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# Management accounting-strategy coalignment in Islamic banking

Coalignment in  
Islamic  
banking

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## Abstract

**Purpose** – This paper aims to examine the effect of management accounting–strategy coalignment on the maqasid *Shariah*-based performance of Islamic banks in Indonesia. The study also examines the role of the corporate life cycle of Islamic banks in influencing the relationship between management accounting–strategy coalignment and performance.

**Design/methodology/approach** – Management accounting practices, management control systems, strategy and maqasid *Shariah*-based performance are measured using questionnaires which were distributed to 97 directors and heads of Islamic banks. The model of this study is analyzed using structural equation model.

**Findings** – This study finds that the coalignment between low cost-oriented strategy, strategic management accounting practices and mechanistic management control system has positive impact on improving maqasid *Shariah*-based performance. However, this study is unable to verify that corporate life cycle strengthens the positive relationship between management accounting–strategy coalignment and performance.

**Research limitations/implications** – Limited indicators of management accounting practices in this study illustrate less comprehensive management accounting practices. Further studies may add other relevant management accounting as described by the International Federation of Accounting Committee to provide a more comprehensive management accounting practices.

**Practical implications** – This study provides recommendations to the management of Islamic banks to design management accounting practices and management control systems that fit to their strategic orientation.

**Originality/value** – This paper fulfils limited empirical studies on management accounting practices and strategy in Islamic banking industry.

**Keywords** Strategy, Islamic banking, Management accounting, Coalignment, Management control system, Maqasid *Shariah*

**Paper type** Research paper

## 1. Introduction

One of the most pressing challenges facing Islamic banks in Indonesia is how to increase market share, which remains low at just 4.64 per cent with total assets of US\$22.4 billion (Financial Services Authority, 2015). In addition, because of structural factors, slow growth of market share is also attributable to operational issues such as limited office networks, lack of availability of competent human resources, less innovative products and high operational costs, as well as limited promotion and public education regarding Islamic banking (Ismal, 2013a, 2013b). These issues have led to low competitiveness in the national banking industry.



From a market-based perspective, there are two sources of competitive advantage that could be used by Islamic banks, namely, differentiation and low cost (Porter, 1998). Islamic banks can implement the differentiation strategy by offering unique operations according to Islamic principles, such as financing based on profit–loss sharing as a distinguishing factor from conventional banks (Ascarya and Yumanita, 2005). Islamic banks could also implement a low-cost strategy to ensure competitive prices that attract customers, the majority of whom are rational (Ismal, 2011).

According to the contingency perspective, strategy success is determined by coalignment between the strategy and its contingency variables, both internal and environmental factors. Coalignment between strategic orientation and its contingency variables is known as strategic coalignment (Ventakraman, 1990). The level of strategic coalignment could explain why companies in the same industry and adopting the same strategies may perform differently. Based on low competitiveness and suboptimal strategy implementation at Islamic banks in Indonesia, this research will primarily solve these problems by analyzing strategic coalignment, which is expected to improve Islamic bank performance.

This study uses the concept of business unit strategy developed by Porter (1998), who classified the strategy into low cost and differentiation. The internal contingency variables in this research include management accounting practices and management control systems, both of which have consistently proven to be contingency variables of the strategy when examining their impact on performance (Mia and Chenhall, 1994; Davila and Foster, 2005; Jermias and Gani, 2004; Auzair and Langfield-Smith, 2005; Cadez and Guilding, 2008; Tsamenyi *et al.*, 2011; Gani and Jermias, 2012). The mission of Islamic banks, specifically to improve welfare in the world and the hereafter (*falah*), has implications on the indicators used to measure performance. Therefore, when assessing the performance of Islamic banks, this study uses the *maqasid syariah* concept that reflects comprehensive performance measurement in accordance with the purpose of human interaction under Islamic law.

The impact of strategic coalignment on performance will be stronger when Islamic banks have adequate resources, such as modern infrastructure, competent human resources, sophisticated technology and innovative breakthroughs. The availability of resources, however, will depend on the corporate life cycle (Barney, 2001). Hasan *et al.* (2015) explained that the resources and capabilities of companies at the mature stage are greater and more diverse than companies at earlier stages. As a relatively new industry, Islamic banks have limited resources, networks, economies of scale and market share. Likewise, public awareness of Islamic banks remains low. Therefore, this study also analyzes whether the corporate life cycle of Islamic banks will affect the impact of strategic coalignment on performance.

The main contribution of this study lies in the context of Islamic banking. Most research on strategic coalignment is carried out on non-financial industry (Ventakraman and Prescott, 1990; Powel, 1992; Chenhall and Langfield-Smith, 1998; Cadez, 2007; Jermias and Gani, 2004 and 2005; Cadez and Guilding, 2012) and conventional banking industry (Rhee, 1998; Chong and Chong, 1997; Thomas *et al.*, 1991; Iman and Hartono, 2007; Gani and Jermias, 2012). On the other hand, most research with the object of Islamic banking focused on performance evaluation (Mohammed *et al.*, 2008; Mohamed, 2010; Mohammad and Shahwan, 2013; Kuppusamy *et al.*, 2010; Bedoui *et al.*, 2013). Some previous researchers also addressed the variables in this study, but their discussion was merely descriptive, such as Abdul Rasid *et al.* (2011) who presented the management accounting system in Islamic banking; Alaudin *et al.* (2010) and Hidayati and Auzair (2011) who demonstrated the management control systems of Islamic banking. To the best of our knowledge, no previous

studies have examined strategic coalignment in Islamic banks. This study provides recommendations to the management of Islamic banks, in the form of priority initiatives to design management accounting practices and management control systems that fit their strategic orientation.

In addition, this study complements scientific reviews using positive and empirical approaches concerning the strategy of Islamic banks. Recommendations regarding strategies for Islamic banks have frequently been proffered by researchers, mainly in relation to marketing strategies (Haron and Wan Azmi, 2006; Rhee and Mehra, 2006; Tahir and Umar, 2008; Ahmad and Pandey, 2010). Studies on the strategy of Islamic banks have also been conducted by the Islamic Banking Department of the Indonesian Central Bank and formulated in the Blueprint of Islamic Banking. It is necessary, however, to analyze more applicable strategies for the development of Islamic banking to complement the existing blueprint and recommendations. Moreover, this research enriches empirical evidence on management accounting practices in the banking industry which are not well developed (Carenys and Sales, 2008) and especially in Islamic banks that were previously more conceptual (Zainulidin *et al.*, 2013) and general in nature (Abdul Rasid *et al.*, 2011). Finally, the use of *maqasid shariah*-based performance measures in this study may represent the comprehensive performance of Islamic banks beyond financial aspects that have been widely studied.

The remainder of this paper is structured as follows. Section 2 presents the literature review, followed by Section 3 that explains hypotheses development. Section 4 describes the research method. Section 5 presents the empirical results and an interpretation of the results. Section 6 contains the conclusions and contributions.

## 2. Theoretical background and hypotheses development

### 2.1 Strategic coalignment and contingency theory

The appropriateness of a strategy will be determined by various factors, such as the condition of existing competition, leadership style, organizational culture and the adequacy of resources. These factors, through the process of interaction, will mutually adapt to one another, thereby forming coalignment (Hofer and Schendel, 1978). Ventakraman and Prescott (1990) equated the term of coalignment with consistency, contingency or fit. The concept of coalignment was developed from contingency theory (Ginsberg and Ventakraman, 1985). This theory assumes that certain combinations of organizational structure and the context have a positive impact on performance. The application of contingency theory in the area of management accounting and control systems assumes that organizations tend to use management accounting practices and control systems that are appropriate to their strategic orientation (Luft and Shields, 2003).

