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SHARIAH COMPLIANCE AND BALANCED SCORECARD MEASURES FOR PERFORMANCE OF MALAYSIAN ISLAMIC BANKS USING RASCH MODEL

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

The assessment of Islamic banks performance is still underexplored thus limiting a better perspective of performance evaluation for Islamic banking as a whole. Improvements are needed to further enhance the quality and performance of their products and services. This study enhanced the Balanced Scorecard (BSC) model based on the attributes of Kaplan and Norton’s BSC (1992, 1996, 2001). The model was operationalized using a survey that was administered to the Islamic banking personnel. The thesis attempted to answer three research questions: (1) What are the attributes from the integration of BSC and Shariah Compliance measures used in the performance measurement system of Malaysian Islamic Banks?; (2) What is the relationship between Shariah Compliance and BSC measures with the performance of Islamic banks?; and (3) What are the Shariah Compliance and BSC measures used by the successful Islamic banks? This study conceptualized Kaplan and Norton’s (1996, 2001) Balanced Scorecard and comparing this to the performance measurement systems of Malaysian Islamic banks. The study also introduced a guideline of Shariah Compliance and BSC measures to be used by Islamic banks in order to improve their performance. This study was done with a slight difference in conceptualization of Kaplan and Norton’s BSC and applied to a Malaysian setting namely Islamic banks. From the findings, there was a positive relationship between BSC measures, Shariah Compliance attributes and Islamic banking performance. Banks which used all the BSC and Shariah measures in the study also known as exemplar improved their performance tremendously. A structure for performance measurement were introduced as a guideline for Islamic banks potential use to enhance and increase their performance.
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Islamic banking in Malaysia which is more appropriately defined as 'Shariah-Compliant Banking Services' which emerged in the first decade of the twenty-first century is becoming a big industry player (DiVanna & Sreih, 2009). During the first generation of Islamic banking, the industry was localized and focused only on developing actions under Shariah principles. Tentatively, Islamic banking products naturally replicated their conventional counterpart to gain credibility and establish Islamic banking as a viable alternative to existing forms of financial instruments. Eventually, the strong growth in emerging economies, such as in the Middle East, Southeast Asia and parts of Africa with rapidly growing young populations, has created a set of conditions conducive to a reaffirmation of Islamic ideas by contemporary Muslims and a rise in demand for banking that were in line with Muslim religious belief (DiVanna & Sreih, 2009). Even though Islamic banking has been a growing force in the international financial system, it still remains the second best option after conventional banking.

Islamic banking is now entering the second generation of growth and developmental stability and has been growing at an impressive rate in recent years due to investors' perception that Islamic banking is in fact less risky compared to conventional banking. Islamic banking institutions are growing and are seriously enhancing their products and services to cater the increasing local and international market. At the same time, conventional banks are also taking the 'Shariah compliant' branding seriously to attract Muslim customers to invest in their products and services. As a result, Islamic banking performance is indeed growing at an impressive and positive rate.

This study attempts to enhance the performance of Islamic banks with a well-known performance measurement tool namely the Balanced Scorecard (BSC). The BSC has become a broadly recognised management tool in manufacturing firms and corporations. Most research on the BSC were carried out by organizations mainly in the United States and Europe (Ittner, Larker & Randel, 2003; Speckbacher et. al. 2003). However, not much is known about the use of BSC in Malaysia especially in Islamic banks. This is due to the lack