

## **THE BALANCED SCORECARD: STRUCTURE AND POTENTIAL USE IN MALAYSIAN ISLAMIC BANKS**

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### **ABSTRACT**

Area on assessment of Islamic banks is still underexplored and it limits a better perspective of performance evaluation thus affect the level of Islamic banking performance which are still arguable. This study conceptualized Kaplan and Norton's (1996, 2001) Balanced Scorecard and compared this to the performance measurement system of Malaysian Islamic banks. This study will then try to introduce a guideline of Shariah Compliance and Balanced Scorecard measures to be used by Islamic banks in order to improve their performance. Based on the findings, there is a positive relationship between Balanced Scorecard measures, Shariah Compliance attributes and Islamic banking performance. Banks which used all the BSC and Shariah measures in the study (Exemplar) improved their performance tremendously. Limitations will be in implementing the Kaplan & Norton (1992) Balanced Scorecard theory used in this research on a relatively new setting that is the Islamic banking in Malaysia and the applicability of this theory. It can also be an aspiration and a basis for future research by improving this study and establishing a more coherent model.

## INTRODUCTION

Islamic banking in Malaysia traces its root back to 1963, with the establishment of the Pilgrims Fund Board or 'Lembaga Tabung Haji' (LTH), aimed at yielding returns uncontaminated by 'Riba' (Sufian, 2007). The legal basis for the establishment of Islamic banks was the Islamic Banking Act (IBA) which came into effect on 7 April, 1983. The IBA provides Bank Negara Malaysia (BNM) with powers to supervise and regulate Islamic banks, similar to the case of other licensed banks. The first Islamic bank established in the country is Bank Islam Malaysia Berhad (BIMB) which commenced operations on 1 July 1983, with an initial paid up capital of RM80 million (Sufian, 2007).

Islamic banking has become a force to be reckoned with in the global economy and has been growing rapidly over the years. The international banking community has seen the Malaysian Islamic banking sector as one of the most progressive and attractive in the world given the numerous incentives planned and strategic direction in developing and nurturing Islamic banking. With this, they have acknowledged Malaysia as the leading Islamic banking centre.

The development of indices to gauge the performance of Islamic financial institutions nowadays is seen important as there is a growing awareness among the Muslim community to assess how far these institutions have successfully achieved their objectives. Most Muslims are not only concern about how much of returns they can get at the end of the day, but what is more important is where their money has been invested. Meanwhile, as for non-Muslims community such indices are beneficial to them in order to compare which bank has performed better, perhaps in terms of returns as well as social responsibilities (Ibrahim et. al. 2004).

Intangible assets are deemed more important than tangible assets in a knowledge based environment. Even some organizations consist of totally intangible assets especially new product innovation which will be difficult to be measured using traditional financial accounting. The rising significance of intangible assets forms a necessity for a new and different type of performance measurement system in today's business environment.

Researchers and practitioners stated their concerns regarding the traditional management accounting systems (MAS), traditional management control systems (MCS) and traditional performance measurement systems (PMS). Johnson and Kaplan (1987) argued in their book 'Relevance Lost - Rise and Fall of Management Accounting' that the traditional management accounting system which started during the industrial age is insufficient, untimely and inadequate to provide information for management planning, controlling and decision making in today's fast changing and competitive environment.

In particular, traditional performance measurement system overlooked the components of non-financial measures, strategies and operations that are vital in a sound control system. The focus now is on management of intangible assets for example customer relations, innovative products and services

which are non-financial in nature. The nature change of value creation from tangible to intangible assets and from financial to non-financial nature complicates the performance measurement process which is based on traditional system. There have been substantial innovations in this area to overcome the criticisms of traditional performance measurement system

Due to weaknesses and limitations in relying totally on traditional financial performance measure, a performance measurement system that incorporates financial and non-financial measures is required. In response, models such as the Integrated Performance Measurement System (Nanni et. al., 1992), Balanced Scorecard (Kaplan & Norton, 1992; 1996b; 2001a) and performance prism (Neely et. al., 2002) have been developed. This study focused on the Balanced Scorecard developed by Kaplan and Norton (1992, 1996b, 2001a).

The BSC was introduced by Kaplan and Norton (1992) to overcome the shortcomings of traditional financial performance measures in today's business environment. The BSC which comprises of both financial and non-financial measures is a multi-dimensional performance measurement system. The measures are obtained from the organization's strategy and are linked together in a series of cause-and-effect relationships. The BSC consists of four performance dimensions as proposed by Kaplan and Norton (1992, 1996b, 2001a) which include Financial Perspective, Customer Perspective, Internal Business Perspective and Learning and Growth Perspective. The main objective of applying the BSC is to achieve an improved and enhanced long-term financial result.

