THE EFFECTIVE USE OF PERFORMANCE MEASUREMENT FOR VALUE-BASED INTERMEDIATION ADOPTION AMONG ISLAMIC BANKING INSTITUTIONS

Rina Fadhilah Ismail *, Engku Zaidah Engku Abdul Rahman **, Saunah Zainon ***, Hamezah Md Nor ****

* *Corresponding author,* Faculty of Accountancy, Universiti Teknologi MARA, Selangor, Malaysia
Contact details: Faculty of Accountancy, Universiti Teknologi MARA Selangor, Kampus Puncak Alam, 42300 Bandar Puncak Alam, Selangor, Malaysia
** Faculty of Accountancy, Universiti Teknologi MARA, Selangor, Malaysia
*** Faculty of Accountancy, Universiti Teknologi MARA, Johor, Malaysia
**** Faculty of Economics and Management, Universiti Kebangsaan Malaysia, Bangi, Malaysia

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Abstract

In the absence of appropriate measurement of value-based intermediation (VBI) to improve efficiency for business sustainability, this study aims to analyse the VBI Scorecard's usage effectiveness based on the Global Alliance for Banking on Values (GABV). The effective utilisation of performance measurement for Islamic banking institutions may ensure sustainable business through inclusive transparent reporting. The second aim is to understand the challenges in utilising VBI Scorecard (VBISC) in order to propose comprehensive measures. A qualitative interpretative case study approach was adopted by selecting two banks, Bank Alpha and Bank Beta, which are members of the VBI community of practitioners (CoPs), to obtain their views and further understanding of the use of current measures. Findings revealed that a generic measure of the VBISC enabled measuring the VBI performance from three aspects of performance: basic requirements, quantitative element, and qualitative element. However, its effectiveness in providing fair and adequate measures of VBI performance is still questionable. Hence, incorporating risk parameters into VBISC could facilitate decision-making among the VBI CoPs and stakeholders. Findings are expected to significantly enhance the literature on performance measurement, given this research area is scarce and vital to the Islamic banking sector.

Keywords: Value-Based Intermediation, Performance Measurement, Scorecard, Islamic Banking

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1. INTRODUCTION

Malaysia is globally recognised for leading in Islamic banking and finance (IBF). The success of the IBF system supported the country's economy through massive growth in financing activities (Arshad, Muda, Nair, & Baharudin, 2018). The Islamic financial institutions (IFIs), which have become increasingly familiar among Muslims, have been accepted and considered by Muslims as important entities in the financial system (Abdullah, 2019; Arshad et al., 2018). Although Islamic banking institutions (IBIs) market shares progressed four years before 2016, the market share of IBF was stagnant from 2016 at 28%. Hence, exploring other strategies is vital to maintaining growth and sustainability to improve market share (Abdullah, 2019; Zainul, 2018). A value-based intermediation (VBI) initiative includes a top-down commitment to strategising the best practices of the financial sector, anticipating positive and sustainable impacts on the economy, community, and environment. The strategies and aims are aligned to achieve shareholders' sustainable returns and long-term interests. Although VBI applies across the financial sector, the initial adoption is now only among IBIs. Principally, Islamic institutions strive to focus on value-based outcomes creation beneficial to the key stakeholders, such as financial consumers, investors, the government, and non-governmental organisations (NGOs). Hence, Islamic institutions must act beyond the typical functions of allocating funds and play a proactive role in the empowerment of the communities to be involved in beneficial economic activities (Malek, 2018a). Adopting VBI may create better financial inclusion for the communities, specifically among SMEs or the *B40 community*[1], to provide better quality and easy accessibility to financial services.

The VBI could ultimately add and enhance values for SME entrepreneurs and communities by developing a sustainable environment and economic growth and improving the IBIs shareholder returns. Hence, VBI outcomes should be appropriately measured to ensure holistic product offerings by IBIs in aiding SMEs' sustainability (Ahmad & Mahadib, 2020; Bank Negara Malaysia, 2018b). Therefore, adopting VBI is not only for box-ticking, but it is necessary for the improvement of efficiency and lowering the costs to produce better business sustainability (Biancone & Radwan, 2018). As the VBI is not a corporate social responsibility but is ingrained into the existing business (Malek, 2018b), an impact performance measurement is crucial in measuring whether adopting VBI among the community of practitioners (CoPs) could create values for the stakeholders. So far, no standard measures can fit all CoPs as they have different business nature, structures, and focus. Thus, a tool to assess VBI initiatives is crucial to enhance stakeholders' perception and reputation of IBIs' capabilities to offer timely and innovative products.

