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Islamic Values Islamic Bank Underlying Performance Assessment

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Abstract

The objective of the study is to identify the underlying Islamic values to formulate the performance assessment underlying concept of Islamic banking. This study uses Islam as research paradigm and Islam phenomenology as research method. Analysis units in Islam phenomenological method are awareness informant, noema and noesis, reflection, intersubjectivity between subjects who are experienced and knowledgeable. Data used were interviews, observation, and documentation. This study found four values that can be used as a basis to formulate performance evaluation concept of Islamic banking, namely: *ibadah* (worship), *muamalah* (Moslem business interaction), *amanah* (trust), and *ihsan* (benevolent). Based on these four values, Islamic banks goal is to create winning (*Falah*) for all stakeholders, both in this world life and hereafter.

Keywords: Islamic Banks Performance, Islamic phenomenology, worship, Moslem business interaction, trust, and benevolent.

1. INTRODUCTION

Performance assessment (evaluation or measurement) system in accounting context has a significant role for internal organization and external parties. Performance assessment results can be used by internal parties as a basis to develop policies in planning, organizing, directing, and monitoring for further performance improvement. Adversely, performance assessment system for external parties serves as a tool or a control mechanism to control management and serves as management regulations to press their work in accordance with objectives (Otley, 2003 and Estes, 2005: 234).

Performance assessment system is only regarded as an assessment tool. It has a very significant role for organization and even has an impact to increase organization value (Merchant and Stede, 2003: 409). Estes (2005: 233) explains that performance assessment system can affect management behavior to manage organization. If performance appraisal system focuses only one dimension of bottom line "profit", management will weigh daily decisions with the expense of morality (ethics) and goodwill. This indicates that management is a party without responsibility to stakeholders' interests and deliberately violates morality (ethics), but management positioned under pressure of performance assessment system was never designed to be accountable for company performance holistically.

Triyuwono (2005), Toms (2010) and Hameed et al. (no year) explains that appraisal system with 'profit' oriented is based on utilitarianism concept ethics as the basis of capitalism economic system. This system is consistent with classical economic theory that business organizations are "moneymaker" machines that can satisfy shareholders' desire to ignore the other stakeholders' interests (Capra, 2005: 116). Scoring system is established based on mechanistic view that management and organization are regarded as a machine that is built to explain success reality of a business organization, where good or bad business is measured only by profit performance (material).

Performance evaluation system with only profit-oriented goal creates an imbalance in organization life (Estes, 2005). Triyuwono (2011; 2012: 341) also states that management that focuses on profit achievement can lead to excessive egoistic behavior and makes organization away from ethical values and humanity. Another impact is exploitation both on humans and environment and undermining efforts to promote social responsibility (Irianto, 2006; Kamla, Gallhofer, and Haslam, 2006; and Estes, 2005).

El-Hawary, Grais, and Iqbal (2007) explained that Islamic banking regulations, including banks performance assessment system, still not fully concern to uniqueness of Islamic banking as a business organization, social, and propaganda. Performance assessment system that is commonly used in Islamic banks is still more focused on its role as a business organization to achieve financial performance. Performance assessment system include: assessment of traditional financial performance using financial ratios, Balanced Scorecard (BSC) and Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS).

Triyuwono (2011) explained that performance assessment indicators dominated by financial aspects can have an impact on management dysfunctional behavior of Islamic bank as an authority to lead and run organization. Management that focuses on performance could violate shariah principles and ignore its role as a social and proselytizing organization (Choudhury and Hussain, 2005; Lewis, 2007: 260; Chong and Liu, 2009;

Niswatin et al., 2009; Khan, 2010; PR of Bank Indonesia, 2010: 8-9; and Pepinsky, 2012). This behavior impact would lower the Islamic banks' reputation.

Profit in Islamic banks management is a phenomenon that becomes major concern for management. Various policies of Islamic banks management are directed to spur profit growth alone. It can be seen from management strategy in minimizing financial risks, particularly by expanding the financial transaction size by ignoring without taking *murabaha*¹, *mudharaba*², and *Musharaka*³ transaction into account (Hussain and Al-Ajmi, 2012). This proves that Islamic banks management is more oriented to income growth alone. According to Triyuwono (2006), Islamic banks operating under Islamic law should not be only judged based on physical reality (earnings), but also be assessed based on psychic reality (mental and social) and spiritual reality in process to create and distribute the productivity of Islamic bank products.

