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# Embedding Value-Based Principles in the Culture of Islamic Banks to Enhance Their Sustainability, Resilience, and Social Impact

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**Abstract:** Value-based banks strive to build a self-sustaining banking model with inclusive and transparent governance that is sustainable and resilient to external disturbances. Initiatives for value-based intermediation in Islamic finance started in Malaysia. The growth in VBIBs is accompanied by claims about its relative resilience to crisis and efficiency compared to VBBs and conventional banks. However, little empirical evidence is available to support such claims. This study aims to analyze the resilience and efficiency of VBIBs compared to the VBBs and GSIBs. It highlights the role of value-based strategy in developing a sound and resilient Islamic banking system to overcome future crises and further strengthen the impacts of Islamic banks. The study used quantitative and content analysis research methods, with data collected from the annual reports of 10 VBIBs from 2017 to 2020. The empirical results show that VBIBs have better risk-adjusted capital levels and asset quality, enabling them to be more resilient during crises. They provide more satisfactory returns compared to the VBBs and GSIBs. However, VBBs have a better asset structure and growth rate, which contributes to the real economy. The overall findings suggest that adopting value-based strategies in Islamic banking improve banks' sustainability, resilience, and social impacts by concentrating resources on value-based activities that provide economic resiliency and enhance inclusive and sustainable economic growth. The study fills gaps in the current Islamic finance literature concerning empirical studies on value-based Islamic banking. It also helps practitioners to understand the relative efficiency, resilience, and social impact of VBIBs.

**Keywords:** banking resilience; Islamic finance; value-based banking; sustainability; socio-economic; shariah-compliant

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## 1. Introduction

The real economy serving society needs financial institutions that direct resources towards activities that provide societal empowerment, economic resiliency, and environmental regeneration [1–4]. Financial institutions, mainly the banking sector, play a vital role in economic development and growth by ensuring financial intermediation. The banking sector is the most central part of the financial system in most economies and is, therefore, also the main important sector for the financial system's stability [5]. The financial soundness and resilience of the banking sector have significant impact on the stability of the financial system as a whole [6]. After the global financial crisis, banks' strategies to reduce the traditional model and focus on stability can be observed. The global financial crisis forced financial institutions to revise their activities and develop more resilient and sustainable business models. Many financial institutions have reassessed and adjusted their business strategies and models, including their balance sheet structure [7]. In this regard, banking institutions, especially value-based banks, emerged with new models that uniquely positioned them to foster economic sustainability by offering more innovative and value-based financial services and products necessary to serve a broader spectrum of stakeholders [8].

Different explanations are provided in the literature for the concept of value-based banking. Various researchers have provided overviews of different definitions and approaches [9–11]; however, in general, value-based banking refers to a dynamic trend that shares common characteristics with other models, including community banking, ethical banking, and green banking, in addition to socially oriented banks such as cooperatives banks and credit unions [9,12,13]. Value-based banks provide a similar range of services to traditional banks, including savings accounts, investment management, and venture capital funds. However, what makes them different from traditional banks is how they achieve this, how they manage and where they invest their customers' money, and how they support the economy, society, and the environment [14].

The ultimate goal of value-based banking is to attain stable economic, social, and environmental development through delivering banking services and investment products using a value-based strategy that is more than corporate social responsibility [8]. Simultaneously, they provide sustainable and positive returns to their shareholders [15,16]. However, in value-based banking, profit maximization is not the ultimate goal of the banks; instead, the aim is sustaining and growing value in the real economy by supporting society [17]. The underlying principle of value-based strategies is the 'People before Profit' principle [14]. In contrast to traditional banks, VBBs generate profits through investing in ethical projects that have a social or ecological impact and through channeling funds to high-impact industries that promote equality, employability, environmental sustainability, cooperation, commitment, and reinvestment [18].

Value-based banks focus on entrepreneurs and SMEs seeking to develop a more inclusive and sustainable society through their social innovations [8]. Their strategies bring economic justice to society and help direct resources toward the Sustainable Development Goals (SDGs) [13]. Since their strategies focus on sustainability and committing to social and environmental responsibilities, they also reduce their vulnerability to risk [19]. Many studies in the literature have established that considering the social and environmental aspects of a business helps firms to reduce their risk exposures [20–23].

The goals of value-based strategies align with Islamic finance's theoretical aspirations and are seen as a natural progression for Islamic banking. Unlike mainstream banking, Islamic banking, which is guided by *Maqasid al-Shariah* (the Objectives of Shariah), is rooted in creating a value-based economy and social justice [24]. The Shariah guidelines encourage, and sometimes urge, Islamic banks to concentrate primarily on ethics and morals relevant to socio-economic values such as fairness, sharing, partnership, well-being, and justice based on economic value proposition [25]. The initiative for value-based strategies, also known as value-based intermediation (VBI), in Islamic finance has emerged in recent years in Malaysia. The initiative aims to position Islamic banking as a prominent and leading agent of positive change in the global financial system [26].

There is a convergence between Maqasid al-Shariah and the SDGs, as sustainability and inclusive development are focal points in both cases. The intended outcomes of Shariah are in line with the SDGs, which focus on enhancing society's well-being. The purpose of value-based strategies is also to achieve overall development by ensuring financial inclusion and sustainable and inclusive growth [27]. Value-based strategies are essential to achieving the intended outcomes of Shariah through practices, conduct, and offerings that generate positive and sustainable impacts on the economy, community, and environment, consistent with the shareholders' sustainable returns and long-term interests [26].

However, due to the existing gaps between theory and practice in Islamic banking, realizing the objectives of the *Shariah* in current Islamic banking practice is not straightforward. An enabling environment to embed *Maqasid al-Shariah* in the culture of Islamic banks needs to be created [26]. Despite substantial growth in their assets and numbers, Islamic banks have been highly criticized due to their lack of innovation and social concern in their economic activities, which is one of the most significant elements of the *Maqasid al-Shariah* [28,29]. Therefore, it is essential to develop a range of strategies to bridge the gap by incorporating *Maqasid al-Shariah* into the activities of Islamic banks [26]. Embedding

Maqasid al-Shariah in the activities of Islamic banks will help to promote their sustainability and contribution to achieving the Sustainable Development Goals (SDGs). This will help the banks to realize socio-economic development objectives by introducing modern and welfare-oriented banking products [30].

Realizing the existing gaps, the central bank of Malaysia collaborated with other stakeholders and proposed several strategies aimed at filling the gap and further strengthening the roles and impacts of Islamic financial institutions [26]. The proposed strategies and guidelines are based on Shariah principles, which define the moral compass, underlying principles, and priorities of Islamic banks [28]. The strategies guide Islamic banks to improve their current practices and position towards innovation. The VBI proposes a shift in the practical paradigm of Islamic financial institutions, while fostering their efficiency and growth by inventing new opportunities for more responsible and diversified business segments [26,31].

It is generally argued that Islamic banks are safer than conventional banks during financial crises. Studies indicated that the 2008 financial crisis not only affected conventional banks; it also challenged Islamic banks [32]. However, Islamic banks had demonstrated significant resilience during the crisis period. There are many reasons given for their resiliency, including their product structure, relying on real economic activities, and avoiding toxic financial derivatives [24,33]. Similarly, value-based banks not only showed resilience throughout the recent global financial crisis, but also advocated for a safer and longer-term banking model, which would avoid the speculative investments that are at the root of most crises, and which are particularly destructive to businesses and enterprises with less financial resources [34].

On the other hand, VBI brought many changes to Islamic banks. Although all Islamic banks are Shariah-compliant, banks adopting VBI differ from others as they have modified their business models and focused on value-based activities. VBIBs have made many changes in their investment focus, asset structure, and inclusiveness. They focus more on entrepreneurs and SMEs seeking to develop a more inclusive and sustainable society through their social innovations [8,26]. However, the role of VBI on the efficiency and resilience of Islamic banks has not been studied. Despite the enormous benefits of VBI to the economy, society, and the environment, it is not yet widespread and adopted by other banks outside Malaysia. The reasons for this range from policy constraints on implementation to uncertainty about its financial viability and contribution to banks' resilience and efficiency. Hence, it is vital to explore the importance of adopting VBI in the banking business in terms of enhancing resilience and efficiency and earning sustainable returns for the adopting banks. To the best of our knowledge, there is a gap in the Islamic finance literature: empirical studies assessing the financial performance and resilience of value-based Islamic banks in comparison to mainstream value-based banks and traditional banks are lacking.

Therefore, this study aimed to explore the role of integrating value-based strategies into the activities of Islamic banks to enhance their efficiency and resiliency in the face of future economic crises. The study also attempted to assess the importance of value-based strategies to enhance the impact of Islamic banks on the real economy and socio-economic dimensions by concentrating resources on value-based activities that provide economic resiliency and enhance inclusive and sustainable economic growth. Furthermore, the study evaluated value-based Islamic banks and compared them to the mainstream value-based banks and GSIBs in terms of variables such as stability of earnings, capital strengths or capital adequacy, contribution to the real economy, growth in the balance sheet, profitability, and efficiency.

The contribution of this study is two-fold: The findings contribute to filling the existing gaps in the Islamic finance literature on assessing the resilience and efficiency of value-based Islamic banking. The findings also demonstrate the practices of value-based banks based on the experience of renowned impactful banks, which are members of GABV, and recommends lessons that Islamic banks should learn from these banks' best practices related to designing value-based products, implementing, and monitoring. Thus, the findings might help practitioners, policymakers, bank board directors, and investors understand the stability and efficiency of value-based banking practices.