The VBI adoption is currently measured using the VBI Scorecard (VBISC) adapted from the Global Alliance for Banking on Values, known as GABV, which initially measures value-based banking performance globally (Mahyudin & Rosman, 2020). The GABV parameters are the closest and best fit to VBI adoption measures due to similar initiatives of GABV. The use of generic parameters in VBISC could result in lacking elements to measure the impactful outcome of social-focused initiatives, contrasting with the VBI aims of offering effective and meaningful programmes in fulfilling entrepreneurs' true needs (Liket, Rey-Garcia, & Maas, 2014; Serrano Pérez, 2017). Therefore, the study is driven by the escalating interest in how effective VBISC can be adapted in evaluating social impact initiatives in VBI adoption to ensure sustainable SMEs. Additionally, the study could create shared value among the stakeholders. Accordingly, the study examined the usefulness of existing VBISC components and identified the challenges of CoPs in utilising the VBISC. The findings could be helpful in proposing additional measures to the extended VBISC to strengthen VBI adoption in Malaysian IBIs.

This paper is divided into five sections. Section 2 reviews relevant literature on VBI adoption and performance measurement. Section 3 elaborates on the methodology used in conducting a case study approach. Section 4 presents and discusses the results. Section 5 summarises and concludes the paper.

2. LITERATURE REVIEW

2.1. Overview of VBI roles in facilitating sustainable SMEs

Bank Negara Malaysia took initiatives to promote VBI among IBIs aligned with the blueprint of the 2030 Agenda for Sustainable Development (the 2030 Agenda), highlighting 17 Sustainable Development Goals (SDGs) for global harmony and wealth creation for the present and future population. The IBIs implementation of VBI in Malaysia is timely in fulfilling the United Nations' work on the 2030 Agenda (Dhesi, 2022). The VBI concept was introduced by the Central Bank of Malaysia, Bank Negara Malaysia (to be referred to as BNM), and VBI CoPs to emphasise adopting Shariah-relevant practices, offerings, and conduct that produce positive and sustainable impacts on the economy, community, and environment, correspondent to the shareholders' sustainable returns and long-term interests.

The BNM issued a "*Value-based intermediation: Strengthening the roles and impact of Islamic finance*" paper (BNM, 2018a), which details the proposed implementation approaches and strategies to enhance VBI for the strategic direction of IBIs. Six strategic directions were formed to enhance the ecosystem of Islamic finance in Malaysia (see Table 1).

[1] Malaysians are categorised into three different income groups: Top 20% (T20), Middle 40% (M40), and Bottom 40% (B40).

Table 1. Six strategic directions of Islamic finance in Malaysia

Name	*The essence of the strategy*
Strategy 1	The Islamic banking industry adopts value-based intermediation as its shared vision.
Strategy 2	IBIs and the industry's key stakeholders mutually define the underpinning ideas of value-based intermediation as a basis for collective action.
Strategy 3	Regulators collaborate with industry players to nurture "potential champions" and highlight the success stories of VBI.
Strategy 4	IBIs to enhance disclosure on the intent in adopting VBI, supported with implementation strategy and performance report.
Strategy 5	Regulators collaborate with IBIs to develop and introduce VBISC as a collective and complementary measurement of success for the industry.
Strategy 6	The development of effective networking through establishing CoPs and strategic collaboration with the established value-based community, key partners, and stakeholders.

Source: BNM, 2018a.

The VBI is based on four underpinning ideas of Best Conduct, Good Self-governance, Entrepreneurial Mindset, and Community Empowerment. According to Tan Sri Zarinah Anwar, ex-Chairman of the Securities Commission, VBI implementation development demands a mindset change of the IBI directors and senior management to gain the desired values (The Edge Markets, 2009). The IBIs were initial efforts in building resilience towards sustainable Islamic finance in Malaysia. The institutions aim to assist entrepreneurs in developing businesses by promoting the adoption of sustainable business practices. Specifically, improving SME business practices through proper financial offerings.

The VBI adoption gradually improved CoPs' business practices through impact-based disclosure, comprehensive measurement, impact-based assessment, constructive collaboration, and inclusive governance (BNM, 2018a). The adoption provides more business opportunities beyond typical philanthropy-based activities as the value created produces sustainable economic value for the business and other stakeholders (Msamula, Vanhaverbeke, & Tutuba, 2018). Impact-based programmes should be conducted to meet organisations' preferences and interests in understanding impactful programmes and creating sustainable outcomes (Epstein & McFarlan, 2011; Costa & Pesci, 2022). Numerous scholars believe that impactful outcomes create values resulting in improved organisational and economic performance (Miller, 2015; Tate & Bals, 2018). Thus, enhanced values in SMEs are a key indicator of CoPs' VBI performance success, which indicates public confidence in performance improvement.

