

THE OBJECTIVE OF ISLAMIC BANK: A CASE STUDY IN SURAKARTA REGION

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Abstract

The purposes of this research were for exploring the perception of the Islamic Banking stakeholders related with the objective of Islamic Banking that operated in the dual banking system, Indonesia and for measuring the gap between the perception and expectation of the stakeholders toward the objective of Islamic bank. The primary data was collected by questionnaires. The Respondents were limited only in the Surakarta region. They were customers, lecturers, students, employees, bank managers, regulators, and ulama (Moslem religious teachers). Factor analysis was conducted for grouping or classifying the variables into the same group which had the same characters while Kruskal Wallis test was used for examining the different perception among the stakeholders. At last, paired sample t-test was used to measure the gap between perception and expectation among the stakeholders. The findings of this study were first, stakeholders concluded that social objective of Islamic was more important than the commercial one; second, there was a significant different perception on the Islamic Banking objective among the stakeholders; and third, there was a gap between the perception and expectation of the stakeholders about Islamic Banking objectives.

Keywords: *Islamic bank, commercial objective, social objective*

Again, subprime mortgage crisis during 2007-2010 delivered important signal to the world, that was Islamic banking more robust than conventional banking. Then it was considered as an alternative of interest based financing scheme (Alqahtani, 2012). This achievement had positive impact to the Islamic banking development. Islamic banking becomes more and more popular in either moslem or non-moslem countries that implemented dual banking system (Askari *et al.*, 2010). We also agreed that during the Indonesian financial crisis

in 1998, Islamic banking unaffected by the financial crisis. The crisis made some of the conventional banking collapsed.

In contrast with conventional banking that only maximizes its profit and intermediary purposes, Islamic banking requires also to increase the prosperity of the society (Yaya *et al.*, 2009 and Dusuki, 2008). This social objective proposed using special scheme of Qardhul Hasan and establishment of zakat, infaq, and shadaqah institution within the bank. The Qardhul Hasan scheme pro-

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vides service for the poor and do not have obligation to pay the fixed marked up profit margin to the bank nor also to share the profit (Yaya *et al.*, 2009). This function has positive impact to help the government to reduce the poor. In September 2014, the amount of the Qardh scheme provided Rp 10 trillion or 5% of total financing scheme (Otoritas Jasa Keuangan, 2014).

Karim (1990) concludes that Islamic bank has anti secularism concept in its operation. Islamic banks provides different scheme compare with conventional bank when collecting and financing money, they are Mudharaba, Musyarakah, Murabahah, Ijarah, Qardhul Hasan, and Wadiah. In addition, Maali *et al.* (2006) mention that Islamic bank has special a characteristic when providing investment and financing product, that is the product must not violate *sharia*. Moreover, Islamic bank needs to appoint Sharia Supervisory Board (Dewan Pengawas Syariah) who will make sure the bank deal with the religious expectations in its operations and products (Maali *et al.*, 2006 and Aris *et al.*, 2013).

However, the success story of Islamic banking could not raise its market share in Indonesia. The very small market share within the biggest moslem country in the world definitely delivers profound question. This anomaly makes the situation need to be studied, whether Islamic banking noticeable just as the same with conventional banking in its objective or it has balance in its social and commercial objective.

This study takes Dusuki *et al.* (2008) paper to the further step. It is not only exploring the perception of the stakeholders to the objective of Islamic banking but also measuring the gap between the perception and the expectation of the Islamic banking stakeholders in Solo region.

Social Versus Commercial Objective

A number of studies *have found* that Islamic bank has fundamental differences with conven-

tional bank. Dusuki (2008) concludes that the different between Islamic and conventional banking not only limited to the operation process and how to deal with the business only, but also in the benefit and impact of the bank to the society. Furthermore, Rahman (2010) mentions that Islamic bank should give benefit to the people whether moslem or not and as a shahibul maal, Islamic banking should provide prosperity to the society. Toutounchian (2009) proposes that Islamic banking should have harmony and balance in the context of religiosity, morality, and profitability.

