

The Guidelines of Shariah Compliance and the Balanced Scorecard Measurements for Improvements in the Islamic Banks Performance in Malaysia

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Abstract

The assessment of the performance of the Islamic banks is still an unexplored area, and there is a limited perspective of performance evaluation, which affects the level of Islamic banking performance and remains arguable. This study has tried to conceptualized Kaplan & Norton's (1996, 2001) Balanced Scorecard and its comparison with the current presentation calculation structure of the Islamic banks. This study has introduced guidelines to the better output of Islamic banks for Shariah Compliance by using BSC measures. This study has found a useful connection among BSC estimates, attributes of Shariah Compliance, and Islamic banks' performance. Tremendous improvement has been seen by Banks, which used both; the BSC and Shariah estimates. The research was limited in its scope of investigation for implementation and applicability of the stabilized Scorecard theory (Kaplan and Norton, 1992) in the Islamic Banking Sector only due to time constraints. For future researchers, this study can also form a basis for establishing a more coherent model and an aspiration to improve the findings and results of this study.

Keywords: Shariah guidelines • Balanced scorecard • Islamic banks • Performance • Malaysia

Introduction

Islamic banking is rooted back to 1963 when the devotee aid Board or 'Lembaga Tabung Haji' (LTH) constructed to yield profits without being contaminated by 'Riba (interest)'. This board, when legalized through a statutory process in 1983, lead to the base for the formation of Islamic banks under the IBA, promulgated on 7-04-1983, and Bank Negara Malaysia entrusted with the potential to manage as well as supervise all the Islamic banks likewise other licensed banks. On 1st July 1983, the BIMB start the first Islamic banking operations in the country, having R.M. 80 million as its initial paid-up capital [1].

Over the years in recent decades, the Islamic banking sector in Malaysia has not only reckoned as an influential force in the realm of the global economy but also became a rapidly growing industry. The Islamic banking sector is gaining popularity globally. Therefore, the international banking industry has admitted Malaysia as the leading Islamic banking center with the most progressive and attractive planning, strategic directions of development, and numerous incentives for nurturing this sector. It also impacts globally, and now this sector is considered as an essential factor for affecting and developing these indices for pair the Muslim community and the non-Muslim company. Since the first community has great concern about how much of returns they earned with Riba-free investments and the later city has its interest to assess and collate which bank has performed superior, either in the phrase of profits or social responsibilities. Although many Muslims entrust trust in the necessary abstraction of Islamic banking, they still have their discussion with the amount of Islamic banking presentation. Thus making the area on the judgment of Islamic banks unfamiliar and ceiling a more excellent perception of performance rating. Problems like non-compliance with Shariah governance

and illiteracy on the Islamic banking system can jeopardize their credibility and also guide to the short presentation of the department. Customers have confidence in the banks to grip their purse. Poor items and utility will cause an inadequate performance of the bank [2].

The centrality of non-money related measures has now expanded and in this way require new and distinctive kind of execution estimation framework as in their investigation. Johnson and Kaplan placate that the conventional administration bookkeeping frameworks, began during the modern age, are lacking, obsolete and insufficient to give any data to essential arranging, the board controlling and coercive dynamic in the present quickly changing and severe condition. In Malaysia, the utilization of previously mentioned new administration strategies has gradually picked up acknowledgment. Be that as it may, more data required on how organizations measure their exhibitions under these new conditions [3].

Numerous scientists like Kaplan and Norton demonstrated concerns concerning the common administration control frameworks (MCS), the executives bookkeeping frameworks (MAS) and execution estimation frameworks (PMS). They explicitly focused on common execution estimation frameworks as these disregarded the non-monetary segments proportions of methodologies and activities like creative items, client relationships, and administrations. This move of significant worth creation from unmistakable to elusive resources and from budgetary to non-money related nature has entangled the customary presentation estimation process. Extensive work in this field, done to counter the reactions of conventional execution estimation framework, yet because of the shortcomings and confinements of customary execution quantifies, an exhibition estimation framework require which can join money related just as non-monetary measures. Along these lines, new models, for example, the combined conduct calculation order level and execution crystal created. Our examination primarily centered around the same memo, which was created by Kaplan and Norton [4].

