater agreement $(W) = 0.628$. The beginning of the contract agreed in the beginning will determine the type of transaction whether it is sharia and non sharia. The purpose of the contract is the pillar of the establishment of a contract so that once the contract is made, the goal is reached.

Fifth: Marketing. The aspect which has the highest supporting priority

element is communication with rater agreement (W) = 0.24. Communication can meet the company's goals with the outcomes to be achieved. Communication can function to adapt the changes in the organization as well as the external influences. Communication can also maintain the relationships between members of the organization so that they can perform the task well.

An islamic microfinance institution with BaitulMaalwatamwil model has two products; savings and loans. In contrast, MFIs which is Grameen-based offering only one product is working capital reserved just for women. On the distribution of funding, BMT applies a guarantee for customers who want to have the financing, in contrast to MBK Ventura that does not require any collateral in financing its clients. Instead, MBK implements joint responsibility concept to help each other among groups that do not have the ability to pay.

Thus, the strategic choice based on the ANP approach necessitates the existence of a model of Islamic microfinance institution which applies sharia aspects either in the collection or in the distribution of funding as applied by BMT with the cooperative system. Unfortunately, people still objection to BMT's policy which still applies cash collateral or physical assets as the guarantee for instance, certificates or other sorts of securities.

While in the Grameen system, a group its self is the warranty, which is called as 'collective responsibility', so this system never makes any type of physical assets as the warranty. Facts show that Grameen system has been successful in terms of maximum financial returns with a minimum level of bad loans, almost 0 %. Islamic microfinance institutions with a mixed model will be more sustainable with the support of five aspects; human resource that is competent and professional, finance that is accessible and adequate, management which is effective and efficient, sharia compliance that is consistent either in the operational or in the product and marketing that is communicative.

Evaluations conducted on Islamic microfinance institutions *Baitul Maal watamwil*, gramen models, and mixed models based approach Analytical Network Process (ANP) found that Islamic microfinance institutions have decisive factors in the performance of the supporting activities that, in terms of evaluations conducted on the three models of Islamic microfinance institutions; BMT, Grameen, and mixed model, using the ANP approach explain that the Islamic microfinance institutions have decisive elements which support their performances in five important aspects or clusters. Every single cluster has four elements and indicators as follow: *first*, elements of human resource cluster are cooperation and solidarity, understanding of Islamic principles, division of duties and responsibilities, and awards. *Second*, elements of finance cluster are the source of funding, business efficiency, ranking of arrears,

and financing services. *Third*, elements of management cluster are institutional matter, standard operating procedures, standard of operational management, and technology. *Fourth*, elements of Sharia compliance cluster are collateral, contract (*akad*), regulation, and products. *Fifth*, Elements of marketing cluster are product pricing, communication, coaching, and product quality.

The solution in the development of models of Islamic microfinance institutions for strengthening the real sector in Indonesia is applying a mixed model in its process. Mixed model is a model of Islamic microfinance institution, which implements two systems i.e sharia cooperative system and Grameen system. This mixed model is a good strategy and has a better performance supported by five aspects: *first*, human resource a support in the area of cooperation and solidarity. *Second*, finance a support for financing services-. *Third*, management is a support in the area of standard operating procedure-. *Fourth*, Shariah compliance is a support in the area of contracts. *Fifth*, marketing is a support in the area of communication.

Conclusion

Based on the findings, it can be concluded that Islamic microfinance institutions with the cooperative model of sharia *Baitul Maal wat tamwil*, gramen models, and mixed models (combining cooperative model of sharia and gramen) have each system and procedures in operation.

In BMT Al-Fath and BMT *Baytul Legal* based on cooperative endeavor where responsibility the company is shared. In contrast to MBK Ventura -foundation law based venture limited liability company- where responsibility fully held by shareholders.

Evaluations were conducted on Islamic microfinance institutions Baitul Maalwatamwil, gramen models, and models based on the mixture approach Analytical Network Process (ANP) found that the agency Islamic microfinance has a determining factor in the performance of the supporting activities which, in terms of human resources has four indicators, cooperation and solidarity, understanding of Islamic principles, the division of duties and rights managers and awards. From the financial side have four indicators, namely the source of funding, business efficiency, ranking arrears, financing services. The deciding factor supporting performance the next of the management side, there are four indicators, namely, institutional, standard operating procedures, operational standards, management, and technology. Furthermore, based on adherence factor Shariah is based on indicators of collateral, contract, regulation and products given. Last factors supporting performance in terms of marketing institutions based on product price indicators, communication, coaching customers, and the quality of the product.

Solutions in the development of a shariah microfinance institutions model to the strengthening of the real sector in Indonesia, namely by applying a model mixing the process. Mixed model is a model agency Islamic microfinance that applying two systems in operation. The first system is based on sharia and second cooperative gramen system. Model-based Islamic microfinance institutions have a mixture of strategies to support better performance, which is supported based on five aspects of the operation, namely: *first*, resource human strengthening of the cooperation and solidarity; *Second*, financial strengthening of the financial services; *Third*, strengthening management standard operating procedures of the institution; *Fourth*, compliance sharia of the contract; *Fifth*, marketing aspects are supported strengthening of the communication.

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THE ROLE OF RELIGIOUS NORMS ON SELECTING THE ISLAMIC BANK

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Abstract. *The Role of Religious Norm in Selection of Islamic Banking.* The aims of this study are to examine Muslim's religious norms regarding to their belief on the law of the prohibition of bank interest, and to investigate the effect of religious norms on customers' decision in using the Islamic banking services. This study employs natural experimental design with Analysis of Variance (ANOVA), and Pearson Chi-Square Test. The exploratory study also conducted to support the quantitative analysis. The results show that the religious norms among Muslims classified into two categories, i.e: traditional and contemporary group and the religious norm of the Muslim have significant affects on the decision in using the Islamic banks.

Keywords: *Islamic Bank, Religious Norms, Traditional Group, Contemporary Group*

Abstract. *Peran Norma Religius Dalam Pemilihan Bank Syariah.* Tujuan dari penelitian ini adalah untuk memberi gambaran norma religius muslim di Indonesia terhadap fatwa pengharaman bunga bank; dan mempelajari hubungan norma religius tersebut terhadap pemilihan bank. Penelitian mengaplikasikan natural experiment design dengan Analysis of Variance (ANOVA), dan Pearson Chi-Square Test. Guna mendukung analisis kuantitatif, penelitian ini juga melakukan Exploratory Study. Hasil penelitian menunjukkan bahwa norma religius muslim dapat dibagi menjadi dua kelompok, yaitu: kelompok tradisional dan kontemporer, dan norma religius mempunyai pengaruh signifikan terhadap keputusan muslim untuk menggunakan bank syariah.

Kata Kunci: *Bank Islam, Norma Religius, Kelompok Tradisional, Kelompok Kontemporer*

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Introduction

The Islamic Bank is a banking system that operates under Islamic law, or known as '*sharia*' (Haque, Jamil and Ahmad, 2007; Hassan, Chachi and Latiff, 2008; Marimuthu, Jing, Gie, Mun, and Ping, 2010; Manzoor, Aqeel and Sattar, 2010; Idris, Naziman, Januri, Asari, Muhammad, dan Jusoff, 2011). Under the Islamic law, the Islamic banks are prohibited to trade based on interest (Haron, 1997; Manzoor, et. al., 2010; Idris, et. al., 2011) which is the basic distinction between Islamic banks and conventional banks (Hassan, et. al, 2008; Manzoor, et. al, 2010). In other words, the Islamic banks adopt '*sharia* compliant finance' systems, prohibiting acceptance of specific interest for loans, known as *riba*.

In the Second Conference in Cairo in May 1965, the Islamic Leaders, known as *ulamas* who gathered in the World Islamic Studies Consul has decided that there is no doubt on the prohibition of the *riba* (Antonio, 2001). The Concensus was also supported by the *Fiqh* Academy of the Muslim World League and Propagation Center, Counseling, Islamic Studies, and *Fatwa*, Kingdom of Saudi Arabia, and the Organization of the Islamic Conference (OIC) II in 1970, at Pakistan reached unanimously that the interest on a conventional bank contrary to Islamic law. In Indonesia, prohibition of *riba* refers to *fatwa* Majelis Ulama Indonesia (MUI) No. 1 tahun 2004 that is supported by Majelis Tarjih dan Tajdid PP Muhammadiyah No. 8 tahun 2006.

Prohibition of interest means forbids all Muslims use the services of conventional banks. Muslims would bear the sins if use a conventional bank services (Jalil dan Rahman, 2010). From this perspective, Islamic banks should be an option only for the Muslims not for the bank alternative that is often put forward as some academics, such as: Haron (1997); Memon (2007); dan Idris, et. al. (2011). Consider the law in the Islamic teachings, and the availability of Islamic banks, then the question arises: "Why the Muslim community is still not willing to stop using of conventional banking services, to further switch to Islamic banks?"

The consequence due to the *fatwa* issued by *ulamas* is the market for Islamic banking services has been growing rapidly over the past few years. Furthermore, this robust growth is expected to continue for the foreseeable future (Vayanos, Wackerbeck, Golder, and Haimari, 2008). However, it does not mean that the demand of the services of conventional banks is reduced.

In Indonesia, the Islamic banking has also been growing rapidly. Based on the *Indonesian Banking Statistics*, number of accounts in Islamic banks increased significantly, from 1,964,438 accounts in 2006 to 13,430,904 accounts in June 2014. In addition, Third Party Funds (TPF) has experienced a relatively high

increasing, from 11,862 billion dollars in 2004 to 183,534 billion in 2013. Although Islamic banks in Indonesia have undergone a rapid growth in terms of the number of accounts and TPF, this phenomenon did not bring about a negative impact for conventional banks. In fact, deposits of conventional banks increased from 963,106 billion dollars in 2004 to 3,663,968 billion dollars in 2013 (Bank Indonesia, 2014). By comparing the TPF of Islamic banks and conventional banks, it shows that the proportion of TPF of Islamic banks is still relatively small, which is about 5%. Eventhough the number of accounts in Islamic banks is increasing rapidly; it does not mean a conventional bank customers have switched to Islamic banks. Many banks customers in Indonesia hold multiple accounts. They open accounts in Islamic banks, however, in the sam time they hae a conventional bank account. The condition raises the question: “Do the majority of Indonesian Muslims disbelieve the *fatwa* of MUI that the bank interest is forbidden (*haram*)?”

People generally perceive that two billion Muslims in the world adopted the same Islamic religious beliefs and practices (Azra, 2005). In fact, different opinions would not be avoided among the Muslim community across the world, because they hae differentiate in history, tradition, and culture. Since the law on the prohibition of interest is not explicitly written in the Koran, *ulamas* make consensus to address this critical issue that newly turns up in our modern life. At this point, sometimes there are different views among the *ulamas* about the meaning of ‘*sharia* compliant finance’ in the Islamic banking practices. This condition raises the question: “Do all the Indonesian Muslims believe that the bank interest is *riba*?”

Although *ulamas* have agreed on the prohibition of bank interest in the Second Conference in Cairo in May 1965, the literature reveals that some scholars still have different opinion. Islamic scholars from Modernist school of thought, such as: Fazlur Rahman, Muhammad Asad, Said al-Najjar, Sayyid Tantawi, consider that prohibition of bank interest in the Koran are bank interest that is practiced before the Islamic era; there is a difference concept between *riba* and bank interest; and there is a difference between individual and institutional interest (Ahmad and Hassan, 2007). Rahman (1982) mentions that bank interest, especially in borrowing money are permitted in certain conditions.

Although the scholars mentioned about *riba* in conventional banks, but infact, there are still many Muslims use conventional banks. It can be assumed that indifferent opinions regarding the prohibition of interest give impact on of Muslims confidence in choosing a bank. One who believes that the interest is prohibited tend to choose Islamic banks. Nevertheless, others who believe that the bank interest is not (always) prohibited would choose conventional bank.

In the Theory of Reason Action, a normative is the subjective norms that refer

to the perceived social pressures to perform or not to perform a certain behavior. One source of normative belief is common norms that are believed by the religious leaders' referential (Fishbein and Ajzen, 1980). Consistent with Ajzen (1985), perceived religious norms are what one perceives as the beliefs of his or her religious leader. Hence, those who are influenced by religion may regard their spiritual leaders highly when contemplating the decision (Morgan, 2004). This is the reason why this study uses the variable religious norms to reflect difference belief in the *fatwa* of bank interest among Muslims.

Based on the explanation above, the aims of this study are to examine Muslims' religious norms regarding to their belief in the *fatwa* of the prohibition of bank interest, and to investigate the effect of religious norms on customers' decision for using the Islamic banking services.

Literature Review

The main sources of the Islamic law are the Koran and Hadith. Every Muslim believes that the Koran is the word of Allah, revealed to the Prophet Muhammad. While Hadith describes the behavior of the Prophet Muhammad including about what he said, he did, he saw and he decided during his life (Gatrad and Sheikh, 2001; Padela, 2007). It was include the approval that he did not say. Thus, it was also related to all the statements that describe his physical attributes and characters (Kamali, 1991).

Since the Prophet Muhammad's death, Muslim leaders made *Fatwa asa* new source of the Islamic law. This is intended to deal with new issues or phenomena that arise with changes in time and culture (Hashim and Mizerski, 2010). At this point, it could appear a difference opinion among *ulamas*. Although Islam has provided clear directions between *halal* (permitted) and *haram* (forbidden) (Al-Qaradawi, 1999), the debates on the various issues are unavoidable because many of the current issues are not explicitly commanded or forbidden. The fact that the Koran explicitly communicated in Arabic, leads to some divergences of the interpretation, especially when it is translated into non-Arabic languages. In addition, none of the institutions has the right to issue a universal Islamic law. Hence, it is possible to observe different interpretations of the Islamic law among various Islamic institutions.

Koran has explicitly forbids Muslims to consume alcohol and or gamble in surah Al-Baqarah [2]: 219; Al-Nisa [4]: 43; Al-Maidah [5]: 93. Therefore, the rules of Koran can be understood by Muslims explicitly, and then all *ulamas* and Muslims in the world agreed to these rules. However, the Koran and Hadith do not explicitly arrange about organ donation and transplantation (Al-Khader, Shaheen and Al-Jondeby, 2003; El-Shahat, 1999, Rady and Ali, 2009). At this point appeared various

effortsthat allows occurred differences view between *ulamas*. Although the Islamic Council (Senior *Ulamas* Commission) of Saudi Arabia stated that the Islamic rules allow the removal of organs from people who have died to save another human life (El-Shahat, 1999). However, between 1959 and 1998, there are at least 18 religious opinions that discuss the rules on organ donation and transpalansi (El-Shahat, 1999). In term of the donor's organ, Aksoy (2001) explains that there are two schools of thought in Islamic cultures, schools of thought that allow organ donation, dan the other is not allowed, because the Koran does not explain explicitly.

Same as the example above, Koran also does not explicitly prohibit bank interest. Nevertheless, it explains only about *riba*. Do all Muslims agree that conventional banks have to be abandoned, without a single reason? Do all Muslims agree conventional banks may be used for not taking interest given?

All Muslims agree that the *riba* is prohibited that it is explicitly written in the Koran (Ar-rum [30]: 39; Al-Nisa [4]: 161; Al-Imran [3]: 130; dan Al-Baqarah [2]: 275, 276, 278). However, when the *riba* is associated with the bank interest, debates over the concept of the *riba* in Koran appears. As it is mentioned before, some moderat scholars believe that the bank interest is permitted in some conditions. Rahman (1982), for instance, argued that they agreed to take extra costs or bank interestin borrowing and lending of moneyin some conditions, such as; first, the loan does not aim to exploit the weak; second, the loan does not follow practices of the pre-Islamic era; third, the interest rates is reasonable; fourth, the loan is for investment not consumption; fifth, the interest is to compensate losses to creditors due to inflation ; and sixth, the loan is for credit institutions.

This opinion certainly opposed by the traditional group, which has made a *fatwa* that bank interest is *riba*it also became the foundation for the establishment of Islamic banks. This condition indicates that there is difference belief about *riba* in Islam. This, of coure will give impact to the Muslim as a whole.

The social value in expenditure theory (Sheth, 1982) refers to the normative values that are held by social groups such as family, friends, or community. This definition is identical to the subjective norm in the Theory of Reason Action (Ajzen and Fishbein, 1980). In the theory of Reason Action, Ajzen and Fishbein (1980) take subjective norms as a part of behaviour factors and define it as an individual perceived social pressure to behave or not behave (Ajzen and Fishbein, 1980). The subjective norms are determined by the normative belief. This is one source of common normative beliefs that are believed by the representative religious leaders (Fishbein and Ajzen, 1980).

In social psychology, an important aspect of socio-cultural psychology is a social norm. It is defined as a way of thinking, feeling and behaving that is shared with

their community, so they appropriate it (Cialdini, 2009). There are many important social norms in the life of individuals that determined by the culture where s/he lives. In this context, culture is defined as a set of social norms, including religious and family values and other moral beliefs that are shared by people who live in an area (Matsumoto, 2001). Therefore, the cultures impact on the thoughts, feelings, and behavior through teaching, imitation, and other forms of social transmission (Mesoudi, 2009).

This will make people depend on the influential group and their social environment. On the other hand, the culture will influence social norms and religion . It is also affect a person's social norms. Thus, religious leaders allow influencing someones' social value, subjective norm, or social norms.

Consistent with Ajzen (1985), perceived religious norms are what one perceives as the beliefs of his or her religious leader. Hence, those who are influenced by religion may regard their spiritual leaders highly when contemplating the decision (Morgan, 2004).

Methods

The populations of study are Muslims who have bank(s) account. The respondents were conditioned as to be classified into three groups – the Islamic bank customer group, the conventional bank customer group, and the Islamic and conventional bank customer group. These groups can be viewed as an environmental factor treatment in experimental design (Agung, 2011).

The customers in each group are classified into two classes based on dichotomous variable of religious norms, that are traditional group who believes in the prohibition of the bank interest and contemporary group who do not believe in the prohibition of the bank interest. Thus, the natural experimental design is a 3 x 2 factorial design with three groups of bank customers, i.e. Islamic banks customers, conventional banks customers, and customers of both banks; and two further groups of each, i.e. traditional group and contemporary group. Natural experimental design is used because number of respondents who only has accounts in Islamic banks is relatively small. If sample selected randomly, the customers who use a pure Islamic banks will be very little.

The sampling technique used in this study was a purposive quota. The first step is determining the number bank customers among the three groups of bank customers that are consists of 125 respondents in each group. The second step is selecting the sample with the following criteria: 1) Muslims, and 2) at least the age of 18 years.

Data collection was carried out using a self-administered. Respondents filled out a questionnaire by themselves. However, the researcher guides them in filling out the questionnaires.

Table 1. Indicator for Construct of Religious Norms

Variable	Description	Statement Items*)	Sources
Religious Norms	what one perceives as the beliefs of his or her religious leader. (Stephenson, et. al., 2008).	1. Banks interest should not be prohibited if it does not aim to exploit the weak	Rahman (1982)
		2. Banks interest should not be prohibited if the interest rates is reasonable	Rahman (1982)
		3. Banks interest should not be prohibited if it for investment not consumption	Rahman (1982)
		4. Banks interest should not be prohibited if the interest is to compensate losses to creditors due to inflation	Rahman (1982)

There are several statement items that used as Religious Norm measurements. Rahman (1982) argued that according to moderenist scholars, the extra costs or interest, especially in borrowing money is permitted in some conditions: first, the loan does not aim to exploit the weak; second, the interest rate is reasonable; third, the loan is for investment not consumption; and fourth, the interest is to compensate losses to creditors due to inflation

Therefore, the research context is banking as a credit institution. Rahman’s criteria no. 5, bank interests are allowed for credit institutions that will be excluded from the statement items. Thus, statement items will be used to measure variables Religious Norms that can be seen in Table 1. Items statement to establish a religious norm variables were measured using a Likert scale between 1 (strongly disagree) and 6 (strongly agree).

Based on the average score of religious norms, customers are classified into two grouped: Traditional Customer (believe bank interest is forbidden), and Contemporary (believe bank interest are not always forbidden). The groups were done based on the average value of the score, in which: First, Traditional: smaller

than the average score of all customers. Second, Contemporary: equal or greater than the average score of all customers.

The Analysis of Variance (ANOVA) and Pearson Chi-Square are used to test the hypotheses of religious norms influence on the selection of banks. . Thus, researcher uses SPSS version 19 in data processing. The exploratory study also used in this research in order to complete the information about the phenomena related to Islamic banking.

Discussion

After collecting the data, there were some incompleted questionnaires answered, so they should be dropped. Therefore, in order to reach the same number of bank customers, the last entry questionnaires were dropped to exceed the other groups of bank customers. Finally, the questionnaire used was 363 or 121 questionnaires for each group of bank customers.

Data processing provided descriptive statistics score of the religious norms for the overall respondents as follows: mean score = 2.91; standard deviation = 1.43; the minimum value = 1; and the maximum value = 6. Therefore, the measurements using likert scale of 1 (strongly disagree) to 6 (strongly agree), it can be stated that the average score is relatively in the middle of the measurement scale. It means that a part of respondents have a lower score than the overall average who believe that the bank interest is forbidden. And other group of respondents has an equal or higher score than the overall average who believe that the bank interest is not always forbidden.

Standard deviation value also strengthens the interpretation of the average score. The standard deviation indicated a religious norm scores varied among individuals, which also indicates a difference belief in bank customers towards the *fatwa*. The variation between individual average score of religious norms was also demonstrated by its range, with a minimum average score of 1 and maximum of 6, which means there are customers who strongly disagree with the opinion of Modernist scholars. However, at the same time there are customers who strongly agree with the opinion. This result reveals that the Muslims do not always adopt a similar interpretation over the Islamic beliefs and practices.

Based on the descriptive statistics, it can be concluded that the data support the Hypothesis 1 that bank customers have different beliefs on the fatwa of prohibition of bank interest. Thus, although the MUI and the OIC has been agreed that bank interest is forbidden, but not all Muslims agree with the *fatwa*. This condition raises a question: "Why customers do not have the same beliefs about the *fatwa*?"

This is because the prohibition of interest is not explicitly written in the Koran and the difference of opinions about the *fatwa* of the bank interest among *ulamas*. The results support the statement (Al-Qaradawi, 1999) that although Islam has given clear directions between Halal and Haram, however, the debate about the issues is unavoidable because many of the issues now are not commanded or prohibited explicitly. So, it is a misperception if the people stated that two billion Muslims in the world adopt the same Islamic law in beliefs and religious practices (Azra, 2005).

If the religious norm is associated with bank customer groups, the statistics show the lowest average score of the religious norms is customers of Islamic banks group (2.35), followed by the customers of both banks group (2.86) and customers of conventional bank group (3.52). This condition indicates that customers who use only Islamic bank, not all of them believe the *fatwa* or at least they approve one or more statements that are used to measure the variables of religious norms, which is actually contemporary thought as expressed from Rahman (1982).

Tests on the difference in parameter mean of religious norms among bank customers groups' to answer the Hypothesis 2 using ANOVA. Based on the test of the statistical hypothesis, we have the F-statistic = 20,406 with p-value = 0.000, so it was decided to reject H_0 at level of significant = 0.05. It can be concluded that data support Hypothesis 2. Thus it can be stated that the parameter mean of religious norm for the customers of Islamic bank significantly different than the parameter mean of a conventional bank customers and/or the parameter mean of customers who hold two banks accounts. In other words, individuals who have the lower score of religious norm preferred to Islamic bank than conventional bank.

Furthermore, to examine differences in the mean parameters of religious norm variables between customers of Islamic bank and conventional banks, and customers of Islamic bank and customers of both banks, Tukey test was used. Based on the testing of the statistical Hypothesis 1.1, we have the p-value = 0.000, so it was decided to reject H_0 at level of significant = 0.05. It can be concluded that the parameter mean of religious norm for the customers of Islamic bank are significantly lower than the parameter mean of a conventional bank customers. In other words, individuals who believe the *fatwa* of prohibition of bank interest tended to prefer Islamic bank than conventional bank.

Meanwhile for statistical Hypothesis 1.2, it was obtained the p-value = 0.029. This means the parameter mean of religious norm Islamic bank customers are significantly lower than customers who have accounts at both banks. These findings again showed individuals who believe the *fatwa* of prohibition of bank interest tended to prefer Islamic bank.

In other words the result can be stated, the higher an individual's belief that bank interest is forbidden, the individual will tend to prefer Islamic banks, otherwise the higher the individual's belief that the interest is not always *haram*, the individual will tend to choose a conventional bank.

As previously explained that based on the average score of religious norms, the customer will be classified into two groups, namely: Traditional Customer Group (believe bank interest is forbidden), and Contemporary (believe bank interest is not always forbidden).

The data, shows that the Islamic banks are dominated by traditional customers, conventional banks are dominated by contemporary customers, and the group of customers who hold accounts at both banks is relatively balanced between the traditional and the contemporary customers. The results of hypothesis testing using the Pearson Chi-square Test concludes that there is a significant association between religious norms and choosing banks (Asymp sig. = 0.000). The statistic test revealed that the traditional group has a tendency to prefer Islamic banks, and contemporary group tend to use conventional banks. The statistical test hypothesis also supported hypothesis 2 that is selection of Islamic banks depends on customers' religious norms.

Nevertheless, the data showed that 32.23% customers of Islamic banks are customers who believe bank interest is not always forbidden. In contrast, 28.39% of conventional bank customers who believe banks interest is forbidden, still using a conventional bank. This condition indicates that the religious norm is not the only factors that influence the choice of the bank, but there are various other factors that could explain the phenomenon.

This situation can be explained in terms of religiosity and non-religiosity. It is possible the individual who believes *fatwa* of prohibition of bank interest and still using a conventional bank, due to no or less religious individuals, so that the individual is still break his/her beliefs. However, the explanation in term rational reason can not be ignored, especially because the numbers of customers who believe bank interest is not always forbidden still use Islamic banks services.

Shopping Preference Theory (Sheth, 1981) states that selection to a store is a function of the individual motivations and the availability of shopping options. Consumers will choose an outlet because the outlet offers something that meets with his/her shopping motivation. Consumers are classified as the convenience shopper, who chose the store based on the saving of time, would prefer a store based on the location of the home or workplace.

Referring to the theory, it can be stated that beyond the belief toward *fatwa* of

prohibition bank interest, in selecting banks, individual also consider their needs and desires and compared with what is provided by banks. Service, price, convenience, product, competent employees, are some examples of the bank attributes that have to be considered by bank's customers in choosing the bank, as shown by previous studies (such as: Idris, et. al., 2011; Cloud and Bukhari, 2011; Hamid, et. al., 2011; and Khan, et. al., 2011).

From this perspective it can be stated that the presence of 32.23% customers of Islamic banks are the contemporary group, indicate that Islamic banks have various advantages in terms of non-religious compared conventional bank, which causes the customers choose Islamic banks. In contrast, 28.39% traditional customers prefer conventional bank indicate the needs and desires of the customers can not be met by Islamic banks, so that they continue to use conventional banks.

