

Objectives and measures of performance of Islamic microfinance banks in Indonesia: the stakeholders' perspectives

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Abstract

Purpose – This study investigates both internal and external stakeholders' views on the objectives and measures of performance of Indonesian Islamic microfinance banks (IMFBs).

Design/methodology/approach – This study uses a qualitative approach. In-depth interviews were conducted with a wide range of internal and external stakeholders of IMFBs in Indonesia. The primary stakeholders interviewed comprised the board of directors of IMFBs located in several provinces in Indonesia, including rural and urban areas. The external stakeholders were the regulators/supervisors, represented by the Indonesian Financial Services Authority and Shari'ah advisors of the National Shari'ah Board as well as Muslim scholars. The data were analysed using CAQDAS, a computer-assisted tool for qualitative analysis.

Findings – The objectives of the IMFBs are seen to represent more than profits or economic well-being. Their objectives also comprise spirituality and da'wah (Islamic propagation). Da'wah is conducted through the provision of funding and services that are aligned with Shari'ah (Islamic law), the dissemination of information about Islamic financing, which is based on Islamic values and principles, and the payment of zakat (Islamic alms) and charitable contributions. The measures of performance are considered to be more holistic than those of conventional banks. Profit and growth are deemed important as the means to achieve social well-being objectives.

Research limitations/implications – Better insights into the objectives and measures of IMFBs could be achieved from interviews with other stakeholder categories, such as customers and the community. This could be the focus of future research.

Originality/value – This study added a new discussion to the limited empirical literature on IMFBs by investigating the views of stakeholders on the objectives and performance of IMFBs in Indonesia.

Keywords Indonesia, Islamic microfinance banks (IMFBs), Islamic microfinance institutions (IMFIs), Islamic social finance, Performance

Paper type Research paper

Introduction

Islamic microfinance represents the intersection of two growing industries: microfinance and Islamic finance (Abdelkader and Salem, 2013; El-Zoghbi and Tarazi, 2013). Microfinance



facilitates access to financial services for the poor and the financially excluded, while Islamic financial activities and processes are aligned with Islamic principles of socio-economic justice. Islamic microfinance seeks to improve the well-being of the community by providing Shari'ah-compliant financing, especially to the poor, the financially marginalised and micro, small and medium enterprises (MSMEs) (Al-Omar and Abdel-Haq, 1996; Siddiqui, 2001; Haron and Hisham, 2003; Hassan and Musa, 2003; Dusuki, 2008). The ultimate aim of Islamic microfinance is to achieve the *maqāsid al-Shari'ah* (the higher objectives of Islamic law), notably that of serving the interests of all human beings in this world and the hereafter, and enabling a just, honest and balanced society (Dusuki and Bouheraoua, 2011). Following this, the key purpose of Islamic microfinance institutions (IMFIs) is not only to avoid *ribā* (interest) but also to achieve social justice and welfare (Siddiqi, 2006; Ayub, 2007; Iqbal and Mirakhor, 2017; Tisdell and Ahmad, 2018).

The role and existence of IMFIs is crucial in view of the lack of engagement of Islamic commercial banks in microfinancing and in progressing towards socio-economic justice as propagated in Islam. Alternative financial institutions such as Islamic microfinance banks (IMFBs), known locally as *Bank Pembiayaan Rakyat Syariah* (BPRS) (Bank Indonesia Regulation No. 10 of 1998), were established in Indonesia to cater for the segment of the society that was not served by Islamic commercial banks (Bank Indonesia, 1998; Sakai, 2014). This arose due to concerns among Indonesian Muslim economists that Islamic banks were not upholding their role in establishing socio-economic justice; thus, the need to set up financial institutions that provide financing to financially excluded groups so as to reduce inequality in the society (Sakai, 2014). BPRS were established for such purposes in Indonesia. They represent a formal microfinance institution which operates based on Shari'ah principles and provides credit to poor, low-income groups and MSMEs in rural and urban areas (Bank Indonesia, 2008; Nugroho *et al.*, 2018; Akbar and Siti-Nabiha, 2019).

IMFIs, however, face a similar predicament to that of Islamic banking in terms of performance assessment. Their performance is still being assessed based on conventional approaches, with the holistic objectives of Shari'ah largely not considered (Alam *et al.*, 2015; Hartono and Sobari, 2017). Despite the objectives of microfinance being financial inclusion and the alleviation of poverty, IMFIs' performance measures have been mainly commercial in nature, due to the focus on financial sustainability, which raised the concern that this could lead to mission drift (Mader and Sabrow, 2019). Therefore, a more suitable and holistic assessment of performance of IMFIs that is in accordance with their objectives and goals is necessary to ensure the development of the Islamic microfinance banking industry and to protect it from moving away from its mission (Kheder *et al.*, 2013; Alam *et al.*, 2015). Suitable measures are required to assess IMFIs in the context of circumstances, as these measures constitute part of the means (*wasā'il*) to ensure the achievement of the objectives of Shari'ah, as noted by Laldin and Furqani (2013, p. 283):

While principles and objectives (*maqāsid*) are fixed, established and permanent, means (*wasā'il*) are subject to change as they must be tailored to effectively realize those fixed goals in the context of ever-changing circumstances.

