

# Measuring the Managerial Performance of Islamic Banking Using the Concept of Pentuple Bottom Line

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This paper is based on a study by the authors aimed at assessing managerial performance in Islamic banks in Indonesia. The main purpose of the study is to delineate the substantial pentuple bottom line (PBL) theory and application of managerial performance ideas in Islamic banking. A theoretical literature review is conducted to meet the objective of presenting the theory of PBL as underlying its specific epistemological foundations. This study finds that the PBL of Islamic finance in relation to managerial performance provides a viable alternative means of understanding the topic in light of the particular Islamic epistemological premise. Overall, this study has the limitation/implication that while empirical extension can be carried out, no such epistemological responses are currently available from Islamic banks owing to their imperfect premise regarding the epistemology of unity of knowledge and organisation upon which the PBL rests. This means that a vast social implication of PBL theory is opened up by the study's epistemological enquiry aimed at comprehending integrated decision-making for managerial performance in Islamic banks. The originality/value of this research is

that it is a ground-breaking study premised on its epistemological approach of the unity of knowledge and learning systems as a distinct contribution to the PBL theory in the field of Islamic banks.

**Key words:** *Epistemology, pentuple bottom line, managerial performance, Islam, Finance.*

## **Introduction**

In Part I of this study a brief review of literature is completed and reveals the selected definitions of the pentuple bottom line (PBL) theory in Islamic banks. Part II introduces the dimensions and elements of these perspectives on the PBL, while Part III briefly outlines the practice of PBL in Islamic banks.

### ***The Triple Bottom Line***

Firms looking to operate according to Elkington's Triple Bottom Line (TBL) concept, need to focus on aligning their business activities with economic, social and environmental aspects (Elkington, 2001). This means that in order to attain true stewardship, along with its spiritual foundation, managerial decisions in general, and financial decisions in particular, must embrace the element of self-fullness in caring for the resources entrusted to humanity (McCuddy, Michael K and Pirie, 2007). TBL signifies the crucial nature of a merging of spirituality, stewardship and financial decision-making in order to achieve sustainable economic development. This premise is based on generating improvements to quality of life and the environment that subsequently benefit the company, the local community and society in general (Rumambi, Kaligis, Tangon, & Marentek, 2018).

### ***The Pentuple Bottom Line Concept and Sharia Requirements***

The concept of the PBL is referred to as the managerial performance principles, assumptions and rules that are to guide financial institutions in propagating the uniting of humans' ultimate consciousness with God. Drawing from Elkington's TBL concept, (Triyuwono, 2016; Anthony et al, 2017) developed the PBL concept by adding the parameter of uniting humans' ultimate consciousness with God.

In the Qur'an, Taqwa is the standard of how close humans are to God, as emphasised in the verse that states that society is built of a group of men and women forming families, communities, tribes and nations (Chodjim, 2014). The greater a person's Taqwa, the more noble they are on God's side.

Based on this notion, PBL seeks to incorporate the aspect of a human's ultimate spiritual achievement as indicated by a feeling of union with God, other people and nature, as well as an awareness of obeying the divine will. The results of this study reveal that managerial performance in Islamic banking should ideally be concerned not solely with profit, the planet and people, as per the TBL, but also with the additional parameters of the Prophet and God.

### ***Objective***

The objective of this study is to examine the implementation of PBL in the context of the managerial performance of Islamic banks, covering sharia transactions and thus underlying the Taqwa paradigm (piety) that contains moral and spiritual values.

### **Review of the Literature**

#### ***Part I. Managerial performance behaviour in mainstream pentuple bottom line theory***

Organisations should not be judged based solely on their financial performance. An organisation needs to perform at an above average level financially in order to be considered successful and it needs to ensure that this is maintained over an extended period. However, organisations also need to be held to performance standards based on a quadruple, not merely triple, bottom line. They need to perform well financially, environmentally, socially and in relation to how they treat their employees. While the latter element, is often included in the social category of the TBL, it also warrants a separate and distinct set of measures and a high level of accountability (Lawler III Edward E, 2014).

In the context of this study, the implementation of managerial performance in Islamic banks covers sharia transactions and is based on the underlying basic paradigm that the universe is created by God as a trust (divine belief) and a means of happiness in life for all humanity to achieve ultimate prosperity, both materially and spiritually (al-falah) (Institute of Indonesia Chartered Accountants, 2016; Arslan & Kayis, 2018). Therefore, the idea underpinning the quadruple bottom line is that an organisation should perform well in a financial, environmental and social way, with the addition of how the organisation treats its employees. These factors then need to be synced and integrated with the Taqwa paradigm (piety), which contains moral and spiritual values. In addition, the Taqwa characteristics above define the relationship between humans and God, between one another and with the environment (Dusuki, 2007).

This study was carried out with the aim of formulating a model that incorporates the uniting of humans' consciousness with God. Inspired by Triyuwono's (2016) work on the PBL concept, the PBL incorporates the ultimate spiritual achievement of human beings, that is

indicated by a feeling of union with God, people and nature, as well as an awareness of obeying the divine will.

Today, more than ever, it is feasible for Islamic banks to be held accountable based on their PBL performance, with the potential for organisations to perform well against all five areas in order to achieve *maslahah* (human well-being) in unity. In addition, the availability of ever greater analytic power is leading to the development of new metrics. However, while the ability to measure PBL performance is certainly the first step in getting organisations to operate in a more sustainably effective way, Islamic banks also require the necessary internal capabilities to enable them to simultaneously perform well against all five areas.