### 2.2 Management accounting practices and management control systems

Management accounting practices are techniques or methods in management accounting such as budget, variance analysis, analysis of quality cost, customer profitability analysis, benchmarking and other management accounting techniques. The term “management accounting practices” has been used in previous studies such as of Chenhall and Langfield-Smith (1998), Abdel-Kader and Luther (2008), Tuanmat and Smith (2011) and Ahmad (2012). Contingency research classifies management accounting practices into two groups, namely, conventional and strategic. Conventional management accounting practices emphasize internal (inward-looking) conditions and short-term information, with the main objective to enhance cost efficiency (Cadez and Guilding, 2012). They include budgets for planning and control, cost-volume-profit analysis and financial performance measures (Chenhall and

Langfield-Smith, 1998), variance analysis, activity-based costing, outsourcing and cost advantages of linkages with specific suppliers (Jermias and Gani, 2005). On the other hand, strategic management accounting practices consider external (outward looking) conditions, such as competitors and consumers, as well as long-term information, with the main objective of increasing the effectiveness of program achievement. Strategic management accounting practices include reporting quality costs, benchmarking, competitive position analysis, customer profitability analysis, strategic pricing and integrated performance measurement such as balanced scorecards (Cadez and Guilding, 2012).

As highlighted by Chenhall (2003), management control systems encompasses the systematic use of management accounting practices and other controls such as personnel and cultural controls. Specifically, experts interpret control from various viewpoints (Merchant, 1999; Otley, 1999, Malmi and Brown, 2008). Of the various dimensions of the control system, Chenhall (2003); Auzair and Langfield-Smith (2005) classified management control into two groups: more bureaucratic (mechanistic) and less bureaucratic (organic) control. Mechanistic management control relies more on formal rules and standard operating procedures that tend to be tight and uniform. While organic management control is more flexible and responsive, it involves less formal procedures and rules.

Increasing customer demand for quality services and efficient banking products has expanded the use of management accounting practices, especially strategic practices (Cobb *et al.*, 1995; Aisthorpe *et al.*, 2000; Vieira and Hoskin, 2005; Wu, 2012). Nevertheless, conventional management accounting practices are still implemented intensively on providing feedback and information for tactical decisions (Nishimura, 2005, Careny and Sales, 2008, Sleihat *et al.*, 2012). On the other hand, management control at Islamic banks is tighter than conventional banks because operations at Islamic banks are not only restricted by regulations from the Financial Services Authority (OJK) but also the edicts of the National *Shariah* Board of the Indonesian Ulema Council (DSN-MUI). The tendency of a tight control system at Islamic banks is confirmed by Alaudin *et al.* (2010), Hidayati and Auzair (2011) and Munirat and Muslimat (2012).

### *2.3 Corporate life-cycle theory*

Corporate life-cycle theory assumes that an organization passes through stages of growth that can be predicted; thus, each stage has different characteristics of structure, strategy and decision-making (Ritter and Welch, 2002). Researchers classified corporate life cycle into different phases. This study adopts Anthony and Ramesh's (1992) study which divided corporate life cycle into four stages: start-up, growth, maturity and decline. Understanding corporate life cycle will help organizations determine an appropriate strategy, including the managers' priorities, in accordance with their position in the market. To classify whether an Islamic bank is at a particular stage of its corporate life cycle, this study uses output indicators such as cash flow, retained earnings, sales growth and capital expenditure as recommended by Anthony and Ramesh (1992), Kim and Suh (2009), Dickinson (2010) and Owen and Yawson (2010). Respondents then performed self-evaluation based on given indicators.

### *2.4 Strategic orientation of Islamic banks*

In this study, the strategic orientation of Islamic banks is conceptualized using the framework of strategies to increase competitiveness according to Porter (1980, 1998), which include low cost and differentiation. Low-cost strategy is concerned with how to protect and strengthen competitive position in the market by promoting low prices of products or services (Porter, 1998). Indications of low-cost strategy in the banking industry can be seen

from high surplus funding, lower financing costs and subsidiary banks that have strong back-up funding from the parent bank (Chan and Wong). Powers and Hahn (2004) added other important indicators of low-cost strategy, such as high expenses for investment based on information technology to achieve cost efficiency, as well as emphasis on training, education and institutional learning. In the context of Islamic banking in Indonesia, cooperation to improve efficiency that supports the low-cost strategy could also be optimized, such as opening a Islamic counter at the conventional parent bank and syndication (Ismal, 2013a, 2013b).

Differentiation strategy designates uniqueness as the main source of competitiveness, including the inherent quality of the brand or image (Allen *et al.*, 2007), innovation of products and services or post-sales services. Chan and Wong (1999) identified indicators of banks with a differentiation strategic orientation, including a focus on building the image and reputation, extensive networks, innovative services and operational flexibility.

### *2.5 Performance of Islamic banks: Perspectives of maqasid Shariah*

Evaluating the performance of Islamic banks requires more complex performance indicators and not only profitability but also compliance with Islamic law, as well as the contribution to improving social welfare. A comprehensive performance measurement model was developed by Mohammad *et al.* (2008), coined the *maqasid Shariah* index. *Maqasid Shariah* can be interpreted as the goal of Islamic law. Zuhayli (1986) stated that the purpose of *maqasid Shariah* is to achieve or increase benefits and minimize harm. This study uses the concept of *maqasid Shariah* developed by Zahrah (1997), which is grouped into three classifications, namely, educating the individual (*tahdhib al fard*), establishing justice (*iqamah al 'adl*) and promoting welfare (*jalb al maslahah*). Through educating the individual, Zahrah's concept emphasizes the importance of promoting the quality of human resources as a basis for achieving the two others goals of *maqasid Shariah*. It aligns with the context of Indonesian Islamic banking industry that puts the high quality of human resources as the first pillar in the Blue Print of Islamic Banking (Ismal, 2013a, 2013b). Educating the individual makes him/her a trustworthy agent and a carrier of the values of the *Shariah*. As a result, establishing justice and promoting welfare as social values will be more easily realized.

## **3. Hypotheses development**

### *3.1 Management accounting practices, management control systems and strategic orientation as indicators of strategic coalignment*

Management accounting practices and management control systems are consistent for analysis within the contingency framework when investigating the impact on performance. Chenhall and Langfield-Smith (1998) and Jermias and Gani (2004) found that a combination of management techniques and management accounting practices can improve organizational performance under a certain strategy priority. Using the banking industry in Indonesia, Gani and Jermias (2012) concluded that a misfit between strategy and the management control system would undermine bank performance. Jusoh *et al.* (2006) and Auzair *et al.* (2013) more specifically proved that companies adopting a prospector strategy (differentiation) tend to implement strategic management accounting practices. Moreover, findings associated to management control systems showed that low-cost companies tend to implement more rigid and bureaucratic controls than differentiation companies (Auzair and Langfield-Smith, 2005). Hence, it is strong enough to conclude that strategic orientation, management accounting practices and management control systems are potential indicators of strategic coalignment by proposing *H1* as follows:



H1. Strategic orientation, management accounting practices and management control systems are indicators of strategic coalignment

### 3.2 *The effect of strategic coalignment between strategic orientation, management accounting practices and management control systems on maqasid Shariah-based performance*

Previous research has consistently proven the positive effect of strategic coalignment on performance (Ventakraman and Prescott, 1990; Bergeron *et al.*, 2002; Cadez, 2007; Cadez and Guilding, 2008; and Muafi, 2009). In the banking sector, Rhee (1998) found that a higher level of internal strategic fit led to higher performance. Variation in bank performance was because of differences in the level of fit. Iman and Hartono (2007) also concluded that coalignment between business strategy (partnership or alliance) and the information technology strategy had a positive impact on the performance of banks in Indonesia. Improved organizational performance as an implication of strategic coalignment in these previous studies is not limited to only financial performance but also non-financial performance or a combination of financial and non-financial performance. This study uses *maqasid Shariah*-based performance, covering aspects of education, justice and public welfare. These three aspects combine financial and non-financial performance indicators and contain universal values (Auda, 2007), thereby allowing *maqasid Shariah* to be applied as performance indicators for all organizations. Therefore, strategic coalignment is predicted to have a positive impact on *maqasid Shariah*-based performance by proposing H2 as follows:

H2. Coalignment between strategic orientation, management accounting practices and the management control system positively affects the *maqasid Shariah*-based performance.

