

PRIMARY RESEARCH

Examining the Influence of *Maqāṣid al-Sharīāh* Orientation on Financial Performance of Islamic Banks: Evidence from Pakistan

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Abstract.

Purpose: Islamic Banks (IBs) have been criticized for convergence towards their conventional counterparts by replicating their products. This criticism may be reinforced due to their poor *maqāṣid al-Sharīāh* oriented performance. Arguably, it is essential that IBs enhance their *maqāṣid al-Sharīāh* oriented performance to differentiate themselves from conventional banks and to improve their public image of being 'Islamic'. In this context, the purpose of the present study is to evaluate the impact of *maqāṣid al-Sharīāh* Orientation on financial performance of IBs.

Methodology: The study regresses financial performance on *maqāṣid al-Sharīāh* oriented performance by applying fixed effects model. Unbalanced panel data, for the period of 2008-2020, has been extracted from the annual reports of five full-fledged Islamic banks operating in Pakistan. The study uses five independent variables that represent *maqāṣid al-Sharīāh* orientation namely, protection of faith, protection of life, protection of intellect, protection of family and protection of wealth.

Findings: The results reveal that faith and wealth-oriented performances have positive relationships whereas family-oriented performance has a negative relationship with financial performance.

Significance: The present study evaluates the impact of five major Maqasid al-Shariah on financial performance whereas the existing literature focuses on fewer *maqāṣid al-Sharīāh* while examining the stated relationship.

Practical Implication: The study suggests that Islamic banks should improve their faith and wealth oriented performances to be more profitable and to differentiate themselves from their conventional counterparts.

KAUJIE Classification: B1, B4

JEL Classification: C43, G21, Z12

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INTRODUCTION

Maqāṣid al-Sharīāh is an Arabic term that consists of two words, *maqāṣid* and *Sharīāh*. Literally, *maqāṣid* means objectives, whereas *Sharīāh* denotes a pathway. However, technically, *Shariah* indicates “compliance with Divine law”. Thus collectively, *maqāṣid al-Sharīāh* can be considered as the “rationale of *Shariah*” or “wisdom behind the *Shariah* rulings” (Kamali, 1989). The purpose of these *maqāṣid al-Sharīāh* is to achieve the welfare of humanity at large.

Both *Al-Qur’ān* and *ḥadīth* adequately explain the purpose of the Divine law related to both *ibadat* (devotional matters) and *mu’āmalāt* (civil transactions). For instance, *Al-Qur’ān* points out that the intention of sending the Holy Prophet (PBUH) is “mercy to the world” (21:107). Likewise, it explains that the reason behind the obligation of *wudu* (ablution) is “purity” (5:6). Similarly, it states that offering *ṣalāh* (prayers) hinders “promiscuity and evil” (29:45). In the same way, it imposes *zakāh* (charity) on the well-off so that wealth does not simply circulate within the upper class of the society (57:7).

It is stated that Imam *Al-Juwayni* and *Al-Ghazali* were the pioneers who conceptualized *maqāṣid al-Sharīāh*. They classified *maqāṣid* into three categories, i.e., “*dharuriyah*, *hajiyyah* and *tahsiniyah*”. *Maqāṣid al-Sharīāh* related to *dharuriyyaat* (necessities, pl. of *dharuriyah*) cover those benefits which are crucial to meet the basic needs of the society. *Maqāṣid al-Sharīāh* related to *hajiyyaat* (complementarities, pl. of *hajiyyah*) consist of those benefits which are essential to eliminate hardship from society. *Maqāṣid al-Sharīāh* related to *tahsiniyyaat* (embellishments, pl. of *tahsiniyah*) contain those benefits which result in perfection in human behaviour. Subsequently, *Al-Ghazali* added protection of five elements to *dharuriyah* (necessities), namely faith, life, intellect, family and wealth. He asserted that public interest can only be safeguarded by ensuring the protection of these elements (Auda, 2008).

However, contemporary scholars reinterpreted the *Al-Ghazali* model to operationalize it according to the need of modern times. Accordingly, they replaced protection of faith with “freedom of faith”, protection of life with “preservation of human dignity and rights, employment and self-employment opportunities, justice and social equality”, protection of intellect with “propagation of scientific thinking, development in technology and expansion of knowledge”, protection of family with “care of family, need fulfillment and freedom from fear, conflict and insecurity” and protection of wealth with “wellbeing of society, development expansion of wealth, equitable distribution of income and good governance” (Mohammed et al., 2015).