### ***The first dimension: profit, Sharia Value Added (SVA)***

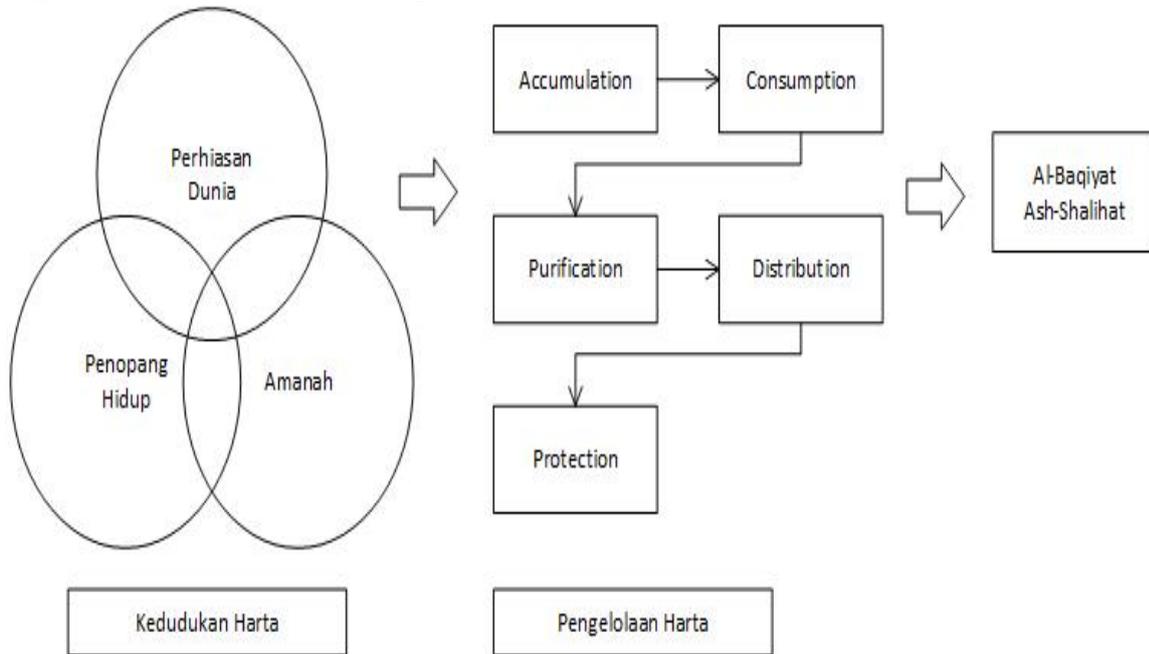
Profit/wealth is the main issue discussed in the concept of PBL. The discussion of profit covers the status of profit ownership alongside the means by which it is obtained and distributed. It is an essential component due to the common and traditional use of profit as a means of evaluating management performance.

In capitalism, profit belongs to each individual or community. Since profit is derived through hard work, these entities have full discretion over how they spend the profit that they own. Under this system, profit is the main goal, which is also known as materialism. In materialism, material processes (Adam Smith, 1723–1790; Karl Marx, 1818–1883) are regarded as explaining everything, with the feelings and values of humans considered to be illusions that cannot be proven by facts. This is in contrast to Islamic economic views, wherein Islam contains a number of values relating to the handling of profit or wealth. These values are based on Al-Qur'an and As-Sunnah (Arif, 1987; As-Sadr, 1989; Chapra, 2008; Siddiqui, 2008; Triyuwono, 2016). Based on both QS (Al-Kahf (110):46) and contemporary economics (al-Faizin, Abdul Wahid and Akbar, 2018), profit/wealth holds a position as the world's jewellery (pleasure), trust and life support yet is temporal in nature. Consequently, Allah SWT warns people that *baqiyat shalihah* is better than profit/wealth. The term *baqiyat shalihah* refers to godly deeds, which include deeds that use wealth/profit. Hence, optimum wealth/profit management is required in order to reach *baqiyat shalihah*.

In relation to profit/wealth management, the traditional conceptualisation of profit is transformed through PBL into a broader concept that requires the source and spending aspects of profit/wealth to be taken into account. Profit in this context can be viewed as sharia value added (SVA) and consists of economic, psychological and spiritual value added that is acquired, processed and distributed in a halal way, or in accordance with Islamic law (the sharia) (Triyuwono, 2016). In relation to SVA, according to (al-Faizin, Abdul Wahid and Akbar, 2018), for the management of profit/wealth to be godly deeds the following five steps/stages must be involved: 1) wealth creation/accumulation, 2) wealth consumption, 3)

wealth purification, 4) wealth distribution, and 5) wealth protection. Figure 1 illustrates the model of Islamic wealth management.

**Figure 1.** Islamic Wealth Management Model



Source: (al-Faizin, Abdul Wahid and Akbar, 2018)

### 1. Wealth Creation/Accumulation

Wealth/profits must be obtained from halal income. The source of income for Islamic banks is thus the profit derived from the collection and distribution of halal customer funds. Only methods that are deemed to be good and right can be used to achieve this income, with forbidden means constituting those that are deemed to be cunning and that can disadvantage others, such as usury, servitude and *gharar*.

### 2. Wealth Consumption

The main function of the expenditure of wealth/profits is to meet the needs of oneself and one's family, which, in the context of Islamic banking, means that the needs of Islamic banking shareholders and stakeholders are fulfilled.