Exploratory study that accompanies this quantitative analysis indicates that many customers who believe the *fatwa* continue to use conventional banks, because the infrastructure of Islamic banks is not in accordance with their needs and desires. Therefore, these groups typically use a conventional bank to conduct transactions, and use Islamic banks to save or investment.

Based on the analysis, it was revealed there are three groups of bank customers based on religious norms, namely: first, bank customers who believe bank interest is forbidden so convinced using conventional banks is also forbidden; second, bank customers who believe bank interest is forbidden but tolerate to use of conventional banks with specific reasons; and third, bank customers who believe bank interest is not always forbidden and so are free to use any bank.

Based on the characteristics of Islamic banks, it can be stated that Islamic banks offer the systems which is embedded positive values. Therefore, the strategy that needs to be applied in Islamic banks, is no longer just rely on the *fatwa*, but rather highlight the system which is based on the positive values.

Positive values in business which is embedded in Islamic banks not only be interesting for the traditional group, because these values can benefit every human being. Thus there are opportunities that the values will also appeal to contemporary groups, customers that are no or less religious and even non-Muslim groups. Besides offering positive values, Islamic banks must prepare the infrastructure in order to meet all the needs and desires of customers. In an exploratory study revealed three main factors that need to be addressed, that is: human resources, informatics system and product. That is one of the key which will make Islamic banks be able to compete with conventional banks in serving the needs and desires of customers. Furthermore, Islamic banks can also offer different services compared to conventional bank customers by using the Islamic law as a compass in carry out the business.

Conclusion

The results showed that religious norms influenced the choice of the Islamic banks. However, the effect is not absolute because part of traditional customers does not choose Islamic banks. It shows in choosing a bank, some individuals do not just rely on his/her religious norm, but also on various other considerations. These results support the research conducted by Dusuki and Abdullah (2007) which revealed: in spite of the fact that submission to sharia has been known widely by the Muslim customers, some empirical studies find that religion is not the only reason to choose Islamic banks.

These findings also confirm the suggestion by Wilson (1995) that Islamic banks should not only consider their business just to fulfill religious obligations of the Muslims, but more significantly as a business that is always needed to win customers at the same time retaining existing customers (Dusuki and Abdullah, 2007). A similar statement was also expressed by Ahmad and Haron (2002) that Islamic banks should not rely solely on the religious factor as a strategy to attract more consumers, but should emphasize efficient service, and should look into situational factors that will determine their level of competitiveness in the future. Furthermore, Ashraf and Nurdianawati (2006) also mentions that the Islamic banking activities should no longer be regarded as an initiative to carry out a religious obligation, but significantly as the innovation needed to win the competition of customers.

Nevertheless, this study revealed that impossible for Islamic bank to regardless of religious sentiment, because basically the Islamic banks are built according to Islamic law. Obligations of religion and customers religious norm can still be relied upon as a strategy to get new customers or retain existing customers, especially for groups who believe the *fatwa*.

Prohibition of bank interest is fundamental difference between Islamic banks and conventional banks, but it is not the only difference. With regard to the prohibition of the bank interest, was born the concept of equity-participation (Hassan, et. al., 2008), profit and loss sharing system in all business conducted by Islamic banks (Haron, 1997; Idris, et. al., 2011). Islamic banks also have different characteristics from conventional banks in the correlation between the customers and the bank. In Islamic banks, the customer is a partner, not a debtor or borrower, as the practice of conventional banks (Marimuthu, et. al., 2010).

In banking practice, Islamic law also prohibits '*ghahar*' or speculative trading and '*maisir*' or gambling (Idris, et. al., 2011). Islamic banks are also prohibited from engaging in transactions (payment or acceptance) with business related to *haram* products, such as: alcohol, pork trade, or gambling activities (Manzoor, et.

al., 2010). Furthermore Islamic banks are required to conduct business and trade activities based on the principles of justice and profit *halal*, pay *zakat*, prohibit monopolies, and work for social purposes (Haron, 1997).

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A DEVELOPING MODEL OF RELATIONSHIP AMONG SERVICE QUALITY, CONSUMER SATISFACTION, LOYALTY AND WORD OF MOUTH IN ISLAMIC BANKING

Suryani & Hendryadi¹

Abstract. *A Developing Model of Relationship Among Service Quality, Consumer Satisfaction, Loyalty, and Word of Mouth in Islamic Banking.* This research aims to develop a measurement tool of service quality in Islamic banking sector, and examine its relationship among satisfaction, word of mouth (WOM), and consumer loyalty. A convenience sampling of 235 respondents collected from seven locations in the Lhokseumawe, Aceh. Partial least square-structural equation modeling- (PLS-SEM) was used to test the research hypotheses. The results revealed that the quality of service has four dimensions, they are: service portfolio and assurance/SPA, tangibles/TAN, reliability of communication/COM, and Islamic values/IVA. The PLS-SEM results suggest that SPA and COM are dominant factors affecting satisfaction, and satisfaction were significantly related to WOM and loyalty. Loyalty also positively and significantly related to WOM.

Keywords: Service Quality, Islamic Banking, WOM, Loyalty, Customer Satisfaction.

Abstrak. *Pengembangan Model Hubungan Antara Kualitas Layanan, Kepuasan Konsumen, Loyalitas, dan Kekuatan Komunikasi di Perbankan Syariah.* Penelitian ini bertujuan untuk mengembangkan alat ukur kualitas layanan di sektor perbankan Syariah, dan menguji hubungannya dengan kepuasan, word of mouth (WOM), dan loyalitas nasabah. Sampel diambil dari 7 (tujuh) titik lokasi di Kota Lhokseumawe Aceh dengan total sampel 235 responden. Pemodelan persamaan struktural menggunakan SEM-PLS. Hasil analisis faktor menunjukkan bahwa kualitas pelayanan memiliki empat dimensi yaitu "portofolio layanan dan jaminan", "fisik", "keandalan komunikasi" dan "nilai Islami". Melalui analisis SEM-PLS dibuktikan bahwa portofolio layanan dan jaminan, dan faktor keandalan komunikasi adalah faktor utama yang mempengaruhi kepuasan nasabah, selain itu, dibuktikan bahwa kepuasan nasabah memiliki hubungan signifikan dengan WOM dan loyalitas, dan WOM juga terbukti berhubungan dengan loyalitas nasabah.

Kata Kunci : Kualitas Pelayanan, Bank Syariah, WOM, Loyalitas, Kepuasan Nasabah.

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Introduction

Islamic bank is a bank that operates not on interest (*riba*), but using the principle of profit sharing (*Mudharabah*), safekeeping (*Wadi'ah*), a joint venture (*Musyarakah*), and leasing (*Ijarah*). Islamic bank also based on Islamic law (Sharia) that follows the Islamic rules and practices that stated in Holy Quran, Mohammad (PBUH) and majoring opinions among sharia scholars. Islamic Bank is a bank conducting business or operation based on Islamic principles and does not depend on the interest in providing financing and other services in transaction activity (Mohammed, 2005).

As a company involved in the field of service industries, quality of service in the Islamic banking sector has become a major concern in an effort to maintain competitiveness and long-term performance of the company. Superior service quality will increase customer satisfaction, loyalties and also will reduce the level of complaints and customer retention. Thus, companies that want to gain a competitive advantage should use technology to gather information about the demands of the market in an effort to improve service quality.

The implications of the intense competition between Islamic banks with conventional banks are increasing customers' standard banking services, so the approach of using religious sentiment is no longer effective in attracting consumers in the Islamic banking sector. Research conducted by Dusuki and Abdullah (2007) in Malaysia revealed that the selection of Islamic banks are dominated by a combination of reputation and quality of service and finance offered by banks. Other factors are also considered important that a good social responsibility comfort and price of the product. Further studies by Al-Tamimi et al., (2009) also found that the most important factors as determinants of bank selection, first, bank products, than service quality and religious factors. The results of different studies reported by Sayani and Miniaoui (2013) concluded that the determinants of bank selection are the preference religions as the most important consideration in choosing between Islamic and conventional banks.

Great attention to the quality of service the banking sector has made this topic develops and produces various models of measurement of service quality in the banking sector. However, there are considerable disagreement and debate about how to measure the quality of service. Generally, recent research using SERVQUAL as a tool to measure the quality of service throughout the marketing sector and this model has gained widespread evidence, but it is not possible for any other service sector, especially the banking sector (Abdullah et al., 2011). From 2000 to 2006, a total of 14 conceptual models of service quality reported that applied in the banking sector (both conventional and Islamic) (Sangeetha & Mahalingam, 2011).

Because there are many differences in the concept of service to the Islamic Bank then its prove, the concept is still being developed so as not yet found a definite reference in cross-cultural research. In addition, in developing the model in the measurement of service quality Islamic Bank, this research also tries to develop a research model to include satisfaction, word of mouth (WOM) and customer loyalty. Furthermore, this research is intended to enrich and provide knowledge in the context of Islamic Banking service quality and provides a conceptual framework for Islamic service quality that is still limited.

Literature Review

Business banking services primarily to give special attention to the trust, so the issue of service quality becomes a crucial factor in the success of the business. Service quality is a form of consumer ratings of the perceived service with the level of service expected. The implications of the quality of service according to Ladhari (2009), include increased customer satisfaction, improved customer retention, positive word of mouth, reducing staff turnover, reduced operating costs, enlarged market share, increase profitability, and improve financial performance.

Service quality is the result of the evaluation process, where consumers compare expectations with perceptions of service received (Grönroos, 1984). Another definition proposed by Parasuraman et al., (1988) which states that the service quality as a general assessment or attitudes related to service excellence, while satisfaction associated with a specific transaction. Service quality is generally seen as the result of a whole system of services received by consumers, and the principle that the quality of services focused on addressing the needs and desires of customers, as well as their determination to provide services in accordance with customer expectations. Service quality is the expected level of excellence and control of the level of excellence to meet customer expectations (Tjiptono and Chandra, 2004). Based on these definitions can be concluded that the service quality is the hallmark, the characteristics or properties of a product or service that can meet the expectations of consumers who provide a level of excellence in a specific service.

During its development, the service quality in the banking sector has been measured by various approaches, first, the model SERVQUAL of Parasuraman et al., (1988) proposed five dimensions of perceived service quality construction: *first*, tangibles or physical evidence, namely the ability of a company to show existence to external parties; *Second*, reliability is the company's ability to deliver as promised services accurately and reliably; *Third*, responsiveness is a willingness to help and provide fast and accurate service to customers with clear information; *Fourth*, guarantees and certainty is knowledge, courtesy, and the ability of the company's

employees in growing confidence of the customers to the company; and *Fifth*, empathy is providing genuine concern and a private individual or given to customers by striving to understand the desires.

Most of the empirical studies on the quality of banking services are to measure the quality of service to replicate or adapt the model SERVQUAL. Firdaus Abdullah (2011) developed a factorial analysis showed that the quality of service has three dimensions, namely “systematization of service delivery”, “reliable communication” and “responsiveness”, and then some regression analysis showed that the “systematization” is the dimension of service quality the most important in the banking sector which is then referred to as the BSQ Index (Bank Service Quality). Other sizes referred to as the Bank Service Quality (BSQ) developed by Bahia and Nantel (2000) which measures the quality of the bank’s services include aspects of effectiveness and assurance; access; price; tangibles; service portfolio, and reliability that also successfully validated by Glaveli et al., (2006) through his research in five countries.

Compared to conventional bank, service quality measurement in the Islamic banking sector is still relatively limited. Several studies have attempted to develop a service quality scale Islamic Bank as Gayatri and Chew (2013) identified: Islamic values in general, *halal/haram*, attention to the activities of the Islamic religions, honesty, humility, and humanity and trust. While Manshor Taapet Amat al., (2011) using the four dimensions of service quality, namely tangibility, reliability, competence, and comfort in Islamic and conventional banking sector in Malaysia. Jabnoun and Khalifa (2005) developed a measure of quality of service to the conventional banks and Islamic banks and they identified four dimensions that include personal skills, reliability, value and image of the bank. However, only the dimension values and personal skills that significant in determining the quality of service in Islamic banks. Research by Misbach et al., (2013) conducted in Indonesia adapted the measurement model of Abdullah et al., (2011) designed a new measurement instruments in the banking sector and identifies three dimensions that include system services, responsiveness and reliability. Thus, Qureshiet al., (2014) in Pakistan used the measurement model by adapting the SERVQUAL, which includes reliability, responsiveness, assurance, empathy, and physical aspects. Models of service quality measurement can be seen in Table 1.

Table 1. Model of Service Quality Measurement In Islamic Bank

Writer / Year	State	Model Of Measurement / Indicator
Jabnoun dan Khalifa (2005)	Uni Emirat Arab	Personal skills, reliability, value and image of bank

Ahmad et al., (2010)	Pakistan	SERVQUAL
Ladhari et al., (2011)	Kanada dan Tunisia	SERVQUAL
Amat Taap et al., (2011)	Malaysia	Honesty, humility, humanity and trust
Gayatri dan Chew (2013)	Indonesia	Islamic values in general, halal / haram, attention to the activities of Islamic religion, honesty, humility, humanity and trust
Misbach et al., (2013)	Indonesia	System service, responsiveness and reliability
Amirzadeh dan Shoorvarzy (2013)	Iran	SERVQUAL
Qureshi et al., (2014)	Pakistan	SERVQUAL

Consumer behaviors such as loyalty, repeat purchases, the level of complaints, word of mouth, brand image, customer value, and various other aspects. The relationship between service quality and consumer satisfaction in the banking context has been studied. One study tried to develop a model of the relationship between service quality, customer satisfaction, and profitability of banks in Taiwan. By using the models SERVPERF successfully proved that service quality has a positive relationship with customer satisfaction and profitability of banks (Lee and Hwan, 2005).

Research in Malaysia proves that the five key dimensions of competence, communication, conflict management, trust, and relationship quality-discrimination between customers associated with consumer satisfaction (Nelson and Chan, 2005). Another study in India found that customer expectations and perceptions of service quality dimensions of tangibility, competence and empathy have an impact on consumer satisfaction (Khurana, 2014). Newer research reveals similar findings as Esmailpour et al., (2012) and Mosahab et al., (2010) in Iran; and Al-Hawari (2008) in Australia. Based on the above, it can be said that the better the quality of services provided the higher the level of satisfaction.

The hypothesis is: “H1: Service quality is positively related to customer satisfaction”.

A satisfied customer will provide recommendations on experience to others are a basic concept of communication by word of mouth. Word of mouth can be expressed as interpersonal communication between two individuals even more like

a consumer's group members or others. Due to the nature of the recommendations of the individual, the communication of mouth is one of the important factors that influence a person's decision to buy. WOM concept definition itself is constructed differently, such as the informal transfer of positive or negative purchases and behaviors associated with consumption among consumers (Teo and Soutar, 2012). In the education sector, it was found that the functional quality of service, rather than the quality of technical services, have an impact on the formation of WOM, with student satisfaction plays an important mediating role (Teo and Soutar, 2012); satisfaction associated with loyalty and WOM (Shao-Chang Li, 2013); and the high satisfaction of a larger cause WOM activity (Lang, 2011). Thus, it is reasonable to think that in a banking context, the fulfillment of the expectations that have implications for consumer satisfaction will lead to an increase in intention to recommend to others about their experiences with others in the form of positive WOM. Thus, the second hypothesis proposed is:

H2: "Consumer satisfaction is positively associated with WOM"

Consumer loyalty is a form of behavior. Loyal customers will demonstrate the purchase of non-random behavior, repeated violations of the goods / services of a company. The word "non-random" on buying behavior indicates that loyal customers make purchases planned and not based on random events (Griffin, 2009). While the characteristics of loyal customers according to Kotler and Keller (2009) can be seen from the three indicators includes repeat purchases; resistance from other influences and referrals or refer in total company's existence.

In various literatures, customer satisfaction is an important indicator of customer loyalty and a number of studies have identified the benefits of customer loyalty for the company in the future. The benefits of customer loyalty can lead to low service cost because the cost to be incurred by the company for loyal customers is cheaper than new customers. In addition, they will pay a higher fee for a set of products; and loyal consumers will act as an agent of word-of-mouth marketing. (Gee et al., 2008).

Research conducted by Pont and McQuilken (2005) on the relationship between customer satisfaction and loyalty in the Australian banking industry to the conclusion that satisfaction has a significant impact on three of the five dimensions: loyalty, pay more and external responses, Whereas the other two dimensions, namely the tendency to switching and internal response is not significant. In the context of e-banking services, satisfaction has a significant effect on loyalty to the bank and a willingness to continue the relationship with the e-banking services (Momeni et al., 2013). Other studies such as that carried out by Kazemi et al., (2013) give the conclusion of the relationship between brand identity, customer

loyalty and WOM by considering the mediating role of customer satisfaction and brand commitment.

Other empirical evidence also found that all the attributes of service quality are positively related to customer satisfaction is positively related to customer loyalty in retail banking arrangements in Bangladesh. Empathy showed the highest positive correlation with customer satisfaction and physical aspects showed a positive correlation with customer satisfaction at least (Siddiqi, 2011). Based on these explanations, the proposed hypothesis is:

H3: “Loyalty is positively associated with WOM” and H4: “customer satisfaction is positively related to loyalty”

Methods

Service quality in this study adapted various service quality measurement model of Bank. Through a preliminary study identified 26 items relevant statements by adapting measurement model of Bank Service Quality (BSQ) from Bahia and Nantel (2000); Service quality measurement model Islamic Bank of Gayatri and Chew (2013); and SERVQUAL of Parasuraman et al., (1988). Customer satisfaction is measured by three items include overall satisfaction, the level of complaints, compliance with the expected services, and the lack of service (Hennig, 2004). Loyalty is measured by two items covering the intention to continue to be a customer and intention to move (Dimitriades, 2006). WOM is measured by three items include the intention to tell others, recommend behavior, and behavior to invite others to use the services of Islamic Banks (Shao-Chang Li, 2013). All statements are measured using a scale of 7 point Likert-type items, namely 1 (strongly disagree) to 7 (strongly agree).

The first stage of analysis using exploratory factor analysis (EFA) by the method of principal component analysis and varimax rotation was used as a test tool to test the factor structure of the data. The factor analysis would classify data based on the inter-correlations between items. The reliability of a measurement indicates the extent to which these measurements without free from errors and ensure consistent measurement across time and across a variety of items in the instrument. The approach used to estimate the reliability of the instrument is using the Cronbach alpha coefficient. Reliability test was using internal consistency approach. Cronbach alpha value of 0.70 and above is considered the criteria to demonstrate the internal consistency of the scale developed.

The analysis technique used to test the model of the relationship among variables in this study is a structural equation model - partial least square (PLS-SEM).

This technique is an alternative method used to model that has great complexity, an indicator that is reflexive and formative mix and has a purpose for prediction (Ghozali, 2008).

Discussion

Through a convenient technique (simple sample) then obtained 235 respondents obtained from six Islamic Banks in Lhokseumawe and the location was taken in one of the Islamic Universities. The sample consisted of 47.7 % male and 52.3 % female. Age of respondents consisted of less than 25 years (39.6 %), then the age of 26-35 years (34 %), over 35 years (24.3 %) and 2.1 % are refused to filled. Majority, the education respondent is bachelor (37.4 %) and high school (36.6 %), while based on the length of a customer, the customer as much as 52.8 % less than 3 years, and 26.4 % between 4-8 years, and 12.3 % are already a customer of more than 9 years, and 8.5 % of respondents are refused to answer.

Through factor analysis values obtained Kaiser-Meyer-Olkin MSA (KMO-MSA) of 0.933 shows that the data have been qualified analysis of the first factor. Second, the value of Bartlett's Test of Sphericity of 4309.445 at 0.000 significance. This value indicates that the variable-forming factor is good enough so that the analysis can proceed. The next step is to assess the communality of each variable to determine which items are examined as a value factor. The results showed that the two variables are communalities below 0.50 so that it is removed from the measurement model. Furthermore, based on the total variance explained earlier revealed 24 items forming four factors with *eigenvalue* over one. Four of these factors explain about 64,496 percent of the variance. After two items are eliminated, then the ability of four factors explains construction is of 67,843%. Thus, the final scale is used, leaving 24 item questionnaires of 26 questions planned. Table 1 shows the results of factor analysis in terms of the name of factors. Variables loading on each factor, and the variance explained by each factor. Alpha coefficient values for all factors of service quality are shown that all factors that meet the prerequisites of reliability Cronbach alpha > 0.70. It can be concluded that the four constructs have a satisfactory level of reliability.

The results of testing the validity of the structure on customer satisfaction generate value Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy for 0,747 (chi-square = 398,519, df = 3, sig = 0.000). The total variance explained demonstrates the ability to explain construct three items of 81,890 customer satisfactions. Furthermore, the conclusion that the entire item is valid with regard weighting coefficient factor > 0:50. Internal consistency with Cronbach alpha tests to qualify the reliability that is equal to 0,887. for WOM construct, the value of

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy for 0,742 (chi-square = 449 007, df = 3, sig = 0.000). All the items proved to be valid by the ability to explain the construct of 83,651. Internal consistency Cronbach's alpha tested by a qualified reliability that is equal to 0,902. And test results on the loyalty construct showed the value of the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy of 0.500 (chi-square = 102 245, df = 1, sig = 0.000), with a totals of 80,282% constructs the ability to explain. Internal consistency (alpha cronbach) 0,887 for customer satisfaction, 0,902 (WOM), and 0,754 (loyalty) and has fulfilled a good reliability (Cronbach alpha > 0.70).

Measurement model with reflexive indicator based composite reliability or internal consistency should be higher than 0.70 (in exploratory research, 0.60 to 0.70 are considered acceptable); second, reliability indicators: loading factor on the indicator must be higher than 0.70. Third, convergent validity seen from the average variance extracted (AVE) should be higher than 0.50. Fourth, *discriminant* validity: the square root of AVE any latent constructs should be higher correlation latent variables; and loading factor indicators should be higher than the other constructs (Hair et al., 2011). Further, reliability test shows that all variables have a value of composite reliability and Cronbach alpha above 0.70. So it can be stated that all latent variables have a good level of reliability.

Convergent validity is met if the scores obtained by two different instruments that measure the same concept shows a high correlation. Indicators which have convergent validity is having outer loading factor above 0.70. The next test results shown that all the indicators already have a loading factor > 0.70 so that it can be declared to have proved it has a convergent validity.

Discriminant validity was intended to test that a properly construct only measure the construct to be measured, not the other construct. Discriminant validity testing methods can use cross-loading between indicators and used the roots of the average variance extracted (AVE). Through the results of the analysis shows that the correlation for each indicator in latent variables is greater than other latent construct. In addition, test results showed that the root of AVE entire square root of the construct has a greater value than the correlation between the latent variables. From this test it can be concluded that the model has met the *discriminant* validity.

The Goodness of Fit model is measured using R² dependent latent variable with the same interpretation of the regression. R² value of 0.75, 0:50 or 0:25 for endogenous latent variables in the structural model can be described as substantial, moderate and weak. Q² predictive relevance for the structural model to measure how well the observed values generated by the model and parameter estimation. Q² value greater than zero indicate that the construction of exogenous have predictive

relevance in explaining endogenous. (Hair et al., 2011).

Based on the analysis of SEM-PLS obtained R^2 structural model in model 1 (satisfaction) is equal to 0732, model 2 (WOM) is equal to 0505 and model 3 (Loyalty) is equal to 0492. Thus the formulas and calculations to test predictive relevance Q^2 following:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) (1 - R_3^2)$$

$$Q^2 = 1 - (1 - 0.732) (1 - 0.505) (1 - 0.492)$$

$$Q^2 = 1 - (0.268) (0.495) (0.508)$$

$$Q^2 = 0.933$$

Summary of Hypothesis tests show of five of seven proposed hypothesis supported. Two non-significant path coefficient are the relationship between the physical aspect (TAN) with satisfaction (SAT) and the relationship of Islamic values (IVA) with satisfaction (SAT).

This study consists of two main objectives: first to develop an instrument to measure the quality of Islamic banking services, and the second is a test model the relationship between service quality, satisfaction, and loyalty WOM. The results of the analysis successfully validated 24-item scale measuring service quality Islamic Banks (Islamic Bank service quality scale / iBSQ). As a newly developed scale, these findings provide initial information to be replicated in future studies. This study complements the findings of Gayatri and Chew (2013) which identifies the Islamic Bank of service quality measures include: Islamic values in general, halal/haram, attention to the activities of the Islamic religion, honesty, humility, and humanity and trust, and Bank Service Quality (BSQ) developed by Bahia and Nantel (2000) which measures the quality of the bank's services include aspects of effectiveness and assurance; access; price; tangibles; service portfolio; and reliability which also successfully validated by Glaveli et al., (2006). In summary, this study enriches and increases their knowledge in the context of quality Islamic banking services and provides a conceptual framework for service quality which is still relatively limited explored.

Compared with previous studies, such as Gayatri and Chew (2013) which identifies six factors of service quality Islamic Bank, this study identified only four the quality factor of Islamic banking services by using the more general aspects that are expected to be able to describe the professional quality of the Islamic banking services. Interesting findings is the lowest average score of 4 dimensions are used for 6 (six) that is observed Bank of the Islamic values. This situation clearly needs to get attention from the Islamic Bank in its efforts to reinforce the distinction of Islamic banks with conventional banks.

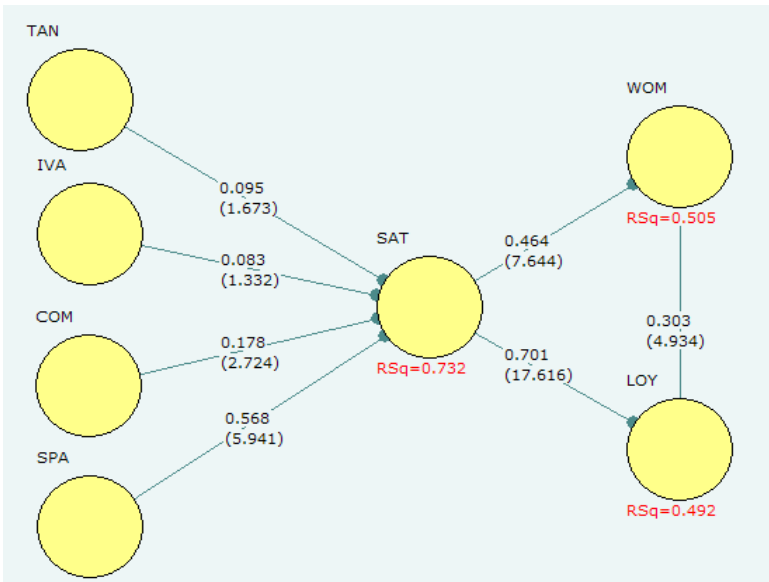


Figure 1. Structural Model PLS-SEM

Through the analysis of SEM-PLS obtained results indicate that physical factors (TAN) and Islamic values (IVA) has not significantly related to satisfaction, with t value for each coefficient of 1,673 and 1,332. Two other factors, namely the reliability of communications (COM) and the portfolio of services and guarantees (SPA) has a significant relationship (0178, t value 2,724 t) for COM and 0.568 (t value 5,941 t) for SPA. Thus it can be stated the relationship between service quality and customer satisfaction is only partially supported (H1a and H1b are not supported; H1c and H1d supported). In the second sub-structural WOM as an endogenous variable, obtained coefficient of determination of 0505 which demonstrate the ability of consumer satisfaction and loyalty explain WOM by 50.50%. Coefficients between consumer satisfaction to WOM that are for 0.464 (t 7.644) and coefficient of loyalty to WOM that are for 0303 (t 4.934). The two coefficients significant at 5% level that can otherwise be otherwise be able to explain the variation of WOM, therefore hypotheses 2 and 3 supported. Sub-structural third placing loyalty as an endogenous obtained coefficient of determination of 0.492 which describes the ability of customer satisfaction in explaining loyalty amounted to 49.20%. Coefficient path of satisfaction on loyalty is equal to 0.701 (t value 17.616 t), so that the Hypothesis 4 is supported.

