Islamic Banking Sustainability: Theory and Evidence Using a Novel Quadruple Bottom Line Framework

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Abstract

Purpose — To extend the conventional triple bottom line (TBL) framework (prosperity, people, planet) to the quadruple bottom line (QBL) by newly adding a ‘prophet’ dimension for Islamic banks seeking compliance with Islamic law in their pursuit of sustainability.

Design/methodology/approach — Employ Chapra’s corollaries of *maqasid al-shari’ah* (the goals of Islamic law) to develop constructs for a survey of 504 Islamic bank stakeholders from five Indonesian provinces to gather primary data to quantitatively verify the dimensions and items in the proposed QBL framework. Categorical principal component analysis (CATPCA) then identifies the sustainability of ten Islamic banks from ten countries as a trial application of the resulting QBL index.

Findings — Using the dimensions and items identified using CATPCA, we develop a QBL index to assess the sustainability of the ten Islamic banks. The findings suggest that half of the banks are sufficiently sustainable, with three being *proactive* (doing more than is required) and two being *accommodative* (doing all that is required). The remaining five banks are unsustainable, with two banks being *defensive* (doing the least that is required) and three being *reactive* (doing less than is required). Most of the banks perform relatively poorly according to the ‘planet’ (38%) and ‘people’ (41%) dimensions and perform better on the ‘prosperity’ (53%) and ‘prophet’ (63%) dimensions. Nonetheless, there is ample room for improvement across all dimensions of sustainability.

Originality — Pioneering exploration of TBL from *maqasid al-shari’ah* perspective. First, we develop a QBL index to assess the sustainability of Islamic banks in line with actual stakeholder expectations.

Research limitations/implications — The generalizability of the findings is limited by the small-scale single-country survey used in the CATPCA part of the analysis. Only ten Islamic banks were included in the QBL scoring and ranking exercises.

Practical implications — Islamic banks can improve their sustainability by increasing green financing and reaching out to rural areas and disadvantaged populations. In countries with Islamic banking systems, regulators can support this through training, guidance, and incentives.

Keywords — triple bottom line (TBL), quadruple bottom line (QBL), Islamic banking, *maqasid al-shari'ah*, categorical principal component analysis (CATPCA)

Paper type — Research paper

The need for sustainability is now widely recognized among most businesses, notably among banks. Some scholars have attributed this growing need for sustainability to the environment and others to corporate social responsibility (CSR) (Bansal and DesJardine, 2014). Kotler (2011) warns against the massive degradation of the environment from excessive resource exploitation, climate change, and the freshwater crisis and the role banks potentially play in financing this damage. For its part, CSR has a profound impact on competitive advantage for both banks and their customers (Bakker *et al.*, 2005; Vilanova *et al.*, 2009). Managing environmental and social issues has thus become unavoidable. All businesses, including banks, need to adapt to meet changing customer needs by adopting strategies that are consistent with these changes (Peattie and Charter, 2003).

Elkington (1997) focused on the longstanding debate on sustainability and a workable framework on three dimensions: economic achievement (Prosperity), social justice (People), and environmental quality (Planet). These are now commonly known as the triple bottom line (TBL). While TBL is not without criticism (Dyllick and Hockerts, 2002; Hubbard, 2009; Slaper and Hall, 2011), it has gained popularity as a standard approach to assessing business performance (Norman and MacDonald, 2004; Colbert and Kurucz, 2007). Some scholars argue that TBL excludes innovation as an essential requirement for a successful business over time (Pinkse and Kolk, 2010; Gao and Bansal, 2013; Longoni and Cagliano, 2018). Others assert that the social and environmental dimensions of TBL by design attract less attention (Hart and Milstein, 2003; Norman and MacDonald, 2004; Tate and Bals, 2018).

It is also surprising that despite its widespread use, few Islamic banks have adopted TBL when evaluating their social and environmental outcomes. In its place, some have developed indexes based on *maqasid al-shari'ah* (the goals of Islamic law) to measure Islamic socio-developmental performance (Asutay and Harningtyas, 2015; Bedoui and Mansour, 2015; Mohammed *et al.*, 2015; Hasan *et al.*, 2018). Others employ CSR as a performance measurement tool (Dusuki and Abdullah, 2007; Mallin *et al.*, 2014; Platonova *et al.*, 2018). The primary motivation for this is that conventional TBL lacks religious dimensions. This is important because in Islamic banks, *maqasid al-shari'ah* is inseparable from performance measurement as Islamic banks should deliver this as confirmation of all banking activities meeting the necessary Islamic goals.