### 3. Wealth Purification

The rights of other people must be considered in respect of the wealth/profits owned by Islamic banks. The payment of zakat offers is a means of purifying one's wealth/profits; as such, any wealth obtained and accompanied by the payment of zakat will be pure and clean.

#### 4. Wealth Distribution

Once the obligations listed above are satisfied the next step is the distribution of wealth to others. The forms of wealth distribution are as follows: a) Alms, granted to those in need and those who struggle with the way of Allah SWT; b) Grants, this entails giving to someone on a voluntary basis, without the expectation of receiving anything in return and without any secondary intentions; c) Waqaf; d) Testament; and e) Inheritance assets.

#### 5. Wealth Protection

In summary, the theory of profit (dimension 1 of the PBL theory) is concerned with *SVA* (Triyuwono, 2016) by making optimal use of profit/wealth management in a *halal* way or in accordance with Islamic law (the sharia) for the prosperity of Islamic banks and their surroundings (stakeholders), which consist of *baqiyat shalihah*. There are five stages needed for the process of wealth/profit management to be considered as godly deeds: a) wealth creation/accumulation; b) wealth consumption, c) wealth purification, d) wealth distribution and e) wealth protection (al-Faizin, Abdul Wahid and Akbar, 2018).

### ***The second dimension: the planet, our homeland***

Prosperity is dedicated not only to human beings but also to nature. Products generated for the interest of human life are mostly made from natural resources. As such, in generating SVA, management should comply with *sharia*, which includes the way in which nature is treated (Triyuwono, 2016). Awareness of environmental sustainability has increased, and people have gradually been realising the importance of for sustainable development. Additionally, people are becoming increasingly concerned with the social and cultural issues that impact on sustainable development in their community (Cohen, 2011).

Companies, as part of the environment, are required to take environmental sustainability into account (Hatta, 2011). Islamic banks are legal entities, which are accountable to their shareholders and stakeholders. Therefore, companies must be able to demonstrate good financial and environmental performance.

When Islamic banks carry out activities that support the environment, they have a duty to keep records of any costs incurred in so doing. These costs are classed as environmental costs and must be charged to the appropriate functions within the company, such as to the marketing function. When done, there will be clear environmental accountability to the interested parties (Beer & Friend, 2006). This technique of recording environmental costs in the financial statements and annual reports of the company is referred to as environmental accounting.

In summary, we note that the theory pertaining to the planet (the second component of the PBL theory) is concerned with *SVA* (Triyuwono, 2016), whereby environmental accounting entails the identifying, measuring, presenting and publishing of costs. The main element to consider in environmental accounting is that of environmental costs (Beer & Friend, 2006), and Islamic banks are encouraged to undertake environmental accounting integration as part of an *Environmental Management System* (Seetharaman, 2007). Such integration enables Islamic banks to comply with environmental policies on a voluntary basis, reduce consumer audit costs, increase resource efficiency, remain flexible in adopting environmental changes and improve overall organisational performance.

### ***The third dimension: people, cooperation, duty and right***

The dimension of cooperation, duty and right simply explains the concept of *ukhuwah* (Al-Hujuraat 49:10). An *ukhuwah* relationship is one formed on the basis of mutual benevolence in which each individual is encouraged to continually build good relationships by, for example, taking care of each other, helping each other carry out good deeds or *taqwa*, and avoiding the bad traits of others. The goodwill bond that is formed can become a strong foundation upon which to build mutual goals. Educating people is another important objective of *SVA*. People seek to make every individual a trustworthy agent and carrier of *SVA* values, and it is through this education of the individual that most of the social objectives of *SVA* come to be realised (Kamali, 2008). In order to achieve this, through the lens of PBL, there is a need for cooperation among stakeholders and management. Success in fostering such cooperation is a managerial achievement in terms of actualising the duty of companies and which may lead to an increase in performance (Triyuwono, 2016).

According to (Chodjim, 2014), the individual entities in Islam practically demonstrate that all Muslims are equal. Any difference is not caused by gender or sex, yet the responsibility for achieving excellent mechanisms to support cooperation in society is down to the capacity and capability of individuals. Every religion, including Islam, undoubtedly sets out many duties and rights for its followers to respect, including the relationships of people with nature, with others and with God. However, Islam, according to (Rice, 1999), places a comparatively greater emphasis on duties. A deep meaning within the wisdom is that if everybody fulfils their duties firmly, self-interest is automatically held within bounds and the rights of all are unquestionably safeguarded. This is what is referred to as a 'moral filter' (Rice, 1999) and is reasonable, since morals are actually based on inner consciousness. As such, individuals have no requirement to merely follow external rules in respect of performing duties; rather, such acts are an expression of inner consciousness (Triyuwono, 2016). The over-arching goal here is the simulation of well-being subject to circular causation between the systemic variables and cooperative financing instruments, policies, regulations and preferences learned through the dynamic force of symbiotic organisms (Choudhury, 2013).

In the context of performance management, the primary responsibility for the preparation and presentation of the financial statements of Islamic banks falls to their management. Management is also responsible for the information that is presented in financial statements. This responsibility must be met in spite of their access to additional financial and management information that assists in the execution of their planning, controlling and decision-making responsibilities. The records, measurement and presentation of recognised financial statements must fulfil the element of benefits, namely sharia compliance (halal). This fulfilment must bring goodness (thayib) in all aspects and in such ways as to cause no harm (Institute of Indonesia Chartered Accountants, 2016).