The remainder of the paper is organized as follows: Section 2 presents the theoretical framework, illustrating the concept and practice of value-based banking in the mainstream and Islamic finance system. Section 3 explains the data and methodology used in the analysis. It presents the research design, data, data sources, and the samples. Section 4 presents the results and draws a comparison with three banking strategies. Section 5 presents the discussion, content analysis, and recommendations with policy implications. Section 6 offers the conclusions, limitations and future research directions.

## 2. Theoretical Framework

### *2.1. Banks Stability and Resilience during Crisis*

The banking sector plays a vital role in economic growth and development. It is an important sector that can significantly affect the stability of the financial system. Disruptions in the banking system tend to worsen overall fluctuations in the whole system [5]. The recent global financial crisis induced a series of failures of many banks and highlighted the importance of a stable financial system that can resist and weather financial and economic shocks. Since financial and bank stability has direct implications on the sustainability of the banking sector, they have always been the interest of all central banks.

The 2007/8 global financial crisis has changed the thinking about the mainstream banking and financial system. The crisis revealed substantial weaknesses in the banking system and the vulnerability of the conventional banking and financial system against financial crises [5,7]. The effects of the crisis have weighed heavily on economic growth, financial stability, and bank performance in many countries.

The crisis showed the need for significant structural changes in the banking sector. Regulators have responded to the crisis by reforming the global prudential framework and enhancing supervision. The key goals of these reforms have been to increase banks' resilience. In adapting to their new operating landscape, banks have been re-assessing and adjusting their business strategies and models, including their balance sheet structure and scope of activities [7].

After the global financial crisis, the value-based banking movement has received more attraction. As the economic downturn tightened its grip in 2009, a small group of value-driven banks came together to see whether they could build a positive movement for change in the banking sector [17].

The crisis affected all the large banking systems, both Islamic and conventional, although the nature and magnitude of the impact varied [7]. There is extensive literature investigating the reaction of Islamic and conventional banks during and after the global financial crisis. In general, the Islamic banking industry seemed to be immune to the financial crisis. Islamic banks demonstrated significant resilience compared to their conventional counterparts during the global financial crisis as they relied on real economic activities, avoided toxic financial derivatives, and kept higher liquid assets [3]. Another study has indicated that, due to their higher capitalization and liquidity, Islamic banks were more resilient than conventional banks against such turmoil [32]. There are also researchers who argue that the resilience of Islamic banks during crisis was due to the underlying Islamic financial principles [28]. However, these studies all assessed the resilience of the Islamic banks before they shifted to value-based banking.

### *2.2. Value-Based Banking and Social Impact*

Value-based banking is not a new concept, as it shares common characteristics with other well-known models, such as socially responsible investing (SRI), environmental, social, and corporate governance (ESGs), and ethical finance [12]. There is no common definition of value-based banking in the literature. Many researchers have provided various overviews of different definitions and approaches [9,11]. De Clerck [9] defines value-based banking as an umbrella term encompassing sustainable, ethical, alternative, social, poverty alleviation, and development banking, offering products and services based on deliberations of a nonfinancial nature. These actions positively impact the environment, people, culture, and society at large [11,35].

Basically, value refers to how much a product or service is worth to a consumer or someone else. By using a service-dominant logic framework, the definition is explained as value being always uniquely determined and evaluated by the recipient [25]. Accordingly, value-based banking is not determined by an organizational form. It is characterized by a culture and performance model based on the following five points: (1) economic, social, and environmental performance, known as the triple bottom line; (2) serving communities and the real economy and enabling new business models; (3) long-term relationships with clients and a direct understanding of their economic activities; (4) long-term, self-sustaining resilience to outside disruptions; and (5) transparent and inclusive governance [13].

Value-based, ethical, and sustainability-focused banking are all terms used to describe the activities of banks and other financial organizations that use their wealth to produce social, economic, and environmental development. As a financial intermediary, the banking sector has a vital role in creating value in society, the economy, and the environment through their banking products and services. They provide a similar range of services to those of traditional banks, including savings accounts, investment management, and venture capital funds. However, what makes them different from other banks is how they achieve this, how they manage and where they invest their customers' money, and how they support the economy, society, and the environment [14].

Value-based banks have understood something that traditional banks have failed to realize: banking activity is a combination of being responsible for society while generating a reasonable profit. Their activities are focused on creating values and sustainability to promote social, economic and environmental developments. The United Nations Environment Program (UNEP) Inquiry [13] identified and proposed four values that should be at the center of every country's sustainable financial system. They are sustainability, transparency, diversity/fairness, and inclusion. Thus, value-based banking seeks to create a self-sustaining financial model that is resilient to external disturbances and has inclusive and transparent governance [14].

### *2.3. Value Based-Banking in the Mainstream Financial System*

In the mainstream financial system, banking is not a homogeneous sector. The banking sector, especially in western countries, comprises various banks, including investment banks, global banks, local banks, retail banks, social banks, green banks, community banks, church banks, and development banks. We can classify banking into the formal and informal banking systems. There are also financial institutions established to provide mutual help to working people, such as credit unions, rural banks, mutual saving banks, loan funds, and revolving savings [11]. Value-based banks, especially in developing countries, are among the most prestigious and significant organizations.

Value-based banking is not defined by a specific governance model, and encompasses private banks, mutual banks, and public limited enterprises. In general, in the western context, value-based banking includes social, ethical, green, and community banking. Yet, many financial institutions that regard themselves as value-based may not adhere to the deeper green version of sustainability, nor are all of them sustainable. Here, sustainability refers to the whole ecosystem of which humans are only one part, considering a high level of interconnectedness [13] (p. 15). Value-based banking is a diverse movement comprising community banks, green, ethical, and socially oriented banks such as credit unions and cooperatives, B corporations, privately owned banks, and public companies that are purposively oriented toward the development of a sustainable economy [13] (p. 6).

The movement of value-based banking has received more attraction after the global financial crisis. The Global Alliance for Banking on Values (GABV), an umbrella for value-based financial institutions, was founded at the beginning of the global financial crisis in 2009 by 39 financial institutions with a joint mission of using finance to deliver sustainable economic, environmental, and social development. They aimed to show the world and the financial community that banking can be performed without practicing speculations, in which banks can ultimately serve the real economy while taking externalities into account. According to the GABV report, the GABV currently has 16 strategic partners and 65 value-based financial institutions, including banks, microfinance institutions, credit unions, and community development banks, located across five continents. They serve more than 67 million customers, manage more than $200 billion in assets, and are supported by more than 76,000 co-workers [36].

The founding financial institutions and strategic partners agreed, ten years ago, on six value-based banking principles to be the guiding principles for the existing and new members of GABV. The principles are summarized in Figure 1.

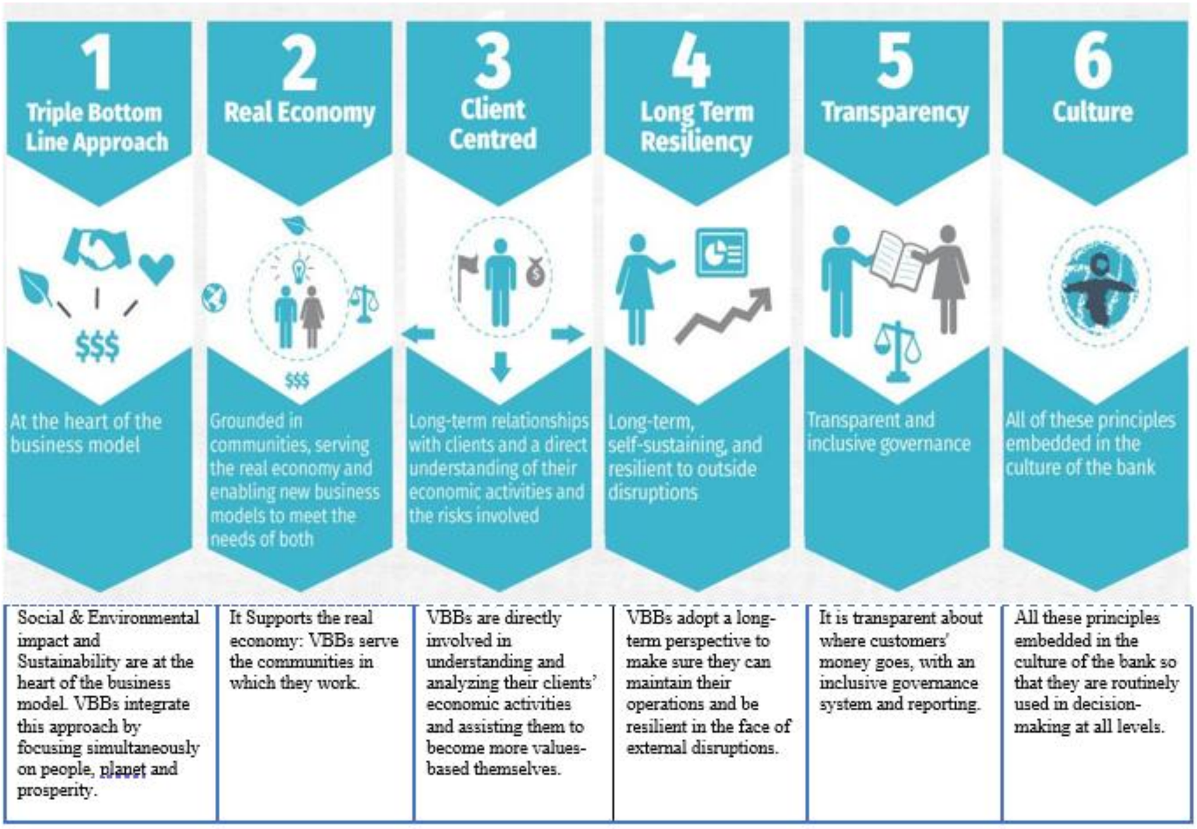


**Figure 1.** Principles of value-based banking (GABV). Source: GABV [36].

In 2012, a study was conducted by the GABV to compare a group of value-based banks and the global systemically important banks (GSIBs) based on key financial indicators. The study's findings revealed that the value-based banks finance greener and fairer projects and have a more resilient and robust business model than other banks [17]. The recent study report by GABV also indicated that, on average, value-based banks and other financial institutions use 72% of their assets to invest in the real economy, which is higher than the 38% investment by the GSIBs in 2012. The figure has increased and was 74.6% in 2018, while GSIBs only allocated 43.7% of their investable assets to value-based activities [8]. This indicated that these banks are strongly committed to boosting economic productivity, which improves social conditions and creates jobs, rather than concentrating resources in the hands of a few individuals [37].

