

# Impact Measurement of Value-Based Intermediation Among Malaysian Islamic Financial Institutions

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## ABSTRACT

There are still insufficient data concerning the impacts of Value-based Intermediation (VBI) performance output on sustainability although the Global Alliance for Banking on Values has been used to measure VBI performance of Islamic Financial Institutions (IFIs). Therefore, this study aimed to measure the impacts of VBI adoption among IFIs in Malaysia using the logic model approach. Data were extracted from IFIs' annual reports published and the Association of Islamic Banking Institution Malaysia (AIBIM)'s report on VBI Implementation issued from 2017 to 2020. The results showed that VBI performance measures were different among Community of Practices (CoPs) according to their different levels of adoption. The levels of VBI adoption were more likely to persistently affect customers, communities, and the environment. The logic model approach clarified that VBI performance reports should not be one-fit-all as the adoption level varied among CoPs. The findings also indicated that VBI performance information in the CoPs' annual reports might engage them with targeted customers, communities, and the environment, expecting to add new insights into the literature on performance measurement in the area of Islamic Finance. This could assist regulators and industry players in planning more strategic initiatives and provide clear guidelines for VBI adoption.

**Keywords:** impact measurement, Islamic financial institution, performance measurement, value-based intermediation

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## **INTRODUCTION**

Malaysia has been acknowledged as the world leader in Islamic Banking and Finance (IBF). The achievement of success by the IBF system has supported the country's economy through tremendous growth in financing activities (Arshad et al., 2018). The acceptance of IBF as a fundamental financial system in Muslim society had contributed to Islamic Financial Institutions' (IFIs) market share growth between 2012 and 2015 (Arshad et al., 2018; Hassan & Mohamad Nor, 2019; Ibrahim et al., 2019). However, the annual growth declined, risking the government's effort to establish the system in Malaysia (BNM, 2018b). As a guideline, Bank Negara Malaysia (BNM) issued a strategy paper on Value-based Intermediation (VBI), specifying four thrusts that underpin its implementation to drive IFIs' roles and impacts on sustainability (BNM, 2018a).

The Value-Based Intermediation (VBI) concept was introduced by BNM to monitor the VBI Community of Practices (CoPs) in focusing on Shariah's adoption of practices, offerings and conduct to produce a sustainable impact on the economy of the customers, communities and the environment. Tan Sri Dr Zeti Akhtar Aziz, the former BNM governor, had highlighted the importance of the roles of Islamic Financial Institutions (IFIs) in participating in growth beyond financially profitable activities (Malek, 2018a). As the shareholders' benefits are taken care of, VBI adoption enables IFIs to create impacts that vitalise the economy, society and the environment (Arshad et al., 2018). It was expected that the adoption and strategic implementation of VBI by IFIs would positively impact their business models (Mohd Yunus, 2018). BNM has started gearing the VBI direction by accepting nine IFIs as pioneers to adopt VBI in their organisations. As of November 2020, VBI implementation involved eleven of sixteen IFIs, out of which only some had fully implemented VBI, while others were limited in their implementation. Table 1 shows the year of joining the CoPs and the level of VBI implementation indicating their commitment toward the VBI concept as of the year 2021. Some IFIs may have chosen to adapt and adopt the VBI concept holistically; however, others may have chosen to focus only on the development of new VBI products. Either way, BNM has emphasised VBI implementation that should drive Malaysian Islamic finance institutions to achieve sustainability (Hardianto & Wulandari, 2016; Zaylani, 2019) by introducing guidelines for implementing VBI.

**Table 1: Balanced Scorecard Operational Performance Measures**

| No. | Islamic Financial Institutions                              | Community of Practice (Year) | Level of VBI Adoption |
|-----|---|------------------------------|-----------------------|
| 1.  | Affin Islamic Bank Berhad                                   | 2021                         | Initial               |
| 2.  | Agrobank  | 2017                         | Advance               |
| 3.  | Al Rajhi Banking & Investment Corporation (Malaysia) Berhad | 2021                         | Initial               |
| 4.  | Alliance Islamic Bank Berhad                                | 2017                         | Moderate              |
| 5.  | AmBank Islamic Berhad                                       | 2017                         | Advance               |
| 6.  | Bank Islam Malaysia Berhad                                  | 2017                         | Advance               |
| 7.  | Bank Muamalat Malaysia Berhad                               | 2017                         | Advance               |
| 8.  | Bank Kerjasama Rakyat Malaysia Berhad                       | 2020                         | Initial               |
| 9.  | CIMB Islamic Bank Berhad                                    | 2017                         | Advance               |
| 10. | HSBC Amanah Malaysia Berhad                                 | 2017                         | Advance               |
| 11. | Maybank Islamic Berhad                                      | 2017                         | Advance               |
| 12. | OCBC Al-Amin Bank Berhad                                    | 2018                         | Moderate              |
| 13. | Public Islamic Bank Berhad                                  | 2018                         | Moderate              |
| 14. | RHB Islamic Bank Berhad                                     | 2018                         | Moderate              |
| 15. | Standard Chartered Saadiq Berhad                            | 2017                         | Moderate              |