According to Yaya *et al.* (2009) Islamic banking should provide not only intermediation function but also social function, investment manager function, and investor function. Intermediation function becomes the main point in the conventional banking with the profit maximisation as the end. In addition, Haniffa & Hudaib (2007) point out that Islamic bank is a symbol of a new corporation that has social goals as important as profit goals. Moreover, Haniffa & Hudaib (2007) identifies five special character of Islamic banking such as philosophy and values, provision of interest-free products and services, restriction to Islamically acceptable deals, and focus on developmental and social goals and additional reviews by the Sharia Supervisory Board (SSB).

Islamic banking is prohibited to decide the interest in the front. Interest is categorized as *riba* and also mentioned in the Quran. Interestingly, Rahman (2010) concludes that the interest prohibition also found in Judaism, Christianity, Buddhism, and Hinduism. Hence, Dusuki (2008) mentions that the function and operation from the conventional bank in accordance with secularism concept. Table 1 shows the difference between Islamic and conventional bank.

Based on Al-Moghrabi (1996) thinking, Maali *et al.* (2006) conclude that stakeholders of Islamic bank see two roles of Islamic banking, that are social and economic role. Therefore, this expecta-

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tion has effect in the Islamic banking financial report disclosure. In order to meet this expectation, AAOIFI requires Islamic bank to disclose its social activities such as Sharia opinion, unlawful transaction, zakah, qardhul hasan, charitable, and social activities. Haniffa & Hudaib (2007) also develop Ethical Identity Index that measures the activities of social role of Islamic banking.

The Development of Islamic Banking and Its Effect to the Stakeholders

Since 1970s, Islamic banking had been developed and became popular not only in Arab countries but also other moslem countries in the other regions (Saleh & Zeitun, 2005). In Indonesia, Bank Muamalat became the first Islamic bank established in 1992 (Yaya *et al.*, 2009).

Mirakhor (1997) proposes that despite Islamic banking already well operated, Islamic banking has difficulty dealing with inflation. Therefore efficient operation becomes the key point for successful Islamic Banking market share expansion. Mirakhor (1997) also suggests that in order to create successful profit-loss sharing scheme, some points need to be avoided, they are: (1) massive government intervention; (2) tax system weakness; (3) unavailability of social security; and (4) financial system monitoring weakness. Therefore, it will

increase the risk of profit-loss sharing scheme. This situation arises when the risk of price fluctuation will increase the risk of contract that does not decide interest at front.

Chapra (2000) also mentions that the agreement for the decision credit in the conventional banking only based on the collateral, not the robustness of the project or business. In contrast, Islamic Banking tends to use the potential project or business in the future as a main point. The difficulties and distortion that arise above has negative impact to the Islamic banking development, especially in Indonesia. Fixed mark up profit scheme (Murabahah) heavily dominated Islamic banking when dealing with its customers. The data from Otoritas Jasa Keuangan (2014) shows that financing scheme of Islamic banking dominated by Murabahah scheme (59%), while Mudharabah and Musyarakah scheme only comprise 30% of total financing. This could affect the stakeholder perceptions about Islamic banking objective.

METHOD

In order to be selected as a sample, the respondent needs to understand with the Islamic banking operation. Sample chosen in this study consists of various groups of Islamic banking stakeholders, they are customer, lecturer, student, em-

Table 1. The Difference between Islamic Banking and Conventional Banking

Islamic Banking	Conventional Banking
Function and operation based on Quran and Sunnah	Function and operation is not based specific principles of religion
The institution that has goal to balance the profit maximization and social responsibility	Profit maximization
Financing instrument based on asset-backed trading or equity financing with risk-sharing concept	Based on interest
Deposit managed within profit-loss sharing concept	Deposit managed within interest and guarantee fixed profit decided at front
Pay zakat	Do not have obligation to pay zakat

Adopted from: Dusuki (2008)

ployee, manager, regulator, and ulama. Table 2 shows the requirement of the people to be chosen as a sample.