2.2. Performance measurements for impact-based initiatives

Accountability is a multidimensional concept comprising two essential dimensions: fiduciary accountability and performance accountability (Connolly & Hyndman, 2004; McDonnell & Rutherford, 2018). Meanwhile, the two sub-dimensions of performance accountability are process accountability (regarding the charity administration and the decision-making framework) and substantive accountability (regarding the outputs, outcomes, and impact of a charity concerning the mission-driven goals and objectives) (Frumkin, 2006; Saxton, Neely, & Guo, 2014). The two sub-components of the perceived nature of accountability are performance (non-financial performance and performance measurement) and conformance (financial report), which provide internal and external accountability to a wide range of stakeholders (Kloot, 2009; McConville & Cordery, 2018; Adams, Tweedie, & Muir, 2020).

Many studies have highlighted how capital market participants (businesses and fund providers) measure the value proposition of products and services for serving stakeholders' needs (Ebrahim & Rangan, 2014; Epstein & McFarlan, 2011; Hyndman & McConville, 2018; Liket et al., 2014). Numerous studies have also discussed the impact measurement regarding societies and NGOs, such as Costa and Pesci (2022), Tate and Bals (2018), and McDonnell and Rutherford (2018). Past studies argued about the performance measurement of corporate philanthropy activities surrounding capital market participants. Nevertheless, studies disregard the value creation of the activities and the impact on stakeholders and the general community (Chen, Yu, & Hu, 2018; Halkos & Skouloudis, 2017; Jankalová & Jankal, 2017; Salazar, Husted, & Biehl, 2012). The organisations could encounter the emerging needs of multiple stakeholders to form new target settings and strategise proper planning to address the needs (Migliavacca, Rainero, Puddu, & Modarelli, 2018).

Recent studies on the social value proposition emphasised how well organisations evaluated and presented the accomplishment of objectives and missions in specific dimensions of social impacts on more extensive groups of community and environments connected to SMEs (Liket et al., 2014; Bryan, Robichau, & L'Esperance, 2021). Ebrahim and Rangan (2014) define "impacts" as the effects on root causes producing sustained significant change. For instance, a sustained drop in poverty (obesity or illiteracy) or improvements in human development indicators (measured according to communities, populations, or ecosystems). Nevertheless, the impact is also defined based on specific and quantified social attribution in fulfilling stakeholders' demand for responsible actions that were also applied in numerous organisations. Generally, determining social performance measures allows stakeholders to assess, compare and decide about their investments (Dwyer, 2003; Ebrahim & Rangan, 2014).

Developing effective performance measures involves an anticipated participatory approach where the stakeholders participate in the setting comprising negotiation and re-evaluation of performance metrics or parameters for continuous improvement practice (Liket et al., 2014). Ebrahim and Rangan (2014) proposed using a logic model in developing social impact measurement. Figure 1 illustrates the model with fundamental components of inputs, activities, outputs, outcomes, and impacts. Although the logic model has been used extensively in the social sector, the model can also be used to identify the impacts and other performance parameter settings for for-profit organisations.

Figure 1. Logic model by Ebrahim and Rangan (2014)

Inputs →	**Activities** →	**Outputs** →	**Outcomes** →	**Impacts**
		Results: Immediate	**Results: Medium- and long-term**	**Results: Effects on root causes, sustained significant change**
• Funds • Equipment and supplies • Knowledge and technical expertise	• Basic needs, such as food and shelter, are fulfilled • Service delivery, such as job training and counselling, are provided • Infrastructure construction, such as transportation is provided	• People are being fed, sheltered, and treated well • People are trained or educated • Roads are built and goods are transported to market	• Quality of life, health, educational attainment, etc. are improved • Incomes (measured for individuals) are increased	• A sustained drop in poverty (or obesity, illiteracy, etc.) • Improvements in human development indicators (measured in terms of communities, populations, or ecosystems)

Epstein and McFarlan (2011) suggested a causal linkage map by categorising organisational resources into five main components of organisational activities: inputs, activities, outputs, outcomes, and impacts. The categories enable further analysis of each component, highlighting the vital component for setting effective performance measurements. Table 2 further elaborates on each key component of not-for-profit organisations' resources.

