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Unveiling the Impact of Good Corporate Governance and Temporary Shirkah Funds on Maqashid Shariah Performance

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ABSTRACT

This study investigates the influence of Good Corporate Governance (GCG) and Temporary Shirkah Fund (TSF) on the performance of Maqashid Shariah in Islamic banks in Indonesia from 2018 to 2023. Using secondary data analysis, the study employs regression analysis to test the hypotheses. The findings reveal that neither Good Corporate Governance nor TSF significantly affects the performance of Maqashid Shariah during the study period. These results are consistent with previous research indicating a lack of significant impact Good Corporate Governance and TSF on Maqashid Shariah performance in Islamic banks. The discussion suggests that the implementation of Good corporate governance may not directly translate into improved Maqashid Shariah performance due to potential misalignment between governance practices and Shariah principles. Moreover, the study highlights the importance of further research and enhanced implementation of Good Corporate Governance and TSF practices to promote the achievement of Maqashid Shariah objectives in Islamic banking institutions. This research contributes to the ongoing discourse on corporate governance and Shariah compliance in Islamic finance and provides insights for policymakers, regulators, and practitioners aiming to strengthen governance frameworks and enhance Shariah-based performance in Islamic banks.

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1. Introduction

Islamic banking is a financial institution that operates based on Islamic principles, with all rules and regulations grounded in the Quran and Sunnah (Zainuldin and Lui 2020). The primary aim of establishing an Islamic bank is not just profit, but also the welfare of the community in economic, social, and political aspects. Funds placed in an Islamic bank are considered investments; therefore, the returns are not guaranteed, as business practices may result in profit or loss, a consequence of investment. The profit-sharing ratio (nisbah) between the bank and the customer can only be determined as a percentage (Aishath Muneeza 2021). It would be inappropriate to measure the performance of Islamic banking using the same metrics as conventional banks (Alexakis et al. 2019; Srairi 2010). The maqashid shariah index approach, developed by Mohammed and colleagues in 2008, serves as a strategic alternative approach to better reflect the performance of Islamic banking and can be implemented as a more comprehensive and universal strategy (Ghulamallah et al. 2021).

The role of Islamic banks is to gather excess funds from customers and channel them to those in need of financing. The agency theory underpins the relationship between the bank and its customers. There is a separation between the owners and the managers, where the fund owners entrust their money to the managers, i.e., the bank, potentially leading to agency problems (Gorton and Schmid 1999). The potential for agency problems necessitates good corporate governance. The connection between banking and good corporate governance lies in enhancing the bank's performance through a designed system. This system aims to protect stakeholders and ensure compliance with applicable laws and ethical standards (Srairi 2010). Good corporate governance involves five principles that stakeholders must adhere to: transparency, independence, accountability, responsibility, and fairness.



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Implementing prudential principles in governance aims to prevent fictitious corruption schemes, as seen in violations of Article 63 paragraphs 1 and 2b of Law No. 21/2008 concerning Islamic banking, Article 378 of the Criminal Code, Article 374 of the Criminal Code, and Articles 3 and 5 of Law No. 8/2010 on the prevention and eradication of money laundering. One such case involved the CEO of PT Bank Panin Dubai Syariah Tbk, who was implicated in a fictitious credit scheme suspected of providing improper financing to debtors from 2012 to 2014 (Uli 2024). Another case involved Yocie Gusman, the CEO of Bank Jabar Banten Syariah, who was suspected of corruption through fictitious credit by providing loans to debtors for constructing 161 shop units in Garut Super Block, valued at IDR 548 billion, under PT Hastuka Sarana Karya from 2014 to 2016. Lee et al. (2010), examples of serious online fraud prevalent at auctions, we investigate the factors necessary to detect "online credit card phantom transactions," which are fake transactions for illegal loan sharks through collusion between sellers (creditors) and buyers (debtors). These cases highlight the importance of implementing good corporate governance as a foundational principle in all work activities to avoid corruption, collusion, and nepotism. Firmansyah (2018) stated that Good Corporate Governance (GCG) does not affect the maqashid shariah performance of Islamic banks in Indonesia. In contrast, Hartono (2018) argued that Islamic Corporate Governance (ICG) has a positive and significant impact on the maqashid shariah index of Islamic banks in Indonesia.