The BSC has become a broadly recognized management tool. Most research on the BSC were carried by organizations mainly in the United States and Europe (Ittner, Larker & Randel, 2003; Speckbacher et. al. 2003). Not much is known about the use of BSC in Malaysia especially in Islamic banks. There is a lack of uniformity among organizations in their understanding of the term BSC (CMA Canada 1999). A desire to address these two issues motivates this study.

Islamic banking products and services are gaining popularity around the world. Although many Muslims want to practice their faith in fundamental concepts of Islamic banking, there have been concerns with the level of Islamic banking performance which is still arguable. Area on assessment of Islamic banks is still underexplored and it limits a better perspective of performance evaluation.

Problems such as lack of knowledge on the Islamic banking system and non-compliance with Shariah governance will jeopardize the accountability of the sector and leads to poor performance of the Islamic banking sector. Poor performance of the products and services will result in poor performance of the bank and vice versa. The executive and senior management team must support and involve actively in the performance improvement process. It has to be driven from the top.

Both Muslim and non-Muslim customers placed full faith on the banks to handle their funds and to make sure their funds are free from undesirable activities. It is therefore of utmost importance

to ensure the performance of Islamic banks is maintained and remain competitive against the conventional banks. The recent progress towards resolving these issues is encouraging to improve this sector which is still underexplored.

The general objective of this research is to provide empirical evidence on multiple performance measures usage or BSC approach within Islamic banks and on the nature of relationships between the BSC measures with Shariah compliance. More specifically, it investigated the impact of Shariah Compliance and BSC measures on Islamic banks performance.

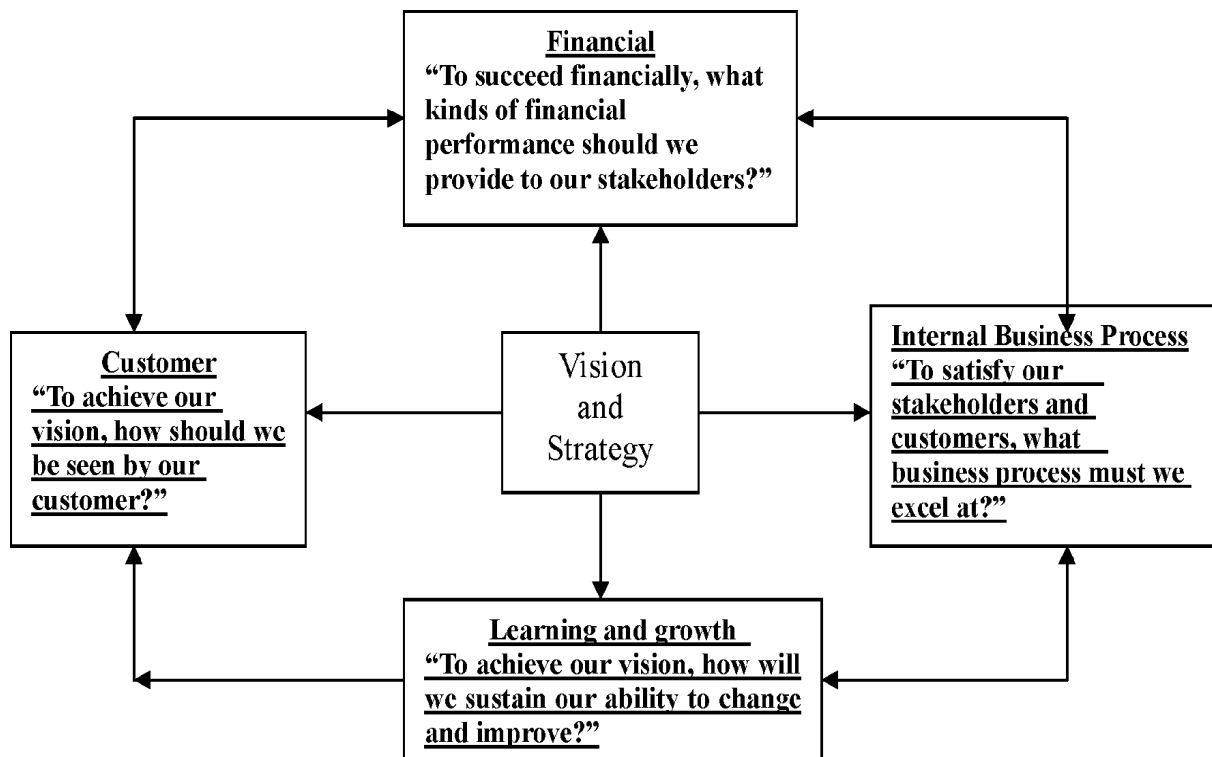
## **REVIEW OF LITERATURE**

In Malaysia the use of new management techniques and new management accounting methods such as Activity Based Costing (ABC), target costing, throughput accounting and Strategic Management Accounting (SMA) has slowly gained acceptance. However, more information is required on the way companies measure their performances under these new environments.

