ISLAMIC BANKING PERFORMANCE MEASUREMENT: 
WHAT DO STAKEHOLDER THINK?

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ABSTRACT

Purpose: The objective of this study was to determine the understanding of Islamic banking stakeholders about performance measurement.

Theoretical framework: Performance measurement is important in a company or business entity, which is useful for providing manager accountability to all stakeholders. Stakeholders are people or groups who have an impact on company decisions. But in terms of management, conventional companies differ from Islamic financial institutions, especially in managing the interests of their stakeholders.

Methods: The research paradigm used is an interpretive paradigm with a phenomenological approach. Phenomenology is used as an analytical tool to determine the understanding of informants.

Results: The results of the study found that some stakeholders understand that Islamic banking performance is measured based on financial aspects alone, without looking at other aspects. Therefore, a balance of all aspects is needed in measuring Islamic banking performance that can accommodate the interests of all parties.

Research, Practical & Social implications: Stakeholder understanding can be used as a basis for management to develop an alternative performance measurement system that not only focuses on financial aspects but other aspects, including religious aspects.

Originality/value: An important finding explains the existence of aspects other than financial aspects needed for measuring Islamic banking performance such as religious aspects.

Keywords: Islamic banking, performance measurement, stakeholders, phenomenology.

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RESUMO

Objetivo: O objetivo deste estudo foi determinar o entendimento dos stakeholders da banca islâmica X sobre a mensuração de desempenho.

Referencial teórico: A medição de desempenho é importante em uma empresa ou entidade empresarial, o que é útil para fornecer responsabilidade do gestor a todas as partes interessadas. Stakeholders são pessoas ou grupos que têm impacto nas decisões da empresa. Mas em termos de gestão, as empresas convencionais diferem das instituições financeiras islâmicas, especialmente na gestão dos interesses de seus stakeholders.

Metodologia: O paradigma de pesquisa utilizado é um paradigma interpretativo com abordagem fenomenológica. A fenomenologia é utilizada como ferramenta analítica para determinar a compreensão dos informantes.

Resultados: Os resultados do estudo descobriram que algumas partes interessadas entendem que o desempenho bancário islâmico é medido com base apenas em aspectos financeiros, sem olhar para outros aspectos. Portanto, é necessário um equilíbrio de todos os aspectos na medição do desempenho bancário islâmico que possa acomodar os interesses de todas as partes.

Pesquisa, Implicações Práticas e Sociais: A compreensão das partes interessadas pode ser usada como base para a gestão desenvolver um sistema alternativo de medição de desempenho que não se concentre apenas em aspectos financeiros, mas em outros aspectos, incluindo aspectos religiosos.

Originalidade/valor: Um achado importante explica a existência de outros aspectos além dos aspectos financeiros necessários para medir o desempenho bancário islâmico, como aspectos religiosos.

Palavras-chave: banco islâmico, medição de desempenho, stakeholders, fenomenologia.

1 INTRODUCTION

Measurement of business organization performance has long been a major concern for managers and management accounting researchers. However, management accounting tends to limit itself to financial performance considerations only, and uses frameworks and theories drawn primarily from the discipline of economics (Otley & Fakiolas, 2000). Performance measurement can play an important role in focusing people and resources on specific aspects of the business (Waggonner et al., 1999). With performance measurement, an organization can monitor the implementation of its plans and determine when plans are not working and how to improve them (Atkinson et al., 1997). Performance measurement can also be thought of as a kind of process ranging from evaluating organizational performance inside and out, as well as to managing performance (Bocci, 2004; Akhtar & Sushil, 2018). In addition, it can be used to
provide feedback on expectations and communication tools with various stakeholders (Henri, 2006; Pfister et al., 2022).

According to Armstrong (2006) and reinforced by Baki et al. (2013), stating performance is a concept that is very closely related to the competitiveness of a company and has a strong relationship with strategic goals, consumer satisfaction and providing economic contributions to the organization. While organizational performance as the ability to achieve goals, and this performance measure is achieved by comparing the actual level of achievement to set goals (Corvellec, 2003). In the context of an organization's financial performance, performance is a measure of changes in the financial state of an organization, or the financial results resulting from management decisions and the implementation of those decisions by members of the organization. Performance measures should be linked to strategic goals and measures that are organizationally significant and drive business performance relevant to the goals and accountability of teams and interested individuals (Armstrong, 2006; Akhtar & Sushil, 2018).