Relating *Maqāṣid al-Sharīāh* to Islamic Banking

The purpose of *maqāṣid al-Sharīāh* is to seek the welfare of society at large. Therefore they can be used as instruments to determine the suitability and appropriateness of reforms, actions and other measures in an Islamic economy (Monzur-E-Elahi, 2011). Since Islamic banks are institutions established to assist an Islamic economy, they should follow the guidance and directions of *maqāṣid al-Sharīāh* (Mohammad & Shahwan, 2013). Accordingly, Islamic banks should fulfil the *maqāṣid al-Sharīāh*, namely: “protection of faith, protection of life,

protection of intellect, protection of family and protection of wealth” (Rosmanidar et al., 2021). These *maqāṣid al-Sharīāh* can be operationalized in modern Islamic banking as follows.

Protection of Faith

Literally faith means trust in a concept (Rawls, 2010). However, technically it refers to belief in the oneness of God, belief in the existence of His angels, His messengers, and His books, belief in the Day of Judgement and belief in the *qadr* (Divine Decree). From the perspective of Islamic banking, protection of faith can be measured on the basis of its outcome, as belief in the above-stated pillars of Islam demands righteous deeds that include seeking *ḥalāl* incomes and prevention from *ḥarām* means. Consequently, it is the social responsibility of Islamic banks to create opportunities for their clients to earn *ḥalāl* income and abstain from *ḥarām* in their financial transactions (Mohammed et al., 2015).

Protection of Life

Protection of life means to protect someone from being killed without any justice. It also includes to educate people to take care of their health. However, contemporary scholars add some other elements to this basic concept of protection of life. For example, Javed et al. (2020) cited that Ibn-Ashur extended the concept of protection of life by rephrasing it as “preservation of human dignity and human rights”. Chapra (2008) added that “an essential corollary of human dignity is that need fulfilment must be realized through the individual’s effort. The jurists have, therefore, emphasized that without fulfilling this obligation of earning a living through his effort, a Muslim may not even be able to maintain his body and mind in a state of adequate health and efficiency”. Therefore, it can be argued that Islamic banks should not only focus on their profit maximization goal, instead, they should also fulfil their social responsibility to provide financing to the underprivileged so that they can also pursue respectable means of earnings.

Protection of Intellect

Intellect means the ability to understand something and take decisions accordingly. Protection of intellect demands avoiding the use of those things that deteriorates it such as intoxicants. Contemporary scholars extended this concept by including “strengthening the intellect through learning and spreading the knowledge”. Thus, Islamic banks can achieve this objective by conducting workshops and training sessions and by distributing donations for educational purposes from their own equity (Zaheer & Rasool, 2017).

Protection of Family

Protection of family refers to protecting the rights of offspring that includes recognition of one’s descendants by avoiding illegitimate sexual relationships, evading abortion and infanticide. Contemporary scholars extend the concept of ‘protection of family’ by rephrasing it as ‘care of family’. This concept can be applied to Islamic banking by considering Islamic bank as an artificial person because it operates as a limited company. Accordingly, stake-

holders of Islamic bank can be considered as its family members (Mohammed et al., 2015). Consequently, Islamic banks can achieve this objective by offering attractive remuneration to their employees, pay good return to their depositors, distribute just and fair dividends to their shareholders and offer satisfactory services to their customers (Javed et al., 2022).

Protection of Wealth

Protection of wealth refers to preserving someone's property from being destroyed and protecting someone from being deprived of his property. However, contemporary scholars extend this concept by including "growth of wealth, economic development and minimizing income and wealth disparity". Islamic banks can achieve this objective by pursuing profitable projects and avoiding investment in risky projects.

Islamic banks can differentiate themselves from their conventional counterparts by realizing the above-stated *maqāsid al-Sharīah* (Mohammad & Shahwan, 2013). However, empirical studies have found that, while pursuing their goal of profit optimization, Islamic banks ignore the achievement of these *maqāsid al-Sharīah* (Baghallab & Chaar, 2021; Javed, Ayaz, & Kalim, 2020). Consequently, it is vital to find out ways through which top management of Islamic banks can be persuaded to focus on their *maqāsid al-Sharīah* oriented performance so that the purpose of the existence of Islamic banks can be justified. In this context, the purpose of the present study is to evaluate the impact of *maqāsid al-Sharīah* Orientation on financial performance.

The structure of the remaining paper is as follows: section 2 covers the literature review, section 3 explains the methodology used in the study, section 4 analyzes the results, and section 5 concludes the paper.