From the funding perspective of Islamic banks, the contracts of mudharabah and musyarakah represent temporary partnership funds (Aishath Muneeza 2021). Ismal (2013), temporary partnership funds are those that Islamic entities are entitled to invest and manage, where the bank invests the received funds for a specified period, with profit-sharing agreed upon by both parties. Asni (2022) found that temporary partnership funds impact the performance of maqashid shariah. However, this contrasts with the findings of Ibrahim and Kahf (2020), who stated that temporary partnership funds do not have a negative and significant impact on maqashid shariah performance.

The purpose of this research is to investigate the impact of temporary partnership funds, specifically through mudharabah and musyarakah contracts, on the maqashid shariah performance of Islamic banks in Indonesia. This study introduces the novel variable of temporary partnership funds' influence, a topic that has shown mixed results in previous research. By examining this variable, the research aims to contribute to the theoretical understanding of how Islamic financial principles affect bank performance. The findings are expected to provide practical implications for improving governance practices within Islamic banking, ensuring adherence to ethical standards, and enhancing the overall economic and social welfare objectives that underpin Islamic finance. This research also seeks to clarify the role of good corporate governance in mitigating agency problems, thereby promoting transparency, accountability, and fairness in Islamic banking operations.

2. Critical Riview

Shariah Enterprise Theory (SET) posits Allah SWT as the primary source and stakeholders as central figures, emphasizing the divine-human relationship to evoke spiritual consciousness, recognizing Him as the ultimate owner (Fahm 2022). Stakeholders' resources are entrusted by Allah SWT, thus Shariah accounting adheres strictly to His laws to fulfill maqasid al-shariah objectives (Yasir Aziz, Muhammad Asif Khan 2023). Principals and agents are central figures in agency theory, where agents are delegated with decision-making responsibilities by principals (Wohlstetter, Datnow, and Park 2008). They are presumed to be rational actors in the economic realm, motivated solely by self-interest in employment agreements (Aaron Wildavsky 2008). Panda and Leepsa (2017), highlight that agency problems arise from conflicts of interest and asymmetric information. To mitigate such issues, efforts are directed towards reducing agency costs for both agents and principals. Managers who are solely motivated by the goals and interests of the organization, rather than their individual goals, adhere to the stewardship theory (Puyvelde et al. 2011). This theory offers an alternative perspective, emphasizing the alignment between organizational success and principal satisfaction, as the fulfillment of personal desires must be secondary to achieving the company's interests (Colvin and Boswell 2007). Developed subsequent to agency theory, which focuses on the relationship between agents and principals (Mitchell and Meacham 2011).

Good corporate governance, translated as tata kelola perusahaan, is a familiar concept for companies. It leads to favorable outcomes, such as profitable company performance (Colfer and Resosudarmo 2013). According to Hassan Che Haat, Abdul Rahman, and Mahenthiran (2008), accountability and transparency, essential components of good corporate governance, enable the measurement and control of organizational performance. Long-term success for stakeholders results in value added. Independent board of commissioners, shareholders, sharia supervisory boards, and audit committees are expected to adhere to the principles of good corporate governance outlined (Napitupulu et al. 2020). These principles include transparency, independence, accountability, responsibility, and fairness. Transparency ensures stakeholders receive accurate and timely information, enhancing shareholder value. Independence fosters professionalism and autonomy within companies. Accountability prioritizes stakeholders' interests, ensuring transparent and responsible management. Responsibility entails managing the company with accountability to stakeholders. Fairness is grounded in



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equitable treatment and equality for all stakeholders and individuals associated with the company (Dahanayake et al. 2018).