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) asserts that measurement should be guided by the relevance, reliability, and comparability of the information provided to the users (Abdul Rahman, 2010). Sharia transactions that are considered to be *maslahat* or public interest must fulfil the overall elements that are the purpose of *maqasid* or sharia law; i.e. the maintenance of (a) rules, faith and piety (dien); (b) reason ('aql); (c) offspring (nasl); (d) soul and salvation (nafs); and (e) property (mal) (Ahmed, 2012; Chapra, 2008; Institute of Indonesia Chartered Accountants, 2016; Kamali, 2008).

#### ***The fourth dimension: prophet, the best example***

Prophet Muhammad (peace be upon him) is the best example of a human being (al-Ahzab 33: 21) who always complied with and actualised God's commands into daily life through his divine consciousness (Triyuwono, 2016). In the case of Islamic banks, all of the agents and stakeholders of such banks who conduct *muamalah* (sharia transaction) activities are legally bound by the application of sharia principles in public. **Akhlak** behaviour is a norm and moral values are applied when interacting with others so that **mutual, synergic, harmonic** situations can be promoted (Institute of Indonesia Chartered Accountants, 2016). Under *Sharia*, Islamic banks are duty bound in respect of a) not dealing with interest-based (*riba*) activities; b) not being allowed to undertake speculative (*gharar*) activities; and c) being prohibited from financing specific illicit (*haram*) activities (Nawaz, 2017).

According to (Chapra, 2002), the moral values needed for this purpose are clearly specified in the Qur'an, Sunnah and *fiqh*. The Qur'an requires the honest fulfilment of all contracts (Al-Maaida, 5: 1) irrespective of whether these are written or oral, explicit or implicit. It prohibits the betrayal of all trusts (Al-Anfaal, 8: 27) and considers it immoral to derive any income by cheating, dishonesty or fraud (An-Nisaa, 4:29). Also prohibited is the practice of bribery to obtain an undue advantage (Al-Baqarah, 2: 188). The Prophet Muhammad (peace be upon him) made it abundantly clear that 'whoever cheats is not one of us'. The bank itself, as both

principal and agent, and the users of bank funds (agents), must act in good faith for the benefit of all stakeholders. Any attempt, by either the managers and directors of banks or the users of bank funds, to cheat and derive an unfair share constitutes an utter violation of Islamic teachings.

The operations of Islamic banks are guided by the principles and values established in Islam. In order to ensure the banks' operations are both Shari'ah compliant and inspire the confidence of shareholders and stakeholders, every Islamic bank is required to establish a Shari'ah board (Sheikh Hassan, 2012).

According to (Hassan, 2014), Islamic banks have a *Sharia Supervisory Board* (SSB) that works as a second layer of independent governance control to prevent the board of directors and other top managers from engaging in high-risk investment activities. Islamic banks also come under the supervision of the Bank Indonesia (BI) *Shari'ah* Directorate. The regulation of duties and responsibilities of the SSB in Islamic banks is based on PBI No. 11/33/2009, which relates to the proposing of advice and suggestions to board members and the monitoring of bank activities in accordance with Shari'ah principles.

The independent concept of the Shari'ah board represents the religious commitment required by Shari'ah board members and exposes their greater and ultimate transcendental accountability to God (Karim, 1990). However, moral values are merely behavioural norms and will not be effective unless they are implemented.

### ***The fifth dimension: God, the ultimate end of life***

The real end and happiness of human beings comprises a return to and meeting of God (Al-Baqarah 2:156). This comes in the sense of humans' spiritual consciousness, which already possesses the capacity to feel a union with God (Triyuwono, 2016). In this context, Islamic banks are driven by the expectation that Islamic finance is capable of elegantly offering a coherent perspective for understanding real economic problems as well as a genuine alternative to the foundations of the management of Islamic financial institutions (IFIs).

This expectation is very much in line with the concept of *maqasid sharia* (objectives of the Sharia), which provides the philosophical foundations for the overall direction of Islamic finance, the guidelines for its operations and indeed its very **raison d'être** in contemporary times. Commerce and finance are viewed as an important part of the Shari'ah. Adherence to the *maqasid sharia* is essential for developing Islamic finance as a system that realises human well-being (*maslahah*) (Akram Laldin & Furqani, 2013).

The theory of the maqasid sharia, which literally means the purposes of Shari'ah, was significantly advanced by Al-Ghazali and later by Al-Shatibi (Auda, 2008; Kamali, 2008). Al-Shatibi, in his work *Al-Muwafaqat fi Usul al-Shari'ah* (The Reconciliation of the Fundamentals of Islamic Law), singled out *maslahah* (benefits) as the overriding maqasid sharia, whereby things are classified as necessities (*dharuriyyat*), needs (*hajiyyat*) and luxuries (*tahsiniyat*). Meanwhile, Al-Ghazali (d.555AH/III CE) accorded a more precise classification to the objectives pursued by Shari'ah: faith, life, intellect, lineage and property. However, various Sharia scholars have since cited other objectives that would further extend this list (Ascarya, 2017; Auda, 2008; Chapra, 2008; Iryani, Lia Dahlia, Yadiati, Winwin., 2019; Kamali, 2008).

