



Performance direction setting: a review on Malaysian development financial institutions

Norazidah Shamsudin^{1,2*}, Mustafa Omar Mohammed³, Noor Azlinna Azizan⁴

¹ Faculty of Industrial Management, University Malaysia Pahang

² PhD Candidate, KENMS, International Islamic University Malaysia

³ Associate Professor, Kuliyyah of Economics and Management Sciences, International Islamic University Malaysia

⁴ Professor, Prince Sultan University, Riyadh

*Corresponding author E-mail: norazidah@ump.edu.my

Abstract

Development Financial Institutions (DFIs) play an important roles in Malaysian economy. As a bank which been appointed prescribed under Development Financial Institutions Act (DFIA) 2002, Malaysian DFIs have to proceed its banking operation and concurrently carrying a mandate given by the government striving for socio-economic development. The DFIs advancement towards full-fledged Islamic entity and the mandate that they have carried out in promoting the public interest, leads to the research on reviewing the Malaysian DFIs performance direction setting. All six DFIs which prescribed under DFIA 2002 been taken as a scope of study. The content of vision and mission statement of the DFIs are analysed and classified into the Performance Measures based on Maqasid al-Shari'ah (PMMS) model. The objectives of the study are (1) to identify whether Malaysian DFIs currently have fully covered all three concepts and nine dimensions of Maqasid-al Shari'ah and (2) to analyze which concept and dimension have the most concentration. The result of the study could be as a reference for DFIs' future direction setting in striving the mandate given in promotion socio-economic development and at the same time fulfilling the Maqasid al-Shari'ah and been recognized as full-fledged Islamic financial institutions.

Keywords: Performance; Development Financial Institutions (DFIS); Direction Setting.

1. Introduction

The development of Islamic commercial banking in Malaysia started from the Islamic window, then to Interest-Free Banking. As of now, as the list published in Bank Negara Malaysia's website (www.bnm.gov.my), all local commercial banks in Malaysia has its own Islamic banking subsidiary. Islamic Financial Services Act 2013 and Islamic Banking Act 1983 been used as the main reference for Islamic banks operations besides Banking and Financial Institutions Act 1989 which been regulated by Bank Negara Malaysia. In addition, Shari'ah Supervisory Board been established in each bank to control and monitor the service offered by Islamic banks. The implementation of Islamic banking been conducted in place properly with comprehensive considerations. However, the conventional and Islamic banks business operation is rather identical except for the name of products offered. Ascarya and Sukmana. (2016) mentioned that the Islamic banks concern is similar with conventional's which focus on economic aspect and disregard other aspect as should by Islamic Financial Institutions (IFIs).

Globally, the Islamic financial landscape is escalating from just over \$2 trillion at the end of 2015 to a projected of \$2.2 trillion for the full year 2016, as Darasha (2016) quotes from ICD-Thomson Reuters Islamic Finance Development Report (IFDR) 2016. It is further reported that the sector is expected to grow to \$3.54 trillion by 2021. It proves that the industry is significant enough to be concentrated on and if its not strive to the correct direction, it will be such a lost for the value of Islamic economy. Mohammed and Taib (2009) highlighted that the objectives of the establishment of the conventional and Islamic banks are likely to be very different.

Hence, for striving to the correct path, the performance direction setting of an IFIs should fulfilling the objective of an Islamic economy or Maqasid Shari'ah. In Malaysia, besides the Islamic banks (IBs), Development Financial Institutions (DFIs) are also working towards Islamic full-fledge banking. This is proven by the recognition earned by two DFIs currently, and other DFIs effort in emphasizing on Islamic banking product that they have steered to the customers. This is a positive indication that the Islamic banking in Malaysia is evolving beyond the Islamic commercial banks.

Development financial institutions (DFIs) are intermediaries that provide the financing facilities similar to the commercial banks. However, the DFIs have a focused industry that they are concentrated-on which the industries actually play a vital role in the country's economic performance. The DFIs in Malaysia encompass of six banks and five financial institutions who are specialized financial institutions which have been in the industry as the same age as the country's independence years. Though, in 2002, the selected banks and financial institutions effectively been classified as Development Financial Institutions who responsible in carrying the government's mandate. Currently, the mandate's locus key sectors are includes infrastructure industry, maritime, high-technology, export-oriented sector, small and medium enterprises (SMEs) and agriculture industry.