Fortunately, to some extent, the existing TBL principles (prosperity, people, and planet) align with the spirit of *maqasid al-shariah*. For instance, Islamic banks typically aim to promote prosperity for all, achieve a fair and balanced society (Naqvi, 2016), and endorse social goals (Usmani, 2002). Some Islamic bank products, such as *qardh al-hasan* (benevolent

loans) and cash *waqf* (charitable donations), amply illustrate this point. *Maqasid al-Shariah* also involves campaigning for the protection and preservation of nature (Islam, 2004; Murad, 2012) as part of its environmental goals. However, existing TBL principles are limited in any explicit practical guidance that aligns with Islamic principles. For instance, Islamic banks must also not provide loans based on interest (*riba*) nor involve themselves in any speculative transactions or projects (*gharar*) or gambling (*maisir*). Thus, there is a need to extend the TBL with values important to Islamic banks given that they are part of *maqashid al-shariah* goals and that ignoring them may cause some aspects of Islamic banking to be not fully implemented.

Accordingly, the purpose of this paper is to offer some insights into how TBL can apply to Islamic banks. We first developed a new TBL model compliant with the spirit of *maqasid al-shari'ah*, as verified by the surveyed perceptions of Islamic bank stakeholders. This contrasts with existing work in the area and the use of secondary data (Haniffa and Hudaib, 2007; Williams and Zinkin, 2010; Mallin *et al.*, 2014; Platonova *et al.*, 2018). We then employed categorical principal component analysis (CATPCA) to extract key items later used in an index to assess the financial (prosperity), social (people), environmental (planet), and spiritual (prophet) performance of selected global Islamic banks. We refer to this extended TBL as the quadruple bottom line (QBL) given the now 4Ps. Finally, we tested where a sample of Islamic banks fit on a reactive, defensive, accommodative, and proactive (RDAP) scale (Hamidi and Worthington, 2018) using this index. This helps inform Islamic banks about the dimensions that require improvement to enhance their sustainability.

The remainder of this paper is structured as follows. The first section presents the theoretical framework, including how TBL could potentially incorporate the additional Prophet dimension, yielding a QBL framework for Islamic banking. The second section develops the methodology of developing the QBL framework and the primary and secondary data used, and the third section discusses the empirical results. The final section highlights some limitations of this analysis and some practical recommendations for improving the sustainability of Islamic banking.

Theory and existing application

Conventional TBL

The idea of conducting business exclusively for profit has led to a long debate. Friedman (1970) argued that the main responsibility of business was to increase profits, while

Frederick (1960) declared that private interests could actually be synchronized with those of society. Typically, the exclusive focus on profits by businesses creates tensions with stakeholders. However, businesses can also create externalities (at least some positive) that improve distributive justice (Kolb, 2011; Maltz *et al.*, 2011). In respect of this, Elkington (1997) suggested that TBL believes that business operations should be economically sustainable while simultaneously preserving the environment and enhancing the socio-economic well-being of the societies in which they operate. The TBL framework gained widespread acknowledgment and application in the assessment of corporate sustainability (Milne *et al.*, 2008).

Unfortunately, there is no consensus on the precise definition of TBL. It can be described as economic, social, and environmental performance, as well as economic prosperity, social justice and environmental quality, profit, people, the planet, livelihoods, lifestyles, and landscapes. However, these various descriptions of TBL have very similar meanings. In this paper, we use the 3Ps (prosperity, people, and planet), arguing that ‘prosperity’ is more meaningful than profit in that it can promote economic benefits for the firm and enhance the socio-economic well-being of workers and communities (Hammer and Pivo, 2017).

Several studies have considered different approaches to maximize TBL for corporate valuation. Hubbard (2009) extended the TBL framework by using a balanced scorecard (BSC) and creating an index so that the performance of business organizations was more accessible to their stakeholders. In the construction industry, Kucukvar and Tatari (2013) quantified the industry’s impact on the economy, society, and the environment by applying an input-output-based TBL framework. In the retail industry, Wilson (2015) applied the TBL principle in Marks and Spencer’s (M&S) sustainability strategy. Elsewhere, Hollos *et al.* (2012) considered sustainability among business suppliers, while Assaf *et al.* (2012) and Dyllick and Hockerts (2002) considered the dimensions of eco-efficiency, socio-efficiency, eco-effectiveness, socio-effectiveness, sufficiency, and ecological equity in the hospitality industry.

The framework of TBL has also been applied in the banking sector, particularly in social banking, because it follows TBL principles in its day-to-day business (San-Jose *et al.*, 2011; Cornée and Szafarz, 2014). Triodos Bank is a striking sample. In its annual reports, Triodos Bank provides not only financial highlights, but also those concerning social and environmental outcomes. These include, alongside conventional financial information, TBL and the real economy as balance sheets, social impacts on the number and turnover of co-workers, the share of women in management and salaries, and environmental effects, including the bank’s own greenhouse gas emissions and those added or removed through its loans and

investments (Triodos Bank, 2019). While conventional banks also provide some of this information, few go as far as social banks.