Conclusion

Based on testing the validity and reliability that have been described, the four factors which successfully identified in this study: *first*, portfolio of services and warranty (service portfolio and assurance) service product portfolio refers to the diversity of services offered, the results and the fees charged to customers. Collateral refers to the accuracy of the services such as errors in service, gives a detailed explanation on the services offered, the service compared with conventional banks, the suitability of hope, and the suitability of the promise. *Second*, physical factors (tangibles). This factor relates to buildings, neatness and design rooms, location, service staff clothing. *Third*, communication reliability factor (reliable communication). The reliability of communication refers to communication effectiveness in providing services (especially the friendliness and courtesy of employees) and the willingness of staff to provide an explanation to the customers. These factors emphasize the need for staff in providing services which promote good attitudes and behavior by promoting hospitality (empathy) and courtesy (modesty) in the face of the customer, including in the case of listening to the complaints submitted. *Fourth* is the factor of Islamic values and attention to Islamic activities. This factor explains conformity with Islamic values such as conformity with the rules of Islam, Muslim accommodate customer needs, prioritizing system halal/haram, and provide tools for the activity of Islamic prayer.

This research is targeted also to explain the relationship between service quality and customer satisfaction, and the relationship between customer satisfaction, loyalty, and WOM. Statistical analysis showed that only two lanes direct effect of service quality on customer satisfaction, namely the reliability of communications (COM), portfolio and collateral (SPA). Two factors of service quality that physical factors (TAN) and Islamic values (IVA) is not proved significantly related to customer satisfaction. Although the structure of these two factors proved to have construct validity, but each one is weak in terms of validity based criteria (criterion-related validity) that validity is determined by comparing the test scores with certain performance on an external measure. Beyond this size should have a theoretical relationship with the variables measured by tests that, in this context that are the quality of service should correlate with customer satisfaction. A larger sample size is recommended for further testing, as recommended by Hair et al., (2006) that $14 \text{ to } 1 \text{ or } 14 \times 32 \text{ variables / items} = 448$.

Another finding that successfully authenticated that is positively WOM can be explained by the satisfaction and loyalty, and the latter proved satisfaction is positively related to loyalty. Customers which satisfied with the quality of service will create loyalty to generate WOM behavior.

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MACROECONOMIC VARIABLE AND ITS INFLUENCE ON PERFORMANCE OF INDONESIAN ISLAMIC BANKING

Yoghi Citra Pratama¹

Abstract. *Macroeconomic Variables and Its Influence on Performance of Indonesian Islamic Banking.* The purpose of this research is to analyze the macroeconomics variables that affect to the performance of Islamic banks in Indonesia. Methods used in this research is the Vector Auto regressive (VAR) / Vector Error correction model (VECM) to see the effect of the shock and the long-term effect on the performance of Islamic Banking. The results show that based on the analysis of IRF, the performance of Islamic banking having short-term shocks to fluctuations in macroeconomics variables but stable in the long term, and based on the variance decomposition, shocks of macro variables only gives little effect on the performance of Islamic banking.

Keywords: Performance, Islamic banking, VAR, Macroeconomic variable

Abstraksi. *Pengaruh Variabel Makroekonomi Terhadap Kinerja Perbankan Syariah di Indonesia.* Tujuan dari penelitian ini adalah untuk menganalisis pengaruh variabel makro ekonomi terhadap kinerja bank syariah di Indonesia. Metode yang digunakan dalam penelitian ini adalah Vector Auto Regresive (VAR)/Vector error correction model (VECM) untuk melihat efek dari shock dan efek jangka panjang terhadap kinerja Perbankan Syariah. Hasil penelitian menunjukkan bahwa berdasarkan analisis IRF, kinerja perbankan syariah memiliki guncangan jangka pendek terhadap fluktuasi variabel makroekonomi tapi stabil dalam jangka panjang, dan berdasarkan dekomposisi varians, guncangan variabel makro hanya memberikan sedikit efek pada kinerja perbankan syariah.

Kata Kunci: Kinerja, perbankan Islam, VAR, Variabel makroekonomi

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Introduction

Globalization and integration of the financial sector in the world economy led to the dependency among countries in the world. Globalization means more correlation among countries especially in connection to world trade and financial market either directly or indirectly, this is proved by the global financial crisis that occurred in 2008, where the financial crisis that began in the United States has effected to the other countries in the world. The 2008 global financial crisis that started in the U.S. in late 2007 has given a wide array of impacts to the operating and financial performance of many banks all over the world. As a result, many banks across the world reported financial loss on their financial report due to their connections with subprime mortgage in the U.S. or were simply affected by economic recession in their own countries.

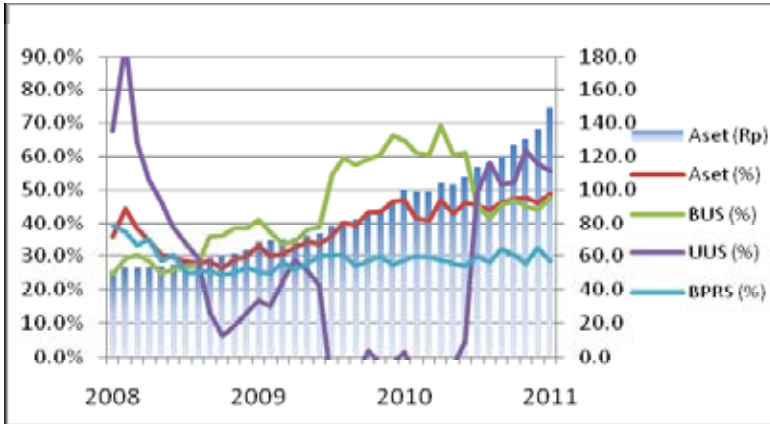
The impact of the crisis have even forced around 123 banks in the U.S. to file for bankruptcy in theyear, including American giant bank Lehman Brother that was never been expected to fail (Hidayat and Abduh, 2012). Indonesia is also get the impact of global crisis, that can be seen from a number of macroeconomic indicators in Indonesia. The impact of the crisis also approached the financial and banking system in Indonesia, it can be seen from the financial ratios of banks that had a significant correction, including the banking system which uses a sharia based

The development of Islamic banks in Indonesia is growing faster when the government is fully committed in 1998 by issuing Law No. 10 in 1998 to enhance the previous Act, Act 7 of 1992, which provides institutional and operational developments of Islamic banking in a comprehensive manner. With this legislation, dual banking system has been implemented, in which the conventional banks and Islamic banks recognized and both are regulated and supervised by Bank Indonesia. When business unit has enacted Law No. 21 2008 on the Islamic Banking on July 16, 2008, then as a follow-up mandate of the Act referred to, some new policies must be drawn up and some of the provisions that have been issued by Bank Indonesia should be adjusted to remain focused on six aspects, including adherence to Islamic principles, compliance with prudential aspects, the development of operating efficiency and competitiveness, and system stability benefits to the economy, improving the competence and professionalism of human resources, as well as the optimization of social functioning of Islamic banks in facilitating the voluntary sector / social with people's economic empowerment efforts. (LPPS Bank Indonesia, 2008).

Based on BI data in June 2012, the number of Islamic banks were established 11 the number of bank offices in 1780, and the number of conventional banks that have Islamic business units are 24 and the number of bank offices 521. Coupled

with rural Islamic banks amounted to 158, the number of office 398. development of Islamic banking assets also increased rapidly and above the average of national banks.

Graph 1. The development of Islamic Banking Assets



Source: Bank Indonesia

From the graph above can be shown that the development of Islamic banking assets increased significantly from 50 million in 2008 to 150 trillion in 2011 even growth of Islamic banking assets has fluctuated, although still above the average national banks, Islamic banks grow to over 30 % since the year 2008 and reached its peak in 2010, which reached 70%. This illustrates that Islamic finance industry has great potential and is not overly affected by the global financial crisis.

Years 2008 to 2009 was a challenging year for the financial system, both domestically and globally because in that year the world was hit by the global financial crisis. The crisis that began with subprime mortgage in the United States has disrupted the stabilization of the global financial system, the effect is even to countries in Southeast Asia, including Indonesia. Many international and domestic financial institutions have liquidity problems because they are involved too deeply in financial derivatives sector. In addition, the global crisis has also hampered the Indonesian macroeconomic system. Where economic growth declined from 6.3% at the end of 2007 to 6.1% in late 2008 and in 2009 was estimated according to Bank Indonesia's economic growth will also be corrected to 4.3%. Inflation reached its highest level of the 12.07% in September 2008, which since 2007 has always been below the range of 10% . Rupiah exchange rate also depreciated against the dollar, to ever reach 12,150 rupiah per dollar in November 2008.

The global financial crisis also makes BI as monetary authorities create policies like lowering the interest rate (BI Rate) by 300 basis points since November 2008 to encourage the growth of the real sector. The judging from the characteristics of Islamic banking if interest rates rise, it will suppress the growth of Islamic banking deposits, which in turn will impact on the level of profitability, and vice versa if the interest rates tend to fall in deposits of Islamic banks will increase. Currently September 2009 Bank Indonesia interest rate has dropped to 6.5% from its highest point of 9.5% in November 2008.

The crisis that occurred in 2008 is an implication of the loss of the monetary sector linkages with the real sector. Monetary sector has grown so fast through derivative products, cross-country over the edge. The development of the monetary sector so quickly is not matched by the real sector, resulting in an economic bubble. Money becomes a tool commodity is traded with other debt securities, as a result of speculative motives.

The global financial crisis in 2008 tends to slow the pace of economic growth in many countries and lead contraction of macroeconomic indicators. It is expected to have minimal impact on the national Islamic banking industry. There are several reasons why it believed the effect of the global financial crisis in 2008 was not significant to the national Islamic banking industry. First, the concept of sharia-based real sector and based on an underlying asset in the transaction, requires that the monetary sector developed by the real sector. Islamic banking financing portfolio exposure is almost 100% channeled in the form of business financing in productive sectors (real sector), where the concentration of the business sector financing of Islamic banking is the domestic business sectors that are not directly related to foreign trade (LPPS Bank Indonesia, 2012).

While the quality of Islamic banking financing is still relatively well preserved, as seen from the ratio of the NPF industry several years this is still maintained at an average rate of 3%. And sector financing is minimal from the financing of foreign trade enterprises. This means that the national Islamic banking financing are still dominant in the domestic market. It is because Islamic banking financing capacity is relatively limited. Secondly, the nature guided by the principles of sharia, Islamic banking is not allowed to use products based on interest and speculation. Here are the indicators of financial ratios that show the performance of Islamic banking in 2007-2012.

From the table 1, we see that in general the global financial crisis has not significantly affect the performance of the national Islamic banking, if in view of the growth of financing (loans) of banks or Financing to Deposit Ratio (FDR) is still high with an increasing trend since 2005 to reach 103 , 65% in 2008, with

the level of financing (credit) problematic or Non Performing Financing (NPF) is still kept below 5% and experienced a decreasing trend from 2007 to reach 2.22% by 2012. This means that Islamic banking still function properly as intermediary, by channeling financing to the real sector. In addition, Islamic banking has a great durability against the global crisis with the NPF rate remains below 5%.

Table 1. Performance Indicators of Islamic Banking

Ratio	2007	2008	2009	2010	2011	2012
CAR	10.67%	12.81%	10.77%	16.25%	16.63%	14.13%
ROA	2.07%	1.42%	1.48%	1.67%	1.79%	2.14%
ROE	40.38%	38.79%	26.09%	17.58%	15.73%	24.06%
NPF	4.05%	1.42%	4.01%	3.02%	2.52%	2.22%
FDR	99.76%	103.65%	89.70%	89.67%	88.94%	100.00%
BOPO	76.54%	81.75%	84.39%	80.54%	78.41%	74.75%

Source: Bank Indonesia

Based on CAR, Islamic Banking a good performance in capital adequacy ratio. It is about 8% in 2011 and the highest rate reaches 16.63%. Thus, the bank should obtain a profit from lending activities (FDR), which continues to increase with the level of non performing financing (NPF), which tends to decrease. However, in the profitability ratio, ie the indicator Return on Assets (ROA) and Return on Equity (ROE) in 2008, ROA is decreasing into 1.42% compared to 2007 ;2.07%. Same as ROE indicator, it's the highest point was 40.38% in 2007, and decreased into 15.73% in 2011. Then it began to increase up to 24.06% in 2012. Based on the above data, the authors are interested to find out the influence of external factors such as macro-economic variables which are contracted due to the impact of the global financial crisis to the performance of Islamic banking. Based on the exposure above, the authors formulate the following research questions.

How does the performance of Islamic banking which are proxy by FDR, CAR, NPF and ROA in the face of a global crisis that is shown by contracted the macroeconomic variables such as SBI interest rate, exchange rate and inflation rate from year 2007- 2012?

Literature Review

Macroeconomic conditions have an important role in the performance of banking. Kunt (2000) describes the factors that determine the occurrence of banking crises that can affect the performance of banking including macroeconomic factors,

financial, and institutional. Since the early 1980s, macroeconomic problems became systemic problems in the banking sector that has happened in most countries. Vulnerable banking crisis occurs in a weak macroeconomic conditions. Low GDP may increase the risk in banking sector. Vulnerability to shocks on aggregate output is not always a sign that the banking system is not efficient, because the role of banks as financial intermediaries are risk taking. Increased risk in the banking sector is also caused by high levels of inflation. So that the tightening of monetary policy is used to create stability in the banking sector

Second is the financial factor. High real interest is not only caused by stability policy of inflation, but also by others like financial liberalization. The degree of financial liberalization significantly affect the likelihood of a banking crisis even though real interest rates can be controlled. The third is the institutional factor. This factor will focus on internal activities within banking. The existence of deposit insurance schemes tend to increase the likelihood of systemic problems in banking. When on one side of the deposit insurance may reduce any panic in the banking sector, but on the other hand the existence of deposit insurance may lead to moral hazard. Therefore, reduce acts of moral hazard in the implementation of the deposit insurance is a top priority in the banking system.

The affect macroeconomic research on the performance of banks and other financial institution have been carried out in the world today. Bank of England (2003) in the research used the method of estimating and calculating (VAR) found its banking system losses in the face of macroeconomic variable shocks. The Reserve Bank of Australia also collects all of his resources to calculate and identify the relationship between bank profitability and bank resilience to contraction of macroeconomic variables in Australia (see Gizycki, 2001). Athanasoglu and Delis (2005) also studied the effects of fluctuations in macroeconomic variables to the profitability of Islamic banking in Greece, the results show that the inflation as a significant positive affect on the profitability of banks which are proxy by return on equity (ROE) and return on assets (ROA).

In the context of macro economic management, Clair (2004) in his research in Singapore found that on average two-thirds of the bank's performance is closely linked to the performance of macroeconomic variables. Islamic banking has different characteristics from conventional bank, but Islamic banking transactions which based on real sector also can not be separated from economic conditions. In some empirical studies, there are not direct correlation between changes in bank's performances and the business cycle. Both income and expenditure are likely to be pro-cycle where the outcome for profit depends significantly on the banks' expense policy and their credit risk profile. The relationship between risk and return depend

on how banks price for risk and the lags between taking on risk and the crystallisation of the risk into realised profit or losses. When GDP increases, banks may earn higher returns by taking on greater risk, which boosts profits. However, if a bank suffered a loss, it subsequently beyond what it had provisioned, so the losses will reduce its profitability (Clair, 2004).

The research about the impact of macroeconomic condition to Islamic banking performance have been also carried out in the world today. Hassan and Dridi (2010) compare the performance of Islamic banks (IBs) and conventional banks (CBs) since the recent global crisis by looking at the impact of the crisis on profitability, credit asset growth, and external ratings in a group of countries where the two types of banks have significant market share. The study suggests that IBs have been affected differently than CBs. Those factors related to IBs' business model helped limit the adverse impact on profitability in 2008, while weaknesses in risk management practices in some IBs led to a larger decline in profitability in 2009 compared to CBs. IBs' credit and asset growth better than CBs in the year 2008–09. This contributes the financial and economic stability. Therefore, the external rating agencies' re-assessment of IBs' risk was generally more favorable.

Noor and Ahmad (2011) studied the efficiency of the 78 Islamic banks in 25 countries in 1992–2009. The Fixed Effect Model used to examine the impact of operating expenses to assets, equity, high income countries and non performing loans to total loans on profit efficiency. They found that the operating expenses to the high equity of assets and high income countries, have a positive and significant effect on financial performance of Islamic banks. Asma, Fadi and Noor (2011) examined the determinants of profitability of Islamic banks in Malaysia. Number of Islamic banks in specific variables had been used capital adequacy, and management of expenses credit risk, liquidity, Log total assets. They found that only the bank's size has a positive significant impact on profitability of Malaysian Islamic banks. While the other variables have no impact on Islamic's banks profitability. Bashir (2003) investigated the determinants of profitability for 14 Islamic Banks from 8 Middle Eastern Countries. He found that total equity to total assets, loans to total assets and overhead (salaries, wages, and investment cost) have a positive and significant impact on profitability measured by (ROA), (ROE) and basic earning power. Gross domestic product growth has a positive and significant impact on Islamic banks profitability (Mustafa and Ali, 2013).

Methods

This research is a descriptive-correlational research (causal) that will explain the relationship of macroeconomic variables (inflation, interest rates Certificates

of Bank Indonesia, the rupiah exchange rate against the dollar) and variables of the performance of Islamic Banking which are proxy by CAR, NPF, FDR, and ROA, to know whether those variables have positive or negative influence. Descriptive research is an explanation of the characteristics, profile, and relevant aspects of the phenomenon of the research object (Nachrowi and Usman, 2007).

The data analysis of the study is Vector Auto regressive (VAR)/Vector Error Correction Model (VECM), which aims to look at short-term relationships and using cointegration test to see indications of the long-term relationship. Analysis of data will be done with the help of computer application programs such as E-views 6.

VECM testing can only be conducted if there are indications of a long-term correlation using cointegration test. The Variables are identified to be cointegrated when stationary at the same order. The Augmented Dickey Fuller (ADF) Test used to test the stasioner data. In the ADF test is done by adding (augmenting) the value of the lag on the dependent variable. Specifically, the ADF test follows the following equation:

$$\Delta Y_t = \beta_1 + \delta Y_t \beta_2 t^{-1} + \sum \alpha \Delta Y_{t-1} + \epsilon_t$$

the study used data natural log (ln) of the variables, except for the variables that are already in the unit of percentage, that method is useful for solving the equation. Logs model is a model which states measure the elasticity of Y with respect to X, the size of the percentage change in the percentage change in Y when X is known by the model $\ln Y = \alpha + \beta_1 + \epsilon \ln x$.

Vector Autoregressive (VAR) is used to see the effect of macroeconomic shocks on the performance of the Islamic banking. While the methods of Vector Error Correction Model (VECM) will be used if there are different stationary variables.

Discussion

In the first stage of data characteristics will be tested using the unit root test. Unit root test is necessary to determine the data according to Gujarati the data become stasioner if the data of the time series data sets (time series data) had an average (mean) and variance are constant over time, except that the value of covariance between two period of time only depends on the distance or lag of two periods of time and does not depend on waktu. Data Exchange in this study in the form of natural logarithm (ln), to simplify the analysis.

The test of stasioner is a major requirement in the cointegration test, if the time series data are not stationary, then the model will have problems unit root, so that the handle unit root test (unit root test). In this study the unit root test is done

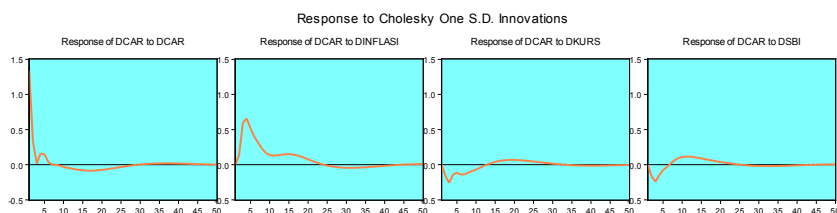
by using Augmented Dickey Fuller test (ADF test). Variable that has a value smaller than its McKinnon then these variables have stationary. Testing the unit root can also be determined by the value of its critical value, if the value of the ADF is larger than the critical value then the variable valuenya Stationary, otherwise if the ADF if indigo is smaller than the value of critical value (CV) 5% then the data is not stationary. The results of the unit root test can be seen from the following table:

Table 2. Augmented Dickey Fuller test (First Differencing)

No.	Variables	ADF test	CV 5%	Ho = There is a stationary Ha = Stationary
1	CAR	-7.018919	-2.954021	Stationary
2	FDR	-7.143259	-2.951125	Stationary
3	NPF	-7.704743	-2.951125	Stationary
4	ROA	-8.973787	-2.951125	Stationary
5	SBI	-3.461580	-2.951125	Stationary
6	INFLATION	-3.765297	-2.951125	Stationary
7	EXCHANGE	-5.339399	-2.951125	Stationary

Results of stationarity test data showed no variables are stationary at level. Therefore variables derived in first-degree differencing, as listed in the table above. The next stage is the determination of the optimal lag. Determination of the optimal lag is very important because the independent variable used is nothing but a lag of endogenous variables. Determination of the optimal lag is done based on the value of Schwartz information criterion (AIC). Selection of optimal lag cointegration test done before, it is important to do before estimating Vector Autoregressive (VAR) model. Election lag length is important because it can affect the acceptance and rejection of the null hypothesis, resulting in biased estimates and could result in inaccurate predictions.

Graph 2. Impulse Response Function On CAR

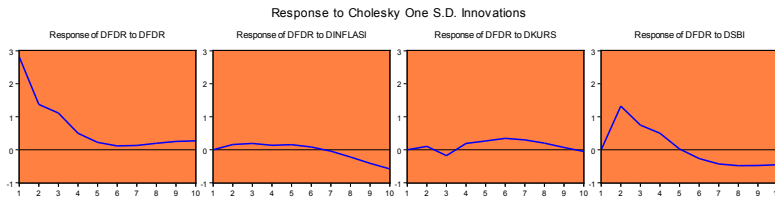


The longer the lag is used to reduce the degree of freedom and the number of observations, while the amount of lag that is too short will result in incorrect

specification (Gujarati, 2007). The issue of the selection of lag length also increased with the assumption that the selection of the appropriate lag will result in residual (free from autocorrelation and hetroskedastisitas) (Gujarati, 2007). To define the optimal lag value typically used Akaike information criteria (AIC), Final Prediction Error (FPE), Hannan-Quinn Information Criterion (HQ) and Schwarz Information Criteria (SC).

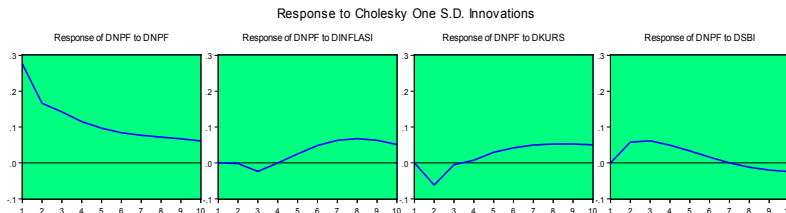
In this study the magnitude of the lag is selected based on the value of the smallest SC. SC calculations every lag. From the test results it is known that CAR models, FDR, NPF and ROA indicates optimal lag one, is evident from the value Schawart Information Criteria and Hannan-Quinn Information that shows the smallest value in lag 1.

Graph 3. Impulse Response Function On FDR



From the graph 2, it is known that the impulse response function test results showed that the CAR response to inflation shock. Seen from the table above it can be seen that CAR responds positive to inflation shock until at 25th period, after it fluctuates into a negative and stable at zero in the long run in the 40th period. CAR response to fluctuations in the exchange rate is negative at 15th period after having a positive movement in the short term and having stability at 35th period. Firstly CAR response to SBI with fluctuates and have negative relationship at eight period after that in the short term CAR responds positively and achieve stable movement began at 25th period.

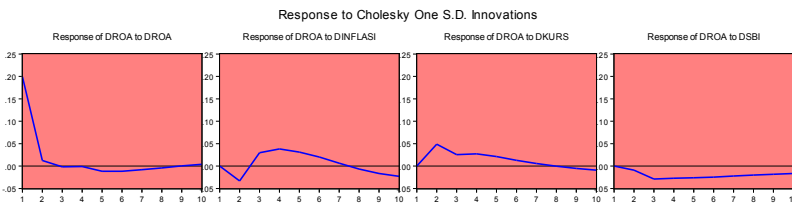
Graph 4. Impulse Response Function On NPF



The graph 3, explains that FDR respond positive to movements the inflation in the short term until the 7th period but after that FDR had a tendency to respond negative to inflation. FDR suffered shocks to the exchange rate in the short-term and has positive response but at 2nd period until 3.5 period responded to the negative, then returned with a positive response at the 4th period and tend to have stability in 9 period. FDR's response positive to SBI untilat 5th period after that FDR respond with negative long-term and having stable negative respond to SBI.

Inflation give a stable respond at the beginning of the second period, after that NPF respond negatively to inflation shocks until the 4th period and thereafter gave a positive response, its mean the higher of the inflation rate will cause the greater the level of NPF. Exchange rate give negative effect to NPF untill third period, after that at the fourth period the movement of NPF as the respond of exchange rate is stable at positive respond. NPF respond positively to the shock caused by SBI until seventh period, after that NPF respond negatively to SBI.

Graph 5. Impulse Response Function On ROA



The graph above explains that the inflation gave negative shock to ROA but after second period, inflation tend to brought to the zero and ROA gives a positive response to inflation until the seventh period. Exchange rate Shock give positive effect on ROA and tend to be stable in the eight period after that ROA tend to negative respond exchange rate. SBI give ROA negative response and tend stable.

