

MULTIDIMENSIONAL PERFORMANCE MEASUREMENT IN ISLAMIC BANKING

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ABSTRACT

Most of the studies that have examined management accounting practices have done so irrespective of the nature and characteristics of organizations. Little is known about the impact of the difference in the nature of organization on management accounting practices. Hence, this study investigates the impact of the nature and characteristics of organizations on management accounting practices, in particular on non-financial performance measurement practices in the banking sector. Several Islamic Banks have been selected in the Gulf Cooperation Council (GCC) countries in order to explore the impact of the nature and characteristics of these institutions on management accounting practices. This study reveals that the nature and characteristics of organization have a great impact on performance measurement practices in different Islamic banks.

JEL: G21, G24, M21, M31

KEYWORDS: Islamic Banking, management, accounting practices

INTRODUCTION

Interest in multidimensional performance measurement has grown rapidly in recent years as evidenced by the increased number of literature investigating the topic. The increased attention to such measures not only by academics but also by businessmen, managers and consultants reflects the pressure resulting from a rapidly changing business environment and increased competition. The implications of non-financial success factors are emerging in a highly competitive business environment. These receive more emphasis in service organizations that achieve the benefits of performance measurement.

The dynamically changing environment in which organizations operate has rendered it essential for organizations to modify their strategies to respond to the changing environment. Globalization, intense competition, growth of the financial industry, and a heightened need for consistent accounting information systems have been of an increasing interest in the development of alternative approaches to management accounting (MA) and performance measurement (PM) systems. Management accounting (MA) practices are increasingly being used for measuring multidimensional aspects of firm performance. However, little is known about such practices in the service sector and even less is known about the practices in developing countries. Although much has been written about the need for accurate multi-dimensional performance measures, comparatively little is known about the role of management accounting in measuring non-financial performance measurement (NFPM) in services. This study aims to investigate the impact of the nature and characteristics of organizations on non-financial as well as financial performance measurement in the highly competitive financial industry with particular reference to Islamic banking.

The paper is organized as follows: Section 2 briefly reviews the literature as a means of stating the current problem. Section 3 identifies the research methodology. Section 4 reports on the practices of management accounting in performance measurement in Islamic banks in the Gulf Cooperation Council (GCC) countries. Section 5 provides summary and conclusion.

LITERATURE REVIEW

Performance measurement has been traditionally used as control means to assess whether organizations have met their financial goals. Performance measurement systems were a means of exercising control and meeting financial goals in hierarchical manufacturing organizations (Nanni et al., 1990). However, contemporary business environments have led organizations to change their traditional management control patterns (Otley, 1994).

The rapid globalization, intense competition, growth of the financial industry, and a heightened need for consistent accounting information systems have been of an increasing interest in the development of alternative approaches to management accounting and performance measurement systems. The dynamically changing environment in which organizations operate has rendered it essential for organizations to modify their strategies to respond to the rapidly changing environment. A growing realization of the limitations of traditional MA systems has led to the examinations of multidimensional PM practices such as non-financial techniques. One of the major developments in the area of PM during this period was Kaplan and Norton's (1992) Balanced Scorecard that concentrates not only on financial performance measures but also on non-financial measures.

Management accounting needs to help firms to enhance cross-functional communication, integration and cooperation in order to help organizations' management face the deep competitive changes that have occurred in the last decade and carry out the customer orientation needed. In such a need, the scope of MA has widened towards effectiveness, control, market analysis, quality assessment, customer satisfaction empowerment, and competitive status management (Ostinelli and Toscano, 1994).

Several studies have found that traditional financial directed PM models were becoming increasingly inadequate in meeting the complex and competitive nature of the new business environment (Kaplan, 1983; Kaplan, 1984; Bromwich and Bhimani, 1989; Nanni et al., 1990; Govindarajan and Shank, 1992; Lee, 1992; Kaplan and Norton, 1992; Neely et al., 1995; Shields, 1997; Sim and Koh, 2001; Anderson and McAdam, 2004; Neely, 2005; Gomes et al., 2006). The needs for multidimensional performance measures that focus on different dimensions both financial and non-financial have been demonstrated by the results of several studies (Johnson and Kaplan, 1987; Fitzgerald et al., 1991; Eccles et al., 1992; Govindarajan and Shank, 1992; Kaplan and Norton, 1992; Euske et al., 1993; Gregory 1993; Henri, 2004; Powell, 2004; Najmi et al., 2005). Few studies have examined management's experience regarding the success of using performance measurement initiatives (Bourne et al., 2002; Halachmi, 2002; Tangen, 2004; Cinquini and Mitchell, 2005). It was suggested that the use of traditional performance measures such as return on investment or net earning distract from non-financial factors such as efficiency and effectiveness, productivity, product quality, market share, customer satisfaction, and employee satisfaction. At the same time the inadequacy of the performance measures based on traditional management accounting methods has highlighted the need for more advanced management accounting systems (MAS). Hence, it was recommended that multidimensional performance measures should lead to appropriate actions in supplementing or replacing traditional techniques (Lynch and Cross, 1991; Kaplan and Norton, 1996; Kaplan and Norton, 2001; Otley, 1999).