The concept of maqasid sharia has been applied in the context of the Islamic economic system and the performance of IFIs in various dimensions. (Chapra, 1992) asserted that maqasid al-shari'ah (referred to hereafter as maqasid) covers everything that is needed to realise *falah* and *hayat tayyibah*, within the constraints of the *Shari'ah*. Delicate as it is, according to (Chapra, 2008), lowering the purpose of maqasid produces the variables to use in measuring maqasid goal achievement based on Al-Ghazali's thinking. On the other hand, (Dusuki & Abozaid, 2007) conducted a survey examining the perspectives of stakeholders in Islamic banks in countries adopting a dual-banking system (A Case Study in Malaysia). The study concluded that such stakeholders suggest that Islamic banks should prioritise social welfare as opposed to commercial gain.

More recently, (Ahmed, 2012) used the maqasid to develop a framework for classifying Islamic financial products. Both legal and social requirements must be fulfilled in order to implement sharia maqasid in Islamic financial products. (Akram Laldin & Furqani, 2013) provided a quantitative explanation for the three specific ends (maqasid) in Islamic finance, i.e. wealth circulation, fair and transparent financial practices and justice at the micro and macro levels. To achieve those ends, the sharia provides means (*wasail*) such as facilitating financial contracts, establishing values and standards and instituting social responsibility.

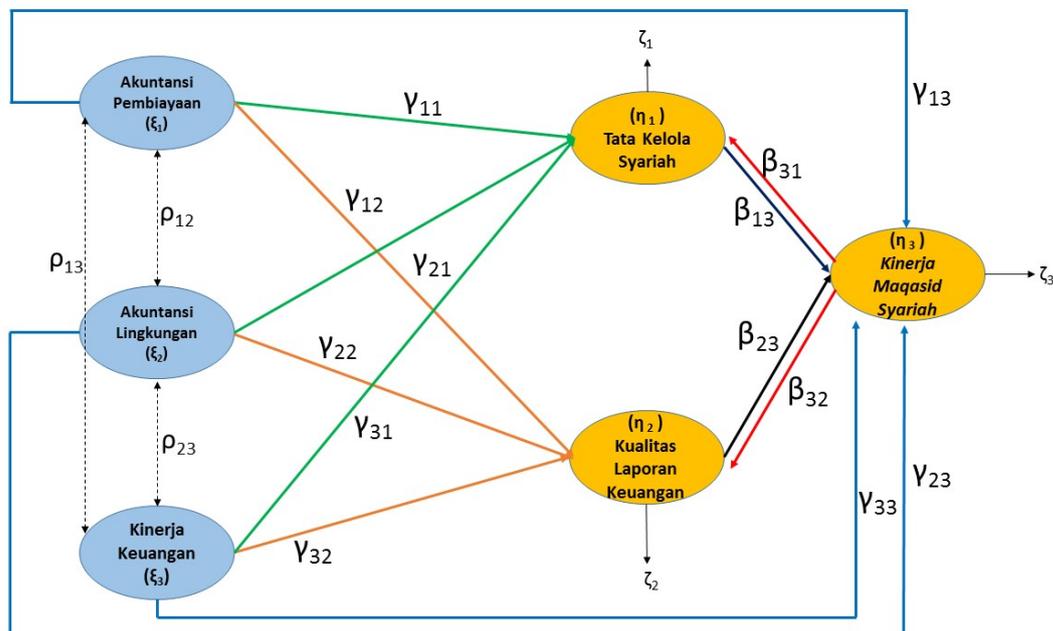
More specifically, (Mohammad, 2013) concluded from the observation of the selected literatures that the five elements of maqasid al-shariah were fully observed in the objectives of Islamic economics and Islamic banks. However, it is also found that the objectives of Islamic banks were largely profit oriented rather than socially orientated.

The integration of the maqasid and Maslahah in Islamic finance will bring justice, transparency, trust, unity and sustainability. While these principles may alter the paradigm of IFIs such that they are no longer supported by a profit maximisation motive, they may also promote the pursuit of the final goal, namely happiness in the world and hereafter (Fauzi, 2008).

## Research methodology

This study uses a *mathematical model of the pentuple bottom line* in respect of both its theory and application in sharia banks in Indonesia, as outlined in Figure 2:

**Figure 2.** Study model of the theory and application of the *Pentuple Bottom Line* in sharia banks in Indonesia.



The following variables are defined:

$$\eta_1 = \gamma_{11} \xi_1 + \gamma_{21} \xi_2 + \gamma_{31} \xi_3 + \beta_{21} \eta_3 + \zeta_1 \quad (1)$$

$$Y1(\theta) = \{X1, X2, X3, Y3\}$$

$$\eta_2 = \gamma_{21} \xi_1 + \gamma_{22} \xi_2 + \gamma_{32} \xi_3 + \beta_{31} \eta_3 + \zeta_2 \quad (2)$$

$$Y2(\theta) = \{X1, X2, X3, Y3\}$$

$$\eta_3 = \gamma_{13} \xi_1 + \gamma_{23} \xi_2 + \gamma_{33} \xi_3 + \beta_{13} \eta_1 + \beta_{23} \eta_2 + \zeta_3 \quad (3)$$

$$Y3(\theta) = \{X1, X2, X3, Y1, Y3\}$$

Notes:

### Exogenous Variables

$\xi_1$  = Financial accounting variable

$\xi_2$  = Environmental accounting variable

$\xi_3$  = Financial performance variable

### Endogenous Variables

- $\eta_1$  = Sharia management variable
- $\eta_2$  = Financial statement quality variable
- $\eta_3$  = Maqasid sharia performance variable
- $\gamma$  = The exogenous path coefficient variable on the endogenous variable
- $\beta$  = Path coefficient with the endogenous variables
- $\zeta$  = Error in measuring the endogenous latent variable.