### 3.3 *Role of corporate life cycle in the relationship between strategic coalignment and maqasid Shariah-based performance*

The role of the corporate life cycle in terms of moderating the relationship between variables has been shown by previous studies (Auzair and Langfield-Smith, 2005; Liao, 2006; Su *et al.*, 2015). Each stage of the corporate life cycle has implications on organizational learning. The more mature an organization, the better the organization understands its business processes, so potential failures decline. The corporate life cycle has also implications on the availability of organizational resources. At the start-up stage, resource availability is usually limited by a small market share; therefore, financial performance is still low. However, better financial conditions are normally experienced by companies during the growth or maturity stage with greater profits and positive cash flow (Dickinson, 2010, Owen and Yawson, 2010). Therefore, the influence of strategic coalignment on performance should be stronger at the maturity stage compared to the growth stage. In summary, corporate life cycle can strengthen or weaken the relationship between strategic coalignment and performance, depending on the stage of the corporate life cycle. Consequently, this study proposes H3, which is expressed as follows:

H3. Corporate life cycle moderates the relationship between strategic coalignment and *maqasid Shariah*-based performance

#### 4. Data and methodology

##### 4.1 Instrument development and survey method

This study uses five variables measured using multiple indicators through questionnaires. Respondents were asked to express their point of view on a six-point Likert-type scale about the statements proposed, ranging from “less important” (1) to “more important” (6). The total of 82 questions were grouped into six sections. The first section was designed to collect general information on market segment, business diversification, performance indicators and the importance of research variables for their Islamic bank. The rest of the questionnaires related to the following five variables: strategic orientation, management accounting practice, management control system, *maqasid Shariah*-based performance and corporate life cycle.

The initial questionnaires were adopted from previous relevant studies, namely, Chan and Wong (1999) and Powers and Hahn (2004) for strategic orientation, Jermias and Gani (2005), Cadez and Guilding (2008) for management accounting practices, Auzair and Langfield-Smith (2005) for management control system and Mohammed *et al.* (2008) for the performance of Islamic banks. Characteristics of each stage in the corporate life cycle were adopted from Anthony and Ramesh (1992), Dickinson (2010) and Owen and Yawson (2010). The initial questionnaires were modified in accordance with the context of Islamic banking. To ensure that the modifications were in line with Islamic banking conditions, focus group discussions (FGDs) with seven senior Islamic bankers were conducted. The questionnaires were refined based on feedback from the FGD and subsequently distributed through a pilot survey to test the level of validity and reliability. The pilot survey involved 20 respondents who have three-nine years of experience working in Islamic banks. Invalid and unreliable questionnaires were refined in terms of the content and language before finally being distributed to respondents. Table I shows the distribution and the collection of questionnaires.

Islamic banks which became respondents in this study, are located in 34 provinces throughout Indonesia, especially Islamic Rural Banks (BPRS). For most respondents outside Java, the questionnaires were sent using the express posted service with delivery time of two-three working days. Respondents located in districts can only be reached by a special mail delivery service which takes longer (five business days) to arrive at the destination. As for all full-fledged Islamic banks and Islamic business unit headquartered in Jakarta, the questionnaire was delivered directly to the respondents. In-depth interviews were also conducted with several respondents who met directly to discuss the contents of the questionnaires. Phone calls and correspondence using e-mail were conducted to initiate and monitor the data collection process.

Types of Islamic bank	Distributed questionnaires	Returned and completed questionnaires	Response rate (%)	Data collection method
Full-fledged Islamic Banks (BUS)	11	11	100	Direct visit
<i>Shariah</i> Business Units (UUS)	23	23	100	Direct visit, phone calls, local agent
<i>Shariah</i> Rural Banks (BPRS)	160	63	39.4	Phone calls, e-mail, posted mail
Total	194	97	50	

Source: Data compiled from study survey

**Table I.**  
Group of respondents, response rate, data collection method



#### 4.2 Sample of the study

The survey through questionnaires was conducted with the help of 194 Islamic banks, consisting of 11 full-fledged Islamic banks (BUS), 23 Islamic business units (UUS) and 160 Islamic rural banks (BPRS) listed in the 2013 directory of Bank Indonesia. Of the total population, 97 Islamic banks contributed to the study, consisting of 11 BUS, 23 UUS and 63 BPRS as shown in Table I. The results of this study are representative of Islamic banking in Indonesia because of the inclusion of all BUS and UUS, which control 97.9 per cent of Islamic banking assets. Meanwhile, 63 BPRS who returned questionnaires came from various regions throughout Indonesia with a diverse business scale and corporate life cycle. The involvement of all BUS and UUS, as well as 63 BPRS, randomly has resulted in this study being free of sample bias.

Respondents in this research are the division head of accounting and finance and the division head of strategy and development. Of the respondents, 63 per cent held mid-level and 37 per cent held top-level positions. As many as 51 per cent of the respondents had more than 14 years of work experience in banking and only 16 per cent of respondents had less than seven years of experience. The profiles confirm that the respondents are competent to answer research questions related to strategy, management accounting practices and management control systems, as well as the performance of their business units. Table II presents the profile of respondents in more detail.

#### 4.3 Statistical methods

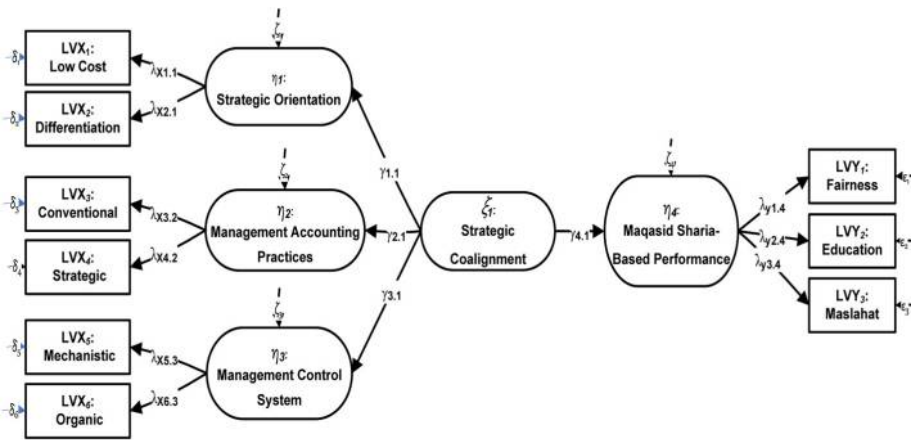
This study uses a structural equation model (SEM) primarily to examine the relationship between strategic coalignment and performance. Smith and Langfield-Smith (2004) suggested that the SEM model is appropriate for strategic coalignment relations model because the theory in this field is sufficiently established and body of knowledge is sufficient to exist. As the number of respondents is only 97, simplified models with latent variable score are used as suggested by Jöreskog *et al.* (2006). As shown in Figure 1, this study combines five measurement models using confirmatory factor analysis (CFA) and one structural model using concept of regression. Four out of five measurement models represent relationship between variables of strategic orientation (So), management accounting practices (Map), management control systems (Mcs), *maqasid Shariah*-based performance (Msp) and their indicators using first order CFA. Another measurement model is the relationship between coalignment as a latent variable and its indicators (So, Map and Mcs) using the second CFA. Then, the structural model is the relationship between coalignment and performance.