Therefore, non-financial performance measurement has received considerable attention from contemporary management accounting scholars. There is a view that non-financial measures are needed as a predictor of an organization's long-term performance as they help managers monitor and assess their firm's progress towards strategic goals and objectives (Kaplan and Norton, 1996; Kaplan and Norton, 2001). There are several studies that have dealt with non-financial performance measures without discussing the critical issues of the actual practices of NFPM (Scapens, 1997; Hiromoto, 1988; Ezzamel, 1992; Turney, 1991). Other studies recognize impact of organizational and strategic change on management accounting and performance measurement (Neely et al., 2000; Kennerly and Neely, 2002; Rouse and Putterill, 2003; Anderson and McAdam, 2005; Hassan 2005).

Furthermore, According to Acton and Cotton (1997) there should be no fundamental difference between analyzing the costs for manufacturing support departments and the costs for the support activities of service organizations. However, Modell (1996) investigates the accounting control implications of various characteristically perceived organizations, based on the framework of Ansari (1977), in order to distinguish services from manufacturing. Modell also constitutes a framework for further research into the relative balance between formal and informal control and how this relates to the various service characteristics. Euske et al. (1998) provide a comprehensive approach for developing and applying activity-based PM system to different services processes within organizations; they discuss the different applicability of services processes, support as well as operational, from manufacturing organizations. Likewise, other studies (Hussain and Kock, 1994; Hussain and Gunasekaran, 2001) discuss the need for ABC in service organizations and, particularly, in the financial industry.

The nature and characteristics of the business, i.e. size, kind and type, determine the range of possible change and adaptation to the economic climate (Karimi et al., 1996; Long, 1995; Thompson, 1967). Fitzgerald et al., (1991) classify three service process types. According to Mills and Sweeting, (1988), service costing differs from one type to another. Brignall et al., (1991) found that cost traceability varies systematically, as does the PM system, in the three different service process/types (mass, shop and professional). Brignall (1997) argues that, on the basis of the Process Type Theory of Silvestro et al. (1992) and Fitzgerald et al. (1991), business strategy should link with effective PM systems. Moreover, some studies drew relationships between external environmental factors and managers' need for financial and non-financial information (Modell 1996 and 1995; Brignall et al. 1992; Brignall and Modell 2000; Cobb et al. 1995).

The service production process of banks differ from other service types and substantially diverge from manufacturing organizations because of obvious factors such as the indispensability of customers to the organizations' production process (mills and Morris, 1986), strict governing by the central bank (CB), the size of the organization, and the exact line of business they are in, among others. Hence, it is more difficult to identify non-financial indicators (NFI) in services organizations as opposed to their manufacturing counterparts. Thus, many service organizations, especially banks find it harder to incorporate customer opinions, a NFI, into service production process in order to enhance the quality due to its intangible and transistor nature. Moreover, although it is harder to incorporate non-financial MA measures in service companies, Cobb et al (1995) demonstrated that activities, like the monitoring of bad loans, initiated significant changes in management accounting systems.

Considering the strong competition faced by banks and the uncertain economic conditions that slow down banks' operation faster than other business, management are forced to direct their attention more to improve and measure financial performance than to non-financial performance. Thus the business kind has to be taken into account. In a turmoil of economic conditions, banks are not only affected by the central bank's regulation but also by the amount of deposit as well as pay back from borrowers that fall down by adverse economic conditions, since these are the major inputs and outputs of banks. The results of such slow down affect banks more quickly than other business organizations that could keep producing the tangible products by making use of its human and other resources in the future. Garnaut (1998) stated "Recession turn good banks into bad banks". It was found that all financial performance measures (interest margin, expense/income, return on assets and capital adequacy) are positively correlated with customer service quality scores among Australian financial institutions (Duncan and Elliott, 2004). While, Nielsen et al. (2000) show that financial institutions are increasingly integrating management accounting systems with customer-related activities thus enabling customer profitability analysis. Other studies examined management accounting practices in financial institutions (Oldenboom and Abratt, 2000; Hussain et al., 2002; Hussain, 2005; Wei and Nair, 2006).