Such performance measures are only effective if they are derived from accountability statements or based on a well-researched capability framework, focused on measurable outputs. Those achievements and behaviors can be clearly defined and for that evidence can be provided. To demonstrate the data or evidence available as a basis for measurement, it can be verified by providing information that will confirm the extent to which expectations have been met, made as precise as possible in accordance with the objectives of the measurement and the availability of data, providing a solid basis for feedback and comprehensive action, covering all major aspects of performance.

The performance measurement system of Islamic banking in Indonesia is regulated by regulations issued by Bank Indonesia and the Financial Services Authority (OJK) through Bank Indonesia Regulation No.13/1/PBI/2011 concerning Assessment of the Health Level of Individual Banks and Circular Letter Number 10/SEOJK.03/2014 concerning Health Assessment of Sharia Commercial Banks and Sharia Business Units. Based on BI Circular Letter No. 13/30/DPNP/2011 concerning company profitability indicators, consisting of ROA (Return on Assets), ROE (Return on Equity), and NIM (Net Interest Margin). With this regulation, Islamic banks are
more concerned with their financial performance because the indicators are regulated in the form of financial ratios.

Information on banking performance is one of the indicators used in evaluating banks in the eyes of the public. Stakeholder theory states that a company is accountable to various other stakeholder groups, apart from shareholders, i.e. any person or group affected by the company's decisions. According to Freeman (2004), stakeholder theory focuses on assumptions about the values formed by stakeholders to work together in terms of achieving corporate goals. While Meckling (1976) states that the stakeholder theory is related to aspects of corporate welfare with emphasis on the company's activities and performance in terms of the ability to maintain the relationships it has with various interest groups in its operations. This view is different from the norm, that the purpose of a company is to increase the net worth of shareholders only. However, in comparison, the company has a role for itself as well as other parties connected with effectiveness and efficiency to take advantage of the legitimate right to its existence. But in terms of management, conventional companies differ from Islamic financial institutions, especially in managing the interests of their stakeholders (Dusuki & Bouheraoua, 2011).

This research is motivated because almost all Islamic banks today have adopted conventional benchmarks to measure their performance and there is no formal study of the objectives of Islamic banking. This may be due in part to a mismatch between Islamic banks' objectives, which are supposed to be multidimensional, and conventional benchmarks that are undimensional, with a focus on financial measures. This means that the performance of Islamic banking will require other measures besides financial measures.

Stakeholders’ understanding related to Islamic banking performance measurement will be explained by researchers in the next sub-chapter. Researchers believe that the results of this study will contribute to Islamic banking to manage its stakeholders.

2 THEORETICAL FRAMEWORK

The essence of performance is value creation, as long as value is created using the contribution of assets equal to or greater than the value expected by those who contribute assets, those assets will continue to be available to the organization and the organization will continue to exist. Therefore, value creation, as defined by resource providers, is a whole set of criteria that are important to any organization (Carton,
Performance can be interpreted as the ability of person or group to achieve predetermined goals, whether set by themselves or given by others (Al Maalouf, et.al. 2023). Armstrong (2000) describe performance management is a strategic and integrated process that provides continuous success to the organization by improving the performance of the people working in it and by developing the contribution capabilities of teams and individuals.

Performance management is strategic in the sense that it deals with the broader issues facing the business in order to function effectively in its environment, with a general direction in which the business intends to achieve its long-term goals. Performance management is integrated in two senses: (1) vertical integration, linking or aligning business, team and individual goals with core competencies; and (2) horizontal integration, which connects various aspects of human resource management, especially organizational development, human resource development, and rewards, so as to achieve a coherent approach to the management and development of people in such businesses. According to Armstrong (2000), performance management is a strategic and integrated process that provides continuous success to the organization by improving the performance of the people working in it and by developing the contribution capabilities of teams and individuals.