LITERATURE REVIEW

The Islamic worldview asserts that Allah has appointed man as His Kahlifah (vicegerent) and endowed resources to him as an Amanah (trust) so that they can be used for the benefit of the whole world. (Al-Qur'ān 2:30). Accordingly, wealth should be perceived as *fadl-e-Allahi* (bounty from Allah) and should be attained through permissible means (Al-Qur'ān 4:29). Acquiring wealth through permissible means brings barakah (Divine blessing), which results in an increase in the usefulness of wealth. It can be inferred from this notion that obeying the Shariah commandments brings affluence. Accordingly, a positive relationship between *maqāsid al-Sharīah* oriented performance, and financial performance can be expected. Some conventional and ethical theories also endorse the notion that there is a positive relation between social and financial performance. For example, the social impact hypothesis proposes that meeting the expectation of all stakeholders improves a firm's reputation, which subsequently improves financial results (Preston & O'bannon, 1997). Similarly, good management theory argues that a firm can achieve a competitive advantage by fulfilling the aspirations of all stakeholders (Miles & Covin, 2000).

Empirical literature on *maqāsid al-Sharīah* oriented performance can be classified into three groups, as summarized below.

Constructing the *maqāṣid al-Sharīah* Oriented Performance Index

The first group of empirical studies focused on developing *maqāṣid al-Sharīah* oriented performance indices. Among these studies, the research of [Dzuljastri & Mohammed \(2008\)](#) is the earliest one that constructed *maqāṣid al-Sharīah* oriented performance index. However, their index was criticized due to its narrow scope as it was based on only three *maqāṣid al-Sharīah*, namely “educating the individual, establishing the justice and protecting public interest”. Later, [Mohammed et al. \(2015\)](#) constructed performance evaluation framework based on Ashur’s reinterpretation of *maqāṣid al-Sharīah* highlighted by Al-Ghazali. The model introduced various factors and related ratios to measure these *maqāṣid al-Sharīah*. These ratios include investment in *mushārah* and *mudārah* financing, CSR in education, research and training expenses and investment in the real sector. However, it is argued that some of their specified factors are not relevant such as “level of government support towards Islamic banking and providing funds to the poor Muslim”. Similarly, in another study, the *maqāṣid al-Sharīah* appraisal framework was constructed using several elements suggested by some earlier studies ([Asutay & Harningtyas, 2015](#)). However, the framework was criticized due to its reliance on qualitative data, which is not a precise representation of actual performance. Likewise, by applying Analytic Network Process, [Ascarya & Sukmana \(2016\)](#) constructed ‘Islamic bank *maqāṣid* Index’ that was based on 42 criteria suggested by ([Chapra, 2008](#)). However, their index was disapproved by many contemporary scholars because most of the dimensions and associated elements cannot be computable due to their abstract nature. These elements include “dignity, mental peace and freedom”. Similarly, another study constructed *maqāṣid al-Sharīah* oriented performance index using four elements of Al-Ghazali model; namely, “protection of wealth, protection of faith, protection of life and protection of intellect” ([Zaheer & Rasool, 2017](#)). However, the index has limited applicability as it ignores ‘protection of family’ element and proposed incomputable ratios to measure ‘protection of intellect’ element. Comparatively, in a recent study, [Javed et al. \(2020\)](#) constructed *maqāṣid al-Sharīah* oriented performance index based on Al-Ghazali model. Using social accounting concept and service profit chain logic, they introduced computable ratios for primary *maqāṣid al-Sharīah*. These ratios include “percentage of financing in non-controversial modes, percentage of charity distributed for health and educational purposes and percentage of distribution of profits and other income to different stakeholders”.

Determinants of *Maqāṣid al-Sharīah* Oriented Performance

The second group of empirical literature explored the determinants of *maqāṣid al-Sharīah* oriented performance. However, there are only a few studies that fall into this group. For example, [Amaroh & Masturin \(2018\)](#) explore the determinants of *maqāṣid al-Sharīah* oriented performance. They measured *maqāṣid al-Sharīah* oriented performance using the index developed by [Dzuljastri & Mohammed \(2008\)](#). They used four years data (2014-2017) from Indonesian Islamic banks and considered three factors as possible determinants of *maqāṣid al-Sharīah* oriented performance, namely, financing based on profit and loss sharing modes, cost efficiency and risk aversion. Their study found that profit and loss-sharing financing has positive whereas risk-taking behavior has a negative relationship with *maqāṣid*