However, there is limited insight into suitable measures of the performance of IMFIs, both in the empirical literature and in practice. Therefore, this research aims to investigate IMFBs' objectives and goals from the stakeholders' perspective and examine the measures used to assess their performance. To this end, interviews were conducted with IMFBs' primary and secondary stakeholders – consisting of the management (i.e. board of directors (BOD)) of BPRS in both rural and urban areas in several regions in Indonesia, Muslim scholars and members of regulatory and supervisory bodies [the Financial Services Authority (OJK) and the National Shari'ah Board (DSN)]. This study will contribute to the development of literature in this area, given that the measures used in empirical research to assess IMFIs'

performance are largely based on those used by conventional banks. Hence, it is imperative to determine a holistic and relevant assessment of IMFBS.

This paper is structured as follows. The next section provides the literature review, with a discussion of the fundamental nature of Islamic economics and finance and the performance of Islamic microfinance. The research method employed in this study is presented in the following section. The ensuing section then provides the findings and discussion of this paper, followed by a conclusion in the last section.

Literature review

As the purpose of this research is to understand stakeholders' views of the objectives and performance of IMFBS, it is imperative to first discuss the foundations and objectives of Islamic economics and finance as conceptualised in the literature. Consequently, the measures of performance of Islamic microfinance used by researchers in the empirical literature are discussed in the following section.

Objectives of Islamic economics and finance

Within the Islamic economics worldview, maximising profits within a Muslim community or a business organisation is not the ultimate objective, as the essence of Islamic finance is the embedding of ethics and morality to ensure justice, fairness and trust in financial transactions (Vejjagic and Smolo, 2011; Choudhury, 2016; Iqbal and Mirakhor, 2017; Kuanova *et al.*, 2021). Obtaining profits must be in line with ensuring fairness at all levels of *mu'amalat* (social interaction) (Vejjagic and Smolo, 2011; Laldin and Furqani, 2013). Although individual self-interest is a part of human nature, it should not be a fundamental motive for human behaviour. As all beings have interests or rights, the focus is on *huqūq* (rights and obligations) rather than on maximising individual self-interest (Chapra, 2000; Furqani, 2015). Rights and obligations explain the relationship between humans and nature, and provide the ethical foundation for an Islamic framework. The *huqūq* concept upholds human identity with the capacity and tendency to fulfil personal interests, while at the same time having the inclination and ability to pursue the interests of society, including the welfare of others (Chapra, 2000; Furqani, 2015). The interests of individuals, characterised by high moral standards and a strong spiritual foundation, are not primary or absolute, but limited by the interests of others (Furqani, 2015). The rights and obligations entailed in the *huqūq* concept have become the basis of Islamic economic affairs in the allocation of resources, as well as in choices and decisions at the micro and macro levels.

Economic agents in an Islamic framework "will seek *maslahah* (well-being) instead of seeking utility in the conventional sense" (Khan, 2002, p. 63). *Maslahah* constitutes benefits to society, educating individuals and upholding justice (Mohamed and Dzuljastri, 2008). Thus, only good and beneficial ends regarding individuals, the community and nature are acceptable or permissible; while those that are immoral, exploitative or unethical are unacceptable. Consequently, every individual, group or institution in the society must work in a cohesive manner to obtain ultimate *falāh* (happiness/success), namely the balance of life between worldly goals (material/financial and social) and the hereafter (spiritual) (Kamali, 2008; Wediawati *et al.*, 2018).

In following this, the foundation and objectives of Islamic finance, including Islamic microfinance, are based on the well-being prescribed by the *maqāsid al-Sharī'ah* (Vejjagic and Smolo, 2011). The *maqāsid al-Sharī'ah* encompass all the standards, values and guidance based in divine revelation (*wahy*) and integrated into every aspect of life for the achievement of success in this world and the hereafter (Kamali, 1998; Ibn Ashur, 2006; Laldin and Furqani, 2013). This means that for Islamic financial institutions, adherence to the *maqāsid al-Sharī'ah*

should represent more than mere compliance with legalistic requirements in their financial activities. It should also infuse in them a commitment to Islamic values and drive their efforts to achieve well-being of individuals and the wider society (Laldin and Furqani, 2013).

At the macro level, the IMFIs' objective of socio-economic justice is achieved through wealth circulation, efficient resource utilisation and poverty alleviation (Laldin and Furqani, 2013). Therefore, IMFBs' objectives should contribute to the improvement of the economic welfare of the *ummah* (community), especially for communities in weak economic groups, increase employment by providing financing to MSMEs and foster the spirit of *ukhuwah* (brotherhood) through economic activities, which increase per capita income and promote adequate quality of life (Haron, 1995; Al-Omar and Abdel-Haq, 1996; Siddiqui, 2001; Haron and Hisham, 2003; Hassan and Musa, 2003; Dusuki, 2008; Ssemambo *et al.*, 2021).

