UNIVERSITI TEKNOLOGI MARA

PERFORMANCE AND IMPACT MEASUREMENT OF VALUE-BASED INTERMEDIATION IMPLEMENTATION BY MALAYSIAN ISLAMIC FINANCIAL INSTITUTION

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Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy
(Accountancy)

Faculty of Accountancy

October 2024

ACKNOWLEDGEMENT

I express my sincere gratitude to Allah s.w.t. for the opportunity to pursue my PhD and for guiding me through this challenging journey.

My deepest thanks go to my supervisors, Associate Professor Dr. Rina Fadhilah Bt Ismail and Associate Professor Dr. Saunah Zainon, whose invaluable guidance and support have been instrumental in my success. I am eternally grateful to my loving husband, and my beloved children, for their unwavering patience, support, and understanding throughout this endeavour.

I would also like to acknowledge the invaluable assistance provided by Bank Muamalat Malaysia Berhad's team especially to the VBI specialist Puan Idora and Puan Qamelia, whose expertise and cooperation were essential to completing my research. Special thanks to my family, colleagues, and friends, including my dear PhD companions, who have offered encouragement, advice, and assistance along the way.

Finally, I dedicate this thesis to the loving memory of my Almarhum and Almarhumah parents, whose vision and determination inspired me to pursue higher education. This achievement is a testament to their unwavering belief in me. I also dedicate it to my special child, whose memory continues to inspire me with his love forever.

ABSTRACT

This research investigates the performance and impact measurement of Value-Based Intermediation (VBI) adoption in Malaysian Islamic Financial Institutions (IFIs). Since its introduction by Bank Negara Malaysia (BNM) in 2017, VBI has been a cornerstone of IFIs' sustainability efforts. While IFIs have made significant progress, challenges remain in measuring VBI performance and impact. The study evaluates the current VBI performance measurement tools used by IFIs, assesses their alignment with VBI implementation goals, and explores innovative ways to enhance measurement. By conducting an in-depth case study of Alpha Bank, this research develops a comprehensive VBI Impact Measurement (VBIIM) Model that integrates financial, social, and environmental dimensions. The VBIIM Model offers a more holistic approach to measuring VBI performance and impact, addressing the limitations of existing tools. It provides a framework for IFIs to track progress, communicate value creation, and contribute to sustainable development. Key findings reveal significant limitations in existing VBI performance measurement tools, which often fail to capture the full impact of VBI initiatives. The research contributes to the field by offering a practical tool for IFIs to enhance their VBI initiatives and support BNM's vision for a sustainable Islamic finance industry. The study also highlights Alpha Bank's commitment to social responsibility, environmental sustainability, and inclusive finance through its VBI initiatives. Moreover, the research suggests that integrating Stakeholder Theory and Maqasid Shariah elements into the VBI Scorecard can enrich the assessment of VBI performance. The VBIIM Model is a valuable tool for IFIs to measure their VBI implementation's performance and impact, identify areas for improvement, and ultimately guide them toward sustainable practices and enhanced stakeholder engagement.

Keywords: Value-Based Intermediation, Islamic Financial Institutions, VBI Impact Measurement Model, Maqasid Shariah, Stakeholder Theory, sustainability, performance measurement.

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CHAPTER 1
INTRODUCTION

1.1 Introduction

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

The government of Malaysia and BNM have been actively engaged in positioning the country as the 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 resulted from the Muslim population's 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 generated the VBI concept to support the VBI Community of Practices (CoPs) in practising Shariah through their product offering and conduct to promote sustainable impacts on the economy, customers, communities and 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 adoption can positively impact 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 adopted VBI since its introduction in 2017. The number of CoP