Estes (2005: 234) gives a solution that can be used to change management behavior in harmony, namely through efforts to transform multidimensional performance appraisal system, appraisal system in accordance with organizational objectives. This is done with consideration that proper measurements will make management accountable to stakeholders and will take into account the impacts on stakeholders.

This study focuses on finding empirical-normative values of Islamic religion as a basis to formulate performance evaluation concept of Islamic banking. These Islamic values are a set of principles or teachings to guide human life, both individuals and collectively. Integration of Islamic values and accounting, especially in organization's performance appraisal system is intended as a knowledge construction process in order to make Islamic values basis of organization behavior in transaction.

Islamic values exploration is done by exploring the human consciousness with regard to performance evaluation concept of Islamic banking. Awareness becomes knowledge source, because humans are the knowing subject. In other words, humans have different levels of consciousness (Husserl, 1978 and Bakar, 1994: 29). Islam Awareness is awareness of God Oneness as a scientific spirit to discover science, and this can be referred as awareness of *tawhid* (Bakar, 1994: 11).

This study provides a change to see performance evaluation concept of Islamic banking based on Islamic values. Islamic values that are integrated in human performance assessment concept would put individual and organization as a creature that has properties of a fair/balanced, live as economic beings and spiritual beings which will lead to a spiritual path to merges with God (*apokatastasis*/final restoration) (Nasr, 2005: 122). People eventually go back to their God (*wa inna Innalillahi ilaihi rojiun*). This is recognition of oneness (monotheism) God who recognizes that there is no God but God himself.

II. PARADIGM AND METHODS

Paradigm term in science was introduced by Kuhn (1970). It is defined as a frame of reference or worldview as basis beliefs or theories. Paradigm in science study is required to explain basic assumptions or key principles to observe the science reality.

Islam birth as an alternative paradigm in science is based on limitations of previous paradigm from modern Western scientists, either modernism or postmodernism. Their science to review paradigm has been contaminated by a secular ideology (Winkel, 1989). Ontologically, with empirical and rational principles, they have distanced science with religion and with God (Winkel, 1989 and Al-Attas, 1995). Al-Attas (1995: 5) explains details that both modernism and postmodernism do not have a coherent vision of science as a paradigm for ontological separation between truth and reality, and between truth and value. Islam unifies the paradigm between truth, reality and value. Most fundamental assumption in Islam view is to believe that God is absolute reality creator, even revelation of Koran and hadits also becomes a source of truth.

Islam does not see such dichotomous methodology between object and subject, material and spiritual, empirical and intuitive, but it has concept of *tawhid* (unification), capturing the reality and truth can be understood by bringing together a various methods. This can be done by applying the fundamental concepts of Islam, namely monotheism in a broader sense. Monotheism means not only a belief in God with his qualities, but also contains unity concept of science and religion, unity of body and soul, material and spiritual, intuition and reason, as well as union between written God's verses (*kauniyah*) and nature God verses, humans, and human behavior (*kauniyah*) as reality.

Science examination by using Islam as paradigm becomes alternative to restore science to its disposition

¹ Murabaha is goods selling with a selling price at acquisition price plus an agreed profit and the seller must disclose the goods acquisition price to buyer (Statement of Financial Accounting Standards of Islamic/Sharia SFAS no. 102).

² Mudharaba is an business agreement between two parties where the first party (owner funds) provide all funds, while the second party (fund manager) act as manager, and profits is divided among them according to agreement, where financial loss incurred only by the fund manager (Statement of Financial Accounting Standards of Islamic/Sharia SFAS No. 105).

³ Musharaka is an agreement between two or more parties to a particular business, where each party contributes funds with conditions that the profits is divided based on agreement while risk is based on funds contribution portion (Standards Accounting for Islamic Financial/Sharia SFAS No No. 106).

based on Islam values (Al-Attas, 1993 and Al-Faruqi, 1988). Islamic paradigm used is in this study as a basis to develop a research methodology (method), namely phenomenology.