Temporary partnership funds, also known as Dana Syirkah Temporer in Islamic finance, represent an essential aspect of Sharia-compliant investment practices. These funds are collected by Islamic financial institutions and managed in alignment with the preferences and guidelines set forth by the fund owners. Additionally, they operate based on profit-sharing agreements that have been mutually agreed upon by all parties involved. Research indicates that Temporary Shirkah Fund plays a significant role in the Islamic banking system's liquidity management and investment activities. El-Hawary, Grais, and Iqbal (2007), temporary partnership funds are a crucial source of funding for Islamic banks, allowing them to finance various projects and ventures in compliance with Sharia principles. This study highlights the importance of Dana Syirkah Temporer in facilitating economic growth and development within Islamic finance frameworks. Furthermore, Raza Rabbani et al. (2021) emphasizes the role of temporary partnership funds in enhancing the performance of Islamic financial institutions. By investing these funds in accordance with Sharia principles and profit-sharing agreements, Islamic banks can achieve sustainable growth and profitability while also promoting socio-economic welfare in the communities they serve. In conclusion, Dana Syirkah Temporer represents a vital mechanism for mobilizing funds and facilitating ethical investment practices in Islamic finance. Through adherence to Sharia principles and profit-sharing agreements, these funds contribute to the liquidity management, growth, and stability of Islamic financial institutions, ultimately fostering economic development and social welfare.

Maqasid al-Shariah, or the objectives of Islamic law, embody the aims, values, and meanings sought in accordance with Islamic principles for the welfare of society. It serves as the ultimate goal derived from the essence and jurisprudence of Islamic law (Erragragui and Revelli 2016). Zain (2024), delineates three main objectives that align precisely with the goals of Maqasid al-Shariah to achieve well-being and avoid harm. Firstly, the Individual Education dimension encompasses advancing knowledge, instilling new skills, and raising awareness of Islamic banking within the community. This includes providing educational scholarships, training programs, and publicizing Islamic banking products and systems to enhance community awareness (Jan et al. 2023). Secondly, the dimension of Justice Manifestation emphasizes fair contracts, affordable products and services, and the elimination of injustices within Islamic banking operations. This involves ensuring fair returns in transactions, offering affordable financing schemes, and conducting banking activities free from riba (usury) to reduce income and wealth disparities in society (Hayat and Malik 2014). Lastly, the dimension of Community Welfare entails profitability, income redistribution, and investment in the real sector. Islamic banks aim to enhance community welfare through profitability, equitable income distribution, and investment in productive sectors, as measured by the ratio of financing in the real sector to total bank financing (Avdukic and Asutay 2024; Mergaliyev et al. 2021). In summary, the multifaceted dimensions of Maqasid al-Shariah encompass education, justice, and community welfare, which serve as guiding principles for Islamic banking operations to achieve societal well-being and economic prosperity. These dimensions provide a comprehensive framework for assessing and enhancing the performance of Islamic financial institutions in fulfilling their socio-economic objectives.

3. Method Innovation

This study employs a quantitative approach, utilizing secondary data sourced from annual financial reports published by the Financial Services Authority (OJK) and the respective websites of Islamic commercial banks. The population comprises all Islamic commercial banks registered with the OJK from 2018 to 2023, totaling 14 banks. Purposive sampling is employed to select three banks meeting specific criteria as samples. Data analysis involves panel data regression analysis using the EViews 10 software application, followed by drawing conclusions.

In this research, a quantitative methodology is utilized, relying on secondary data sources obtained from the annual financial reports published by the Financial Services Authority (OJK) and the official websites of individual Islamic commercial banks. The study population consists of all Islamic commercial banks registered with the Financial Services Authority from 2018 to 2023, totaling 14 banks. Purposive sampling is employed to select three banks that meet specific criteria as samples. Data analysis involves panel data regression analysis using the EViews 10 software application, culminating in drawing conclusions

4. Result and Discussion

Table 1 presents the descriptive statistics of the research variables. The Mean and Standard Deviation values are provided for each variable, along with the Minimum and Maximum values observed within the dataset. For the Maqashid Shariah Index (MSI), the Mean value is 31.44334, with a Standard Deviation of 6.810833. The minimum MSI value observed is 23.08782, and the maximum value is 38.04344. The Good Corporate Governance variable has a Mean of 2.137366 and a Standard Deviation of 0.504314. The minimum observed value for Good Corporate Governance is 2.020001, while the



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maximum is 3.440000. Regarding the Temporary Shirkah Fund variable, the Mean is 27.55603, with a Standard Deviation of 0.677502. The minimum value observed for the Temporary Shirkah Fund is 28.31635, and the maximum is 30.43132.

