

# Reconstruction of Performance Measurement Models for Islamic Bank

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**Abstract**—Criticism of conventional financial performance measurement for Islamic banks states that the management behavior of Islamic banks that apply CAMELS and RGEC as a measure of performance, will be co-opted by values that focus financial goals as top priority. Islamic banks will be reduced to material and individual oriented banks, which will lead to dysfunctional behavior of sharia bank management as an authority in carrying out bank operations. One of the dysfunctional behaviors such as ignoring the provision of productive funding to small customers. Using development research methods, this study aims to design as well as implement a performance measurement model as well as a framework of performance measures for Islamic banks based on Islamic values to achieve maqasid al-Syari'ah. The steps of systematic and structured development methods in the form of collaboration between Barg and Gall (1983) with Sugiyono (2013) were carried out to produce a performance measurement model that is in accordance with the identity of Islamic banks. In the end, the measurement of the performance of Islamic banks which was formulated systematically can measure the entire role of Islamic banks as business, social and da'wah entities.

**Keywords**— *Performance Measurement, Islamic Banks*

## I. INTRODUCTION

There are many evidences of successful Islamic business model. One of them, which is currently the center of attention is Islamic bank. As one of the fastest developing Islamic business models, both in Muslim and non-Muslim majority countries, there is one important issue that needs to be addressed in the immediate future: performance measurement. The performance measurement models that are implemented, utilize conventional models such as CAMEL and RGEC. Recent studies found that these models cannot measure the social and da'wah aspects attached to Islamic bank. Hence, financial aspect becomes the main focus so that the operational orientation of Islamic bank is only toward the achievement of financial success. In the end some studies have found dysfunctional behaviors in the operation of Islamic bank.

The above criticism towards conventional measurement of financial performance can be seen in the article by Triyuwono [17] which states that the management behavior of Islamic banks that implement CAMELS and RGEC as a performance measurement tool, will be co-opted by values that are financial oriented. Islamic banks will be reduced to material and individual oriented banks, which will lead to dysfunctional behavior of Islamic bank management as an

authority in carrying out bank operations. The statement by Triyuwono [17] is corroborated by the study of Choudhury and Hussain [4] which found dysfunctional behavior such as ignoring the provision of productive funding to small customers.

Using development research method, this study aims to design as well as implement a performance measurement model and framework for measuring the performance of Islamic banks based on Islamic values to achieve maqasid al-Syari'ah. The steps of systematic and structured development method in the form of collaboration between Barg and Gall [3] with Sugiyono [19] were carried out to produce a performance measurement model that is in accordance with the identity of Islamic banks. In the end, the measurement of Islamic banks performance which is formulated systematically can measure the entire role of Islamic banks as business, social and da'wah entity.

## II. LITERATURE REVIEW

### A. Amanah Perspective

Amanah as a metaphor for viewing, understanding, and developing business and social organizations have been expressed in order to find a more humanistic, emancipatory, transcendental and theological form of organization [22], [23]. This metaphor has fundamental implications for management and accounting concepts. Triyuwono [21] concludes that.

The concrete form of this metaphor in business organizations is "the reality of the organization which is metaphorized with zakat" (zakat metaphorized organizational reality). In the context of this metaphor, the reality of profit-oriented organizations or stockholders-oriented is no longer the right orientation for sharia-based companies, but should instead be zakat-oriented concepts, which are oriented towards nature conservation, oriented to stakeholders, and to God.

Zakat-oriented means that the company will try to achieve the optimum realization of zakat. Companies are no longer oriented to net profit as a measure of the company's management performance but makes zakat a measure of material and spiritual performance. Furthermore, environment and stakeholders-oriented means that Islamic accounting cares about the distribution of welfare or the added value it creates to the environment and stakeholders. Whereas the orientation to God appears implicitly in the

application of Islamic values in the company's operations. The amanah metaphor stems from the nature of humans as God's representatives on earth (Khalifatullah fil Ardh). As the word of Allah in QS. Al Baqarah verse 30 and QS. Fathir verse 39:

“And [mention, O Muhammad], when your Lord said to the angels, "Indeed, I will make upon the earth a successive authority." (QS Al-Baqarah [2]: 30).

It is He who has made you successors upon the earth. (QS Fathir [35]:39).”