Islamic banking TBL

Bank Muamalat Malaysia Berhard (BMMB) is currently the only Islamic bank to join the Global Alliance of Banking on Values, an umbrella organization for social banks. In its most recent annual report, BMMB (2019) stated that its mission was to deliver value to stakeholders, society, and the environment in line with *maqasid al-shari'ah* goals. The report also declared that social features existed in all of its products, along with the creation of a *waqf* fund distributing assistance to almost 5,000 medical patients in need and 2.5 million Malaysian ringgits directed to funding environmental, health, cultural, and religious causes.

Much of this flows from the fact that there is a relevant wisdom behind every law stipulated in Islam. Fasting during Ramadhan, for instance, enhances one's connectedness with God. These wisdoms indicate the objectives of Islamic law, and *maqasid al-shari'ah* are the underlying objectives (Auda, 2008). In a broad sense, these all provide benefits, prevent disadvantage, and free someone from evil and the unjust (Al-Qahtani, 2015). *Maqasid al-shari'ah* is also a basic element governing human life in that ignoring it may create chaos and uncertainty (Mohammad and Shahwan, 2013). Islamic banks are expected to internalize and achieve *maqasid al-shari'ah* in their day-to-day operations. Failure to do so will mean that the bank is unable to reflect fully genuine Islamic aspirations (Chapra, 2007a).

Early theories of *maqasid al-shari'ah* referred to a categorization of essentials, needs, and enhancements. Essentials are things that must be met otherwise human life will be in danger. For example, it considers banning Muslims from consuming intoxicants and alcohol as essential in protecting their minds and bodies. Needs refer to things less essential for human life, while enhancements help embellish these goals. Most famously, Abu Hamid Al-Ghazali (d. 1111) further divided the essentials into five categories: (1) preservation of faith (*din*), (2) protecting the soul (*nafs*), (3) protecting the mind (*'aql*), (4) protecting offspring (*nasl*), and (5) protecting wealth (*mal*) (Chapra, 2007b).

However, some contemporary scholars criticize these five categories. For instance, some argue that *maqasid* should extend from the individual to the community or even nation (*ummah*) (Auda, 2008). Another criticism is that *maqasid* is limited in terms of universal values, such as justice and human rights. In response, in 2006, Al-Najjar extended the so-called Ghazalian *maqasid* to human rights, minds, and social entities (as cited in Bedoui and Mansour,

2015), while Chapra (2007b) proposed its extension to well-being, suggesting secondary goals (*tabi'ah*) as a complement to the primary pillars (*al-ashliyyah*).

Once applied in banking, *maqasid al-shari'ah* plays a significant role in ensuring the legality of Islamic transactions and promoting people's welfare (Ariff and Rosly, 2011). For instance, Dusuki and Abdullah (2007) observed *maqasid al-shari'ah*'s encouragement to the stakeholders of Islamic banks to support the application of corporate social responsibility and how this helped banks to move toward enhancing social welfare rather than profit maximization. This contradicts the argument made by some scholars that Islamic banks are becoming more profit-oriented in competitive markets and rebalancing away from the social outcomes suggested by *maqasid al-shari'ah* has become less *syari'ah*-compliant (Nienhaus, 2011; Mohammad and Shahwan, 2013; Maali and Atmeh, 2015). As a result, the ethical aspect of Islamic banks might not operate fully (Mansour *et al.*, 2015) and could jeopardize their fundamental role in maximizing benefits and preventing harm (Chapra, 2007b; Mansour *et al.*, 2015).

As indicated earlier, TBL principles guide banks to flourish and spread their benefits to stakeholders, thereby making the world a better place, which makes TBL (prosperity, people, and planet) consistent with the objectives of Islamic teaching. Theoretically, Islamic banking includes both the 'prosperity' and 'people' dimensions. This is because the primary objective of Islamic banking is not solely to realize financial gains, but also promote social justice and well-being (Usmani, 2002; Haniffa and Hudaib, 2007). The connection with the environment is less obvious but the Qur'an (30:41) states that, "Mischief has appeared on land and sea because of (the meed) that the hands of men have earned, that (Allah) may give them a taste of some of their deeds: in order that they may turn back (from Evil)". We can use this to assert that Islam also envisages the preservation and protection of nature.

Regarding the proposed 'prophet' dimension, the Qur'an identifies the conventional 3Ps in one verse, but with an added spiritual element: searching for the *happiness of hereafter* (Qur'an 28:77), a task unattainable without the guidance of the *prophet* (Qur'an 3:31; 53:2-4).

But seek, with what Allah has given you, the Home of the Hereafter [PROPHET], and do not neglect your share of this world [PROSPERITY]. And be charitable, as Allah has been charitable to you [PEOPLE]. And do not seek corruption in the land. Allah does not like the seekers of corruption [PLANET] (Ali, 1991, p. 1143).