Banca Etica and Triodos Bank are the two prominent value-based banks trying to make a real difference in the mainstream banking system. Triodos Bank, established in Spain, is a global leader in sustainable banking. Triodos only invests in sustainable business and is open about how it manages its clients' money. In 2020, its total assets were EUR 13.8 billion, increasing by approximately 15% from its 2019 value. The Bank had 728,056 customers across its five European branches at the end of 2020 [38]. Triodos' business model is based on value creation by transforming all kinds of inputs (both monetary and non-monetary capital) into value outputs that positively impact society [39], see Figure 2.

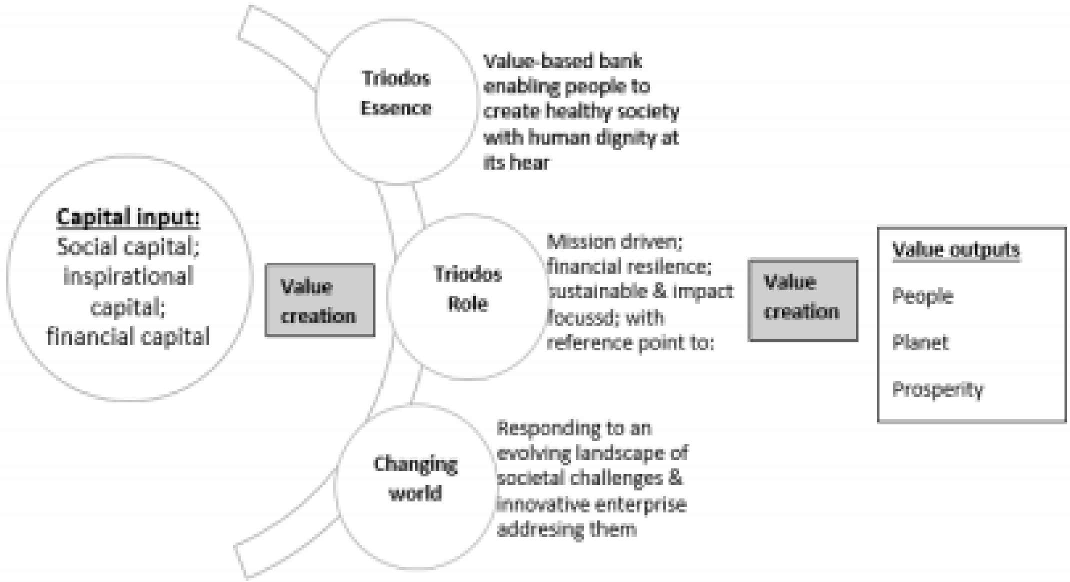


**Figure 2.** Triodos Bank's business model. Source: Khan and Amira [39].

Triodos has taken a number of steps to ensure its financial viability. Some of the most important measures are offering fair interest rates to savers; aiming for sustainable and reasonable long-term profits for investors both in Triodos Bank and its funds; using deposits to lend to sustainable entrepreneurs in the real economy; maintaining a healthy balance between loans and deposits; and maintaining healthy levels of capita, well above regulatory requirements, to ensure long-term resilience [39].

The other leading value-based bank, Banca Etica, was established in 1999 and became the first ethical financial institution in Italy. Its goals include financing social cooperation, protecting the environment and civil society, and sustaining a supportive economy and support the non-profit world. In 2016, Banca Etica provided funding for 9000 projects, all of which focused on social and international collaboration, environmental conservation, and overall quality of life [40].

### *2.4. Value-Based Banking in the Islamic Finance*

The foundation of Islamic finance is the Islamic Shariah. Prohibition of *riba* (interest) is among the principles of Islamic finance and one of the main differences between Islamic and mainstream finance. Profit and loss sharing are the other fundamental foundations for Islamic finance transactions, in which capital providers (lenders) must participate in the business's risks to earn a reward. Capital providers should share the entrepreneur's risks as they want to receive profits for their investments. However, the ultimate goal of Islamic financial institutions (including banks) is not profit-maximizing; rather, they are primarily designed to promote moral and spiritual growth [13] (p. 22).

Unlike the mainstream financial system, Islamic finance has its roots in creating a value-based economy and promoting social justice [41]. In Islamic finance, interest is not seen as a kind of compensation for real economic activity. Accordingly, in Islamic finance, there is no finance for finance; there should be underlying assets. This means that Islamic finance is finance for a cause, finance for a value, and finance for underlying assets.

Islamic banking is the largest sector in Islamic finance, accounting for 69% of all Islamic finance assets by the end of 2019 [42]. It is also a flourishing and widely spread sector, utilizing funds by following the Islamic *Shariah* principles and fulfilling their deeds under these principles. Whereas the mainstream banking industry is primarily focused on financial gains, Islamic banking is an exception in that it has both economic and socio-economic dimensions [24]. If Islamic banks are properly guided by the objectives of Shariah (Maqasid al-Shariah), they can play a significant role in economic advancement and the well-being of the human race by organizing funds and performing social activities.

Since Islamic banking is also primarily based on a business association and partnership style, it helps eliminate the unjust acts of the diverse stakeholders created by the interest-based banking system [43,44]. The Islamic banking products have also been designed based on trust and being community-centered. As stakeholder interests in Islamic financial institutions (including Islamic banks) differ from those in the conventional institutions, the corporate governance structure should be articulated to fulfill the rights and obligations of IFIs-based stakeholders.

The initiative for value-based intermediation (VBI) at the central bank level for Islamic banking started in Malaysia in 2017. The central bank of Malaysia, Bank Negara, in collaboration with other stakeholders, proposed several policies aimed at further strengthening the roles and impact of Islamic financial institutions. The strategic paper released by Bank Negara defined VBI, from the Islamic finance perspective, as an intermediation function that aims to deliver the intended outcomes of the Shariah (Islamic Law) through practices, conduct, and offerings that generate positive and sustainable impacts on the economy, community, and environment, without compromising the financial returns to shareholders [26] (p. 6). It also aimed at enabling Islamic financial institutions to embed the objectives of Shariah (*Maqasid al-Shariah*) in their activities.

The objective of Islamic Shariah (*Maasid* al-Shariah) is all-inclusive and promotes sharing and trust in business. The scope of *Maasid*-al-Shariah is much larger than the VBI principles. Therefore, the goal of VBI is not to create new things but to systematically promote the integration of *Maqasid*-Al-Shariah into the activities of Islamic financial institutions. The suggested strategies and guidelines are also assumed to be universally applicable across all Islamic financial sectors. The Strategy Paper sets out the underpinnings of the VBI and the proposed implementation approach and strategies for advancing it as the next strategic direction for the Islamic banking industry [26]. Hence, the importance of this strategic paper in attaining the social goals of Islamic banks is expected to be high.

In line with the launching of VBI, the Bank Negara also developed a VBI scorecard to track how well this initiative is being implemented in Islamic banks and other financial institutions. The scorecards are used as a metric to measure achievements or progress toward VBI goals and are made public so that stakeholders may compare the banks' performance. The proposed strategies guide Islamic banks to follow inclusive governance, constructive collaboration, and impact-based assessment. Greater alignment between stakeholders' expectations and business focus will arise through active participation with multiple stakeholders, including traditional and nontraditional stakeholders, in the decision-making process. Impact-based assessment pays equal attention to applications' potential impacts on the economy, society, and environment. It also promotes impact-focused disclosure, which covers the details of the customers (i.e., purpose, location, and result) to and in whom they lend and invest. In the long term, impact-based disclosure enhances confidence amongst customers and the public [26].

In VBI, constructive collaboration with wider stakeholders, including those with no direct business relationships such as NGOs, societies, and governments, leads the bank to new insights, broader opportunities, and knowledge for improving business impact. The role of central banks is facilitating the creation of an environment enabling Islamic banks. All stakeholders need to work together to create a favorable environment using various tools and strategies aimed at speeding up the implementation of this initiative. Stakeholders' collaborative efforts include nurturing potential champions, increased transparency, strategic networking, and performance measurement. These strategies have been implemented in a phased-in manner, so the players (Islamic financial institutions) determine their own timeline [45].