The amanah is to manage what is on the earth in a responsible manner according to what has been given by Allah. Managing the earth responsibly can be interpreted as creating material and non-material prosperity distributed to all humans and the universe based on Islamic values which are blessed by Allah.

### *B. Performance Measurement in Syariah Enterprise Theory Perspective*

Syariah accounting is oriented to the interests of stakeholders rather than to the interests of stockholders. Triuwono [21] states that Syariah accounting is not only a form of management accountability to the owners of the company (stockholders), but also as accountability to stakeholders and Allah. This is because in the view of enterprise theory, the existence of a company does not only come from the contribution of the company's participants such as employees, creditors, the government, and the community. The existence of the company is also determined by the interaction of the company with the community as a consequence of the social contract carried out by the company with the community.

The development of accounting principles and techniques that could provide accountability and information needed by stakeholders could be realized through enterprise theory. Enterprise theory encompasses social aspects and accountability. Enterprise theory considers that accounting must serve not only the owner of the company, but also society in general [12]. However, enterprise theory is still "secular" and has no concept of tawhid [21]. The absence of the concept of tawhid in enterprise theory causes the theory to be inconsistent with Syariah principles. Therefore, the internalization of tawhid values is needed in enterprise theory. The internalization of the tawhid concept led to the emergence of legitimacy to include the concept of ownership in Islam, the concept of zakat, the concept of divine justice, and the concept of accountability [21]. Thus, Syariah enterprise theory was formed.

Syariah enterprise theory asserts that what underlies the determination of its concept is that Allah is the Creator and sole owner of all resources in the world. Allah as the main source of trust, therefore resources possessed by stakeholders is a mandate from Allah which within it contains a responsibility to use in the way and purpose as determined by the Giver of Trust (QS Al-Baqarah [2]: 254 and 267).

The contents of these verses provide an understanding that in each of the assets owned contains the rights of others,

such as: the rights of the poor, neglected orphan, Ibnu Sabil, and others [21]. The statement explained that in the wealth created by the operational activities of Syariah banks there are rights that should be distributed. Thus, is the view of syariah enterprise theory that wealth does not only applies to participants that contribute directly to the company, such as shareholders, creditors, employees, and the government but also to other parties that are not directly related to the company's operations as well as those who do not provide financial contributions and skills.

In principle, syariah enterprise theory provides a main form of accountability to Allah vertically which is then elaborated further on the form of horizontal accountability toward humanity and the natural environment [21]. Syariah enterprise theory views stakeholders as those who are given mandate by Allah to manage and distribute wealth to all beings on this earth.

### *C. Performance Measurement in Conventional Perspective*

Performance is a consequence and outcome from a determined goal, which has important purpose for planning, evaluating and strategic activities. W. Edwards Deming [6] in his book titled “Quality, Productivity, and Competitive Position”, emphasize the importance of performance measurement with his statement: "If you can't measure it, you can't manage it". Therefore, without evaluation, managers will not be able to know whether they have implemented the company's vision, mission and strategy correctly.

El-Hawary [7] states that there are several types of performance measurement models that are often used for Syariah banks including EVA<sup>TM</sup>, Balanced Score Card (BSC), and CAMELS. Additionally, El-Hawary [7] explained that these performance measurement models did not fully take into account the unique characteristics of Syariah banks. This is proven by how these performance measurement systems still focus on the role of Syariah bank as a business organization

EVA<sup>TM</sup> was first formulated by Stern Stewart Corporation which focuses on the measurement of managers performance in increasing shareholder value. EVA<sup>TM</sup> is calculated by modifying the excess of net income after tax on weighted average costs [5]. EVA<sup>TM</sup> is recognized as the key to creating wealth for shareholders [8].

Although EVA<sup>TM</sup> is claimed to be one of the performance measurements that deserve to be analyzed, some have criticized this performance measurement. Biddle [2] stated that there is no evidence supporting that EVA<sup>TM</sup> is related to the rate of return on equity and an increase in firm value. This performance measurement is only limited to showing an increase in net income. Another study conducted by Griffith [9] found that EVA<sup>TM</sup> cannot be used as performance predictor but only as a compensation measurement system model for management who attempted to increase shareholder value.

EVA<sup>TM</sup> according to [1] is a performance measurement that only emphasizes the financial dimension. This measurement only serves the interests of shareholders to maximize wealth and ignore the interests of other

stakeholders. This of course is not in accordance with the Syariah perspective.