H1 was examined using CFA as measurement models and the results shown from coefficient  $\gamma_{1,1}$ ,  $\gamma_{2,1}$  and  $\gamma_{3,1}$ , which are expected to have a loading factor  $\geq 0.5$  and  $t$ -

Bank type/No. of respondents	Position (person)		Working experience at the Bank (years)		
	Middle level	Top level	< 7	7-14	>14
Full-fledged Islamic Banks (BUS)	9	2	–	3	8
<i>Shariah</i> Business Units (UUS)	13	10	1	6	16
<i>Shariah</i> Rural Banks (BPRS)	39	24	15	23	25
Total	61	36	16	32	49
Total (%)	63	37	16	33	51

**Source:** Data compiled from study survey

**Table II.**  
Profile of  
respondents



**Notes:** The effect of coalignment between strategic orientation, management accounting practices and management control systems on the maqasid Sharia-based Performance – Latent Variable Score. Description:  $\eta$  (“eta”): endogenous latent variable,  $\eta_1$ : Strategic orientation, with 2 latent variable scores (LVX<sub>1</sub> ... LVX<sub>2</sub>),  $\eta_2$ : Management accounting practices with 2 latent variable scores (LVX<sub>3</sub> ... LVX<sub>4</sub>),  $\eta_3$ : Management control systems, with 2 latent variable scores (LVX<sub>5</sub> ... LVX<sub>6</sub>),  $\eta_4$ : maqasid Sharia-based performance, with 3 latent variable scores (LVY<sub>1</sub> ... LVY<sub>3</sub>),  $\xi$  (“ksi”): exogenous latent variable (Strategic Coalignment), X: exogenous observed variable, Y: endogenous observed variable,  $\gamma$  (lambda): regression of latent endogen variables in the exogenous latent variables,  $\lambda$  (gamma): loading factor that relates latent and observed variables,  $\delta$  (delta): measurement error of exogenous observed variables,  $\epsilon$  (epsilon): measurement error of endogenous observed variables,  $\zeta$  (zeta): structural error

**Figure 1.**  
Hypothetical model

values  $\geq 1.96$ . Results of  $H2$  that was tested using regression concept as structural model are shown from the value  $\gamma_{4,1}$ , which is expected to have a significant positive value.  $H3$  was examined using multi-sample analysis.

Homogeneity tests were conducted using the Levene test. The results of this test demonstrated that all latent variable scores have Levene statistic value  $\geq 0.05$ , indicating that the three types of banks have the same variance. Validity and reliability tests were also conducted using CFA. The indicators of reliability have a construct reliability value of  $\geq 0.7$  and variance extracted value of  $\geq 0.5$  (Wijanto, 2008). Invalid and unreliable indicators were omitted from the analysis. Meanwhile, valid and reliable indicators were then examined according to SEM using Lisrel software.

## 5. Empirical results

### 5.1 Descriptive statistics

As many as 91 per cent of respondents agreed that the source of competitiveness through low cost and differentiation strategies proposed by Porter (1998) applied to the Islamic banking industry. However, the implementation of the strategy is not as loose as in non-financial industries because of regulations from the Financial Service Authority and edicts from the National Islamic Council. Table III presents descriptive statistics of valid and reliable variables for further analysis. There are three valid and reliable indicators of low

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cost (LCSO1-LCSO3) and six indicators of differentiation strategy (DFSO1-DFSO6). On a scale of 6, the most important strategic orientation variable for organizational development is extensive network with the highest mean value of 4.76. In general, however, low-cost strategy variables (LCSO) have a mean value that is relatively higher than the

Variable	Mean (SD)
<i>Low-cost strategic orientation</i>	
LCSO1	4.63 (1.30)
LCSO2	4.72 (1.15)
LCSO3	4.36 (1.08)
<i>Differentiation strategic orientation</i>	
DFSO1	4.76 (1.25)
DFSO2	4.41 (1.11)
DFSO3	4.35 (1.21)
DFSO4	4.42 (1.13)
DFSO5	3.99 (1.30)
DFSO6	3.91 (1.40)
<i>Conventional management accounting practices</i>	
CMAP1	5.45 (0.69)
CMAP2	4.86 (1.03)
CMAP3	4.30 (1.33)
<i>Strategic management accounting practices</i>	
SMAP1	4.74 (1.22)
SMAP2	4.34 (1.46)
SMAP3	4.69 (1.24)
SMAP4	4.67 (1.16)
SMAP5	4.45 (1.24)
SMAP6	4.92 (1.11)
<i>Mechanic management control system</i>	
MMCS1	4.97 (1.04)
MMCS2	5.27 (0.884)
MMCS3	4.87 (1.07)
MMCS4	4.85 (1.15)
<i>Organic management control system</i>	
OMCS 1	4.95 (1.01)
OMCS 2	4.94 (1.08)
OMCS 3	4.30 (1.09)
OMCS 4	4.23 (1.12)
<i>Fairness – maqasid Shariah-based performance</i>	
FAIR1	4.23 (1.41)
FAIR2	4.76 (1.13)
FAIR3	5.20 (1.26)
<i>Education – maqasid Shariah-based performance</i>	
EDU1	2.57 (1.38)
EDU2	3.57 (1.42)
EDU3	2.92 (1.67)
	<i>(continued)</i>

**Table III.**  
Descriptive statistics:  
mean (standard  
deviation)

Variable	Mean (SD)	Coalignment in Islamic banking
<i>Maslahat – maqasid Shariah-based performance</i>		
MAS1	3.37 (1.65)	
MAS2		
MAS3	2.38 (1.29)	

**Notes:** LCSO1: surplus funding; LCSO 2: low financing costs; LCSO3: cooperation for efficiency; DFSO1: extensive network; DFSO2: image and national reputation; DFSO3: competent and reliable teamwork; DFSO4: promoting local business and culture; DFSO5: profit-loss sharing contracts; DFSO6: cooperation for product development; CMAP1: budget; CMAP2: activity-based cost allocation; CMAP3: CVP analysis; SMAP1: integrated performance measurement; SMAP2: quality cost reports; SMAP3: benchmarking techniques; SMAP4: analysis of competitive position; SMAP5: customer profitability analysis; SMAP6: strategic pricing analysis; MMCS1: control action; MMCS2: formal control; MMCS3: tight control; MMCS4: impersonal control; OMCS1: results control; OMCS2: control informal; OMCS3: flexible response; OMCS4: control interpersonal; FAIR1: considering the ability of customers when determining the pricing of financing; FAIR2: reasonable return on savings/deposits; FAIR3: free from usury transactions; EDU1: education to improve the quality of public education in general; EDU2: training for employees; EDU3: public education about the Islamic economy and finance; MAS1: ZISWAF funds; MAS2: financing the productive sector; and MAS3: qordul hasan

Table III.

differentiation strategy (DFS0), indicating that Islamic banks tend to emphasize on low-cost strategy.

In total, 90 per cent of respondents also stated that management accounting practices are very important in helping managers implement business strategy. In general, both conventional and strategic management accounting practices are intensively used with a mean value of more than four out of six for all variables. The highest mean value of 5.45 is budgeting (CMAP1) and the lowest is cost-volume-profit analysis (CMAP3) with a mean value of 4.29. In accordance with management accounting practices, 90 per cent of respondents disclosed the importance of management control systems in helping managers implement business strategy. Table II also shows the mean values of mechanistic control variables are relatively higher than organic control variables. The highest mean value of 5.7 (scale of 6) is formal control (MMCS2). For organic control, the highest mean value is result control (OMCS1) with a mean value of 4.95.

Table III shows that the *maqasid Shariah*-based performance of Indonesian Islamic banks is satisfactory though not yet maximized. Fairness (FAIR) has a relatively higher mean value than education (EDU) and *maslahat* (MAS). Public education by Islamic banks remains suboptimal; however, it is evidenced by low mean values of below three for EDU1 and EDU3. Although the contribution of Islamic banks to real sector development has been satisfactory (MAS2), other social performance indicators must be improved.

This study divides the life cycle of Islamic banks into four stages, namely, start-up, growth, maturity and decline, as presented in Table IV. Of the 97 respondents, 53 per cent were at stage three, 38 per cent stage two, 5 per cent stage four and 4 per cent stage one. Based on Islamic bank type, the majority of BUS (73 per cent) were at the growth stage, while most UUS (57 per cent) and BPRS (56 per cent) were at the maturity stage.