As noted by Hassan *et al.* (2021), the main focus of Islamic social finance is to alleviate poverty and contribute to societal well-being. In this regard, IMFBs contribute to the society through the provision of services to improve societal welfare (Saoqi, 2017). At the micro/individual level, fulfilling *maqāsid al-Sharī'ah* requires IMFIs' financial activities to be governed by principles of justice, honouring equal rights and mutual consent, avoiding exploitation and unfair dealings, and promoting fair business transactions (Vejjagic and Smolo, 2011; Laldin and Furqani, 2013). In addition, they should consider the *maqāsid* in their internal processes, such as in setting their objectives and policies (Laldin and Furqani, 2013).

Empirical research on the objectives and performance of Islamic microfinance

Da'wah and well-being. Financial transactions are governed by the Sharī'ah and are argued to be part of *da'wah* (Islamic propagation), which can be used to spread the messages of Almighty Allah (Gait and Worthington, 2007; Bustamam-Ahmad, 2008). *Da'wah*, in a broader context, signifies social welfare and missionary activities and is also used to enhance knowledge about Islamic teachings, which will in turn induce ethical behaviour in the workplace and the society (Bustamam-Ahmad, 2008; Latief, 2012). *Da'wah* activities, besides contributing to Islamic revival in several parts of the world, have also led to the development of many economic activities (Timothy and Iverson, 2006). Charity and social welfare activism can also be considered to be part of *da'wah*, providing the necessary tools to implement the five pillars of Islam (Latief, 2012; Don and Aini, 2021). Thus, *da'wah* and charity activism can also be viewed as ways to strengthen social cohesion as well as religious commitment. However, empirical research regarding *da'wah* as being an objective of Islamic finance, either generally or specifically for Islamic microfinancing, is limited. One key piece of empirical research is by Sakai (2014) who interviewed founders and managers of IMFIs and highlighted that the respondents viewed their organisations' business activities as an important part of Islamic propagation by deeds (*da'wah bi al-hāl*).

Despite the views of the majority of scholars regarding the social and ethical principles of Islamic microfinance, only a limited number of researchers sought to align the assessment of performance with the objectives of Sharī'ah. Measuring these social and ethical aspects might be problematic as they are not easily quantified (Kuanova *et al.*, 2021). This is illustrated from the study of Alam *et al.* (2015), which applied some of the elements of Al-Ghazālī's view of the *maqāsid al-Sharī'ah*, i.e. protection of the *darūriyāt* (essentials) in their performance assessment of Islamic microfinance. *Darūriyāt* refers to the essential needs of human beings, which serve as the basis for the achievement of prosperity (*maṣlahah*) in this world and the hereafter – the goal of Sharī'ah, which is intended to promote these components (Kamali, 2002; Auda, 2011). However, assessment measures based on the empirical nature of *darūriyah* are simplistic in nature. To date, the literature has not explored what constitutes the level of performance and objectives of IMFIs from the perspectives of their key internal and external stakeholders.

Financial and social measures of performance. Despite the different foundations that underpin Islamic economics and finance, the performance measures of IMFIs which have been used in empirical literature are, in general, similar to those used for conventional institutions. They are mainly related to commercial performance, aiming to ensure the sustainability of the institution by determining how to generate the maximum profit. Profit is a target that must be achieved to maintain operations and for IMFIs and conventional microfinance institutions to grow and develop (Tamanni and Haji Besar, 2019). The use of financial measures would not have a significant impact on the IMFI if social values are strongly embedded in the organisation, as shown by Siti-Nabiha and Siti-Nazariah (2021) in their study of an NGO-based IMFI.

Most of the measures of financial performance used in previous empirical literature on IMFIs are return on assets (ROA) and operational self-sufficiency, while the depth of outreach is used to measure social performance. For example, Fithria *et al.* (2021) assess IMFBS' performance in Indonesia based on the measures of profitability (ROA), operational efficiency and financing risk. The main social performance measures used in many empirical studies are average loan size (relative to the income of the target population), number of borrowers, number of loans and savings accounts, number of branches established and lending (not only to women, but also to the family as a whole) (Abdelkader and Salem, 2013; Kamaluddin and Kasim, 2013; Mahmood *et al.*, 2014; Farooq and Khan, 2014; Mobin *et al.*, 2015; Widiarto and Enrouznejad, 2015; Fersi and Boujelbène, 2016; Ibrahim *et al.*, 2016; Hassan and Saleem, 2017; Berguiga *et al.*, 2020). In addition, other social performance measures used by researchers include IMFIs' impact on poverty alleviation, increase in quality of life, family harmony, social and physical capital, religiosity, ethical and social well-being and empowerment of women (Adnan and Ajija, 2015; Abdullah *et al.*, 2017; Ahmad *et al.*, 2017; Islam, 2021). The conventional or commercial focus is dominant in research conducted on IMFIs. By comparison, research that includes Shari'ah principles in assessing IMFIs' performance is quite limited.