### Results

#### ***Part II. Dimensions and elements of these perspectives of the Pentuple Bottom Line*** ***The first dimension: profit, Sharia Value Added (SVA)***

Using the Sekaran concept, the first element of the PBL has been translated into dimensions and subsequently classified into several instruments (Mohammed & Razak, 2008; Sekaran, 2016). Profit, which makes up the first element of the PBL, can be transformed into a total of three dimensions and fifteen instruments. Profit, with the objective of fulfilling the needs of human beings as the first component of the PBL theory in this study, comprises *SVA* activities as a pie (prosperity) that is produced by a company and distributed to all parties that are entitled to it (Triyuwono, 2016). Consideration must be given not only to the quantity and quality of the pie but also to its equitable distribution to ensure stakeholders enjoy a broader coverage of prosperity (Triyuwono, 2011). Based on the Regulation of Bank Indonesia No. 6/10/PBI/2004 (12 April 2004) a CAMELS analysis (*Capital, Assets, Management, Earnings, Liquidity, Sensitivity*) is typically used to determine the condition or performance of a bank. BI has selected this measurement and evaluation model for the requirement of banks in Indonesia to produce routine and regular reports.

In this study, the measurements of financial performance used included assets, liability and equity performance. The Basic Framework for the Preparation and Presentation of Islamic Financial Statements (Institute of Indonesia Chartered Accountants, 2017) explains that the financial position of a sharia entity is influenced by its controlled resources, financial structure, liquidity and solvency, as well as its ability to adapt to environmental change. Information on the economic resources that are controlled, and the ability of Islamic banks to modify these resources in the past, is useful when seeking to predict the ability of sharia entities to generate cash (or cash equivalents) in the future. Information pertaining to financial structure is useful for predicting future loan needs and how future earnings and cash flows will be distributed to those who have rights within Islamic banks. This information is also useful for predicting the extent to which Islamic banks will be successful in growing their financial resources. Information on liquidity and solvency is useful for predicting the ability of Islamic banks to fulfil their financial commitments as they become due. Liquidity refers to the availability of short-term cash in the future after taking into account existing

commitments, while solvency concerns the availability of long-term cash to fulfil commitments at maturity. It can therefore be inferred that distribution has a broader sense when it relates to the concept of SVA. As such, the holistic pie is distributed to shareholders, creditors, management and employees, government, customers, suppliers, the poor and needy, society at large, nature, and holds accountability to God (Triyuwono, 2016).

### ***The second dimension: the planet, our homeland***

Based on the Sekaran concept, the second element of the PBL has been translated into dimensions and then classified into several instruments (Mohammed & Razak, 2008; Sekaran, 2016). The second component can be transformed into two dimensions and five instruments. The second component of the PBL theory in this study, consists of activity in environmental accounting as explained by (Cohen & Robbins, 2011). Environmental accounting is a style of accounting that includes the indirect costs and benefits of economic activity such as the environmental effects and health consequences of business decisions and plans. Steele and Powell (2002) define environmental accounting as the identification, allocation and analysis of material streams and their related money flows by using environmental accounting systems to provide insight into environmental impacts and their associated financial effects.

As part of this process, the management of Islamic banks must be concerned with and pay attention to good environmental practices. This will be reflected in their environmental friendliness, security, responsibility, preservation and conservation (Ascarya, 2017). All of which will ultimately impact on the health of the environment and communities. This participation entails a definite financial cost, which means companies are obliged to ensure it is fully recognised, disclosed and presented in their accounting records. Hence, it can be seen that the disclosure of environmental costs will reflect the business ethics held by Islamic banks, in addition to their responsibility in managing resources. It will therefore increase the social trust of the stakeholders.

### ***The third dimension: people, cooperation, duty and right***

By employing the Sekaran concept, the third element of the PBL has been translated into dimensions and then classified into several instruments (Mohammed & Razak, 2008; Sekaran, 2016). As such, the third element can be transformed into a total of three dimensions and eighteen instruments. People, in the context of educating the individual and as the third component of the PBL theory in this study, are those accountants in Islamic banks who carry out the recognition process and financial accounting measurement. Meanwhile, the social side covers the distribution of profits, output and resources by means of dimensions such as profit-sharing (*mudarabah*), equity-participation (*musharakah*), joint ventures, trade

financing, and, although controversial, also includes the marked-up pricing on purchases (*murabaha*) (Choudhury, 2013). The mechanisms of *mudharabah*, *musyarakah* and *murabahah* of Islamic banks are regulated in the contextual statement of the Basic Framework for the Preparation and Presentation of Islamic Financial Statements (**KDPPLKS**) established by **Dewan Standar Akuntansi Syariah Ikatan Akuntan Indonesia**, effective on 1 January 2017.

**Mudharabah (Sharia Financial Accounting Standard/SAKS 105)** is a contract of business cooperation between two parties in which the first party (the owner of the fund) provides all funds, while the second party (the fund *manager*) acts as the manager, with the profits divided between them according to the agreement, while any financial loss is borne only by the owner of the fund. *Mudharabah* consists of *mudharabah muthlaqah*, *mudharabah muqayyadah* and *mudharabah musytarakah*. If Islamic banks act as fund managers, then the funds received are presented as temporary *syirkah* funds. In principle, there is no guarantee in the distribution of *mudaraba*; however, in order to avoid any deviation on the part of the fund manager, the owner of the fund is able to request a guarantee from either the fund manager or a third party. However, this guarantee can only be disbursed in the event that the fund manager is proven to have violated the matters agreed upon as set out in the contract.