CAMELS method was adopted from bank regulators in North America in evaluating financial and managerial health in commercial financial institutions. CAMELS have six measurement indicators developed from the idea that each indicator represents the main element in bank's financial statements. The five indicators are Capital, Asset quality, Management, Earnings, and Liquidity.

Explained that a bank's health assessment for capital indicator is measured by the capital adequacy ratio, asset quality is measured by the quality of productive assets ratio, earning is measured by bank profitability ratios and liquidity is measured from bank liquidity ratios [10]. For management quality the assessment is based on capital management, asset management, general management, profitability management, and liquidity management to support quantitative measurements.

CAMELS is not spared from evaluation and criticism especially when this performance measurement is implemented in Syariah financial institutions, especially Syariah banks. States that CAMELS based performance assessment system is dominated by financial aspects. This can be seen that from five factors that are established, the four factors that are assessed using financial ratios are considered the most important and main aspects [17]. Only management uses a qualitative approach, and even then it is oriented towards explanations that have the capacity to support financial performance.

The dominance of quantitative assessments that uses financial ratios by relying on historical data on financial statements provides a limited view solely in term of profit reality without being able to photograph the reality of the process behind the profit creation [20], [1]. Meanwhile, Syariah banks operate based on Syariah values, which emphasize process as the main aspect compared to the results themselves. The assessment should not only be oriented to the reality of physical results (earnings) but also the process that is laden with mental and social reality as well as spiritual reality in the creation and distribution of financial products. [11] asserted that CAMEL completely ignored non-financial valuations and did not prove to be a comprehensive performance measurement because it placed its focus on the short-term goals of the organization.

Balanced Score Card (BSC) is a performance measurement that is considered to have a multidimensional model. Developed by Robert Kaplan and David Norton in the early 1990s, BSC has significant measurement strengths especially in relation to organizational strategy with each BSC performance measurements. The performance measured in BSC are financial performance, customer performance, learning and growth, and internal business process performance [13]. The relationship of each of these performance measurements is a cause and effect, with the basic logic as follows, first, to succeed financially, companies must satisfy customers so that they will always choose to buy their products. Furthermore, companies must always process efficiently to gain business advantage.

Second, in order to maintain the superiority of future business processes, the company must continuously learn to improve the quality of their internal processes.

Third, the company must carry out continuous study related to what the customer wants, and this must be internalized into the business process to improve customer satisfaction

Although the BSC is relatively better compared to other performance measurements, the BSC is still criticized. [14] states that BSC is actually not appropriate to be called a multidimensional measurement. This is because BSC fails in: 1). Measuring employees and suppliers contributions that should help the company achieve its goals. 2). Identify the role of community and environment in which the company is located. 3). Measuring other stakeholders' contributions.

Evaluated BSC from the failure of this performance measurement in investigating the role of employees, suppliers, work partners such as regulators, and the community which should have a major impact on the success of an organization's performance [16]. Smith (1998) also points out the failure of BSC in identifying the role of employees, especially when BSC is used to measure the performance of service companies

### III. METHOD

This research is included in development research because the final result of the research is in the form of a product, namely performance measurement model in Islamic banks. Development research or Research and development (R & D) is a research strategy or method to improve practice [15]. Development research is also defined as a process or steps to develop a new product (model) or refine existing products that can be held accountable [18]. According to [3] research-based development is a research conducted to develop and evaluate products.

The research framework used in this study is based on the development research framework proposed by [3] and collaborated with the development method proposed by [19]. This step was chosen because the design offered by [3] was more detailed, structured and systematic, from initial studies, product development to validation and testing. In addition, the design from [3] allows collaborative activities with other research methods. Therefore, in order for the research process to be more optimal and to produce products that are effective and applicative, the research design is collaborated with the thinking of [19] with preliminary studies of potential and problems.

The steps of the development procedures carried out include (1) identification of potential and problems, (2) research and information collation; (3) planning; (4) develop preliminary form of product; (5) expert and practitioner validation, (6) revision of expert and practitioner validation results, (7) operational field testing; (8) final product revision; (9) dissemination and implementation.

### IV. RESULT AND DISCUSSION

This study is crucial considering a few reasons, first, Islamic values reject the philosophy of capitalism because it is incompatible with the Islamic perspective in many aspects.