al-Shariāh oriented performance. However, the study has limited scope as it ignored other Shariah compliant modes of financing such as *ijārah*. In another study, [Rahman & Haron \(2019\)](#) explored the determinants of *maqāṣid al-Shariāh* oriented performance by taking five years' data (2012-2016) from Indonesian Islamic banks. They measured *maqāṣid al-Shariāh* oriented performance using the index developed by [Mohammed et al. \(2015\)](#). Their study revealed that the size of Shariah board, Shariah board members associated with more than one Islamic bank, doctorate qualification of Shariah board members and reputation of Shariah board members positively impact *maqāṣid al-Shariāh* oriented performance. Likewise, [Kee et al. \(2019\)](#) explored the impact of financial indicators on two *maqāṣid al-Shariāh* namely, "establishing justice and public interest". Taking eight years data (2011-2018) from four Malaysian Islamic banks, they found a significant positive relationship among the stated *maqāṣid al-Shariāh* and financial indicators. In a recent study, [Mergaliyev et al. \(2021\)](#) explored the determinants of *maqāṣid al-Shariāh* oriented performance by measuring *maqāṣid al-Shariāh* oriented performance using the index developed by [Asutay & Harningtyas \(2015\)](#). Their sample consisted of 33 Islamic banks operating in 12 countries. By analyzing nine years data (2008-2016), they found that Muslim population, Shariah governance, CEO duality (i.e., a CEO who is also the chairman of the board of directors), and leverage impact positively on *maqāṣid al-Shariāh* oriented performance. In another study, [Muhammad et al. \(2021\)](#) explored the impact of Shariah board characteristics on Shariah compliance using data from different Asian countries for the nine years' period (2010-2018). Shariah board characteristics included board size, education, expertise, cross membership, rotation of Shariah board members and their remuneration. Their findings revealed that Shariah board size has negative whereas expertise and education have positive relationship with Shariah compliance.

Impact of *Maqāṣid al-Shariāh* Oriented Performance on Profitability

The third group of empirical studies examined the relationship between *maqāṣid al-Shariāh* oriented performance and the financial performances of Islamic banks. However, there are only a few studies that relate to this group. For example, [Widarjono et al. \(2018\)](#) examined the effect of *maqāṣid al-Shariāh* oriented performance on the economic profitability of 13 Islamic banks operating in Indonesia. They measured *maqāṣid al-Shariāh* oriented performance using three proxies, namely "*Maqāṣid al-Shariāh* Index, *muḍārabah* financing and *mushārah* financing". The results showed that *maqāṣid al-Shariāh* oriented performance Index had no impact on economic profitability, whereas *muḍārabah* financing had a negative and *mushārah* financing had positive influence on financial performance. However, the implications of this study are limited as the study is based on only three *maqāṣid al-Shariāh* suggested by [Dzuljastri & Mohammed \(2008\)](#). In a similar study, [Hosen et al. \(2019\)](#), examined the relationship between *maqāṣid al-Shariāh* oriented performance and profitability. They measured *maqāṣid al-Shariāh* oriented performance on the basis of three objectives, namely, "educating individuals, justice and public interest". Their study used three years' data (2010-2012) taken from the annual reports of eight Islamic banks operating in Indonesia. The results revealed insignificant relationship between *maqāṣid al-Shariāh* oriented performance and financial performance. Similarly, [Hidayat et al. \(2019\)](#) also measured relationship between

maqāṣid al-Sharīāh index and profitability. The sample of the study consisted of six Islamic banks operating in Indonesia with six years data (2010-2015). They measured profitability as return on assets, whereas *maqāṣid al-Sharīāh* oriented performance was measured using the index developed by [Dzuljastri & Mohammed \(2008\)](#). The finding of the study has shown that a composite *maqāṣid al-Sharīāh* oriented performance index positively impacts profitability. However, considering individual *maqāṣid al-Sharīāh*, only public interest has a positive relationship with return on assets. On the other hand, educating individuals and justice have no association with the return on assets. Nevertheless, the efficacy of these findings are limited as the study is based on only three *maqāṣid al-Sharīāh* and ignores the most important *maqāṣid al-Sharīāh* i.e., ‘protection of faith’. In a recent study, [Mursyid et al. \(2021\)](#) also examined the relationship between *maqāṣid al-Sharīāh* oriented performance and financial performance. They measured *maqāṣid al-Sharīāh* oriented performance using the index developed by [Dzuljastri & Mohammed \(2008\)](#); whereas financial performance is measured as return on asset. By examining five years’ panel data (2014-2018) from seven Indonesian Islamic banks, they found that there is a positive relationship between return on asset and *maqāṣid al-Sharīāh* oriented performance.