Table 2. Requirement to be Chosen as a Sample

Stakeholders	Requirement
Customer	Have been dealing with Islamic banking
Lecturer	Actively engaged in Masyarakat Ekonomi Syariah or have been teaching Islamic economics/banking subject
Student	Actively engaged in Islamic economics group of student (student activity group)
Employee	Employee of Islamic bank
Manager	Manager of Islamic bank
Regulator	Indonesian Central Bank agencies who monitor Islamic bank
Ulama	The Muslim scholars who have been dealing with Islamic bank

It was decided that the best method to adopt for this investigation was to use factor analysis in order to explore the Islamic banking objective. The major aim of factor analysis is the group of a large number of inter correlated measures to a few representative factors (Ho, 2006). The method of extraction used in this study was varimax rotation since it produces the clearest separation of factors (Ho, 2006).

This paper would categorize the objective into two groups, they are social objective and commercial objective. Variables proposed in the social objective are: (1) to reduce the poor through ZISWAF, Qardhul Hasan, and other products; (2) to introduce the Islamic values to the employees, customers, and society in general; (3) to increase the prosperity through ZISWAF, Qardhul Hasan, and other products; (4) to reduce economic activity that against Islamic ethics and principles; and (5) to help small and medium business.

Variables proposed in the commercial objective are: (1) to offer competitive products; (2)

to minimize the expenses; (3) to increase the quality of the products and services; (4) to maximize profit; and (5) to prioritise the wealth of the owner.

In order to identify the objective of Islamic banking, the respondents were asked to answer the questionnaire using likert scale 1-5. To assess the stakeholders' perception on the Islamic banking objective, the questionnaire was delivered to the stakeholders. Ten questions on the questionnaire measured the extent to which Islamic banking operation under the social and commercial objective. All of the questions asked twice, first the respondents should answer the question based on his perception or reality, second, the respondents should answer based on his expectation. Total 20 questions delivered to the respondents. Before collecting the data, the researcher asked the Islamic economics expert to check and put comment into the questionnaire.

In order to check the consistency and the reliability of the data, the data will be analysed using Cronbach á test similar with Dusuki (2008), in order to check the difference perception between stakeholders, the researcher use Kruskall-Wallis test. Since our groups of stakeholder were more than 2 (7 groups) and it was calculated based on the sum of the mean ranks of combined groups, Kruskall-Wallis test were conducted (Ho, 2006). Hypothesis alternative that will be examined is "There is difference perception on the Islamic banking objective among the group of the stakeholders". In addition, paired sample t-test was used to analyse the gap between stakeholders' perception and expectation.

RESULT

The sample consists of 148 respondents from different groups of Islamic banking stakeholder, they are 29 ulama's, 27 students, 7 managers, 25 customers, 19 regulators, 24 employees, and 17 lecturers. The KMO Bartlett's result shows that the sampling is adequate. Therefore the study

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could enter the next step that is reliability and validity test. The result of the reliability and validity test shows that Cronbach α test 0,838 and all corrected item-total correlation over 0,3. Therefore the data are reliable and valid (Setiaji, 2004).

Factor analysis was run only on 10 questions that based on the "reality" or "perception" of the stakeholders. What is interesting in this factor analysis result is that the variables forming two factors, they are factor 1 and factor 2. It need to be noticed that only factors with eigenvalues more than 1 are considered to be significant (Ho, 2006). Factor 1 is a group of variables that forming "social objective" while factor 2 forming "commercial objective". Factor 1 consists of variable help the poor, introduce the Islamic values, increase the prosperity of the community, reduce the economic activities that are prohibited by Islam, help small and medium business, offer competitive product, minimize expense, and increase the quality of product and services. The majority of respondents

felt that factor 1 has same meaning. While factor 2 consists of maximizing profit and prioritise the wealth of stakeholders. Table 3 shows the variables grouped into two objectives.