According to Kaplan and Norton (1996b) the BSC can help the organization to clarify its corporate vision and strategy; communicate and link strategic objectives and measures to plan; set targets and align strategic initiatives; and to enhance strategic feedback and learning. Within the BSC framework, four perspectives namely financial, customer, processes and learning and growth represent the views of four essential stakeholders in any business. A financial institution can ignore the expectations of one of its stakeholders and still succeed in the short run. However, in the long run, the business cannot ignore any of these stakeholders because they are interrelated. Employee attitude and behaviour affect the level of customer satisfaction and retention, while customer attitude and behaviour influence shareholder's satisfaction and retention. Finally, shareholder satisfaction affects employee satisfaction through bonuses, stock options, or further investment in employee growth and development.

### **The Balanced Scorecard (BSC) Framework**

The BSC provides a framework which recommends the use of both financial and non-financial measures of performance, allowing the organization to focus its strategic objectives via balancing the four perspectives as stated in Figure 1 (Kaplan & Norton, 1992; 1996b). The effectiveness of the balanced scorecard is based on its ability to translate firm's mission and strategy into a comprehensive set of performance measures (Kaplan & Norton, 2001a).

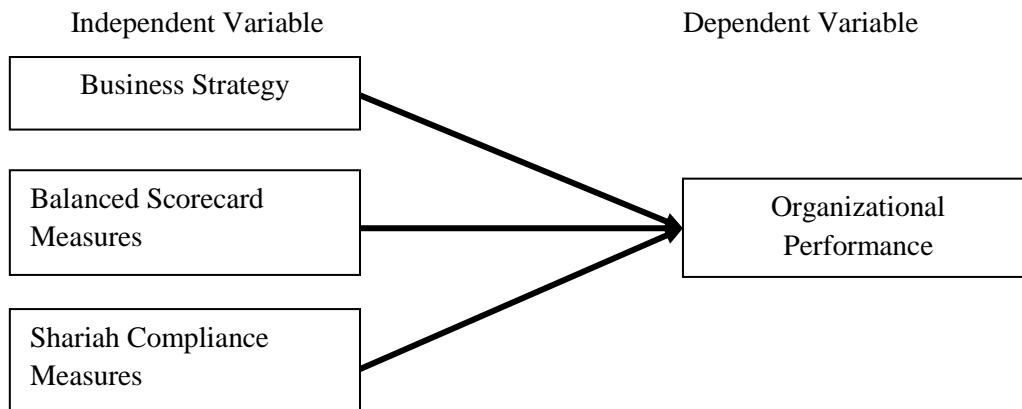
**Figure 1: The Balanced Scorecard Framework. Source: Robert S. Kaplan and David P. Norton,**

"Using the Balanced Scorecard as a Strategic Management System" *Harvard Business Review*, January-February 1996b, p.76.

### The Theoretical Framework

Based on views presented in the literature and previous studies, the proposed theoretical framework as presented in Figure 2 was formulated. The hypothesized relationships between business strategy (BS), BSC measures (F,C,E,P), Shariah compliance measures (S) and organizational performance (OP) were also illustrated. The framework is the general idea of what this study is all about. The explanation on the variables and the relationship between them were discussed further in the results and findings section.

In the research framework, business strategy, BSC measures and Shariah compliance measures are assumed to correlate with organizational performance. It is also assumed that there is a positive relationship between the independent variables and the dependent variable.

**Figure 2: Theoretical Framework****The Four BSC Perspectives**

Within the BSC framework, four categories of performance measures were identified in order to achieve a balance between the financial and the non-financial, between internal and external and between current performance and future performance (Kaplan & Norton, 1992). The four perspectives: financial, customer, processes and learning and growth represent the views of four essential stakeholders in any business.