One of the most important examples of this discrepancy is the separation between daily life and religious activities in the perspective of capitalism. This separation is not allowed in Islam because Islam is a comprehensive religion that regulates all activities of human life including performance measurement. Based on this, Islamic banks need a measurement instrument that is compatible with the basic principles and operational systems based on an Islamic perspective. Second, studies have found many dysfunctional behaviors carried out by management, which CAMEL and RGEC cannot measure. Third, the growth of Islamic banks is very rapid which in June 2014, in Indonesia, there are already 11 Islamic banks supported by 2,139 offices with total assets amounting to Rp 234 trillion reflecting the important existence of Islamic banks in their role as financial intermediary, social and da'wah institutions.

The uniqueness of Islamic banks is in carrying out the sharia vision and mission by placing itself in the role of a business, social and da'wah entity in which this has not been able to be comprehensively measured by existing performance measurements.

The broad goal of Islamic economics is to establish socio-economic justice. To achieve this goal, specifically Islamic banks must establish principles of justice in the fields of trade, industry, distribution of wealth, financial transactions and the economy as a whole. On a micro scale, it is very important for Islamic banks to combine the principles of justice in function and practice. This is in line with the Islamic Bank's view that "the foundation of Islamic banking system must reflect justice and socio-economic values and must be Islamic both in form and substance". Justice has an important meaning and role in the operations of Islamic banks which are reflected in good attitudes and policies, impartiality, safeguarding one's rights and using the right techniques and processes in making decisions. All in the frame of Islamic values that are the benchmark or foundation of Islamic banks.

Islamic banking refers to a system of action based on the principles of Islamic law that offer the sharing of risks and profits between investors and entrepreneurs. The Islamic banking system ensures the same contribution to all parties involved in both profitability and loss. While on the other hand conventional banks are based on interest and risk avoidance through the mechanism of saving and lending to companies and individuals. Conventional banks generate profits from the difference between loan interest and savings interest.

The aforementioned characteristics differences have a direct impact on the meaning of efficiency and measurement of efficiency and the success of bank performance. Islamic banks have different objectives than conventional banks; hence, they need alternative performance models that are in line with the objectives of Islamic law (maqasid al-Islamic). Therefore, a framework must be developed that is in accordance with the objectives of Islamic law. Table 1 are the differences between conventional and Islamic banks.

The results of observations and interviews in Islamic banks can be inferred from the following description. As a bank based on Islamic values, Islamic banks have specific performance criteria that refer to the objectives of the Islamic economic order. The objectives of the Islamic economic order concluded based on observation are: 1) economic

prosperity within the framework of Islamic moral norms; 2) brotherhood that is universal and just; 3) equitable income distribution; 4) individual freedom in the context of social welfare. Hence, Islamic banks not only act as financial institutions that seek to secure customer funds and provide benefits to them but also have an important role in social welfare. Through this role, a clearer dimension of Islamic business performance can be determined. First, Islam provides space for financial gain for the purpose of prosperity as stated by Allah in the following Qur'an 62:10:

"And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed."

Maximum profits seeking is the goal in forming business entities and Islam recognizes this goal. Through profits, business entities maintain their sustainability. Islam only determines the norms that must be obeyed in pursuit of profit. Therefore, it can be concluded that financial achievement is one of the main performance criteria in Islamic business entities in this case Islamic banks.

Second, in running a business, Islam strongly emphasizes the concept of brotherhood and justice as stated in Qur'an 5:8 as follows:

"O you who have believed, be persistently standing firm for Allah, witnesses in justice, and do not let the hatred of a people prevent you from being just. Be just; that is nearer to righteousness. And fear Allah; indeed, Allah is Acquainted with what you do."

Justice is one of the Islamic missions, therefore in business there cannot be winners or losers. Muslims must behave in a fair manner and in the context of Islamic banks, these financial institutions must embody the spirit of brotherhood and justice in carrying out their main functions as intermediaries between those who have financial surpluses and those who have business skills and prospects but need capital.

Third, income and wealth must be distributed fairly because resources are gifts from God for all humans as stated in Qur'an 2:29 as follows:

"It is He who created for you all of that which is on the earth. Then He directed Himself to the heaven, [His being above all creation], and made them seven heavens, and He is Knowing of all things."