Table 3. Variance Decomposition Model (1) CAR

Variance Decomposition of DCAR:					
Period	SE	DCAR	DINFLASI	DKURS	DSBI
1	1.336783	100.0000	0.000000	0.000000	0.000000
2	1.402522	96.34677	0.999679	1.290292	1.363259
3	1.564987	77.39283	15.34615	3.777673	3.483345
4	1.718135	65.05940	27.45176	3.795459	3.693382
5	1.804432	59.68344	32.93968	3.840892	3.535995
6	1.853637	56.60407	35.79475	4.219619	3.381558
7	1.884897	54.74216	37.36704	4.613230	3.277570

8	1.903068	53.70180	38.09582	4.879719	3.322669
9	1.914722	53.05528	38.37929	5.049229	3.516196
10	1.924163	52.56504	38.50542	5.131814	3.797723

From the result of variance decomposition on table 3, it can be seen that in the first period CAR is influenced by variables itself with a value of 100%, in tenth period CAR is influenced by its own variables at 52.56% and other variables affecting the tenth period CAR is the inflation rate effect 38.50%, then the variable exchange rate effect of 5.13 % and SBI whose give influence of 3.79%.

Table 4. Variance Decomposition Model (2) FDR

Variance Decomposition of DFDR:					
Period	SE	DFDR	DINFLASI	DKURS	DSBI
1	2.814258	100.0000	0.000000	0.000000	0.000000
2	3.405376	84.61833	0.210797	0.092497	15.07838
3	3.668259	82.08140	0.448766	0.314167	17.15567
4	3.743162	80.62526	0.560337	0.556163	18.25824
5	3.762227	80.16739	0.715868	1.040097	18.07664
6	3.790074	79.08602	0.753053	1.856415	18.30451
7	3.828620	77.61979	0.750023	2.422237	19.20796
8	3.875368	76.01495	1.058916	2.624580	20.30155
9	3.935000	74.13494	2.129524	2.577904	21.15764
10	4.013154	71.73056	4.159672	2.495334	21.61443

From the table 4, it is known that variable FDR in the first period is influenced by the variable itself at 100%, then the period of ten variables FDR is affected by the variable itself influenced by 71.73% and the second biggest variable whose gives influenced is SBI at 21.61%. Further, inflation gives influence at 4.1% in the period of ten and Exchange rate effect of 2.49 percent in the period of ten.

Table 5. Variance Decomposition Model (3) NPF

Variance Decomposition of DNPF:					
Period	SE	DNPF	DINFLASI	DKURS	DSBI
1	0.276172	100.0000	0.000000	0.000000	0.000000
2	0.333364	93.52451	0.002483	3.455156	3.017851
3	0.368386	91.48392	0.423766	2.847924	5.244388
4	0.389198	90.71460	0.379816	2.590996	6.314587
5	0.404310	89.79314	0.731620	2.935515	6.539726
6	0.418169	87.97660	2.022665	3.743844	6.256896
7	0.432684	85.32802	4.008094	4.819740	5.844142

8	0.447077	82.50230	6.047942	5.901228	5.548534
9	0.459898	80.09056	7.595677	6.878989	5.434774
10	0.470083	78.34647	8.463037	7.726345	5.464146

From the table 5, it can be seen that the NPF variable is influenced by the variable itself by 100% in the first period and the second period NPF variable is affected by exchange rate at 3.45% and SBI at 3.01% and then inflation gives influence at 0.002%. In the period of ten variables NPF influenced by variable itself by 78.34% and then followed by Inflation at 8.46%, then the variable exchange rate influenced NPF at 7.72% and then SBI gives influence to NPF at 5.46%.

Table 6. Variance Decomposition Model (4) ROA

Period	Variance Decomposition of DROA:				
	SE	DROA	DINFLASI	DKURS	DSBI
1	0.199317	100.0000	0.000000	0.000000	0.000000
2	0.208445	91.79469	2.538893	5.466057	0.200362
3	0.214047	87.05893	4.309262	6.587490	2.044313
4	0.220805	81.81397	7.030236	7.716723	3.439071
5	0.225816	78.49478	8.614079	8.245917	4.645228
6	0.228713	76.77743	9.181591	8.347609	5.693366
7	0.230104	75.98051	9.143707	8.307620	6.568164
8	0.231127	75.34009	9.147700	8.234731	7.277482
9	0.232516	74.44299	9.549156	8.192048	7.815805
10	0.234446	73.24785	10.34849	8.208393	8.195273

From the table 6, it is known that the variable ROA in the first period is influenced by the variable itself amounted to 100% and then in the second period is affected by the exchange rate at 5.46%. Further, it's influenced by inflation at 2.5% and SBI gives influenced to ROA at 0.20%. In the tenth period ROA variable affecting itself by 73.24%, and further variable ROA influenced by inflation of 10.34% and the exchange rate amounted to 8.2% and the last SBI gives influenced to ROA at 8.19%.

Conclusion

This empirical study provides several important findings; firstly based on analysis of impulse response function is known that the performance of the Islamic banking which are proxied by CAR, FDR, NPF and ROA had short-term shocks to macroeconomic fluctuations due to the financial global crisis. However, the performance of Islamic banking showed stable tendency in the long run. Secondly,

based on the test of Variance Decomposition is known that the performance of Islamic banking which are proxied by CAR, FDR, NPF and ROA is affected by the variable itself in the first period and thereafter until the tenth period apparently Inflation provide second biggest influence to Islamic banking performance, it can be seen from its effect on CAR in the tenth period are giving out the effect of 38.5%, and give influence 8.46% to NPF and 10.34% to ROA. Different from others variables, the second biggest variables whose influenced FDR is SBI, whose gives the effect of 21.61%.

The findings lead to the empirical conclusion that performance of Islamic banking is affected by fluctuations in macroeconomic variables in the short term but has a tendency to improved and stabilized quickly, this is because Islamic banking in running its operations related to the real sector, therefore the development of Islamic banking should be encouraged as much as possible in order to encourage economic growth and sustainable development.

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FACTORS THAT INFLUENCED PEOPLE TO BECOME ISLAMIC BANK CUSTOMER: A STUDY ON KANCANA VILLAGERS

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Abstract. *Factors That Influenced People To Become Islamic Bank Customer: A Study on Kancana Villagers.* Islamic finance and banking industry in Indonesia has shown a significant growth, average growth of 30% more per year in the last five years, with a total number of Islamic banks customers as much as 12 million accounts, or market share 4.8%. In this study, researchers attempt to describe the events in rural districts West Java related to the factors that influence people to become customers of Islamic banks. Data processing by tabulation and scoring and based on the analysis and discussion are carried out. The results of this study indicate that the Islamic bank customers' data are mostly women in productive age with maximum a senior high school education and their profession up mostly are traders. Others reasearch results related to factors which influence people to become customers of Islamic banks were influenced by psychological, social, personal, economic and cultural factors.

Keywords: Islamic Banking and Finance, Islamic Bank Customers, Consumer Behavior

Abstrak. *Faktor-faktor Yang Mempengaruhi Seseorang Untuk Menjadi Nasabah Bank Syariah: Studi pada Penduduk Desa Kancana.* Industri keuangan dan perbankan Islam di Indonesia telah menunjukkan pertumbuhan yang signifikan, rata pertumbuhan mencapai 30% lebih pertahun dalam lima tahun terakhir, dengan jumlah total nasabah bank syariah sebesar 12 juta rekening atau market share mencapai 4.8%. Dalam penelitian ini, penulis mencoba untuk menggambarkan peristiwa di Pedesaan wilayah Jawa Barat terkait dengan faktor-faktor yang mempengaruhi orang untuk menjadi nasabah bank syariah. Pengolahan data dilakukan dengan tabulasi dan scoring dan berdasarkan analisis dan pembahasan yang dilakukan. Hasil penelitian ini menunjukkan bahwa data nasabah bank Islam sebagian besar perempuan di usia produktif dengan maksimal pendidikan SMA dan profesi mereka sampai sebagian besar adalah pedagang. Hasil lain penelitian adalahterkait dengan faktor-faktor yang mempengaruhi orang untuk menjadi nasabah bank syariah dipengaruhi oleh faktor psikologis, personal, faktor sosial ekonomi dan budaya

Kata Kunci : Keuangan dan Perbankan Syariah, Nasabah Bank Syariah, Perilaku Konsumen

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Introduction

Islamic finance and banking industry in Indonesia has shown a significant growth. Its development has reached an average growth of 30% more per year in the last five years. This figure is above the average growth of Islamic banking industry in the world which is only 10% to 15% per year. In fact, this growth rate is also higher than the average growth of the national banking industry, recorded an average of 16.7% per year. Similarly, other Islamic financial industry (Islamic capital market and Non-Bank Financial Institutions) experienced rapid growth although not as fast as the Islamic banking industry.

Formally, the development of Islamic banking in Indonesia has entered a period of 22 years starting in 1992 to the present. Based on Islamic Banking Statistics data as of December 2013, the growth Islamic banking assets which consist of Islamic Commercial Banks (ICB) and Islamic Business Unit (IBU) increased from Rp 195 trillion in 2012 to Rp 242 trillion in 2013, increased by 24%. Meanwhile, the volume of financing in the same period has reached Rp 184 trillion (growing 25% -yoy) from the previous year 2012 which amount to Rp 147 trillion and third-party funds that is achieved by the Islamic banking amounted to Rp 183 trillion (growing 24% -yoy) from the previous year 2012 which amount to Rp 147 trillion. For over the last five years, it has witnessed the growth rate of Islamic banking, both in terms of assets, financing and third-party funds showed an upward trend.

As we all know that the majority of Indonesia's population is Muslim. It has become a necessity for Muslims to use Islamic principled financial services. Moreover, the current development of Islamic banking in Indonesia from year to year is quite significant. Thus, there is no longer any reason for the Muslim community not to use the services of financial institutions in accordance with Islamic principles. The reality has shown that the number of customers of Islamic banks has increased in significant numbers.

The data shows that the trend of growth in the number of customers increased year-over-year in average of 26%. The most significant growth trend shows in 2011 by 35%, despite the fact of a 20% downturn by the end of 2013, so that only grow on range of 11% away from the previous year in 2013 the trend growth of Islamic banks customers by 32%. With a total number of Islamic banks customer's as much as 12 million accounts, it only reached 4.8% of the total population of Indonesia at the end of December 2013 amounted to 248 million people (Statistic Indonesia, 2014).

Various factors can affect one's lifestyle including demographics, personality, social class, and life cycle in the household. Each person certainly has their own

reasons. Therefore, factors that underlying decision made by the District Cikijing Kancana villagers to become an Islamic bank customers still an interesting topic to examine.

From the above background, the formulation of the problem which is used to conduct this research: first, how are the characteristics of the District Cikijing Kancana villagers? Second, what factors are affecting the District Cikijing Kancana villagers to become customers of Islamic banks?

Given the extent of the topic about the community and the banking institutions, this paper limit the issues in this research are as follows: first, this research focuses on factors that affect the District Cikijing Kancana villagers to become customers of Islamic banks; second, Object of this research is the District Cikijing Kancana villagers who become bank's customer in the District Cikijing.

Literature Review

There are several definitions of consumer behaviour according to some marketing experts: Consumer Behaviour is "The study of individuals, groups or organizations and the processes undertaken in selecting, determining, obtaining, using, and discontinue using the products, services, experiences, or ideas to satisfy needs and the impact of these processes on consumers and society" (Hawkins, et.al. 2001). Consumer behaviour also can described as the mental and physical activity undertaken by household customers (end consumers) and business customers that result in a decision to pay, purchase, and use of certain products and services (Sheth & Mittal, 2004).

Based on those five standpoints regarding the definition of consumer behaviour, it can be summarized that consumer behaviour is a process undertaken by individuals / consumers in making decisions, both in the pre-purchase, purchase and post-purchase.

Consumer behaviour model was used as an effort to make it easier to understand consumer behaviour. A model is a simplification of the true picture (Swasta & Handoko, 2000). This simplification through setting aspects of reality and only consists of the aspects that make keen to the model maker (Swasta & Handoko, 2000). For example, if the intention is to interpret consumer behaviour as a decision-making process, the emphasis of the model is the process. The form of the model may vary, the model can be a verbal description, or by using mathematical symbols. Most of consumer behaviour model described verbally.

Consumer behaviour will determine the decision-making processing purchasing. The purchasing process consists of fivesteps: first, needs identification;

second, search for information; third, evaluate the information; fourth, purchase decision; fifth, post-purchase behavior. The Overall process explained above is only occurred in certain circumstances, for example at the first purchase. This means that the entire above process is not always done by the consumer. Consumers will be easier to take a decision in there-purchase or continuity in nature or in other words, if consumers are satisfied then they will not undertake initial process, they maybe immediately go to purchase decision process.

The purpose of marketing activities is to influence consumers to buy certain goods or services. It is very important for marketing managers to understand why and how consumer behaviour so that the company can develop, pricing, promoting, and distributing its products better. By studying the consumer behavior, managers will know what the unmet wants and needs of their consumers so that they can identify it to make market segmentation.

Next, we will explain about Islamic Bank. Islamic bank is a bank that is running its operations based on Islamic principles and by the type it consists of Islamic Commercial Banks (ICB) and Islamic Rural Banks (IRB). Islamic bank got the legitimacy from the Indonesian government with the passage of the Islamic Banking Act No.21 of 2008, on July 16, 2008. In Islamic banking Act no.21, 2008 the term of Islamic Credit Bank was changed to Islamic Finance Bank. This change made in order to emphasize the differences between credit and financing based on Islamic principles.

According Triandaru and Budisantoso (2006), Islamic bank is a bank that its activities, both fund raising and distribution of funds provide there ward on the basis of Islamic principles, namely buying and selling and profit-sharing. Islamic Bankis an intermediary institutions and financial service providers who work one thics and value system of Islam, especially free from interest, free from non-productive speculative activities such as gambling (masyir), free from the things that are not obvious and dubious (gharar), the principleof justice, and only pay for the lawful business activities. Islamic banks actively participate in achieving the goals and objectives of Islamic economics-oriented social welfare.

In determining the price or profit for the Islamic principles based bank are as follows: first, Financing is based on the principle of profit sharing (Mudharabah). Second, financing Based on the principle of equity (Musharaka). Third, the principle of trading to make a profit (murabaha). Fourth, lease financing of capital goods based purely without choice (ijara). Fifth, with the choice of the transfer of ownership of the goods are leased from the bank by the other party (ijara wa aqtina)

Methods

This research is descriptive research, this means researcher sought to describes or depicts a social situation in broad and deep scope (Sugiyono, 2008). In this study, researchers attempt to describe the events in rural districts Cikijing Kancana related to the factors that influence people to become customers of Islamic banks, then processed and analyzed using descriptive quantitative analysis method. The research was conducted in the village of Kancana the Cikijing District, Majalengka, West Java.

Questionnaires distributed to Kancana villagers by using a list of statements concerning the factors that affect the community in becoming customers of Islamic banks. Answer or assessment from respondent were compiled in frequencies table, then interpreted and analyzed based on the data analysis techniques, and the next process is discussing the result to determine a general overview of research results.

Based on the factors that influence people to become customers of Islamic banks, therefore the two variables are the development of variables into sub-variables and indicators as contained in the following table:

Table 1. Variable, Sub Variable and Indicators

Variable & Variable Concept	Sub Variable	Indicator
Factors that Influenced Customers	1. Culture Factor	a. Culture b. Subculture c. Social Class
“Kotler (2000) state that factors that influenced consumer behavior namely: culture, social, individual and psychological factors. (Simamora, 2002)	2. Social Factor	a. Reference Group b. Family c. Role and Status
	3. Individual Factor	a. Age and Lifecycle Phase b. Job c. Economy Circumstances d. Lifestyle e. Personalities and Individual Concepts
	4. Psychological Factors	a. Motivation b. Perseption c. Knowledge d. Attitude and Trust e. Education

Source : Data Modified by authors, 2014

Data processing is a process in order to gain the summary of data or figures by applying certain methods or formulas. Tabulation is table construction process, containing the data that have been coded according to the analysis required. The process of determining the score of the respondent answers conducted by making classifications and categories that match depends on the assumptions or opinions of respondents. Calculation of scoring is done by using a Likert scale.

Stages in analyzing the data is as follows: Likert scale used to measure the attitudes, opinions and perception of a person or group of people about social phenomena. In this study the likert scale is used to measure the attitudes and perceptions about the factors that influence people to become customers of Islamic banks. Based on the respondents' answers, on the next phase we need to interpret those answers. Distributed questionnaires carried out using a Likert scale, the index scores were obtained as follows: Based on the answers of the respondents will then be obtained on the respondents' answers. Questionnaires were distributed performed using a Likert scale, the index scores were obtained as follows:

Table2. Score Interpretation Criteria

Likert Score	Score	Criteria
1	Number 0% - 20%	Worse
2	Number 21% - 40%	Bad
3	Number 41% - 60%	Adequate
4	Number 61% - 80%	Good
5	Number 81%-100%	Very Good

Source : (Riduwan, 2006)

Once the data is collected through a questionnaire then the next step is to tabulate, which gives the value of the system in accordance with applied. Data analysis was performed in this study by using quantitative and technical analysis using Likert scale.

Discussion

In this study, the authors distributed questionnaires to Kancana villagers. The identity of the respondents include gender, age, education, home status, employment and income of the respondents. By gender, the percentage of women is 70%, and the percentage of men with 30%. This is because of the respondents, most women who like to engage in financial transactions with the bank. Women in the village Kancana have more spare time than men. Therefore, women that more frequently interaction with the bank. Compared with men who generally do not have enough time to deal

with the bank, and they preferred to trust his wife. Majority of people who become customers of a bank: 34% of respondents aged 21-30 years, 30% of respondents aged 31-40 years, and respondents aged 41-50 by 23%. Compared to respondents aged 51-60 years 10% and the percentage of respondents aged < 20 years numbered 1 person with the percentage of 3%. This shows that age is the productive age, so that the respondent wishes to investor become customers of the bank to prepare for the needs in the future. The majority of respondents that become customers of the bank: 46% graduated high school (SMA), 23% graduated from junior high school (SMP), 17% graduate bachelor degree (Sarjana), and graduated from elementary school (SD) and vocational (Diploma) 7% respectively. The education level of high school (SMA) graduates have a high percentage, it is because the majority of the villagers are high school (SMA) graduates. In this case meant the whole society Kancana already own their home, or none of the mareleased/rented house. This is because a home is very important to have for the people Kancana. And another thing because urban areas Kancana not familiar with the culture of the lease/contract.

The majority of people who become bank's customers are dominated by people who work as self-employed is 57%. This is because most people Kancana worked as a businessman. They can create their own jobs, and not a few of the mareable to provide jobs for other communities. Furthermore, the 13% of civil servants, private sector employees is 10%. Other work amounted to 6 people with a percentage of 20%. For employees of SOEs 0%, this is because people are not background by higher education, therefore Kancana community until 2013 no one has worked in SOEs. In data the majority of income communities < Rp. 2,200,000 (fifty percent), 23% are the people incomes Rp. 2,200,000-5,000,000, and 27% are income > Rp 5,000,000. This shows that the rural community is a society that is able to be customers of the bank. Although more than 30 respondents are people who earn less than Rp 2,200,000, but they can set aside money for savings in the bank. This is because the expenditure villagers still are manageable.

Community in the Village of Kancana provide feedback related to the factors that influence people to become Islamic bank's customers. The public response to the factors that influence people to become Islamic bank's customers are described as follows: *first* is the cultural factor. That of the sub-variable cultural factors, public response from the respondents in the indicator cultures, the majority of people who claim not agree as much as 44%, 23% respondents is agreed, 17% respondent is sun decided, and the 13% percentage of respondents strongly disagree of respondents stating and very much as 3%. It is addressed that the majority of the villagers of Kancana are less affected by the culture there. Therefore the majority of the Kancana's villagers, culture are not a determinant of desires and behaviours

of the most fundamental. Data can be seen that the variable factors of subcultures, peoples answers on indicators of subcultures, the majority of people who expressed strongly agree with the percentage of 36.67%. Respondents who had agreed were 23.3%, the public chose Islamic banks because of its recognition of the Islamic religion, some people claim Islam as their religion then they should choose a system of Islamic banking institutions. Then 20% disagree and 13% of respondents stated strongly disagree. This is because they are already accustomed to using conventional banking services. And 6.7% of people undecided because respondents could still be influenced or not have a definite choice. It can be seen that the variable factors of subsocial classes, peoples answers located on indicators of social class, the vast majority of states do not agree 40.0% and 10% expressed strongly disagree, it shows that according to this respondent does not affect their social class in choosing to become a customer. Compared with people who agree and strongly agreed that states 26.7% and 16.7%. This shows that the majority of the Kancana villagers are not affected by their social class, as agreed percentage is much lower compared with those not agree.

Table 3. Recapitulation of Cultural Factors

No	Remarks Sub-Factors	Mean
1	Culture	52.0
2	Sub-Cultural	70.0
3	Social Classes	62.0

Source : Data processed by authors, 2014

From Table 3, it can be seen recapitulation of cultural factors. The highest indicator of respondents' answers is the sub-culture items with an average value of 70.0, then the sub-cultures including good category. This indicated that the village communities affected by the culture there in becoming customers of Islamic banks. For the culture itself that is most strongly influenced by the advice of the ustadz/ clergy. Lowest indicator is subculture factor, with an average value of 52.0. It is addressing some people there who are affected by culture, because the virulence factors of the self, or as admitted to the defense of the religion. Some people are affected by their social class in deciding to become Islamic bank's customers. When compared with indicators of the respondents' answers to the items culture factor that only 52.0, social class more items affecting rural communities in deciding to become a customer. These results suggest that cultural factors influence the society was not so. Culture there is not really influence the community in becoming Islamic

bank’s customer, because only a small proportion of people who are affected by culture invillage.

Second is the social factor. The response from the villagers about the factors that influence people to become Islamic bank’s customers on social factors based on the results obtained data collection are as follows: Data can be seen that the factor indicator of Reference, the majority of people who disagree is 40%, while 27% of people stated strongly disagree, have shown that there is a majority of people who are not affected by the reference factors in rural communities. Reference group in here is among friend and the people closest to them. Compared with people who claim to agree as much as 17%, and 10% said strongly agree, this indicates that the reference factors influence the decision of a person in becoming Islamic bank’s customer is weakness. It can be seen that the indicators of the family, 47%, the majority of people agree that the family had influence, 20% of people stated strongly agree, this shows that the majority of the communities affected by their family. Compared by people who disagree and strongly disagree is 30% and 3%. It is much less as compared to respondents who answered agree, it means more people are affected by many factors in deciding their families to become customers of Islamic banks. Data can be seen that the respondents lies in the role and status indicators, 33% of respondents agreed, 13% of respondents strongly agreed with the stated percentage of 13%. This indicated that there are some people who are affected because of their social status in society that caused them to become Islamic bank’s customers. While respondents disagree as much as 30% of respondents stated and strongly disagree with the percentage of 7%. It is addressed that there are some people who do not care about their status and role in society, so it does not affect the role and status in the community choose to be bank’s customers. Respondents answer hesitation is17%.

Table 4. Recapitulation of Social Factor

No	Remarks Sub-Factor	Mean
1	References Group	60.0
2	Family	70.0
3	Role and Statuses	63.0

Source : Data processed by authors, 2014

From Table 4, it can be seen recapitulation of village community feedback about the factors that influence people to become Islamic bank’s customers on social

factors. The highest indicator of respondents' answers lies in a family of items with an average value of 70.0, the sub variables of social factors included in either category. This indicated that the village communities affected by the social there be Islamic bank's customer. The social factor itself is most strongly influenced by their families. Family advice is affecting their decision in becoming customers of the bank.

Lowest indicator of respondents' answers to the factor of reference group with an average value of 60.0, indicating some people there who are affected by the reference group, ie those whose behaviour is always to look like and their role model or example to be decided in terms of the bank's customers. Indicator on the role and status of items with an average is 63.0, also showed some people a little affected by the status and their role in the community.

Third is the personal factor. Responses Kancana's villagers about the factors that influence people to become Islamic bank's customers on personal factors based on the results obtained data collection are as follows: Data can be seen that the indicators of age and stage of life cycle. Respondents disagree with the 33% and the percentage of respondents expressed strongly disagree as much as 13% as well. Comparable to respondents who agree and strongly agree is 33% and 13%. This indicated that the villagers there are some who are affected by age and stage of life cycle, in part there is no effect. As for the respondents who expressed undecided are 7%; and this number slightly. Data can be seen that the indicators work, respondents who disagree 44%, respondents who expressed strongly disagree 3%, while 23% of respondents agreed and 10% strongly agree those states. This condition is largely due to the work of the villagers are self-employed, so they are not tied to their job. They can determine which banking institutions in accordance with their wishes. The respondents were hesitant to answer as much as 20%. Data can be seen on the state of economic indicators, respondents who had agreed as much as 33%, and 10% said strongly agree. This indicated that some people argue that the economic situation was extremely influential decision to become customers of the bank. Only a small proportion of those who stated that 17% disagree and strongly disagree that states as much as 7%. While the people who expressed doubt as much as 33%. Apparently there are still many people who feel hesitant with their economic circumstances in determining banking institutions which they would choose. This is because the majority of village people's livelihoods are businessmen, so their income is invested back in the business. Data can be seen that the sub variables of personal factors, the life style indicators, 37% of respondents disagree and strongly disagree were expressed by 17%. This is because the villagers are not the type of people who are accustomed to a lifestyle change, respondents who agree as much as 33%, and that states could not agree 10%. It is claimed that there are some people who are affected

because of his lifestyle. While doubtful, that the decision take effect life style is 3%. Data can be seen that the influence of personality and self-concept indicators, 36% of respondents agreed there is the influence of personality and self-concept indicators, 11% of people stated strongly agree. Compare with people who disagree and strongly disagree, respectively 43% and 3%. This shows that the majority of people affected by their personality in deciding to become customers of Islamic banks. The last factor in deciding the choice is based on respondent itself. Therefore, personal factors with indicators of personality and self-concept are impacting on the communities in the decision to become Islamic bank’s customers.

Table 5. Recapitulation of Personal Factor

No	Remarks Sub-Factor	Mean
1	Age and Stage in The Life Cycle	62.7
2	Occupation	58.7
3	Economic Circumstances	64.7
4	Life Style	56.7
5	Personality and Self-Concept	64.0

Source : Data processed by authors, 2014

From Table 5, it can be seen recapitulation of village community feedback about the factors that influence people to become Islamic bank’s customers on personal factors. The highest indicator of respondents’ answers on the state of the economy subfactors with an average value of 64.7 then enter either category. This indicated that the village communities affected by their personal factors in becoming Islamic bank’s customer. Although there are factors that influence the decision making, but the deciding factor is itself.

Lowest indicator of respondents’ answers to the lifestyle subfactor with an average value 56.7. It is addressing some people have argued that lifestyle factors influence the decision not determining an option, as well subfactors jobs with an average 58.7 when viewed, this job is categorized simply, it means people are not so affected by their work in deciding to become a customer, especially since the majority of the villagers are entrepreneurs so they are not tied to their place of work. In addition, the average value of personality and self concept; age and stage in the life cycle subfactors, respectively, are 64.0 and 62.7. This show both subfactor has a good effect in a person decides to become Islamic bank’s customers.