**1) Financial Perspective – How do we look at shareholders?**

Financial perspective is considered as the end product or the main outcome in the BSC framework of the organization where it determines the economic consequences of measures already taken in the learning and growth, internal business process, and customer perspectives. The measures selected for learning and growth, internal business process, and customer perspectives should be part of the cause-and-effect relationship that in turn enhances financial performance.

In today's challenging business environment, Islamic banks should not only define business from a financial perspective, but also focus on non-financial perspectives as well. As discussed earlier, many have criticized financial measures because of their short term focus and their inability to reflect up-to-date value creation. As a result, financial measures do not improve customer satisfaction, product and employee quality and employee motivation related to value-creating activities. To overcome the limitations of financial measures, the following non-financial perspectives mainly customer, internal business process, and learning and growth are incorporated into the BSC in order to provide a balanced and integrated performance measures.

**2) Customer Perspective – How should we appear to our customers?**

Customer perspective should be fundamental to organizations as it has been a corporate mission for many organizations today (Webster, 1988). Financial institutions need to attain information from customers particularly on customer satisfaction and expectation, build a strategy which will meet their criteria and apply the strategy that responds to customers' needs and wants. Thus, the BSC demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that are of concern to the customers (Kaplan & Norton, 1992). Customer perspective provides a strategy for creating value from the perspective of the customer. This perspective helps an organization to connect its internal business processes to improve customer relationship and customer outcome.

The customer perspective typically includes several core or general measures derived from the desired successful outcomes of a well-formulated and implemented strategy. These core measures may include overall indicators such as customer satisfaction, customer complaints, customer lost/won, sales from new products, and on-time delivery (Kaplan, 1997, 1998; Light, 1998).

Islamic banks have to focus on five main customer concerns: time, quality, performance, service, and cost to improve customer perspective performance. General goals for customer performance: get standard products to market sooner, improve customers' time to market, become customers' main choice, and develop innovative, reliable, responsive products tailored to customer needs (Kaplan & Norton, 1992).

**3) Internal business process perspective – what must we excel at?**

Once customer based measures have been developed, it is important to translate into measures of what the bank must do internally to meet its customers' expectations. Thus, the internal business process perspective focuses on the internal processes that the organization must excel at in order to add value to customers through customer satisfaction and generate financial returns to shareholders.

Internal business process measures relate specifically to the operational processes of the business unit representing the perspective of the operations management within the BSC model. The internal process perspective is based on the notion that to satisfy customers and earn a financial return, the business must be efficient at what it does. The internal process measures are typically based on the objective of being efficient and effective in producing products or services that meet the needs of customer (Kaplan & Norton, 1996b).

**4) Learning and growth perspective – can we continue to improve and create value?**

To achieve organization's visions and objectives, an organization has to learn and make a change and improvement so that long-term value creation can be realized. These priorities are

important to create an environment that supports organizational change, innovation, and growth (Kaplan & Norton, 2001b). Learning and growth perspective focuses on organizational learning and innovation. This perspective represents the drivers for achieving excellent outcomes in the internal business process perspective, customer perspective, and ultimately the financial perspective.

Learning and growth represent the employees as part of the four pillars used to measure performance within the BSC framework. The innovation and learning perspective is all about developing the capabilities and processes needed for the future. In the banking industry, for a business to succeed not only must it carry out daily transactions effectively but it must also continually improve the value of their products and services.

Learning and growth perspective measures the extent of human resource capability in meeting future requirements. This perspective states that organization must invest in human resources to achieve their long term financial objectives and to close the gap between the required and existing skills. Investment in human resource can be measured by the number of training sessions organized by the organization. Employees equipped with advanced skills and knowledge are better able to assess the customer's needs and make recommendations. As a result, customers will be more satisfied, an inflow of new customers resulting from word-of-mouth recommendations and higher quality interactions will take place (Davis & Albright, 2004).

Limited empirical research has been conducted and reported on BSC development, implementation and success in Islamic banks. Despite widespread practitioner interest in the BSC, empirical support for the BSC is rather limited and not exclusively in the Islamic banking sector. Chenhall (2005) stated that evidence on the adoption of strategic performance measurement system, particularly BSC, has been mainly unreliable with little survey work done to confirm the adoption or the effects on desired organizational outcomes. Many prior studies on the BSC have been done using the case-based approach. There has been no empirical research done on BSC in Islamic banks.

A study conducted by Sriwan Tapanya (2004) examined whether the focus on financial indicators has impacted upon the non-financial measure of customer satisfaction for the banks, particularly as the BSC approach suggest utilizing multi-dimensional performance measures to achieve the best performance outcome for the firm. Results from this study suggest that most customers are not satisfied with the firm's performance and concluded that there is a need, irrespective of social network forces to focus on both financial and non-financial performance indicators.