Islam does not accept if wealth is concentrated and circulates only in certain communities and individuals. Therefore, Islamic banks spread wealth from capital owners to those who need capital therefore realizing what is meant by Islamic blessing which is "freeing of slaves, feeding on a day of severe hunger, caring for orphan child, or a poor person in misery." (Qur'an 90: 13-16).

#### *A. Internalization Of Trust Through The Amanah Of Developing Performance Measurement*

Customers have several levels of expectation that financial transactions are in accordance with Islamic law. This is a form of trust that customers expect from Islamic banks. Some of the customers decided to use Islamic banks on the basis of emotional spiritual.

Table 1. The Difference between Islamic Banks and Conventional Banks

ISLAMIC BANKS	CONVENTIONAL BANKS
Products and services are developed based on Islamic values. Each product and service must obtain prior approval from the sharia board	Products are developed based on demand, competition and bank strategy. Product development is not based on religious values but rather corporate governance practices that are approved by the board of directors
Products are developed based on the doctrine of justice and a balance between maximum profit and social responsibility	Products focus on emphasizing maximum profit
Financing products are based on contracts involving financial assets and capital by sharing risks and benefits (profit sharing ratio)	Financing instruments are based on the interest mechanism and market speculation
Compensation from savings products is based on profit and loss sharing mechanisms	Savings products are based on the interest mechanism
If the borrower is unable to pay because of a loss that is not due to an error or negligence of the borrower, then there is no penalty. Some countries still give penalties but in small amounts and channeled to charity	Loans that are not paid on time will be subject to cumulative interest rate and risk of seizure of collateral
Islamic bank products cannot finance economic activities that are not in accordance with sharia (liquor companies, products containing pigs, casinos, etc.)	There are no restrictions on the types of businesses financed

They choose Islamic banks based on their religion and the belief that Islamic banks follow Islamic principles in its operations. The disobedience of Islamic banks to Islamic norms and values is considered as an obstacle for emotional customers to choose Islamic banks. Different from customers who choose Islamic banks on the basis of profit logic. They believe that Islamic banks continue to strive to provide the best benefits. This indicates that financial measures are also the main benchmark in building trust. Trust in this sense requires the responsibility of Islamic banks to carry out their duties responsibly that both products and services are appropriate and permitted by Islamic values or in other terms are referred to as amanah.

As stated by Triyuwono [22] when individuals see organization as an amanah, the most important consequences are the goals and the way to achieve goals (ethics). Islamic banks if viewed as amanah, then this goal is not far from the meaning of amanah itself, namely as khalifatullah fill ardh or to spread mercy to all nature. The purpose of "spreading this mercy" can be further elaborated in a more concrete form according to the type of organization, the needs of society and the environment, as well as other social forces but the spirit should absolutely be the value of spreading mercy and devotion to God [23]. To achieve this very noble end goal, the process of achieving it requires a reference or guideline in the form of ethics derived from Islamic values. Upholding the ethical values based on sharia in Islamic banks is a logical consequence of the usage of the amanah metaphor. Triyuwono [24] states that the existence of sharia ethics in business organizations is actually a logical consequence of the usage of the amanah metaphor. The technical application of the amanah metaphor in the reality of a business partnership is a partnership that is met aphorized by zakat.

Triyuwono [24] further explained that the zakat metaphor is a derivative of the amanah metaphor. Therefore, business organization as an organization is met aphorized by zakat in which the orientation is no longer profit-oriented but zakat-oriented. Islamic banks which is met aphorized as zakat require that the business operations and the results of the object of partnership must be oriented towards zakat. The implication is that all forms of fraud and deceit are not tolerated in determining the amount of zakat. Cooperation that place zakat as their ultimate goal, will lead to sharia

ethics such as honesty, trust, justice, from the actors, the process and the distribution of the end result of cooperation. The definition of amanah based on values and morals is to respect trust. Another definition of amanah is the responsibility received by someone who is given trust to carry out the amanah as required without neglecting it. Principal carries amanah of God as the owner of the capital to maintain and manage it as well as possible. Agent carries out the amanah not only from the principal but also from God, therefore their accountability is not limited to the principal but also to God. This concept emerged from the responsibility that man carries out as God's representative on earth in which all of their actions are a form of devotion to God.