The above discussion concludes that the studies analyzing the impact of *maqāṣid al-Sharīāh* oriented performance on financial performance are limited in their scope. They either evaluate the impact of a composite *maqāṣid al-Sharīāh* oriented performance index or examine the influence of only a few individual *maqāṣid al-Sharīāh*. As a result, they ignore some important *maqāṣid al-Sharīāh* as pointed out by [Javed et al. \(2022\)](#). This infers that there is a research gap that requires evaluation of the relationship between major *maqāṣid al-Sharīāh* and financial performance. Accordingly, the present study contributes to the existing literature by covering the influence of all the five *maqāṣid al-Sharīāh* from Al-Ghazali’s model that can be considered as primary objectives because all the other objectives, introduced by contemporary scholars, are their extension ([Chapra, 2008](#)). As per the authors’ knowledge, no previous study has explored the impact of these primary objectives on the financial performance of Islamic banks operating in Pakistan.

The above review of literature also suggests that a positive relationship exists between *maqāṣid al-Sharīāh* oriented performance and the financial performance of Islamic banks. Accordingly, the present study develops the following hypothesis. H1: Individual *maqāṣid al-Sharīāh* based performances positively influence the financial performance of Islamic banks. Since there are five individual *maqāṣid al-Sharīāh*, the above-stated hypothesis can be expressed into five sub hypotheses as listed below:

H1a: Protection of faith-based performance positively influences the financial performance of Islamic banks.

H1b: Protection of life-based performance positively influences the financial performance of Islamic banks.

H1c: Protection of intellect-based performance positively influences the financial performance of Islamic banks.

H1d: Protection of family-based performance positively influences the financial performance

of Islamic banks.

H1e: Protection of wealth-based performance positively influences the financial performance of Islamic banks.

METHODOLOGY

The present study examines the influence of five *maqāṣid al-Sharīāh* oriented performances on the financial performance of full-fledged Islamic banks operating in Pakistan. As there are only five full-fledged Islamic banks operating in the country, the whole population is considered as a sample of the study. Following similar studies, Islamic branches of conventional banks are excluded (Zaheer & Rasool, 2017). Additionally, full-fledged Islamic banks operating in other countries are also ignored as social performance indices have national pattern (Asif & Batool, 2017), therefore, an index appropriate for one country cannot be suitable for another country.

Secondary unbalanced panel data for the period 2008-2020 has been taken from the annual reports of all the five full-fledged Islamic banks operating in Pakistan. Thirteen years' data (2008 to 2020) has been collected from the annual reports of Meezan Bank, Al-Barka Bank, Bank Islami and Dubai Islamic Bank, whereas only five years' data (2016-2020) has been collected from the annual reports of MCB Islamic Bank. Consequently, the sample consists of 57 observations ($13 \times 4 + 5 \times 1 = 57$) for each variable. Sample size cannot be increased because annual reports prior to 2008 do not disclose relevant data. Nevertheless, the data is sufficient for panel data analysis (Arshad et al., 2012). Some earlier studies also used small set of data (Kee, Ason, Bujang, & Jidwin, 2019; Zaki, Sholihin, & Barokah, 2014). The following Model is used to examine the influence of *maqāṣid al-Sharīāh* orientation on financial performance.

$$ROAA_{it} = \int (Faith_{it}, Life_{it}, Intellect_{it}, Family_{it}, Wealth_{it}, CV_{it}) \quad (1)$$

Where:

$ROAA_{it}$ Return on Average Asset of bank i in year t .

$Faith_{it}$ Protection of faith-oriented performance of bank i in year t .

$Life_{it}$ Protection of life-oriented performance of bank i in year t .

$Intellect_{it}$ Protection of intellect-oriented performance of bank i in year t .

$Family_{it}$ Protection of family-oriented performance of bank i in year t .

$Wealth_{it}$ Protection of wealth-oriented performance of bank i in year t .

CV_{it} Control variables of bank i in year t .

Following sections explain these variables.

Dependent Variable

Financial performance of Islamic banks is the dependent variable of the present study. Existing literature measures financial performance using various proxies which include both accounting based and market based measures. Although each of these measures has its own constraints, nevertheless, accounting based measures are preferred and extensively used

especially to assess the financial performance of banks [Platonova et al. \(2018\)](#). Among accounting based measures return on average asset (ROAA) and return on average equity (ROAE) are widely used. However, ROAA is preferred over ROAE as ROAE does not consider high risk that is associated with the higher leverage ([Dietrich & Wanzenried, 2011](#); [Jewell & Mankin, 2011](#)). Therefore, the present study used ROAA as a dependent variable which is measured as net income to average total assets.