The mandate carried-out by DFIs is essentially supporting the Shari'ah objectives. Their priority in contributing to socio-economic development is demonstrating to maslahah economic justice. Hence, it is realistic direction for DFIs to be as full-fledged Islamic financial institutions. This study been conducted to review the strategic direction setting of Malaysian DFIs as been written in its

vision and mission statement. The current vision and mission statement of the entities been reviewed and themed into the concepts and dimensions based on PMMS performance model. Shamsudin and Mohammed (2015) stated the vision and mission statements could determine the real intention of the establishment and the direction setting of a firm.

The objectives of the study are (1) to identify whether Malaysian DFIs currently have fully covered all three concepts and nine dimensions of Maqasid-al Shari'ah and (2) to analyze which concept and dimension have the most concentration. The result of the study could be as a reference for DFIs' future direction setting in striving the mandate given in promoting socio-economic development and at the same time fulfilling the Maqasid al-Shari'ah and been recognized as full-fledged Islamic financial institutions.

2. Literature review

2.1. Responsibility as a Khalifah

The focal promotion of Islamic economy is to convey justice to the society and to enlighten the spirit of all mankind is responsible to one another. Mankind been created as a trustworthy (khalifah) in this world. The wealth and position (authority) that a man has actually a trust (amanah) from Allah S.W.T for him to be managed fairly. In al-Quran, surah Yunus (10: 55&66), Allah remind us that everything created on the earth and the sky actually belongs to Allah. This opposed to the capitalism concept which is individualistic-centered on which believe that all wealth is belong to an individual by his own effort and will.

Islamic economics is one of the area under fiqh muamalat or Islamic commercial jurisprudence. Refer to Laldin (2009) in his book stated that Shari'ah encompasses commandments of Allah to the whole mankind. There are three components in Shari'ah teachings, that are, al-ahkam al-i'tiqadiyyah (sanctions relating to belief), al-ahkam al-akhlaqiyyah (sanctions relating to moral and ethics) and al-ahkam al-'amaliyyah (sanctions relating to the sayings and doings of an individuals and also his relations with others) which also known as fiqh and fiqh muamalat is one of the area under multiplicity discipline of fiqh.

In Islam, business is an 'ibadah (worship). According to Samad and Hassan (2000), from business point of view, an Islamic financial institutions is not only a firm but also a moral trustee of the depositors. Based on Islamic ethics, the management of IFIs is accountable to the depositors in this world and the hereafter for their failure to keep the trust entrusted upon them. Hence, the IFIs have responsibility to strive for best performance.

2.2. Performance direction setting

From Umar bin Al-Khattab, who have said: I heard the Rasulullah S.A.W. said: "All actions should be performed with intention and every man shall get in return what he intended. Thus, he whose migration was for Allah and His messenger, and he whose migration was to achieve worldly benefit or to take some woman in marriage, his migration was for that for which he migrated", Narrated by Bukhari and Muslim. This is a proof that the correct intention or direction setting is pertinent to perform a task. Without intention, the job that we performed would be meaningless and as for muslim, it might not be counted as 'ibadah. In Islam, we've been taught that in whatever task we do, it should be initiate with intention.

As been demonstrated by our beloved Rasulullah S.A.W., in order to perform prayer, the niyah should be recited first, same goes for other task such as fasting, eating, reading, driving, playing, or even to go to travel, the niyah should be set or recite before we perform the task. What is so important with the niyah that makes it as sunnah and some do treated it as wajib to be enumerate before performing task? The answer for the key question would be the relevancy of the niyah and its impact as explained in the hadith above. One of the answer would be that niyah is like a compass

where it will direct the path to a certain place. Henceforth, since niyah is very pertinent, the Islamic financial institutions should have true or purify niyah with full faith to Allah and they would take a chance to implement pure Islamic banking and finance practice.