The development of IFIs in Malaysia showed an unparalleled annual growth rate in the Islamic banking market share; it was reported that the IFIs' market share has been stagnant at 28% since 2016. Thus, BNM introduced the VBI Scorecard (VBISC) to represent a more reader-friendly report, which is easily understood by the related parties. Previous studies on VBI showed that Shariah compliance, sustainability and product offering are the most discussed issues concerning the VBI concept (Abd Halim et al., 2018; Arshad et al., 2018; BNM, 2017; Hardianto & Wulandari, 2016; Mallick, 2019). VBI adoption should be implemented, evaluated and measured to acknowledge the impact on sustainability. A limited number of studies have discussed the performance and impact measurement in IFIs, from which guidance should be taken, or some experience could be learned. Realising the need, BNM established the VBI Scorecard (VBISC) as a measurement tool to evaluate CoPs' performance in offering VBI products and services to SMEs. VBISC was established to measure and assess value and standards within VBI that comprehend beyond Shariah Compliance (Hassan & Mohamad Nor, 2019). VBISC had adapted Global Alliance for Banking on Values (GABV), which has been globally used to measure value-based banking performance (Mahyudin & Rosman, 2020), considering the similarities in most of their focused initiatives. As a pioneer in value-based

banking, GABV is also being consulted to understand and determine the approach of value-based Islamic banking implementation and reporting (Mohammed & Mansor, 2021). According to Ramli and Muhamed (2018), although some IFIs have adopted integrated reporting (IR) in their annual report, the VBI strategy has not been included.

The purpose of this study was to propose a new model for measuring the VBI impact. To this end, this study addressed the following questions: (1) What is the measurement tool that could be used in measuring the impact of VBI implementation on customers, communities and the environment? (2) How can VBISC and the logic models support the VBI measurement process? With that, we focussed on examining six (6) out of fifteen (15) CoPs' published annual reports for 4 years from 2017 to 2020 and the Association of Islamic Banking Institution Malaysia (AIBIM) VBI Implementation Report of 2017 – 2020, VBI Implementation Report of 2017 – 2020, that eventually have not represented the specific VBI report, as fostered by BNM in VBI strategy papers.

The following section summarises the literature on VBI impact measurement and the logic model application in VBI implementation reports. The findings of the discussion may be useful in proposing additional measures to extend VBISC and strengthen VBI adoptions in the Malaysian Islamic Banking industry. This study mainly contributes to the literature on VBI by offering a VBI Logic Model framework in order to attain a measurement mechanism of VBI impact for IFIs benefits in adopting VBI.

## **LITERATURE REVIEW**

### **Value-based Intermediation Adoption**

The VBI concept intends to deliver Shariah practices, conducts and offers that create benefits and sustainable impacts to the economy of the customers, communities and the environment, persistent with the shareholders' sustainable returns and long-term interests (BNM, 2017). Six strategies were established by BNM to guide VBI practitioners towards better profit impact of the product beyond services offering (BNM, 2018b). According to the BNM Strategy Paper (2018), the six strategies holistically

represent VBI implementation. According to the first strategy, VBI should be implemented as a typical image in the Islamic finance industry. The second strategy involves IFIs and the industry's key stakeholders to mutually define VBI thrusts as a foundation for cooperative implementation. Identifying and supporting the 'VBI champions' is the third strategy to motivate other VBI potential practitioners to implement VBI. In the fourth strategy, BNM encourages IFIs to disclose their VBI outcome through a performance report. VBISC appears in the fifth strategy to measure IFIs' VBI successful implementation. The final or sixth strategy is to establish CoPs' collaboration with the value-based community, key partners and stakeholders for successful networking growth.

Generally, VBI's successful implementation is anticipated to establish justice in values and standards beyond social responsibility while focusing on ownership fortification by wealth dissemination (Hassan & Nor, 2019). Implementing the six VBI strategies, IFIs must ensure that VBI adoption demonstrates the four underpinning VBI principles of Best Conduct, Good Self-governance, Entrepreneurial Mindset and Community Empowerment (BNM, 2017). Parallel with a study by Ramli and Muhamed (2018), which investigated VBI integrated reporting adoption by two Malaysian Islamic banks, this study found that rigorous measurement is crucial to explore the success of VBI adoption by the CoPs. Implementing VBISC, the performance and impact of VBI adoption were examined through six CoPs' published annual reports whereby their roles in achieving sustainability as the long-term value were measured.