### 5.2 Strategic orientation, management accounting practice and management control system as indicators of strategic coalignment

Figure 2 presents the results of *H1*. The values of the standardized solution (*t*-values) of the three variables are  $\geq 0.5$ , 0.76 (5.17) for strategic orientation, 0.93 (5.08) for management

IMEFM

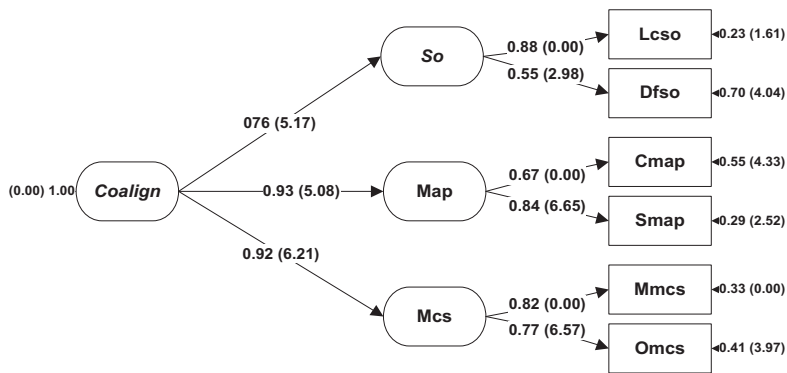
accounting practice and 0.92 (6.21) for management control system. Standardized solution values of  $\geq 0.5$  and  $t$ -values of  $\geq 1.96$  for the three variables indicate their validity as indicators that reflect strategic coalignment. Therefore, the strategic orientation, management accounting practice and management control system are valid as indicators to measure strategic coalignment, so  $H1$  is not rejected.

The results of testing  $H1$  reinforce the conclusions of earlier studies that management accounting practices and management control systems are appropriate variables when analyzing strategic coalignment (among others: Mia and Chenhall, 1994; Chenhall and Langfield-Smith, 1998; Davila and Foster, 2005; Ittner and Larcker, 2001; Chenhall, 2003; Jermias and Gani, 2004; Auzair and Langfield-Smith, 2005; Abdel-Kader and Luther, 2008; Cadez and Guilding, 2008; Tsamenyi *et al.*, 2011; Gani and Jermias, 2012). Based on the value of standardized solutions, management accounting

**Table IV.**  
Islamic banking  
corporate life cycle

Stage	Types of Islamic bank			Total respondents	(% of total respondents	% of each type of Islamic bank		
	UUS	BUS	BPRS			UUS	BUS	BPRS
1 (start-up)	–	–	4	4	4	–	–	6
2 (growth)	10	8	19	37	38	43	73	30
3 (maturity)	13	3	35	51	53	57	27	56
4 (decline)	–	–	5	5	5	–	–	–
Total	23	11	63	97	100	100	100	100

Source: Data compiled from the results of this research survey



Chi-Square = 9.34, df = 7, P-value = 0.22918, RMSEA = 0.059

**Notes:** Strategic orientation, management accounting practices and management control systems as indicators of strategic *Coalignment*. *Description:* *Coalign*: Strategic Coalignment, *So*: Strategic Orientation, *Map*: Management Accounting Practices, *Mcs*: Management Control System, *Lcso*: Low cost *So*, *Dfso*: Differentiation *So*, *Cmap*: Conventional *Map*, *Smap*: Strategic *Map*, *Mmcs*: Mechanistic *Mcs*, *Omcs*: Organic *Mcs*

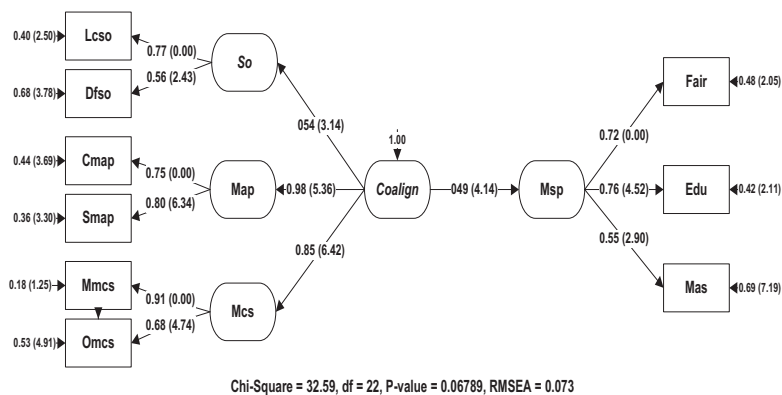
**Figure 2.**  
Confirmatory factor  
analysis

practice has the highest value, followed by management control system and strategic orientation, which implies management accounting practice is the strongest indicator of strategic coalignment.

5.3 The effect of coalignment between strategic orientation, management accounting practice and management control system on *maqasid Shariah*-based performance

Figure 3 shows the outcome of testing H2. All loading factors have a value of  $\geq 0.5$ , with  $t$ -values of  $\geq 1.96$ , implying that the estimation of loading factors of the strategic coalignment model is sound. Furthermore, the goodness of fit index (GOF) ensures that the model fits the overall data. Nine out of ten GOF indicators show a good fit; hence, the fit of the overall model is said to be good (9/10 = 90 per cent).

As shown in Figure 3, the  $p$ -value is equal to 4.14 ( $>1.96$ ), which implies that coalignment between strategic orientation, management accounting practice and management control system has a significant impact on *maqasid Shariah*-based performance. The estimated value of 0.49 has a positive direction, which means that higher strategic coalignment leads to stronger performance at Islamic banks. Model output shows that the coefficient of determination ( $R^2$ ) is 0.24, implying that 24 per cent of *maqasid Shariah*-based performance variance at Islamic banks is explained by coalignment between strategic orientation, management accounting practice and management control system. In conclusion, coalignment between strategic orientation, management accounting practice and management control system will boost *maqasid Shariah*-based performance; thus, H2 of this study is not rejected.



Chi-Square = 32.59 dan p-value = 0.068, RMSEA= 0.073, GFI = 0.95, NNFI = 0.90, CFI = 0.94, IFI = 0.94, AGFI = 0.90, Standardized RMR = 0.23, AIC M\* = 78.59 S\* = 90.00, CAIC M\* = 160.81 S\* = 200.86

**Notes:** Coalign: *Strategic Coalignment*, So: *Strategic Orientation*, Map: *Management Accounting Practices*, Mcs: *Management Control System*, Lcso: *Low cost So*, Dfso: *Differentiation So*, Cmap: *Conventional Map*, Smap: *Strategic Map*, Mmcs: *Mechanistic Mcs*, Omcs: *Organic Mcs*, Msp: *Maqasid Shariah*-based Performance, Fair: *Fairness*, Edu: *Education*, Mas: *Maslahat*

**Figure 3.** Path diagram: the effect of coalignment between strategic orientation, management accounting practices and management control systems on *maqasid Shariah*-based performance



Confirming *H2* theoretically strengthens the concept of fit, using a system approach in contingency theory as proposed by [Drazin and Van de Ven \(1985\)](#). It also supports previous studies concerning the positive impact of strategic coalignment on performance, as conducted by [Powell \(1992\)](#), [Bergeron et al. \(2004\)](#), [Cadez \(2007\)](#) and [Rhee \(1998\)](#). In the first-order CFA shown in [Figure 3](#), strategic orientation is low cost, the management accounting practice is strategic and the management control system is mechanistic. In summary, coalignment between a low-cost strategic orientation, strategic management accounting practice and mechanistic management control system will have a positive impact on *maqasid Shariah*-based performance at Islamic banks.

The conclusion that Islamic banks tend to implement low-cost-oriented strategy is consistent with conditions in the national banking industry in general, as found by [Gani and Jermias \(2012\)](#), who demonstrated that 59.2 per cent of commercial banks in Indonesia implement defender strategy. Defender strategy has similar characteristics with low-cost strategy, as proposed by [Miles and Snow \(1984\)](#). Low-cost strategy implemented by Islamic banks is the preferred choice for at least two reasons. First, low-cost strategy is most effective when customers are price-sensitive, as suggested by [Miller and Friesen \(1984\)](#), and [Rachmawati and Syamsulhakim \(2004\)](#) confirmed that the Islamic banking market in Indonesia is price-sensitive. In addition, customers of Islamic banks are also rational ([Ismal, 2012](#)) when selecting which Islamic bank offers higher returns and cheaper financing. Second, Islamic banks today still bear a high cost of funds and simultaneously have to provide a competitive return to depositors. In fact, large depositors will often ask for a special rate of return ([Ismal, 2011](#)). Therefore, to provide a competitive price against a backdrop of high costs, a low-cost strategy is the most applicable.