Moreover, it is established that strategy is closely linked with the long-term plans of top management, and in this case the kind of business has effect on long-term planning. The possible strategy that management can establish in a given time, the objectives to carry them out until the fulfillment of chosen strategies, all have significant impact on non-financial performance measurement. Tapinos et al. (2005) indicate that performance measurement stands as one of the four main factors characterizing the current practice of strategic planning. It was found that the great majority of banks responded to changes in growth opportunities through diversification moves but no clear link to core capabilities (Batiz-Lazo and Wood, 2001).

Banks have to function under the regulation of central banks, which determine their policy in order to stabilize financial market and strengthen economic condition. As a result, banks encounter difficulties in making long-term plan for performance measurement. Considering the difficulty with long-term plan and strategy, the objectives of non-financial performance (NFP) are jeopardized, and accordingly, the PM practice hampered. When organizations are not able to make long-term plans then it is hard to enhance non-financial PM, because NFP are meant to achieve competitive advantages of business and that depends on the long-term strategy and vision of organizations.

According to service process type, banks are considered one type. Therefore, the importance of 'type' does not hold particular significance. However, the special nature and characteristics of Islamic banking may result in the type of business having an effect on management practices. Therefore, this study starts

with the notion that nature and type of business, i.e. Islamic banking, is the biggest influencing factor on PM practice.

The literature reveals that most of the studies that examined non-financial performance measurement focused their research on manufacturing and industrial sector, with a fewer number of studies concentrating on service industry (Fitzgerald et al., 1991; Brignall, 1997; Ballantine et al., 1998; Hassan, 2005; Mohamed and Hussain; 2005; Mukherjee and Nath, 2005). Comparatively little is known about the role of management accounting in performance measurement in practice in developing countries, particularly in the Islamic banking sector. This is at a time when performance measurement is receiving greater attention in both manufacturing and service organizations.

RESEARCH METHODOLOGY

Considering the importance of MA and PM in ensuring the successful implementation of an organization's strategy and the little research of these practices in emerging economies, the objective of this paper is to study the performance measurement practices in one emerging economy, namely GCC countries, and particularly in the ever growing sector of Islamic banking. The research methodology employed to accomplish this aim is presented in this section.

To meet the objective of this study, the following issues were addressed:

- The importance banks place on measuring both financial and non-financial performance
- What is being measured and how?
- Problems encountered in measuring performance.

To answer the above stated questions the research methods relied on semi-structured interviews that took place in the corporate offices of five Islamic banks in three GCC countries, namely Bahrain, UAE and Kuwait in the period January – October, 2004. The interviewees were senior management. Each bank was visited twice and the average time for interviews per bank was about two to three hours. The questions covered an introduction to the organization, management accounting practices within the organization, and performance measurement – both financial and non-financial. Furthermore, gathering data from source such as annual reports, corporate plans, booklets, archival data, and relevant official publications were the means of collection of primary and secondary information. These secondary sources of information were useful for comparing the objectives of management with the actual management accounting practice. This allowed the identification of a gap between objective and performance, if any. The research method also included observations of operations to understand the procedures and systems of the organization and to scrutinize data.

Hence, this study applied descriptive multiple cases study rather than explanatory single case study. This was due to the unavailability of detailed information that permit explanatory study, also because multiple cases better replicate the findings than does the evidence from one or two cases (Yin, 1991). Multiple cases enable us to carry out cross-case (comparative) analysis. Thus it could be used to predict similar results (a literal replication); produces contrary results but for predictable reasons (a theoretical replication); or both literal and theoretical replication (Hussain and Hoque, 2002).

RESEARCH FINDINGS: PERFORMANCE MEASUREMENT IN ISLAMIC BANKS

This section provides the results of the analysis of the data collected. Commitment not to disclose information does not permit detailed description about the banks studied.