The original context of the verse is the story of Qarun (Korah in the Old Testament), a wealthy man at the time of the Prophet Moses, who rebelled and became arrogant and oppressed his people (Qur'an 28:76). The account ended when the earth swallowed both him

and all his treasures (Qur'an 28:81). The moral guidance in this story is that when an individual (or organization like an Islamic bank) emphasizes only a single bottom line (financial success) and pays no attention to the other values (or dimensions), life will be unsustainable.

<INSERT FIGURE 1 HERE>

In this paper, we argue that the three original elements of TBL (prosperity, people, and planet) can easily adapt to Islamic banking by including 'prophet' as an additional dimension. Previously, Hamidi and Worthington (2018) constructed a mathematical formula to measure performance in the 4Ps (prosperity, people, planet, and prophet) and simulated its application to banks. However, that simulation did not include actual data. Figure 1 presents the relations between these 4Ps in their proposed QBL, their corresponding elements in *maqasid al-shari'ah* and either Chapra's (2007b) corollaries or the dimension of 'planet' proposed by Allet (2012).

Empirical method

Data

The first set of data used in applying the QBL is from hard copy and internet surveys. As the survey was a self-administered questionnaire, there was no opportunity to explain or clarify questions from the respondents. To overcome this, we administered an online pilot test between November 21 and December 29, 2017 that 137 respondents completed. Based on feedback from this pilot test, a revised questionnaire was developed, and 420 questionnaires were distributed across five Indonesian provinces (DKI Jakarta, Banten, West Java, Central Java, and DI Yogyakarta), with 259 responses, augmented by an online survey between February 1 and March 1, 2018, with an additional 245 responses. We employed nonprobability convenience sampling, a technique widely used in banking research (Pikkarainen *et al.*, 2006; Poon, 2007; Kumar *et al.*, 2009), with teams of undergraduate students physically or distributing online the questionnaires to stakeholders of Islamic banks.

The questionnaire consisted of responses to multiple-choice questions in the first part and responses to questions along a seven-point Likert scale in the second part. The first part consisted of questions concerning individual demographic and socioeconomic characteristics and followed existing research in the area (Mohd Nor *et al.*, 2016). The second part surveyed stakeholders about their perceptions of *maqasid al-shari'ah* expected to form the new QBL framework. The table in the appendix details the items to which respondents responded and

associated corollaries and dimensions. Respondents responded to these on an ordinal scale from strongly agree to strongly disagree. We used these surveyed expectations and perceptions of Islamic banking to inform us which parts of the 4Ps are important to stakeholders and use them to score the performance of actual banks.

Table 1 summarizes the profile of respondents. It shows that more males (59.9%) than females (40.1%) participated in the survey. Most of the respondents were aged 26–35 years (39.9%), followed by those aged 36–45 years (25.2%). In line with the Indonesian population as a whole, most of the respondents lived in West Java (34.3%), followed by DKI Jakarta (19%), DI Yogyakarta (17.1%), Central Java (12.3%), Outside Java (8.5%), Banten (4.6%), and East Java (4.2%). In terms of education, 44 (8.7%) held a college diploma, 297 (58.9%) had a bachelor's degree, 96 (19%) had a master's degree, and 16 (3.2%) had a doctoral degree. Most respondents were employees (40.9%), with the other main categories being managers/executives (15.6%), professionals (10.5%), academics (8.3%), merchant/business owners (7.9%), and government employees (7.5%). The most common income ranges are IDR 2–5 million (41.1%) and 5–10 million (21.8%), which broadly correspond to middle to lower middle incomes in Indonesia. In relation to Islamic banking, most of the respondents (72.2%) held accounts with an Islamic as well as a conventional bank, with most being either a depositor (36.7%) or a depositor and practitioner (31.7%).

<INSERT TABLE I HERE>

The second set of data is for Islamic banks listed in Global Finance (2018). We selected the leading Islamic banks from each of the 10 countries and used content analysis to analyze their annual reports from 2015 to 2017. With this information, we assessed and ranked their performance using our QBL index. We selected the following banks (abbreviation and country headquarters in brackets): Al-Rajhi Bank (ARB, Saudi Arabia), Al-Baraka Islamic Bahrain (AIB, Bahrain), Meezan Bank (MB, Pakistan), Boubyan Bank (BB, Kuwait), Bank Muamalat Indonesia (BMI, Indonesia), Jordan Islamic Bank (JIB, Jordan), Emirates Islamic Bank (EIB, UAE), Kuveyt Türk Katilim Bankasi (KTKB, Turkey), Qatar Islamic Bank (QIB, Qatar), and Bank Muamalat Malaysia Berhard (BMBM, Malaysia).

