

UNIVERSITI TEKNOLOGI MARA

**PERFORMANCE AND IMPACT
MEASUREMENT OF VALUE-BASED
INTERMEDIATION
IMPLEMENTATION: A CASE
STUDY OF ISLAMIC FINANCIAL
INSTITUTIONS IN MALAYSIA**

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ABSTRACT

This research examines the performance and impact measurement of Value-Based Intermediation (VBI) implementation by Islamic Financial Institutions (IFIs) in Malaysia. Since its introduction by Bank Negara Malaysia (BNM) in 2017, VBI has emerged as a strategic framework for banking beyond profit, emphasising sustainability and ethical practices aligned with Islamic principles. The study employs a case study approach, focusing primarily on Alpha Bank due to its advanced VBI implementation and membership in the Global Alliance for Banking on Values (GABV). Beta Bank contributed preliminary data during Phase 1. However, its limited knowledge, experience, and lack of a designated person in charge restricted its full participation, leading to only partial inclusion in the analysis. The study reveals that the current VBI Scorecard, used to measure the performance of IFIs, largely follows guidelines but does not adequately incorporate essential Islamic principles integral to VBI. To fill this gap, a VBI Impact Measurement (VBIIM) Model is proposed, which integrates financial, social, and environmental dimensions with Stakeholder Theory and Islamic principles. The practical application of the VBIIM model by Alpha Bank illustrates enhanced decision-making in ethical financing and community development initiatives. Based on these findings, the study recommends that BNM revise VBI measurement tools to include more comprehensive and multidimensional indicators. This would better support IFIs in aligning their practices with national sustainability objectives with Islamic elements measurement. While the research centres mainly on a single case, it delivers valuable insights that can inform future multi-case studies and contribute to the ongoing development of effective VBI measurement tools.

Keywords: Impact Measurement, Islamic Financial Institutions, Stakeholder Theory, Sustainability Measurement, Value-Based Intermediation

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This study undertakes an in-depth analysis of the performance and impact measurement of Malaysian Islamic Financial Institutions (IFIs) in relation to their implementation of Value-Based Intermediation (VBI). VBI is a concept that has been encouraged by Bank Negara Malaysia (BNM) since 2017 as the driver of IFIs towards sustainability. IFIs are financial institutions that conduct their activities according to Shariah Law.

The government of Malaysia and the Bank Negara Malaysia (BNM) have been actively engaged in positioning the country as a world leader in Islamic Banking and Finance. The success of the IBF system has been demonstrated by the tangible increase in financing activities (Arshad et al., 2018). The IFIs' market share growth from 2012 to 2015 was driven by the Muslim population's increasing appreciation and acceptance of IBF as a financial foundation (Arshad et al., 2018; Hassan & Mohamad Nor, 2019; Ibrahim et al., 2019). Nevertheless, the detrimental effect of the annual economic growth has hindered the government's initiatives to promote the system within Malaysia (BNM, 2018b). Thus, BNM has motivated the IFIs to explore new strategies by introducing the VBI Implementation Strategy Paper (BNM, 2018a). This strategy has emphasised and highlighted four primary areas to guide IFIs' roles and impacts towards sustainability (BNM, 2018a).

BNM has introduced the VBI concept to support the VBI Community of Practices (CoPs) in practising Shariah through their product offerings and conduct, promoting sustainable impacts on the economy, customers, communities, and the environment. Moreover, the former governor of BNM, Tan Sri Dr Zeti Akhtar Aziz, has highlighted how IFIs can contribute to economic growth beyond financial profitability through implementing VBI (Malek, 2018a). VBI intends to consider the interests of shareholders, as its implementation can have a positive impact on the economy, society, and environment (Arshad et al., 2018). By this, Mohd Yunus (2018) emphasised that VBI was designed to produce advantageous results in IFI business models. Nine IFI pioneers who formed the CoP have voluntarily implemented VBI