The concept of the Balanced Scorecard is not yet very familiar in Islamic banks in Malaysia. Therefore, it is fair to describe the theory of the Balanced Scorecard and the details of starting up a Balanced Scorecard based management in the study.



## METHODOLOGY

This study was carried out through online questionnaire survey in order to obtain cross-sectional data from the Islamic banks on the BSC measures usage, firm performance and Shariah compliance. The survey method used was to identify broad trends and variations in the current usage of BSC measures and current emphasis of business strategy among Malaysian Islamic banks. Data obtained in this study were analyzed using Rasch Statistical Model.

Islamic banks were chosen because of the Shariah compliant element that these banks use as their guidelines and it can be an extra perspective in BSC. Most of the Islamic banks in the study were from the Klang Valley. The commercial names of the banks were not disclosed due to confidentiality. The banks were categorized according to their characteristics and measures used which will be explained later in findings section. These banks do have their own performance measures and by classifying the measures used into each perspective of BSC, they can improve their performance as shown by previous firms using BSC. In some cases, the measures used by these Islamic banks are in fact a BSC without being aware of it or is known by different terms.

Since the survey was looking at the BSC measures usage and the business strategy of Islamic banks, it was appropriate to conduct the survey analysis at the bank level. In addition, the usage of performance measures and the business strategy emphasized are for the bank as a whole. It is necessary to note that Islamic banks selected in this study do not necessarily adopt and use the full-fledged BSC as a tool for the performance measurement system as there may not be many of them in Malaysia. As the usage of performance measures is common in any organization, it is expected that there are banks possibly using some elements of BSC measures either knowingly or unknowingly, either wholly or partially or customizing it according to their needs. For those banks that do not adopt BSC either wholly or partially, the use of KPI scorecards are common which may contain some elements of BSC measures. Therefore, in the questionnaire, banks were asked about their usage of performance measures which are commonly used by many Islamic banks.

Data were analyzed using the Rasch Statistical Model. As the sample size of the study is small, Rasch Statistical Model is the most appropriate to analyse the data. Before the data can be analyzed for the hypotheses testing, several preliminary analyses were conducted. The initial step to data analysis was to prepare data into a format that is suitable for the Rasch Model. These steps involved coding, defining and labeling each of the variables as well as assigning numbers to each of the possible responses. After all data had been entered, they were screened for possible errors or outliers. The next step was to conduct descriptive statistics to ensure that all data were coded and to obtain details of the demographic profiles of the banks and respondents.

## RESULTS AND FINDINGS

### *Demography of Respondents*

Table 1 shows the respondents demographic data which consists of gender, age, business unit, designation and working experience. Out of the 14 respondents, 12 of them are male (85.7%) and 2 are female (14.3%). Most of the respondents are between 36 to 45 years of age (64.3%) followed by 46 and above (28.6%) and between 26 to 35 years (7.1%). 10 respondents are from the division within the head office (71.4%) and 4 are from the head office of the bank (28.6%). 64.3 percent or 9 respondents are bank managers and 35.7 percent or 5 respondents are bank employees. Half of the respondents have worked with the bank for less than 5 years while 4 of them (28.6%) have worked for more than 10 years and 3 respondents have worked between 5 to 10 years (21.4%).

**Table 1: Respondents Demographic Data**

| Category           | Selection                       | Frequency | Percentage |
|--------------------|---------------------------------|-----------|------------|
| Gender             | Male                            | 12        | 85.7       |
|                    | Female                          | 2         | 14.3       |
| Age Range          | Under 25                        | 0         | 0          |
|                    | 26 - 35                         | 1         | 7.1        |
|                    | 36 - 45                         | 9         | 64.3       |
|                    | 46 and above                    | 4         | 28.6       |
| Business Unit      | Head office                     | 4         | 28.6       |
|                    | Division within the head office | 10        | 71.4       |
|                    | Branch in Malaysia              | 0         | 0          |
|                    | Branch outside Malaysia         | 0         | 0          |
| Designation        | Employee                        | 5         | 35.7       |
|                    | Shariah Advisor                 | 0         | 0          |
|                    | Regulatory Officer              | 0         | 0          |
|                    | Manager                         | 9         | 64.3       |
| Working Experience | Less than 5 years               | 7         | 50         |
|                    | 5 to 10 years                   | 3         | 21.4       |
|                    | More than 10 years              | 4         | 28.6       |

### *Individual item fit*

With reference to Table 2, a total of 994 data points arising from 14 respondents on 71 items was analyzed. The 1022 responses recorded, was large enough to obtain a useful and stable person measure estimates and useful stable item calibrations. It yielded a Chi-Square value of 1919.84 which indicated that there were associations between items. The test raw score Cronbach-Alpha ( $\alpha$ ) registered a reliability of 0.97 allowed further analysis of the instrument.