Method

We used categorical principal component analysis (CATPCA) to refine a large number of items concerning perceptions of Islamic banks in the appendix and acquired through the

survey into a manageable number of uncorrelated principal components (Linting *et al.*, 2007). The resulting components represent variables of interest, and the score index obtained from this method can be used as a measurement tool (Härdle and Hlávka, 2015; Howard *et al.*, 2015). A number of other studies used this same method to condense variables into smaller, more manageable sets of data and develop composite indexes (Comim and Amaral, 2013; Saukani and Ismail, 2019).

We then used content analysis to analyze the annual report information, with the coding derived from the composite TBL index extracted using CATPCA and representing the 13 items distributed across the four dimensions. We developed all constructs from the theory of *maqasid al-shari'ah* in conjunction with the broader Islamic banking literature. The scoring of items follows the dichotomous approach (Haniffa and Hudaib, 2007) in which an item scores one if it appeared in the annual report, otherwise zero. To assess the sustainable performance of each bank based on the QBL, we used equally- and variance accounted for (VAF) loading-weighted indexes. The first index follows Haniffa and Hudaib (2007):

$$EW\ QBL_j = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j} \quad (1)$$

where $EW\ QBL_j$ is the equally weighted QBL index, n_j is the number of items found in the annual report of the j_{th} bank, and $X_{ij} = 1$ if the i_{th} item is found, otherwise zero. The second approach is as follows:

$$VAFLW\ QBL_j = \frac{(n_c)x(L_w)x(X_{ij})}{100} \% \quad (2)$$

where $VAFLW\ QBL_j$ is the variance accounted for (VAF) loading-weighted QBL index, n is the number of items, n_c is the percentage item per component, L_w is the proportion of the percentage loading factor, and $X_{ij} = 1$ if the i_{th} item is found in the annual report; otherwise, it is zero. To rank the level of sustainability for each bank, we used a reactive, defensive, accommodative, and proactive (RDAP) scale, recently modified by Hamidi and Worthington (2018).

Results and discussion

Executing CATPCA

We employed SPSS Version 24 to perform the CATPCA. Using the responses to the 31 items in the appendix and a cut-off of 0.55 for the loading score, we excluded seven items

from the analysis. Each of the five dimensions has an eigenvalue greater than one, indicating that each component is appropriate for forming a separate factor. Table II provides details of the component loadings using varimax rotated scale items.

<INSERT TABLE II HERE>

The next step was to check the reliability and validity of these components. Table III provides the results of various tests and interpretation of these results in which an additional 11 items were dropped to meet reliability and validity constraints. CATPCA then extracted the 13 remaining items and assigned them to four components (Table IV). The result shows better performance as the total percentage of variance accounted for improves from 64.61% to 72.89%, indicating better communality (Table V). This means that the four selected components (1: 37.15%, 2: 14.99%, 3: 12.66%, 4: 8.09%) describe almost 73% of the variance across the 13 items. According to Hinkin *et al.* (1997), while there are no specific rules for retaining items in a construct, four or six items per scale are appropriate if only half of the original items are in the final scale. Our final model indicates that all the constructs (dimension) have eigenvalues greater than one (Table V), further supported by a scree plot (not shown).

<INSERT TABLE III HERE>

<INSERT TABLE IV HERE>

<INSERT TABLE V HERE>

Returning to the 13 items across the four dimensions in Table IV, we recognize these as follows. The construction of the first component is from items under environment, so we refer to this as ‘planet’. The second component draws from two pillars of *maqasid al-shari’ah*: intellect (‘*aqal*’) and posterity (*nasl*). Therefore, we refer to this as ‘people’. The third component results from three items of faith (*din*), and so we include it as ‘prophet’. The last component is a mix of another pillar of *maqasid al-shari’ah* and wealth (*mal*), so we refer to it as ‘prosperity’. The only pillar of *maqasid al-shari’ah* that is not represented in the items and the resulting components is ‘self’ (*nafs*). All its items have loading factors less than 0.55 and fail to pass the necessary reliability and validity tests.

Results of content analysis

We now assess the QBL performance of the 10 Islamic banks using these 13 items and content analysis of their annual reports over the three-year sample period. Figure 2 plots their scores using both an equally weighted index (the four Ps weighted equally in the total score) and the VAF loading-weighted index (the four Ps weighted according to their VAF share in Table V, which runs planet, people, prophet, and prosperity). Starting with the equally weighted index, BMI is the best performer with a score of 69.23%, followed by MB with 66.75% and BMMB with 64.07%. As all these scores were >60%, we rated them as proactive (doing more than is required) in meeting the 4Ps. The next two banks, ARB and JB, had close scores of 51.31% and 51.23%, respectively, but as these were >50% but <60%, we rated them as accommodative (doing all that is required). Clearly, some banks performed remarkably well in terms of the 4Ps, and certainly at least or much better than expected.