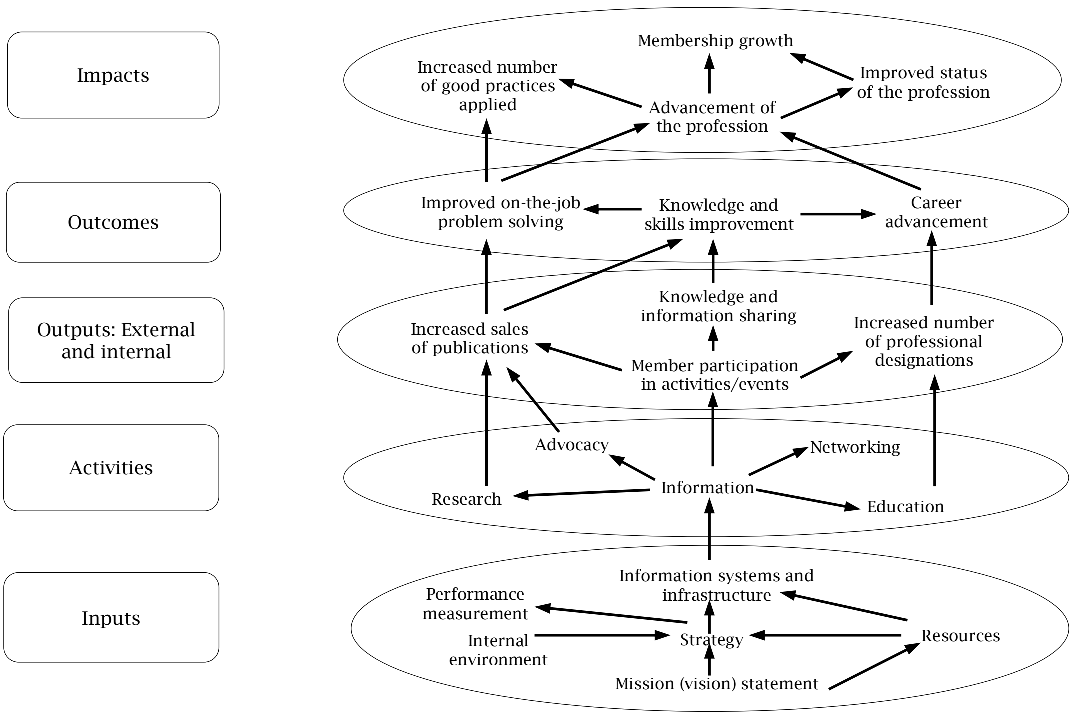
Table 2. Key components of not-for-profit organisations' resources

Component	*Explanation*
Inputs	Key tangible and intangible components that enable an organisation to perform tasks, including cash, personnel, equipment, and other material items, and the mission statement and strategy. Inputs include the current depth and breadth of the board and staff's understanding of the organisation's mission and strategy.
Activities	All programmes and tasks undertaken by the organisation are grouped into meaningful but flexible clusters for analysis. The groupings have triggered intense debate about the appropriate balance within the group, which has led to several adjustments between the board and staff.
Outputs	Outputs include the tangible and intangible products and services resulting from the organisational activities. The selection of the specific outputs for any institution varies according to the mission, core competencies, and strategy inputs. When the world changes, the measured outputs may need to be modified as they may no longer be exactly the right ones to focus on.
Outcomes	Outcomes are the specific changes in behaviours and individuals affected by the delivery of the services and products.
Impacts	Impacts include benefits to communities and society as a whole as a result of the organisational outcomes.

Source: Adapted from Epstein and McFarlan (2011, p. 28).

Figure 2 presents a sample of a causal linkage map for not-for-profit organisation applications. Nonetheless, a similar causal link for for-profit organisations is illustrated as the social impact performance parameters assessed against the fulfilment of the organisations' missions and strategies regardless of the types and nature of the organisations.

Figure 2. Sample of a causal linkage map



Source: Epstein and McFarlan (2011).

2.3. Performance measurements for impact-based initiatives

The main role of the organisation is to ensure a well-sustained financial aspect. Meanwhile, the organisation should also coherently monitor other crucial aspects to generate and maximise the impacts of the organisational activities' values on the stakeholders and community in general. The extended concept of social impact measurement enables the impact-based development of VBI adoption assessment by applying various theories. For example, the multiple-constituency theory claims that the effectiveness of an organisational assessment depends on the preferences of numerous constituencies for the outcomes of the organisational performance (Speckbacher, Bischof, & Pfeiffer, 2003). The theory of rational management highlights the integration of finance while economic and social aspects are applied in organisational social impact measurement, considering all possible consequences in the decision-making (Migliavacca et al., 2018; Arvidson, Lyon, McKay, & Moro, 2013; Muñoz, Gamble, & Beer, 2020).