Independent Variables

The study uses five independent variables that represent *maqāṣid al-Sharīāh* orientation, namely, protection of faith, protection of life, protection of intellect, protection of family and protection of wealth. The study measures these variables using the indices developed by [Javed et al. \(2020\)](#) as shown in Table 1. This index is also used by [Javed et al. \(2022\)](#).

TABLE 1
Independent Variables Reflecting Individual *Maqāṣid al-Sharīāh*

Variable	Elements	Weight
Faith	Non-controversial financing/total financing	0.5
	Non-controversial investment/total investment	0.5
	Faith Index Total	1
Life	Individual Financing/Total Financing	0.31
	Charity distributed/Distributable Charity	0.32
	Charity for health & welfare /Total charity	0.37
	Life Index Total	1
Intellect	Investment in Technology/Investment in Operating Assets	0.22
	Advertisement Expense/Total Expense	0.24
	Charity for Education/Total charity	0.54
	Intellect Index Total	1
Family	Value distributed to employees/total value added	0.19
	Value distributed to depositors/total value added	0.27
	Value distributed to shareholders/total value added	0.26
	Value distributed to government/total value added	0.08
	Bank's Financing/Total Financings of IB's Sector	0.2
	Family Index Total	1
Wealth	Net financing/gross financing	0.25
	Liquid asset/total deposit	0.2
	Profit after tax/Net assets	0.35
	Available capital/ risk weighted assets	0.2
	Wealth Index Total	1

Source: [Javed et al. \(2020\)](#)

Using the weights given in Table 1, the five independent variables will be measured as follows:

$$Faith = \sum W_j E_j \dots \dots \dots (Eq.3.1)$$

$$Life = \sum W_j E_j \dots \dots \dots (Eq.3.2)$$

$$Intellect = \sum W_j E_j \dots \dots \dots (Eq.3.3)$$

$$Family = \sum W_j E_j \dots \dots \dots (Eq.3.4)$$

$$Wealth = \sum W_j E_j \dots \dots \dots (Eq.3.5)$$

Where

W_j Weight of the Element

E_j Value of the Element

Control Variables

The present study uses four control variables following the suggestions of the previous studies. These control variables include capital ratio, operating expense ratio, liquidity risk and capital intensity. Banks having higher capital ratios are in a better position to follow up various profitable opportunities (Platonova et al., 2018). Similarly, effective management of operating expense improves profitability. Therefore, operating expense and profitability has negative relationship (Simpson & Kohers, 2002). Likewise, liquidity risk restricts banks to invest in other business opportunities, whereas liquid asset improves banks' profitability (Widarjono et al., 2018). Similarly, capital intensity has a negative relationship with profitability as banks with a high capital intensity ratio have high operating leverage and depreciation cost (Maqbool & Zameer, 2018). Following previous studies, the present study measures capital ratio as "equity capital to average total assets" (Platonova et al., 2018), operating expense ratio as "total non-interest expense to average total assets" (Iskandar, 2017; Simpson & Kohers, 2002), liquidity risk as "total financing to total assets" (Hassan et al., 2019; Widarjono et al., 2018) and capital intensity as "fixed assets to total assets" (Lee & Xiao, 2011; Maqbool & Zameer, 2018).

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 shows descriptive statistics relating to the dependent, independent and control variables of the present study.

The minimum and maximum values of ROAA range between 0.019 and -0.031. The value of mean is recorded at 0.0027 whereas the value of standard deviation is registered at 0.0099. The value of standard deviation is higher than the mean value showing that ROAA is over dispersed. This means that the data of ROAA is not following homogenous sequence. A possible justification for this overdispersion is that some banks reported profits while others showed losses during the same period.

As far as independent variables are concerned, the maximum value of faith is reported at 1.000 (indicating 100% Shariah compliance), whereas its minimum value is registered at 0.753 (indicating 75% Shariah compliance). The value of the mean is 0.941, while the standard deviation is reported at 0.077. The value of mean is larger than the reported standard deviation which demonstrates that faith is under dispersion, i.e., the data of faith is following

identical sequences for the selected banks as faith oriented performance of all the selected banks is declining over the studied period.