<INSERT FIGURE 2 HERE>

In contrast, the next two banks, QIB (48.76%) and KTKB (41.07%), had 4P scores >40% but <50%, for which we rated them as reactive (doing the least that is required). Finally, the remaining three banks, BB (35.85%), AIB (30.77%), and EI (7.69%), had scores < 40%. Therefore, we rated them as reactive (doing less than is required). Overall, if we compare the equally-weighted and VAF loading-weighted scores, which are relatively consistent, we find that half of the observed banks were either accommodative or proactive regarding the 4Ps and the other half were either defensive or reactive. Of course, the scoring is absolute, not relative, and while we ranked the banks according to their scores, there is no technical requirement for them to be distributed in any particular way.

Sustainability performance

Decomposing the scores further into the four dimensions, we found that our ten Islamic banks performed poorly in the ‘planet’ dimension (38%), as illustrated in Figure 3. We expected this in that our stakeholders identified ‘planet’ as the leading concern, and it may be difficult for banks to meet this high standard. This is especially so because existing research finds that Islamic banks tend to largely ignore environmental matters (Mallin *et al.*, 2014; Ali Aribi and Arun, 2015; Asutay and Harningtyas, 2015), thereby contradicting Islamic ethical teachings that encourage humans to preserve and harmoniously live with the environment

(Abdelzaher *et al.*, 2018; Helfaya *et al.*, 2019). Possible ways of addressing this are highlighted in Figure 4, which include banks undertaking an environmental risk assessment, making the results known in their annual reports, and making greater efforts to promote green financing. However, a more mundane explanation for the latter may simply be that many Islamic banks follow Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) standards in which they are not required to disclose such information in their annual reports (Maali *et al.*, 2006). This suggests the need to amend accounting and reporting standards for Islamic banks to meet the information needs of their stakeholders more fully.

<INSERT FIGURE 3 HERE>

The other poorly performed area among the 4Ps for our Islamic banks was ‘people’ (41%). As discussed, there is abundant theological support for the argument that Islamic banks should actively involve themselves in bettering society. Once again, as shown in Figure 4, Islamic banks seem to be good at providing social activities for their staff, library, and research facilities but do not seem to do much in rewarding creative work outside their organization or enhancing social solidarity. Islamic banks could move toward the latter by assisting groups having trouble in financing new business ventures such as the traditionally ‘unbanked’ (including the poor and women) and by developing financial literacy courses for their customers and stakeholders generally. Problematically, most CSR studies of Islamic banks find that social contribution is not a strong point of nearly all Islamic banks (Haniffa and Hudaib, 2007; Dusuki, 2008; Basah and Yusuf, 2013; Mallin *et al.*, 2014; Alamer *et al.*, 2015). This certainly needs much more thought in formulating a strategy.

‘Prosperity’ (53%) is the second-best area in which Islamic banks performed better, with key areas for possible improvement, including employment opportunities and economic development. The first refers to what extent Islamic banks can open or create job opportunities. Other researchers highlight this as a commitment toward employees (Haniffa and Hudaib, 2007; Platonova *et al.*, 2018). The second largely measures how Islamic banks can improve the access of customers to financial services and networks in rural areas. One possibility, albeit expensive, is the provision of a new banking infrastructure in remote areas. Fortunately, promising developments in Fintech and online banking suggest that it may be possible for Islamic banks to achieve this relatively cheaply were telecommunications services more broadly improved.

<INSERT FIGURE 4 HERE>

As expected, the best performing dimension in our QBL was ‘prophet’ (63%). Most of the banks appeared to make great efforts to report good governance, including the work of their *Syari’ah* boards in ensuring their products and services operate within Islamic law (77%). Most of the banks also emphasized alms-giving (*zakat*) (73%), a finding consistent with Maali *et al.* (2006), and this goes far in improving perceptions of their social performance (Gardberg *et al.*, 2019). However, only one-third of the banks in our sample conducted and reported activities concerning an enabling environment for righteousness, for instance, by conducting regular religious lectures, daily prayers before work, or encouraging other religious activities. We argue that the promotion of religious or spiritual activities, to some extent, will enhance the commitment of both staff and customers alike (Ashmos and Duchon, 2000). This is important because religiosity is the key factor influencing customer choice to deal with Islamic banks (Alam *et al.*, 2012; Souiden and Rani, 2015).

Conclusion

The purpose of this paper was to extend the TBL to the QBL to enable its application to Islamic banks. By surveying Islamic bank stakeholders of all kinds in Indonesia, we obtained their perceptions of 31 items developed from Chapra’s corollaries of *maqasid al-shari’ah*. Using CATPCA, we then refined these into 13 items across the three conventional 3Ps of ‘prosperity,’ ‘people,’ and ‘planet’ along with an additional P reflecting ‘prophet’ being an additional but essential factor for assessing the performance of Islamic banks. Using these, we developed a QBL index and assessed the performance of ten Islamic banks across each dimension separately and together using content analysis of their annual reports over three years. This provided each bank with a score and a rank for the 4Ps and allowed us to categorize each bank according to their sustainability stance, whether proactive, accommodative, defensive, or reactive.