Bank Alfa (A Large Islamic Bank)

At the time of the study, Bank Alfa employed 1,070 employees, its average rate of return was 5% during the last four years and its average growth rate was 7%. Table 1 summarizes our key findings about Alfa.

Table 1: Performance Measurement Practices in Bank Alfa

Description	Measuring FP	Measuring NFP
Importance (of)	Very Important	Important
Practice (of)	Every Division of the Bank	Regularly
Model / Method used	Benchmarking & Activity Based Cost Management	Questionnaires & Surveys
Problem / contentment with	Lack of standards	Lack of benchmarks
Opinion / suggestions to improve the method of PM	Developing a set of standards	Developing benchmarking model

This table shows the performance measurement practices in Bank Alfa. The second column shows the response of bank managers to measuring financial performance and the third column indicates the importance placed on measuring non-financial performance.

Managers of bank Alfa acknowledged the importance of both financial and non-financial measures noting they were both important for the growth and profitability of the bank. They use a mix of benchmarking process and activity based cost management (ABCM) to measure financial performance. Though, Management admit having difficulty in evaluating the results achieved due to the lack of accounting standards that are tailored especially to the meet the special nature of operations in Islamic banking and they also point out that the size of the bank is an important factor when performance is measured. A senior executive of the bank stated that “PM is affected by the size of the bank. Since the bigger we are the more diverse are our services. However, that is not a problem in itself. That is the nature of our bank. The bigger you are, the more investors trust you, and the more transaction you have”. Thus, it was observed that management of Alfa are experiencing problems with measuring FP accurately. They emphasized the need to modify standards used to make the use of benchmarking and ABCM more meaningful. However, they failed to point out exact ways to modify the standards and methods used.

Alfa’s Management stated that NFP is measured regularly and it is important to top management. Many aspects of NFP are considered for measurement, customer satisfaction and quality of services are in high priority. Quick response and on time services are also important factors to managers. Managers in Alfa use questionnaires and customer surveys to measure NFP. An executive of the bank has pointed out that “We regularly measure non-financial performance and we aim to satisfy our customers by providing quality service”. Though, he emphasized the fact that top management view financial performance to be of more important than non-financial. He mentioned that the well being of the bank which is non-financial is directly related to the banks ability to strengthen its financial position in the highly competitive market in order to provide better services to its customers. It was noted that while managers are well satisfied with and do not have any problems the methods being used to measure NFP, they are trying to improve their non-financial performance measurement by developing a system that allow them to benchmark NFP. A senior executive pointed out “management is currently focusing on building a database that would allow us to use benchmarking to measure both financial and non-financial performance”.

Bank Bravo (A Small Islamic Bank)

At the time of the study, Bank Bravo employed around 130 staff. During the last five years, its growth rate was approximately 4% and had an average rate of return of 5%. Key findings are summarized in Table 2.

Management of Bank Bravo focus their attention on NFP measures, hence it is measured on monthly basis, and measures used include quality control, customer satisfaction, social well being and quick response. While financial measures are seen as less important and measured semi-annually using benchmarking and ratio analysis. The reason financial measures are overshadowed by non-financial ones in Bravo is management’s believe that as a service organization they should be more oriented towards customers’ satisfaction rather than profit. They also highlighted that the nature of Islamic banking necessitates the good service of customers rather than profit making. They also emphasized that their utmost priority is maintaining their reputation. It was observed from the actions and words of top managers at bank Bravo that their attitudes were different from their counterparts in the other four banks. The CEO of Bravo has mentioned that “financial performance is derived by non-financial performance”. He believes that the bank’s aim should be to attain good reputation as a bank that cares about its social

well being. He stated “when customers are satisfied with our services and contribution to the Islamic world, we stand to gain financially”. Managers believe that their financial position will be strengthened by the fact that they have a reputation for charging fair prices for their services. The bank’s CEO stated “we have to provide other services in the time necessary, in other words, we have to keep up with our competitors. We had to offer services that do not bring fees revenues in order to satisfy our clients. For instance we provided paying bills, e-banking, and phone banking features in order to fight competitiveness from other banks”.

Table 2: Performance Measurement Practices in Bank Bravo

Description	Measuring FP	Measuring NFP
Importance (of)	Important	Very Important
Practice (of)	Every division of the Bank	Monthly
Model / Method used	Budgeting & Ratio analysis	Questionnaires & Surveys and Direct Interviews
Problem / contentment with	A bit problematic (lack of accuracy)	None
Opinion / suggestions to improve the method of PM	None	None

This table shows the performance measurement practices in Bank Bravo. The second column shows the response of bank managers to measuring financial performance and the third column indicates the importance placed on measuring non-financial performance.