Stakeholder theory states that a company is accountable to various other stakeholder groups, apart from shareholders, i.e. any person or group affected by the company's decisions. According to Meckling (1976) Stakeholder theory is related to aspects of corporate well-being with emphasis on the activities and performance of the company in terms of the ability to maintain the relationships it has with various interest groups in its operations. This view is different from the norm that a company's goal is to increase the net worth of shareholders only.

3 RESEARCH METHODS

The research method used is qualitative research method. According to Creswell (2013), qualitative research is a method of exploring and understanding the meaning that a number of individuals or groups of people consider from social or humanitarian problems. The research approach uses phenomenology which is part of the interpretive paradigm. Phenomenology is subjective experience or phenomenological experience; or a study of consciousness from the ultimate perspective of a person (Moleong, 2015).
Phenomenological research design has three fundamental components, namely determining the boundaries of what and who is studied, data collection and analysis of phenomenological data (Sanders, 1982). According to Husserl in Sobur (2013), phenomenology guides to be able to understand the meaning of other people's experiences that are intersubjectivity. The stages in Huserl's phenomenological research are bracketing, intuition, analysing, and describing.

Data collection using in-depth interview method of informants related to Islamic banking performance measurement. Informants consist of customers, employees of Islamic banks, the Financial Services Authority and members of DSN MUI.

4 RESULTS AND DISCUSSION

The performance that we have understood in banking institutions is regulated by the government through Bank Indonesia regulations and the Financial Services Authority. The study of banking performance measurement is always linked to the level of bank health assessment and this cannot be separated from regulations issued by the government. The regulation related to the level of banking soundness is dominated by financial aspects. In addition to financial performance in Islamic banks, there is social performance that is not found in conventional banks. This social performance can bridge the interests of all stakeholders, because in financial performance it is only more concerned with shareholders. Salles, et.al (2023) explained that the interests of shareholders and investors subordinate the interests of other stakeholders such as workers.

Performance measurement is important in a company or business entity, which is useful for providing manager accountability to all stakeholders. Stakeholders are people or groups who have an impact on company decisions. Stakeholders in Islamic banking institutions are almost the same as companies in general, but the management is definitely different because sharia entities have different stakeholders from non-sharia entities. In addition to shareholders, government, employees, customers and auditors, there are also amil zakat bodies or institutions as those who have an interest in the results of performance appraisals. According to SAK Syariah 2017, stakeholders of sharia entities include investors, qard fund owners, temporary syrkah investment fund owners, deposit fund owners, zakat payers and recipients, infak, alms and waqf, sharia supervisors, employees, suppliers and other business partners, customers, government and its institutions and the community.
Stakeholders in any entity still see profit as a measure of their performance, including Islamic banking. From the shareholder side, it must expect large profits or profits in order to get a return on the investment invested large. The government also has an interest in getting taxes paid more by companies by looking at the aspect of profits or profits generated by companies. The greater the profit generated, the tax received by the government will be greater as well. Employees also have an interest in the results of their company's performance, and the first thing seen is definitely from the company's profits, the greater the profit, the employees expect to get a large bonus as well. Likewise with customers, if the profits or income generated from the deposits they deposit in the bank are large, it will automatically provide a large profit sharing for them as well.

Stakeholders view performance measurement as the end result or achievement of a bank. So far, the performance of a bank is always seen from the acquisition of profits, the higher the profit, the better the performance. This understanding is in accordance with the results of the researcher's interview with the customer's informant, namely Mr. AP:

".. If we talk about performance, there are many things. Well maybe I'm first in financial performance.. yes it's called performance for me.. yes how big [amount of profit]... Eee... If you can say the profit generated by the company, yes..." (AP interview, p.1, lines 4-8).

The performance that the AP informant described was financial performance. Because at the beginning, Mr. AP immediately gave an overview of performance as financial performance, which people see in terms of the profits generated. How much profit is generated is a measure of the success or failure of a bank's performance. This is a neoma or initial understanding from Mr. AP regarding performance. This kind of understanding is the same as the understanding of people in general that if the profits generated are large, it means that the organization's performance is good. So good performance is characterized by the profits generated by the company. The same thing is also explained by Corvellec (2003) that performance is a measure of changes in the financial state of an organization. Changes in financial circumstances are synonymous with profits or profits from the organization. To reinforce his statement, Mr. AP explained again:

"So it is clear when asked what performance is, how much can the bank ee get what funds, what funding, if funding in Islamic banks [he means forgot].... It is the third party funds and how much financing is generated and then the difference that will later be used by the bank..., well that's performance according to banking" (AP interview, p. 1 lines 9-13).
So according to Mr. AP, the difference between third-party funds and the resulting financing is what is referred to as banking performance. So it can be concluded that the explanation of Mr. AP refers to financial performance in general, because it looks at it in terms of the profit generated. This explanation is a neosis from the informant Mr. AP, who tried to explain more deeply related to performance in banking. According to Islamic Financial Accounting Standards, performance measures often use net income (profit) or better known as accounting profit. Mr. AP's understanding is based on his experience and knowledge of accounting, because besides being a customer of BSX bank, he is also an academic who teaches accounting courses.

Informants from regulators or the government represented by OJK as the Islamic banking supervisory body also said the same thing regarding the measurement of Islamic banking performance. The explanation of Mr. GSU (OJK), regarding the definition of performance based on interview transcripts, is as follows:

".... If that performance, if we look at it, it's even earning, huh... performance is how the company generates revenue" (GSU interview, p. 1, lines 13-14)

The initial understanding or neosis from the GSU father states that to see the performance by looking at the earnings (net income) from the bank, we can determine whether or not the bank's performance is good. Because if the profit or net profit is large, it is automatically considered to have good performance as well. This opinion is almost the same as Mr. AP, although the terms used are different, if Mr. AP directly states as profit, while Mr. GSU refers to it as profit or income. But both had the same understanding at the beginning of the interview related to the understanding of the performance itself. That performance emphasizes more on financial aspects or income statements only, as also explained by Nilsson & Kald (2002). This was also clarified by Mr. GSU in his interview transcript, which emphasized the company's profit and loss reporting, as follows:

“... If the performance is identical to the profit and loss position, it usually tends to be in the earning [meaning net income or profit] like that... look at it... Although it is all intertwined... If the management and governance are good, khan Eee... Generally it will have an impact on increasing income as well khan but there is a measure of each... if the easiest bank is, profit or loss will be ROA, ROE...” (GSU interview p.1 lines 49-53).
Table 1. Phenomenological Analysis Working Paper

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<td>If the performance is if (we)</td>
<td>look at even earning... eee...</td>
<td>Performance that's how the company generates</td>
<td>Performance measurement that Mr. GSU understands is the same as the understanding of people in general so Mr. GSU uses our substitute words as if our understanding is the same, that performance measurement by looking at revenue or easier by looking at the company's profit or loss.</td>
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<tr>
<td>If the performance is identical</td>
<td>to the profit and loss position,</td>
<td>If we suppose performance as a whole using</td>
<td>Mr. GSU realizes that measuring the performance of Islamic banking is easier by reading the income statement. The income statement provides information on whether the bank is profit or loss, but also by looking at the ratios shown such as TOA and ROE.</td>
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<td>usually it tends to be in {earning} like that. look at it, even though it's all interrelated.. If the management and governance are good, eee... Generally it will have an impact on increasing the income as well khan but rather the size of each. if the easiest bank is {profit or loss} later ROA ROE...</td>
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Source: data prosessed

Although in his explanation, Mr. GSU also touched on aspects of management and governance. But in the next interview he again emphasized the rate of return on capital invested by investors, namely through the calculation of Return on Assets (ROA) and Return on Equity (ROE). This is a neosis from Mr. GSU, he emphasized more about the performance based on the income statement whose measurement uses commonly used ratios, such as ROA or ROE. According to Brigham and Houston (2019), Return on Assets (ROA) is a ratio that shows how much assets contribute to creating net income. The performance of a company is said to be good if it produces a high ROA and shows the rate of improvement over time. While Return on Equity (ROE) is a profitability ratio that describes the company's ability to provide benefits for capital owners, by showing the net income available for shareholder capital that has been used by the company. So if you look at the definition, emphasizing performance on the company's profitability ratios is tantamount to emphasizing performance to profits or company profits. Both ratios are commonly used by banks to measure their performance (Badreldin, 2011; Rusydana & Sanrego, 2018).