Burrell and Morgan (1994: 240-247) state that phenomenology development today does not only come from one school but different schools. Furthermore, Burrell and Morgan (1994: 240-247) explain that phenomenology can be grouped into two schools. First is transcendental phenomenology (purely phenomenological). Phenomenology receives a lot contribution from Husserl where science research is largely determined by intentionality characteristics (directivity) as a form of consciousness. Phenomenology examines how the object was formed in transcendental consciousness, leaving problem of original object. Second is existential phenomenology. It is derivative form of transcendental phenomenology. This phenomenology comes from study of Heidegger, Merleau-Ponty, Sartre, and Schutz. They have similarity to put real world within everyday life as opposed to transcendental consciousness. It examines the phenomenology of concrete human manifestation, including experience to make free choice or act in concrete situations.

Choudhury (2008) also stated that phenomenology is a research methodology with universal and unique properties. It is universal because can be used to explain phenomenology of anything in reality science to find a holistic concept. Its uniqueness in the formalism phenomenology remains unchanged. Furthermore, Choudhury (2008) explains the phenomenology as epistemology (methodology) can be developed into a new phenomenology theme.

Islam as science paradigm is used to develop a phenomenology to contribute to science development based on Islamic values of "Islam phenomenology". This phenomenology is a transcendental phenomenology development through refinement assumptions and conceptual components in accordance with Islamic values.

Formalism phenomenology as a research method is shown from the data analysis techniques through reductions starting from the stage of epoch, phenomenological reduction, variation of imagination, and synthesis of meaning. These stages are also used in this study.

Researchers reason to choose Islam as a phenomenological research approach as it suits the purpose and context of research. This study purpose is to find Islamic values underlying the Islam bank performance assessment based on exploration of experienced and knowledgeable subject's consciousness regarding the concept of Islamic banking performance evaluation. This study context is Islamic banks Islamic law operation that reflects Islamic values in all business activities. In this context, Koran and Hadits (paragraph *kauliyah*) is also a source to explore Islamic values other than paragraph *kauniyah*. It requires a broader understanding on subject's consciousness that is not only confined to eidetic awareness but also historical consciousness and praxis in finding the Islam values as concept basis of Islamic banking performance evaluation.

This study instruments are researchers themselves. Researchers acts as an instrument to collect and analyze the data by involving all the potential, good vision, speech, feelings, and thoughts. With this potential, researchers can make direct contact with informant, face to face, ask deeper questions to informant, request clarification and specificity of informant, and can feel what the informants were experienced as revealed in their words.

The Main data of this study are interviews, observations, and examination of the interpretations of Koran and Hadits, while complementary data is obtained from the search of documents relevant to object of research. Interaction between researchers and subject (informant) in data collection is determinant to achieve research data collection. Informants were managers, employees, clerks as well as supervisory board of Islamic Bank and senior deputy director of Research Center for Research and Education of Central Bank (Bank Indonesia).

Analyzed units are based on a conceptual component of transcendental phenomenology which has been developed into phenomenology of Islam. Analyzed units are: awareness¹, noema and noesis², reflection³, and intersubjectivity⁴. The four analysis units are a unity that can not be described partially. Explanations of the four analysis units are melt in data analysis process, namely: bracketing⁵, horizontalizing⁶, and horizon⁷ that are organized to find the themes of Islamic values of which become the basic concept of Islamic banking

¹ Awareness is informant consciousness in form of historical consciousness (revelation), eidetic (motivate action), and praxis (the rule to drives humans).

² Noema are objects that are understood and realized by subject and noesis is object within subject mind that brought into consciousness (historically, eidetic, and praxis). Koran and Hadits become part of noema and noesis that serves as a complement to define Islam value and find a concept.

³ Reflection as analysis unit is referred as unity between the mind and intuition of researchers to transform noema into noesis.

⁴ intersubjectivity who experienced and knowledgeable about the object.

⁵ Bracketing is process to put objects (concept/phenomena) in parentheses, and separating things that can disturb the purity appearance.

⁶ Horizontalizing is to compare with others perceptions about object (concept/phenomena) experienced and known by subject as well as process to correct and to complement bracketing (other evidence discovery in interaction with subject/other informants).

⁷ Horizon is process to find the essence of pure objects themes.

performance evaluation.