These findings of the current study are consistent with those of Dusuki (2008) who found that eigenvalues of factor 1 (4,214) higher than eigenvalues of factor 2 (1,751). It is apparent that the stakeholders determine social objective (factor 1) more important compare with commercial objective (factor 2).

Kruskall-Wallis test was conducted to examine the different perception among the group of stakeholders. The X^2 values in all variables are higher than the tabulated X^2 values six degrees of freedom with α 0,05 (12,592), except for "To prioritise the wealth of the owner" variable. Therefore, the hypothesis alternative could be accepted. The mean rank results in the Kruskall-Wallis test show that according to a group of manager and employee, both of them put the social objectives

Table 3. Factor Analysis

	Factor 1 (Social Objective)	Factor 2 (Commercial Objective)
To reduce the poor through ZISWAF, Qardhul Hasan, and other products	0,751	
To introduce the Islamic values to the employees, customers, and society in general	0,652	
To increase the prosperity through ZISWAF, Qardhul Hasan, and other products	0,743	
To reduce economic activity that against Islamic ethics and principles	0,716	
To help micro, small, and medium business	0,808	
To offer competitive products	0,746	
To minimize the expenses	0,624	
To increase the quality of the products and services	0,742	
To maximize profit		0,915
To prioritise the wealth of the owner		0,926
Eigenvalue	4,214	1,751
Percentage of Variance	42,141	17,513

in the high rankings. In addition, employee and manager also pay highest attention on the quality of products and services. On the contrary, manager only put profit oriented on low ranking. Table 4 shows the Kruskal-Wallis test result.

There was a significant difference between the perception or reality and expectation of Islamic banking objective shown by paired sample test (Table 5). The current study found that the mean in the social objective "expectation" is higher than the social objective "reality" based on stakeholders' perception. The highest mean gap between expectation and reality found on pair 5, that is stakeholders expect Islamic banking to help the micro, small, and medium enterprise. After that, the stakeholders also have high expectation that Islamic banking should help the poor (pair 1). On the contrary, stakeholders want Islamic banking to decrease its profit oriented and stakeholders maximization activities. Therefore we can conclude that the stakeholders want Islamic banking to increase their social objective activities.

DISCUSSION

These findings of the current study are consistent with those of Dusuki (2008) who found that eigenvalues of social objective higher than eigenvalues of commercial objective. It is apparent that the stakeholders determine social objective (factor 1) more important compare with commercial objective (factor 2). This results also consistent with the theories mentioned that Islamic banking should have not only profit objective. In addition, these results have important implications for developing the Islamic bank in Indonesia, especially in Surakarta region, that is Islamic bank should focus more on its social activities, as the stakeholders expected. Islamic bank in also needs to pay attention on its commitment and action to help the small medium enterprise as well as the poor people through its products and policies.

In contrast to earlier findings, offer competitive product, minimize expense, and increase the

quality of product and services, are grouped into social objective. Dusuki (2008) found that these 3 variables grouped into commercial objectives. It seems possible that these results are due to the expectation of the stakeholders that competitive product and minimize expense would produce cheaper financing cost, therefore it can help the society, the poor, and the small and medium business.

Other unanticipated finding was that the managers only put profit oriented objective in the low ranking. This findings of the current study do not support the previous research. A possible explanation for this might be that in Surakarta, some of the Islamic banks still in the introduction phase while some of them enter to the growth phase. Therefore, Islamic bank tends to focus on expanding their market share. In addition, it is interesting to note that in all eight questions in the social objectives group of this study, managers put 6 out of 8 the social objectives in the highest rank among others group. We can conclude that Islamic bank managers' in Surakarta region have commitment to foster not only the commercial objective but also social objective of Islamic banking.