Kaplan & Norton in a try, to reduce the deficiency of customary performance calculate, developed a new model for performance evaluation, and they termed it a Balanced Score Card or BSC. This model was capable of covering both economic as well as a non-economic estimate of presentation and considered as a sophisticated presentation computation system. It worked by linking a chain of cause and result relationship among the view obtained from the strategy and planning of the organization. As proposed by

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the developers, the BSC consists of four execution proportions, i.e., Studying and extension viewpoint, Financial Perspective, Inside Business Perspective, and Client Perspective, to gain a better and increase deep-rooted economic results.

Since its inception, BSC became a widely used performance management tool. Still, there is a deficiency of standardization between a company in their perception of the term BSC and also mostly, researches on BSC were carried out on the United States and European based organizations. In contrast, nothing more done in Malaysia, especially in the Islamic banking sector. This study was motivated by an impulse to address these two problems. This research has started with the aim to investigate the BSC viewpoint within I.B., and the creation of connection among the BSC count with Shariah obedience to provide empirical evidence for the crash of Shariah obedience and BSC computes on I.B. production [5,6].

Review of Literature

As per Kaplan & Norton BSC can assist any firm in enhancing strategic feedback and learning, setting goals, lining up sophisticated capabilities, and calculate with tactical plans, which eventually results in clarified corporate vision and strategy. They devised four perspectives within the BSC structure, specifically; economic, operations and tuition, customer, and production. Even though an organization can ignore any one of these perspectives and still replace it in the temporary but business cannot disregard any of these in the long run, since they are interrelated. The whole framework is netted like a web and can explain in the form of the following chain; attitude and behavior of the employee affect the retention and customer satisfaction level. While the perspective of the customer will influence the satisfaction and retention of shareholders, and finally, the pleasure of shareholder influence employee gratification through incentives, bonuses, growth, and development of employees.

The examination directed by Tapanya demonstrated that lone concentrating on monetary proportions of consumer loyalty for the banks is insufficient as execution measure. Their outcomes portrayed that most clients were not happy with the company's exhibition, and they reasoned that a methodology is required that could concentrate on both monetary and non-money related execution pointers.

Because of a constrained research directed and provided details regarding BSC improvement, its execution, and its accomplishment in Islamic banks, the exact help for the BSC is somewhat un-only in the Islamic financial area. Chenhall expressed the evidence on the acknowledgment of the vital execution estimation framework, chiefly BSC had been generally untrustworthy because a little review work has done to affirm the impacts on wanted reliable results.

Numerous examinations on the BSC led by utilizing the case-based methodology, and there has been no exact research done. Since the idea of the balanced scorecard isn't extremely recognizable yet in the Islamic financial segment and particularly in Malaysia in this manner, it is reasonable to clarify the hypothesis of the stabilized record and subtleties of firing up a BSC post-administration in our investigation [7].

Balanced scorecard framework

As clear from Figure 1 or more referenced realities, the BSC system comprises four points of view and incorporates both money related and non-monetary proportions of execution, which permits an association to concentrate on its critical targets through adjusting these four viewpoints. The adequacy of the reasonable scorecard depends on its capacity to interpret the company's crucial technique into a thorough arrangement of execution measures.

Theoretical framework

The writing survey and the models of BSC lead this examination to propose a hypothetical system, as introduced in Figure 2. The conjectured connection between the free factors, for example, business methodology, BSC measures, and Shariah consistency and dependant variable, authoritative execution is

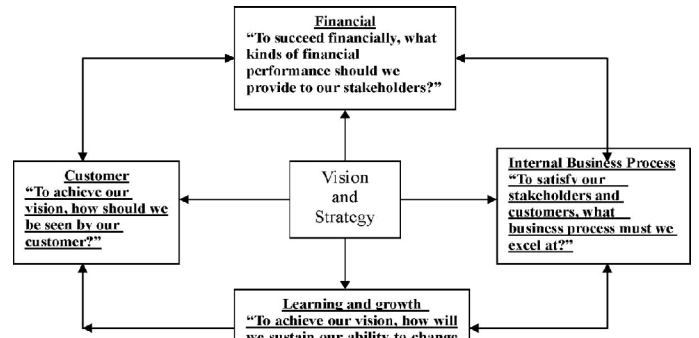


Figure 1. The BSC framework.