Overall, we found that our sample of Islamic banks paid relatively less attention to ‘planet’ (38%) and ‘people’ (41%) and more to ‘prosperity’ (53%) and ‘prophet’ (63%). This is comforting at first in that Islamic banks do indeed appear to be meeting their core point of departure from conventional banking in terms of conducting their operations in accordance with Islamic beliefs. However, it is also concerning that Islamic banks perform relatively poorly with regard to ‘planet’ and ‘people’, dimensions that an equally strong case for their inclusion can be made for in Islamic teaching. We identified several areas where there was a

lack of alignment between stakeholder expectations and Islamic bank performance and suggested activities and/or reporting that may serve to improve practice in these areas.

Of course, the analysis includes several limitations that we readily acknowledge. First, our pilot survey focused on improving the understanding of the questions in the questionnaire and did not attempt to refine the actual number of items. This resulted in a relatively large number of items we could have excluded from the main survey to be possibly replaced by items to elicit finer details elsewhere. However, we have provided statistical evidence that the share of items excluded was not beyond the bounds of conventional practice. Second, we conducted our survey of perceptions and expectations of Islamic banking only in Indonesia. While practical, this limits the generalizability of our QBL. However, as the items in the surveys were quite simple and easily understood. Given our discussions with practitioners and regulators, we believe that Muslims in other contexts would respond similarly. Nonetheless, it would be useful to administer similar questionnaires in other countries to confirm its robustness.

In terms of contribution, we provide an initial test application of a QBL framework to assess Islamic bank sustainability that draws upon both religious teachings and the expectations and perceptions of actual bank stakeholders. We have also demonstrated how we can use the overall scores and those from the individual 4Ps to identify areas for improvement. This is of particular use to practitioners in Islamic banking and banking regulators, which can support this through appropriate training, guidance, and incentives. This is especially important as many countries with Islamic banking systems are increasingly placing their banks at the heart of broader policies aimed at social and economic development and environmental responsibility.

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	Characteristic	N	%	Characteristic	N	%
Sex	Male	302	59.9	Manager/executive	79	15.6
	Female	202	40.1	Professional	53	10.5
Age	18–25 years	95	18.8	Academia	42	8.3
	26–35 years	201	39.9	Merchant/business owner	40	7.9
	36–45 years	127	25.2	Government employee	37	7.5
	46–55 years	68	13.5	Farmer	2	0.4
	> 55 years	13	2.6	Housewife	14	2.8
Province	DKI	96	19.0	Student	30	6.1
	West Java	173	34.3	Unemployed	1	0.2
	Banten	23	4.6	Other	206	40.9
	Central Java	62	12.3	< IDR 2,000,000	66	13.1
	DIY	86	17.1	IDR 2,000,000–5,000,000	207	41.1
Religion	East Java	21	4.2	IDR 5,000,001–10,000,000	110	21.8
	Outside Java	43	8.5	IDR 10,000,001–20,000,000	65	12.9
	Islam	499	99.0	> IDR 20,000,000	56	11.1
	Catholic	3	0.6	Depositor only	185	36.7
	Other Christian	2	0.4	Depositor & borrower	88	17.5
Education	Primary/secondary School	47	9.3	Depositor & practitioner	160	31.7
	College diploma	44	8.7	Depositor & Syariah adviser	3	0.6
	Bachelor degree	297	58.9	Depositor & regulator	9	1.8
	Master degree	96	19.0	Depositor & academia	15	3.0
	Doctoral degree	16	3.2	Depositor & stockholder	2	0.4
	Other	4	0.8	Community/other	42	8.3

Table I.
Respondent profile

Item	Dimension				
	1	2	3	4	5
SE4	0.188	0.159	0.433	0.515	0.023
WE7	0.204	0.062	0.152	0.758	0.12
WE8	0.318	0.119	0.170	0.780	0.006
WE9	0.459	0.208	−0.167	0.434	0.45
WE10	0.572	0.200	−0.020	0.295	0.323
WE11	0.551	0.215	0.078	0.511	0.145
IN12	0.583	0.162	0.271	0.380	−0.031
IN13	0.610	0.197	0.299	0.362	−0.105
IN14	0.804	0.096	0.167	0.153	0.025
IN15	0.772	0.102	0.003	0.077	0.207
PO16	0.783	0.122	−0.049	0.020	0.283
PO17	0.670	0.049	0.275	0.209	−0.091
PO18	0.624	0.088	0.328	0.235	−0.148
PO19	0.736	0.182	0.033	0.116	0.276
EN20	0.159	0.667	0.270	0.230	−0.037
EN21	0.110	0.815	0.071	0.113	0.014
EN22	0.130	0.815	0.049	0.017	0.233
EN23	0.173	0.833	0.121	0.060	0.177
EN24	0.138	0.753	0.091	0.084	0.219
PR26	0.096	0.098	0.773	0.098	0.158
PR27	0.174	0.097	0.761	0.140	0.197
PR28	0.014	0.163	0.469	0.155	0.536
PR29	0.076	0.205	0.301	0.079	0.692
PR30	0.264	0.201	0.264	−0.043	0.691
PR31	0.116	0.159	0.727	0.120	0.164