## **Impact Measurements**

Performance measurement is a process where the performance information of an individual, group, organisation, system or component is collected, analysed and/or reported (Behn, 2003). Performance output is crucial in determining and leading to managerial decision-making for enhancing performance (Smith & Bititci, 2017). Neely et al. (1995) stated that performance measurement enables quantifying the efficiency and effectiveness of the activities undertaken within an organisation. However, the performance could be measured beyond financial dimensions where an organisation's objectives, the measurement development, reporting, interpreting, reviewing and actions taken due to the performance output

must be postulated by means of the performance measurement as a whole (Smith & Bititci, 2017). As a result, the financial and non-financial elements of the performance measurement can be understood by an organisation so that it can utilise the performance measurement output for its improvement (Taheri et al., 2019).

According to the Global Impact Investing Network (2022), in order to measure and manage an impact on a business, whatever negative or positive effects on people and the planet must be identified prior to determining the methods to reduce the negative effects and maximise the positive effects consistent with one's goals. The term "impact" has been frequently used as a reference to the consequences of significant changes in people's lives, for instance, to assist the buffer of poverty and improvement for a healthier planet, which is associated with certain actions (Ebrahim & Rangan, 2014). The term impact has been used by Ebrahim and Rangan (2014) to signify the eternal changes in an individual's life that differ from the outcomes, which means the eternal results achieved at a community or societal level. The increasing attention from investors of social entrepreneurs, non-profits, institutions and organisations has shown the importance of analysing and documenting the impact in order to ensure that their investment achieves the anticipated impact (Kämpfer, 2017). It is a fact that an organisation's performance through business profitability, growth and market value is critical to be measured to satisfy investors (Chakravarthy, 1986). Therefore, a common method and/or model are/is necessary to measure the impact performance efficiently and effectively (Kämpfer, 2017).

In 2019, BNM Assistant Governor, Adnan Zaylani Mohamad Zahid, urged IFIs to implement VBI as it had shown evidence that it could create significant and intense impacts that could affect Small and Medium Entrepreneurs (SMEs) economic, social and environments. Past studies have implicated that VBI performance in SMEs should be measured to establish IFIs products and services offered in order to achieve their needs (Ahmad & Mahadib, 2020; BNM, 2018a).

## **Logic Model**

It is crucial for IFIs to have a structured and comprehensive performance and impact measurement model that could measure their vital part in supporting VBI implementation as introduced by BNM. VBISC has been proposed by BNM to fulfil IFIs need in measuring their performance in adapting VBI into the organisations. However, VBISC is known as a self-evaluation performance tool whereby a scorecard is widely used mainly for internal performance towards an organisation's objectives which is exposed to have a control bias (Behn, 2003; Kaplan & Norton, 1996).

A logic model is a systematic instrument designed to visualise an organisation's desired result of how a programme could or should be directed (Edwards et al., 2021; Rodrigues et al., 2018). The logic model has detailed out a set of four specific components that are essential to producing the desired output (Rodrigues et al., 2018). Figure 1 shows the model contains basic key components of inputs, activities, outputs, outcomes and impacts. This logic model is used as a basis to identify an organisation's performance and impacts on profit, people and the planet.

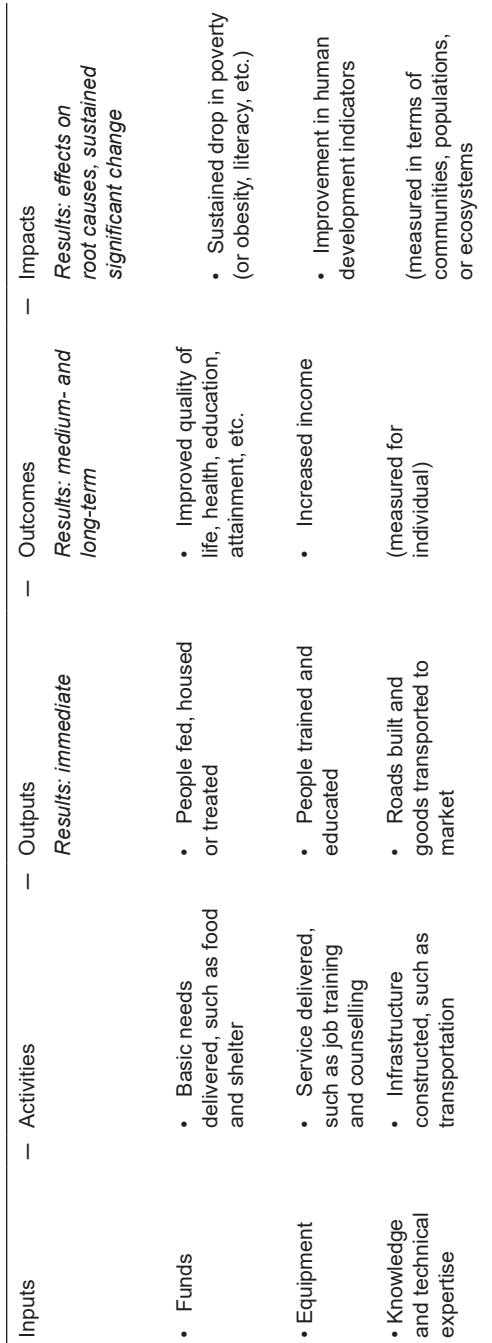


Figure 1: Logic Model (Source: Ebrahim & Rangan, 2014)



The Logic model has been used to represent the logical arrangement from the initiative being executed to enhance the current benefit, which ultimately leads the event output to significantly affect longer-term achievement known as impacts (Rodrigues et al., 2018).