RESULTS

Value 1: Doing Business is *Ibadah* as Reflection of *Ibadah* Value

Interviews with some Islamic banks managers, including Dana, Sabar, Nisa, and Mushoniful, draw meanings and motivations of different business objectives with capitalism view. According to them, who are entrusted to manage Islamic banks, holding the principle of "work or business is *ibadah*" becomes a necessity as intention in activity. Mushoniful from Islamic bank branch manager explains the expectations of these principles as follows:

"To expect a blessing and a blessing ... so I think whatever we do will become useless (meaningless) if we do not seek for the blessings ... it is what I want personally... in order for us to be facilitated in resolving any problems".

As an Islamic banks branch manager, Mushoniful has awareness to build Islamic spiritual motivation to all levels of management. According to him, being a leader means holding a big responsibility. He hopes that God will give His blessings upon any undertaken activities. Therefore, God will give comfort and guidance to make decisions to solve any problems they face. God, for him is place to depend on all problems.

Ascarya as a senior researcher of central bank explains that Koran as a source of truth has given clues about the purpose of man creation, which refers to letter of Adh-Dzariyaat verse 56:

"And I did not create the jinny and mankind except that they should worship (serve) to Me" (QS. Adz-Dzariyaat verse 56).

According to him, the purpose/objective of human creation being described in Adh-Dzariyaat verse 56 is also the objective of Islamic banks, namely *ibadah* to God. He explained that the perception of public or businesses during this time which distinguishes the goals between corporate and individuals, it is a fundamental mistake. This creates difference in intention and behavior when entering to mosque and business organizations (companies).

The same thinking was said by Ahmad Djalaluddin as a scholar and Supervisory Board of Islamic Banks. According to him, both individuals and organizations (agencies) have the same obligations within Islam, namely to worship (serve) God. This is explained in Al-Maidah verse 66 and of Al-Jatsiyah verse 28:

"And if only they upheld [the law of] the Torah, the Gospel, and what has been revealed to them from their God, they would have consumed [provision] from above them and from beneath their feet. Among them are a moderate community, but many of them - evil is that which they do." (Al-Maidah verse 66).

"And And you will see every nation kneeling [from fear]. Every nation will be called to its record [and told], "Today you will be recompensed for what you used to do" (Al-Jatsiyah verse 28).

Based on above description, informant understands that an Islamic bank as an organization is a group of people who have different roles, e.g. manager, investors and customers as depositors who contribute in funding, and customers as users of product or services provided by bank for business development. However, objectives they have same purpose, namely *ibadah* to God. The Value of *ibadah* is considered essential to become basis to formulate performance evaluation concept of Islamic banking. This is consistent with purpose of man creation in the world (or on earth).

Value 2: Islam *Muamalah* as Reflection of *Muamalah* Value

Islam has values that underlie human behavior in life. Al-Attas (1993: 55) explains that Islam as a belief has teachings (rules) that should be adhered in life practice. In context of doctrine (rules), Islam has comprehensive rules. Islam not only set aspect of worship that explains how human behavior with his God, but also regulate aspects like *muamalah* that explains how human behave with fellow human beings and other creatures. Similarly, in *muamalah* realm, Islam set out clear ways to do business as rules of God that must be obeyed and regulating human relations about how to acquire and develop the property.

Ilfi Nur Diana, an Islamic scholar who teaches Islam economics at Islam university and book author of Islamic hadits, stated that:

"Islamic ritual worship and social piety namely *muamalah* ... Both are obligation of humans. Ritual worship includes praying, fasting, alms, and pilgrim ... and *muamalah* regulates processes and products [be done in business]".

The abovementioned explanation means that the position of worship and *muamalah* in Islam is same (that worship and *muamalah* in Islam are on the parallel position). Human beings do not only interact with God, but in reality they also interact with humans and other creatures. According to Ilfi Nur Diana, interacting with other human beings is also an obligation. Islam has rule or doctrine about how humans should act and behave to each other.

Ilfi Nur Diana explains from hadits, "where treasure is obtained and what it is spent for" becomes a foothold in *muamalah*. According to him, this hadits emphasizes on *muamalah* process. Islam has very clear

rules about muamalah in business that serves as a rule in acquiring, managing, and developing the property in accordance with shariah principles.