In Islam, keeping amanah is not only limited to working professionally and being accountable to fellow individuals who are involved in cooperation but also keeping amanah given by the Supreme Substance which is God. Sharia has the main goal to educate every human being, get justice and provide goodness for every human being in the world and the afterlife. Sharia regulates every aspect of a Muslim life both politically, economically and socially by maintaining their beliefs, lives, reason and wealth. Banks that identify themselves as sharia through a variety of sharia-labeled products, both shahib al-maal and mudharib as users of sharia bank product facilities must realize that spiritual values must be the motivation that are implemented concretely both in the analysis of thinking (abstract) and practice. Islam does not consider matter as the primary objective in socio-economic activities but the achievement of a noble position in the final reality when the meeting with God takes place.

Islamic banks have the same mandate as individuals as God's representatives on earth. This mandate explains the position of humans, both individually and as a group, as noble beings who are given the task of being God's representatives for the welfare of the universe and all its contents (rahmatan lilalamin). Based on this understanding, the meaning of trust for Islamic banks is a form of trust carried out by Islamic banks in dealing with God, with fellow humans, and other being. The existence of Islamic banks is expected to achieve prosperity for humanity, nature, and everything in it.

Islamic banks not only function as business organizations that focus on achieving profits but also function as social organizations and da'wah. Therefore, amanah becomes the basic measurement of performance evaluation in Islamic banks. Based on the concept of this mandate, the formulation of the performance evaluation of Islamic banks does not only focus on achieving profit but also considers aspects of social performance and da'wah.

Therefore, it can be concluded that the basic concept of Islamic banking performance evaluation, namely: justice reflected in keeping amanah as part of worship, muamalah. It includes values such as honesty, trustworthiness, and competence in financial and non-financial aspects. This value is integrated and mutually supportive in realizing the vision and mission of Islamic banks in carrying out amal makruf nahi munkar (providing goodness and preventing evil). Values include the assessment of input, process and output as a result of the activities (performance) of Islamic banks. The internalization of values in the concept of Islamic banking performance evaluation will have an impact on the attitude and behavior of Islamic banks in carrying out their activities which are not limited in the achievement of quantitative (financial) performance, but also on more holistic aspects. The purpose of this concept is to create Falah (profit) which is not limited to this world but also to the next which is the purpose of individuals or organizations with faith.

#### *B. Performance Measurement Model Dimension and Indicators Development*

The identity or symbol of Islamic banks has a very deep and inseparable meaning from the objectives, intentions and principles of sharia / Islamic law. Sharia itself is dominated by values of usefulness in which its laws are designed to protect the benefits of all nature and the perfection of human life. A very important target of Sharia maqasid in the context of Islamic banks in the effort to achieve prosperity is faith (din), fulfillment of human needs (nafs), intelligence (aql), descent and wealth (mal). The foundation of the proposed performance measurement model supports the concept of balance and justice based on the Qur'an letter 2 verse 143 as follows:

“And thus we have made you a just community that you will be witnesses over the people and the Messenger will be a witness over you. And We did not make the qiblah which you used to face except that We might make evident who would follow the Messenger from who would turn back on his heels. And indeed, it is difficult except for those whom Allah has guided. And never would Allah have caused you to lose your faith. Indeed, Allah is, to the people, Kind and Merciful.”

The above statement confirms the concept of balance and justice. The silver lining of the functions and tasks of Islamic banks is a balance between all company objectives in all five mission objectives of sharia, namely welfare in faith (din), fulfillment of human needs (nafs), intelligence (aql), descent and wealth (mal).

The main objectives of performance measurement derived from all of the above explanations are first, protecting sharia consistency with a piety perspective and maintaining the intelligence of internal actors, second protecting social life with a perspective of justice and

social interests and third safeguarding material life with a perspective of wealth and natural environment.

Each goal has consequences that are distributed to several dimensions, elements and indicators or aspects of disclosure. Some are expressed using a quantitative approach and others use a qualitative approach. Examples of using a quantitative approach are measuring the number of contracts that use a profit-sharing system, analyzing the percentage of halal income, measuring capital adequacy, and so on. Whereas examples of qualitative approach are measuring the commitment of Islamic banks to apply sharia principles, their contribution in treating employees as a way to develop human welfare; audit committee responsibilities in carrying out their functions and duties and other GCG practices. The objectives and consequences along with dimensions, elements and indicators or aspects of disclosure can be seen in the following Table 2 (Appendix).