The correct niyah will decide the truthful behavior to be implemented in achieving an objective. Hayati and Caniago (2012) explained in their study that Islamic work ethics represent Islam's expectations with respect to one's behavior at work which includes his or her effort, dedication, cooperation, responsibility, social relations and creativity. It proves that once people believe and hold on certain value (i.e. Islamic value), hence, it will reflect their behavior. Essentially, when one has a close relationship with God, one's attitudes and behaviors would tend to be consistent with the rules and stipulations of the religion (Sa-U et al., 2008). Siddiqi (2013) advise the shaping of the behavior of individual economic actors who should realize they actually owe something to others underwhich benevolent and beneficial conduct and regard for public as distinct from private good, which is likely to inspire and motivate economic agents.

The gloomy issue in Islamic banking and finance industry is they don't implement fully Islamic banking as bind by Shari'ah law which means it still doesn't reflect pure faith to Allah. Most of them seems replicate the conventional bank's goal which focus on organization's profit. Kamel (2000) addressed the concern that objectives of Islamic banking and finance industry must be reflected in economic development, creation of value added factor, job creation and others. It shows that the Islamic banking industry have a responsibility in the economic system and they have to play the role instead of attempting for profit maximization. Farooqi and Tariq (2012) mentioned, if we desire for the Allah's pleasure and we want to please Him then we will obey the Allah's principles. However, it doesn't mean that the bank should ignore the risk incurred as Islamic teaching do encourages us to avoid excessive gharar but to accept some degree of gharar or uncertainty. The Qur'an has clearly forbidden all business transactions, which may cause injustice. In an-Nisa' verse 29:

"...do not devour one another's property wrongfully..."

(an-Nisa', 4:29)

3. Methodology

The study been preceded on six banks which been governed under Development Financial Institutions Act 2002. The list of the banks as in Table 1.

Table 1: List of Malaysian DFIS As Prescribed Under Development Financial Institutions Act 2002

No	Name
1	Bank Pembangunan Malaysia Berhad
2	Bank Perusahaan Kecil & Sederhana Malaysia Berhad
3	Export-Import Bank of Malaysia Berhad
4	Bank Kerjasama Rakyat Malaysia Berhad
5	Bank Simpanan Nasional
6	Bank Pertanian Malaysia Berhad

Source: Bank Negara Malaysia

Those six banks' vision and mission statement are retrieved for the reviewing purpose. The review have been conducted based on concepts and dimension as developed by Mohammed et al. (2008) in Performance Measures based on Maqasid al-Shari'ah (PMMS) model.

PMMS's model suggested three concepts and nine dimensions for Islamicity performance evaluation (refer Table 2). Mohammed et al. (2008) developed the model based on Abu Zaharah's concept and grounded theory of Theory of Maqasid al-Shari'ah. The concept suggested the specific objectives should lies under three concepts that are: (1) Educating the individual (Tahdib al-Fard), (2) Establishing justice (Iqamah al-'Adl), and (3) Public interest (al-Maslahah). The author later used inductive method to operationalize the three Maqasid al-Shariah in behavioral science into nine dimensions, and further to ten elements and ten ratios.

Table 2: Concepts and Dimensions Of PMMS Model

Concepts	Dimensions
1.Educating Individual	D1. Advancement of knowledge
	D2. Instilling new skills and improvements
	D3. Creating awareness of Islamic banking
	D4. Fair dealings
2.Establishing Justice	D5. Affordable products and services
	D6. Elimination of injustices
3.Public Interest	D7. Profitability
	D8. Redistribution of income and wealth
	D9. Investment in vital real sector

Source: Mohammed Et Al. (2008)

Prior to the analysis, the six DFIs’ vision and mission statement been retrieved from it’s official webpage and annual report. Then, the keywords been identified and classified from both statements into concept and dimension. The author further analyze the associated concept by assigning coding from C1 to C3, then proceed to dimension coding from D1 to D9. With the review on the vision and mission statement of the DFIs, the two research questions are expected to be answered, that are: (1) whether the Malaysian DFIs individually and as a group have covered the attention on all three concepts and nine dimensions of Maqasid-al Shari’ah; and (2) which Maqasid concept and dimension been set as strategic direction setting by the DFIs currently.