Managers of Bank Bravo are well satisfied with the accuracy of the present non-financial performance measures models. They emphasized the fact that several reports show the bank as one of the top organizations in the country when it comes to customer service. They view this as a testimony to the success of the measures used to measure NFP. Hence, they stated that there was no need to change anything. Though, it was stated that the accuracy of financial measures might not be so accurate. The financial controller of the bank said “the issue of performance measurement gets complicated when more subjective matters are involved. In the case of the budget, the actual figures from last year are easily incorporated, but when it comes to the forecasts of next year, we may have a problem here since they may not be 100% correct”. He elaborated further by stating “The problem is not in the budget system itself. The problem is more with getting accurate reliable financial information”. When the issue was discussed with top management, they stated their intention to improve the way FP is measured, though they point out that the nature of Islamic banking makes accurate measurement of financial performance “a bit problematic”. Still the bank seems to focus more on NFP measures as means of sustaining its current position.

Bank Charlie (A Medium-Size Islamic Bank)

At the time of the study, Charlie employed approx. 207 employees, its average growth rate for the last three years was 5.3%, and its average rate of return for the last four years was 4.2%. Table 3 summarizes key findings about Bank Charlie.

As revealed in table 3 Bank Charlie’s top management recognize the need of financial performance, they give high priority to measuring FP in every department of their bank. They believe doing so will allow them to keep their place in the business and survive. They rely on analyzing financial statements with particular emphasis on income statement; their main concern is to measure profit and assets growth. They also measure their financial performance is by comparing the budgeted results with the actual ones, through the master budget. However management find the budgeting method “somewhat problematic”, due to the possibility of wrong estimation. The financial controller of the bank stated that “we focus on income statement and balance sheet. Our focus is on the measurement of profit and losses and the growth rate of assets. Hence, performance measurement in the bank is primarily financial”.

Non-financial performance has hardly been given any importance by the top management of Bank Charlie. Even though management admit that customer satisfaction and on time quality services are essential to keep their customers, they admit that non-financial performance is not measured. Management hope to develop a system that could be used to measure non-financial performance in the

future. The CEO stated that “we are in the process of improving the way we measure our financial and non-financial aspects. We are in the process of coming up with a system that will facilitate the input of data and output of all reports required. This system is hoped to be a reliable system”.

Table 3: Performance Measurement Practices in Bank Charlie

Description	Measuring FP	Measuring NFP
Importance (of)	Very Important	Low importance
Practice (of)	Every section of the bank	Rarely
Model / Method used	Financial Statements & Master Budget	None
Problem / contentment with	Somewhat Problematic (wrong estimates)	None
Opinion / suggestions to improve the method of PM	Develop evaluation model	Develop evaluation model

This table shows the performance measurement practices in Bank Charlie. The second column shows the response of bank managers to measuring financial performance and the third column indicates the importance placed on measuring non-financial performance.

Bank Delta (A Medium-Size Islamic Bank)

At the time of the study, Delta employed between 195-210 staff. During the last five years, its growth rate was approximately 6% and with an average rate of return of 8.7%. Table 4 Summarizes key findings.

Table 4: Performance Measurement Practices in Bank Delta

Description	Measuring FP	Measuring NFP
Importance (of)	Very Important	Somewhat Important
Practice (of)	Every section of the organization	Regularly
Model / Method used	Benchmarking & Ratio Analysis	Questionnaires
Problem / contentment with	Lack of standards	None
Opinion / suggestions to improve the method of PM	Establish Islamic banking standards	Training Employees

This table shows the performance measurement practices in Bank Delta. The second column shows the response of bank managers to measuring financial performance and the third column indicates the importance placed on measuring non-financial performance.

Management of Bank Delta put high emphasis on measuring financial performance in each division of the bank. The method that they usually use to measure their financial performance is by using ratio analysis that is used to compare results against pre-determined benchmarks. Management do not have any difficulty or problems with the models that they use and they are satisfied with the results achieved. The CFO of the bank stated “we use the benchmarking model. In the sense we set a budget and evaluate things based on it. This is mainly used for financial performance aspects”. Moreover, he emphasized the problems encountered in the Islamic banking sector by saying “The major problem for financial performance in Islamic banks is the fact that we do not have a coherent accounting standards framework. This is very confusing because we have to revert to the International Accounting Standards (IAS) in dealing with transactions that are not covered by the Islamic accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)”.