In this study, both Scorecard and Logic Model were utilised to ensure that the VBI performance could be measured not only within the organisation, but also could be extended to the external impact. A comprehensive measurement internally and externally will be useful to plan, manage and evaluate between what the organisation plans to do and what is the result to be achieved (Rodrigues et al., 2018).

## VBI Performance Measurement

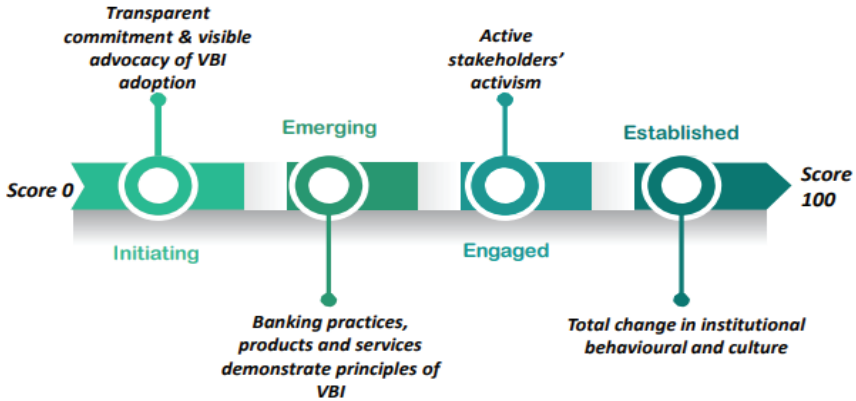
BNM had introduced VBISC in the fifth strategy paper with specific elements to evaluate the success of VBI implementation (BNM, 2018c). Following GABV, VBISC is a metric used for assessing the success or progress of financial and non-financial performance (Tok & Yesuf, 2022). Kaplan and Norton (1996) stated that in the Balanced Scorecard, the operational performance is measured by four contexts, which are defined in Table 2.

**Table 2: Balanced Scorecard Operational Performance Measures**

| Balanced Scorecard Categories | Measurement Context   |
|-------------------------------|---|
| Financial Perspective         | Evaluation on financial information, such as earning per share (EPS) or return on investment (ROI)                                  |
| Customers Perspective         | Evaluation on customer perception of the business and how the business communicates with the customers                              |
| Business Processes            | Evaluation on internal business perspective and management's operational goals, such as production effectiveness or quality control |
| Learning and Growth           | Evaluation on how effectively the business is growing by training its employees to innovate or create value.                        |

VBISC has been used as the key performance indicator to identify CoPs' commitment and implementation strategy in the VBI adoption. Figure 2 shows how VBISC is adopted in two phases; the Internal Use in phase 1 and the External Use in phase 2. VBISC has facilitated the strategic planning

process and self-assessment of performance and progression. Meanwhile, in the second phase, VBISC results will be published for extended stakeholders to analyse and perform a comparison among CoPs.

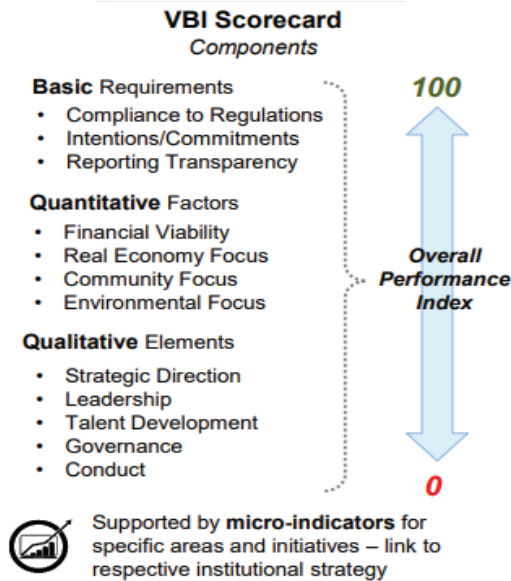


**Figure 2: VBI Adoption Phase by IFIs**  
 (Source: Bank Negara Malaysia, 2018c)

The adoption of VBISC is expected to improve emphasis on enhancing Shariah propositions and promote transparency in sharing the value-based practices among IFIs. The phases are shown in Figure 2, from ‘Initiating’ to ‘Established’, indicating CoPs’ development in the VBISC adoption. As can be seen in Figure 2, the lowest score of VBISC does not represent the values created by CoPs to wider stakeholders. Instead, the score categorises the CoPs at the initiating phase of VBI implementation.