However, the tendency of Islamic banks which emphasis more on low-cost strategy seems contradictory to the perception of most people that the pricing of Islamic banks is more expensive compared to conventional banks. In practice, conventional banks simply cannot be positioned as competitors for Islamic banks. Almost all Islamic banks in particular the full-fledge Islamic banks (BUS) and Islamic business units (UUS) are owned by the conventional banks; thus, it is impossible for Islamic banks to compete with their parent. Business scale of Islamic banks which is still very small when compared to conventional banks has also an impact on the high transaction costs per unit, thereby lowering cost efficiency ([Zuhroh et al., 2015](#)).

The results also indicate that the preferred management accounting practice is strategic. Emphasis on the strategic management accounting practice can be explained from two points of view. First is the market-driven paradigm that has empowered customers, thereby requiring Islamic banks to consider external aspects (outward looking) in the management accounting system, such as customer expectations of product and service quality or competitive prices compared to the products and services of competitors. On the other hand, conventional management accounting practices do not consider external aspects. Second, strategic management accounting practices are easier to implement in line with the current development of information and communication technology.

The results also indicate that the management control system is mechanistic. Fit between a low-cost strategy and mechanistic control system in this study is consistent with previous studies ([Chenhall, 2003](#); [Auzair and Langfield-Smith, 2005](#); [Tsamenyi et al., 2011](#)). To ensure effective low-cost strategy implementation, emphasis on the mechanistic management control system is appropriate, which allows Islamic banks to achieve efficiency, while providing superior services through strategic management accounting practices.

#### 5.4 Role of corporate life cycle in the relationship between strategic coalignment and *maqasid Shariah*-based performance

Because of data limitations, multi-sample analyses were only conducted for the maturity and growth stages. After completing the six procedures of the multi-sample analysis as described by Wijanto (2008), as presented in Table IV, the delta value of chi-square was 1.16 (18.88 – 17.72), while the delta value of the degree of freedom was 1 (15 – 14). Using an excel calculation,  $\chi^2 = 1.16$  and  $df = 1$ , the value of  $p$  was  $0.281466 \geq 0.05$  (not significant at  $\alpha = 0.05$ ). The conclusion drawn from the multi-sample analysis is that there is no significant difference between the structural model (the relationship between strategic coalignment and performance) at the stages of maturity and growth. In other words,  $H3$  is rejected, implying that corporate life cycle does not moderate the relationship between strategic coalignment and *maqasid Shariah*-based performance.

The context of Islamic banks in Indonesia can explain the findings. First, the majority of Islamic banks do not follow a normal corporate life cycle. The establishment of Islamic banks, especially full-fledge and Islamic business units is usually achieved through a conversion from a conventional bank or a spin-off from the parent bank. The conversion or spin-off mechanisms have led to strong intervention by the parent bank. Therefore, corporate life cycle within the context of Islamic banks today is not always associated with organizational resources that affect performance. For instance, banks at the early stages but with substantial support from their holdings (i.e. through fund placements, infrastructure) may perform as well as mature banks.

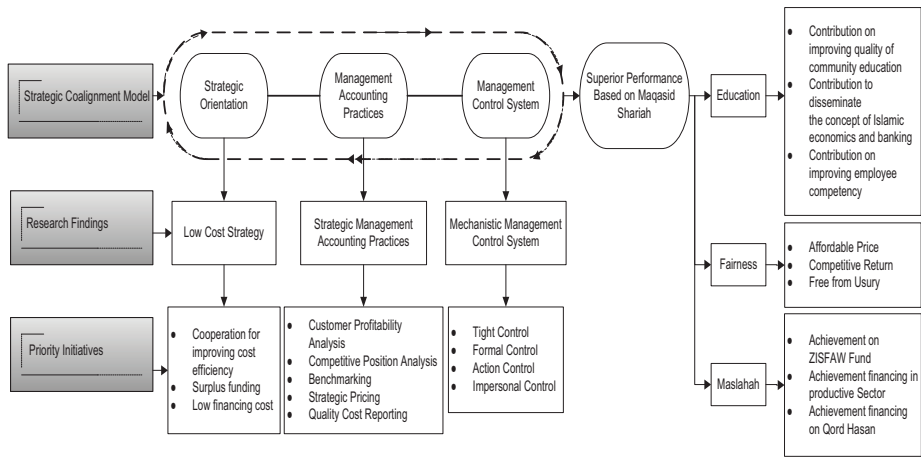
Second, limited fatwa issued by the National *Shariah* Board of the Indonesian Ulema Council (DSN-MUI) for new product development (Isma, 2011; Isma and Kamarudin, 2012) has inhibited product innovation as a key driver of the corporate life cycle. Mature Islamic banks should rationally be better innovators than those at the growth stage, as mature banks have greater internal resources. Nonetheless, as product innovation is impeded by a lack of regulatory support, corporate life cycle will not have a significant impact in terms of moderating the relationship between strategic coalignment and performance. Third, public awareness and knowledge of the Islamic economy in general and Islamic banking in particular are relatively rudimentary. As a result, mature Islamic banks with high-quality innovation do not always receive a more favorable public response.

#### 5.5 Interpretation of the empirical results

Based on the research findings, we develop a strategic coalignment model that includes priority initiatives for Islamic banks to achieve superior performance as presented in Figure 4.

Figure 4 presents a strategic coalignment model. The model shows that the performance of Islamic banks, which is evaluated based on the concept of *maqasid Shariah*, will increase by achieving coalignment between strategic orientation, management accounting practice and management control system. According to our findings, Islamic banks are more inclined to follow a low-cost strategy, while implementing strategic management accounting practices and a mechanistic management control system, thus creating strategic coalignment and leading to stronger performance. Performance encompasses education, justice and welfare (*maslahah*).

Based on the valid and reliable instruments used in this research, Islamic banks adopting a low-cost-oriented strategy should emphasize the following priority initiatives to develop their organizations:



**Figure 4.** Strategic coalignment model and priority initiatives

- cooperation with both financial and non-financial institutions to boost operational efficiency;
- surplus funding to increase flexibility in financing decisions, which provide longer payment terms and more competitive margins; and
- lower financing costs through increased operational efficiency leading to more attractive financing products for customers.

Our findings also suggest that strategic management accounting empirically coaligns with low-cost-oriented strategy. Islamic banks are urged to focus on the following strategic management accounting practices:

- customer profitability analysis;
- competitive position analysis to assess and monitor competitor trends in terms of revenues, market share, costs, margins and profit-loss sharing rates, as well as the strengths and weaknesses of competitors;
- benchmarking to identify and adopt best practices in operational excellence to improve performance;
- strategic pricing, namely, price discovery that considers strategic factors such as the reaction of other Islamic banks to price changes, elasticity of demand after changes in the profit-sharing ratio, as well as market growth of Islamic banks; and
- quality cost reporting to prevent and improve the existing quality of products and services.

Criteria	With the same set of parameters	With a different set of parameters	$\Delta$
$\chi^2$	18.88	17.72	1.16
Degree of freedom (df)	15	14	1
$p$			0.281466

**Table V.** Evaluation of the differences in the structural model

**Source:** Results from multi-sample data analysis using Structural Equation Model

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The mechanistic management control system is found to fit with low-cost-oriented strategy and strategic management accounting. The four essential dimensions of a mechanistic control systems include the following:

- (1) tight control through intensive monitoring of employee actions and performance targets;
- (2) formal controls by means of performance targets, written rules, procedures and internal policies that are formally communicated to employees (through circular letters, memos, FGD or formal meetings);
- (3) action control by monitoring the decisions of subordinates on an ongoing basis; and
- (4) impersonal control with minimum interaction on an individual basis to avoid conflicts of interest amongst individuals.