Table 2 showed the item reliability was 0.77 indicating sufficient item range and the Person mean ( $\mu$ ) of 1.76logit at .18 error, consider the instrument had an excellent item targeting (Fisher, 2007). The maximum item measure was +1.76logit (ME:0.78) as compared to maximum Person (respondent) ability stands at +3.61logit (ME:0.22). With these good values of indicators, it was

expected that the data could produce statistically stable measures. The person mean measure of 1.76logit also indicated that generally the likelihood of the respondents to be competent was 1.76logit.

**Table 2: Summary statistics of measured 71 items**

|  | Person  |             |       |       |        |       | Item   |             |       |       |        |       |
|--|---------|-------------|-------|-------|--------|-------|--|-------------|-------|-------|--------|-------|
|  | Measure | Model Error | Infit |       | Outfit |       | Measure  | Model Error | Infit |       | Outfit |       |
|  |         |             | MNSQ  | Z STD | MNSQ   | Z STD |  |             | MNSQ  | Z STD | MNSQ   | Z STD |
| Mean   | 1.76    | .18         | .99   | -.4   | 1.01   | -.3   | .00  | .41         | 1.00  | -.1   | 1.01   | -.1   |
| S.D  | .97     | .02         | .44   | 2.4   | .49    | 2.6   | .94  | .05         | .51   | 1.3   | .47    | 1.2   |
| Max  | 3.61    | .22         | 2.11  | 5.1   | 2.34   | 5.9   | 1.76   | .78         | 2.63  | 3.0   | 2.49   | 2.8   |
| Min  | .20     | .16         | .53   | -3.3  | .54    | -3.3  | -3.54  | .37         | .22   | -3.0  | .25    | -2.9  |
| Person Reliability = .96<br>Cronbach $\alpha$ (KR-20) person raw score = .97<br>Person Separation = 4.78(ability level)<br>S.E. OF Person MEAN = .27 |         |             |       |       |        |       | Item reliability = .77<br>Item separation = 1.81 (difficulty level)<br>S.E. OF Item MEAN = .11 |             |       |       |        |       |

Standardized residuals  $n(0,1)$  mean: .000 S.D.: 1.000

994 data points. log-likelihood chi-square: 1919.84

### Relationship between Balanced Scorecard and Shariah Compliance measures with Islamic banks performance

As can be seen in the Person-Item map shown in Appendix 1, the items and persons were located along the line. The items at the top of the line were more difficult; the persons at the top of the line were more able (agreed to most difficult items). As the items were scrolled down the line, those items became easier and the persons became less able. Items that represented difficult BSC and Shariah measures were mostly located at the top but they were located slightly below the first group of banking personnel. This means all Exemplars agreed to the difficult items, while the other three groups especially the Survivor disagreed to the difficult measures.

As can be seen in Appendix 2, these four classifications of respondents were named according to the items that represented business strategy, BSC measures, Shariah compliance measures and organizational performance. Thus, they were differentiated by the mentioned items. This is the guideline produced from this study as a proposal for Islamic banks to follow.

The first group was called Exemplar because the items in the table that represent them showed exemplary characteristics. This is the largest group among the four. The bank they represent agree and apply the business strategy, BSC measures, Shariah compliance measures and organizational performance. Exemplars used all the BSC and Shariah Compliance measures. They were very committed to the business, customers, and their community. By fulfilling all items of BSC and Shariah measures that were located below the location of this group, Exemplar had achieved all of the Organizational Performance measures in this study.

The second group was named as Competent because they utilized all the measures that were important for Islamic banks to apply except for Shariah measures S17 (minimizing cost of operations) and S14 (Reducing poverty). This was indicated by the items located within and below the logit measure of the group. The respondents that belong to this group were located between logit measure of 1.76logit and 1.4logit. The difference between Competent and Exemplars were:

- 1) Competent Islamic banks partly agree that minimizing cost of operations (S17) to improve performance has been achieved by Islamic banks.
- 2) Competent Islamic banks partly agree that Islamic banks have achieved the objective of reducing poverty (poverty eradication) in the community (S14).
- 3) Performance of Exemplar Islamic banks with regards to costs (OP2) and research and development activities (OP9) have improved tremendously compared to Competent Islamic banks.