**VBI Impact Measurement**

In this study, CoPs’ performance was measured based on three perspectives by referring to VBISC, which was developed by GABV in 2018, and consists of basic requirements, quantitative factors, and qualitative elements, as shown in Figure 3.



**Figure 3: VBI Scorecard Components**

(Source: Bank Negara Malaysia, 2018c)

As such, it is crucial to measure performance in order to enhance and improve IFIs services while evaluating VBI impacts on SMEs’ economic, social, and environments. In fact, a prior study has indicated that VBISC adoption is correlated with the value-based banking principles, strategies and objectives to improve the financial system’s sustainability and product offering (Tok & Yesuf, 2022). Thus, this study looked into how VBISC and the logic model would potentially affect IFIs’ performance measurement over time.

## RESEARCH METHODOLOGY

It was evident that the value-based banking implementation stimulated a healthier financial situation in financial institutions, which made positive impacts on economic sectors (Mahyudin & Rosman, 2020). The benefits enjoyed due to the value-based banking, specifically VBI in IFIs, should be measured in both financial and non-financial performance. It is also crucial to comprehensively evaluate the measurement of the performances and their impacts on sustainability (Frederico et al., 2021).

This study examined six out of 15 IFIs by examining their published annual reports from the year 2017 until 2020. The selection was made due to their profound experience shared in the annual reports, which could be measured in determining the VBI adoptions regardless of the level of adoption. Moreover, the six IFIs were among the CoPs' members involved in the development of BNM strategy papers for VBI implementation. The six IFIs examined in this study are listed below:

- AB – Bank Pertanian Malaysia Berhad (AgroBank)
- BI – Bank Islam Malaysia Berhad (Bank Islam)
- BM – Bank Muamalat Malaysia Berhad (Bank Muamalat)
- BR – Bank Kerjasama Rakyat Malaysia (Bank Rakyat)
- CI – CIMB Islamic Bank Berhad (CIMB Islamic)
- MI – Maybank Islamic Berhad (Maybank Islamic)

In previous research, VBISC was used to measure VBI adoption that benefitted the community, as stakeholders for business valuation were interested in this disclosure (Hassan & Mohamad Nor, 2019). The analysis was based on three segments of VBISC comprising the (1) basic requirements, (2) quantitative factors and (3) qualitative elements. Every segment comprises of few questions to measure the performance of each bank according to their reports. The questions are briefly explained in Table 3.

**Table 3: Questions Asked in Assessing VBI Performance**

| Questions on segments from reports   |
|--|
| (1) Basic Requirements   |
| Does the organisation support VBI compliance to regulations?   |
| Does the organisation have strategies for VBI implementation?  |
| Does the organisation present its VBI performance in the report?   |
| (2) Quantitative Factors   |
| Does VBI contribute to the organisation's profitability, liquidity, cash flow, capital structure, debt servicing and capacity of growth? |
| Does the organisation have a VBI strategy for the real economy?  |
| Does VBI in the organisation contribute to the community?  |
| Does VBI in the organisation influence the external environment?   |
| (3) Qualitative Factors  |
| Has the organisation achieved its VBI strategic objectives?  |
| Does the organisation's leadership structure towards VBI implementation include its skills and diversity?                                |

- Does the organisation commit with the VBI talent development?  
 Does the organisation’s governance structure support its ability to create value in VBI implementation?  
 Is the organization’s culture, ethics and values reflect in its VBI implementation?
- 

This study extended the data collection procedure by extracting information from the reports of the Association of Islamic Banking Institution Malaysia (AIBIM) on VBI from 2017 to 2020. Both IFIs published reports and AIBIM reports were used in this study to answer and measure the performance and impacts of VBI implementation by applying the logic model developed by Ebrahim and Rangan (2014). Hence, the VBI Logic Model was proposed in this study, as shown in Table 4.