Malek (2018b) stated that an instrument is needed to measure whether adopting VBI benefits entrepreneurs as VBI is not a corporate social responsibility but instead is entrenched into an existing business. The VBI adoption proposed to utilise the VBISC in measuring the success of the implementation (BNM, 2018c). The comprehensive assessment incorporates specific parameters based on areas and initiatives of individual IFIs in line with global financial institution commitment towards initiatives of environmental, social, and governance (ESG), ethical finance, and sustainable, responsible, and impact (SRI) investing. The measurement tool focusing on the Shariah value proposition in creating the policies and systems for the benefit of customers, particularly SMEs, is essential to SMEs' sustainability.

As no identical measurement approach can be fitted to all IFIs following their different nature, a meaningful impact-based measurement model is vital to depict accountability and create a good reputation among the stakeholders. Thus, analysing the VBISC adapted from the GABV is elaborated. In line with Strategy 5 of the VBI Strategy Paper outlined in Table 1, introducing VBISC assesses mainly VBI performance in financial and non-financial aspects based on the GABV parameters, as illustrated in Figure 3. As a global independent network of banks and banking cooperatives, the GABV offers parameters that are widely used as a basis to assess financial institution performance worldwide. Due to the absence of VBI-specific performance measurement, GABV parameters present the best option for the measurement of VBI adoption. Nevertheless, the banks disclose minimal engagement in their environmental and social responsibility initiatives, explaining the absence and limited use of the specific measures in the banking industry (Janik, 2017; Mallick, 2019; Kocornik-Mina, Bastida-Vialcanet, & Eguiguren Huerta, 2021).

Figure 3. VBI Scorecard

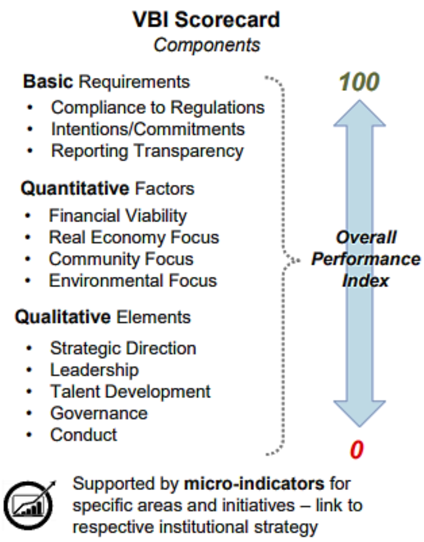
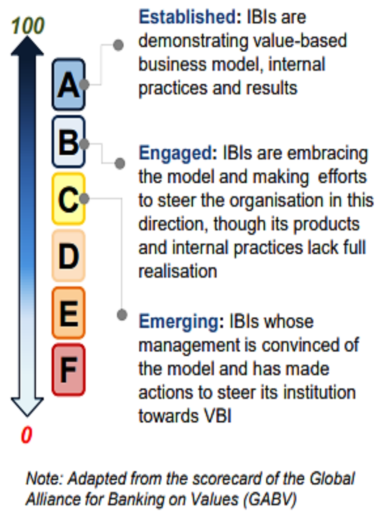


Figure 4. Proactive rating approach



The measurements of non-financial aspects specifically evaluate the VBI adoption impacts on entrepreneurship facilitation, employees, customers, and public treatment, and the enhanced community living standards. The VBI adoption for each CoP will be assessed to differentiate between performing and non-performing CoPs, as illustrated in Figure 4. The ratings enable stakeholders to measure and compare the progressive performance of VBI adoption among CoPs, creating positive competitive environmental and sustainable impact initiatives on wider stakeholders.

The VBISC adoption can be effectively executed through several phases, as presented in Table 3. The VBI Preview Report 2017–2020 (Association of Islamic Banking and Financial Institutions Malaysia [AIBIM], 2021) describes that CoPs used the KPI setting in the Strategy Paper to assess qualitative and quantitative impacts and address the current development of sustainable and pandemic issues as societal issues. Although the VBISC is fully adopted in line with VBI adoption by CoPs, the current phase of VBISC implementation is still at Phase 2 due to the unavailability of reports comparing the VBI performance of each CoP.

Table 3. VBI Scorecard implementation

Phase	*Particular*	*Objective*
1	Familiarisation	Understand the measurement and collect relevant data in a timely manner.
2	Gap identification	Identify gaps or areas that require more attention and measure improvement.
3	Full utilisation	Disclose the scorecard to allow stakeholders to compare IBI performance.

The VBI Preview Report categorises the VBI initiatives' impacts on selected CoPs into four sections based on ESG/EES[2] classification, namely Financial, Community, Customers, and Environment (AIBIM, 2021, Chapter II). The approach aligns with climate change initiatives introduced in 2019.