Fourth is the psychological factor. Responses the Kancana’s villagers about the

factors that influence people to become Islamic bank's customers in the psychological factors based on the results obtained data collection are as follows: Data can be seen that the sub variables of psychological factors, the indicators of motivation, respondents disagree and strongly disagree that motivation has an influence on the decision to become bank's customers is 46% and 17%. It show that the villagers although given the motivation to be Islamic bank's customer, but has no effect. Only asmall proportion of those who agree and strongly agreed, respectively is 7% and 13%, and respondents were undecided is 17%. This indicated that the rural population is not affected by motivation to become Islamic banks customers. As for those who expressed hesitation due to the ignorance factor towards Islamic banking institutions. Data can be seen that the sub variables of psychological factors, the perception indicator, respondents disagree and strongly disagree states respectively are 33% and 10%, the data showed that the majority of the rural population is affected by the perception of banking institutions sharia, only a few of those who agree and strongly agree, respectively is 27% and 13%. While some people undecided as much as 13%. Data can be seen that the sub variables of psychological factors, indicators of knowledge, 43% of respondents stated that states disagree and strongly disagree as much as 7%. Respondents who agreed and strongly agreed respectively is 20% and 10%, where as others expressed doubt as much as 20% as well. This indicated that village communities are not affected by the increasing knowledge of the different banking institutions through the spread of information. Data can be seen that the sub variables of psychological factors, trust and attitudes establishment indicator, respondents who disagree with the trust and attitudes of the establishment as much as 13%, and 13% strongly disagreed, while respondents said strongly agree and agree respectively with the percentage of 23% and 27%, and the latter is expressed doubt with the percentage of 23%. This indicated that the villager is agreed, that the establishment of trust and attitudes influence the person's decision to become Islamic bank's customers.

Table 6. Recapitulation Psychological Factors

No	Remarks Sub-Factors	Mean
1	Motivation	50.7
2	Perception	57.3
3	Knowledge	56.7
4	Establishment Trust and Attitude	66.7

Source : Data processed by authors, 2014

From table 6, it can be seen recapitulation responses Kancana's villagers about the factors that influence people to become Islamic bank's customers on psychological factors. The highest indicator of respondent's answers to the sub factors are confidence and attitude with an average value of 66.7, then categorized as good. This indicated that the village communities affected by their psychological factors in becoming Islamic bank's customer. They will be the Islamic bank's customer if it starts to grow confidence and attitude of the establishment. Lowest indicators in the motivation of respondents with an average value of 50.7. It is addressed that the sub-factors of motivation so that they become customers of minimal influence. It is also influenced due to Islamic banking institutions is still limited existence, and it affects people's motivation patterns of Islamic banking institutions. While indicators of the respondent's answers to the sub factors knowledge is average of 56.7, include enough category, in the sense that people are starting to know about Islamic banking. People are starting to know enough about Islamic banking and influence. Last indicator on sub factors perception of respondents with an average of 57.3 is categorized enough.

Conclusion

Based on the analysis and discussion are carried out, it can be obtained several conclusions, among others. *First*, jobs or livelihoods of rural people, correspond in general, rural livelihood is farming but not least also the livelihood trade or self-employed, because some areas agriculture can not be separated from business activities. Therefore, the income level of villagers relatively small and depends on the condition of the rural economy.

Second, the factors that most influence to become the Islamic bank's customer in Kancana's village was sub factors family on social factors, in rural communities, family is very important when some one will make a decision. Similarly, sub-cultural factors on cultural factors such as factor nationalities, religions, racial groups, and geographic regions, influence the decision of the villagers. Furthermore, who has a strong influence of rural communities is establishment trust and attitude on psychological factors, and economic circumstances and self concept (personal factors).

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CONSTRUCTION OF CIBEST MODEL AS MEASUREMENT OF POVERTY AND WELFARE INDICES FROM ISLAMIC PERSPECTIVE

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Abstract. *Construction of CIBEST Model as Measurement of Poverty and Welfare Indices from Islamic Perspective.* One of the major challenges faced by most of the Islamic countries is poverty. This paper attempts to construct the concept of poverty and welfare standards based on Islamic perspective. The study tries to cover both material and spiritual dimensions. These standards are based on CIBEST Quadrant, which is divided into four quadrants: welfare quadrant (I), material poverty quadrant (II), spiritual poverty quadrant (III) and absolute poverty quadrant (IV). Determination of these quadrants is resulted from criteria and indicators of basic material needs and basic spiritual needs. By using household as unit of analysis, this study is able to develop CIBEST Model comprising welfare index, material poverty index, spiritual poverty index, and absolute poverty index. Mathematical formula and illustration of the indices are also elaborated to strengthen the concept.

Keywords: *Basic Needs Approach, Poverty, Welfare Indices*

Abstrak. *Konstruksi atas Model CIBEST Sebagai Pengukuran atas Kemiskinan dan Kesejahteraan dalam Perspektif Islam.* Salah satu permasalahan penting yang dihadapi negara-negara Islam adalah kemiskinan. Tulisan ini berupaya untuk mengkonstruksi konsep kemiskinan dan kesejahteraan menurut perspektif ajaran Islam. Penelitian yang dilakukan, berupaya untuk mengkombinasikan dimensi material dan dimensi sipiritual. Alat ukur yng digunakandalam studi ini didasarkan pada kuadran CIBEST yang terbagi menjadi empat kuadran, yaitu : kuadran sejahtera (I), kuadran kemiskinan material (II), kuadran kemiskinan spiritual (III), dan kuadran kemiskinan absolut (IV). Penetapan kuadran ini dibuat berdasarkan kriteria dan indikator kebutuhan dasar material dan kebutuhan dasar spiritual. Dengan menggunakan rumah tangga sebagai unit analisis, penelitian ini berhasil memformulasikan model CIBEST yang terdiri dari indeks kesejahteraan, indeks kemiskinan material, indeks kemiskinan spiritual dan indeks kemiskinan absolut. Formula matematika dan ilustrasi dari setiap indeks juga dielaborasi secara detil untuk memperkuat konsep yang ada.

Kata kunci: *Pendekatan Kebutuhan Dasar, Kemiskinan, Indeks Kesejahteraan*

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Introduction

Poverty remains a major issue faced by the Islamic world presently. The term 'poverty', however, could not be defined in a single term, which prevails across the globe. It is because of the differences in many aspects, such as demographical factors, geographical location, cultural diversity, etc., although various scholars have attempted to define poverty from different angles and perspectives. They also have tried to accommodate these differences in their definition of poverty. Debate on this issue still continues including debate on measurement and criteria used to define poverty.

Despite these difficulties in constructing single definition of poverty, real practices taking place in different countries seem to provide the fact that poverty is always related with inability of certain group of people to fulfill their basic needs. This group of people is called the poor. Definition of the poor is always connected with a standard of measurement called poverty line. It is a line that is measured in terms of minimum income, which must be earned by a person. If a person earns income below the line, he will fall under the poor category. For example, in Indonesia, the National Board of Statistics (known as *Badan Pusat Statistik*— abbreviated as BPS) has determined poverty line to be equal to Rp 293,000 (USD 25.04) per capita per month in 2014. The number of the poor living below the line is estimated to reach 28.55 million people (National Board of Statistics, 2014). This poverty line may change usually on annual basis. Similarly, the World Bank use USD 2 per capita per day as basic standard of absolute poverty, meaning that, earning income below the standard will put someone in the category of absolute poor.

Islam actually pays great concern on the issue of poverty. As a comprehensive religion covering all aspects of life, Islam has clear rules and guidance regarding this matter. There are many *ayah* and *hadith* which can be made as source of reference. Similarly, there are a large number of literatures discussing the concept of poverty from Islamic perspective, which are written by classical as well as contemporary Islamic scholars.

It is interesting to note that most of the discussion on poverty from Islamic perspective is based on the concept of *maqasid al shariah*. The term 'maqasid', which is the plural form of the word 'maqasid', reflects the basic objectives of revelation of Islamic teaching. Chapra (2008) states that the *maqasid al shariah* have been either stated directly from the Quran or inferred from these by a number of scholars. All of these address the basic objective of the *shariah*, which is to serve the interests of all human beings and to save them from harm (Chapra, 2008).

One of the most prominent classical Islamic scholars in the history, Imam

al-Ghazali, has classified *maqasid al shariah* into five major categories. Those are protection of faith (*hifz al-din*), protection of human self (*hifz al-nafs*), protection of intellect (*hifz al-aql*), protection of posterity (*hifz al-nasl*) and protection of wealth (*hifz al-maal*). These are basic elements in promoting the well-being of the people. Imam al-Shatibi furthermore classified the *maqasid* into three broad categories, i.e. *daruriyyat* (essentials), *hajiyyat* (supporting) and *tahsiniyyat* (embellishment). To al-Shatibi, al-Ghazali's five safeguarding fall under *daruriyyat* category.

This paper attempts to construct this standard of measurement in the form of welfare index and poverty index. These indices will be based on certain criteria, which are derived from the Quran and Sunnah and compared with current practices in the contemporary Islamic economies. The paper comprises five sections including introduction as the first one. Second section shall elaborate overview on the conceptual framework of poverty from Islamic perspective. Section three discusses existing models of poverty standard and measurement by taking the case of Indonesia. Indonesia is purposively selected since it represents the most populous Muslim country in the world. Section four proposes model of welfare and poverty indices as standard of measurement combined with illustration on how to use those indices. This section will be started by elaborating conceptual foundation of the proposed model. Last section concludes the paper.

The Poverty Concep on Islamic Approach

As mentioned in the previous section poverty basically is a multidimensional concept. Shirazi (1994), Narayan (2000), and Pramanik (1993, 1998) are of the view that poverty basically is an imprecise term. It is not possible to capture the idea of poverty based on unidirectional approach. They suggest that poverty is typically used to refer to a situation where individuals do not have sufficient resources to cover their basic needs to lead a reasonably comfortable life, not only by economic but also by social, psychological and even spiritual dimensions.

Suharto (2009) argues that while some economists discuss the concept of poverty based on subjective and comparative approach, some others favor moral and evaluative approach. Poverty being mostly associated with economic dimension, it is, indeed, related to other dimensions including social, cultural, institutional, and structural. Al-Ghazali (1980) defines poverty as a state of not being able to fulfil one's needs. Inability to satisfy what is not needed is not poverty. If the needed items are available and affordable by a person, then he will not be treated as poor person. Al-Ghazali divides poverty into two parts: *first*, poverty in relation to material needs; and *second*, poverty in relation to spiritual needs. Similar argument is also made by Ahmed (2004). He says that poverty does not only represent deprivation of goods

and services, but also lack of poverty in spirit. Even Rehman (1980) argues that in Islam individuals can improve their spiritual life by improving their material life.

Al-Ghazali further states that each and every being that exists is poor, except for the eternal being, Allah. This is the meaning of the verse (47:38) “*wa Allah al-ghaniyyu waantum al-fuqara*”, which means ‘and Allah is rich and you all are poor’. To him, this is an absolute poverty (*faqrmutlaq*), which has both material and spiritual dimensions. In response to Al-Ghazali’s argument, Sadeq (1992) says that the term *faqrmutlaq* in contemporary economics refers to two different meanings. *First*, it refers to a state below some absolute level of income that could purchase some minimal level of sustenance. *Second*, it refers to poverty of the individuals or households in absolute terms without reference to their relative condition as compared to others. In this sense absolute poverty is used against relative poverty.

Ibn al-Qayyim al-Jauziyyah (1293 – 1350 AD), on the other hand, denies the relationship between poverty and *zuhd*, an important Islamic value misconstrued as renunciation of wealth and the good things of life. He insists that *zuhd* is not poverty. It is an attitude of mind which purifies soul from the lust for worldly things and from making them the objectives of life. He argues that affluence is more preferable provided it accompanies gratitude to Allah and the fulfilment of one’s obligations toward fellow human beings (Islahi, 1992).

The concept of poverty is indeed determined by the definition of the poor (*faqir*) and the needy (*miskeen*). Hence, Shirazi (1994) argues that the jurists from the four prominent schools have different ideas in this regard. According to Shafi’ite and Hanbalite schools, a person is called *faqir* if he possesses no wealth and earning, or earns income and wealth which satisfy less than half of his needs. A person is called *miskeen* if he earns income and wealth which satisfy more than half, but less than 100 percent of his needs. On the other hand, the other two schools, i.e. Hanafite and Malikite, have the opposite perceptions. However, Shirazi (1994) argues that opinions are not much different from practical point of view. It is because both are not in a position to meet their needs without the provision of assistance provided by the society or state.

Hafidhuddin (2013) stated that poverty is part of God’s law in this life. As mentioned in the Quran (43:32) that Allah SWT has determined people’s livelihood. Some of them are lifted up higher than the others, so that they can synergize and help each other. Islam, hence, does not discuss on how to eliminate poverty totally. Rather, it discusses how to reduce the excessive gap between the rich and the poor.

Hafidhuddin also argues that the poor having good morals are one of important pillars of development. He cites Ali bin Abi Thalib who states that the

resilience of the world and society affairs is due to five pillars: knowledge of the *ulama*, fair and just rulers, generosity of the rich, honesty and integrity of the employees and bureaucracy, and prayer of the poor. He concludes that poverty could not be observed only from material perspective, but also from spiritual perspective.

Existing Model of Poverty Standard: Case of Indonesia

The literatures above have demonstrated that poverty from Islamic perspective covers both material and spiritual dimensions. Another important issue is how to measure poverty and on what basis this poverty is determined. In this regard, some attempts have been made by various institutions and scholars. This section elaborates at least three models which have been applied, especially with the reference to Indonesia. Those are model of consumption or basic needs approach, model of decent living standard, and model of family welfare.

The National Board of Statistics of Indonesia uses consumption model or basic needs approach as basis for determining poverty standard. The model comprises food consumption and non-food consumption standard. Food consumption is based on the consumption of 2,100 kilo calories per capita per day, and these calories are valued in terms of money. If a person consumes less than this calorie standard, then he will be categorized as poor. Therefore, this standard is also called as food poverty line.

In Indonesia, non-food consumption for rural areas is different from urban areas. There are 47 commodities for rural areas while urban areas have 51 commodities (Beik, 2013). Similarly, these commodities are valued in terms of money. The standard resulted from this valuation is called non-food poverty line. Summation of food poverty line and non-food poverty line forms national poverty line. According to the September 2013 data, contribution of food poverty line towards national poverty line reaches 73.43 percent. The rest is contributed by non-food poverty line (National Board of Statistics, 2014). Unit of analysis in this approach is individual basis. However, spiritual dimension is not considered by this approach. It merely focuses on material aspect.

Another approach is the one that has been developed by the Ministry of Labor and Transmigration of Indonesia. The Ministry has issued an index of decent living standard. Initially, it is used as basis for determining minimum wage standard for labor. This minimum wage is decided by Wage Council which operates in every city and regency throughout the country (Beik, 2012). This council consists of tripartite: government representative, labor representative and industrial representative.

Index of decent living standard is designed to observe capability of a person to fulfill his basic needs, such as food, clothes and housing needs. The index comprises

seven basic elements: *first*, food and drink; *second*, clothes; *third*, housing; *fourth*, education; *fifth*, health; *sixth*, transportation; and *seventh*, recreation and saving. Survey is always conducted annually as media of information on real prices of the basic elements. Nevertheless, this index does not accommodate religiosity and freedom to express and to practice religious obligation. When the monetary value of the index has been decided by the Wage Council, labor office of city government must ensure that all industries obey the decision. Unit of analysis of this index is individual basis.

Unlike the previous two standards, the National Coordinating Agency of Family Planning Program of Indonesia (known as *Badan Koordinasi Keluarga Berencana Nasional*, abbreviated as BKKBN) applies the model of family welfare, which has been replicated in more than 90 countries globally (Alimoeso, 2014). The model is designed on household or family basis. This is totally different from the previous two approaches, which are individual-based. BKKBN classifies family into five types: pre-prosperous family, prosperous family I, prosperous family II, prosperous family III, and prosperous family III-plus.

Pre-prosperous family is considered as the poorest of the poor or the hardcore poor, while prosperous family I is classified as the poor. Prosperous family I is used as the family poverty standard. Criteria employed to determine poverty standard for family is qualitative in nature. BKKBN has determined six criteria, which are based on the basic needs approach. Those are: *first*, food consumption at least twice a day although with minimum calories; *second*, family members have different clothes for school, work, travelling and during their stay at home; *third*, residential house has good roof, floor and wall; *fourth*, treatment for family member suffering illness is conducted at health facilities provided by government; *fifth*, when parents are still in productive age and willing to join family planning program, they consult official contraception service facilities; and *sixth*, all children aging between 7 to 15 years old are schooling. Inability to fulfill at least one of these criteria will place a family in the category of hardcore poor or pre-prosperous family (Alimoeso, 2014).

BKKBN further determines the indicators of family that has been released from poverty. These indicators are used as basis to observe whether a poor family has changed their status from prosperous family I to prosperous family II. Criteria of the prosperous family II comprise eight criteria, which are: *first*, family members are able to perform religious obligation; *second*, entire family members consume meat, egg and fish at least once in a week; *third*, all family members at least purchase one new clothes in a year; *fourth*, the floor size of the house at least 8 m² for each family member; *fifth*, family members for the last three months are in a good health condition so that they are able to perform their functions and duties; *sixth*, at least

there exists one family member who work to earn sufficient income; *sevent*, all family members whose age are between 10-60 years old able to read and write in Indonesian language; and *eight*, parents in productive age with 2 or more children use contraception medicine or other tools of contraception (Alimoeso, 2014).

Cibest Model on Islamic Poverty and Welfare Indices

Various attempts have been made in order to construct poverty and welfare standards from Islamic perspective. One of the most significant efforts in the contemporary economy, which has been used in the real practice of zakat distribution, is the concept of *Lembaga Zakat Selangor* (Selangor Zakat Institution in Malaysia, abbreviated as LZS). LZS has used *had al-kifayah* approach as the basis to determine whether a family or a person is eligible to receive zakat or not. *Had al-kifayah* by definition is standard of minimum needs, which must be fulfilled by a family. Inability to fulfill these needs will place family in poor status and hence, that family is eligible to receive zakat fund.

In this concept, LZS has divided a family into five groups: head of household, working adult, unemployed adult, children within the 7-17 years old age group, and children within the 1-6 age group (Rasoolet *al*, 2011). The poor standard is determined by the ability of a household to satisfy their basic needs (*daruriyyah*), which consist of foods, clothes, houses, health, and education. Thus, by applying *had al-kifayah*, a household is eligible to receive zakat fund only if their monthly income is less than RM 1,650 –this is 2011 data. In addition, if there were disable or people with severe illness in the family members, the minimum limit would be raised to RM 2,240/month/household (Rasoolet *al*, 2011).

The concept applied by LZS should be greatly appreciated since it attempts to go beyond poverty line income (PLI) standard, which has been applied across the globe by many governments. Sometimes the value of PLI in many countries is too low compared to their economy condition. Nevertheless, the LZS concept is still focusing on material aspect. *Had al-kifayah* is merely translated into basic needs, which do not consider spiritual aspect. In this paper, we attempt to construct poverty and welfare standards which cover both material and spiritual aspects. These standards will be reflected in the poverty and welfare indices, which are measurable and comparable.

Basic spiritual needs could be defined as the needs to implement *ibaadah* (worship) to Allah SWT. BKKBN as mentioned in the third section includes capability to undertake religious obligation as an indicator of welfare family. However, BKKBN does not elaborate further criteria of this capability. This paper, hence, proposes that the concept of this ‘capability’ should be indicated by three factors,

i.e. ability, strong will, and freedom. These three factors are strongly interrelated. The absence of one or more factors will reduce capability of a person to perform *ibaadah*. If this happens, a person may have poor spiritual condition. For example, the absence of willingness to pray will reduce capability to undertake worship.

Furthermore, there are five variables of basic spiritual needs: implementation of *shalat*(prayer), *saum*(fasting), *zakat*, household environment, and government policy environment. These variables will be used as basis in the calculation of spiritual poverty index, which will be discussed later. As already known, prayer, fasting and *zakat* are part of Islamic pillars which must be fully implemented by Muslims, in addition to declaration of *shahadah* and *hajj* (pilgrimage). Reluctance to perform these *ibaadah* may reduce the quality of *iman*(faith). There is no excuse for all Muslims, especially those who are included in the category of *mukallaf*, to avoid these religious obligations.

Pilgrimage, on the other hand, is excluded from the variables affecting spiritual poverty index. It is because pilgrimage requires certain conditions, such as availability of huge financial resources. Another argument, when a person has strong awareness to undertake prayer, *zakat* and fasting obligations, he will automatically have awareness to perform *hajj* subject to his capability in removing financial constraint. Spiritually, this person is rich. Therefore, the focus should be directed to prayer, fasting and *zakat*.

Fourth variable is household environment. It is extremely important to have supportive household environment in fulfilling religious obligations. Unsupportive household environment may create spiritually poor person. For example, when the husband has a very liberal opinion in which he disagrees with the existence of prayer, most probably the wife will face difficulty in performing prayer regularly. She may fall to spiritually poor person status.

Similarly, the fifth variable, i.e. government policy environment, is also affecting spiritual condition of the people. Although not all *ibaadah* require specific government regulation, but the presence of supportive government policy environment is highly needed. This environment will determine the degree of freedom to execute Islamic teaching in certain societies. Unsupportive government policy environment may produce spiritually poor people. For example, although Prayer Act is not needed, but when government attempts to secularize the people by prohibiting prayer or by not providing sufficient prayer room in government offices, it may create spiritually poor bureaucrats. Hence, this variable cannot be ignored.

Unit of analysis proposed is based on household rather than individual. It is because in Islam, the smallest unit of society is household or family. Given this reason, hence in this paper, LZS (*Lembaga Zakat Selangor*) division of household is

adopted with modification. This modification could be observed in the presence of teenagers group. The main reason is due to different characteristic between teenagers and children, especially with respect to emotional maturity and puberty period. Hence, the household is divided into six groups: head of the household, working adult, unemployed adult (>18 years old), teenagers between 15-18 years old group, children within 7-14 years old group, and children within ≤ 6 years old group.

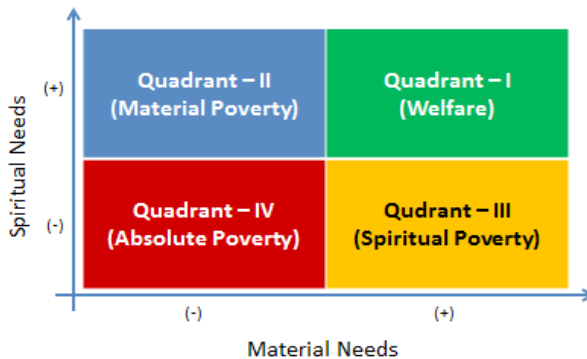
Head of the household is defined as a person who is responsible to fulfill basic needs of the entire household members. The household head could be father, single mother (widow or divorced mother), or other responsible person in the absence of parents, such as elder brother or sister. Working adult is defined as a person who is working but still under the responsibility of household head. This could be a working wife, son, daughter, or someone else, such as adopted son who has professional job.

Unemployed adult, furthermore, is defined as a person who is under the responsibility of household head but not working, such as housewife and unemployed son. Teenager refers to a person attending school or school dropout teenage within the age group 15-18 and in puberty period. This group could be included in the category of *mukallaf*.

Child within the age group 7-14 is defined as the one who attend school or school dropout child. Lastly, child within the age group ≤ 6 refers to the one whose age is less than or equal to 6 years old. These last two groups are not included in the category of *mukallaf*.

From the concept of fulfillment of basic spiritual needs and material needs, we can construct typology of the household in the form of CIBEST quadrant. There are four typologies of household based on their ability to fulfill basic spiritual needs and basic material needs. It could be observed in the following Figure 1.

Figure 1. CIBEST Quadrant



Based on the Figure 1, CIBEST quadrant is divided into four quadrants. Material needs are shown by horizontal axis, while spiritual needs are represented by vertical axis. The (+) sign in the horizontal axis indicates that material needs have been sufficiently fulfilled by the household while (-) sign indicates the opposite, i.e. the household is lack of material needs. Similarly, the (+) sign in the vertical axis portrays the ability of household to fulfill their spiritual needs while the (-) sign shows the opposite condition.

In the first quadrant, it can be observed that the household is in the positive areas of both material needs and spiritual needs. It means that the household is spiritually and materially rich. Hence, this area is called welfare quadrant. The second quadrant is combination of positive spiritual needs and negative material needs. This indicates that the household is spiritually rich but materially poor. This area is called material poverty quadrant.

The third quadrant combines positive material needs and negative spiritual needs. The household in this area is found to be materially rich but spiritually poor. This area is called spiritual poverty quadrant. Lastly, the fourth quadrant shows the mixture between negative spiritual needs and negative material needs. It means that the household in quadrant is spiritually and materially poor. Hence, this area is called absolute poverty quadrant.

The CIBEST quadrant has, at least, two advantages. Firstly, it will be able to identify the number of households in each quadrant. Secondly, it will assist government agencies to formulate precise development policy, which is needed in order to move households living in poverty quadrants towards the welfare quadrant.

This model is based on the CIBEST Quadrant. As has been discussed above, there are four CIBEST quadrants. CIBEST model is constructed from these four quadrants. The model is composed from four indices, namely, welfare index, material poverty index, spiritual poverty index, and absolute poverty index. This sub section attempts to formulate these indices mathematically.

The first is the welfare index. This index is symbolized by W. Formula of the index is as below:

$$W = \frac{w}{N}W = \frac{w}{N}.....(1)$$

whereby:

W = Welfare Index; $0 < W < 1$

w = the number of prosperous households (spiritually and materially rich)

N = total number of observed households

In this index, we simply calculate the number of households whom are

spiritually and materially rich (w). It will be then divided by the number of total population in order to get welfare index. The value of welfare index is between 0 and 1. It is because of the impossibility of having all population in the same welfare quadrant. The second index is Material Poverty Index. This index is symbolized by Pm. Formula of Pm can be observed below.

$$P_m = \frac{M_p}{N} P_m = \frac{M_p}{N} \dots\dots\dots(2)$$

whereby:

Pm = Material Poverty Index; 0 < Pm < 1

Mp = the number of materially poor but spiritually rich households

N = total number of observed households

We simply count the number of households living in the second quadrant of CIBEST in order to get the value of Mp. Furthermore, the third index is spiritual poverty index (Ps). Formula of this index is as follow.

$$P_s = \frac{S_p}{N} P_s = \frac{S_p}{N} \dots\dots\dots(3)$$

whereby:

Ps = Spiritual Poverty Index; 0 < Ps < 1

Sp = the number of spiritually poor but materially rich households

N = total number of observed households

The value of Sp could be identified when the number of spiritually poor households living in the third quadrant of CIBEST is known. Lastly, the fourth index is absolute poverty index, which is symbolized by Pa. Formula of this index is as below.

$$P_a = \frac{A_p}{N} P_a = \frac{A_p}{N} \dots\dots\dots(4)$$

whereby:

Pa = Absolute Poverty Index; 0 < Pa < 1

Ap = the number of absolute poor households
(materially and spiritually poor)

N = total number of observed households

This index requires calculation of the number of absolute poor households (Ap) in order to find out the value of Pa. Nevertheless, the values of w, Mp, Sp and Ap cannot be computed unless we know the standard determining material poor and spiritual poor. Regarding these, we will develop *material line* as the basis to separate materially poor and materially rich households. We will also develop *spiritual line* as the basis to separate spiritually poor and spiritually rich households.