### 5.6 Conclusion

We find that strategic orientation, management accounting practice and management control system are indicators of strategic coalignment at Islamic banks. Management accounting practice is the strongest indicator of strategic coalignment followed by the management control system and strategic orientation, with standardized solution values of 0.98, 0.85 and 0.54, respectively. The first-order CFA demonstrates that strategic coalignment is a combination of low-cost strategy, strategic management accounting practices and a mechanistic management control system. This study failed to confirm the role of the corporate life cycle in terms of moderating the relationship between strategic coalignment and performance. In other words, strategic coalignment has a positive impact on performance regardless of the corporate life cycle. The influence of strategic coalignment on *maqasid Shariah*-based performance is fairly strong, shown by the regression coefficient of 0.49 with the positive direction. Moreover, the coefficient of determination shows that 24 per cent variation of *maqasid Shariah*-based performance in Islamic banks can be explained by coalignment between strategic orientation, management accounting practice and management control system.

Research findings evidenced a significant role for management accounting practices in terms of forming strategic coalignment. This is becoming valuable feedback for academics to develop in-depth studies of management accounting practices for services companies, especially Islamic banks, as the main reference for learning materials at universities. For the Islamic banking industry, this study has the following implications:

- collaboration with various parties is required to improve operational efficiency, lower financing costs and increase the funding surplus;
- strategic management accounting practices should be optimized, especially for customer profitability analysis, analysis of competitive position, benchmarking, quality cost reporting and strategic pricing;
- a mechanistic management control system should be emphasized that is tight, direct, formal and impersonal; and
- gain market confidence by optimizing internal resources regardless of the stage of the corporate life cycle.

The positive impact of strategic coalignment on *maqasid Shariah*-based performance suggests that the regulator needs to be more balanced when evaluating the performance of

Islamic banks by adding *maqasid Shariah* aspects to the existing financial performance indicators. The implementation of *maqasid Shariah* requires human resources which are competent in banking and muamalah. Consequently, the regulator should enforce minimum qualification standards and certification for human resources at Islamic banks.

This study encountered two major limitations. First, the strategic coalition model in this study used just two internal contingency factors which is quite simple. Further research could add other external contingency variables that would increase the power of the model when explaining variations in organizational performance. Second, limited indicators of management accounting practices in this study illustrate less comprehensive management accounting practices. Further studies may add other relevant management accounting practices as described by the International Federation of Accounting Committee to provide a more comprehensive picture of management accounting practices.

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## Appendix

The questionnaires consist of six sections covering different types of information below:

- (1) General information: information about the importance of research variables for your Islamic bank.
- (2) Strategic orientation (SO): information about the implementation of policies and business practices which is an indication that your Islamic bank has a tendency toward a certain business strategy to improve competitiveness. In this study, strategic orientation is classified into low-cost orientation and differentiation. Orientation at low cost will impact on lower pricing than competitors. Orientation to differentiation will make the business unit unique to its competitors (Porter, 1998).
- (3) Management accounting practice (MAP): information about accounting techniques to generate useful information for managers in decision-making. In this study, MAP includes budget, variance analysis, cost-volume-profit, outsourcing for cost efficiency, activity-based costing, capital budgeting, supplier relationships, integrated performance measurements, quality cost reporting, benchmarking, strategic pricing, customer profitability analysis and competitive position analysis (Jermias and Gani, 2004; Cadez and Guilding, 2008, Tuanmat and Smith, 2011).
- (4) Management control system (MCS): information about the process and techniques used by the management to influence employees' behavior to achieve the goals of the organization. MCS in this study includes result and action control, formal and informal control, loose and tight control, flexible and limited response and impersonal and interpersonal control (Auzair and Langfield-Smith, 2005).
- (5) Performance: Information about performance indicators of Islamic banks, which in this study, assessed based on the concept of *maqasid Shariah* consisting of three aspects, namely, justice, education and welfare (Mohammed *et al.*, 2008).
- (6) Corporate life cycle (CLC): information about which stage your current Islamic bank is, whether at start up, growth, maturity or decline (Weston and Brigham, 1981), when analyzed based on accounting performance such as cash flow patterns, earnings and dividends (Anthony and Ramesh, 1992; Black, 1998).

**General Information about research variables**

1. In strategic management studies, business units can implement low cost or differentiation strategies to improve their competitiveness. A low cost strategy will minimize cost then can offer products / services with a cheaper price than competitors. A differentiation strategy provides a more unique differences from competitors, so with these differences customers have a higher value. In your opinion, is this concept of business strategy (low cost or differentiation approach) also applicable to Islamic banking. Please tick in the right bracket?  
 (.....) can be applied as other industries  
 (.....) difficult to be applied in Islamic banking industry  
 (.....) can be applied with modification,  
 Explanation .....
2. In your opinion, how important are management accounting practices (such as the preparation of financial targets, product and service pricing calculations, cost-volume profit analysis (CVP), customer profitability analysis) in helping you to implement your competitive strategy? Please tick in the right bracket?  
 (.....) Very important  
 (.....) Important  
 (.....) Less important
3. In your opinion, how important are the management control systems (such as a performance monitoring and evaluation system, value system and organizational culture) in helping you to implement your competitive strategy?  
 (.....) Very important  
 (.....) Important  
 (.....) Less important

**Strategic Orientation**

How important has each of the following business strategy items for the development of your Islamic bank ? (Please tick the appropriate number: 1=least important; 5=most important)

1. LCSO1 - Surplus funding  
 Surplus funding enhances flexibility in allocating financing to customers with lower margin/profit sharing and longer payment terms than competitors. 1 2 3 4 5 6
2. LCSO2 - Lower financing cost  
 Increased operational efficiency may reduce financing cost, thus decreasing financing margin/profit sharing which lead to be more attractive to customers. 1 2 3 4 5 6
3. LCSO3 - Back up from Holding/Parent Company\*)  
 Funding assistance (in the form of equity capital) is quite strong from the parent company. 1 2 3 4 5 6
4. LCSO4 - Cooperation to increase efficiency  
 Cooperation with other Islamic banks / other Islamic financial and non financial institutions can lower operational costs 1 2 3 4 5 6
5. LCSO5 - Cooperation to supplement resources\*)  
 Cooperation with other Islamic banks / other Islamic financial and non financial institutions to complement each other's resources. 1 2 3 4 5 6
6. DFSO1 - Niche market  
 Focus on targeting a specific market (*niche market*) 1 2 3 4 5 6
7. DFSO2 - Reliable human resource  
 Expert in certain market segments, due to adequate resources and experience. 1 2 3 4 5 6
8. DFSO3 - Service innovation  
 Innovative in terms of services and product development that will increase customer satisfaction 1 2 3 4 5 6
9. DFSO4 - Broad network  
 Broad network to facilitate customer services faster with broader target market 1 2 3 4 5 6
10. DFSO5 - Operational flexibility \*)  
 Operational flexibility in accordance to the target market (eg weekend banking, less rigid requirements and procedures in financing) 1 2 3 4 5 6
11. DFSO6 -National image and reputation 1 2 3 4 5 6

- National image and reputation nasional in certain areas owned by Islamic bank
12. DFS07 – Solid Teamwork  
Human resources who are not only competent in their field but able to handle very dynamic tasks with good teamwork. 1 2 3 4 5 6
13. DFS08 – Support local business and culture  
Proximity, attention and supports for local business and cultural development, such as financing facilities for local handicraft businessmen. 1 2 3 4 5 6
14. DFS09 – Profit sharing scheme  
Contracts that provide a competitive rate of return in both financing and funding activities with mudaraba or musharaka schemes. 1 2 3 4 5 6
15. DFS010 – Product development cooperation  
Cooperation with sharia banks / other financial and non-financial institutions for product development and sales 1 2 3 4 5 6