The non-financial performance of Delta is seen as important but somehow less important than as the financial performance. Many aspects of NFP are measured regularly; customer satisfaction and quality of services are in high priority. Managers in Delta use questionnaires to measure NFP. An executive of the bank stated that “customer satisfaction, commitment, on time quality services are essential in the services provided by the commercial branches. If a customer is not satisfied, they will withdraw deposits which will decrease our modarabah fees”. Although management are satisfied with the methods used and do not have any problems, they are trying to improve their non-financial performance by providing further training to their employees.

Note: Modarabah is a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement at the start. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labor.

Bank Echo (A Large Islamic Bank)

At the time of the study, Echo employed 1,300 employees, its average rate of return during the last five years was in the range of 7-8%, and the average growth rate was between 10-11% during that time. Table 5 summarizes key findings about bank Echo.

Management of Bank Echo place almost equal emphasis on both financial and non-financial performance measurement. However they admitted their primary concern was financial rather than non-financial measures. That was due to putting more emphasis on profit as it seen to reflect the success of the bank in increasingly competitive sector. A senior executive of the bank stated “Our main concern is income statement. Profit measurement is an essential in measuring financial performance. We need to maintain our position in the increasingly competitive market and we can only do so if we maintain our levels of profitability and improve on it”. He admitted that the only problem they encounter in measuring financial performance is the comparison drawn with conventional (Non-Islamic) banks due to the different nature of the two types of banks. He further stated “The problem is not the input and the building of a model to help measure performance; the problem is the difference in accounting standards between banks due to the nature of Islamic banking. In fact, the comparison between the financials of Islamic banks and conventional ones may not be accurate because of the aforementioned differences”.

Table 5: Performance Measurement Practices in Bank Echo

Description	Measuring FP	Measuring NFP
Importance (of)	Very Important	Very Important
Practice (of)	Every Division of the Bank	Regularly
Model / Method used	Benchmarking & Ratio Analysis	Monthly Performance Appraisals & Surveys
Problem / contentment with	None	None
Opinion / suggestions to improve the method of PM	None	None

This table shows the performance measurement practices in Bank Echo. The second column shows the response of bank managers to measuring financial performance and the third column indicates the importance placed on measuring non-financial performance.

Meanwhile, non-financial performance is measured through customer satisfaction, quality control, and quick response. They reported that NFP is measured on regular basis in order to maintain high standard of customer service that enables Echo to maintain its leading share in the Islamic banking sector. An executive of the bank stated that “Quick repores is a basic issue, we must meet the deadlines given. We consider we have failed if we do not provide the quick response necessary”. He further emphasized “customer satisfaction is a very important factor in our success in a highly competitive market”. It was noted that management of the bank use customer survey to measure customer satisfaction as it is viewed as an easy tool to use to measure non-financial performance. Management of Echo appeared well satisfied with the accuracy of their performance measurement models both financial and non-financial. However, it was observed that though management of Echo appeared to be concerned with the social well being aspect of non-financial performance, there was no defined model or measure that was used to measure such aspect of performance.

Comparative Analysis

Findings of the study, as summarized in table 6 and 7, reveal that all of the five banks acknowledged the importance of measuring financial performance. While only one of the five stated that measuring non-financial performance was of more importance to them than measuring financial performance. Benchmarking and ratio analysis are used in three out of the five banks for measuring financial performance. While, budgeting is used in two of the banks, activity based cost management and financial statements are used to measure financial performance in only one of the banks. It is important to note that

the two banks that are using budgets reported problems with the model in terms of wrong estimates and instead of trying to use different models, they resort to finding the cause of variances and deal with it. Moreover, the concept of benchmarking with best practice organization seems to be problematic in all banks due to the lack of clearly set of standards for Islamic banking. Management think that comparing the bank’s performance with that of a more conventional bank is not appropriate due to the difference in nature and objectives of both types of banks.