Other stakeholders are employees, in addition to customers and the government, employees also have a contribution to the measurement of Islamic banking performance. In terms of employees in the BSX organization, performance is also only seen from the financial statements and ratios presented in it. As stated by the father of BPA (BSX employee), in the interview transcript, as follows:
"Performance carried out aims to measure bank performance regularly (monthly) and is communicated by the board of directors to all management, what is measured, of course the items on the balance sheet, profit and loss and financial ratios in general, the purpose of performance measurement is to maintain performance in accordance with predetermined targets and discuss issues of concern during the performance measurement period" (CPA Interview, p. 1, lines 19-23)

Based on the interview transcript, Mr. BPA understood the performance almost the same as previous informants, namely by looking at the financial aspect. Because performance measures are seen from financial statements, such as balance sheets, profit and loss and also the ratios in them. If you look at the measurement indicators used by Islamic banks and conventional banks, it is the same because it uses ratios as the basis for measurement.

This explanation was reinforced by Mr. AF (head of management accounting department) who also has the same understanding regarding performance measurement. That to measure performance using ratios as a measuring tool. This understanding is based on the fact that to report to regulators, banks must fill in the templates provided. So that the bank will automatically adjust the reporting.

“... For regulators, there are several additional reports submitted, ma'am... We have a report on the management of zakat funds and benevolent funds... For our publications sodorin is also quarterly... Then the specific one is different, that's one more... In the financial statements there is what is it called... Eee... The distribution of profit sharing EE reconciliation and the distribution of profit sharing is for the sharia yes... But if it is for performance measurement using a ratio... It's relatively more or less the same, ma'am.” (AF interview, p. 3, lines 134-139)

The informants’ explanations regarding performance and performance measurement, are the result of the experience of the informants. The informant of Mr. AP is a BSX customer, who has experience as a banking accounting lecturer and banking practitioner. So that Mr. AP’s explanation of performance is the same as the existing theory according to experts. Meanwhile, Mr. GSU gave an explanation of performance and performance measurement based on his experience as an examiner at OJK. As an examiner, Mr. GSU looks at the performance of the income statement presented by the bank. Furthermore, the informant of Mr. BPA, as an employee in charge of the Performance department, he gave an explanation of almost the same performance as Mr. GSU. Because in making reports for accountability, the father of BPA follows the form or template given from OJK as a regulator. So it can be concluded that the understanding
of some informants, especially from regulators and employees (in this case implementers at BSX) cannot be separated from the rules set by the government. The rules set by the government are signposts for Islamic banking entities to follow every provision contained therein.

Based on interviews of informants representing stakeholders, it can be concluded that performance until now still focuses on profit or calculation of financial ratios. Financial performance is considered as the basic foundation for the continuity and growth of the company, and so that the company's management can make the right decisions (Atta & Shaqra, 2023), while non-financial performance is still a small part of the Islamic banking performance measurement system. This is in accordance with Triyuwono's statement (2011) which states that non-financial aspects that are used as measurement indicators are only part of financial aspects. If it is related to the objectives of Islamic banking, the performance measure should not only be financial performance, but non-financial also be the emphasis.

5 CONCLUSION

Islamic banking performance measurement that has been carried out by researchers and academics, using the basis of financial performance such as ROA, ROE or other ratios (Setyawati, et.al 2017, Mukhibad & Khafid, 2018). Researchers also look at the annual report published by BSX shows that performance measurement is seen from financial statements and ratios as indicators. This can be seen in performance based on industry and existing financial performance, all of which refer to the profit or profitability generated by the bank. The existence of rewards or awards to outstanding bank branches is also seen from the benefits obtained by the branch whether it matches the set target or not. In line with regulations issued by the government related to bank health assessment, the earning pillar does explain the calculation of income components which are indicators of assessment of whether the bank can be declared healthy or not. While the other pillars are supporters of financial performance, both in terms of risk profile and governance. So it can be ascertained that the banks will follow the regulations set by the government to get the best assessment. The same thing was also stated by stakeholders, that to see the performance of an entity, including Islamic banks, the first thing to look at is its income or profit.
This performance measurement cannot be separated from the values instilled in Bank X employees and leaders. Employee performance appraisal is one of the factors that affect company performance measurement.
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