#### Management Accounting Practices

Please indicate whether you apply these measures. Each statement was evaluated based on the scale of 1 to 6, where 1=significantly lower and 6=significantly higher)

1. CMAP1 – Budget  
Performance targets, such as revenue targets, financing or operational cost targets, are translated to annual / semiannual / quarterly budgets. These budgets help managers to control activities and assess divisional achievements in the short term. 1 2 3 4 5 6
2. CMAP 2 – Variance analysis \*)  
Evaluasi pencapaian target-target kinerja yang dilakukan dengan membandingkan antara realisasi dengan anggaran yang telah ditetapkan sebelumnya. Pada analisis selisih, evaluasi lebih ditekankan pada kuantitas atau volume transaksi sebagai penyebab terjadinya selisih. Evaluate the achievement of performance targets by comparing the realization and predetermined budget. The evaluation is more emphasized on the quantity or volume of transactions. 1 2 3 4 5 6
3. CMAP 3 - Activity based Costing  
Allocation of overhead (indirect) costs to funding or financing products based on activities related to that products. The more complex the activity, the greater the cost consumed by the product. Activity-based costing will result in the right cost of funding and financing, which will help you to control costs. The product will be protected from over or under costing. 1 2 3 4 5 6
4. CMAP 4 - Outsourcing; \*)  
Penggunaan jasa pihak eksternal dengan cara *outsourcing* (mensub-kontrakan) sebagian atau seluruh fungsi yang bukan fungsi utama untuk tujuan efisiensi biaya. The use of external services by outsourcing a part or all functions that are not the primary functions for cost efficiency purposes. 1 2 3 4 5 6



5. CMAP 5 – Cost volume profit (CVP) analysis  
 Analisis CVP yang dilakukan dengan melihat perilaku total pendapatan, total biaya dan laba operasional jika terjadi perubahan pada volume penjualan, harga jual, biaya per unit. Dengan CVP, pimpinan dapat mengendalikan biaya untuk mencapai target laba yang diharapkan. Salah satu aplikasi CVP adalah analisis BEP (*break even point*), pendapatan operasional hanya cukup untuk meng-cover biaya operasional.  
 CVP analysis observes the behaviour of total income behavior, total cost and operating profit if there are changes in sales volume, selling price or cost per unit. Using CVP, managers can control costs to achieve expected profit targets. One of CVP applications is BEP analysis (break even point). 

1	2	3	4	5	6
---	---	---	---	---	---
6. CMAP 6 – Cost advantage of supplier relationship \*):  
 Long-term good relationships with suppliers / vendors that can help managers to control costs. 

1	2	3	4	5	6
---	---	---	---	---	---
7. SMAP1 - Integrated performance measurement  
 Performance measurement systems that are always associated with meeting customer needs and include financial and non-financial measures. The ultimate goal of this measurement system is to maintain customer satisfaction 

1	2	3	4	5	6
---	---	---	---	---	---
8. SMAP 2 – Quality cost report  
 Quality cost report containing cost information to prevent and overcome the occurrence of quality defects and ensure the delivery process of products / services in accordance to quality standards. Examples of quality costs include the cost of employee training to improve service quality, ISO audit fees, cost of recovery customer complaints. With the report, managers can monitor the programs to improve the quality of products / services that will have an impact to increase customer satisfaction and market share. 

1	2	3	4	5	6
---	---	---	---	---	---
9. SMAP 3 - Benchmarking:  
 Benchmarking is a comparison of internal processes with ideal standards, such as learning from other islamic banks about how business processes are more efficient, how better services are delivered to customers or how to operate a new product. Benchmarking is a reference for improving the quality of internal business processes in order to be comparable with other banks. 

1	2	3	4	5	6
---	---	---	---	---	---
10. SMAP 4 – Competition analysis:  
 Competition analysis is an assessment and monitoring of competitors trend in terms of sales, market share, costs incurred for product development, return on investment. This analysis assists managers in determining programs that support to increase the competitiveness of Islamic banks in the market in the long term. 

1	2	3	4	5	6
---	---	---	---	---	---
11. SMAP 5 - Customer profitability analysis  
 Customer profitability analysis aimed to identify potential profitable customers, so that additional services can be pursued to increase their loyalty. 

1	2	3	4	5	6
---	---	---	---	---	---
12. SMAP 6 - Strategic Pricing  
 Strategic pricing is determination of pricing for funding and financing products that considers strategic factors such as, reactions by other islamic banks, demand elasticity of products, market growth, and past experiences related to the impact of price changes. 

1	2	3	4	5	6
---	---	---	---	---	---



**II. Fairness (*Iqamah al-Adl*)**

Please indicate whether you apply these measures. Each statement was evaluated based on the scale of 1 to 6, where 1=significantly lower and 6=significantly higher)

1. FAIR1 – Affordable financing  
The rate of margin / profit sharing of financing products (especially for productive financing) considers the ability of the entrepreneurs' customers based on the analysis of their business development 1 2 3 4 5 6
2. FAIR 2 – Competitive *return*  
The rate of margin / profit sharing for funding products (e.g saing, deposito etc) reflects fairness which is based on the average rate of margin / profit sharing of islamic banking industry 1 2 3 4 5 6
3. FAIR 3 – Free from usury  
Islamic bank transactions (operational and non-operational) are free from ribawi. 1 2 3 4 5 6
4. FAIR 4 - Brotherhood in financing \*)  
Intensive communication between the bank and financing customers to monitor the customer's ability to recover the financing. 1 2 3 4 5 6

**III. Public interest (*Jalb al-Mastahah*)**

Please indicate the extent to which your Islamic bank achievements for the past year for the following items compared to the targets set by your managers.

- |                        |                         |
|------------------------|-------------------------|
| 1: achievement <80%    | 4: achievement 100-110% |
| 2: achievement 80-90%  | 5: achievement 110-120% |
| 3: achievement 90-100% | 6: achievement > 120%   |

1. MAS1 – Ziswaf Funds (Zakah, Infaq, Sadaqa, Waqf)  
Ziswaf funds which successfully collected 1 2 3 4 5 6
2. MAS2 - Productive financing fund  
The amount of financing disbursed for productive enterprises (to business customers) 1 2 3 4 5 6
3. MAS3 - Qordul hasan  
The amount of financing disbursed for *Qordul Hasan* scheme 1 2 3 4 5 6
4. MAS4 – Net Operating Margin (NOM) \*)  
The rate of NOM 1 2 3 4 5 6
5. MAS5 – Return on Assets (ROA)\*  
The rate of *Return on Assets* 1 2 3 4 5 6

### Corporate Life Cycle

The main characteristics of each stage of the corporate life cycle:

- Stage 1 (start-up) : Sales growth is relatively slow, net income, operating cash flow and investment tend to be negative, cash flow is positive, low liquidity, newcomer in industry, small scale of business, usually not yet able to pay dividend.
- Stage 1 (Growth) : Net profit is greater than stage 1, although still negative but loss is lower than stage 1, operational cash flow has increased from stage 1, usually operational cash is positive, big cash is still needed for investment expenditure, already able to pay dividends.
- Stage 1 (Maturity) : Sales level is at its peak, high liquidity, net profit is positive and big, market share is strong enough, operational cash flow is getting bigger, fixed asset investment decreases, excess fund is usually invested to external parties (acquisition), external financing decreases because it is able to finance the operation of internal cash.
- Stage 1 (Declining) : Opportunities for growth are limited due to the saturation of market demand, managerial and technological obsolescence, significant sales decline, net profit and market share begin to decline, operational cash flow also decreases.

### Questions:

1. According to above the characteristics of each stage in the corporate life cycle, at which stage is your current Islamic bank? (choose one by thickening the numbers below)

1	2	3	4
---	---	---	---

2. How is the impact of the stages of your current Islamic bank against the achievement of the targeted performance?

- (.....) Supports achievement of performance targets  
(.....) Inhibits achievement of performance targets  
(.....) does not affect achievement of performance targets  
(.....) others, please mention .....

Note:

\*) These items were invalid based on the validity test. Therefore they were removed from the model

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