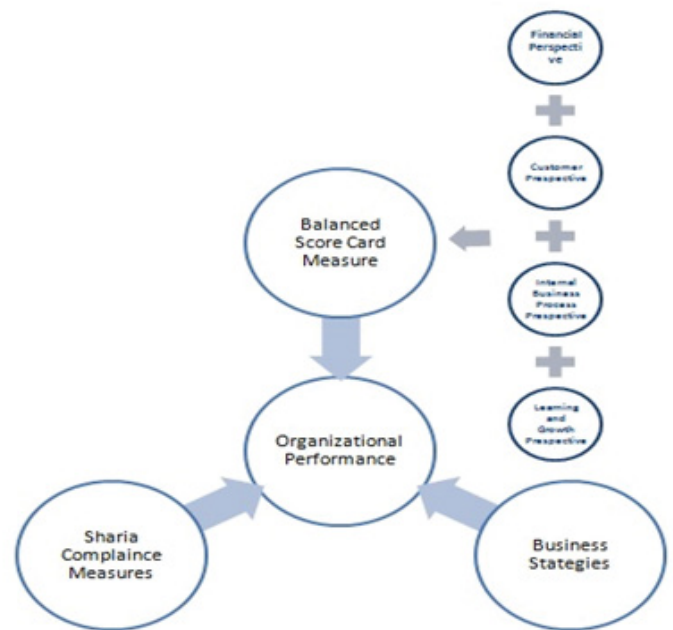


Figure 2. Theoretical framework of the study.

likewise delineated. This system is a feathered creature eye perspective on how this investigation will continue. In the examination structure, it accepts that there is a definite connection between the free factors and the needy variable, and the dependant factors, for example, business procedure, BSC measures, and Shariah consistency estimates relate with the independent variable, hierarchical execution. The elements alongside their relationship additionally talked about the outcomes and discoveries area of this examination [8].

Four BSC perspectives

The literature has also pointed out that four perspectives work within the framework of the Balanced Score Card. These were identified in the realm of the financial institution to achieve a level among the economic and the non-economic measures of performance, inter and outer measures of production, and among present and future performance measures by adopting Kaplan & Norton methodology. These four are now hereunder explained.

Financial perspective

It means that how shareholders looked at an organization is an end product approach. It is the primary outcome or focused result in the BSC framework of a company. It decides the financial benefits or economic sequences of the measures already adopted by the organization. It's purely in terms of monetary benefits based on the financial performance of the organization in a competitive environment. In any case, in the present quickly changing business condition, an association ought not to be taken a gander at from money related points of view just; it ought to likewise be taken a gander at from non-budgetary viewpoints also. As talked about in the presentation, numerous analysts

reprimanded money related measures based on their momentary center, their inability to mirror an exceptional worth creation, and their powerlessness to improve consumer loyalty, item quality, and worker inspiration. Hence, to defeat these constraints, some non-money related viewpoints have been remembered for the system of this investigation in particular; customer attitude, internal business action belief, and learning and growth opinion with a plan to have a fair and incorporated presentation measure.

Customer perspective

Customer perspective or how customers looked at an organization has become a combined mission for many industries nowadays. Financial organizations require information from clients to evaluate their expectations and satisfaction, so they could build a strategy that would meet and respond to customers' wants and needs. Thus, BSC required managers to express their mission assertion into particular calculations that would throw back the elements that concerned the customer services.

The client's point of view is useful in surrounding a system that can make an incentive for the client. This point of view helps association in interfacing its inside business forms with client relationships. The consumer thinking usually integrate a few centers estimates that may incorporate customer loyalty, the client lost/won, client objections, on-time conveyance, and deals from new items.

To improve the exhibition regarding client viewpoint, Islamic banks as a budgetary organization need to concentrate on five primary client concerns, for example, time, quality, execution, administration, and cost. The everyday purposes for customers' performance are caliber items, in time conveyance to clients, organized clients' decisions, and create things that are solid, inventive, and receptive to the necessities of the clients.

Internal business process perspective

Organization essential shine at comes after the development of the customer perspective, the organization must translate its customers' expectation into its internal regularizations. Accordingly, the inside business process viewpoint centers around the internal procedures that must exceed expectations, so an association can include an incentive in their administrations through consumer loyalty and can create monetary benefits for its investors.

Inner business process measures are the operational procedures of the specialty unit that spoke to inside the BSC model. It depends on the idea that the business must be proficient at what it does with the target of being skilled and compelling in delivering items or administrations as per clients' needs.

Learning and growth perspective

Once the three perspectives translated into visions and purpose of an industry, it has to improve & maintain a long-term value creation. Here the learning and development position becomes essential as it can create an environment to support organizational changes, innovation in services or products, and growth of an organization. Learning and evolution sentiment speaks to the measures for accomplishing exceptional outcomes in the core business action outlook, client viewpoint, and it eventually sways the budgetary point of view.