Methodology

To determine the stakeholders' views of the objectives and performance of BPRS, qualitative methodology has been used in this research. Qualitative methodology enables a more in-depth inquiry as compared to the quantitative approach. The qualitative interviewing method has been selected as it enables researchers to understand what respondents think about the issues investigated and allows for their views and opinions to be explored in detail (Frankel, 2000). The respondents selected by the researchers were stakeholders of BPRS. According to Freeman (1984, p. 46), a stakeholder is "any group or individual who can affect or is affected by the achievement of an organisation[']s purpose". Stakeholders can be categorised as primary stakeholders (who are engaged in direct economic transactions and are thus affected by the focal organisation) or secondary stakeholders (who are not engaged in direct economic transactions but still affect or are affected by the focal organisation).

In BPRS, the primary stakeholder is the BOD. The board is also referred to as an internal stakeholder. The BOD is selected as the members determine the strategic direction of the organisation's goals, establish operational policies and, most importantly, are responsible for ensuring that the BPRS survives, develops and achieves good organisational performance. Secondary stakeholders can be grouped into:

- (1) Regulatory stakeholders – who are tasked with overseeing matters relating to the regulation/supervision of BPRS, as represented by the OJK;
- (2) Shari'ah advisors/experts, as represented by the DSN; and
- (3) Muslim scholars, including *ulema*, academic scholars and experts in Islamic finance.

The representative from the regulator side who was selected for the interviews has significant experience and knowledge of BPRS as he has worked for over 20 years in the regulatory body. The selection criteria for the Muslim scholars were as follows:

- (1) Having a solid background in Islamic knowledge, specifically in Islamic banking and finance;
- (2) Having conducted extensive research in the field of Islamic banking and finance; and
- (3) Having wide experience in the practices of the Islamic banking and finance industry, being conversant with the issues facing the industry, and being aware of the policies and regulations issued to support and develop Islamic banking and finance in Indonesia.

Such selection criteria were applied to ensure that those interviewed could provide detailed insights into the pertinent issues faced by BPRS.

Interviews with the BODs of BPRS were conducted in several provinces, comprising both rural and urban areas in Indonesia, including:

- (1) Medan and Bengkulu Provinces, which are located on the island of Sumatra;
- (2) Makassar Province, which is located on the island of Sulawesi; and
- (3) West Java Province and DKI Jakarta Province, which are located on the island of Java.

The reason for the researchers selecting different provinces is that the BPRS facilitates credit to poor, low-income people and MSMEs in rural and urban areas. Based on data from the [Central Bureau of Statistics Indonesia \(2019\)](#), the above provinces represent rural and urban areas. West Java Province and DKI Jakarta Province are both located in Java, which has the highest number of cities in Indonesia; Medan and Bengkulu Provinces in Sumatra and Makassar Province in Sulawesi are rural areas with few cities.

With different informants across the provinces, it was hoped that they could provide more holistic insights about issues faced at the level of BPRS. Other stakeholders, such as Muslim scholars and representatives of OJK and DSN, are located in their respective offices in Jakarta, the capital city of Indonesia.

Interviews were conducted from June to September 2019. [Table 1](#) shows detailed information on the people interviewed in this study, notably six directors of BPRS, three Muslim scholars, one representative from OJK (representing the regulator/supervisor category) and two members of DSN (representing the Shari'ah advisor category). The experience of those interviewed ranged from 3 to 24 years.

All the interviews were recorded and transcribed in a Word document. The transcripts of the interviews were analysed using NVivo, a computer-assisted qualitative data analysis tool (CAQDAS), as this enables efficient qualitative research and works well with most research designs and analytical approaches ([Lin et al., 2019](#)). The first step involved identifying the concepts and their relationships by using unsupervised seeding and mapping in NVivo. The NVivo interactive function was used to extract quoted text containing concepts. Text excerpts contain the context of stakeholder interactions with the interviewer, with stakeholders providing answers about the objectives and performance measurement of the BPRS, and the key similarities and differences among the views of the various stakeholder groups.

Findings and discussion

IMFBs (BPRS in this case) provide intermediary financial services, and their activities, products and services should be organised in compliance with the principles of Shari'ah ([Baskara, 2013](#);