*Musyarakah* (SAKS 106) is a partnership agreement between two or more parties for a particular business in which each party contributes funds. Under this partnership, profits are divided by agreement and losses are based on the size of the funds contributed, with such funds including both cash and non-cash assets that are permitted by sharia. *Musyarakah* consists of permanent and decreased *musyarakah* (*musyarakah mutanaqisha*). Partners (*syarik*) jointly provide funds to fund a particular business in *musyarakah*. One partner is subsequently able to return the funds, through a previously agreed-upon profit-sharing model, to the other partners.

*Murabahah* (SAKS 102) is a type of contract involving the sale and purchasing of an item where the sale price includes an agreed profit (mark-up) and the seller must expressly disclose to the purchaser the price at which he purchased the item. *Murabahah* can be conducted either with or without an order. In the case of *murabahah* based on an order, the seller will sell an item after a buyer has placed an order, while it can be binding or not on the buyer to purchase the goods ordered. In the event that the order is binding, the buyer is unable to cancel it. If the *murabahah* assets purchased by the seller decline in value prior to being handed over to the buyer, the decline is borne by the seller and will consequently reduce the value of the contract.

Thus, Islamic bank management bears the main responsibility in the preparation and presentation of sharia transactions in financial statements. Islamic transactions are based on

the basic paradigm that the universe is created by God as a trust (divine belief) and a means of happiness of life for all humanity to achieve ultimate prosperity, both materially and spiritually (al-falah). This basic paradigm emphasises that every activity of humanity has accountability and divine values that place sharia and moral instruments as parameters of good and bad, right and wrong, in business activities. This paradigm will shape the integrity which helps to establish a reputation for good governance and market discipline (Institute of Indonesia Chartered Accountants, 2016).

#### ***The fourth dimension: prophet, the best example***

Using the Sekaran concept, the fourth component has been translated into dimensions and classified into several instruments (Mohammed & Razak, 2008; Sekaran, 2016). The fourth component, Prophet, can be transformed into a total of three dimensions and twelve instruments for Shari'ah Governance and into three dimensions and twenty instruments for the Quality of Financial Reporting. Prophet as the best example, which makes up the fourth component of the PBL theory in this study, is the integrity of the Shari'ah board members, such as their ethical value, reputation and scholarly background. Board members were chosen as they are regarded as being important in influencing the accountability and independence of the board (Sheikh Hassan, 2012; Yadiat, Gustani, & Amrania, 2017). This study also emphasises the quality of financial reports issued by the board, in terms of their relevance, reliability and comparability.

For this purpose, adequate transparency must be ensured in keeping with the standards regulated by the AAOIFI, the Islamic Financial Services Board, Sharia Finance Accounting Standard (SAKS) and the authorised supervisors in Islamic banks. This should ensure proper evaluation of the quality of performance in respect of the fourth principle of the PBL.

#### ***The fifth dimension: God, the ultimate end of life***

Through the Sekaran concept, the fifth element has been translated into dimensions and classified into several instruments (Mohammed & Razak, 2008; Sekaran, 2016). The fifth component can be transformed into a total of five dimensions and sixteen instruments for maqasid sharia performance. God, the ultimate end of life, as the fifth component of the PBL theory in this study, is the concept of maqasid sharia (objectives of Sharia) that has been applied in the context of the Islamic economic system and the operation of IFIs. Hence, the maqasid sharia comprises all the goals and objectives of Sharia. These include the standards, criteria, values and guidance rooted in divine revelation (*wahy*) that are to be applied in solving the problems that confront humankind and in guiding the direction of life. From a more limited perspective, the maqasid sharia consist of the aims or underlying purposes of the Sharia rules (Akram Laldin & Furqani, 2013).

In this context, in measuring the performance of Islamic banks using the maqasid sharia, based on Abu Hamid Al-Ghazali's thinking (d. 505 AH / IIII CE), there are 5 (five) important elements required. These are (a) maintaining faith (hifz ad-Deen); (b) guarding oneself or human life (hifz an-Nafs); (c) guarding intellect (hifz al-'Aql); (d) protecting offspring (hifz an-Nasl); and (e) safeguarding wealth or property (hifz al-Maal). All of these elements are considered to be necessities (Dharuriyyat) for achieving the Shariah goal. They are the goals set by the observance of Islamic law based on the Qur'an and Sunnah, to ensure human benefit and to keep people away from adversity. They exist in both the world and the hereafter; for example, zakat is a tool of social justice whose purpose is to purify muzakki (people who pay zakat) and to share solidarity with their relatives in need (Ahmed, 2012; Akram Laldin & Furqani, 2013; Chapra, 2008; Dusuki & Bouheraoua, 2011; Iryani, Lia Dahlia, Yadiati, Winwin., 2019; Kamali, 2008).

## Discussion

### *Part III. Examples of the Pentuple Bottom Line in the context of Islamic banks*

Islamic banks in Indonesia are supervised by the Bank Indonesia *Shari'ah Directorate* and the Financial Services Authority (OJK), who are responsible for maintaining stability in the financial system. Their responsibilities include managing and monitoring the implementation of sharia principles in sharia financial institutions, which are the basis of sustainable development and create a readiness to face the global market (Financial Services Authority, 2016).