CONCLUSION AND SUGGESTION

Conclusion

Returning to the question posed at the beginning of this study, it is now possible to state that stakeholders capture social objective more important than commercial objective. These findings suggest that in general, Islamic banking should produce products and services that could help the poor and help small and medium business while promoting Islamic values. In addition, stakeholders also indicate that Islamic banking should minimize its expenses whereas deliver competitive products and services. The second major finding is that there is a significant difference perception on the Islamic banking objective among the group of the stakeholders. It is apparent that

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Table 4. Kruskal-Wallis Test

To Reduce the Poor Through ZISWAF, Qardhul Hasan, and Other Products	To Introduce the Islamic Values to the Employees, Customers, and Society in General		To Increase the Prosperity Through ZISWAF, Qardhul Hasan, and Other Products		To Reduce Economic Activity that Against Islamic Ethics and Principles		To Help Small and Medium Business		To Offer Competitive Products		To Minimize The Expenses		To increase the quality of the products and services,		To maximize profit,	
	Mean Rank	Group	Mean Rank	Group	Mean Rank	Group	Mean Rank	Group	Mean Rank	Group	Mean Rank	Group	Mean Rank	Group	Mean Rank	Group
Manager	108,14	Manager	97,5	Manager	102,21	Manager	97,71	Manager	102,79	Manager	100,57	Regulator	95,61	Lecturer	102,88	Lecturer
Employee	98,63	Employee	90,15	Employee	94,48	Employee	97,06	Regulator	95,87	Regulator	97,21	Employee	91,04	Manager	90,5	Regulator
Regulator	89	Regulator	81,5	Customer	87,7	Regulator	86	Employee	89,33	Employee	96,44	Customer	75,26	Regulator	84,61	Employee
Student	68,48	Customer	77,38	Regulator	85,82	Ulama	77,33	Ulama	79,62	Ulama	69,16	Manager	73,79	Student	78,81	Customer
Ulama	68,02	Ulama	70,93	Ulama	67,16	Customer	68,12	Student	68,7	Student	68,56	Student	68,39	Customer	68,9	Student
Customer	63,24	Student	60,13	Student	56,35	Student	58,26	Customer	52,72	Customer	59,94	Ulama	68,12	Ulama	67,98	Manager
Lecturer	47,56	Lecturer	59,79	Lecturer	44,18	Lecturer	50,59	Lecturer	50,53	Lecturer	47,38	Lecturer	47,32	Lecturer	39,85	Ulama

Table 5. Paired Sample Test

To reduce the poor through ZISWAF, Qardhul Hasan, and other products	To introduce the Islamic values to the employees, customers, and society in general,		To increase the prosperity through ZISWAF, Qardhul Hasan, and other products,		To reduce economic activity that against Islamic ethics and principles,		To help small and medium business,		To offer competitive products,		To minimize the expenses,		To increase the quality of the products and services,		To prioritize the wealth of the owner,	
	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation	Reality Expectation
3,5068	4,4459	3,7905	4,5878	3,7568	4,5270	3,6419	4,5270	3,5743	4,3041	3,3311	4,1689	3,6959	4,5676	3,4762	2,9728	3,1824
Gap,0,9391	Gap,0,7973	Gap,0,7702	Gap,0,8851	Gap,0,7298	Gap,0,9798	Gap,0,8378	Gap,0,8717	Gap,-0,5084	Gap,-0,4256	Gap,-0,5084	Gap,-0,4256	Gap,-0,5084	Gap,-0,4256	Gap,-0,5084	Gap,-0,4256	Gap,-0,4256

manager and employees indicate that minimizing expenses and increasing quality of products and services in the highest ranking. Surprisingly, managers put almost all of the social objectives in the highest ranking. Third, considering the high gap between expectation and reality of the Islamic banking objectives, Islamic banking in Surakarta region should produce products and policies that provide advantages to the poor, society in general, and small and medium business.

Suggestion

This study is subject to several limitations, such as the small number of respondents. For example, this study only analyses questionnaires from 7 managers of Islamic banking in Surakarta region. In addition, this study only captured the respondents who live in Surakarta region. These results therefore need to be interpreted with caution. Future research need to consider to add the respondent's number, the regions, and also use different research method, such as combining deep interview and focus group discussion with the quantitative approach.

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