Ilfi Nur Diana description's is not different from Umrotul Hasanah as scholars with expertise in Islamic finance. According to him, although *muamalah* in business relates to world life, but in practice it can not be separated from hereafter. Shariah is used as a reference to determine the aspects of halal (lawful), haram (unlawful), and legitimate transactions.

Important point that is obtained from multiple informants' awareness is that *muamalah* aspect becomes important and should be considered in management of Islamic banks. This aspect may important to create human benefit. Tenets becomes basic assessment value to formulate concept of Islamic banking based on view that Islam is associated with *muamalah*.

Value 3: Business, Propagation, and Social As Reflection of *Amanah* Value

In addition to perception of worship value and muamalah as basis concept of performance appraisal in Islamic banks, *amanah* also becomes a value idea are described by informants. This perception comes from an understanding of responsibilities or duties as Islamic banks. Ascarya (central bank deputy senior investigator) and Sabar (Islamic bank manager) describes trust as basis value.

Ascarya explained that if you want to assess the achievements of Islamic banks, you should understand the mandate of Islamic banks. In further explanation, he outlines the views of Koran to become a reference to understand the mandate, namely: Al-Baqarah verse 30 and Al-Fatir verse 39:

"And remember when your Lord said to the angels, "Indeed, I will make upon the earth a successive authority." They said, "Will You place upon it one who causes destruction therein and sheds blood, while we declare Your praise and sanctify You?" Allah said, "Indeed, I know that which you do not know" (Al-Baqarah verse 30).

"He it is Who made you successors of the formers in the earth. Therefore He who commits infidelity his infidelity falls on him. And the infidelity of the infidels will not increase with their Lord but disgust; and the infidelity of the infidels increase not but loss." (al-Fatir verse 39).

Ascarya understood that with reference to two verses above, Islamic banks have same mandate as individuals as *khalifa* (representative of God) on earth. According to him, this mandate explains the position of human beings, both individually and as a group of noble creature that was given a task as a representative of God for the welfare of universe and everything in it (*rahmatan lilalamin*).

Based on Ascarya understanding, the meaning of trust for Islamic banks is a form of trust that is carried out by Islamic banks in dealings with God, with fellow human beings, and other creatures. Existence of Islamic banks is expected to achieve prosperity for mankind, nature, and everything in it. Ascarya's view is similar with Sabar's:

"Islamic bank's role should also explain Islamic economics; I think the economy is not done conventionally because we have Islam. Religion (Islam) teaches us the concept of banking system or the economic concept of Islamic Shari'a, so we should do it" (Sabar).

Ascarya's and Sabar's description emphasis that Islamic banks do not only serves as a business organization that focuses on profit achievement but also serves as a social and proselytizing organization. Islamic and conventional banks are fundamentally different.

Based on previous explanation, it can be inferred that all informants have the same awareness that *amanah* (mandate) becomes the basis value of performance evaluation in Islamic banks. Based on this mandate concept, formulation of Islamic bank performance assessment does not only focus on profit achievement but also consider aspects of *dakwah* (preach) and social performance.

Value 4: Preaching with Morals as Reflection of *Ihsan* Value

Discussions with KH. Chamzawi, a scholar who is currently entrusted as Chairman of Indonesian Ulema Council of Malang in expertise of Fatwa and Islamic law, explains that the importance of *ihsan* (benevolent) became the basis to formulate performance appraisal value of Islamic banks. According to him, clergy role in Islamic bank is to disseminate transactional activities in accordance with the Islamic banking and *fatwa* issue (Islam rule) within the Islamic law among Islamic economic or specifically the Muslim community. He further explained that if cleric used his tongue to preach, there would be hope for Islamic bank to be nourished with the morality. Managers and employees who are entrusted to manage Islamic banks should be able to practice good behaviors in accordance with provisions of Islamic Shariah as following statement:

"Islam values should become basis of totality, not just partial. In today's phenomena, to assess performance achievements of Islamic banks is always to assess results performance, even though it is a very important aspect of process. The process is how a believer can be seen from the behavior so that good behavior shows good faith. There is no one with good faith having bad behavior. Therefore, the important factor is how they [Islamic banks] realize the good behavior or do good

deeds. In Islam, good people do and teach good deeds to the others".