Board of directors (top management): operational directors				
ID	Years of experience	Organisation/location	Ownership	Region
B1-U	12	BPRS 1 Jakarta (Urban)	Foundation (Business Group)	Java Island
B2-R	7	BPRS 2 Bengkulu (Rural)	Muslim Businessman	Sumatra Island
B3-R	10	BPRS 3 Medan (Rural)	Muslim Group	Sumatra Island
B4-R	4	BPRS 4 Makassar (Rural)	Foundation (Business Group)	Sulawesi Island
B5-R	10	BPRS 5 Makassar (Rural)	Foundation (Business Group)	Sulawesi Island
B6-U	3	BPRS 6 Bekasi (Urban)	Muslim Businessman	Java Island
Muslim scholars/regulators/Shari'ah advisors				
ID	Years of experience	Organisation	Position	Region
S/C	12	<i>Ulema</i> /University Lecturer	Muslim Scholar/Islamic Banking Consultant	Jakarta
S/O	3	Lecturer/Islamic Cooperative	Muslim Scholar/Owner of Islamic Cooperative	Jakarta
MS	10	University Lecturer	Muslim Scholar	Jakarta
OJK	24	Indonesia Financial Services Authority	Officer at Banking Sector Supervision Division (Financial Services Authority)	Jakarta
NSB-1	9	DSN	Shari'ah advisor, Member of DSN	Jakarta
NSB-2	15	DSN	Shari'ah advisor, Member of DSN	Jakarta

Table 1.
Interviewees' details

Source(s): Authors' own

Jenita, 2017). IMFBS are supervised and monitored by OJK and the Central Bank, especially where their activities relate to issues of governance, management, reporting mechanisms and performance. Thus, the Islamic microfinance banking industry is regulated in a similar way to any other commercial banking industry, albeit with the additional requirement to follow Shari'ah principles. This means that IMFBS should operate as sound financial institutions by adhering to certain standards pertaining to their capital, assets, management, earnings and liquidity. Besides compliance with the requirements of OJK, IMFBS also have to comply with the guidelines of the DSN of the *Majelis Ulama Indonesia* (Indonesian National Ulema Council), which formulates principles and laws relating to the activities of Islamic financial institutions (Zein, 2018; Siti-Nabiha and Adib, 2020). For example, IMFBS need to obtain approval from DSN for newly issued financial products (Siti-Nabiha and Adib, 2020). Even though the regulatory and supervisory bodies have imposed certain standards to measure performance, it is anticipated that the measures used will be influenced by the goals and objectives of the banks and by the interests of the founders and owners.

Objectives and goals of Islamic microfinance banks: profit, social and da'wah

The stakeholders interviewed in this study viewed the role of BPRS to be wider than the view found in the existing literature. The latter advocates the role of BPRS in increasing the income and welfare of the community and helping to increase economic empowerment and community productivity by facilitating credit to poor, low-income people and MSMEs (Masyita, 2017; Mulyati and Harieti, 2018). The stakeholders interviewed in this study look at BPRS not only in terms of profit and clients' economic well-being but also see it as enhancing spirituality and carrying out *da'wah*.

The views of the various stakeholder groups, i.e. the Muslim scholars, the top management of the banks and the supervisor/regulator, are aligned with the principle of

Islamic finance being a mechanism to obtain economic and social well-being for society, both in this world and the hereafter (e.g. Iqbal and Mirakhor, 2017; Kuanova *et al.*, 2021; Hassan *et al.*, 2021). This is reflected in the comments of one of the Muslim scholars, who argued that IMFBs should focus on both worldly and spiritual performance:

Shari'ah banks are also required to be concerned about spiritual performance . . . not only oriented towards worldly matters, but also the hereafter. The real aim is actually *falāḥ* (success) in this world and in the hereafter (Muslim Scholar, S/C).

The activities of IMFBs that benefit society and their *da'wah* role are also noted by directors of BPRS as shown below:

The objective is to achieve both profit and *da'wah* . . . The existence of BPRS actually helps the pursuit of real activities in the community (BPRS Director B5-R, Sulawesi).

Our mission [is] to carry out the *da'wah* of *rahmatan lil alamin* [mercy to mankind]. If this company has not reached or implemented that mission, it is of no use to others (BPRS Director B1-U, Jakarta).

Therefore, when faced with conflicting goals from investors, i.e. those that require commercial profit and those in favour of *da'wah* purposes, the management of IMFBs seek to maintain a balance between the two interests, as noted by a BOD member of an institution located in a rural area of Sumatra:

Our goal depends on our investors: some investors have business-oriented goals, some others have *da'wah* goals. So, BPRS have two interests that must be achieved in terms of both business and *da'wah* (BPRS Director B2-R, Bengkulu).

On further analysis, the *da'wah* role was interpreted in several ways by the stakeholders in this study. First, the existence of IMFBs is itself seen as being a form of *da'wah* that would benefit mankind. This *da'wah* role is fulfilled through the provision of financial services that comply with the Shari'ah, thus helping society to avoid interest and speculative activities. This finding is similar to the insights of Sakai's (2014) study on Islamic savings and credit cooperatives (BMT), where the organisational founders and employees viewed their economic activities as *da'wah bi al-hāl* (Islamic propagation by deeds) to achieve social justice through fair business transactions in accordance with Shari'ah requirements. Consequently, working to develop and grow Islamic microbanking – especially when the officers' remuneration is small when compared to earnings at bigger commercial banks – is also viewed as engaging in *da'wah*, as shown by the following remark of a member of DSN:

Developing BPRS is part of *da'wah*. Working in BPRS is also a form of *da'wah* despite the small pay [received by the employees]. Thus, the spirit of jihad [sacrifice] is critical in the development of this Shari'ah-based institution, as many challenges lie ahead (NSB-1).