The study has also found all but one of the banks studied realize the importance of measuring non-financial performance. Only one of banks indicated that non-financial performance is of more importance than financial performance; while one other bank sees NFP of equal importance to FP; the remaining banks place it at lesser importance than FP. Still four banks reported using some models to measure the non-financial aspects of their performance. Quality control and customer satisfaction seem to be the most important factors in measuring non-financial performance. Banks seem to relate these two factors to financial performance, hence the attention paid to them. The organization’s well-being and social reputation seem to be an important aspect to all these four banks.

All but one of these four banks stressed their satisfaction with the models used, and only that firm expressed interest in trying to train their staff and finding better models for measuring non-financial performance. There seem to be a great deal of contention with traditional methods and a lack of interest in trying to apply more advanced management accounting systems.

On the other hand, only one of the five banks studied revealed that non-financial performance measurement is of insignificant importance to them. Management of that bank seemed only interested in financial performance measures. They view financial performance as the key for their existence and fighting competition. Nevertheless, it is interesting to note that management of that bank realizes the importance of customer satisfaction in keeping customers. Therefore, they emphasized their hope to be able to use non-financial performance measures in the future.

Table 6: Comparative Analysis Based on Financial Performance Measurement

Description	Bank Alfa	Bank Bravo	Bank Charlie	Bank Delta	Bank Echo
Importance of FPM	Very important	Very important	Very Important	Very important	Important
Practice of FPM	Every division of the bank	Every division of the bank	Every division of the bank	Every division of the bank	Every division of the bank
Model that is used	Benchmarking & Ratios analysis	Master budget & Financial Statements	Benchmarking & Ratios analysis	Benchmarking & Activity Based Cost Management	Budgeting & Ratios analysis
Problems faced with Models	Lack of standards	Somewhat problematic (Wrong estimation)	None	Lack of standards	A bit problematic (lack of accuracy)
Suggestions to improve the FPM Model	Developing set of standards for Islamic Banking	Develop evaluation model	None	Developing set of standards for Islamic Banking	None

This table shows the comparative analysis on measuring financial performance across all five banks

Table 7: Comparative Analysis Based on Non-Financial Performance Measurement

Description	Bank Alfa	Bank Bravo	Bank Charlie	Bank Delta	Bank Echo
Importance of NFPM	Somewhat important	Low importance	Very Important	Important	Very Important
Practice of NFPM	Regularly	Rarely	Regularly	Regularly	Monthly
Model that is used	Questionnaires	Questionnaires, and Direct Interviews	Monthly appraisal / Surveys	Questionnaires/ Surveys	Questionnaires, Surveys, and Direct Interviews
Problems faced with Models	None	None	None	Lack of benchmarks	None
Suggestions to improve the NFPM Model	Training employees	Develop evaluation model	None	Developing benchmarking model	None

This table shows the comparative analysis on measuring non-financial performance across all five banks

SUMMARY AND CONCLUSION

The main objective of this paper was to study management accounting practices and performance measurement in the Islamic banking sector in GCC countries. Results from the multiple-case study suggest that both financial and non-financial measures played a role in performance measurement in the Islamic banking sector in GCC countries. However, the significance of the role played by these measures is subject to scrutiny, as there seem to be no institutionalized perspective of the equal importance of both financial and non-financial performance measures. There seem to be a tendency to think that financial performance measures could more significant importance. The significant important of using either or both types of measures is left to management views and discretion. Also, there appear to be a gap between the perception of the best practice that should take place and the actual practice taking place, particularly in the case of non-financial performance measurement. Also, the size of the bank does not seem have to a significant effect on performance measurement practice.

The data in this study came from five Islamic banks operating in the GCC countries; therefore any generalization of its results to the GCC Islamic or general banking sector or beyond cannot be made without considerable caution. However, due to the limited number of Islamic banks operating in the region, the results of this study can give us an indication of the trends that help formulate hypotheses. Applying the common mode of analysis in a cross-case comparison means that this study was able to make a meaningful comparison of the role of management accounting practices in performance measurement both financial and non-financial. Consequently, lessons were learned about management and organizational factors that may influence the choice of performance measurement practices. This points the way to several directions for further research, other banks could then be studied to verify the practices in the Islamic banking sector and other sectors.

Other issues in multidimensional performance measurement remain to be studied. This study was conducted in a single sector; a cross-sector research would be worth considering for the exploration on performance measurement practices in different environments. Considering the dynamics of micro and macro environments, it would be interesting to demonstrate the changing attitude of management measuring multidimensional aspects of performance.

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