**Table 4: Proposed VBI Logic Model**

| <b>Inputs</b>   | <b>Activities</b>  | <b>Outputs</b>  | <b>Outcomes</b>  | <b>Impacts</b>  |
|---|--|---|--|---|
| <ul style="list-style-type: none"> <li>• VBI Financing/ guarantee/ insurance approved</li> </ul>              | <ul style="list-style-type: none"> <li>• VBI Loan and Credit Guarantees</li> </ul>   | <ul style="list-style-type: none"> <li>• VBI Client resilience                             <ul style="list-style-type: none"> <li>- Sales Turnover</li> <li>- Clients' Productivity</li> <li>- Clients' Credit Profile improvement</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Positive spill over into the economy                             <ul style="list-style-type: none"> <li>- Jobs Creation</li> <li>- Impact-based indicators</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Social and Financial Impact                             <ul style="list-style-type: none"> <li>- New job creation in SME industries</li> <li>- SMEs financial self-sustainability</li> </ul> </li> </ul>   |
| <ul style="list-style-type: none"> <li>• VBI Knowledge and technical expertise</li> </ul>                     | <ul style="list-style-type: none"> <li>• VBI Training, consultation and advisory services                             <ul style="list-style-type: none"> <li>- VBI Savings mobilised from individuals</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Employees trained and educated</li> </ul>  | <ul style="list-style-type: none"> <li>• Extensive experience and competence in VBI financing and risk assessment</li> </ul>   | <ul style="list-style-type: none"> <li>• Impacts on Stakeholder Relations                             <ul style="list-style-type: none"> <li>- Customers willing to return to share experience</li> </ul> </li> <li>• Environmental Impacts                             <ul style="list-style-type: none"> <li>- Assessment on project environment risk and monitoring</li> </ul> </li> </ul> |
| <ul style="list-style-type: none"> <li>• VBI Financial inclusion knowledge and technical expertise</li> </ul> | <ul style="list-style-type: none"> <li>• VBI Financial access points and transaction volume in underserved areas</li> </ul>  | <ul style="list-style-type: none"> <li>• VBI Cost-to-income ratio</li> </ul>  | <ul style="list-style-type: none"> <li>• Total VBI funding crowded-in from the private sector for the year</li> </ul>  | <ul style="list-style-type: none"> <li>• Financial Impact - Loans and Guarantees Granted to VBI Client                             <ul style="list-style-type: none"> <li>- to SMEs and micro-enterprises</li> </ul> </li> </ul>  |

A strategic client range procedure ensures that funding is directed to the accurate potential clients, such as the underserved community which are micro-enterprise and SMEs. This process could lead to a robust VBI implementation impact. It is important that a holistic evaluation on potential VBI clients’ existing credit risk to be assessed. The logic model is suitable to be applied in VBI impact analysis while it is applied within social impact measurement (Edwards et al., 2021). The measurement indicators of the impacts on the VBI products and services offered are inclusive of underserved communities, which may provide more robust and impactful measurement (Rodrigues et al., 2018).

## DISCUSSION OF FINDINGS

### Application of VBISC

Table 5 shows the analysis of six CoPs annual reports, indicating a mixed output of VBISC elements. All six CoPs were committed to compliance with the VBI regulations in terms of the basic requirements. All CoPs publicly shared their intentions to commit to VBI implementation. However, one of the CoPs was unprepared to disclose their VBI reporting.

**Table 5: VBI Scorecard Analysis**

| Component                   | Agrobank | Bank Islam | Bank Muamalat | Bank Rakyat | CIMB Islamic | Maybank Islamic |
|-----------------------------|----------|------------|---------------|-------------|--------------|-----------------|
| <b>Basic Requirements</b>   |          |            |               |             |              |                 |
| Compliance to Regulations   | YES      | YES        | YES           | YES         | YES          | YES             |
| Intentions/ Commitments     | YES      | YES        | YES           | YES         | YES          | YES             |
| Reporting Transparency      | YES      | YES        | YES           | NO          | YES          | YES             |
| <b>Quantitative Factors</b> |          |            |               |             |              |                 |
| Financial Viability         | YES      | YES        | YES           | YES         | YES          | YES             |
| Real Economy Focus          | YES      | YES        | YES           | NO          | YES          | YES             |
| Community Focus             | YES      | YES        | YES           | YES         | YES          | YES             |
| Environmental Focus         | YES      | YES        | YES           | YES         | YES          | YES             |

| <b>Qualitative Elements</b> |     |     |     |     |     |     |
|-----------------------------|-----|-----|-----|-----|-----|-----|
| Strategic Directions        | YES | YES | YES | YES | YES | YES |
| Leadership                  | YES | YES | YES | YES | YES | YES |
| Talent Development          | YES | YES | YES | YES | YES | YES |
| Governance                  | YES | YES | YES | YES | YES | YES |
| Conduct                     | YES | YES | YES | YES | YES | YES |

Table 5 summarises the result of the VBI Score Card Analysis, showing that all CoPs were committed in adopting VBI in their products and services offering. However, 5 out of 6 CoPs (83%) had published their sustainability report, which could represent the VBI components. In terms of quantitative factors, all CoPs showed that VBI contributed to their organisation's profitability, liquidity, cash flow, capital structure, debt servicing and capacity of growth. It was also shown that all CoPs contributed to the community focus such as the VBI initiatives examples shown in Table 6 below.

**Table 6: VBI Community Project Initiatives**

| <b>Bank Name</b> | <b>Example VBI Community Project Initiatives</b> | <b>Description</b>  |
|------------------|--|---|
| AgroBank         | Chili Fertigation Group Financing scheme,        | collaboration with National Farmers' Association (NAFAS)                                  |
| Bank Islam       | Sadaqa House                                     | Health, education - underserved segment   |
| Bank Muamalat    | DuitNow QR                                       | Donations and sadaqah by QR payments at mosques   |
| Bank Rakyat      | Waqf Initiatives                                 | Empowering the community by having an entrepreneurial mindset, values consistent with VBI |
| CIMB Islamic     | Motor Takaful Plan                               | Takaful Plan with Waqf  |
| Maybank Islamic  | MAE e-wallet                                     | Mobilised to enable financial inclusion of the poor                                       |

(Source: AIBIM 2017 – 2020 Report)

Furthermore, as shown in Table 7 all 6 CoPs had shown that VBI implementation influenced the IFIs in their environmental contributions.