The goals for the development of Indonesian sharia banking according to the 2015-2019 Indonesian Sharia Banking Roadmap are as follows: (1) strengthening the synergy of authority policy with the government and stakeholders; (2) strengthening capital and business scale and improving efficiency; (3) improving the fund structure to support the expansion of the financing segment; (4) improving service quality and product diversity; (5) improving the quantity and quality of HR, IT and other infrastructures; (6) increasing literacy and community presence; and (7) strengthening and harmonising regulation and supervision. In this context, when practising PBL, the first dimension of profit (*SV/A*), can be seen in capital improvement, increases in distributed financing quality and improvements in efficiency and liquidity levels.

The improved capital of Islamic banks is reflected in the value of the Capital Adequacy Ratio (CAR), which reached 17.91% in 2017, an increase of 1.28% compared to 2016. Meanwhile, an increase in the quality of financing channelled by Islamic banks was evident based on an improvement in the gross Non-Performing Financing (NPF) ratio in 2017, which fell by 0.25%, to 3.90%, from its 2016 level of 4.15%. Likewise, improvements in the operational

efficiency of Islamic banks are reflected in a decrease in the Operational Cost on Operational Revenues (BOPO) ratio of 4.01%, from 93.63% to 89.62%. Islamic banking also experienced an increase on the liquidity side, as indicated by the 3.88% fall in the Financing Deposit Ratio (FDR) ratio, from 88.87% to 84.99% (The Financial Services Authority, 2017).

The second dimension, is indicated by Islamic banks' financing and operational procedure policies, financing and investing screening mechanisms, and the establishment of negative lists of illicit businesses. (Republika, 2013).

The third dimension, is shown by a Bank's continual attempts to innovate or by their efforts to develop a variety of products to meet people's needs. The financing channelled by Islamic banks is categorised based on the type of contract used and can include the following: profit-sharing financing based on Mudharabah or Musyarakah contracts, lease financing in the form of Ijarah or Ijarah Muntahiya Bittamlik (IMBT), sale and purchase transactions in Murabahah, Istishna, and Salam, Qardh loan-borrowing transactions, and service leasing transactions in the form of Ijarah for multi-purpose transactions. Base upon the types of contract used, two contract types are dominant – akad murabahah and musyarakah – which account for a total of 88.09% of the financing disbursed.

The fourth dimension, is demonstrated by Islamic banks' increases in their decision-making effectivity, consistency, transparency and efficiency; the Integrated Monitoring Committee was established to observe these factors. The monitoring of Islamic banks is conducted on the basis of various types of *risk-based supervision* carried out in the following supervised cycles: (a) *knowledge of the bank*; (b) *risk assessment and condition*; (c) *supervisory plan*; (d) *risk-based examination*; (e) *updated risk profile and bank condition*, and (f) *supervisory and monitoring*. Moreover, certain actions have been conducted, including socialisation and education in different cities in Indonesia; the *iB Campaign* program is conducted by the Department of Sharia Finance (The Financial Services Authority, 2017) as part of 'Aku Cinta Keuangan Syariah (I love Sharia Finance)' (ACKS).

The fifth dimension, measures the performance of sharia banks using maqasid sharia in this context. In accordance with Abu Hamid Al-Ghazali (d. 505 AH/III CE), there are five important indicators: (a) maintaining faith (*hifz ad-Deen*); (b) guarding oneself or human life (*hifz an-Nafs*); (c) guarding intellect (*hifz al-'Aql*); (d) protecting offspring (*hifz an-Nasl*); and (e) safeguarding wealth or property (*hifz al-Maal*).

Measurement of the maqasid sharia is done via identification of the policies of sharia bank development through periodical research activities. In 2017, research specialists conducted a total of nine reviews through the *iB Research Grant 2017* work programme. These included the following examples: (a) material development of Islamic finance literary education for

micro, small and middle businesses; (b) group resource activities of Sharia banks in developing organic agriculture in Indonesia, and (c) business model review and establishment of Lembaga Keuangan Mikro/Micro Finance Institution (LKM), Syariah-Bank Micro Wakaf in Pondok Pesantren (The Financial Services Authority, 2017). According to the Financial Services Authority (OJK), the activities of Islamic banks should play a role in increasing the regional economy (inclusion) while also fulfilling consumer needs.

## **Conclusion**

This study has demonstrated that the PBL is an alternative concept of managerial performance that can also be tested based on empirical data through positivist research (Triyuwono, 2016). Its elements and indicators have the capacity to form a holistic concept of wealth in relation to the managerial performance of Islamic banks.

There is also significant potential to further develop the PBL model for measuring the managerial performance of Islamic banks. This measurement is in line with the objectives of Islamic banking mandated in Law Number 21 of 2008, which states that its' duty is to improve people's living standards. It seeks to achieve this by realise both national development and equitable distribution of people's welfare through the achievement of harmony between economic, social and environmental interests.

The activities of Islamic banks are expected to fulfil the maqasid sharia as explained by Imam Al-Ghozali in his book *Al-Mustafa* (1937), covering (a) maintaining faith (hifz ad-Deen); (b) guarding oneself or human life (hifz an-Nafs); (c) guarding the intellect (hifz al-'Aql); (d) protecting offspring (hifz an-Nasl); and (e) safeguarding wealth or property (hifz al-Maal).

The guarding of all of the maqasid sharia via the obligations of Islamic banks converts the achievement of Sharia objectives for owners and employees into a top priority. This is then followed by the achievement of Sharia objectives for customers, recipients of ZISWF social programs, business partners, communities and the environment. In conclusion, the integration and synergy of all parties involved with Islamic banks is required so that the development of Islamic banking is able to advance more quickly and sustainably.

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