Table II.
CATPCA analysis

Figure 1.
Extended TBL based on *Maqasid al-Syari'ah* principles

Accommodative

Figure 2.
QBL performance of selected Islamic banks

Figure 3.
QBL for all selected Islamic banks

Figure 4.
QBL performance of Islamic banks by item

QBL dimensions and items

Dimension	Code	Corollaries	Items (Constructs)
Prosperity	SE1	Justice (fair dealing)	Islamic banks offer viable and competitive returns;
	SE2	Equitable distribution of Income and wealth	Islamic banks currently collect and distribute alms (<i>zakat</i>) from their employees;
	SE3	Dignity, self-respect and social equality	Islamic banks offer equal working opportunity (i.e. men and women are treated similarly);
	SE4	Good governance	Islamic banks provide written statements on each of their financing transactions;
	SE5	Mental peace and happiness	Dealing with Islamic banks is less stressfull than traditional banks as they don't charge interest (<i>riba</i>).
	WE6	Security of life, property and honour	Deposits in Islamic banks are guaranteed by the regulator;
	WE7	Optimum rate of development	Islamic banks' network currently reach rural areas;
	WE8	Employment and self-employment opportunities	Islamic banks open wider job opportunities;
	WE9	Social solidarity and mutual trust	Islamic banks currently accept social collateral (i.e. solidarity among groups or recommendation by a trusted third party) to finance the poor;
	WE10	Saving and investment	Islamic banks assist local community through financial support (grants or interest free financing) for community projects (school, hospital, places of worship, etc);
	WE11	Removal of poverty	Islamic banks contribute to alleviating poverty.
People	IN12	High quality of education at affordable prices	Islamic banks provide education and training for employees and staff;
	IN13	Expansion of knowledge and technological base	Islamic banks spread awareness of their products and services to clients;
	IN14	Library and research facilities	Islamic banks help to educate communities (i.e., providing scholarship and other educational facilities);
	IN15	Reward for creative work	Islamic banks should reward or give formal appreciation for creative work.
	PO16	Need fulfilment	Islamic banks provide financing to otherwise excluded minority groups (i.e. women, illiterate individuals, workers with insecure status);
	PO17	Clean and healthy environment	Islamic banks subsidise employees' health costs;
	PO18	Freedom from debt servicing burden	Islamic banks's offer hardship options (such as rescheduling of the financing) in case of clients' financial difficulties;
	PO19	Freedom from fear, conflict, and security	Islamic banks provide affordable financial services to help deprived areas (such as areas affected by disasters such as floods, volcanoes, earthquakes and conflict).
Planet	EN20	Environmental policy	Islamic banks should have a formal policy on environmental responsibility;
	EN21	Ecological footprint	Islamic banks should actively involve themselves in reducing their ecological footprint (e.g. reduction in energy consumption, water, waste, etc.);
	EN22	Green financing	Islamic bank should provide a provision of financing to promote the development of environment-friendly activities;
	EN23	Environmental nonfinancial services	Islamic banks should raise client's awareness of environmental risks;
	EN24	Environmental risk assessment	Islamic banks should use specific toolkits to evaluate the environmental risks of clients' activities;
	EN25	Green financing	Islamic banks should finance companies that do not harm the environment.

Prophet	PR26	Enabling environment for righteousness	Islamic banks provide proper place for the employees and clients to worship (praying) and encourage religion activities;
	PR27	Family and social solidarity	Islamic banks encourages religious and social activities (such as Quranic recitation, Religious studies [<i>taklim</i>], Dhuha prayer, distributing alms etc.);
	PR28	Values (profit-seeking)	The motivation of dealing with Islamic bank is seeking <i>barakah</i> rather than profit;
	PR29	Values (unlawful)	Islamic banks declare unlawful (<i>haram</i>) transactions in its financial report;
	PR30	Social solidarity	Islamic banks provide free interest loan (<i>qard al-hasan</i>) for the poor and disadvantaged groups;
	PR31	Good governance	Islamic banks' products and services are under the supervision of the <i>Shari'ah</i> Supervisory Board.