**Table 7: VBI Environmental Project Initiatives**

| Bank Name       | Example VBI Environmental Focus  | Description  |
|-----------------|--|--|
| AgroBank        | Smart Agriculture model in 2019  | Use drone technology and smart sensors so that crop fertigation and crop growth can be monitored more precisely are becoming commonplace which contribute to the environment |
| Bank Islam      | partnered with Tenaga Nasional Berhad and its subsidiary, GSPARX Sdn. Bhd.         | finance solar photovoltaic (PV) ownership for home owners in the country   |
| Bank Muamalat   | SIRIM-Fraunhofer programme   | fulfil SMEs' financial needs and provide assistance in improving their productivity by using technology to stay competitive amid the Industrial Revolution 4.0.              |
| Bank Rakyat     | 1 Student 1 Sport Football Championship (Yayasan Bank Rakyat)                      | uses sports engagement as a platform for environmental engagement. In 2019 involving 2,956 schools' participation with RM1.04 million was disbursed in the year              |
| CIMB Islamic    | CIMB SME Renewable Energy Financing  | Preferential financing rates for new hybrid vehicles and residential properties certified under the Green Building Index("GBI") as part of its VBI offerings                 |
| Maybank Islamic | UiTM Solar Power Sdn Bhd's RM240 million Green SRI Sukuk Shariah structure Advisor | the first educational institution to issue solar sukuk in the world vehicles and residential properties certified  |

(Source: AIBIM 2017 – 2020 Report)

From the analysis, all CoPs had shared their directions, leadership structure, and talent development, representing their support for VBI adoption. However, the different levels of achievements were subjected to the VBI implementation stages.

### VBI Logic Model

The logic model proposed in this study was developed by Ebrahim and Rangan (2014) in their social impact measurement study. In this study, the basic key components of inputs, activities, outputs, outcomes and impacts were identified as the key questions that needed to be answered by the CoPs to design the solutions targeted for the VBI Logic Model and derive the VBI impact.



The indicators used in the VBI Logic Model were specifically related to the financial elements in adapting VBI products and services offered to the clients. This was done to ensure that the objective of utilising the financial funding beyond profit to all potential clients, including the underserved community, was achieved. As VBISC was mainly an instrument for internal performance and strategy accomplishment, the executors were mostly internal managers. However, the main components of the VBI Logic Model, i.e. input, output, outcome and impact, were primarily for external customers.

VBI could embed other screening criteria for projected VBI output towards the current credit risk valuation on potential customers. The further valuation elements could be constructed to the type of the project, with the targeted category of customers, maturity period and applicable economic segments. As a profit organisation, CoPs could sustain their benefits and profitability by using the VBI logic model whereby the elements used are concerned with the impact to the targeted customers, community and environment.

Table 8 specifies the analysis of the VBI impact measurement carried out by applying the VBI Logic Model. The data collected from the IFIs 2017 – 2020 annual reports and AIBIM report showed the initiatives taken followed the VBI Logic Model components. In the analysis, the impacts were measured by answering the questions with either YES or NO. However, due to the lack of information collected from the published data, this study was unable to answer certain impact questions. Thus, the analysis was indicated as ‘NIL’ to present the unanswered questions. This study acknowledges that the analysis could be more accurate by giving a range of scoring procedures instead of the ‘YES’ or ‘NO’ method. Higher VBI scoring could denote a better initiative performance level achieved by CoPs. However, for the purpose of this study, the analysis remained with YES, NO or NIL indicators.