### 2.5. Value-Based Strategies to Enhance Bank Resilience and Sustainability

As a financial intermediary, the banking sector plays a significant role in creating value in society, the economy, and the environment. Banks are uniquely positioned to deliver the financial products and services required to support entrepreneurs and SMEs in these initiatives. When banks use their funds to deliver economic, social, and environmental developments, their banking activities become more sustainable. The principles and strategies of value-based banking also aim to enhance the financial system's sustainability and inclusiveness [8].

Sustainability and resiliency are inextricably linked. The sustainability of a bank increases its resiliency to any economic challenge [14]. The banking sector is the most central part of the financial system in most economies and is, therefore, also the main important sector for the financial system's stability [5]. The financial soundness and resilience of the banking sector have significant impact on the stability of the financial system as a whole [6]. After the global financial crisis, they were forced to revise their activities and develop more resilient and sustainable business models. They re-assessed and adjusted their business strategies and models, including their balance sheet structure [7].

One of the six principles of GABV is that value-based banks are self-sustaining, which ensures the resilience of the banks in the face of economic challenges [36]. Value-based banks strive to build a self-sustaining banking model with inclusive and transparent governance that is resilient to external disturbances [14]. In this regard, value-based banks have proven that the value-based strategy can be well-governed and lucrative, gaining success in terms of both narrow financial measurements and broader economic, social, and environmental impacts [13].

According to the UNEP and GABV reports, one of the characteristics of value-based banking is its long-term and self-sustaining resilience to outside disruption [13,36]. Sustainability is one of the four recommended values that must be at the heart of value-based banking in any country. Value-based banking is adopting a viable approach that strategically considers prosperity and profits stability over the long term.

Sustainability in banking requires three factors—well-regulated financial institutions, a well-defined mission beyond profit maximization, and integrated and transparent reporting. Value-based banks focus on meeting the real needs of humans in the real economy. They perform several activities, and at the core of all activities are the values of sustainability, transparency, fairness, and inclusion. They serve the real economy by providing cash payment services and investment capital required by enterprises and entrepreneurs who live and work in it [37].

Studies conducted by the GABV since the 2008/2009 global financial crisis have proven the sustainability of value-based banks. According to the research series issued by GABV about the sustainability and performance of value-based banks, these banks have constantly shown better and more consistent growth than the world's top banks or global systematically important banks (GSIBs). Figure 3 illustrates the 10-year average annual growth rates of value-based banks' asset components. They have historically had stable and better fund sources and investment flows (Figure 4). They also have had a more stable and sound capital structure than the GSIBs (Figure 4). They have had a historically stable return-on-assets (ROA) with a low level of volatility. Furthermore, compared to the GSIBs, the value-based banks have had a similar or marginally higher ROA, while having lower variation [8].

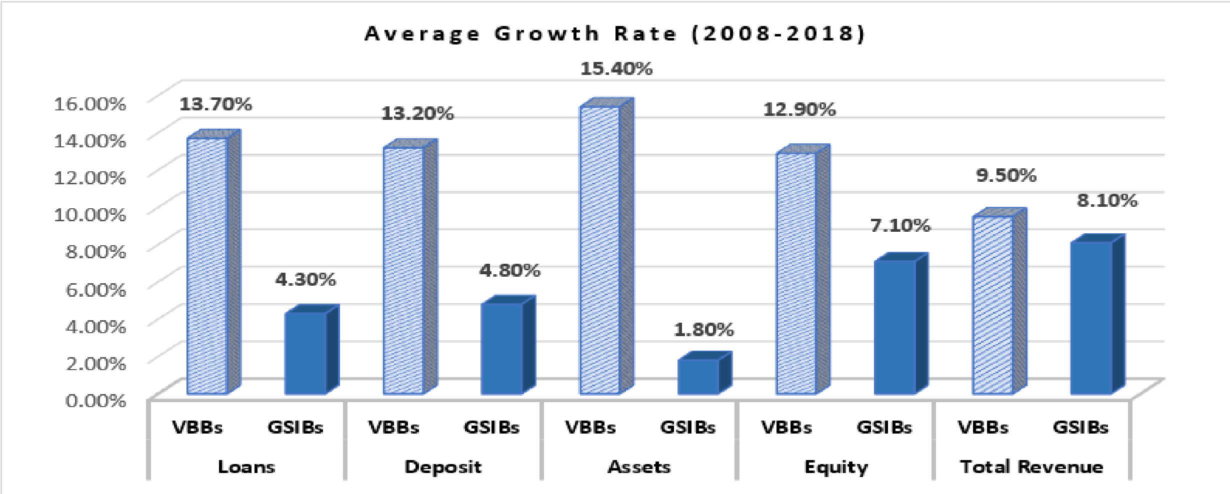


**Figure 3.** Ten-year average annual growth rates (2008–2018). Source: Author's computation based on data from the GABV.

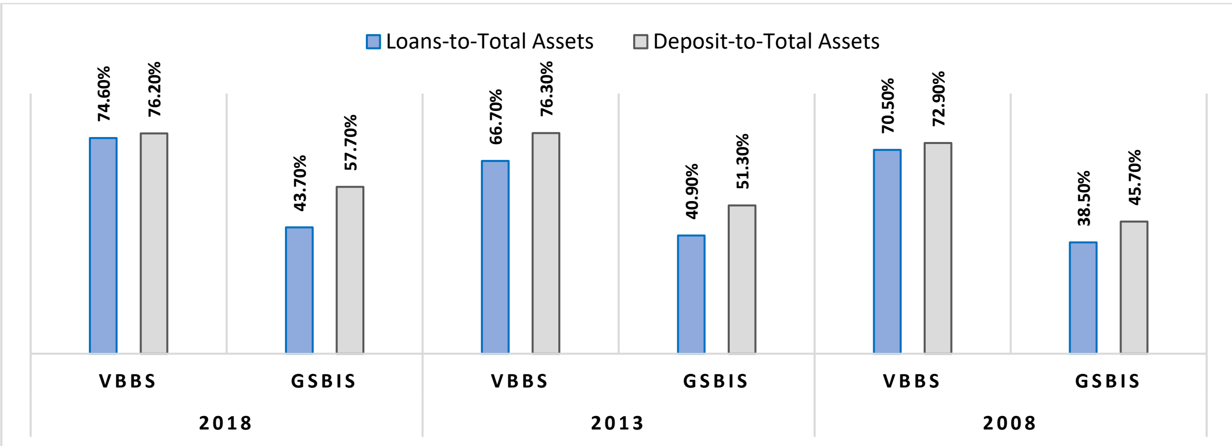


**Figure 4.** Sustainability of fund flow of value-based banks. Source: Authors' computation based on data from the GABV.

## 3. Materials and Methods

Assessing sustainability and resilience requires considering a broad spectrum of risk factors, and it is not expected that a single model will satisfactorily capture all factors. Instead, a suite of models may be required [6]. However, this study aimed to assess the role of value-based strategies to enhance the stability, efficiency, and resilience of value-based Islamic banks (VBIBs) by considering the fundamental parameters that show the overall stability of the banking sector in simple terms. The rapid growth of VBIBs has been accompanied with claims about its relative resilience to financial crises as compared to VBBs and GSIBs. Using data from Malaysia, Bangladesh, and Indonesia where Value-based Islamic banks exist, we sought to show how VBIBs are efficient and resilient compared to the VBBs and world-leading GSIBs.

We compared VBIBs with the mainstream value-based banks (VBBs) and global systemically important banks (GSIBs) based on the selected parameters. In addition, we examined the asset and investment structure of the VBIBs to explore their contribution to the real economy, to enhancing the social dimension of banking, and to improving the well-being of society by promoting entrepreneurial activities, corporate social responsibility, and the banks' welfare activities.

Accordingly, to achieve these objectives, the study applied both content and empirical analyses. Empirical analysis was used to assess the selected value-based Islamic banks' capital adequacy, profitability, efficiency, and stability. We compare the three groups of banks based on financial parameters that predict the banks' financial soundness and resilience such as asset qualities, capital adequacy, efficiency, and financial ratios, including ROE, ROA, non-performing loan rate, etc. Content analysis was applied to assess the social impact of the selected Islamic banks' value-based banking practices.

### *3.1. Data and Sampling*

The study was carried out mainly based on publicly available data collected from various secondary sources such as the annual reports of the selected banks and reports released by central banks, the GABV, and the BIS report. The dataset covers four years from December 2017 to December 2020. We limited the study period to this timeframe due to the unavailability of data as the VBI is a new concept in the Islamic banking sector and started in 2017. Therefore, the data were only collected from Islamic banks that were listed on a stock exchange and had been implementing VBI strategies in their banking activities.

The analysis was based on a sample of impact frontrunner banks that were members of the GABV and Islamic banks that apply VBI. The study's sample included 10 value-based Islamic banks from Bangladesh, Indonesia, and Malaysia. The reason for choosing these countries was based on the availability of Islamic banks that implemented VBI. Malaysia is the founder of the concept and the others have one or more banks that have adopted VBI as well as the GABV's value-based banking strategies. The sample size for the mainstream value-based banks (VBBs) and the global Systematically Important Banks (GSIBs) was based on the data available in the GABV database. Accordingly, the data for a total of 30 GSIBs and 52 value-based banks and banking cooperatives (VBBs) were extracted from the GABV database.