#### V. CONCLUSION

Islamic finance is an alternative to the mainstream financial system when it comes to establish ethical and social goals and responsibilities as wrong a competitive advantage in the middle of a trend global socio-economic changes. Market demand for importance the application of ethical values in economic activity is increasing. the approach to performance measurement in an Islamic perspective is inspired by QS. Al Baqarah 2: 143 which emphasizes the principle of balance. Islam and sharia are unity towards the creation of moderates and harmony. Therefore, an approach to measuring performance financial institutions in principle aim for balance. This study produces dimensions, aspects and indicators that are more comprehensive in measuring the performance of Islamic banks. Performance measures are not only on financial aspects but also social, da'wah and the natural environment..

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Table 2. Performance Measurement Indicator

NO	OBJECTIVE	PERSPECTIVE	ASPECT	STANDARD	INDICATOR
1	Protecting Sharia Consistency	Godliness toward Allah	Worship Supervision	Protecting Prayer	<ul style="list-style-type: none"> <li>Whether the prayer schedule has been regulated in the management policy clause and implemented in a concrete manner that is proven through written rules</li> <li>Does management free up activity during prayer times</li> <li>Do Islamic banks provide a separate prayer rooms that is representative for congregational prayers</li> </ul>
				Protecting Qur'an	<ul style="list-style-type: none"> <li>Does the management have a periodic Qur'an reading schedule and is strengthened in the policy clause</li> <li>Does the management have a periodic schedule for the study of Qur'anic tadabbur that is periodic to improve the quality of faith &amp; practice</li> </ul>
				Protecting Zakat	<ul style="list-style-type: none"> <li>Do the Sharia commissioners and Supervisory Board periodically evaluate zakat paid by all management &amp; employees</li> <li>Does the Commissioner and Sharia Supervisory Board regularly evaluates the calculation of the amount of zakat paid by all management and employees</li> </ul>
			Easy and inexpensive products and services	Distribution Function	Total Mudharabah & Musyarakah Financing / Total Investment
			Reducing income elements that are not <i>halal</i> & unfair	Interest Free Product	Interest Free Income / Total Revenue
			Application of ethical values	Derivatives of ethical values and norms	<ul style="list-style-type: none"> <li>Bank's operational process of commitment to Islamic values</li> <li>Focus on maximizing the return of all stakeholders</li> <li>Commitment to engage in halal investment activities</li> <li>Commitment to engage in halal financing activities</li> <li>Commitment that each agreement is regulated in a contract in accordance with Islamic law and does not deny the contract</li> <li>Concern with the interests of shareholders and customers as long as they are in accordance with Islamic values</li> </ul>
			The products offered are <i>halal</i>	Product	<ul style="list-style-type: none"> <li>No involvement in activities that are not permitted by Shari'a</li> <li>If there is involvement in non permitted activities, then ...% of Profit</li> <li>Reasons for involvement in non permitted activities</li> <li>The process of handling of non permitted activities</li> <li>Process of new products approval by Sharia Board</li> <li>Shari'a basis for approving new products</li> </ul>
		Maintaining Internal Actors' Intelligence	Concern for employees through improving the quality of human resources and welfare that are free of <i>riba</i>	Employees Aspect	<ul style="list-style-type: none"> <li>Appreciation / concern for employees</li> <li>The same opportunity policy in pursuing a career</li> <li>Guaranteed employee welfare</li> <li>Training on self-awareness of servitude to Allah through Islamic values</li> <li>Professional training</li> <li>Scholarships and recruitment schemes that are fair</li> </ul>
			Justice and Transparency - Board of Directors	Composition, Appointment and Reappointment, Board Meetings and Salaries	<ul style="list-style-type: none"> <li>The board of directors consists of at least one third of independent non-executive directors</li> <li>The board of directors has representation in the Sharia board</li> <li>The term of office for the board of directors is completed with a rotation once every three years and then meets the requirements to be reappointed</li> <li>Reappointment of non-executive directors is not done automatically</li> <li>Requirements for the appointment of non-executive directors are open and transparent</li> <li>Board meetings are held at least four times a year</li> </ul>