**Table 8: VBI Logic Model Analysis**

| Inputs  | Activities   | Outputs   | Outcomes   | Impacts   | AB  | BI  | BM  | BR  | CI  | MI  |
|---|--|---|--|---|-----|-----|-----|-----|-----|-----|
| <ul style="list-style-type: none"> <li>• VBI Financing/ guarantee/ insurance approved</li> </ul>              | <ul style="list-style-type: none"> <li>• VBI Loan and Credit Guarantees</li> </ul>   | <ul style="list-style-type: none"> <li>• VBI Client resilience</li> <li>- Sales Turnover</li> <li>- Clients' Productivity</li> <li>- Client's Credit Profile improvement</li> </ul> | <ul style="list-style-type: none"> <li>• Positive spill over into the economy</li> <li>- Jobs Creation</li> <li>- Impact-based indicators</li> </ul> | <ul style="list-style-type: none"> <li>• Social and Financial Impact</li> <li>- New job creation in SME industries</li> <li>- SMEs financial self-sustainability</li> </ul> | YES | YES | YES | YES | YES | YES |
| <ul style="list-style-type: none"> <li>• VBI Knowledge and technical expertise</li> </ul>                     | <ul style="list-style-type: none"> <li>• VBI Training, consultation and advisory services</li> <li>- VBI Savings mobilised from individuals</li> </ul> | <ul style="list-style-type: none"> <li>• Employees trained and educated</li> </ul>  | <ul style="list-style-type: none"> <li>• Extensive experience and competence in VBI financing and risk assessment</li> </ul>                         | <ul style="list-style-type: none"> <li>• Impacts on Stakeholder Relation</li> <li>- Customer willing to return for sharing experience</li> </ul>                            | YES | NIL | YES | NIL | NIL | NIL |
|   |  |   |  | <ul style="list-style-type: none"> <li>• Environmental Impacts</li> <li>- Assessment on project environment risk and monitoring</li> </ul>                                  | YES | YES | YES | NO  | YES | YES |
| <ul style="list-style-type: none"> <li>• VBI Financial inclusion knowledge and technical expertise</li> </ul> | <ul style="list-style-type: none"> <li>• VBI Financial access points and transaction volume in underserved areas</li> </ul>                            | <ul style="list-style-type: none"> <li>• VBI Cost-to-income ratio</li> </ul>  | <ul style="list-style-type: none"> <li>• Total VBI funding in from the private sector for the year</li> </ul>  | <ul style="list-style-type: none"> <li>• Financial Impact - Loans and Guarantees Granted to VBI Client</li> <li>- to SMEs and micro-enterprises</li> </ul>                  | YES | YES | YES | NO  | YES | YES |

This measurement indicated that VBI adoption by all six CoPs generally had given a positive social and financial impacts on their customers. Similar impacts were made on stakeholders' relations and financial inclusion in funding their customers with loans and guarantees. According to the reports examined, the six CoPs shared their actions and contributions to making positive impacts on the environment, such as CIMB Islamic, which offered the VBI product of SME Renewable Energy Financing. Meanwhile, World Wide Fund for Nature (WWF) has remarked Bank Islam and Bank Rakyat as two full-fledged institutions that have been committed to sustainable finance through WWF assessment and benchmarking of critical Environmental and Social integration performance for banks worldwide.

The above impact measurement analysis showed that this study was unable to answer the question for the Impacts on Stakeholder Relation - Customer willing to return for sharing experience. Only Agrobank had clearly shown its customers who willingly shared their success stories whereas this study was unable to collect the data to answer the similar question from the other five IFIs.

Although this study had answered all impact questions except one, the analysis did not represent the level of impact of each IFI. As all initiatives analysed were implemented in the year 2017 until 2020, it has not been specified when the impacts had taken place and the level of VBI initiative implementations were subjective as well.

## **CONCLUSION**

VBI impact measurement is crucial as VBI has been emphasised by BNM to support economic growth, specifically in a Muslim society. The fundamental concept in VBI, which is beyond profit funding, has been a driver for the need to measure the impact of VBI goods and product offerings by IFIs. Findings indicated that both performance and impact measurement could be measured using VBISC analysis and Logic Model when sufficient information is available in specific VBI holistic reports.

Further, the performance and impact measures could be more meaningful and impactful if CoPs are closely guided on the ways to apply

VBISC and impact measurement in assessing their performance. CoPs' readiness to disclose their success stories in adopting VBI information should be promoted to bring a positive impact that could contribute to the economy of the customers, communities and the environment. On the other hand, voluntary disclosure of VBI performance information resulting in limited publicly shared data will be an obstacle to the aim of promoting sustainable practices among IFIs.

The analysis, paired with the literary evidence, painted a compelling view of VBI's positive impact that was still at the initial stage as IFIs had been focusing on the outcome rather than the impacts. The analysis showed that the involvement of IFIs in offering VBI products and services were limited; thus, the use of VBISC in measuring the actual impacts on the targeted customers, community and environment was not convincing to conclude a satisfactory level of the VBI adoption among the CoPs. It was shown that in order to gather more information to understand further, for example, in answering the impact on customers who were willing to share their success VBI stories, the published data were insufficient. The question is crucial to be answered and more data could be analysed if more CoPs are willing to publicly share their VBI reports and successful stories.

On the other hand, the VBI Logic Model proposed in this study can be used by future researchers and CoPs as an important guideline for measuring VBI's impact on business sustainability. Further research might explore this area using more specific and holistic indicators of VBI performance to clearly determine VBI's targeted impacts so that the practitioners in the banking industry can improve and innovate their products and services offerings.

As VBI impact measurement is quite a new topic in the Islamic Banking industry, this study has to acknowledge several limitations which are considered unexplored opportunities for future academic research. An in-depth case study identifying and investigating the impacts and the challenges faced by individual CoPs in VBI implementation would scale up the research and potentially be the next step in future research. It is believed that future research would help the Islamic Banking industry to move another step in positioning VBI as a beyond-profit industry that can contribute to the country's economic growth in achieving sustainability.

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