Learning and development represent the representatives as part of the four columns that utilized to quantify execution inside the BSC structure. It tied in with building up the abilities and procedures that would require for what's to come. It quantifies the degree of human asset ability in meeting future prerequisites. This viewpoint expresses that association must put resources into H.R., and the number of instructional meetings can estimate these speculations. With improved information and progressed talented workers, a superior survey of client's needs would bring about increasingly fulfilled clients.

Methodology

This examination utilized an online poll review technique to get essential cross-sectional information from the I.B. in Malaysia on the BSC estimates utilization, Shariah consistency, and their presentation. This technique utilized to distinguish the broad patterns and varieties in the usage of BSC calculations

and accentuation of the business system in the middle of banks. Rasch Statistical Model applied to the acquired information.

The majority of the banks in this investigation were from the Klang Valley. The banks were ordered as for their attributes and received estimates, which will be clarified later in the discoveries area. The names of the banks not uncovered because of classification. It noticed that Islamic banks that chosen in this examination don't embrace or utilize the undeniable BSC structure for the exhibition estimation. It was typical that there would be banks that were conceivably using a few components of BSC quantifies either entirely or mostly or tweaking it as per their necessities without knowing. Accordingly, in the poll, banks were gotten some information about their utilization of execution estimates, which are ordinarily utilized by numerous Islamic banks. Effectively used estimated by the banks were arranged into every point of view of BSC. At times, the measures used by these I.B. are, in actuality, a BSC known by various terms[9,10].

Information was broke down utilizing the Rasch Statistical Model because of a small example size. Before the data investigate for the theories testing, various primer examinations directed. The initial step to information investigation was to plan information into that position that is appropriate for the measurable model, which included coding, marking, characterizing factors, and allocating numbers to every reaction; afterward, they screened for potential mistakes and anomalies. The subsequent advance was to direct enlightening measurements to guarantee that all information was coded and to get the experimental outcomes and discoveries.

Results, Findings and Discussions

Demography of respondents

Table 1 below explains the poll facts, which include gender, business unit, landing place, and internship. A total of 14 defendants taken as sample size, 12 of them were male, making them 85.7% of the sample population, and two were female, making them 14.3% of the total sample population. Almost 64.3% of respondents were age 36 to 45 years, 28.6% were in 46 and above, and 7.1% fell under 26 - 35 years. Ten respondents were from the regional level making them 71.4 percent, and four were from the H.Q. of the bank, making them 28.6% of the total sample size. Nine respondents were bank managers making them 64.3%, and five respondents were bank employees making them 35.7%. Almost 50% of litigants working with the bank for less than five years, while 28.6 percent working for more than ten years, and 21.4% have been working among five to ten years.

Summary of statistics

Table 1. Respondents demographic data.

Category	Selection	Frequency	Percentage
Age Range	below 25	0	0
	26 to 35	1	7.1
	36 to 45	9	64.3
	More than 45	4	28.6
Business Unit	HQ	4	28.6
	Division within the H.Q.	10	71.4
	Branch in Malaysia	0	0
	Branch outside Malaysia	0	0
Designation	Worker	5	35.7
	Shariah Advisor	0	0
	Regulatory Officer	0	0
	Manager	9	64.3
Working Experience	Less than five years	7	50
	Five to ten years	3	21.4
	More than ten years	4	28.6
Gender	Male	12	85.7
	Female	2	14.3

As appeared by Table 2 beneath, an aggregate of 994 information focused on using 14 respondents on 71 things. The 994 reactions recorded were sufficiently huge to get regular individual assessments and helpful alignments. The data yielded a Chi-Square with an estimation of 1919.84, demonstrating a relationship among all the things. The Cronbach-Alpha (α) having an unwavering quality of 0.97 permitted further examination of the instrument. Table 2 explained that something unwavering quality was 0.77 showing satisfactory thing radius, and the human being mean (μ) of 1.76 at 0.18 mistake, considered the tools having a great thing focusing on (Fisher, 2008). The most extreme thing measure was +1.76 with ME:0.78, when contrasted with the most significant Person (respondent) capacity, remains at +3.61 with ME:0.22. With such estimations of markers, it is normal that the information can create factually stable outcomes. The original mean proportion of 1.76 likewise demonstrates that by and large, the probability of the respondents to be able [11,12].