In the view of the BOD, BPRS also fulfilled the role of *da'wah* through the dissemination of information and knowledge on the Islamic financial services offered, thus enabling Muslims to avoid *ribā*. Such actions were also believed to be part of *ibādah* (worship of God). Furthermore, the top management of the IMFBs were concerned about Muslims seeking the services and financing of conventional microfinance banks, even though there are wide avenues for Muslim customers to use their Shari'ah-compliant products and financing services. Such a view was held among the top management, probably because of the perception that Islamic values among the Indonesian Muslim community do not necessarily translate into the use of Islamic financial services, as there are differences of opinion regarding the permissibility and definitions of interest among Indonesian Muslim groups (Pepinsky, 2013; Sakai, 2014). However, in 2004, the Ulema Council of Indonesia (MUI) issued the fatwa that *ribā*, i.e. "additional charges levied on the postponement of agreed payments" is prohibited (*ḥarām*) (Lindsey, 2012, p. 109 as quoted by Sakai, 2014, p. 206). As mentioned,

IMFBs also need to comply with the MUI guidelines on Shari'ah banking principles. It could thus be inferred from the insights of the interviews that the *da'wah* role of IMFBs is believed to be fulfilled when they educate the public about the permissibility and notions of *ribā* as per the MUI fatwa through dissemination of information on their products and services.

Interestingly, the concept of *mu'āmalāt* (social and business relations) is interpreted as not merely being limited to business relations but also developing relations with the Muslim community to propagate Islamic values, and this is considered as part of *ibādah*. The comments below reflect such an endeavour:

Those in charge of the services get the chance to help the community to avoid *ribā*. That counts as *ibādah*. It is better than [doing] highly profitable work that benefits only us and our family, which in the end generates no or little *pahala* (merit) or reward for us (Muslim Scholar, S/O).

So *da'wah* is connected to the provision of Shari'ah financing. This, in my opinion, is also one form of *da'wah* (OJK).

The IMFBs are also believed to be engaged in *da'wah* when they pay *zakat* and *ṣadaqah*. *Zakat* is an obligatory levy, generally paid at the rate of 2.5%, charged on certain types of wealth, such as business or personal wealth. Only those Muslims who own the wealth beyond a certain limit are commanded to pay *zakat*, whereas *ṣadaqah* is a voluntary charitable contribution. The IMFBs also act as Islamic charities when they channel *zakat*, *infāq* (spending to meet social obligations), *ṣadaqah*, *waqf* (Islamic endowment) and other specialised sources of funding such as *qarāḥasan* (benevolent loans) to those who are entitled to receive such funds. In this respect, one of the directors commented:

We also have other activities that are conducted during the fasting month, such as raising funds for orphans. Another mandatory social and *da'wah* activity is conducted yearly, where BPRS disburses *zakat* (BPRS Director B5-R, Makassar).

The influence of founders and investors on the objectives of IMFBs

As IMFBs can be established by a Muslim group, a foundation owned by a business group, individuals or by local or regional governments, the differing interests of the founders and owners have significant influence on the IMFBs' objectives. For example, one operational director of a BPRS in Medan explained that his bank was initially established from the ideas of Muslim scholars in the 1990s who advocated the socio-economic development of the community, and accordingly, the initial focus during the early years of establishment of the IMFB was imprinted in its objectives. This is in line with the findings of [Siti-Nabiha and Siti-Nazariah \(2021\)](#) which showed the social influence on current practices of IMFIs. For this particular bank, social consideration is prioritised over commercial purposes, as suggested by the BPRS director:

The idea from Muslim scholars was to establish banks which at least [have] the same system of conventional microbanks but using Shari'ah principles This is why BPRS was established, to carry out social purposes. The benefit and orientation are not only for money or commercial purposes; it is clear that [this bank] prioritises social benefit while at the same time it contributes to economic development (BPRS Director B3-R, Sumatra).

The influence of the founders on IMFBs' objectives was also raised by the regulator, OJK, whose representative provided an example of such a bank in Jakarta. This bank was established by a Muslim group for the benefit of the community and still holds fast to its social purpose:

[T]here was a BPRS in South Jakarta founded by an Islamic recitation group. The members of the group thought about actions to improve lives of the community. Their bank remain[s] in operation

until now, and they are consistent with their goal of establishing the institution for the benefit of the people (OJK).

The findings of this research showed that IMFB is viewed as being both a profit-seeking and socially oriented organisation with *da'wah* being part of its existence and reflected in its activities. Such goals are aligned with the concept of *huqūq* whereby humans are not only motivated by personal interests at the expense of others but also have an obligation to work for the *ummah* and nature by giving, caring, maintaining and developing relationships (Laldin and Furqani, 2013).