Material line (MV) is derived from minimum standard of material needs, which must be fulfilled by a household. Mathematical formula of this MV can be

seen below.

$$MV = \sum_{i=1}^n P_i M_i \sum_{i=1}^n P_i M_i \dots \dots \dots (5)$$

whereby:

MV = minimum material needs standard
(in terms of Rp or local currency)

P_i = price of goods and services i
(in terms of Rp or local currency)

M_i = minimum number of goods and services needed

Table 1. Spiritual Needs Indicator

Variables	Likert Scale					Poverty Standard
	1	2	3	4	5	
Prayer	Blocking others to pray	Against the concept of prayer	Performing obligatory prayer but not on regular basis	Always performing obligatory prayer but not in congregational prayer	Performing congregational prayer for obligatory one and perform recommended prayer	Average score for spiritually poor household is equal to 3 (SV = 3)
Fasting	Blocking others to undertake fasting	Against the concept of fasting	Not fully performing obligatory fasting	Performing only obligatory fasting	Performing obligatory fasting and recommendable fasting	
Zakat and Infak	Blocking others to pay zakat and infak	Against the concept of zakat and infak	Not paying infak at least once in a year	Paying zakat <i>al-fitr</i> and zakat <i>al-maal</i>	Paying zakat <i>al-fitr</i> , zakat <i>al-maal</i> , and infak	
Household Environment	Forbid <i>ibaadah</i>	Against implementation of <i>ibaadah</i>	Consider private matter for household member	Support execution of <i>ibaadah</i>	Creating environment which obligates execution of <i>ibaadah</i>	
Government Policy Environment	Forbid <i>ibaadah</i>	Against implementation of <i>ibaadah</i>	Consider private matter	Support execution of <i>ibaadah</i>	Creating environment which obligates execution of <i>ibaadah</i>	

Based on the equation (5) above, a household is called materially poor when income of that household is less than the MV value. Otherwise, the household is classified materially rich. However, the MV formula is not sufficient. We need to have *spiritual line* formula.

Spiritual line (SV) is derived from five variables explained in the above sub section. It is the line showing actual spiritual condition of the households. Likert scale is used to assist the evaluation of household spiritual condition. Table 1 provides the indicators of the five variables of spiritual needs.

Based on the Table 1, the Likert scale used is ranging from 1 to 5. The value of 1 shows the worst indicator while that of 5 indicates the best condition. Spiritual standard, which separates spiritually poor households and spiritually rich households, is determined to be equal to 3. Mathematically, it can be written as follow.

$$SV = 3 \dots\dots\dots (6)$$

whereby:

SV = absolute line (standard) for spiritual poverty

The value of SV is based on three arguments. Firstly, for prayer and fasting needs, the value of 3 shows that a person intentionally leaves his obligation in one time, and in other time, he performs his obligations. In Islam, leaving our obligation intentionally will be considered as sinful acts, which reduce spiritual quality of a person. Secondly, for zakat and infak payment, the value of 3 indicates that a person has no intention to pay infak, even once in a year. Although paying infak is not obliged for the poor, but we believe that even the poorest of the poor will also have capability to pay infak. For example, a poor household should be able to pay infak USD 1 per annum. It is a very minimum amount. Therefore, this score is made as spiritual line.

Thirdly, as for household environment and government policy environment, the score of 3 shows separation between worldly affairs and *akbeera* affairs. There is no effort to encourage household members to execute *ibaadab* since *ibaadab* is considered as private matter. It means that it is up to the household members whether they want to perform their religious obligation or not.

We can also calculate general spiritual condition of households in one country. The formula to compute it is as below.

$$SS = \sum_{k=1}^n \frac{SH_k}{N} \quad SS = \sum_{k=1}^n \frac{SH_k}{N} \dots\dots\dots (7)$$

whereby:

- SS = Average score of actual spiritual condition of the observed households
- SH_k = Actual spiritual condition of the household *k*
- N = Total number of observed households

If the value of SS > SV, then generally speaking, spiritual condition of

population in one country is in good condition. In other words, they are spiritually rich. Similarly, if the value of $SS \leq SV$, the residents of that country are spiritually poor. Another important aspect is related on the calculation of SH_k . It is obtained from the score of all variables observed in the household. Therefore, equation (8) below provides the formula to compute SH_k .

$$SH = \sum_{h=1}^n \frac{H1+H2+\dots+Hn}{MH} \quad SH = \sum_{h=1}^n \frac{H1+H2+\dots+Hn}{MH} \dots\dots\dots(8)$$

whereby:

- SH = average score of actual spiritual condition of one household
- Hh = actual spiritual score of household member *h*
- MH = total number of household members

As for H_i , its formula is as below:

$$H_i = \frac{Vp+Vf+Vz+Vh+Vg}{5} \quad H_i = \frac{Vp+Vf+Vz+Vh+Vg}{5} \dots\dots\dots(9)$$

whereby:

- H_i = actual spiritual score of household member *i*
- V_p = prayer score
- V_f = fasting score
- V_z = score of zakat and infak
- V_h = score of household environment
- V_g = score of government policy environment

Determination of the number of households in each CIBEST quadrant is based on combination of results of MV standard and SV standard. There are four probabilities of combination between MV and SV results (vide Table 2).

Table 2. Combination of MV and SV Values

Results	≤ MV value	>MV value
>SV value	Materially Poor and Spiritually Rich Household (Quadrant II)	Materially and Spiritually Rich Household (Quadrant I)
≤ SV value	Materially and Spiritually Poor Household (Quadrant IV)	Materially Rich and Spiritually Poor Household (Quadrant III)

When the number of household in each quadrant is known, then calculation of all indices is easy to conduct. Combining all values of welfare index, material poverty index, spiritual poverty index and absolute poverty index, we will get total values of those indices to be equal to 1. This is called as the generalized CIBEST model.

$$\text{CIBEST Model} = 1 = W + P_m + P_s + P_a \dots \dots \dots (10)$$

Total summation of all indices must be equal to one. These indices could be utilized in mapping the population, in which quadrant that most of the population live. It will assist the government to design policy strategy that can be effectively executed. Let us proceed to the following sub-section in order to understand computation of these indices.

In this illustration, there are two basic assumptions which must be fulfilled. Firstly, the collected data must be primary data. Secondly, method of obtaining data must be census or sampling.

There are four stages of calculating these indices. Firstly, compute the value of MV, while that of SV is already given, i.e. 3. This MV value may be taken from official data of the observed country. In case available official data is on individual basis, we need to transform the data into household basis. For example, if USD 100 is found to be the individual poverty line and 4 person is the average size of a household, then multiplication of USD 100 and 4 person will yield household material line or MV value. Secondly, calculate the value of SH and monthly income of the observed households. Thirdly, put the observed households in the CIBEST quadrant whether they are in the first, second, third or fourth quadrant by using Table 2 as reference. Fourthly, calculate all indices by using available data.

In order to understand deeper, let us begin with an Islamic state. Assume that there exist 10 households living in the country. Regarding the MV value, let us assume that the MV standard is equal to USD 150. This MV standard may vary across countries. In our case, this assumption of MV value is needed in order to ease the calculation. As for SV, it is equal to 3. The actual condition of these 10 households is portrayed in the Table 3. They have different number of household member. Assume that we have conducted survey on them in order to find out their actual spiritual condition as well as their actual income.

Table 3. Actual Spiritual and Material Condition of the Observed Households

Household Number	Household Member	SH	Household Income/ Month	Status	CIBEST Quadrant
#1	5 members	3.8	USD 270	Spiritually and materially rich	Quadrant I
#2	7 members	2.9	USD 500	Spiritually poor and materially rich	Quadrant III

#3	3 members	2.4	USD 100	Spiritually and materially poor	Quadrant IV
#4	4 members	1.9	USD 50	Spiritually and materially poor	Quadrant IV
#5	3 members	4.2	USD 600	Spiritually and materially rich	Quadrant I
#6	3 members	4.5	USD 100	Spiritually rich and materially poor	Quadrant II
#7	3 members	3.7	USD 50	Spiritually rich and materially poor	Quadrant II
#8	6 members	2.3	USD 100	Spiritually and materially poor	Quadrant IV
#9	7 members	3.6	USD 50	Spiritually rich and materially poor	Quadrant II
#10	3 members	1.5	USD 350	Spiritually poor and materially rich	Quadrant III

Given the information provided in the Table 3, we can calculate the value of each index. Let us start with Welfare Index. Total number of observed households or N is equal to 10, while the value of w is equal to 2. By using equation (1), we will obtain:

$$W = 2/10 = 0.2$$

Interpretation of this index is that there 20 percent of the households in the country whom are spiritually and materially rich. Furthermore, the Table 3 provides information on the values of M_p , S_p , and A_p , respectively. It is known that $M_p = 3$, $S_p = 2$, and $A_p = 3$. From these data, we can calculate Material Poverty Index, Spiritual Poverty Index and Absolute Poverty Index. They are as below.

$$P_m = 3/10 = 0.3$$

$$P_s = 2/10 = 0.2$$

$$P_a = 3/10 = 0.3$$

It can be interpreted that 30 percent of the population live in material poverty, while 20 percent live under spiritual poverty. The remaining 30 percent live in the absolute poverty condition. General CIBEST model will be equal to:

$$\text{CIBEST Model} = W + P_m + P_s + P_a = 0.2 + 0.3 + 0.2 + 0.3 = 1$$

This information should be utilized by policy maker in the country. Some policy implications may arise from this illustration. In the first priority, Islamic government should focus on those living in the fourth quadrant as the primary target of development programs. These programs must be designed not only by targeting material progress but also spiritual progress. Second priority is the second quadrant, in which the households are materially poor and spiritually rich. Providing financial access and technical assistance may become the solution. Third priority is the third quadrant. Those who are in this quadrant can be requested to fulfil their religious obligation, such as paying zakat, in order to purify their spiritual condition. The ultimate objective of the government is on how to move the people living in these quadrants to the first quadrant, which is welfare area.

Conclusion

From the discussion and analysis above, some conclusions can be drawn. Firstly, poverty and welfare concepts in the Islamic perspective are not only seen from material dimension, but also spiritual dimension. However, various indicators prevailing in many parts of the world including Islamic countries seem to focus only on material progress. Lack of attention towards spiritual progress is still becoming development issue that needs to be overcome.

Secondly, attempts to construct various indicators determining level of poverty and prosperity in an Islamic countries should be encouraged since these indicators could be used as development signal whether it is success or not. Regarding this, this paper has attempted to develop four indices, namely, welfare index, material poverty index, spiritual poverty index, and absolute poverty index. These indices are based on the concept of CIBEST quadrant, which represents Islamic concept on poverty and prosperity.

Thirdly, the presence of CIBEST quadrant and CIBEST model produces policy implications, which are expected to be beneficial for Islamic government in providing direction of development. Main target of development program is on how to mobilize households to the welfare quadrant, in which households are spiritually and materially rich.

However, this study has also limitation. Unless the Muslim minority living in non-Islamic countries attempt to use this model in order to observe their actual poverty and welfare level, CIBEST model may only be applied in the Islamic countries. Future research on the possibility to implement Islamic concept of poverty and welfare level should be prioritized as an important agenda.

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THE ASSESMENT OF INCLUSIVENESS PRINCIPLE OF MALAYSIAN NEW ECONOMIC MODEL: MAQASHID SYAR'IYYAH PERSPECTIVE

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Abstract. *The Assesment of Inclusiveness Principle of Malaysian New Economic Model: Maqashid Syar'iyyah Perspective.* Objective of this article is to assess how far the principles of inclusiveness in the Economic New Model in Malaysia can fulfil the needs of maqasid syar'iyyah. The assessment is conducted through the key concepts and strategic measures of the principles of inclusiveness. This study is a qualitative which descriptive and analytical approach is used for assessing the principles of inclusiveness in the Economic New Model based on maqasid syar'iyyah perspective. The method of this study is using the literature review with references from secondary data. This study is expected to provide recommendations about the important role of maqasid syar'iyyah for maintaining the welfare of society and developing of a country, in this context for developing the Malaysian economy, in line with the vision 2020, Malaysia on par with developed countries.

Keywords: *The Inclusiveness Principle, New Economic Model, Maqashid Syar'iyyah*

Abstrak. *Penilaian Prinsip Keterangkuman dalam Model Ekonomi Baru: Perspektif Maqashid Syari'iyah.* Objektif artikel ini adalah untuk menilai sejauh mana prinsip "terangkum" dalam Model Baru Ekonomi di Malaysia dapat memenuhi kehendak maqasid syar'iyyah. Penilaian dilakukan melalui konsep utama prinsip terangkum dan langkah-langkah strategis dalam prinsip tersebut. Penelitian ini berbentuk kualitatif di mana pendekatan deskriptif dan analisis digunakan untuk menilai prinsip terangkum dalam Model Baru Ekonomi berdasarkan perspektif maqasid syar'iyyah. Metode yang digunakan berupa studi pustaka dengan membuat referensi dari data-data sekunder. Penelitian ini diharapkan dapat memberikan saran-saran mengenai pentingnya peran maqasid syar'iyyah dalam menjaga kemaslahatan masyarakat dan memajukan negara, dalam konteks ini memajukan ekonomi Malaysia, seiring dengan wawasan 2020 yang menjadikan Malaysia setara dengan negara-negara maju.

Kata Kunci: *Prinsip Keterangkuman, New Economic Model, Maqashid Syari'iyah.*

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Introduction

Open economic system which is implemented in Malaysia has many positive results for the economic development of the country. However, it is not denied that such system could also bring negative effects on the economy of the country. The increase in world commodity prices as the cost of electricity, oil and food prices have provided a direct effect on domestic prices. Likewise, Malaysia's economic performance is seen running slow due to the financial crisis that hit Asian countries in 1997-1998 (Ismail & Mat Nor, 2010).

From the point of labor for example, Malaysia is still a shortage of skilled labor and proficient in which 80% of its workforce just graduated SPM (Sijil Pelajaran Malaysia / high school) who are paid low. In addition, Malaysia is still highly dependent on foreign workers. Differences of growing income gap between the rich and the poor is also a problem for the economic development of the country. Although DEB (New Economic Policy) succeeded in reducing the poverty rate to 3.6% in 2007, but the income gap still remains a problem for Malaysia. Another important problem is the subsidy price of goods that can not be done continuously such as sugar, oil, and other items which are mostly financed by oil revenues while the oil as we know not a renewable resource that can be updated. In case of subsidies are also only enjoyed by the rich, while the subsidy goal is to help low-income groups. As well as the problem of corruption and other problems that make the economic problems of the country increasingly complex, making the purpose of Malaysia into a developed country by 2020 is rather difficult to be realized.

In addition, the strategy used by the previous government to reach a stage of development is not enough to bring Malaysia to step into a more advanced stage of development. Even the country's economic development is achieved by taking a large budget and do not exploit the potential of all levels of community. The country's economy has the potential to re-degenerate if changes are not made. Therefore, an exact formula should be formulated to build a better nation's economy, advanced and innovative in line with the 2020 insights.

To realize the objective of 2020 insight that want to make Malaysia as developed country, the government formulated the four main foundations as formula country's economic development. The four foundations have set by the Economic Advisory Council of the State (Ismail & Mat Nor, 2010): *first*, the principle that stated that people first and achievement preferably, which intends to unite all the people of Malaysias multi-ethnic; *second*, The Government Transformation Programme which will deliver performance as defined in the *National Key Result Areas*; *Third*, New Economics Models (MBE) which is born from the Economic Transformation Programme (PTE) which aims to improve the status of Malaysian economy to be

a developed country by 2020; *Fourth*, The 10 (Tenth) Malaysia program (RMK10) 2011-2015 which became a major driver of policy in the Government and economy Transformation Programme.

Without interfering with the other functions of the main foundations of New Economic Model (MBE), the third main foundation seen as the most important foundation to enhance Malaysia into a developed country in line with the objective of 2020 insight. Therefore, the principle of inclusiveness in New Economic Model (contained in the formula number three) became the focus of discussion in this paper because it is the substantial principle of the Malaysian economy to become a developed country by 2020. Assessment of the inclusiveness principles in the New Economic Model is done to see how the principle can fulfill the the objective of *maqasid syar'iyah*.

Graph 1. Four Main Foundation Malaysia National Transformation



Source: The Economic Advisory Council (MPEN)

The Principles of New Economic Model

New Economic Model (MBE) encompassed three main principles, i.g. the high-income, sustainable and inclusiveness. High-income principle aims to increase the income of the people that are specified with an annual per-capita income as USD7.558 is USD17.700 within a period of 10 years. MBE focus on aspects of human development to train workers that have skills and reduce poverty. In addition,

structured debt management system with more caution by subtracting the country's debt to low than 30% of GDP by 2020 (Ismail & Mat Nor, 2010).

The principle of inclusiveness, which became the focus of discussion in this study, is a prerequisite to foster the spirit of unity and equality. Without being given the opportunity to take advantage of economic progress, then it will lead to feelings of discontent and envy among those who feel excluded both in urban and rural areas, especially those living in inland areas in Sabah and Sarawak. This principle gives an opportunity to all the community to be dedicated, contribute, participate, and equally enjoy the wealth of the country. Despite the excellent results it is rather impossible to achieve, but the people who included will ensure this inequality problem is not going worse.

New Economic Model supports new approaches that can be formulated as inclusiveness development. Inclusiveness development is the development of pro-poor and gives attention not merely to the state but also the impact of inequality that has protracted in to economic development and poverty alleviation. Dividing society of tribal aspects is more likely lead to the conflict. The composition of the population of the multi-ethnic Malaysia is one of the characteristic advantages of this country. Development that exceeds 50 years shows clearly that economic development can not by itself erode ethnic differences. However, excessive pedestal in the distribution of natural resources based on ethnicity, further would be widening the gap and bring a feeling of resentment (Ismail & Mat Nor, 2010).

Graph 2. Objectives and Characteristics of MBE



Source: The Economic Advisory Council (MPEN)

The Mission of Inclusiveness Economic

The missions of inclusiveness principle as formulated by New Economic Model as follows (Ismail & Mat Nor, 2010): *first*, promoting economic development to expand the public opportunity to participate in economic activities. This step aims to develop the local economy. The strategy used to achieve that goal is government policies that should be pro-poor. *Second*, providing equal and fair opportunity to participate and enjoy and economic development of the country. New economic model will focus also on more widespread competition and liberalization efforts. Therefore, the concept of justice needs to be applied in carrying out the procedure of competition and liberalization. *Third*, accelerating the development of economic liberalization in order to squirm. The government recommended to conduct a thorough preparation to face the competition in the increasing current liberalization predicted. *Fourth*, Government economic policies that use the ethnic approach to enhance the economic development of certain ethnic will be changed to the “Inclusiveness development of ethnicity regardless “. New Economic Model will devote attention to low-income groups, including those below the poverty line. *Fifth*, Implementing affirmative program to attract the majority of the population out of poverty shackle and provide more opportunities for them to seize the opportunities in the economy and reduce inequality.

Sixth, Play a significant role in the region’s development. New Economic Development will devote attention to the development of the regions corridor and sub-regions through clustering (local development) especially in Sabah and Sarawak to reduce inequality between provinces and between regions. *Seventh*, Giving emphasis on the education sector. Education reform is needed to produce knowledge workers and reduce the income abyss.

Table 1. The Benefit of Inclusiveness Principle of New Economic Model

All people will include in inclusiveness because:	
1.	Live and Work in Safety Environment
2.	Equality and simplicity of Information Access
3.	Respect each others
4.	Each part of this country – wether province, city or village are important
5.	Poor people is unforgetable

Source: Economic Advisory Council

Maqashid Syari’iyyah In the Inclusiveness Context

Everything has created by God must be the will and purpose. Humans as a caliph in the earth should understand that the intent and purpose of all creation

Allah is for the benefit of the man himself. The scholars of *usul fiqh* also agree that *maslahah* is the purpose of God as the Creator of the Shari'ah. The will and purpose of God in all creation is referred to as *Maqasid Syar'iyah*. There are still many who do not understand this maqasid syar'iyah term, even among Muslims themselves. The term of *maqasid syar'iyah* also still less given emphasis by Muslim scholars, but it is very important that the intent and purpose of God's creation can be understood. For those who recognize and understand maqasid syar'iyah, certainly would not doubt that maqasid syar'iyah is the solution to all problems, even also will reveal the truth of the Allah's promise.

Maqasid syar'iyah can be used as a guide in completing all the latest issue comprehensively, wether in which touches on the political, economic, and social aspect. Therefore, maqasid syar'iyah seen as an important solution and should be understood by all Muslims. Imam Syatibi in his book *al Muwafaqat* categorized maqasid syar'iyah into three levels, *al-necessities*, *al-hajiyat*, and *al-tahsiniiyyat*.

In maqasid sharia, there are five main things that should be kept in *Maslahah*, i.g keeping the *Deen* (religion and faith), the soul, the *Nasab* (descent), the *Aql* (mind), and maintain the property. Five things must be maintained as well as possible by man as a vicegerent on earth, as it is for the benefit of the man himself. The five it can be seen in three levels *maqasid syar'iyah*, *al-necessities*, *al-hajiyat*, and *al-luxuries*. For example, in the case of keeping the religion, the *al-dharuriyyat* side is belief in Allah. Without true faith and belief, religion does not exist and probably will not develop because Allah is not pleased religion other than the religion of *Tauhid* (Islam). Therefore, *shirk* is a great sin and Allah does not forgives the Shirk. To facilitate human creed channel tauhidi to the Creator, then the ritual activities (worship) should be done as prayer and fasting. In worship, the man expected to be the stronger in faith and Tauhid.

Similarly, from the side of *al-hajiyat*, there is easiness given by Allah Almighty to His servants in certain circumstances. For example, why women are menstruating should not be praying and fasting, or why the traveler is not required to fast and may *jamak* (combined) and, orqasar (cut off) solatnya. These are all rukhsah given by Allah in the aspect of worship in certain circumstances as for the *al-tahsiniiyyat* is that all matters relating to the keeping of religion (worship), as *thaharah*, closing the genitals, and the *Shadaqah* (charity) will give a pleasure in worship to Allah. This in turn will increase the confidence and the human-ness of the Creator.

The Property In the Context of *Maqashid Syari'iyah*

Although the property is the last position in the *Maqasid syar'iyah*, does not mean the property is not important in Islam. Property must exist to maintain and

enhance the other four main points, *Deen* (religion and faith), the soul, the *Nasab* (descent), the *Aql* (mind). The absence of property will bring distress to mankind to keep four things. Nevertheless, the use of property should not be based solely lust. The use of the property must be based on Tauhid (Haron, 2011). Islamic view of property and economic activities is very clear, such as (Ismail & Mat Nor, 2010): *First*, God is the absolute owner of everything that exists on this earth, including possessions. Property owned by a man only a relative term and only to carry out the mandate to manage and use it in accordance with the provisions set forth Allah (see QS 2: 107 and 284).

Second, The property status under human belonging is: Property is Amanah (mandate) from Allah, and human is acting as a fiduciary only. Property as pleasure that allows humans to enjoy life with good and not by excessive. Humans have a strong tendency to own, control, and enjoy the property.

As life pleasure, property often causes arrogance, vanity, and pride (see QS 96: 6-7). Property as a test of faith. It is concerned about how to obtain and utilize the property, whether in accordance with the teachings of Islam or vice versa (see QS 8: 28). Property as savings of worship, to carry out his orders and execute muamalah between people, through charity, donation and charity (see QS 9: 41 & 60; QS 3: 133-134).

Third, Property ownership can be done by a'mal (business) or ma'isyah (livelihood) is lawful and in accordance with the Shari'a. Many verses of the Qur'an and the Hadith that encourage mankind to work for a living lawfully. *Fourth*, Prohibited trying, working, or looking for treasure, which can forget about death (see QS 102: 1-2), dhikrullah forget (do not remember to God with all his provisions), forgetting prayer and zakat (see QS 24: 37). *Fifth*, Prohibited gain wealth by unlawful means such as through usury (see QS 2: 273-281), gambling, buy and sell of prohibited good (see QS 5: 90-91), stealing, robbing, cheating in weight (see QS 83: 1-6) in ways of prohibited and harmful (see QS 2: 188), and bribery.

Based on the discussion that has been described previously, this article then will assess in which the principle of maqasid syar'iyah used as a guide in formulating the principles of inclusiveness in New Economic Model, as an effort to realize the hopes of Malaysia's status as a developed country by 2020.

The Assessment of Inclusiveness Principle

Assessment conducted on the main concepts in the principles of inclusiveness in the New Economic Model and also missions in these principles as previously described, then analyzed based on the concept of maqasid syar'iyah.

Opportunity to all community to access the wealth of country

All communities can enjoy a fully sovereign wealth is a key concept in principle of inclusiveness. Therefore, no one will neglect to participate and enjoy the wealth of the country. To achieve this goal, we need the concept of justice, equality and fraternity. Refer to Ismail & Mat Nor (2010) the equity categorized into the three parts, such as: social justice, economic justice, and fairly income distribution.

Islam considers humanity as a family. Therefore, all members of the family have the same degree in the presence of Allah. Allah's law does not distinguish between rich and poor, black or white, educated or bum, officials or people. Socially, the value that distinguishes one another is devotion, sincerity, ability and social life with other people.

The concept of brotherhood and equal treatment of each individual in society and under the law must be measured with economic justice. Without that balance, social life would lose its meaning. With economic justice, each individual will get accordance with their respective contributions to the community. Every individual should be free from exploitation of other individuals. Islam strictly forbids a Muslim to harm others. This prohibition is intended to protect the rights of individuals in society and to improve their welfare as the main objective of Islam is derived.

Inequality of income and wealth that exists in society, contrary to the Islamic commitment of brotherhood and socio-economic justice. Hence, Inequalities must be overcome by using a method that has been taught by Islam. Among the following ways: Eradicate Ihtikar (endeavor), hoarding goods with the intention of raising prices in the market in order to gain the manifold; Guarantee the rights and opportunities of all parties to be active in the process of economic system; Guarantee the basic needs of each member of the community can be met; Implement the mandate at-takaafu al-ijtimai economic or social security insurance can bear and support groups who can not afford.

Islam justifies a person to have more wealth in accordance with the nature and needs, as long as it still is in the foundation of Personality and fulfill its obligations to the welfare of society, both in the form of Zakah or Shadaqah (charity) infaq (donation). However, Islam encourages wealthy class to be humble and do not brag about his wealth. If the entire Islamic teaching (including the implementation of Shariah and norms of justice) is applied, wealth inequality and high income gap will not occur in the community.

Pro Poor

When viewed from the first strategic step in principle of Inclusiveness, New Economic Model focuses on the poor. This is a good step. Poor people must be

kept and maintained by the state because the impact of poverty causes damage of belief, thought, and society. Yusuf al-Qaradawi said there were five negative effects of poverty, namely: the effect on belief; the effect on the moral hazard; the effect on the human mind; the effect on household poverty; and the effect on the society (Qardhawi, 1980).