Relationship between balanced scorecard and shariah compliance measures with I.B. performance

The first gathering was called Exemplar. They speak to them demonstrated praiseworthy qualities. It is the biggest gathering between the 4. The banks they speak to concur and bid the career technique, BSC count, Shariah consistency count, and hierarchical execution. They focused on the business, clients, and representatives. The model has accomplished the entirety of the Company Performance count relating to this examination. The subsequent gathering was named as Competent because they used all the count that was significant for Islamic banks except for Shariah count S17 (limiting the expense of activities) and S14 (decrease destitution). It shows by the things situated inside and beneath the logit proportion of the gathering. The appellant that has a place with this gathering is situating between a logit proportion of 1.76 and 1.4.

The contrast between Exemplars and Competent were:

Competent Islamic banks mostly concur that limiting the expense of activities (S17) to better execution has been accomplished by I.B.

Part I.B. halfway concurs that I.B has accomplished goals of lessening destitution (neediness annihilation) in the network (S14).

Production of Exemplar Islamic manages an account concerning rent (OP2), and innovative work exercises (OP9) have improved colossally contrasted with Competent I.B.

The 3rd gathering was called Mediocre. It is situating in the middle of 0.4 and 1.4l. It's unremarkable because they spoke to the average estimates utilized by I.B. in Malaysia.

What separates them from the gatherings above are:

They can't help contradicting the troublesome thing (S17 and S14); subsequently, they can't accomplish hierarchical execution OP2 and OP9.

As an outcome from conflict with exceeding calculate, Mediocre bank's

hierarchical execution OP10 (Personnel improvement), OP8 (latest item advancement), and OP3 (grade) have not expanded, when contrasted with epitome and unit banks. They were additionally less bold compared with the unit and epitome.

The 4th gathering was named Survivor. They situated underneath 0.4. They were the last gathering in the arrangement since they consented to the simple things and differed from the majority of the troublesome situations.

What separates them from the gatherings above are:

They differ from all the things utilized by past gatherings.

They halfway concurred with BSC count C12 (workers arrival and benevolence), C3 (Client obtaining), C9 (workers accessibility), C10 (workers speed and tolerance), C11 (employee aptitude and ability), C14 (No of latest records opened), C5 (workers objections) and C8 (vend entrance), E5 (worker advancement), E6 (workers picture and notoriety), P1 (benefit by item), P2 (No of exchanges), P3 (rent per item) and F5 (offshoot working expenses).

They incompletely concurred in utilizing Shariah's abidance count concerning I.B. targets of S18 (inflate item and administration class) and S5 (In agreement with clients inclination).

As an outcome from conflict with the high count, Survivor bank's authoritative execution OP4 (vend share), OP5 (Sales development cost), together with previously bring up hierarchical execution not accomplished by past gatherings, has not expanded when contrasted with Epitome, Capable and Mediocre banks.

The things recorded underneath the Item Mean were the things concurred by all the respondents. Things coincided with all the litigants and can observe as simple things yet imperative. To this examination to explain what is the count regular to every single I.B. below investigation.

The things are:

Level Scorecard count C10 (workers speed and understanding), C11 (workers aptitude and capability), C14 (No of latest records opened), C5 (Client protest), C8(vend entrance), C1 (Client maintenance), C7 (vend investment), C4 (Client pleasure), E4 (workers efficiency), E1 (workers turnover), E2 (workers preparing and advancement), P4 (vend investment per item), P5 (latest thing), F3 (back on net resources), F4 (back on value) and F1 (Bank productivity). BSC count F1 (Bank gainfulness) was recorded at - 3.54logit and was the last thing marked on the human-Item map. As indicated by Rasch, this thing is the least complicated thing that the whole individual concurred with the most noteworthy scale conceivable. It ought to erase because It is reasonable and rehearsed by all. Be that as it may, the scientist chose to remember this thing for the investigation since it is a significant measure to take a gander at even though all banks consented to this measure.

Shariah Compliance measures concerning I.B. targets. S25 (advance innovation utilization in performing banking exchanges). S6 (share in a

Table 2. Abstract statistics of measured 71 items.