3. RESEARCH METHODOLOGY

The study adopted a qualitative interpretative case study approach for the comparative case studies (Baskerville et al., 2010; Yang & Lin, 2019). Although alternative approaches such as questionnaires distribution or documentation review can be employed to gather the data, this approach is the most appropriate for data collection as this study aims to establish an in-depth understanding of complex organisational issues in order to obtain accurate inputs. In detail, this approach involves the analysis and synthesis of a comparison between two organisations applying VBI in the process and product offerings. The approach enables the researchers to collect specific data in a broader scope, allowing the researchers to further understand how the two IBIs representing CoPs adjust the business model to include VBI adoption based on the studied phenomenon.

The two banks were selected for this case study based on the following criteria:

1. A member of VBI CoPs.
2. Engaged in financing facilities and programmes for various business communities, specifically for smallholders and lower-income earners in the economy, SMEs, or the B40 community.
3. Offer Islamic products and services for better financial inclusion for the communities aiming to provide better quality and accessibility to financial services.

Although the aim of the bank establishments differs in principle, their objective is similar regarding emphasising SME product offerings. The SME is a significant potential sector to be ventured in but might be incapable of intensely competing and participating in domestic and international markets, delaying enjoyment of competitive advantage. Innovative strategies (VBI strategy) are essential to enhance efficiency and lower costs, creating better business sustainability (Biancone & Radwan, 2018).

Two online interviews with Bank Alpha (*AB*) and Bank Beta (*BB*) were conducted separately for data collection at the interviewees' convenient time. Consent and agreement on the specific areas had been obtained from all interviewees before the interview sessions were conducted. A week prior to that, a set of proposed interview questions was emailed to interviewees for confirmation. The one-hour interviews were conducted in two separate sessions and started with open-ended questions regarding the interviewees' educational background and working experience. The interviews were followed by a discussion on the best knowledge of VBI strategies and adoption by IBIs in general. The interviews emphasised VBISC components adapted from the GABV; the similarities and differences were discussed in line with bank directions and policies. All data were classified based on the themes while the coding process was performed. Finally, a triangulation process was conducted to validate data by cross-checking the interview data with other evidence, such as the banks' annual reports and documentation.

4. RESULTS AND DISCUSSION

4.1. Background of Bank Alpha (AB)

The *AB* is one of the three independent full-fledged Islamic financial institutions in Malaysia. As of 20 September 2021, the asset size of the bank ranked 10th out of the 16 Islamic banks in the country. The bank network spans 67 branches nationwide, providing an extensive range of Islamic banking products and services to Malaysians and foreigners. The bank offers wholesale and retail banking services, such as savings, current and foreign currency deposits, investment accounts, foreign exchange trading, working capital financing, trade financing, project and contract financing, venture capital, and Islamic capital market services. As a pioneering Islamic bank in Malaysia, the bank is supported by a group of highly qualified Shariah scholars who have broad experience in Islamic jurisprudence. The group offers counsel on issues of Shariah products and services, including activities to increase Islamic capital.

The bank is a member of the GABV, an independent network of global banks and banking cooperatives operating under the Principles of Sustainable Banking. The GABV highlights the return to the real economy and acts as a financial intermediary to support social and environmental impacts. The bank is the first Islamic bank in Malaysia and Southeast Asia to be accepted as an alliance member. As a value-driven Islamic bank, the bank aims to provide a sustainable financial ecosystem by strategising business objectives that emphasise well-balanced economic, environmental, and social benefits

4.2. Background of Bank Beta (BB)

As of the end of December 2020, the *BB* was the biggest Islamic cooperative bank in Malaysia, with assets totalling RM111.75 billion. The bank started as a pioneer cooperative bank in 1954 with the mandate to raise rural communities' social and economic status, offer opportunities for self-improvement and develop a better future for the families and communities for national stability and prosperity. Its principal activities are cooperative performing banking activities, such as accepting deposits and offering financial services for retail and commercial needs, according to Shariah

[2] EES stands for Economics, Environment, Social.

principles. The bank transformed from a conventional banking system to a Shariah-compliant banking system in 2002, recording encouraging profits yearly after the transformation. As of the end of December 2020, the bank recorded a pre-tax and pre-zakat profit of RM1.44 billion. The bank has continued to expand, vary and innovate its product range and customer facilities and gained numerous recognitions as an active industry player and an outstanding cooperative organisation locally and internationally.

4.3. Application of VBI Scorecard

The interviewees were the senior managers of the departments and the person in charge of VBI adoption. The discussions were performed in three parts and guided by the pre-approved questions. Apart from the general questions regarding the interviewees' background and experiences, the interviews also discussed VBI strategies and implementations, particularly on the non-financial parameters applied to measure the VBI adoption impacts in the past four years. Further discussion of findings is provided below.