TABLE 2
Descriptive Statistics

	N	Max.	Min.	Mean	SD
ROAA	57	0.0191	-0.0311	0.0027	0.0099
Faith	57	1	0.753	0.941	0.077
Life	57	0.717	0.031	0.474	0.158
Intellect	57	0.704	0.025	0.273	0.177
Family	57	0.378	0.231	0.278	0.024
Wealth	57	0.425	0.25	0.341	0.04
CapRto	57	0.5309	0.047	0.1098	0.0806
OprExp	57	0.0791	0.0229	0.0387	0.0129
LiqRsk	57	0.8474	0.0063	0.5245	0.2059
CapInt	57	0.1	0.006	0.0332	0.021

The values of life are reported between 0.717 and 0.031 while the standard deviation is registered at 0.158, and the mean value is reported at 0.474. The value of mean is above the reported standard deviation stating that the data of life is under dispersed i.e., protection of life based performance of all the five banks is similar. The values of intellect range between 0.704 and 0.025. The value of the mean is reported at 0.273 whereas the standard deviation is registered at 0.177. The mean value is larger than the reported standard deviation showing that data relating to intellect is under dispersed, i.e., the analyzed data is following homogenous sequence during the studied period. The values of the family are reported between 0.378 and 0.231. The value of the mean is registered at 0.278, whereas reported standard deviation is 0.024. The higher mean value as compared to the standard deviation indicates that data of family is under dispersed i.e., data is following identical pattern. The values of wealth are recorded between 0.425 and 0.250. The value of mean is recorded at 0.341 and the standard deviation is reported at 0.040. The reported mean value is greater than the recorded standard deviation showing that wealth is under dispersed, i.e., the data follows identical sequences for the sampled banks.

As far as control variables are concerned, the values of the capital ratio range between 0.531 and 0.047. The value of the mean is reported at .1098, while standard deviation is recorded at 0.086. The lowest value for operating expense ratio is recorded at 0.0229 whereas the largest value is registered at 0.791. Its mean value is 0.0387, and the related standard deviation is reported at 0.0129. The values of liquidity risk range between 0.0063 and .8474 and the related mean value is reported at 0.5245, whereas the associated standard deviation is registered at 0.2059. The highest and lowest values of capital intensity is recorded at 0.100 and 0.006, respectively. The value of the mean is recorded at 0.033, whereas the related standard deviation is registered at 0.021. The values of mean of all the control variables are greater than the values of their relevant standard deviations. This shows that all the control

variables are under dispersed demonstrating that their data is following identical patterns throughout the studied period for the sampled banks.

Diagnostic Tests

A few diagnostic tests have been applied to examine the validity of the data for specific regression analyses. Pearson correlation matrix is performed to check the existence of multicollinearity. Wooldridge test is performed to check autocorrelation. Modified Wald test is performed to examine heteroscedasticity. Hausman and Redundant effect tests are performed for model selection among OLS, random effect and fixed effect models. However, since data consists of more than 30 observations for each variable, it is assumed that the data is normally distributed following the guidance of the central limit theorem (Gravetter & Wallnau, 2016).

P-value of the redundant effect test (0.000) suggests that the fixed effect model is suitable as compared to OLS. *P*-value of Hausman test (0.000) suggests that fixed effect is more suitable than random effect. *P*-value of Modified Wald test (0.000) suggests that heteroscedasticity exists in the data. This issue is settled by applying fixed effects model with robust standard errors. *P*-value of Wooldridge test (0.978) indicates that no autocorrelation exists in the data.

Pearson correlation matrix, as shown in table 3, shows that multicollinearity does not exist among the variables as their correlation values are less than 0.8 (Brooks, 2008).

TABLE 3
Pearson Correlation Matrix

	ROAA	Faith	Life	Intellect	Family	Wealth	CapRto	OprExp	LiqRsk	CapInt
ROAA	1									
Faith	-0.269	1								
Life	0.245	-0.14	1							
Intellect	0.197	-0.378	-0.465	1						
Family	-0.062	0.037	-0.176	-0.007	1					
Wealth	0.7	-0.248	-0.001	0.264	0.096	1				
CapRto	-0.41	0.305	-0.19	0.057	-0.266	-0.011	1			
OprExp	-0.063	0.439	-0.07	-0.342	-0.247	-0.213	0.739	1		
LiqRsk	-0.213	-0.292	0.07	0.252	-0.505	-0.143	0.52	0.297	1	
CapInt	-0.682	0.388	-0.233	-0.2	-0.091	-0.232	0.767	0.792	0.164	1