Person	Item											
	Measure						Model					
	Model	Infit	Outfit		Measure	Model	Infit	Outfit				
Measure	Error	MNSQ	Z STD	MNSQ	Z STD	Error	MNSQ	Z	STD	MNSQ	Z STD	
Mean	1.76	0.18	0.99	-0.4	1.01	-0.3	0	0.41	1	-0.1	1.01	-0.1
S.D	0.97	0.02	0.44	2.4	0.49	2.6	0.94	0.05	0.51	1.3	0.47	1.2
Max	3.61	0.22	2.11	5.1	2.34	5.9	1.76	0.78	2.63	3	2.49	2.8
Min	0.2	0.16	0.53	-3.3	0.54	-3.3	-3.54	0.37	0.22	-3	0.25	-2.9
Person Reliability=.96												
Cronbach (KR-20)												
Item Accuracy=.77												
person raw score=.97												
Person Disconnection=4.78(ability level)						Partition=1.81 (Trouble level)						
S.E. OF human MEAN=.27						S.E. OF Item MEAN= 11						

profession where there is no 'Gharar'. S12 (Not misusing clients in any capacity). S16 (if work openings). S19 (benefaction suitable and dangerous budgetary items). S9 (encourage Islamic qualities and lifestyle towards partners). S2 (Shariah-consistent based). S4 (useful dependent on the lessons of the 'Quran' and 'Sunnah'). S1 (True to the teachings of Islam). S11 (Shariah board goes about as a guard dog while giving various items). S26 (filled in as an elective financial framework). S3 (A great automobile to advance Islamic qualities). S8 (No distinction from other business banks).

Organizational execution accomplished and expanded massively by every single Islamic bank under investigation were OP1 (capacity), OP6 (run benefits), and OP7 (back on speculation). Profession technique (B.S.) and the executive's procedure (M.S.), things were concurred entirely by the banks. The items are MS2 (production estimation framework achievement). BS2 (occupation procedure surely knew by representatives). BS4 (analysis and reevaluate count utilized by the presentation estimation framework at whatever point the occupation methodology changes). BS3 (Performance estimation framework got from the business technique). MS1 (Senior supervisory crew association in creating and executing execution estimation framework). BS1 (The business system much characterized)[13].

From these discoveries, it is intriguing to find that by accomplishing the business procedure, and the executive's methodology things just as utilizing the BSC and Shariah Compliance quantifies, the authoritative presentation of these I.B. can expand colossally. It appeared by the Exemplar banks and can be a gauge or rule to the next I.B. below investigation or somewhere else.

From Appendix 1, it can securely presume that the things at the highest point of the line were progressively troublesome, and the people at the most top end of the line were increasingly capable. As the elements move down the line, they got more straightforward, and the people turned out to be less intelligent. Things that spoke to troublesome BSC and Shariah count were, for the most part, situated at the top, which implies all Exemplars consented to the annoying stuff. At the same time, the other three gatherings differ from the troublesome count.

As can be found in Appendix 2, these four arrangements of the defendant were term by the things that spoke to occupation technique, BSC count, Shariah consistency count, and authoritative execution. In this way, they separated by the referenced items. It is the rule created from this investigation as a proposition for Islamic banks to follow.

Conclusion and Recommendations

It concluded through our results that only six banks decided to respond and use all the BSC and Shariah count that registered in our test, it also explained that those banks were in effect using the BSC without being aware of this fact. It revealed that the performance of these six banks showed an improvement over the past three years at a tremendous rate. Therefore, it can announce safely, that using the BSC as well as Shariah measures, the performance of the banks could become better. These findings lead us to categorize the banks in terms of the attributes they used and the performance they showed by using those attributes. Performance improving, Islamic banks should comply with all the characteristics mentioned in the study, which can be seen by the return of six Exemplar banks.

This examination has just centered the Islamic banks. However, the future specialists can apply the equivalent BSC gauges in different parts, for example, government associations, non-benefit, and the administration businesses, too, so they may show signs of improvement comprehension of the BSC ideas and its application. In any case, the first model ought to

be altered in like manner to achieve the strategic vision of the associations, similarly as the Shariah consistency for Islamic banks has been contemplated for this exploration. Some future analysts can likewise perform cross-country examination of the Islamic financial division of the economic ventures. At the same time, the methods may likewise utilize a similar strategy for poll studies, interviews, or/and contextual investigation techniques for additionally improved discoveries. Also, the exploration may turn out to be increasingly objective by utilizing optional information for execution where proper.

The outcomes demonstrated a +ve connection among BSC count, Shariah consistency, and bank execution, which portray that the examination has accomplished its target that utilizing the BSC count and Shariah consistence characteristics; Islamic banks can better their exhibition. Consequently, the banks ought to receive the recorded down rules alongside the BSC measures, and Shariah ascribes to accomplish a superior presentation, benefit, and achievement of Islamic currency advertise [14,15].

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