### *3.2. Variables and Econometric Models*

We used a time series analysis that covered the banks' activities from 2017 to 2020. The 2020 fiscal year's data enabled us to assess the impact of the COVID-19 pandemic on the performance of value-based Islamic banks. The three groups of banks were compared based on various performance parameters, including quality of capital, profitability, efficiency, and leverage (Basel III) [46]. As Basel I and II [47] have placed special emphasis on the capital adequacy of banks as an indicator of the safety of banks, we used the Tier 1 (core capital) ratio, total CAR, RWA, and equity-to-total assets ratios as the indicators of the banks' stability and resilience [24,48,49]. Parashar and Venkatesh [24] applied the combination of these variables and econometric models to compare the condition of Islamic banks with that of conventional banks during the global financial crisis. Accordingly, we used the same econometric models and parameters as used to assess the resilience of VBIBs to measure the conventional value-based banks.

Capital adequacy: The capital adequacy ratio (CAR) measures the amount of capital, based on the Basel III requirements, that banks should hold in relation to their total risk-weighted assets. It is the most important ratio for gauging the safety and soundness of a bank [24,49]. A comfortable CAR increases confidence in the safety and soundness of a bank, especially in times of crisis. The higher the CAR, the stronger the bank's stability, and the lower the probability of failure, and vice versa [6,32,50].

$$\text{Total CAR} = \frac{\text{Tier} - 1\ \text{Cap} + \text{Tier} - 2\ \text{Cap}}{\text{Risk} - \text{Weighted} - \text{Assets}\ (\text{RWA})} \tag{1}$$

$$\text{Tier 1 Capital Ratio} = \text{Core Capital} \div \text{RWA} \tag{2}$$

$$\text{RWA} = \text{Market Risks}\ (\text{RWA}) + \text{Credit Risk}\ (\text{RWA}) + \text{Operational Risk}\ (\text{RWA}) \tag{3}$$

Notably, a bank's risk weighted assets (RWA) are calculated by multiplying the exposure amount by the relevant risk weight for the type of loan or asset as per the Basel II and III standardized approach [46,47]. A bank repeats this calculation for all of its loans and assets and adds them together to calculate total credit risk-weighted assets.

- Equity to total Assets Ratio: A high degree of shareholders' equity used to finance the bank's assets decreases the bank's insolvency risk during times of crisis [48].

$$\text{Equity} - \text{to} - \text{Assets Ratio} = \text{Shareholdes}' \text{ Equity} \div \text{ Total Assets} \tag{4}$$

- Non-Performing Assets (NPL/NPA): Management of non-performing assets is key to the stability and continued viability of the banking sector. The ratio shows the extent of deterioration of the quality of loans granted by the banks. The NPL ratio is calculated by dividing the non-performing assets to Loans and advances [51].

$$\text{NPL (NIA)} = \text{Non} - \text{Performing Assets} \div \text{Loans (Advances)} \tag{5}$$

In general, the lower the ratio, the higher the bank's stability. The higher the ratio, the worse the quality of the assets, and, consequently, the higher the expected losses

Profitability and efficiency: We used the two standard and commonly used measures of profitability ratios, return on average assets (ROA) and return on average shareholder equity (ROE), to assess the returns provided by VBIBs to their clients, investors, and society [16,52,53]. The ROE ratio is an indicator of banks' overall profitability as it relates banks' net income to total capital. ROA is perhaps the most crucial single ratio in comparing banks' efficiency and operational performance as it considers the returns generated from the assets financed by the bank [24].

Return-on-Average Assets (ROA):

$$\text{ROA} = (\text{Net Income } \div \text{ Total Weighted Average Assets}) \times 100 \tag{6}$$

Return-on-Equity (ROE):

$$\text{ROE} = \left(\text{Net Income } \div \text{Weighted Average Shareholder}'\text{s Equity}\right) \times 100 \tag{7}$$

A high profitability suggests that banks are in a favorable position to increase their capital buffer in the immediate future, namely through retained earnings.

Cost-to-income ratio (CIR): The CR essentially belongs to the family of profitability ratios, and it provides a good overview of banks' operating efficiency as it compares operating costs with operating income.

$$\text{CIR} = (\text{Operating Costs } \div \text{ Operating Incomes}) \times 100 \tag{8}$$

Structure Ratios: Structure ratios are the other important indicators of banks' stability or resilience. They measure the level of various components of the assets by which banks finance the real economy [8,36]. The two most important parameters used in this case are: loans to total assets and deposits to total assets ratios [52]. It is also important to know the growth a bank achieves in total assets, equity, financing, and deposits to expand its impact in society. Therefore, in this study, Islamic banks were compared with the VBBs and GSIBs based on the growth rates of their assets, equity, deposits, deposits, and total revenue.

## 4. Results

### *4.1. Data Analysis and Descriptive Statistics*

The study was conducted based on a core set of soundness indicator variables to evaluate value-based Islamic banks. The data employed in the analysis represent different ratios for the four years from 2017 to 2020. Table 1 presents a summary of the descriptive statistics of all the variables used in the analysis.

As can be observed in Table 1, Islamic banks reported an average core capital (CER1) ratio of 14.90% and a total CAR of 18.40% during the study period, which are above the required capital adequacy ratio for banks according to Basel III requirements. Under Basel III, a bank's Tier I and Tier II capital should be at least 8% of its RWA, and the minimum CAR, including capital conservation buffer, should be 10.5% of the RWA (46). The average

RWA to total assets ratio was 58.23%, which also showed the highest standard deviation, 12.62%, compared to the variability in the other variables. They also reported an average equity-to-assets ratio of 10.82%. Furthermore, the descriptive statistics also showed that the Islamic banks were efficient in generating more returns per dollar of assets and equities employed in operation. The average values of their ROA and ROE throughout the study period were 1.14% and 10.26%, respectively.

**Table 1.** Descriptive Statistics for the Selected variables.

| | | Mean | SD | Median | Max | Min |
|---|---|---|---|---|---|---|
| Leverage and Capital Ratio | Equity to Asset | 10.82% | 3.30% | 9.83% | 18.75% | 6.16% |
| | RWA to Total Asset | 58.23% | 12.62% | 59.06% | 76.04% | 29.51% |
| | Tier 1 (CER1) | 14.90% | 3.62% | 14.31% | 22.33% | 8.51% |
| | CER | 18.40% | 2.87% | 18.40% | 24.14% | 11.50% |
| Return | ROA | 1.14% | 0.66% | 1.01% | 3.17% | 0.20% |
| | ROE | 10.26% | 3.74% | 10.05% | 16.42% | 2.10% |
| Efficiency | CIR | 54.55% | 10.60% | 54.50% | 82.00% | 32.03% |
| | NPL | 1.27% | 0.95% | 0.93% | 4.12% | 0.30% |
| Growth in | Assets | 6.11% | 5.79% | 5.58% | 24.12% | −10.05% |
| | Equity | 7.67% | 5.36% | 7.52% | 20.12% | −7.29% |
| | Deposits | 4.72% | 6.59% | 4.76% | 24.64% | −10.91% |
| | Financing/Loan | 5.71% | 5.25% | 5.99% | 16.39% | −6.21% |
| | Revenues | 4.16% | 10.46% | 3.66% | 23.14% | −28.20% |
| Asset Structure | Debt to Assets | 72.55% | 7.21% | 70.36% | 84.25% | 58.83% |
| | Debt to Equity | 7.32% | 2.41% | 7.11% | 13.52% | 4.07% |
| | Loans/Financing to Equity | 6.83% | 2.49% | 6.47% | 12.92% | 3.61% |
| | Loans/Financing to Assets | 66.92% | 6.44% | 64.84% | 84.96% | 56.52% |
| | Loans to Deposits | 92.60% | 7.73% | 91.90% | 108.17% | 72.81% |

Table 1 further shows that a large portion of the VBIBs' assets was invested in the real economy, as measured by the loans-to-assets ratio, which was 66.92% on average during the study period. The table also shows that the banks' balance sheet elements, including total assets, deposits, and loans, demonstrated a positive growth rate. The highest growth rate was reported for shareholders' equity, which was at 7.67% on average during the study period. Total revenue also grew at an average growth rate of 4.16%, although it also showed high variability. However, to reach a meaningful conclusion regarding the sustainability and performance of the VBIBs, we compared them with the VBBs and GSIBs based on the data collected for all periods instead of using a single figure.

### 4.2. Capital Adequacy

Since banks are heavily leveraged financial institutions, they must have enough capital to cover their RWAs. The capital adequacy ratio is most important during an economic crisis, as the ratio serves as a predictor of bank failure [49]. Other factors remaining the same, since financial crisis should adversely affect banks' CAR as the riskiness of assets tends to increase during a financial crisis. Banks' capital adequacy ratio indicates the banking system's strength in terms of capital adequacy to sustain the challenges of a crisis' adverse impacts.

As measured by total CAR and CET1 ratios, the risk-based capital ratio showed that VBIBs had a more robust capital level than the other banks. When looking at Tier 1 capital ratios, it is essential to consider the influence of RWA in the denominator. Both risk-based capital measures, common equity (Tier 1) ratio and CAR, increased during the study period for Islamic and VBBs. However, the CET1 ratio of Islamic banks has remained at least 1% above that of VBBs since 2017. Although the core capital ratio of GSIBs exhibited a constant decrease during the period, most of the time, it was above the VBBs' core capital level. Nevertheless, the figures in Table 2 show that all the banks held risk-based capital above the regulatory capital requirements, which reduced the systematic risk. Both Tier 1 and CER ratios remained, at all times, above the minimum regulatory requirements of 8% and 10.5%, respectively [54].

