

UNIVERSITI TEKNOLOGI MARA

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

NIK AIMAN NIK MUHAMAD

Thesis submitted in fulfillment
of the requirements for the degree of
Master of Accountancy

Faculty of Accountancy


May 2015

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.

Name of Student : Nik Aiman Bin Nik Muhamad
Student I.D. No. : 2010869956
Programme : Master of Accountancy (By Research)
Faculty : Accountancy
Thesis Title : Shariah Compliance and Balanced Scorecard
Measures for Performance of Malaysian Islamic
Banks using Rasch Model

Signature of Student : 
Date : May 2015

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.

ACKNOWLEDGEMENT

Praise to Allah SWT, The Most Merciful, The Most Compassionate. The long awaited journey in completing this thesis has come to a success. Myriad praise to Allah SWT as with His blessings, by giving me the mental and physical strengths in overcoming obstacles, through ups and downs, and managing countless problems and setbacks in completing this thesis.

My gratitude and thanks goes to my distinguished supervisors, Professor Dr Rozainun Abdul Aziz as my main supervisor, and Assoc. Prof. Dr Azmi Abdul Hamid as my co-supervisor. Their encouragements are invaluable in making this thesis a reality. They have been a constant source of information and always available to provide the support whenever I needed it. I would like to thank them again for their constructive comments and evocations that contributed greatly to the completion of this thesis.

My appreciation also goes to the Faculty of Accountancy, Universiti Teknologi MARA for providing the platform to accomplish my Master's Degree and also to the faculty members for their direct and indirect contributions to the completion of this thesis.

My appreciation goes to my beloved parents, wife and family for their continuous inspiration and support financially and emotionally for me to achieve this goal.

Last but not least, my gratitude goes to Dr Rohani Mohamad from the Faculty of Business and Management, Universiti Teknologi MARA for her time and advice in Rasch Statistical Model that have helped me in analysing the data.

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

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