Measures of performance: financial (profit) and masalahah (well-being)

The stakeholders interviewed in this study considered the goals of IMFBs to cover a wider scope than mere commercial interests. Therefore, performance is not only measured through financial indicators; a more holistic view of performance is important. One Muslim scholar who is also a consultant to Islamic banks argued for the holistic assessment of IMFBs, covering economic, social and spiritual performance:

When we talk about BPRS performance, ROA is not the only thing; we should also consider the social and spiritual dimensions (Muslim Scholar, MS).

Concurrently, the objective of IMFBs should be to achieve the *maqāsid al-Sharī'ah*. Assessment of performance should accordingly be conducted beyond commercial measures. Through their activities and provision of financing – especially to those excluded by the larger banking institutions – BPRS fulfil an important role in contributing to the improvement of the economic welfare of the *ummah* and in fostering socio-economic justice. The stakeholders interviewed in this study argued that IMFBs, being Islamic financial institutions, need to achieve *maṣlahah* (well-being). One of the Muslim scholars argued:

When we talk about benefit, it is based on these words: “The best of men are those who benefit others.” This takes into account the following: *ḥablum min al-nās* (human responsibility to other people), *ḥablum min Allah* (human responsibility to God) and *falāḥ*. Benefit is about how we spread goodness and [are] useful to the world. Thus, the indicators should go beyond the ROA (Muslim Scholar, S/C).

An interesting finding from this study is that, despite the consensus on the goal to achieve *maṣlahah*, there are different views regarding the *means* of achieving it. The regulators and supervisors, i.e. those from OJK and DSN, argued that in order to achieve well-being and benefits for the community, the key measures for IMFBs should be the organisations' profits and growth. These key measures are viewed as being important as they lead to the sustainability and development of the industry and thus enable continual services to the community, enabling them to avoid interest, which itself is part of *da'wah*. This is expressed by a member of the DSN, an expert in Islamic economics, as follows:

When we are talking about performance, it is the growth, then the profits ... growth and performance are crucial, as this is part of the *da'wah* and *ibādah*, in the sense of continual provision of interest-free banking services to the community (NSB-1).

Similarly, the representative of the regulatory body considered profits to be necessary for the ongoing provision of commercial activities and for the development of this sector, but also stated that these profits must be gained in a lawful and ethical manner:

BPRS are allowed to make profits based on Islamic principles, such as from profit-and-loss sharing transactions. Our Prophet taught us to trade – there should be profits. The Islamic value in this

principle is that we must have good morals, not deceive people, must be fair, and must avoid *ribā* (OJK).

The supervisors and regulators' focus on profit and growth as the key measures of IMFBS' performance is due to their concern regarding the sustainability of the banks. This concern is understandable in view of the poor financial performance of BPRS in Indonesia over the last few decades compared to their conventional counterparts (Siti-Nabiha and Adib, 2020). Even in terms of non-financial measures, such as the number of branches and customer base, BPRS' performance is still deemed unsatisfactory. BPRS' financial sustainability is also required to comply with the standards set by the regulator (OJK) and by shareholders. Profitability is among the measures used by the regulator to assess the financial health of BPRS – an unhealthy financial position will obtain an “unsatisfactory” assessment from OJK.

The supervisors and regulators consider that providing *maṣlahah* to communities that have difficulty in obtaining financing requires BPRS to be in turn financially sustainable, so that they can continue serving the segments of the society that are usually not served by commercial banks, namely MSMEs. This view is further emphasised by the BOD of a BPRS located in the Jakarta area:

Financial performance is an important aspect. The keyword is the bank's soundness assessment, which is a strong financial parameter assessed by the OJK. We (BPRS) do prioritize *maṣlahah*, but if the finances are not good, then we shall not pass the assessment of the OJK or satisfy the shareholders; so we (BPRS) consider finances to be an essential aspect to pay attention to, because it is one thing that all parties and authorities can see. *Maṣlahah*, on the other hand, comes in the form that we continue to serve and focus on the MSME level . . . Thus, we continue to pursue *maṣlahah* by maximizing profits (BPRS Director B1-U, Jakarta).

The focus of sustainability is aligned with the financial approach, which is the dominant paradigm within the microfinance industry (Siti-Nabiha and Siti-Nazariah, 2021). However, the push for financial sustainability has led to concerns about the mission drift of IMFBS, which is further precipitated by the lack of social performance measures being used in the industry (Siti-Nabiha and Siti-Nazariah, 2021) and the difficulty in quantifying social performance (Kuanova *et al.*, 2021). This same issue could arise in the case of BPRS. The findings in this study show that despite the fact that the interviewees argue for the need for more holistic measures of performance, they did not suggest the use of measurable and quantifiable indicators in assessing the social well-being promoted by BPRS, beyond the payment of *zakat* and charitable donations. According to the stakeholders interviewed, BPRS' goals of making positive impact on the welfare of people are measured through the banks' fulfilment of their obligation to provide Sharī'ah-compliant financial services which allow the community to avoid *ribā*, the creation of spiritual values through the dissemination of knowledge on Islamic financial principles and practices, and the provision of *zakat* and *ṣadaqah* for the well-being of the community, as reflected by various comments:

The indicator is that when the enterprise we manage is generating profits, we can pay *ṣadaqah* to many. If our success is enjoyed by us only, Allah will ask about our *ṣadaqah* . . . If wealth is enjoyed by others, besides ourselves and our family, the value will be high. *Maṣlahah* is [in its meaning] not only for money or commercial purposes but also [for] developing a community's economy whose main purpose is to derive benefits in the hereafter (BPRS Director B3-R, Sumatra).