					<ul style="list-style-type: none"> <li>The number of board meetings held in a year along with the details of the attendance of each director is disclosed transparently</li> <li>The Board of Directors attends at least 75% of the meetings that discuss remuneration policies</li> <li>Indicators of performance measurement and number of employee incentives are disclosed openly</li> <li>Shareholders approve the salary of the directors</li> </ul>
			Justice and Transparency - Committee Aspects	Appointment and Remuneration	<ul style="list-style-type: none"> <li>The Audit Committee consists of at least three non-executive directors, the majority of whom are independent</li> <li>The audit committee includes someone with expertise in accounting</li> <li>The audit committee recommends external auditors at the annual shareholders meeting.</li> <li>At least, once a year the committee meets with external auditors without members of the executive board to review the financial statements.</li> <li>Details of audit committee activities, number of audit meetings held in a year and details of the attendance of each director are disclosed in writing</li> <li>Audit committee members attend at least 75% of the meetings</li> </ul>
			Justice and Transparency - Sharia Supervisory Board	Sharia Supervisory Board	<ul style="list-style-type: none"> <li>One of the SSB is someone with expertise in accounting</li> <li>SSB periodically meets with the audit committee and / or external auditors to review financial statements</li> <li>Details of SSB activities, number of meetings held in a year and details of the attendance of each member and the objectives and results of the meeting must be disclosed transparently</li> <li>DPS members attend at least 75% of the total meetings in a year</li> </ul>
			Profit	Investment in the Real Sector	Investment Ratio in the Real Sector Investment in Real Sector / Total Investment
			HR Quality Improvement	Improvement of Knowledge	Scholarship Education Scholarships / Total Revenues
				Upgrade and Develop Expertise	Training Training / Total Revenue
				Creating Awareness of Islamic Banks	Advertisement Advertising Cost (Promotion) / Total Revenue
II	Protecting Social Life	Justice	Justice in Welfare Distribution	Qard Hasan dan Shodaqoh Fund	Qard&Shodaqoh/(Total Revenue - (zakat&Tax))
				Employee welfare	Employee Welfare Costs / (Total Revenue - (Zakat& Tax))
				Shareholders' Welfare	Shareholders Dividend / (Total Revenue - (Zakat&Tax))
				Net Profit per Liability	Net Profit / (Total Revenue - (Zakat& Tax))
		Community Interest	Income& Wealth Distribution	Liability from personal income Zakat / Wealth	
			Community development	Zakat, shodaqoh and benevolent loans	<ol style="list-style-type: none"> <li>The bank is responsible for zakat: <ul style="list-style-type: none"> <li>Amount of zakat paid</li> <li>Source of zakat.</li> <li>Utilization / recipients of zakat</li> <li>Amount of undistributed zakat along with the reasons</li> <li>Ratification of the Sharia Supervisory Board related to the source and use of zakat according to sharia</li> <li>Validation from SSB that zakat has been calculated according to Shari'a</li> </ul> </li> <li>Sources of shodaqoh <ul style="list-style-type: none"> <li>shodaqoh utilization</li> <li>Qard al-hassan sources</li> <li>Qard al-hassan utilization</li> <li>Policy to provide qard al-hassan</li> </ul> </li> </ol>
			Social Society	<ul style="list-style-type: none"> <li>Creating job opportunities</li> <li>Support for organizations that benefit the community</li> </ul>	

					<ul style="list-style-type: none"> <li>• Participation in government social activities</li> <li>• Sponsoring community activities</li> <li>• Commitment to contribute in social activities</li> <li>• Conference on Islamic economics</li> </ul>
			Social Indicator	Environmental Objectives, Policy and Issues	<ul style="list-style-type: none"> <li>• Vision &amp; Mission related to social policy</li> <li>• Social Target &amp; Goals</li> <li>• Concern for consumers</li> </ul>
III	Protecting material life	Wealth	Justice	Justice in Revenue	Profit Equalization Reserves (PER)/Net profit
			Capital Adequacy	Funding Structure	Capital / Asset Risk
			Asset Quality	Bad Credit Ratio	Allowance for Credit Loss / Total Credit
			Management Quality	Efficient Operations	Operating Costs / Operating Revenues
			Ability to generate profits	ROA	Net Income/Total Asset
				ROE	Net Income/Total Equity
			Liquidity	Loan to Asset Ratio	Loan/Total Asset
				Deposit to Asset Ratio	Deposit/Total Asset
		another bank's health ratio	Ect.	Ect.	
		Nature	Environmental Indicator	Environmental Objectives, Policy and Issues	Environmental Protection Environmental management system Energy savings
CSR for the environment	Donations for the Environment / (Qard & Total Donations)				