It is consistent with Muhammad Djakfar's view, scholars and professors of Economics. *Ihsan* (benevolent) is based on Koran and Hadits as main indicators to assess the Islamic banks success, as following expression:

"I think the performance measurement is not only from one aspect. Performance is measured from many aspects and one of them is morals of human resources [management and employees of Islamic banks]. All forms of moral goodness are HR moral to implement system that should be built based on Islam values according to Koran and Hadits. If the service and the system are good, then I think Islamic banking can compete with conventional banking".

Furthermore, Muhammad Djakfar asserted:

"I think Islamic banking has formulated that thing *ihsan*; it makes performance of Islamic banking easier to implement Islam in *kaffah* (overall); and I think *ihsan* performance is important because it shows the image of Islamic banking".

Muhammad Djakfar added that good morals of Islamic banks can become a characteristic of work culture and Islamic business institutions. Furthermore, Islamic culture can become a motivation for customers to use the facilities/services provided by Islamic banks. Therefore, it is expected that Islamic banks are able to reflect *ihsan* values in all its activities. This view is based on Fushshilat verse 46:

"Whoever does righteousness - it is for his [own] soul; and whoever does evil [does so] against it. And your Lord is not ever unjust to [His] servants".

Another informant that can express the commentary is Nisa (operational manager) and Nurul (funding sales head). They have same view that the Islamic bank as a business organization should operate in accordance with principles of Islam; that it should not only be judged from the product supplied consistent with provisions of Islamic law, but also to assess the morality or behavior of managers and employees in process to provide services to customers. Therefore, moral of managers and employees must also comply with Shariah and to become Islamic banks resource. This moral assessment becomes important because it will affect other performances, as their statement below:

"The final relation is how worship should be good and virtues should be good. We should not sell shariah without complying our morals with shariah as well ... This assessment [morals of management and employees] are most important for Islamic banks. Good morals will increase customer's trust" (Nisa).

"To become an Islamic professional financial institution, shariah bank must have HR with good moral as human capital" (Nurul).

An important point that can be understood from above description is that all respondents have the same understanding and awareness that good morals (*ihsan*) become basis values that underlie Islamic bank performance assessment. *Ihsan* value is a key element of business organization success. Prophet Muhammad made moral as a mission in teaching all people in world. *Ihsan* should be able to motivate others to do well.

IV. CONCLUSIONS AND LIMITATIONS

A. Conclusions

Performance assessment is most important elements in management activities to assess the achievement of organization objectives. Every organization or individual has a different meaning about performance appraisal system that is affected by understanding awareness of underlying value of an organization's performance assessment.

Secular paradigm or methodology is not appropriate to be employed to find the operation performance assessment concept based on Islamic bank values; therefore, researchers are interested to find an appropriate methodology in this study context. Researchers finally found the paradigms and methodologies that are considered appropriate, namely Islam as a paradigm and Islam phenomenological as research methodology.

This study found four dimensions as basis concept of Islamic banking performance evaluation, namely: *ibadah*, *muamalah*, *amanah*, and *ihsan*. The four values are integrated and support each other in realizing the vision and mission of Islamic banks to implement *amal makruf nahi munkar* (inviting to goodness and preventing to evil). The four values include assessment of input, process and output as a result of activity (performance) of Islamic bank. Internalization the value of *ibadah*, *muamalah*, *amanah*, and *ihsan* in concept of Islamic banking performance evaluation will affect on attitudes and behavior of Islamic bank in carrying out its activities that are not limited to achievement of quantitative performance (finance), but also on a more holistic aspect. This concept objective is to make a *Falah* (profit) which is not limited to this world but also to hereafter as ideals of individuals or organizations with faith.

B. Research Limitations

This study found subject implicit awareness in Islam perspective, namely historical awareness, eidetic, and practical. Final result of research findings is that *ibadah* values, *muamalah*, *amanah*, and *ihsan* in performance assessment of Islamic banks is still at initial idea level. Therefore, it still needs further explanation about philosophy to integrate the concept of four values and find the meaning of each value to find indicators of Islamic bank performance assessment. In addition, for implementation as measurement tool, further effort is needed to operate the indicators assessment and find the appropriate measurement instrument with the four values.

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