Table 2 displays the results of the multicollinearity test between the Good Corporate Governance (GCG) variable and the Temporary Shirkah Fund (TSF) variable. The table shows the correlation coefficients between these two variables. The correlation coefficient between Good Corporate Governance (GCG) and Temporary Shirkah Fund (TSF) is 0.0096, indicating a very weak positive correlation between the two variables. Similarly, the correlation coefficient between TSF and GCG is 0.0097, which also suggests a very weak positive correlation. These correlation coefficients suggest that there is no significant multicollinearity issue between Good Corporate Governance and Temporary Shirkah Fund variables, as the correlation values are close to zero.

The heteroscedasticity test, employing the Glester method, was conducted to assess the variability of disturbances within the research model. Table 3 outlines the results of this test, presenting the probability values associated with each variable examined for heteroskedasticity. The constant term (C) exhibited a probability value of 0.0322, indicating a significant likelihood of heteroscedasticity in the model. However, for the variables Good Corporate Governance and Temporary Shirkah Fund, the probability values were 0.8431 and 0.2002, respectively. These values suggest no significant evidence of heteroskedasticity for these individual variables. Overall, while the constant term shows signs of heteroskedasticity, the individual variables do not, implying relatively stable disturbances concerning Good Corporate Governance and Temporary Shirkah Fund within the research model.

The influence of good corporate governance on the performance of Maqashid Shariah in Islamic Commercial Banks from 2018 to 2023 was examined. The formulated hypotheses, H_0 and H_a , were as follows: Based on the results of the conducted testing, a significance value (sig t) of 0.4031 was obtained for the variable of good corporate governance, indicating a significance level greater than 0.05. The coefficient generated was positive (+) 3.321947. Therefore, it can be concluded from this testing that there is no significant influence of good corporate governance on the performance of Maqashid Shariah in Islamic Commercial Banks from 2018 to 2023.

The impact of temporary Shirkah fund on the performance of Maqashid Shariah in Islamic Commercial Banks from 2018 to 2023 was also assessed. The formulated hypotheses, H_0 and H_a , were stated as follows: $H_0: \beta = 0$, indicating no significant influence of the temporary Shirkah fund on the performance of Maqashid Shariah from 2018 to 2023. $H_a: \beta < 0$, indicating a significant influence of the temporary Shirkah fund on the performance of Maqashid Shariah from 2018 to 2023. Results from the conducted testing revealed a significance value (sig t) of 0.2050 for the variable of the temporary Shirkah fund, indicating a significance level lower than 0.05. The coefficient generated was positive (+) 3.450093. Therefore, it can be concluded from this testing that there is no significant influence of the temporary Shirkah fund on the performance of Maqashid Shariah in Islamic Commercial Banks from 2018 to 2023. The results from the hypothesis testing were derived from the data presented in Table 4. The coefficients, standard errors, t-statistics, and probability values for each variable were analyzed to determine the significance of their influence on the performance of Maqashid Shariah. The secondary data utilized for this analysis were processed and collected from the year 2024.

The Effect of Good Corporate Governance on Maqashid Shariah Performance

The test results show that there is no significant influence between Good Corporate Governance (GCG) and Maqashid Shariah performance at Islamic commercial banks from 2018 to 2023. This research is in line with the findings conducted by Dwianto et al. (2024), which also states that GCG has no effect on Maqashid Shariah performance at Islamic banks in Indonesia. One factor that may explain this result is the suboptimal implementation of GCG in some Islamic banks (Ghosh and Donselaar 2023). Although these banks may have introduced GCG policies and procedures, their supervision and implementation still do not have a significant impact on Maqashid Shariah performance (Roziq et al. 2024). This may be due to the mismatch between the implemented governance and the Maqashid Shariah principles that involve spiritual, social, and economic aspects.