4.3.1. Utilising the non-financial measures: General overview

As a general overview, *BB* acknowledged the advantages of utilising the non-financial measures of VBI performance in complementing the financial measures of VBI adoption, which are described below:

"It is very interesting actually, something new as before this we aim to achieve KPI, which is the profit that what is the bank chases for…but then when Bank Negara wants to impose all this sustainability, climate change, awareness all that, I think it is good because now the bank has to look at it, not only the financial part, but it is also beyond the financing. Now the bank has to change its mindset."

4.3.2. Using non-financial parameters for measurements

The non-financial parameter involves using three non-financial measures of basic requirements, quantitative factors, and qualitative factors.

1) Basic requirements:

AB and *BB* are committed to adhering to the basic requirement of compliance with regulations. Nonetheless, different approaches exist in reporting where *AB* seems more transparent to report the VBI implementation whereas *BB* is not ready to publish the VBI report as the bank is still at the emerging stage. Accordingly, *AB* stated that:

"When they (Bank Negara) came with the value-based intermediation agenda and development, we started to look into a very structured manner. When the VBI strategy paper was developed (as guidance), we prepared the bank reports. As one of the CoPs, we also give input on how to design the VBI together with other CoPs".

While BB indicated that: *"For now, Bank Negara has come up with the guidelines, but it is not yet a policy. If it is a policy, I think all banks will have to follow it. But since it is a new guide, the first practice is we will commit to VBI (regulations). It has not been enforced. So, once we are ready with VBIF (report) and sectoral guide, I think in two to three years, when Bank Negara gets all these in place, then it will become a policy, it will become something that you have to follow."*

2) Quantitative factors:

Both banks are committed to complying with all four elements. Hence, AB and BB admitted that the qualitative factors were essential in measuring VBI performance. According to AB:

"The quantitative is when we look at the product risk, such as how many products we released for that year are VBI products, and for human capital, what programmes do we develop that are value-based."

BB also held a similar view about adopting financial assessment guidelines in serving its customers.

"Bank Negara has come up with the taxonomy that the bank has to adapt, but because that thing has not become a policy, so the bank has to slowly come in; it means to adapt that taxonomy in which we have financing. For example, when we make a financial assessment, we need to look into this factor, the guide that was given earlier. We must classify and categorise our customers according to the classification that the Bank Negara has made."

The *AB* and *BB* raised the importance of mindset change for effective VBI adoption. The emphasis must be based on values by reflecting appropriate strategies for effective VBI adoption instead of profit-oriented. Thus, CoPs must carefully plan their strategies before VBI is fully enforced by Bank Negara. The *BB* stated that:

"Before this, we never bother. As long as we reach KPI, we get the profit, enough for the bank because the bank chases profit but then when Bank Negara wants to impose all this sustainability, climate change, awareness all that, I think this thing is good because now the bank has to look at as not only the financial part, it is beyond the financing. What can you contribute beyond the financing? Before, when we wanted to finance a construction, we did not bother about the rest. We just want the profit. We do not bother about the landslide or the ecosystem; we just do not care. So, now the bank has to change its mindset. I do not know how long it will take, but normally, from my experience, the moment Bank Negara imposes the rules or regulations, the bank, like it or not, has to follow them. So now the bank has to get ready, not until Bank Negara said this thing, you have to prepare. So you just want to know what the risk is — identify the risk. You just want to know how to measure; you just want to know how to mitigate."

3) Qualitative elements:

Both banks agreed that the five elements of Strategic Directions, Leadership, Talent Development, Governance, and Conduct were measured as outlined in the VBISC. Both banks were able to collect qualitative data when assessing customer applications. According to AB:

"Yes, all qualitative elements already covered. If you think there is any issue, you can raise that up during the interview."

The *BB* stated that: *"When we make an assessment, we must get the qualitative data such as customer information, management, customer profile, and financial account, whether it is audited account, non-audited account, management account all that. Then from there, we will enter into our scorecard."*

4.3.3. Challenges in adopting VBI

Responding to the question on challenges, both interviewees agreed that VBI adoption was a challenging top-down strategy set by BNM for IBIs. The banks are required to familiarise themselves with the GABV parameters for performance measurement. Unlike *AB*, *BB* is a non-member of GABV that must quickly utilise VBISC as a parameter to measure the VBI performance. Although VBISC is a generic parameter for performance measures, both banks viewed the scorecard as the most applicable tool for VBI adoption assessment. The agenda does not include negotiating and modifying the VBISC as VBI is a top-down strategy. Thus, the banks presented the highest commitment to and preparation for the shift of banking operations due to VBI adoption. The banks mentioned that:

"It is not easier among the staff, but not among the top management as they decide the policies and directions. It is difficult when thinking about value-based in profit institutions because it involves offering facilities to B40 where we might not able to obtain a high payback ratio…this is the challenge for us in the bank when we enforce VBI in this bank. Second, the impact assessment is something that we find lacking because there is no one that actually looks into it thoroughly. For instance, we know that we want to see the impact, but it is not enough to see how many beneficiaries…how many micro-businesses succeed…it is actually more than that. That means when we want to start on board, we need to know in detail each of the impact measures so that we are able to assess our performance based on the successful financial facilities that we gave to customers over the years. That is the challenge for us."

"I am not sure with other banks, but it should not be amended. It is not impossible, but the scorecard was given by Bank Negara in the first place. So when they did that the first time, they scored that they had to look like 80% should come from qualitative exercise, and then another 20% comes from the quantitative. But maybe because Bank Negara already allows the banks to do it themselves. So it is possible that it has some changes towards it, how they want to calculate that. I am not so sure with other banks, but we do not change because we already have with GABV right, so we are using the same one."

4.3.4. Proposed additional components or elements of VBI Scorecard

The VBISC enables measuring the VBI performance from three aspects: Basic Requirements, Quantitative Factors, and Qualitative Elements. Although able to cover the crucial aspects of IBIs operations, the pioneer banks among CoPs presented considerable views on including other performance measures to ensure smooth and effective use of the VBISC. The banks discovered the VBISC parameters did not cover the elements of risk impact on VBI adoption. The banks also suggested adding the risk measurement according to the sectoral guide to enable measuring based on the focus industries.

According to *AB*: *"ESG risk is focused on certain sectors that they want to look at when they started with the first cohort. Then it looks closely at renewable energy and energy efficiency with palm oil. They just look closely at the sectors that they want to start first."*

The *BB* stated that: *"It has different measurements. The risk is also different. The risk in manufacturing is different from construction. Measuring risk at manufacturing would be different from construction. Only Bank Negara came out with the standard guide that you must identify and measure the risk. You must mitigate the risk then you have to report the risk. All these standards but the content inside will be different according to that sector itself."*

5. CONCLUSION

The study aims to examine the effectiveness of the existing VBISC components usage and identify the challenges in adopting VBISC as a performance measure. Challenges in VBI adoption include utilising VBISC, creating further needs for additional parameters to evaluate in-depth social impacts initiatives on VBI adoption. The formation ensures continuous initiatives for sustainable SMEs in creating shared value among stakeholders.

The findings suggested that CoPs use the VBISC to measure VBI performance as described in the Strategy Paper of VBI Implementation by BNM. In the past four years, VBI has been introduced and implemented in the Islamic Banking industry, and VBI performance measurement is one of the priorities in the strategic directions of BNM. A generic parameter adapted from the GABV, known as the VBISC, was specifically mentioned in the VBI Strategic Paper, indicating a significant move towards measuring the impacts of VBI adoption on all banking operations and activities. Furthermore, the generic parameters may fail to measure and compare the VBI performance among CoPs due to sectoral differences between the clients and stakeholders. Based on not-for-profit literature on the development of social impact measures, VBI performance measures should be measured using specific and apply-to-all parameters by analysing the missions and strategies of each CoP. The causal-effect linkage could be useful; thus, revisiting current parameters is essential to provide the most accurate measures for VBI performance.

The study noted several limitations regarding the scope and methodology. Firstly, the scope is limited to comparing two banks at the "engaging" and "emerging stage". The process, implementation, and suggestion are at different stages. The BB has not published a VBI report due to the infancy stage of VBI adoption. Secondly, the study employed a qualitative interpretative case study approach for the comparative case studies. Thus, the generalisation of findings was not accurately interpreted. The study applied the triangulation approach and item crosschecking to validate the data and resolve the issue.

Despite the limitations, this study contributes to the limited knowledge in the area of VBI performance measurement in the Islamic banking sector. This study helps to escalate interests in social impact assessment demonstrated by Islamic banks in driving the development of sustainable SMEs, specifically smallholder business communities and lower-income earners. Hence, future studies are expected to determine gaps in the area of Islamic Banking's performance measurement that is scarcely researched and underexplored. First, future research may examine the contributing factors toward the prioritisation of impact-based measurement development among the CoPs. Second, future research may explore clients' views and feedback on the VBI adoption among CoPs to assess whether the parameters used in assessing the performance can provide a thorough assessment. Therefore, the selection of samples can be drawn from other VBI CoPs for enhanced generalisation of findings.

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