The third group was called Mediocre. They were located in between 0.4logit and 1.4logit. They were called mediocre because they are the average person representing the items. They represents the average measures used by Islamic banks in Malaysia. What differentiates them from the groups above are:

- 1) They disagree with the difficult item (S17 and S14) thus they cannot achieve organizational performance OP2 and OP9.
- 2) They partly agree in using Balanced Scorecard measures C13 (Staff discretion), C2 (Customer profitability), C6 (Customer waiting), P6 (Product life cycle), E3 (Employee morale) and F2 (Product profitability).
- 3) They partly agreed in using Shariah Compliance measures with regards to Islamic banks objectives of S23 (Removing society's inequalities and improving general standard of living), S15 (Promoting sustainable development projects), S22 (Collecting and distributing Zakat), S20 (Providing enough retail products), S24 (Performance evaluation through good percentage of profit/return), S13 (Maximizing profit) and S21 (Contribute to social welfare).
- 4) As a result from disagreement with above measures, Mediocre banks organizational performance OP10 (Personnel development), OP8 (New product development) and OP3 (Quality) have not increased tremendously as compared to Exemplar and Competent banks. They were also less proactive compared to Competent and Exemplar.

The fourth group was labeled as Survivor. They were located below 0.4logit. They were the lowest group in the classification meaning they agreed to the easy items and disagreed to most of the difficult items. What differentiates them from the groups above are:

- 1) They disagreed to all the items used by the previous groups.
- 2) They partly agreed with BSC measures C12 (Staff appearance and friendliness), C3 (Customer acquisition), C9 (Staff availability), C10 (Staff speed and responsiveness), C11 (Staff skill and competence), C14 (Number of new accounts opened), C5 (Customer complaints) and C8 (Market penetration), E5 (Employee promotion), E6 (Employee image and reputation), P1 (Profit by product), P2 (Number of transactions), P3 (Cost per product) and F5 (Branch operating costs).
- 3) They partly agreed in using Shariah Compliance measures with regards to Islamic banks objectives of S18 (Enhancing product and service quality) and S5 (In accordance with customers preference).
- 4) As a result from disagreement with above measures, Survivor banks organizational performance OP4 (Market share), OP5 (Sales growth rate) together with above mentioned organizational performance not achieved by previous groups have not increased tremendously as compared to Exemplar, Competent and Mediocre banks.

The items listed below 0.0logit (Item Mean) are the items agreed by all the respondents meaning all banks in the study used the Balanced Scorecard and Shariah measures listed below 0.0logit. These are the items agreed by all the respondents and can be considered as the easy items yet important to this research to show what are the measures common to all Islamic banks under study. The items are:

- 1) Balanced Scorecard measures C10 (Staff speed and responsiveness), C11 (Staff skill and competence), C14 (Number of new accounts opened), C5 (Customer Complaints), C8 (Market penetration), C1 (Customer retention), C7 (Market share), C4 (Customer Satisfaction), E4 (Employee productivity), E1 (Staff turnover), E2 (Employee training and development), P4 (Market share per product), P5 (New product), F3 (Return on net assets), F4 (Return on equity) and F1 (Bank profitability).
- 2) Shariah Compliance measures with regards to Islamic banks objectives of S25 (Modern technology usage in performing banking transactions), S6 (Investing in business where there is no 'Gharar'), S12 (Not exploiting customers in any way), S16 (Providing employment opportunities), S19 (Offering viable and competitive financial products), S9 (Promoting Islamic values and way of life towards stakeholders), S2 (Shariah-compliant based), S4 (Functional based on the teachings of 'Quran' and 'Sunnah'), S1 (True to the teachings of Islam), S11 (Shariah board acts as a watchdog while issuing different products), S26 (Completely served as an alternative banking system), S3 (A good vehicle to promote Islamic values) and S8 (No difference from other commercial banks).

BSC measure F1 (Bank profitability) was listed at -3.54logit and was the lowest item listed on the Person-Item map. According to Rasch this item is the easiest item that all the person agreed with the highest scale possible and should be deleted because it is common and practiced by all. But the researcher decided to include this item in the analysis because it is an important measure to look at even though all banks agreed to this measure.