**Table 2.** Risk-weighted capital ratio (2017–2020).

| | **Tier 1 (CET1) Ratio** | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| VBIBs | 15.36% | 14.74% | 14.35% |
| VBBs | 14.3% | 13.5% | 12.70% |
| GSIBs | 14.1% | 14.3% | 15.30% |
| Basel III Requirement | 8% | 8% | 8% |
| | Equity to Total Assets Ratio | | |
| VBIBs | 11.20% | 10.69% | 10.52% |
| VBBs | 8.8% | 8.6% | 8.30% |
| GSIBs | 7.2% | 7.40% | 7.40% |
| | RWA to Total Assets Ratio | | |
| VBIBs | 57.72% | 59.13% | 60.05% |
| VBBs | 57.9% | 60.4% | 57.60% |
| GSIBs | 41.6% | 41.8% | 42.40% |
| | Total Capital Adequacy Ratio (CAR) | | |
| CAR (VBIBs) | 18.84% | 18.29% | 17.55% |
| Basel III Requirement | 10.5% | 10.5% | 10.5% |

When measured by equity-to-asset ratios, the figures indicated that Islamic banks had more vital capital positions than the mainstream VBBs and GSIBs (Figure 5). The equity/assets (E/A) ratios of the VBIBs constantly remained above the VBBs and GSIBs at least by 2% during the study period. The ratio was 10.52% in 2017 and reached 11.20% in 2019 before it declined again to 10.86% during the COVD-19 crisis in 2020. The strength of their E/A ratio positions them well for challenging economic conditions. From the asset structure point of view, holding higher equity levels did not reduce the banks' appetite for financing or lending.

The VBIBs also had a sound level of RWA compared to the GSIBs. However, except in 2017, the RWA ratio of the value-based Islamic banks was relatively lower than the VBBs' level of RWA (Table 2; Figure 5). In 2017, the VBIBs' level of RWA was 60.05% of their total assets (see Figure 6), which was higher than the 57.60% and 42.4% RWA of the VBBs and GSIBs, respectively. On the other hand, the GSIBs held the smallest level of RWA throughout the study period compared to the other two banks, which was equivalent to 41.6% of their total assets. In general, the RWA figures indicated that both Islamic banks and VBBs promote a healthier banking system as they significantly strengthened their capital compared to the GSIBs.

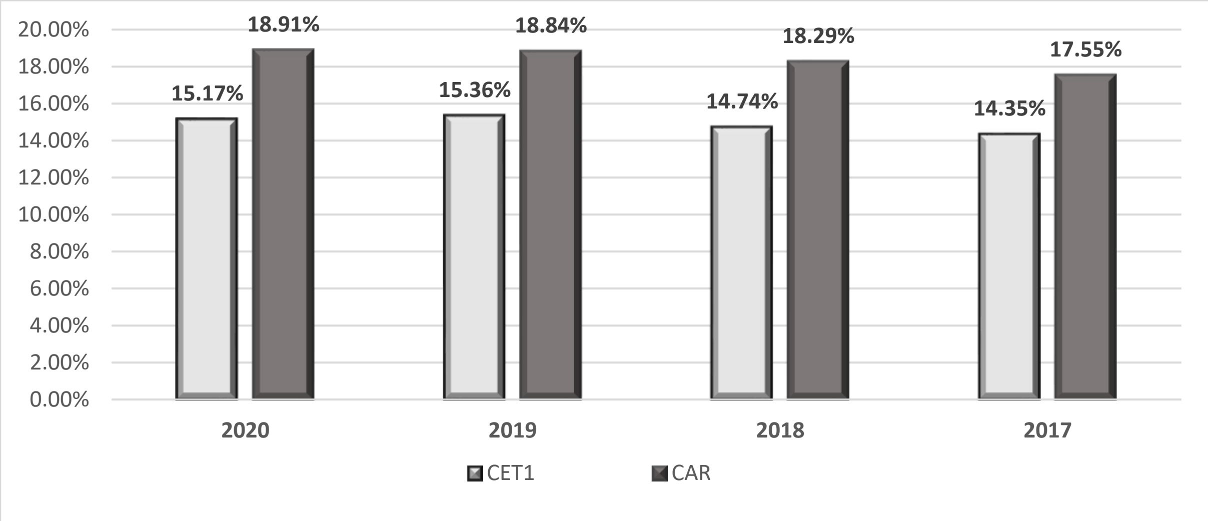


**Figure 5.** Capital Adequacy Ratios of Value-Based Islamic Banks (2017–2020). Source: Authors computation based on data from Annual Reports.

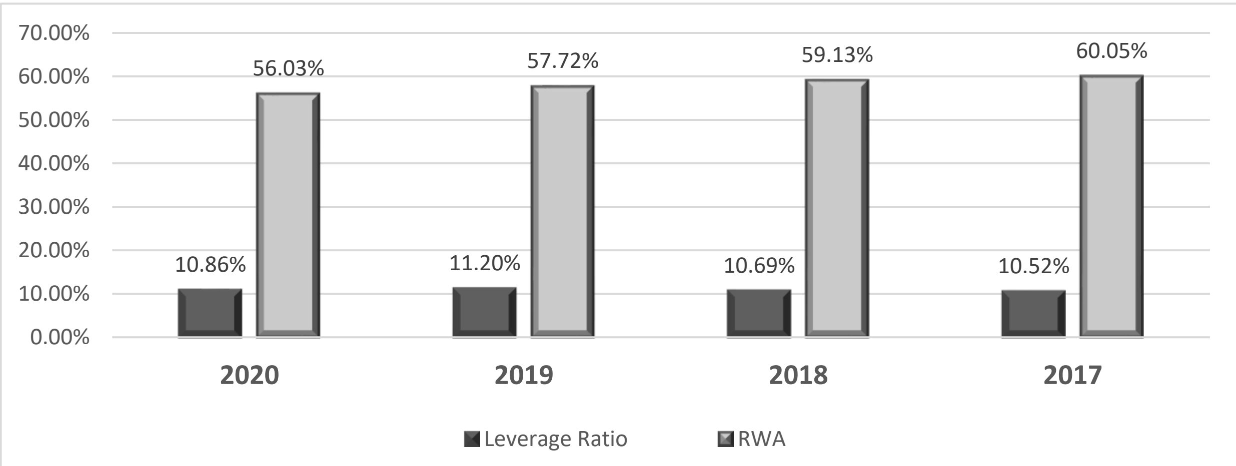


**Figure 6.** Leverage and RWA Ratios. Source: Authors' computation based on data from Annual Reports.

#### 4.2.1. Asset Structures

Regarding value-based banks' contributions to the real economy, it is not easy to sharply differentiate their banking activities in the financial and real economies as the disclosure about other activities that might be important is insufficient. However, based on certain assumptions and widely applicable techniques, the proportion of assets in the banks' balance sheets dedicated to lending can be used to determine the extent to which a bank finances the real economy. This approach has been applied in many empirical studies, including by the GABV, in distinguishing banking institutions' activities [17]. Accordingly, our analysis was based on the information related to lending (or financing for Islamic banks) and deposits as a proxy for distinguishing between banking institutions' financial and real economic related activities.

Based on the results presented in Table 3, we found that value-based banks still had a healthier capital structure that contributed to the real economy. It is clear from the table that, compared to the VBIBs and the GSIBs, the VBBs committed the highest portion of their assets, more than 72% of their total assets, throughout the study period to finance the real economy. Financing also remained the core activity for the VBIBs during the study periods as they devoted more than 67% of their assets to invest in the real economy (Figure 7). The VBIBs' loans to total assets ratio was significantly higher than that of the GSIBs, at 42.1%, which was the lowest ratio amongst the considered banks.

**Table 3.** Financing/advances and deposit ratios to total assets ratios (2017–2019).

| | Loans to Total Assets | | | Deposits to Total Assets | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| VBIBs | 67.57% | 67.55% | 66.69% | 71.49% | 73.56% | 74.20% |
| VBBs | 72.1% | 74.6% | 71.8% | 81.2% | 76.2% | 73.9% |
| GSIBs | 42.1% | 43.7% | 41.5% | 53.1% | 57.7% | 54.8% |

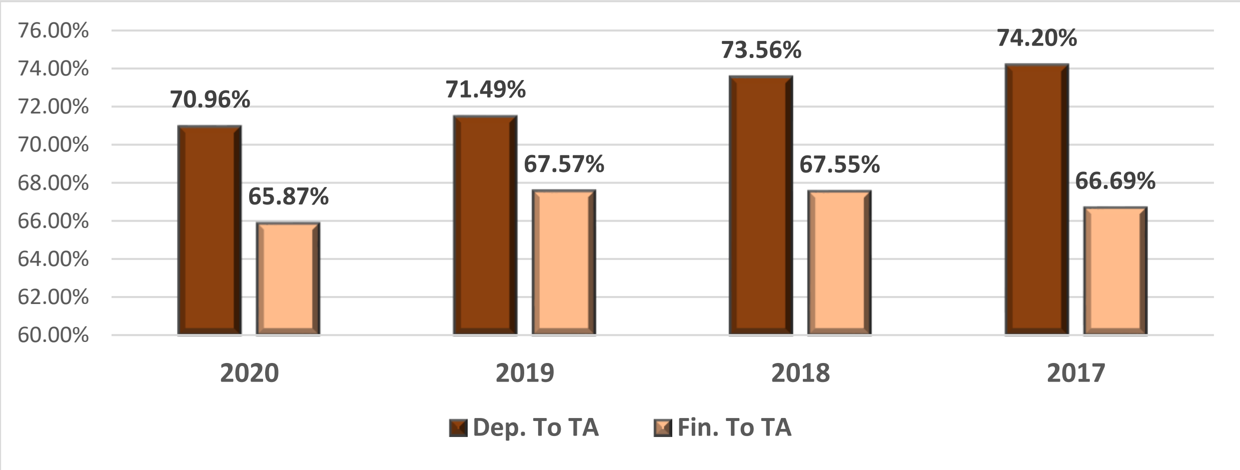


**Figure 7.** Financing/advances and deposit ratios to total assets ratios of value-based Islamic banks. Source: Authors' computation based on data from annual reports.