Zakat in addition, serves to purify the property owner, and also as a solution to the problem of poverty due to its function considered as social security (see QS. 59: 7; and QS. 70: 24-25). Social security intention here is the state guarantees every individual in the country where if there are indigent, sick, or elderly, then the state will guarantee it through zakat or charity.

Zakat can be a solution to poverty because it is sustainable and enduring of all time so that the appearance of the final day. Zakat is not familiar with the term of cancellations and changes. Thus, charity is a gift that has the privilege because of financial resources in the Islamic financial system (Ibrahim, 1998). This is not mentioned in the principles on inclusiveness in New Economic Model, even though very clearly mentioned in the Qur'an that the charity was distributed to eight asnaf, and four of them are directly related to poverty, that is indigent, poor, people who owe and Ibn sabil (see QS 9: 60). This proves that the charity could be the solution to today poverty happen.

Another solution is to eradicate, or at least reduce the symptoms of poverty through charity and donation, endowment, and probate. All of these have been mentioned and described in the Qur'an and Sunnah.

Alms and charity donation is kindness, "People who give alms as people who plant the seed of goodness". In the afterlife, people who give alms will surely taste the fruits or results of charity in the world (Muhyidin, 2009), and those who give alms will never lose, because Allah has promised bountifully rewarded to those who give alms (see QS 57: 18).

Also, waqf and wasiyyah that is set in Islam is seen able to solve all economic problems, in this case poverty (Ismail and Mat Nor, 2005). Therefore, it was concluded here that charity, donation, charity, endowments and wills should be given serious attention to enhance the concept in principle of inclusiveness in New Economic Model, particularly in the context of addressing poverty in Malaysia.

Fastering liberalisasi for development

In the third strategic step, it is recommended that the Malaysian government did good preparation to face the competition in the current liberalization as predicted increase. Here New Economic Model suggests merely that the government getting ready to face the current liberalization. However, the steps to be taken for the

preparation are not described.

Based on the discussion above, basically there are many preparatory steps that can be taken, especially internal preparatory measures, but on the basis of simplification purposes, this article discusses only a few steps, such: *First*, Eradicating Corruption. The principle is Inclusiveness in New Economic Model need to consider the corruption eradication in its concept. This problem must be considered and given serious intention. Agencies that have authority such as SPR (Suruhanjaya Pencegah Rasuah) should be more pro-active in preventing the potential for corruption. Cooperation with various parties, especially those in the economy should be tightening. Moreover, in terms of capturing the perpetrators of corruption should not be indiscriminately. It is seen very important because of the implications of corruption not only be the root causes of poverty and the income gap, but also can damage the morale and morality of each nation.

Therefore, it is not surprising if Rasulullah cursed this corrupt behavior as mentioned in a "*From Tsauban, he said that the Prophet cursed the one who gives the bribes, receiving bribes, and intermediaries, ie the linking between the two*" (HR Ahmad Ibn Hanbal).

Second, Modesty in life and budget. Allah has said:

"[He said], "Joseph, O man of truth, explain to us about seven fat cows eaten by seven [that were] lean, and seven green spikes [of grain] and others [that were] dry - that I may return to the people; perhaps they will know [about you]. [Joseph] said, "You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat. Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes]" (QS 12: 46-48).

The above verse tells of a kingdom or a man to always remember and downsize and make preparations to face disasters (economic crisis) that does not happens "riot" in the final moments or when the economy crashed. Indirectly, this verse tells us that the state should be thriftier that government budget that does not bring benefits should be avoided. Humans should be simple in spending his money. In a more macro scope, the Malaysian government should also apply the concept of frugality-careful in national budget.

Third, encourage to borrow money (for those who need) to Islamic financial institutions. The presence of poor and low-income groups in the midst of society causes them to borrow money from a lender which justifies usury to meet their ends or to pay off debt. It has been described previously that one of the solutions to overcome this problem (poverty) is to give alms to the beneficiary, donation and charity, waqf and wasiyyah. But surprisingly many of the upper and middle-income group who participates to borrows the money from that usury lender. The reason

is much easier and faster than conventional loans from banks, though not a few of them are aware of the consequences if they fail in returning the loan and interest.

As well known, that a lender from conventional financial institutions implements a usury system. Riba is in addition to the specific goods (usury) and additionally as a debt due to the addition of time (Rahman, 2009). In Islam, Interest or Riba is prohibited (see, QS 2: 275-276 & QS 30: 39). Essentially, borrow money along with interest is not helping the borrower out of financial problems at hand. But it adds to the difficulty and will never go out of the problem.

Therefore, the solution to this problem is to eradicate the lender that justifies usury. Avoid borrowing money (especially Muslims) to conventional banks, and vice versa, preferring to borrow money from financial institutions based on Islam in addition to ease the terms of the loan and quick process. Here the more active role of the government is expected to create a society free of riba (usury activity or at least minimize).

Fourth, inclusiveness development of regardless ethnic. The achievement of the New Economic Policy-based ethnic concept admits a positive impact in minimizing the gap between ethnic groups from an economic standpoint. However, there is no denying that there are still problems in terms of implementation. For example, the rising cost of doing business due to the expensive rents, the power of patronage (patronage) and the process is not transparent government revenue as a problem of corruption, collusion and nepotism among the ruling. By that, the principles embodied formulate a formula to minimize this problem. Formula was known as “inclusive development of independent ethnic” as mentioned in the fourth strategic step.

However, the inclusiveness development of free ethnic somewhat seen difficult to be realized because the Malaysian people consists of multi-ethnics. It is hard to deny that any definite ethnic faction fighting for its own interests, in terms of economics, politics, education and others. If connected with politic, most vision-mission of the existing political parties in Malaysia would be more fighting for their ethnic interests respectively. Therefore, the need to be explored is not free ethnic inclusiveness development, but development based on fraternity (*Ukhuwah*). If this sense of *ukhuwah* is grown, the economic development of the country is believed to be more powerful, stable, and forward because in *ukhuwah* there is a sense of mutual respect, affection, and belonging as well as glorify between one another. In *ukhuwah* also no differences in background, either he or the leader of the people, high educated or low, rich or poor, Malay ethnic or non-Malays and others. In Islam, a person is judged only by the level of *Taqwa* (piety) to God.

Conclusion

Objective of the discussion in this article is to assess the extent to which the principles summarized in the MBE can fulfill the will maqasid syar'iyah. Assessment is done through the main concepts and principles encapsulated in the strategic steps that principle. This article is expected to generate suggestions for government policy regarding the importance of the role of maqasid syar'iyah in keeping the needs and welfare of the community and to promote a country, in this context, improving the economy of Malaysia, along with insights that make Malaysia 2020 on par with developed countries. To achieve that, the government must accommodate the elements maqasid syar'iyah in taking related economic policies and development of the country.

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THE IMPACT OF SPIN-OFF POLICY TO THE PROFITABILITY ON INDONESIAN ISLAMIC BANKING INDUSTRY

Abdul Hamid¹

Abstract. *The Impact of Spin-off Policy to The Profitability on Indonesian Islamic Banking Industry.* The purpose of this paper is to analyze that the spin-off policy that based on Islamic Banking Act No. 21/2008 had an impact on the profitability ratio of Islamic banking industry in Indonesia. This research used ordinary least square regression. The variable used in this paper is spin-off which is used as a dummy variable, and also included the internal factor of industry such as deposit margin, non-performing financing (NPF), and efficiency ratio (measured by BOPO). The result showed that dummy variable of spin-off, NPF and BOPO had an impact on the profitability in Indonesian Islamic banking industry. The implication of this result is spin-off policy had a good impact on the profitability in Indonesian Islamic banking industry. According to this result, Bank Indonesia should stimulate the Islamic banking unit to spin-off from their parents conventional banks.

Keywords: *Spin-off, Profitability, Islamic Banking, Regression*

Abstrak. *Dampak Kebijakan Pemisahan Terhadap Profitabilitas di Industri Perbankan Syariah.* Tujuan tulisan ini ialah untuk menganalisis apakah kebijakan pemisahan yang didasarkan pada undang-undang no. 21 tahun 2008 memiliki dampak terhadap tingkat profitabilitas pada industri perbankan syariah di Indonesia. Penelitian ini menggunakan regresi kuadrat sederhana untuk menganalisis dampak kebijakan pemisahan ini. Variabel yang dipergunakan ialah variabel dummy pemisahan, serta dimasukkan beberapa faktor internal seperti marjin deposito, tingkat pembiayaan bermasalah, dan rasio efisiensi (diukur dengan BOPO). Hasil yang didapat menunjukkan bahwa variabel dummy pemisahan, NPF dan BOPO memiliki pengaruh terhadap tingkat profitabilitas pada industri perbankan syariah di Indonesia. Berdasarkan hasil ini, Bank Indonesia sebaiknya menstimulasi unit usaha syariah untuk memisahkan diri dari bank induk konvensional.

Kata kunci: *Pemisahan, Profitabilitas, Bank Syariah, Regresi*

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Introduction

The concept of Islamic banking and finance, which was originally just a theoretical discussion, has now become a reality that grows and develops as a fact. In fact, the current Islamic banking industry has transformed from simply an alternative bank with a bank sharia system that is able to play its role in the world economic arena. Islamic banking and financial institutions continue to experience a significant growth. According to the annual report of the Islamic Development Bank (IDB) in 2009, the Islamic financial institution was expected to grow more than 15% per year, with a number of Islamic financial institutions is more than 300 spread over 75 countries with an estimated total assets of 500 billion dollars, or around 4,600 trillion rupiah. In other words, the market has now reached only about 10%. From this IDB report, we can conclude that the industry is still promising a remarkable development in the future. Table 1 shows the development of Islamic banking network in Indonesia.

Table 1. Islamic banking network

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Islamic banking									
Islamic commercial bank	3	3	5	6	11	11	11	11	11
Islamic business unit	20	26	27	25	23	23	24	23	23
Islamic rural bank	105	114	131	138	150	154	158	163	163
Number of Offices									
Islamic commercial bank	349	401	581	711	1.215	1.349	1.745	1998	2139
Islamic business unit	183	196	241	287	262	300	517	590	425
Islamic rural bank	105	185	202	225	286	362	401	402	429

Source: Islamic banking statistics, Bank of Indonesia

Islamic banking has grown rapidly in Indonesia. This is shown by the development of third-party funds, financing and distribution of assets in the Islamic banking industry from the years before the regulations regarding the spin-off and after the rule of the spin-off. Seen that from year to year, that an increase in either of assets, third-party funds, and the distribution of financing in Islamic banks.

Table 2. The Growth of Third Party Fund, Financing and Asset (Billion rupiah)

	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Fundraising	20.672	28.011	36.852	52.271	76.036	115.415	147.512	174.018	186.608
Financing	20.444	27.944	38.194	46.886	68.181	102.655	147.505	179.284	187.886
Asset	26.722	36.537	49.555	66.090	97.519	145.467	195.018	229.557	244.197

Source: Islamic banking statistics, Bank of Indonesia

On July 16, 2008, has passed Law No. 21 of 2008 concerning Islamic Banking. With the passing of this law provides the legal basis and the national Islamic banking industry is expected to encourage the development of Islamic banking industry for the better. One of the crucial issues in this legislation that can accelerate the development of Islamic banking in Indonesia is related to the separation (spin-off) Islamic business units both voluntary and mandatory if the asset of Islamic banking unit has reached 50% of the parent bank's assets or after 15 years since the Law No. 21 of 2008 had been applied.

According Tübke (2004) there are several factors that affect the separation process (spin-off). First, the factors associated with the business activity, the first factor is related to the size of the company and the business sector differences between the parent company to its subsidiaries. If the first factor is associated with the Islamic business unit can be positioned as a conventional bank subsidiaries and parent company. Second, the factors associated with the organization and management of the company. Third, factors associated with relationships and support. There are three patterns of relationships that may be created between the parent company with subsidiaries which perform the separation, namely the relationship market (market-Relatedness), the relationship of the product (product Relatedness), and the relationship of technology (technology-Relatedness). Fourth, transfer factor or transfer such transfer of experience from the parent company to its subsidiaries. Fifth, factors associated with motivation. Sixth, the factors associated with the business environment in the form of the characteristics of the regional business environment and legal framework

In the year of 2010 – 2011, many of Islamic banking Unit (UUS) decided the spin-off (separate themselves from the Parent Bank) to establish Islamic Banks (BUS), with a reason to promote Islamic banking and more independent management. From 11 Islamic Banks (BUS), who was born purely through the spin-off Islamic banking unit are BJB Syariah and BNI Syariah, while others have appeared Islamic banks through acquisitions, such as the Bank of Syariah Mandiri derived from the acquisition of Bank of Susila Bakti, Bank Mega Syariah of acquisition of Tugu Bank, and BCA Syariah through Bank of Jasa Artha. Moreover, the spin-off through the acquisition then subsequently converted, such as Bank of Syariah Bukopin. BRI Syariah through Bank of UIB, Victoria Bank through Swaguna Bank, Maybank Syariah through Maybank Indocorp. Separation initially considered beautiful, it was not as easy to do, there were Islamic banks that successful in the spin off, but there were also Islamic banks experience some setbacks in spin-offs when becoming Full-pledge Islamic banks.

Spin-off policies that have been implemented in 2008, are still not able

to reach the target market share of 5% of the national banking assets as well as the phenomenon of Islamic Banks spinoff spin-offs are still not strong visible management of indicators financial performance displayed. Accordingly, this study sought to determine the impact of policy separation (spin-off) of Islamic banking Unit (UUS) into Islamic Banks (BUS) to third party funds in the Indonesian Islamic banking industry.

Literature Review

Until now there has not been a lot of theories or research found associated with the spin-off in Islamic banks. This is due to the spin-off of the new Islamic banks only first practiced in Indonesia. Therefore, theories or models of the spin-off will be done with the model of spin-offs are applied to industry in general.

Nasuha (2012) done the research about the performance difference on Islamic banking unit that decided to spin-off, such as BNI Shariah, BRI Shariah, BJB Shariah, BSB and Victoria Shariah. The research is done by Wilcoxon Match Pairs test that saw the performance between before and after the spin-off decision on Islamic banking units. The variables of Islamic banks performance are asset, financing, third party funds, net earnings, CAR, NPF, FDR, ROA and ROE. The result shown that only asset, financing and third party funds that shown a difference between before and after spin-off policies on that five banks. Otherwise for other variables such as CAR, FDR, ROA and ROE shown that there were no difference on CAR, FDR, ROA and ROE in Islamic banks. This result might be due to the spin-off is new practiced in the Islamic banking industry, so the testing period was short on this research.

Al Arif (2014) conducted a study about the impact of spin-off policy on the growth of Islamic banking industry, which one the growth indicator is asset growth. This research uses the data on Islamic banking statistics from Bank of Indonesia and Financial Service Authority. The result shows that all the independent variables such as spin-off dummy variable, one-month time deposit, operational efficiency ratio (BOPO), and profitability ratio (ROA) had an impact on the asset growth on Islamic banking industry in Indonesia.

According Elfring and Foss (1997) there are two types of spin-off, namely: *first*, in terms of its parent company, in which the parent company for some reason is not able or not able to exploit the opportunities that come by. The *second* type is related to organizational units as an individual, in this second type is the type most widely performed, in which the subsidiary is not the same as its parent company. This second type contained in the spin-off of the Islamic banking units in conventional banks in Indonesia.

Beeson and Hyden (2002) stated that if a lot of company done the spin-off to increase the competitiveness of the company and create the value for the shareholders by focused on it primary business. Christo and Falk (2006) showed that the key factor of spin-off is the focused of the industry. From these result and we related to this research, we can stated that the spin-off decision that had been done by several Islamic banking unit can give a value for the parents company and also for the shareholders. Because the parents company can focused on his primary business, and the subsidiary company can focused to develop.

Chemmanur and Yan (2004) develops a new rationale for corporate spin-offs, and for the performance and value improvements following them. The firm has two divisions, and current management has differing abilities for managing these two divisions. Spin-offs can enhance firm management. In addition, on their analysis demonstrates that in addition to positive abnormal stock-price return on the announcement day, spin-offs also lead to positive long-term abnormal stock returns (on average) for parent spin-offs combination reporting subsequent takeover activity.

Methods

To achieve the goal of this research analyzing the influence of spin-off policy on the profitability ratio of Indonesian Islamic banking, regression analysis is used. The mathematical equation proposed in this research is:

$$Y_t = \beta_0 + \beta_1 D_t + \beta_2 X_{1t} + \beta_3 X_{2t} + \beta_4 X_{3t} + \varepsilon$$

where:

Y_t = ROA;

D_t =Dummy variable for spin-off

Which is: 0 before spin-off, 1 after spin-off;

X_{1t} = Non-performing financing (NPF);

X_{2t} = One-month deposit margin;

X_{3t} = BOPO

After processing the regression analysis, to see whether the model is good or bad, we have to know the goodness of fit of the model. To see the goodness of fit of the model, we have to look at the t -statistics, F -statistics, the coefficient of determination (R^2), as well as to cover classical assumption test heteroscedasticity, autocorrelation, and multicollinearity.

Decision to accept or reject H_0 was made on the basis of the value of the test statistic obtained from the existing data. Under the normality assumption followed the statistical distribution of variable t with degrees of freedom $N-k$. A statistic is said

to be statistically significant if the value of the test statistic is in the critical region. The aim of statistical t test is to see how big the effect of independent variables on the dependent variable individually.

Testing the null hypothesis is with F -statistics is necessary to test if $\beta_k = 0$. The calculation of F -statistics performed by comparing the critical value F obtained from F distribution table at a certain significance level. If the null hypothesis is rejected, it means that the independent variables affect the dependent variable. In this case, the empirical treatment aims to look at the effect of independent variables on the dependent variable.

The coefficient of determination or R^2 is a measure of goodness of fit which explained whether the linear regression is in line with observational data. Kennedy (2008) said the coefficient of determination, R^2 , to represent the proportion of the variation in the dependent variable explained by variation in the independent variables. If $R^2=1$, it means perfect relationship between independent variable and dependent variable, otherwise $R^2=0$ means no relationship between independent variable and dependent variable.

Discussion

According to data processing based on Islamic banking statistics, we get the equation from this model as follows:

$$\text{ROA} = 4.56672 + 1.44873 \text{ D_spinoff} - 0.0547 \text{ NPF} + 0.0021 \text{ Margin} - \\ \text{SE} \quad \begin{matrix} 0.0511 \text{ BOPO} \\ (0.5575) \end{matrix} \quad \begin{matrix} (0.2434) \\ (0.0082) \end{matrix} \quad \begin{matrix} (0.0424) \\ (0.0045) \end{matrix}$$

Where:

$$R^2 = 0.81982;$$

$$\text{Adj.}R^2 = 0.80647;$$

$$F\text{-statistic} = 61.4237.$$

From the results obtained above, it is seen that the coefficient of the constant value is 4.56672, meaning that when all other variables are assumed to be zero; the profitability ratio will still increase every month. Then for the spin-off dummy coefficient, which is zero if the period time before the enforcement of spin-off policy and 1 if the period time after the enforcement of spin-off policy, has a positive sign. It means that there is a positive relationship between the spin-off policy and the increasing of Islamic banking profit. The value of t-test shown a significant result implied that there is an effect between spin-off policies based on Law of 21/2008 about Islamic banking to the profit of Islamic banking industry in Indonesia.

The first control variable is the ratio of NPF in Islamic banks which shown that t-test value is higher than the t-table value; it means that there is a relationship between NPF and profitability ratio that held by Islamic banks. These results indicate that the health of banks into one of the determinants of Islamic banking profits. From these result showed that the increasing of NPF in Islamic banks will decrease the profit in Islamic banks.

The second control variable is margin of one-month time deposit which shown that t-test value is lower than the t-table value; it means that there is no relationship between one-month time deposit margin and profitability ratio on Islamic banks. The third control variable is efficiency ratio that measured by BOPO. The result showed that there was a relationship between the BOPO ratio and profitability ratio on Islamic banks. These results indicate that the higher level of BOPO in Islamic banks, the profit will decrease. The higher level of BOPO means that the Islamic banks more inefficient, because the operational cost was higher rather than the operational income. This result relevant with the fact, that if Islamic banking is less efficient it will make the profit of that Islamic banks will be decrease.

To see how much this model is influenced by the existing variable, we can use the coefficient of determination. The value of $Adj.R^2$ is 0.80647, explained that the proportion of the variation in the dependent variable explained by variation in the independent variables was 80.65 percent; the rest is explained by other variables outside of the existing models. Next, to see the simultaneous effect of all independent variables to dependent variable used the *F-statistics* test. Based on the empirical result shown the *F-test* value is 61.4237, it means that the existing variables have an influence on the profitability ratio contained in Islamic banking.

From this result we can conclude that spin-off policies that applied to Islamic banking industry in Indonesia had a good effect to increase the profit. This result give a some result that different by the research had done by Nasuha (2013). Nasuha done the research about the performance difference on Islamic banking unit that decided to spin-off, such as BNI Shariah, BRI Shariah, BJB Shariah, BSB and Victoria Shariah. The research is done by Wilcoxon Match Pairs test that saw the performance between before and after the spin-off decision on Islamic banking units. The variables of Islamic banks performance are asset, financing, third party funds, net earnings, CAR, NPF, FDR, ROA and ROE. The result shown that only asset, financing and third party funds that shown a difference between before and after spin-off policies on that five banks. Otherwise for other variables such as CAR, FDR, ROA and ROE shown that there were no difference on CAR, FDR, ROA and ROE in Islamic banks. This result might be due to the spin-off is new practiced in the Islamic banking industry, so the testing period was short on this research.

Beeson and Hyden (2002) stated that if a lot of company done the spin-off to increase the competitiveness of the company and create the value for the shareholders by focused on it primary business. Christo and Falk (2006) showed that the key factor of spin-off is the focused of the industry. From these result and we related to this research, we can stated that the spin-off decision that had been done by several Islamic banking unit can give a value for the parents company and also for the shareholders. Because the parents company can focused on his primary business, and the subsidiary company can focused to develop.

Veld and Veld Merkoulova (2002) doing the research in 156 spin-off in Europe since 1987 until September 2000, the result showed that there is an increasing of abnormal earning is about 3.57% for company that focused on its core business, and only 0.76% for company that not focused on its core business. Herzeca (1996) stated that spin-off has been successfully used to facilitate the achievement of our strategic objectives with as allow it to focus on its core business. Herzeca further argued that the spin-off has been able to effectively separate the business capital of the businesses that have high growth. In addition to the spin-off can eliminate the conflicts that exist in two different businesses.

Agarwal et.al (2004) suggested that the separation is often formed to capitalize on the knowledge that is created by their parent company but not exploited. This explains why the company better, may create more knowledge, but it may have a higher level of separation. This model explains the reason for separation as to develop knowledge of the less exploited by its parent company. This model shows how the separation (spin-off) provides a mechanism to compensate for ability limitation of companies to evaluate new ideas.

From the results obtained, then associated with several previous studies showed that the spin-off policy has a good influence on the development of the industry. This is similar to the case of the spin-off policy in the Islamic banking industry in Indonesia, where the spin-off policy proved to increase the growth of third party funds in the Islamic banking industry.

Conclusion

Spin-off policy as contained in the Law 21 in 2008 is one of the breakthroughs that aims to accelerate the growth of Islamic banking in Indonesia. The model proposed in this study uses regression with a dummy variable, as well as control variables in the form of internal factors such as the NPF, margin, and BOPO. The results showed that the dummy variable of spin-off, NPF and BOPO give a significant influence on the profitability ratio (measured by ROA) of Indonesian Islamic banking industry. But, the deposit margin doesn't have an influence on

profitability ratio. So, we can conclude that the spin-off policy have a significant influence on profitability ratio on Indonesian Islamic banking industry.

The empirical result obtained on this study indicate that the spin-off policy that pursued by the central bank is right. Although there are still some policies are still needed by the Islamic banking industry to grown up rapidly than the growth of conventional banks. The results of this study also helped to support the studies of spin-offs that show a positive influence on the development of the company.

The model in this study still needs to be improved, because the data used in this study used data Indonesian Islamic banking industry in general. Therefore it is recommended for future research may use data derived from each Islamic banking unit who have decided spin-off into Islamic banks. It is intended that the analysis obtained more sharp and accurate in giving an overview of the effect of the spin-off policy towards the Islamic banking.

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MEASUREMENT OF SHARIAH STOCK PERFORMANCE USING RISK ADJUSTED PERFORMANCE

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Abstrak. Measurement of Shariah Stock Performance Using Risk Adjusted Performance. *The aim of this research is to analyze the shariah stock performance using risk adjusted performance method. There are three parameters to measure the stock performance i.e. Sharpe, Treynor, and Jensen. This performance's measurements calculate the return and risk factor from shariah stocks. The data that used on this research is using the data of stocks at Jakarta Islamic Index. Sampling method that used on this paper is purposive sampling. This research is using ten companies as a sample. The result shows that from three parameters, the stock that have a best performance are AALI, ANTM, ASII, CPIN, INDE, KLBF, LSIP, and UNTR.*

Keywords: Risk Adjusted Performance, Stock Performance, Shariah Stock

Abstrak. Pengukuran Kinerja Saham Syariah Menggunakan Risk Adjusted Performance. *Tulisan ini bertujuan memberikan gambaran mengenai kinerja saham-saham syariah di Indonesia dengan menggunakan metode Risk Adjusted Performance. Terdapat tiga parameter yang digunakan untuk mengukur kinerja saham yaitu: Sharpe, Treynor, dan Jensen. Metode pengukuran kinerja ini memperhitungkan faktor tingkat pengembalian (return) dan tingkat resiko dari saham-saham syariah. Data yang digunakan yaitu saham-saham yang terdaftar di Jakarta Islamic Index periode Januari 2008 – Desember 2012. Penarikan sampel dilakukan dengan metode purposive sampling dari populasi sehingga diperoleh sampel sebanyak 10 perusahaan. Berdasarkan ketiga parameter tersebut diperoleh saham dengan peringkat kinerja terbaik yaitu AALI, ANTM, ASII, CPIN, INDE, KLBF, LSIP, dan UNTR.*

Kata Kunci: Risk Adjusted Performance, Kinerja Saham, Saham Syariah

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Introduction

Islam is a way of life that is balanced and integrated, designed to deliver human happiness through enforcement of harmony between the needs of human moral and material, and the actualization of socio-economic justice and brotherhood in society. The call for justice-oriented welfare and the balance is repeated five times each day. The Muslims have embarked welcomed this call and there is a revival in the Islamic world. This revival is also reflected in the intellectual field (Chapra, 1996). The Islamic economic system teaches us to balance the life of the world and the hereafter. Islam also teaches that we balance between personal interests, other people, society, and the universe. Islam forbids speculation (gharar), uncertainty (juhala), riba (interest), and all forms of cheating, fraud and various actions that harm others. As an alternative to economic muamalah, Islam teaches the concept of sharing (Nafik, 2009).