4. Results and discussion

All except one DFIs disclosed their vision and mission statement either in the webpage (retrieved on April 2017) or published annual report (refer to Table 3). Nevertheless, the one DFIs which did not reveal the vision and mission still been included by analysing its objectives. Pearce and Robinson (2007) explains that objective of a firm do provide specific benchmarks for evaluating the firm’s progress in achieving its aims. Hence, based on the citation, the objective could be counted in as it represent the direction of the firm.

Table 3: Vision and Mission Coding By DFIS

Development Financial Institutions	Vision and Mission Disclosure	Maqasid operationalization thematic coding for DFIs
DFI 1	✗ ✗ ✓	Vision Mission Objective O: C2(D4), C3(D9), C1(D2)
DFI 2	✓ ✓	Vision Mission M:C3(D9), C1(D2)
	✓ ✓	Vision Mission M:C3(D9), C1(D1), C1(D2)
DFI 4	✓ ✓	Vision Mission M:C1(D1), C2(D5), C3(D9), C2(D6), C1(D2)
	✓ ✓	Vision Mission M:C1(D1), C1(D2), C2(D5), C3(D9)
DFI 6	✓ ✓	Vision Mission M: C3(D9), C2(D4)

For general comparison between the vision and mission statement, it shows that the mission statement’s coding is more than the vision’s coding of the DFIs. This is consistent to the notion of the mission statement that would be more detailed as it would provide a basis for strategic objective setting and decision making of an organization (Pearce & Robinson, 2007). Referring to Table 3, there are four DFI’s vision (DFI 3, DFI 4, DFI 5 and DFI 6) been coded to only one concept and another one DFI (DFI 2) been coded to two concepts. It is found, three DFIs been coded to a majority concept and dimension of C3(D9). Whereas, for mission statement and objectives, three DFIs with the minimum of two concepts (DFI 2, DFI 3 and DFI 6) and three DFIs (DFI 1, DFI 4 and DFI 5) are in maximum of all three concepts classification. There are maximum of six thematic dimensions been mapped from both

vision and mission statement of DFI 4. DFI 4 covers all three concepts and quite wide dimensions (six over nine) as justified by the keywords used in its vision and mission statement.

Table 4: DFIS’ Coding by Concepts and Dimensions

Concept	Dimension	Vision & Mission or Objective
C1. Educating Individual	D1. Advancement of knowledge	V: DFI2 M:DFI3, DFI4, DFI5 V: -
	D2. Instilling new skills and improvements	M:DFI2, DFI3, DFI4, DFI5 O: DFI1
	D3. Creating awareness of Islamic banking	V: - M: - V: DFI4, DFI6
	D4.Fair dealings	M: - O: DFI1
C2. Establishing Justice	D5. Affordable products and services	V: - M: DFI4, DFI5
	D6. Elimination of injustices	V: DFI5 M: DFI4
	D7. Profitability	V: - M: -
C3.Public Interest	D8. Redistribution of income and wealth	V: - M: - V:DFI2, DFI3, DFI6
	D9. Investment in vital real sector	M:DFI2, DFI3, DFI4, DFI5, DFI6 O: DFI1

From the summary table above (Table 4), it shows that all themes (concepts) of Maqasid al-Shari’ah have been covered by Malaysian DFIs, currently, justified by their vision and mission statement and firm’s objective. Hence, to answer the first research question, the answer would be that all concepts have been covered by Malaysian DFIs as a group, but, only three DFI individually (DFI 1, DFI 4, and DFI 5) who covered all three concepts. However, three dimensions not been covered by any DFI which are (C1(D3), C3(D7) and C3(D8)). Overall, C3(D9) that is under theme of ‘Public Interest’ and thematic dimension of ‘Investment in Vital Real Sector’ is most frequent coded for DFIs in both vision and mission statement including DFI 1 firm’s objective with frequency of nine from all six DFIs. The result is very relevant to the mandate carried by the DFIs which to promote socio-economic development on the specified strategic sectors. Besides that, C1(D2) on ‘Instilling New Skills and Improvement’, also having full votes by all six DFIs. Hence, to answer the second research question, it would be that the main locus direction of the six DFIs are on C3(D9) and C1(D2). It is consistent to their function which carries the government mandate in selected strategic sectors for the purpose of socio-economic development.