Organizational performance achieved and increased tremendously by all Islamic banks under study were OP1 (Productivity), OP6 (Operating profits) and OP7 (Return on investment). Business strategy (BS) and management strategy (MS) items were all agreed by the banks. The items are MS2 (Performance measurement system successfulness), BS2 (Business strategy well understood by employees), BS4 (Review and reassess measures used by the performance measurement system whenever the business strategy changes), BS3 (Performance measurement system derived from the business strategy), MS1 (Senior management team involvement in developing and implementing performance measurement system) and BS1 (Business strategy is well defined).

From these findings, it is interesting to find that by achieving the business strategy and management strategy items as well as using the BSC and Shariah Compliance measures, the organizational performance of these Islamic banks can be increased tremendously. This was shown by the Exemplar banks and can be a benchmark or guideline to the other Islamic banks under study or elsewhere.

## CONCLUSION

The results of the study are that only six banks agreed and used all the BSC and Shariah measures listed in the questionnaire. The results showed that the banks are actually using the BSC whether they are aware of it or not. The performance of these six banks (Exemplar) for the past three years has improved tremendously. We can conclude that by using the BSC and Shariah measures, the banks are performing better. From these findings, we can categorize the banks and what attributes they fulfilled and the performance they achieved as a result from the attributes used. In order for Islamic banks to improve or achieve a good performance, they have to comply with all the attributes listed as shown by the performance of Exemplar banks.

This study focused only on the Islamic banks. Future research can apply the same BSC measures but in different settings such as non-profit and government organizations as well as the service industries in order to get better understanding of the BSC concepts and its application. However, one must note that the original architecture of the BSC should be modified in order to suit and adapt to the mission and vision of the organization like for example in this study, the impact of Shariah-compliant guidelines for Islamic banks should be taken into consideration to undergo this research. Future research can also include Islamic banks not only in Malaysia but also other

countries. The use of both questionnaire survey and interviews or case study methods should further enhance the findings. In addition, the use of secondary data for performance should also be considered where appropriate as it is more objective.

From these findings, the researcher can propose to all Islamic banks the guidelines to better performance by taking Exemplar banks as an example. The guideline will list down the BSC measures and Shariah attributes that should be undertaken to achieve a better performance. These findings can also explain the objective of this study that is to show that by using the BSC measures and Shariah compliance attributes, Islamic banks can improve their performance. A positive relationship between BSC measures, Shariah compliance and bank performance. The guideline suggested in this study to improve their performance will make the area of Islamic banking system grow. A broad variety of Islamic products and services from a large number of players will build up the performance, profitability and success of Islamic money market not only in Malaysia but also worldwide.

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**APPENDIX 1: PERSON-ITEM MAP**

|    |    | Business Strategy | Balanced Scorecard | Shariah Compliance | Organizational Performance |
|----|----|-------------------|--------------------|--------------------|----------------------------|
| G1 | 4  | +                 |                    |                    |                            |
|    | 3  | 13123 T           |                    |                    |                            |
|    |    | 13213 13222 14113 |                    |                    |                            |
|    | 2  | 13211 14121       |                    |                    |                            |
| G2 | 2  | 12211 13122 M T   |                    | S17                | OP2                        |
|    |    | 13121             |                    | S14                | OP9                        |
| G3 | 1  | 14121             | C13                | S23                | OP10                       |
|    |    | 24123 +S          | C2                 | S15 S22            | OP8                        |
|    |    | S                 | P6                 | S20 S24            | OP3                        |
| G4 | 0  | 13121 23222       | C6 E3 F2           | S13 S21            | OP4                        |
|    |    | 13121             | C12 C3 C9 E5 E6    |                    |                            |
|    |    | +M                | P1 P2 P3           | S18                |                            |
|    |    | T                 | F5                 | S5                 |                            |
| G4 | -1 | +S BS4 MS1        | C10 C11 C14 C5 C8  | S25 S6             | OP1                        |
|    |    | BS2               | E4                 |                    | OP6                        |
|    |    | BS3               |                    | S12 S16 S19 S9     |                            |
|    |    | BS1               | C1 E1              |                    |                            |
| G4 | -2 | T  BS1            | P4 P5              | S2 S4              |                            |
|    |    |                   | C7                 | S1                 |                            |
|    |    |                   | E2                 | S11 S26 S3         |                            |
|    |    |                   | C4                 | S8                 |                            |
| G4 | -3 |                   | F3                 |                    |                            |
|    |    |                   | F4                 |                    |                            |
|    |    |                   |                    |                    |                            |
|    |    |                   |                    |                    |                            |
| G4 | -4 |                   | F1                 |                    |                            |
|    |    |                   |                    |                    |                            |
|    |    |                   |                    |                    |                            |
|    |    |                   |                    |                    |                            |