One model of economic development in the era of globalization is the development of capital markets in the country. Capital markets as an alternative funding for the development of the business world has a strategic role in the implementation of national development and also serves as one of the investment advice to investors who have excess funds. The investor is investing excess funds at their disposal, parties who have excess funds in anticipation of receiving compensation from the fund allocation.

One of the Islamic financial instruments that are growing is the Islamic financial market. The development of Islamic financial market is very rapidly in the world, both money markets and capital markets, especially in countries where the majority Muslim population. It is characterized by the establishment of the Islamic Financial Market in Kuala Lumpur which was pioneered by Islamic countries (Hamid, 2009). In the capital market-based Indonesian Islam is Jakarta Islamic Index, which was launched in cooperation with PT. Jakarta Stock Exchange (JSX) in cooperation with PT. Danareksa Investment Management (DIM) which took place in 2000. The stock exchange based on Islamic values also exist in countries that apply the ideology of capitalism in the economic development of the world, namely on Wall Street, the Dow Jones. Wall Street, the Dow Jones in 1999 precisely in February has launched Dow Jones Islamic Market Index (DJIMI) which is welcomed by many parties that were hit by the crisis of confidence in the capital markets of conventional (Mohammed, 2007).

The existence of capital markets helped build the national economy. Capital market became one of the most important factors, have proven many industries and companies that use this capital market institutions as a medium to absorb investment

and media to strengthen its financial position. Moreover, not many people are aware that the Sharia-compliant investment not only in the banking and insurance sector but also present in the Islamic capital market. The development of Islamic stocks will continue to rise in line with market demand. This suggests that the growth of the Islamic capital market that is prospective in the next year based on some of the advantages that can be obtained by issuers and investors. Issuers are included in the list of Islamic securities have a much broader market because they can sell the securities, both to Islamic institutions and non-islamic institution.

There are two factors that can affect stock investment. First, through the fundamental factors such as performance and the company's internal conditions that tends to be controlled. Second, technical factors that reflected the conditions of macro-economic indicators such as inflation, interest rates of SBI, the money supply, exchange rate against the USD, the Gross Domestic Product (GDP), balance of payments such as exports and imports, foreign exchange reserves, stock index in the world market, security and political conditions, and etc.

Both of these factors can be used as a basis for investors to predict returns, risk or uncertainty, the amount, timing, and other factors associated with an investment in the capital market activities. Investment in the capital market is basically aimed at obtaining returns, but investors should consider the risks that must be endured. To overcome and minimize risk, investors need to diversify by creating a portfolio. In the formation of a portfolio, an investor needs to evaluate the performance of the portfolio. In investing, the investor would consider the best possible company to which capital will be invested. The selected firm course healthy company and produce a good performance. Market participants, especially investors should conduct performance measurements to decide on stock shares which it will invest. This indicates that in addition to the aspect of sharia, also should pay attention to the aspect of prudence.

This paper evaluates the performance of stocks in Jakarta Islamic Index began the period January 2008 to December 2012, namely, stock-listed since the launch of the index in 2000. Selection of the study period in 2008, because in that year the global financial crisis in the world, then in later years that the year 2009-2012 as the period of recovery from the global crisis, as well as the development of the sharia stock performance in Indonesia until now. The variables used are stock performance. Risk is calculated with the beta, the rate of return calculated by the expected return. To calculate the performance of the stock used method of Risk Adjustment Performance.

Literature Review

In concept, the investment is allocated activities or resources investment at this time, in the hope of benefit in the future (Noor, 2009). Therefore, understanding the investment can be formulated as a sacrifice of current consumption opportunities, to get a benefit in the future. With the postponement of consumption currently used for the investment is expected to benefit in the future. In Islam, investment activities can be categorized as economic activities including muamalah activity i.e. an activity that regulates the relationship between humans (Sutedi, 2011).

Capital market is a means to reconcile a party that has excess funds to the cash-strapped, which traded funds are a long-term funds (Manan, 2009). Trading in the stock market occur, both in the primary market and the secondary market. The primary market is the first sale of securities to the public (Fakhrudin, 2008). Through the primary market, or better known as the IPO (Initial Public Offering) the company issuing the securities actually receive the funds. The next trade occurs in the secondary market. The useful of secondary market for securities owners to sell securities, either for reasons to obtain liquidity or to gain or increase in the price of these securities (Darmawi, 2006). Islamic capital market is a market where the activities carried out in accordance with Islamic principles. Islamic capital market presents affirmation of religious law in capital market transactions in which the free market of activities that are prohibited and of elements such as usury, gambling, and gharar (Huda, 2009).

There are several requirements that must be met to be an efficient market, all the terms of the efficient market is in accordance with the Quran and the Hadith is as follows (Hamid, 2009). *First*, the stock price should be free to go down or up. *Second*, there is no monopoly in the market. *Third*, there should be a requirement that requires companies disclose information about themselves. *Fourth*, Cost to get information is to a minimum, and that information must be received by the investor at the same time. *Fifth*, the information is randomized and independently. *Sixth*, the investor can take a quick action for the new information.

As already explained, the efficient market must meet these requirements, otherwise it may be said that the market is not in accordance with the Islamic concept. There are fundamental differences between the conventional capital markets with the Islamic capital market. Islamic capital market does not know the sort of short selling activity -Buy trading or selling in a very short time to get the advantage of the difference between the selling and buying. Sharia shareholder is a shareholder for a relatively long period. Such a pattern of share ownership has a positive impact. The company will surely get shareholders that are more attentive and have a sense of belonging; this would be an effective control. The Company and

shareholders are partners who respect each other and remind that the two sides will meet communication in order to achieve the good of both parties. Characteristics of Islamic stock ownership only priority achievement gains or losses will be shared will be shared (profit and loss sharing), will not create sharp fluctuations in trading activities and speculative (Manan, 2009).

Stocks that entered into sharia index is the issuer whose business is not contrary to the shariah, such as gambling businesses, businesses conventional financial institutions, businesses that produce, distribute, and trade food and drink that are unlawful and destructive nature of moral and disadvantages. In stock selection process that goes Jakarta Islamic Index, Indonesia Stock Exchange do stages election also consider aspects of liquidity and financial condition of the issuer, ie selecting a collection shares with the main type of business already recorded more than 3 months, pick stocks based on the annual financial statements or the middle of the year ended which has a maximum ratio of liabilities to assets by 90%, choose 60 shares of stock composition above is based on an average order of the largest market capitalization over the past year, and chose the 30 stocks with the order based on the average level of liquidity regular trading value during one last year (Sutedi, 2011).

Jakarta Islamic Index is an index developed by the JSE in cooperation with Danareksa Investment Management to respond to the needs of information relating to Islamic investment. Jakarta Islamic Index filtered the listing of shares. The reference in the filtration is Islamic fatwa issued by the National Islamic Council (DSN). With this fatwa Jakarta Stock Exchange listed companies sort out its business units in accordance with sharia (Hamid, 2009).

The fundamental difference between the conventional index with the index of Islam is conventional indices include all stocks listed on the exchange by ignoring aspects of halal haram, which is important stocks listed issuer (listing) is in conformity with the applicable rules (legal) (Sutedi, 2011). As a result, it is not a problem if there are issuers who sell their shares on the stock moves in the business sector are contrary to Islamic principles.

Methods

This paper uses a quantitative approach with secondary data analysis methods. The analysis used in assessing the performance of stocks of sharia is the approach of Risk Adjusted Performance. The object of this research is to study the stocks listed in the Jakarta Islamic Index in the period 2008 to 2012. In this study the object of study is the Islamic stock performance. The Islamic stocks as measured its performance is consistently listed shares in Jakarta Islamic Index. The selection of stocks consistently listed in the Jakarta Islamic Index once every 6 months because

the stocks listed in the Jakarta Islamic Index is evaluated whether it was feasible with the assessment and specific criteria.

Sampling technique in this study using purposive sampling, the sample selection based on certain criteria. The criteria that must be met, namely in this study that became the object of study is the Islamic stock performance. The Islamic stocks as measured its performance is consistently listed shares in Jakarta Islamic Index. The selection of stocks consistently listed in the Jakarta Islamic Index once every 6 months because the stocks listed in the Jakarta Islamic Index is evaluated whether it was feasible with the assessment and specific criteria. Stocks that are consistently listed in the Jakarta Islamic Index during the period 2008-2012 can be seen in Table 1. The data used in this paper is secondary data which data are: the shariah stock price, market price of Jakarta Islamic Index, Bank Indonesia Certificates Sharia as the risk free rate. As well, several other publications relating to the shares listed on the Jakarta Islamic Index as an object of study.

Table 1. Stocks that consistent listed in Jakarta Islamic Index, year 2008-2012

No.	Code	Name
1.	AALI	Astra Agro Lestari Tbk
2.	ANTM	Aneka Tambang (Persero) Tbk
3.	ASII	Astra Internasional Tbk
4.	CPIN	Charoen Pokphand Indonesia Tbk
5.	INDF	Indofood Sukses Makmur Tbk
6.	KLBF	Kalbe Farma Tbk
7.	LSIP	PP London Sumatera Tbk
8.	SMGR	Semen Gresik (Persero) Tbk
9.	TLKM	Telekomunikasi Indonesia Tbk
10.	UNTR	United Tractors Tbk

Source: Indonesian Stock Exchange, 2013

In this paper, the method used to measure the performance of the stock is to use the Risk Adjustment Performance measurement method. The process is as follows: first, develop and establish a sharia stocks included in the Jakarta Islamic Index during the period January 2008 - December 2012. Second, Determination of the study sample with the criteria is consistent stock included in the calculation of the Jakarta Islamic Index during the study period. Third, collect the individual stock's price data during the study period. Fourth, collect the data of Bank Indonesia's certificate as a monthly risk free asset. Fifth, calculate the monthly stock's return. Sixth, calculate the deviation standard and stock's beta. Seventh, measure the sharia stock's performance using risk adjusted performance.

Once these stages carried out, then compare the performance of the shares of sharia with Risk Adjusted Performance of the method which has the best performance to be able to invest. The calculation is performed by calculating the standard deviation, beta stocks using stock price data and SBIS. Stock performance analysis is using Risk Adjusted Performance with three parameters, namely the method of Sharpe, Treynor, and Jensen.

Treynor's models is the size of the investment performance using the excess return of the beta, the risk can't be eliminated through diversification. This model firstly proposed by Jack Treynor so called Treynor Index. This measurement assumes that the portfolio is well diversified, so that the risk in the portfolio is only systematic risk (Zubir, (2011)). In evaluating the performance of mutual funds (stocks) Treynor using the average return of the past as the expected return and use the beta as a measure of risk. Beta indicates the size of the change in the return of a stock to changes in market return, R_m (Samson, 2006). The higher the Treynor's ratio, the performance of the portfolio will be better. As a measure of investment risk is used beta because in general fluctuations in stock prices affected by market fluctuations. Average return is still regarded as the best measure for the return guidelines predictions, assuming all markets are efficient. Comparison between return and risk show investors that the higher the risk the higher the expected return. Treynor's model can be write as follow (Samsul, 2006):

$$R/V_t - (R_p - R_f)/\beta_p$$

Where:

R/V_t	= <i>reward to volatility model Treynor;</i>
R_p	= <i>average return portofolio;</i>
R_f	= <i>risk free rate;</i>
β_p	= <i>portfolio beta</i>

The second measurement model is a model of Sharpe. Basic measurement methods Sharpe is the risk premium, i.e. the difference between the average performances produced by the average stock with a risk-free investment performance. The indication is the higher the Sharpe ratio, the better the performance of a stock (Nature, 2010). The performance of mutual funds in the future can be predicted by using two measures, namely the expected rate of return (E) and predicted variability of risk is expressed as a deviation standard return, σ_p (Samson, 2006).

Expected rate return is the average annual return. Predicted variability of risk is the standard deviation of annual return. The standard deviation shows the change value of return on average return. Excess return is the difference between the average rates of return minus the risk free rate. Sharpe's model can be written as follows

(Samsul, 2006):

$$R/V_s = (R_p - R_f) / \sigma_p$$

Where:

R/V_s = reward to variability ratio model Sharpe

R_p = average portofolio's return

R_f = risk free rate

σ_p = standard deviation of portofolio's return

Performance measurement model of Treynor and Sharpe models are complementary to each other because of different information. The non-diversified portfolio is going to get high rankings for Treynor, but rank lower for measurement Sharpe.

In the Jensen models, it is assumed that the investor will invest if it can generate a return that exceeds the expected return or the minimum rate of return (Samson, 2006). Jensen uses the beta factor in measuring the performance of a portfolio investment. Investment portfolio performance measurement using this model Jensen measure the real return to the expected return, assuming that it has a well-diversified portfolio (Hadi, 2013). The Jensen's model can be written as follows (Samsul, 2006):

$$E(R_j) = R_f + \beta_j [E(R_m) - R_f]$$

Where:

$E(R_j)$ = expected return of stock j

R_f = risk free, interest rate

β_j = beta of stock j

$E(R_m)$ = expected market return

Discussion

One of the indicators that can be used and easy to predict the performance of Islamic stocks is by looking at the development of the stock return itself. Here is a table of the average return of sharia stocks from 2008 through 2012

Table 2. Average Return of Shariah Stock (%)

Emiten	2008	2009	2010	2011	2012
AALI	-5,25	7,48	1,47	-1,28	-0,49
ANTM	-10,07	6,83	1,32	-2,97	-1,06
ASII	-12,26	11,13	4,22	2,78	-7,50
CPIN	-5,10	16,42	7,64	2,55	5,11

INDF	-7,41	12,64	3,03	-0,13	2,10
KLBF	-8,09	11,55	8,56	0,62	-2,90
LSIP	-7,19	9,83	1,72	-6,91	0,93
SMGR	-1,77	5,43	2,08	2,15	3,00
TLKM	-2,41	4,45	-1,77	-0,94	2,37
UNTR	-3,12	11,70	3,79	1,26	-0,01

Source: Indonesian Stock Exchange

Based on Table 2, the overall 2009 was a year with the best sharia stock returns where the return of the tenth Islamic stocks is positive. Fluctuations in stock returns occur each year, because affected by the performance of the company itself whether it is in a good or bad performance. Fluctuations in stock returns are influenced by internal factors and external factors such as economic conditions. Based on the data, all the stock has a negative return in 2008, but in 2009 the company could get up and improve its performance.

Islamic stocks return that have increased in every year are AALI, ANTM, CPIN, INDF, KLBF, LSIP, TLKM SMGR and this can be considered an investor to invest in the stock. There are some stocks that show a negative return almost every year, it shows that the company is not in a good performance and easily affected by negative sentiments. Although the stocks have the good performance this year, it is likely affected by negative sentiment in the coming years, therefore, as an investor must be responsive to address the outstanding issues so that no one take investment decisions.

The Sharpe's model measurement is emphasis on total risk or standard deviation. The standard deviation indicates the size of the change in the return of a share of the average return of the stock. To predict the future performance of the period used the data from the previous period. Return on average the previous period is considered as a return prediction coming period and the standard deviation of the return of the previous period is considered as a risk prediction coming period. To analyze the performance of the model of Sharpe, the required data is average stock returns, standard deviations, and the risk free rate. The results of the calculation of the stock performance of the group shares the Jakarta Islamic Index Sharpe method for each period can be seen in Table 3.

Table 3. Stock's Performance Using Sharpe's Model

Emiten	2008	2009	2010	2011	2012
AALI	-24,371	95,404	11,477	-24,074	-10,231
ANTM	-76,310	43,266	8,272	-35,671	-10,805

ASII	-80,086	82,031	39,763	33,038	-29,313
CPIN	-33,521	71,545	21,011	11,572	40,305
INDF	-51,625	82,543	27,716	-7,818	41,080
KLBF	-69,088	60,938	66,036	1,072	-12,964
LSIP	-33,155	66,330	9,268	30,297	4,567
SMGR	-21,493	52,689	22,963	14,650	34,595
TLKM	-28,596	42,070	-36,918	-46,688	25,187
UNTR	-16,331	87,303	54,975	7,643	-2,628

Source: Indonesia Stock Exchange

Table 3 shows that the Sharpe index of the period 2008 to 2012 was in the range -80 086 to 95 404. If the value of the Sharpe's performance index is positive and always increasing, it shows the better stock performance. Every year Sharpe index is always fluctuating. There are some sharia stocks from 2008 until 2012 that always show increased Sharpe performance index, namely: AALI, ANTM, CPIN, INDF, SMGR, and TLKM. The period 2008 to 2012, Sharpe index shows that almost evenly in each year there are still stocks is negative. This indicates that the stock portfolios of Jakarta Islamic Index, yet all of them have a positive Sharpe index. Table 3 shows the Islamic stocks from 2008 to 2012 which showed a decrease in the performance index Sharpe namely: ASII, KLBF, LSIP, and UNTR.

In evaluating the performance of the stock with a Treynor's model is by using the average return the previous period as the expected return and beta as a measure of risk. Beta indicates the size of the change in the return of a stock to changing market return. As a investment risk benchmark is used beta, because in general fluctuations in stock prices affected by market fluctuations. A securities that have beta <1 said a smaller risk than market risk. Instead of a security that has a beta value of > 1 is said to have a larger systematic risk than market risk.

Return regarded as the best measure for prediction guidelines, assuming the market is efficient. Comparison between return and risk show investors, that the higher the risk the higher the expected return. To analyze the performance of the Treynor's model required data such as average return, beta stocks, and the risk free rate. The results of the calculation of the stock performance of the 10 groups of stocks Jakarta Islamic Index using Treynor's model can be seen in table 4.

Table 4. Stock's Performance Using Treynor's Model

Emiten	2008	2009	2010	2011	2012
AALI	-331,522	2634,615	167,857	387,234	-221,053
ANTM	-1125,773	480,620	54,861	1350	-171,951
ASII	-1248,571	1296,296	249,324	-622,222	-159,553

CPIN	-550,926	3359,574	203,143	-502,500	-417,544
INDF	-809,804	817,007	308,642	-478,571	277,778
KLBF	-1103,704	-36400	730	-21,622	303,738
LSIP	-464,740	713,178	95,968	-1182,540	-446,154
SMGR	-396,970	372,093	178,161	-203,797	363,014
TLKM	-479,412	670,175	-343,284	925	306,061
UNTR	-243,558	1627,941	366,292	-200	-29,752

Source: Indonesia Stock Exchange

Table 4 shows that the Treynor index of the period 2008 to 2012 was in the range -1248.571 up to 3359.574. If the value of Treynor index is positive and increased, the stock performance will getting better. Table 4 shows that there is a stock from 2008 until 2012 always show increased Treynor's performance index, namely: ASII, CPIN, INDF, KLBF, LSIP, SMGR, and TLKM. The period 2008 to 2012, shows that there are some stocks still have the negative Treynor index in each year. This indicates that the stock portfolios formed Jakarta Islamic Index, the Treynor performance is not all be positive. The data in Table 4 shows that there is a stock from 2008 until 2012, show a decrease in Treynor's performance index, namely: AALI, ANTM and UNTR.

Jensen method calculated the value of the investment return exceeds the expected return or the minimum rate of return. Return is the average return the previous period. To analyze the method of Jensen require data such as average return, beta stocks, and the risk free rate. The results of the calculation of the stock's performance of the tenth group of stocks Jakarta Islamic Index Jensen method in Table 5.

Table 5. Stock's Performance Using Jensen's Model

Emiten	2008	2009	2010	2011	2012
AALI	633,840	537,840	6,640	-100,690	-107,940
ANTM	-436,280	-110,140	-145,640	-306,020	-192,660
ASII	-601,200	591,540	138,120	286,280	-1094,960
CPIN	135,080	1312,980	165	270,200	547,820
INDF	-136,480	368,980	123,640	-91,220	135,310
KLBF	-346,440	1108,980	631,400	72,010	-257,590
LSIP	365,480	189,860	-74,440	-853,990	66,190
SMGR	184,160	-250,140	19,280	297,670	219,010
TLKM	133,680	59,380	-334,520	-120,320	160,420
UNTR	704,880	722,120	187,160	134,280	-112,230

Source: Indonesia Stock Exchange

Table 5 shows that the index Jensen from the period 2008 to 2012 was in the range -1094.960 until 1108.980. If the value of Alpha Jensen highest and significant shows that this portfolio is the best of the existing portfolio. Alpha which has a positive value indicates a better performance than the market index; while a negative value indicates a lower performance than the market index. As in Table 5, there are stocks from 2008 to 2012 that always showed an increase Jensen index, namely: ANTM, CPIN, INDF, KLBF, LSIP, SMGR, and TLKM. However, from the results of Jensen index calculation, there are stocks that have a negative value. Some stocks which show a decrease in Jensen index is: AALI, ASII, and UNTR.

Table 6. Rating of Shariah Stock's Performance (year 2008 – 2010)

No.	2008			2009			2010		
	<i>Sharpe</i>	<i>Treynor</i>	<i>Jensen</i>	<i>Sharpe</i>	<i>Treynor</i>	<i>Jensen</i>	<i>Sharpe</i>	<i>Treynor</i>	<i>Jensen</i>
1.	UNTR	UNTR	UNTR	AALI	CPIN	CPIN	KLBF	UNTR	KLBF
2.	SMGR	AALI	AALI	UNTR	AALI	KLBF	UNTR	INDF	UNTR
3.	AALI	SMGR	LSIP	INDF	UNTR	UNTR	ASII	ASII	CPIN
4.	TLKM	LSIP	SMGR	ASII	ASII	ASII	INDF	CPIN	ASII
5.	LSIP	TLKM	CPIN	CPIN	INDF	AALI	SMGR	SMGR	INDF

Source: Indonesia Stock Exchange

Stock performance will be measured using three different methods, namely Methods Sharpe, Treynor, and Jensen. Measurement of performance shares for the three different methods require data such as stock returns, standard deviation, the market return and risk free rate. Tables 6 and 7 show the best performance ratings Islamic stock during the period 2008 to 2012.

Table 7. Rating of Shariah Stock's Performance (year 2011-2012)

No.	2011			2012		
	<i>Sharpe</i>	<i>Treynor</i>	<i>Jensen</i>	<i>Sharpe</i>	<i>Treynor</i>	<i>Jensen</i>
1.	ASII	ANTM	SMGR	INDF	SMGR	CPIN
2.	LSIP	TLKM	ASII	CPIN	TLKM	SMGR
3.	SMGR	AALI	CPIN	SMGR	KLBF	TLKM
4.	CPIN	KLBF	UNTR	TLKM	INDF	INDF
5.	UNTR	SMGR	KLBF	LSIP	UNTR	LSIP

Source: Indonesia Stock Exchange

Given the formulation and performance measurement characteristics of each are different, then the value of the performance index obtained from the calculation of index numbers are different. Each of these methods has a basic stock performance relative numbers can't be compared directly with one another given

measurement method is different. The results show a significant difference in the performance measurement method. Treynor method show consistency among the three measurements, as Treynor had a mean difference of the lowest rank of the methods Sharpe and Jensen (Sulistiyorini, 2009). According to the ranking of stock's performance using the three measurement show that there are consistency of stock that have a best rank, i.e. AALI, ANTM, ASII, CPIN, INDF, KLBF, LSIP, and UNTR.

Conclusion

Judging from the results of the return of each stock that the whole of the period of the study in 2008-2012 AALI (Astra Agro Lestari Tbk), ANTM (Antam (Persero) Tbk), CPIN (Charoen Pokphand Indonesia Tbk), INDF (Indofood Sukses Makmur Tbk), KLBF (Kalbe Farma Tbk), LSIP (PP London Sumatra, PT), SMGR (Semen Gresik (Persero) Tbk), and TLKM (Telecommunications Indonesia, Tbk) have consistency for the highest return. These results can be a reference for investors to facilitate stock is chosen to invest, investors can choose companies in major sectors, meaning the company in the field of basic human needs, such as food ingredients, food, building materials (infrastructure) and others which will certainly continue to increase the performance of the company because every year definitely increase the demand for these needs.

The results obtained from the calculation of the Islamic stock performance with the method of Risk Adjusted Performance shows that the Islamic stocks have performed well, because it tends to increase each year. Based on the rating sharia stock performance calculation by using method Sharpe, Treynor and Jensen show that there is the consistency of shares whose have the best ratings in each year. These shares are AALI (Astra Agro Lestari Tbk), ANTM (Antam (Persero) Tbk), ASII (Astra International, Tbk), CPIN (Charoen Pokphand Indonesia Tbk), INDF (Indofood Sukses Makmur Tbk), KLBF (Kalbe Farma Tbk), LSIP (PP London Sumatra, PT), and UNTR (United Tractors Tbk). It could also be a reference to strengthening investor to invest in the stock. In addition to this performance analysis, can also use technical and fundamental analysis in order to know the ins and outs of the company's performance from year to year and his track record does include companies that are healthy or not.

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AL-IQTISHAD

Journal of Islamic Economics

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6. Table format should contains only heading and contents. Please provide the top and bottom lines, along with the line(s) that separate the heading and the contents. Example:

Table 1. The Growth of Third Party Fund, Financing and Asset (Billion rupiah)

	2009	2010	2011	2012	2013	2014*
Fundraising	52.271	76.036	115.415	147.512	174.018	186.608
Financing	46.886	68.181	102.655	147.505	179.284	187.886

Asset 66.090 97.519 145.467 195.018 229.557 244.197

Source: Islamic banking statistics, Bank of Indonesia

7. Acknowledgment, if any, should be written as the foot-note of the manuscript's title.
8. The manuscript is prepared in a quarto paper, single-sided, and double-space format. A new paragraph should start 5 characters from the left margin, using 12-size, times-new-romans font type.
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10. The manuscript should be in no less than 25 pages long.
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15. References should be those of the last ten years publication, unless they are key references.
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 - a. Hill (2001) suggests that the objective of depreciation
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 - d. The definition of flypaper effect is ... (Wagner, 1976).
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 - a. The name of tables and figures should follow a numbering system (Arabic numbering system). The names of the tables and figures are on the top and bottom parts of the tables, respectively.
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Asa, Syu'bah. 2004 "Pengantin Darah", dalam *Tempo*, No. 30/XXX111/20, 20 September 2004

19. Transliteration guidance (from Arabic to latin)

Consonant		
(ا) = a	(ز) = z	(ق) = q
(ب) = b	(س) = s	(ك) = k
(ت) = t	(ش) = sy	(ج) = l
(ث) = ts	(ص) = sh	(م) = m
(ح) = j	(ض) = dh	(ن) = n
(ح) = <u>h</u>	(ط) = th	(و) = w
(خ) = kh	(ظ) = zh	(ه) = h
(د) = d	(ع) = ‘	(ء) = ’
(ذ) = dz	(غ) = gh	(ي) = y
(ر) = r	(ف) = f	(ة) = <u>t</u>

Short Vocal	Long Vocal
_____ = a	(اَ) = â
_____ = i	(اِي) = î
_____ = u	(اُو) = û

Diftong	Pembauran
(اُو) = aw	(ال) = al
(اِي) = ay	(الش) = al-sy
	(وال) = wa al-

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 - c. Accepted with major revision, or
 - d. Rejected.
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