In addition to focusing on lending, value-based banks (VBBs) are also more dependent on customer money to finance their balance sheets than the VBIBs and GSIBs. Their deposits to total assets ratio was the highest amongst the considered banks both in 2018 and 2019, at 76.2% and 81.20%, respectively (Table 3). Unlike the VBIBs and GSIBs, their deposit to total asset ratio increased during the study period. The value-based Islamic banks' dependency on clients' deposits showed a slight decline during the study period, although it was much better than those of the GSIBs. In 2017, the VBIBs' deposit to total assets (D/A) ratio, 74.20%, was higher than the ratio reported by VBBs at 73.9%. However, in 2019, the D/A ratio of the VBBs was approximately 10% higher than that of the VBIBs. Some studies indicated that an increase in a bank's deposit balance might result from excess liquidity in the finance system [8,55]. This means that mainstream value-based banking had excess liquidity compared to the value-based Islamic banks. Relying on deposit-taking may also be evidence that VBBs concentrate on helping enterprises, individuals, and the economy's real needs.

The loan or financing quality of the VBIBs, as measured by nonperforming loans or the impairment ratio, was higher compared to the industry average during the study period. The sluggish economy due to COVID-19 and the impact from lockdowns was expected to cause poor funding growth, an increase in nonperforming loans, and a decrease in profit rates. However, in the selected value-based Islamic banks, the impact was not as expected. The VBIB's rate of NPL showed improvement, as it decreased from 1.26% in 2019 to 1.02% in 2020 (Table 4). Although the returns of these banks fell in 2020 due to the pandemic, they were still reasonably better than those of most banks. They also had a nearly constant and sound loan to deposit ratio of 92.60% throughout the study period. (see Figure 8).

**Table 4.** Financing-to-deposit ratio and nonperforming loans ratio (VBIBs).

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Financing to Deposit | 93.23% | 94.92% | 92.10% | 90.16% |
| Non-Performing Loans (NPL) | 1.02% | 1.26% | 1.33% | 1.45% |
| NPL (Industry Average) | 2.37% | 2.38% | 2.56% | 2.60% |

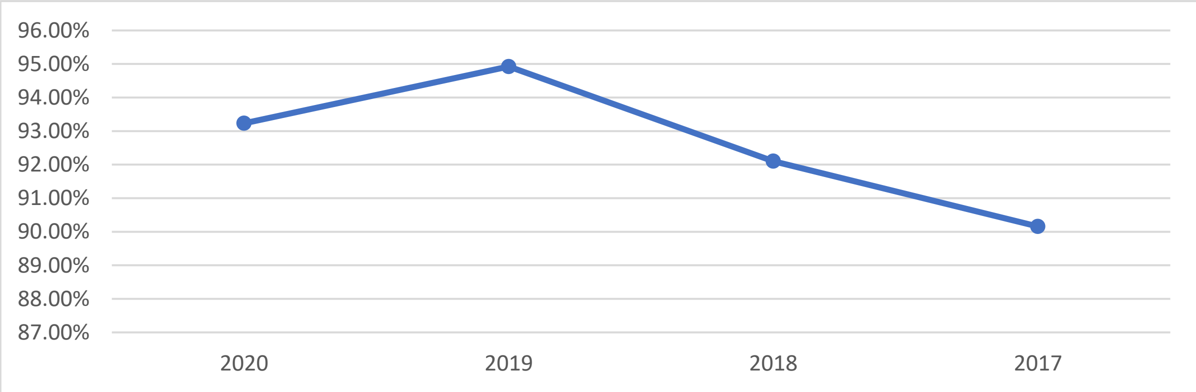


**Figure 8.** Financing/loans to Deposits Ratios (VBIBs). Source: Author's computation based on data from annual REPORTS.

#### 4.2.2. Returns and Efficiency

Value-based banking is based on the principle that banking activity is a combination of responsibility for society and making a reasonable profit. On their balance sheets, it appears that value-based banks focused on meeting societal needs. Thus, it was essential to determine whether they also provided acceptable returns to investors and other stakeholders. Table 5 shows that, as measured by ROA and ROE ratios, the value-based Islamic banks reported higher returns than the other two groups. Their average ROA ratio for the study period was 1.14% which is above the 0.73% average ROA of VBBs and 0.60% of GSIBs (Table 5). The VBIB's ROA increased from 1.29% in 2017 to 1.45% in 2018, the highest return during the study period. It was 1.42% in 2019, before it dropped to 1.02% in 2020 due to the COVID-19 pandemic (Table 6, Figure 9).

**Table 5.** Average Returns on Assets and Shareholders' Equity.

| Profitability | VBIBs | VBBs | GSIBs |
|---|---|---|---|
| Return-on-Assets (ROA), % (SD) | 1.14% (0.66%) | 0.73% (0.18%) | 0.60% (0.21%) |
| Return-on-Equity (ROE), % (SD) | 10.26% (3.74%) | 8.4% (2.1%) | 7.8% (2.9%) |

**Table 6.** Return on Assets and Shareholders' Equity (VBIBs).

| Profitability | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Return-on-Assets (ROA) | 1.02% | 1.42% | 1.45% | 1.29% |
| Return-on-Equity (ROE) | 10.41% | 13.12% | 13.78% | 12.85% |
| Cost to Income Ratio (CIR) | 54.18% | 54.82% | 54.16% | 55.02% |

Similarly, the ROE figures proved that Islamic banks exhibited higher performance during the study period. The average ROE ratio of VBIBs for the study period was 10.26%, which is again higher than the five-year average ROE of VBBs and GSIBs, which were 8.4% and 7.8%, respectively. However, the high returns of VBIBs were associated with a high volatility rate compared to that of the other banks. Figures in Table 5 confirm that the VBIBs had the highest volatility rate related to their ROA and ROE compared to VBBs and GSIBs.

The figures in Table 5 indicate that value-based strategies are more of a necessity than a choice from a risk management perspective. Since the value-based strategies promote transparency in the banking activities, the system enables all stakeholders to monitor the impacts of banking activities on the environment and society and to choose to bank with the most sustainable one.

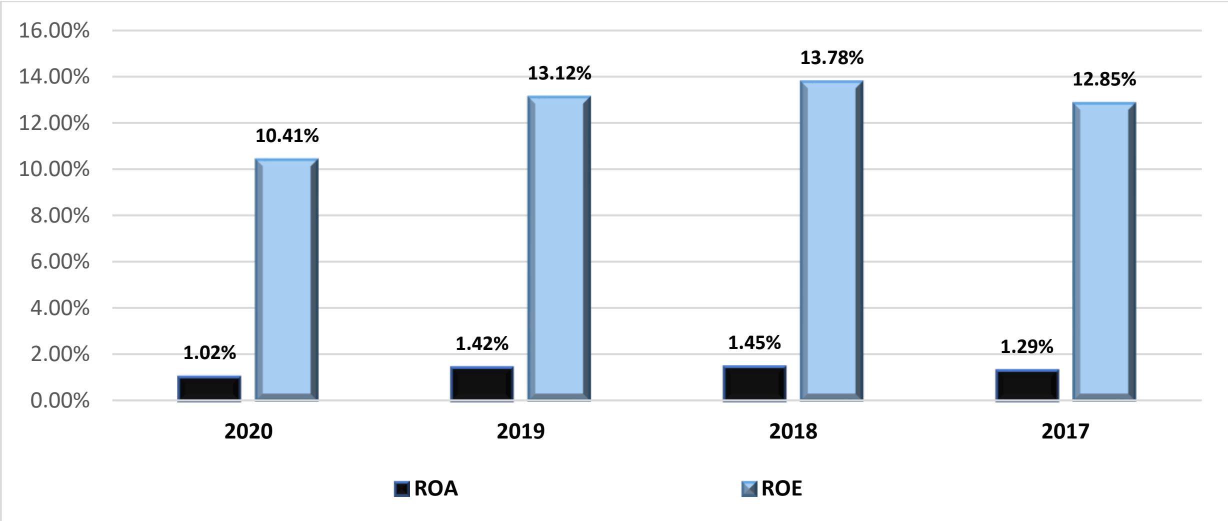


**Figure 9.** Average annual returns on assets and shareholders' equity (VBIBs). Source: Authors' calculation based on data collected from annual reports (annual returns).