Agency theory may also be an explanation for this result. The separation between fund owners and bank management raises agency problems, where management tends to act in accordance with their personal or small group related interests, rather than paying attention to the public interest and broader Shariah objectives. Although the implementation of GCG is expected to suppress this agency problem, the results show that the existing GCG implementation has not been able to effectively address this problem. In addition, it is possible that the effect of GCG implementation on Maqashid Shariah performance is not immediately visible in a short period of time. It may take a longer time and consistency in GCG implementation for its impact to be significantly felt on Maqashid Shariah performance. In addition, the main orientation of GCG implementation may be more focused on improving financial performance alone, rather than non-financial aspects relevant to Maqashid Shariah.

The Effect of Temporary Shirkah Fund on Maqashid Shariah Performance

The test results show that there is no significant influence between the Temporary Shirkah Fund and Maqashid Shariah performance at Islamic commercial banks from 2018 to 2023. This finding is in line with the results of research conducted Performance (2023), which also states that the Temporary Syirkah Fund has no negative and insignificant effect on Maqashid Shariah performance.



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One reason for this result is that Temporary Syirkah Funds may not directly reflect Maqashid Shariah performance in the context of Islamic banks (Asiyah et al. 2021). The fund may reflect more the level of public trust and participation in the Islamic banking system rather than the bank's performance in implementing Maqashid Shariah principles.

Based on the Shariah Enterprise theory, the main objective of Islamic banks is to achieve Maqashid Shariah goals that include the spiritual, social, and economic interests of the people (Puspitasari, Rukmana, and Sukarno 2017). However, Maqashid Shariah performance depends not only on the amount of Syirkah Temporer Fund collected, but also on the extent to which the bank can allocate these funds effectively and in accordance with sharia principles. In addition, the high collection of Syirkah Temporer Funds but not balanced with the proper and efficient distribution of funds into financing schemes that are in accordance with sharia principles can also affect Maqashid Shariah performance. Therefore, it is important for Islamic banks to ensure that the management of Syirkah Temporer Funds is carried out with full ethical considerations and in accordance with Maqashid Shariah principles to achieve the overall welfare of the people.

5. Conclusion

In the context of Islamic commercial banks, the implementation of Good Corporate Governance and the management of Temporary Shirkah Funds play an important role in achieving performance in accordance with the principles of Maqashid Shariah. Although the results of this study show that these two factors do not have a significant influence on Maqashid Shariah performance in the period 2018-2023, this does not negate the importance of effective implementation of these two factors in supporting the main objectives of Islamic banks. Therefore, further research and improvements in the implementation of GCG practices and the management of Syirkah Temporer Fund may be required to effectively and sustainably improve Maqashid Shariah performance.

6. Table and Image

Table 1. Descriptive Statistics of Research Variables

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
MSI	2	23.08782	38.04344	31.44334	6.810833
Good Corporate Governance	21	2.020001	3.440000	2.137366	0.504314
Temporary Shirkah Fund	21	28.31635	30.43132	27.55603	0.677502

Source: Secondary Data, 2024 (processed)

Table 2. Uji Multikolinearitas

Data	Good Corporate Governance	Temporary Shirkah Fund
GCG	1.0000	0.0096
TSF	0.0097	1.0000

Source: Secondary Data, 2024 (processed)

Table 3. Heteroscedosticity Test

Variable	Prob.
C	0.0322
Good Corporate Governance	0.8431
Temporary Shirkah Fund	0.2002

Source: Secondary Data, 2024 (processed)

Table 4. Uji Hipotesis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-80.78705	73.33803	-1.042261	0.3043
Good Corporate Governance	3.221824	3.679664	0.764193	0.4000
Temporary Shirkah Fund	3.430022	2.633332	1.313003	0.2022

Source: Secondary Data, 2024 (processed)

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