Zakat is a source of funds owned by BPRS. The BPRS has social activities intended for the people's and the community's long-term benefit; this is called *maṣlahah* . . . We build a toilet for those who do not have a toilet . . . develop literacy programmes for mothers and teachers . . . encourage community-based savings such as at schools and markets . . . provide scholarships to achieving students. That's a form of our social commitment that leads to wellbeing (BPRS Director BU-1, Jakarta).

Assessment of IMFBs' performance can also be seen from the way they have improved community welfare through the provision of loans and services. Thus, despite the higher business risk associated with the traditional market segment – i.e. the MSMEs, which are highly influenced by economic conditions – the BPRS still focus on this segment. Nevertheless, the desire to be financially sound institutions led to efforts to diversify their risks, with some movement towards customers with fixed income, as reflected by the following comment:

The majority of our customers are MSMEs. However, if we only focus on MSMEs in the midst of challenging conditions, the business risk is large. We will still focus on MSMEs; we never leave them behind. But we do product diversification [in] other segments . . . to mitigate risks when the economic situation goes down. Thus, we hold on to the initial idealism of BPRS's establishment for the MSME sector, but on the other hand, the shareholders also need to get profits. Now, the fixed income segment can provide better income security than the MSMEs. As a consequence, we enter the fixed income segment too (BPRS Director BU-1, Jakarta).

Conclusion

The purpose of this paper is to investigate stakeholders' views on the objectives and measures of performance of IMFBs. In-depth interviews were conducted with the primary and secondary stakeholders of IMFBs in Indonesia. The findings showed that the objectives of the banks cover a far wider scope than mere profits or economic well-being; they also include spirituality and *da'wah*. The *da'wah* activities were reflected in the banks' very purpose of providing financing and offering services that are aligned with the Shari'ah; i.e. the dissemination of information and creation of awareness about Islamic financial principles and products; also, the payment of zakat and charitable contributions, which will lead to the well-being of the society. As the findings also showed, the owners/founders' interest influenced the objectives and goals of the IMFBs; the banks also seek to balance the commercial and social/*da'wah* goals of their various investors/owners.

Given the wider objectives and goals of IMFBs as compared to their conventional counterparts, their measures of performance are more holistic than those of conventional banks. Profits or commercial measures are not the only measures of performance. Nevertheless, being regulated financial institutions, IMFBs need to operate in a financially sound manner. Even though the regulator/supervisor viewed bank profitability and growth to be key measures of performance, achieving profit was not seen as the end but the means to achieve social well-being objectives. The measurement of achievement can be seen in the banks' fulfilment of the obligation to provide services that provide avenues for communities to avoid *ribā* while developing the socio-economic status and welfare of communities. The measures of well-being also include spiritual value from knowledge gained through the dissemination of Islamic products and principles to communities. Consequently, marketing and client relationships constitute both economic and *da'wah* activities. The social benefits are derived from the zakat given and also from other activities conducted with the use of zakat and donation funds.

Despite the argument, especially among Muslim scholars, that a more holistic assessment of performance is needed for BPRS, those interviewed in this study did not provide clear operationalisation mechanisms of what constitutes *maslahah*. Nevertheless, stakeholders alluded to the need for social well-being to be included in the performance measures. This would require BPRS to develop client-based measures so as to see the impact of their financing on the well-being of their clients. As noted by various scholars (e.g. Laldin and Furqani, 2013; Kuanova *et al.*, 2021), Islamic financial institutions need to ensure that their activities and processes lead to the achievement of the objectives of Shari'ah. Following this,

BPRS need to develop a more holistic assessment of performance, including the use of process-based measures, ensuring that their activities and procedures lead to the achievement of social well-being. In addition, it is imperative for the regulator to institute a holistic assessment of BPRS' performance in addition to the focus on financial measures. Such a holistic assessment, including social and process-based measures, would ensure that BPRS stay true to their mission and, thus, do not deviate from fulfilling both the end and means of the *maqāsid al-Sharī'ah*.

This study has limitations as the interviews were not conducted with other stakeholder categories. Thus, better insights into the objectives and measures of IMFBS could be gleaned from interviews with other stakeholders, such as the IMFBS' customers and the wider community. Therefore, this issue remains a fertile area for research, as further research is required before a suitable model of performance measurement can be determined for IMFBS, balancing their need for profitability and the growth of the industry with economic, social and spiritual well-being, developed as part of the process to fulfil the potential and promise of Islamic microfinance.

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