5. Conclusion

The research concludes, Malaysian DFIs have covered all three Maqasid Shari’ah as developed in PMMS model. It means, justified by keywords on content of vision and mission statement, also the DFI 1 firm’s objective, Malaysian DFIs on the truthful path striving for full-fledged Islamic banking concept and promoting development on Malaysian socio-economic development. However, based on PMMS model, there are three dimensions which are not been identified as the concentration in the analysed statement that are ‘Creating Awareness of Islamic Banking’ (C1, D3), ‘Profitability’ (C3, D7) and ‘Redistribution of Income and Wealth’ (C3, D8). These are the three dimensions that DFIs could glance through whether it have or not been covered in their operation. Nevertheless, the author found that the effort on promoting awareness of Islamic banking been conducted by the DFIs on their website and in the annual report itself.

As an addition, it is found that actually there are diversity on the DFIs concentration, hence, it could be suggested that the DFIs performance analysis could be evaluated based on its own concen-

tration, rather than use the general performance evaluation. The suggestion might be useful in vertical analysis which to study the trend performance of an individual DFIs. Different weightage should be assigned based on the most concept and dimension that they are concentrating-on. A firm should focus on evaluating their performance based on their own direction setting that they have set in the beginning, instead of focusing to compete with the competitor that might have different direction which also would lead the firm to keep distance from their origin route.

References

- [1] Ascarya, S. R., & Sukmana, R., 2016. Measuring the Islamicity of Islamic bank in Indonesia and other countries based on Shari'ah objectives. 11th Islamic Conference on Islamic Economic and Finance. Malaysia.
- [2] Darasha, Y., 2016. Uncertainty takes its toll on global Islamic finance growth in 2016, Global Islamic Economy Gateway, Retrieved 15 June 2017, from <https://www.salaamgateway.com>.
- [3] Farooqi, Y. N., & Tariq, Z., 2012. Relationship between faith in Allah and life satisfaction among the cardiac patients. *Science Journal of Psychology*. 2: 1-7.
- [4] Hayati, K., & Caniago, I., 2012. Islamic work ethic: The role of intrinsic motivation, job satisfaction, organizational commitment and job performance. *Procedia – Social and Behavioral Sciences*. 65: 272-277.
- [5] Kamel, S., 2000. Development of Islamic banking activity: Problem and prospects. Lecture of Mr. Saleh Kamel at a Party Given in His Honor as Winner of the IDB Prize in Islamic Banking, Jeddah, 20 October 1997. Islamic Development Bank, Islamic Research and Training Institute.
- [6] Laldin, M. A., 2009. A mini guide to Shari'ah & legal maxims. CERT Publications Sdn. Bhd., Kuala Lumpur.
- [7] Mohammed, M. O., Razak, D. A., & Taib, F. M., 2008. The performance measures of Islamic banking based on the Maqasid framework. IIUM International Accounting Conference (INTAC IV). Malaysia.
- [8] Mohammed, M. O., & Taib, F. M., 2009. The performance of Islamic banking based on Maqasid al-Shariah framework: A case of selected Malaysian banks. 3rd ISDEV International Islamic Development Management Conference: Islamic Capital Market. Malaysia.
- [9] Pearce, J. A., & Robinson Jr., R. B., 2007. Strategic management: Formulation, implementation, and control, 10th ed., McGraw Hill, New York.
- [10] Sa-U, S., Rahman, N. S. N. A., & Nordin, M. S., 2008. Infusing Islamic manners (adab) in secular classroom: Its relationship with Islamic work ethic and organizational commitment. International Conference on Teacher Education in the Muslim World. Malaysia.
- [11] Samad, A., & Hassan, M. K. (2000). The performance of Malaysian Islamic bank during 1984-1997: An exploratory study. *International Journal of Islamic Financial Services*, 1(3), 3-11.
- [12] Shamsudin, N., & Mohammed, M. O., 2015. Performance direction towards performance achievement: Case on local Islamic banks in Malaysia. *Journal of Economics, Business and Management*, 3(9), 889-893.
- [13] Siddiqi, M. N., 2013. A vision for the future Islamic economics. 9th International Conference in Islamic Economics. Turkey.