#### 4.2.3. Growth in the Major Components of the Balance Sheet

The growth of value-based banks is essential for expanding their contribution to the real economy and creating wider impacts. Value-based banks reported a remarkable growth in their balance sheet components. Table 7 demonstrates marked differences between the VBIBs and the two mainstream banking groups. The value-based Islamic banks had growth rates in assets, shareholders' equity, deposits, loans, and total revenue that were only higher than GSIBs over the study period. Furthermore, these growths were less than those of the VBBs. The VBIBs' highest growth rate was reported for shareholders' equity, which was 7.67%, which is still below the 9.97% average equity growth rate of the VBBs.

**Table 7.** Average growth rates (2017–2019).

| | VBIBs | VBBs | GSIBs |
|---|---|---|---|
| Deposits | 4.72% | 7.4% | 2.6% |
| Loans | 5.71% | 9.5% | 3.1% |
| Assets | 6.11% | 9.9% | 1.5% |
| Equity | 7.67% | 9.7% | 2.7% |
| Revenues | 4.16% | 8.0% | −0.1% |

One element driving a comparatively higher growth for VBIBs and VBBs might be their relatively smaller scale compared to the GSIBs. The world's big banks, GSIBs, reported the lowest average growth rates, ranging from 3.1% to −0.1%, in all components of their balance sheets compared to the two value-based bank types (Table 7). For example, the average revenue growth rate for GSIBs was not only the least but also a negative rate, −0.1%. Another reason for this might be that as a result of sustainable and value-based banking movements, the big banks' customers have decided to shift their banking activities to more customer-centered banks, i.e., value-based banks.

## 5. Discussion

The empirical results showed that VBBs are more resilient and provide an immense contribution to the real economy, consistent with the shareholders' sustainable returns and long-term interests. Our findings are in line with those of Schäfer and Utz [56], who reported that VBBs exhibit significantly higher financial stability compared to GSIBs. The results should encourage Islamic banks to revise their strategies and learn from these banks' best practices related to designing value-based products, implementing, and monitoring. The nature of Shariah-compliant financing products and the risk-sharing principle promotes bank stability and sustainability and inclusiveness in the economy. Since Islamic banks are supposed to finance underlying assets, their stability and sustainability originates from their activities. The ultimate goals of the GABV principles and strategies are in line with the intended outcomes of Shariah, which include generating a positive and sustainable impact on the economy, community, and environment. Therefore, the value-based banking strategy can be regarded as a crucial opportunity to leverage Islamic banking activities to attain sustainable banking.

Islamic banks focus on the social aspects of their activities and their positive impacts on society, the economy, and the environment. Since the guidelines promote needs-based banking and their strategies promote mass banking, banking facilitates innovative products to be available for many people. The value-based strategies and principles adopted by the GABV aim toward overall development by ensuring financial inclusion, sustainable and inclusive growth, and socio-economic development by introducing modern and welfare-oriented banking products.

Therefore, blending the GABV principles or VBI strategies with Islamic finance principles enables the realization of the *Maqasid al-Shariah* in Islamic banking. By realizing *Maqasid al-Shariah,* Islamic banks can play a supportive role in developing a sustainable economy. Their Shariah-compliant products can deliver holistic value to all stakeholders and provide long- and short-term solutions during a crisis. They enable banks to create value for all stakeholders and prioritize needs in financing as per the Islamic Shariah. Through their various special investment products and schemes, they can work to uplift people's socio-economic status and address the special needs of particular groups.

The socio-economic dimension of value-based banks plays a significant role in finding sustainable solutions. Microfinance and other financial inclusion instruments play a significant role in changing the lives of millions of people worldwide. Most value-based banks and financial institutions are at the forefront of these innovations [34]: they provide economically viable banking options centered on society's needs, resulting in a more diverse financial ecosystem. The strategies also enable banks to create a strong link with entrepreneurs as they play a vital role in achieving the economic development and socio-economic well-being of society.

Reports and strategic papers released by the GABV and Bank Negara indicated that value-based business models help financial institutions to meet the real banking needs of enterprises and individuals in their communities. As suggested by Bank Negara, supporting entrepreneurs and community empowerment are two of the four essential pillars of the VBI. Thus, strategies enable value-based banks to facilitate entrepreneurial activities through financing, designing impact-based products to support entrepreneurs, providing advisory services and market structure, and creating a strong business network.

The content analysis of the VBIBs' annual reports demonstrated that VBI enables the banks to maximize their value to all stakeholders through establishing needs-based banking. Since product development and special investment schemes should be based on the needs of clients or society, value-based strategies also enable Islamic banks to substitute greed-based banking by establishing needs-based banking [57,58], for example, by embedding the strategies to enable Islamic banks to work continuously with or to finance needs-driven social finances, including micro-finance, which works to uplift the well-being of the society. Moreover, the VBI strategies enable Islamic banks to create financial solutions that have a socio-economic impact on various communities. VBIs propose innovative products and localized solutions to support the most vulnerable and excluded groups for various reasons, including lack of finances. These activities, at the same time, create business opportunities for Islamic banks. We think that value-based strategies will help Islamic banks introduce welfare-oriented banking, ensuring equity and justice in all their activities.

Furthermore, value-based banking has a comprehensive measurement system covering both financial and social indicators, increasing the balanced motivation to attain both short- and long-term goals. Accordingly, our study underlines the importance of convergence between value-based banking strategies and the Islamic finance principles to reshape the Islamic banking sector. It is vital to explore synergies between the GABV and Islamic finance principles to develop Shariah-compliant value-based strategies for Islamic banking institutions. This study proposes the formation of a Shariah-compliant value-based banking that will be guided by value-based strategies (Figure 10). Developing new value-based strategies based on Islamic finance principles and the GABV guidelines is important to optimize the impacts and sustainability of the Islamic banking system. Banks and financial institutions operating based on the new principles and strategies will have the characteristics of the mainstream value-based banks while being Shariah-compliant. As value-based principles are aligned with *Shariah*, integrating these core principles into the Islamic banking business operations is expected to significantly increase their positive impact on a broader range of stakeholders, and will improve the banks' sustainability and stability, and the financial system's ability to mitigate the impacts of future financial crises.

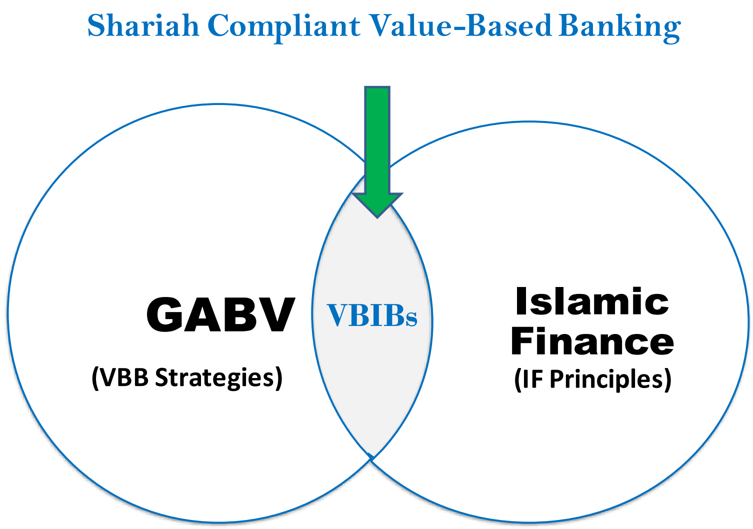


**Figure 10.** Converging VBB strategies with IF principles to enable *Maqasid al-ShariahVBIBs*, Value-Based Islamic banking. Source: Authors' conceptualization.

## 6. Conclusions

Islamic financial institutions can embrace value-based strategies while still meeting the expectations of governments, regulators, and the general public in their respective countries. However, value-based strategies implemented based on Islamic banks' interests alone may not produce the intended results. To reshape the Islamic banking sector based on value-based strategies and make it more sustainable and resilient to future crises, collaborative efforts and the initiatives of various stakeholders, including Islamic financial institutions' managers, board of directors, policymakers, fund managers, and market makers, are needed. The board of directors and management bodies of Islamic financial institutions need to show interest in implementing the recommendations set by initiators and policymakers.

Government interventions through different policies and incentives can accelerate the development and implementation of effective strategies that respond to the needs of society, the economy, and the environment. Regulators and policymakers should develop the necessary legal framework and implement policy measures to facilitate the development of value-based strategies and integrate those principles and strategies into Islamic financial institutions' activities. It is essential to move from policy divide to policy coherence and convergence to create an environment that enables the implementation of value-based strategies and guidelines globally in Islamic financial institutions. Regulatory authorities have set a precedent by requiring financial institutions to formalize and implement sustainable banking principles.

We think that fundamental research should be conducted to assess the social impact of VBI in detail. The studies should address the possibility of convergence between the GABV's principles and Islamic finance principles to develop more impactful Shariah-compliant value-based banking within the Islamic banking sector. Future research could use data envelopment analysis (DEA) [59,60] and other models to analyze differences regarding the social efficiency of Islamic banks and mainstream value-based banking. They should further study the impact of synergies in the short and long terms.

This study was carried out based on limited data and a limited study period due to the availability of data related to the VBIBs. The data analysis was restricted to a small number of Islamic banks selected from only three countries. The scope of the study should also include more than just the East Asian countries, and the sample size should be increased and more representative of the global Islamic banking sector. Thus, the forthcoming studies on this topic should be conducted based on more variables and a larger sample size selected from diverse geographical areas.

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