Results and Discussion

The results of regression analysis are displayed in Table 4. The model significance of the model demonstrates that the regression model is highly significant. The value of R^2 suggests that the model explains 79% variation in ROAA. *P*-values of all the independent variables indicate that only faith, family and wealth have a significant relationship with ROAA. However, coefficient values show that this relationship is positive in case of faith and wealth and negative in case of family. Accordingly, ROAA will increase by 3.87% if faith improves by one unit. Similarly, ROAA will increase by 14.9% if wealth increases by one unit. In contrast, ROAA will decrease by 14.8% if the family increases by one unit. On the other hand, these findings fail to find any significant relationship among life, intellect and ROAA. These results

support the first and fifth sub-hypotheses of the study that ‘protection of faith’ and ‘protection of wealth’ based performances positively impact financial performance. On the contrary, these findings reject the fourth sub-hypothesis of the study that ‘protection of family’ based performance positively influences financial performance. Similarly, these findings do not support second and third sub hypotheses of the study that ‘protection of life’ and ‘protection of intellect’ based performances have a positive influence on financial performance.

A possible reason of the positive relationship between the protection of faith oriented performance and financial performance is that the reliance on Shariah-compliant modes improves the reputation of Islamic banks and increases customer loyalty. This better relationship with customers consequently improves the financial results. These results are supported by the concept of barakah (Divine blessing) and the findings of [Hidayat et al. \(2019\)](#). However, these results are in contrast with the findings of [Widarjono et al. \(2018\)](#) who found that *maqāṣid* index has no impact on the financial results of Islamic banks operating in Malaysia. Similarly the protection of wealth oriented performance requires investment in most profitable projects that reduces the probability of losses. Therefore, there is a positive association between protection of wealth oriented performance and financial performance. [Javed et al. \(2022\)](#) also reported a positive relationship between these two variables.

TABLE 4
Panel Data Regression Analysis

	Coefficient	T-Values	P-Values
Faith	0.0387	1.87	0.070*
Life	0.0052	0.71	0.52
Intellect	0.0032	0.25	0.814
Family	-0.1488	-1.82	0.069*
Wealth	0.1497	4.26	0.000***
CapRato	0.0459	2.09	0.044 **
OprExp	-0.3432	-2.75	0.009***
LiqRsk	-0.0031	-0.32	0.753
CapInt	-0.2721	-2.8	0.008***
Constant	0.6562	0.75	0.461
Model Significance		19.35	0.000***
R^2			0.794

As far as control variables are concerned, capital ratio has significant positive relationship with ROAA. This confirms that banks having higher capital ratio are in better position to follow up various profitable opportunities. On the contrary, operating expense ratio has significant negative relationship with ROAA, indicating that banks should control their operating expenses to improve financial results. Similarly, liquidity risks also has a negative impact on ROAA as liquidity risk restricts bank to invest in other business opportunities. These findings are supported by the results of some earlier studies confirming the reliability of the stated model ([Maqbool & Zameer, 2018](#); [Platonova et al., 2018](#)).

Conclusion and Policy Implications

Islamic banks have been criticized due to their convergence towards conventional banks. This criticism is confirmed by their poor *maqāṣid al-Sharīāh* oriented performance. Therefore, it is important that Islamic banks improve their *maqāṣid al-Sharīāh* oriented performances so that they can differentiate themselves from their conventional counterparts. To motivate the management of Islamic banks, the present study evaluates the influence of five primary *maqāṣid al-Sharīāh* oriented performances on financial performance. These five primary *maqāṣid al-Sharīāh* include “protection of faith, protection of life, protection of intellect, protection of family and protection of wealth”. The study uses unbalanced panel data of five full-fledged Islamic banks operating in Pakistan for the period 2008-2020. Using fixed effects regression model, the study found a positive relationship between ‘protection of faith based performance’ and financial performance as well as ‘protection of wealth based performance’ and financial performance. These findings are consistent with the concept of barakah. The study also finds a significant negative relationship between ‘protection of family-based performance’ and financial performance. However, the study cannot find any significant relationship between ‘protection of life based performance’ and financial performance as well as ‘protection of intellect based performance’ and financial performance.

Policy Implication

The present study suggests that Islamic banks should improve their faith and wealth oriented performances to be more profitable and to differentiate themselves from their conventional counterparts.

Future Research Directions

The present study evaluates the impact of *maqāṣid al-Sharīāh* oriented performance on financial performance by taking a small data set. There is a scope for future study to examine this relationship by using larger data set, preferably from other countries.

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