

Development of Performance Appraisal Sustainable Theory of Sharia Banks in Indonesia

Ahmad Sodik¹, Ririn Tri Ratnasari², Imron Mawardi³

¹Sharia Economics Doctoral Student - Faculty of Economics and Business- Universitas Airlangga- Indonesia

ahmad.sodik-2017@pasca.unair.ac.id

²Department of Sharia Economics-Faculty of Economics and Business-Universitas Airlangga-Indonesia, ririnsari@feb.unair.ac.id

³Department of Sharia Economics-Faculty of Economics and Business-Universitas Airlangga-Indonesia, ronmawardi@feb.unair.ac.id

Corresponding Authors: Ririn Tri Ratnasari

Department of Sharia Economics-Faculty of Economics and Business-Universitas Airlangga-Indonesia,

Email: ririnsari@feb.unair.ac.id

ABSTRACT

The development of performance appraisal sustainable theory in Indonesian Sharia Banks, vary considerably in accordance with systems, factors, impacts on organizations, etc. However, its existence of Sharia banks has spread more widely to the public due to the inception of the global era. Therefore, this study aims to develop a valid performance appraisal theory, which enables Sharia banks to effectively describe and implement strategies, guide employee behavior, assess managerial effectiveness and provide a basis for rewards. Data were obtained from previous literature studies in the Islamic bank performance appraisals before and after being transferred to the Financial Services Authority (OJK). The result showed that Sharia banks need to apply the performance appraisal concept by combining the external environment related to public welfare.

Keywords: Sharia Bank, Financial Services Authority (OJK), Performance Appraisal (PA)

Correspondence:

Ririn Tri Ratnasari

Department of Sharia Economics-Faculty of Economics and Business-Universitas Airlangga-Indonesia,

Email: ririnsari@feb.unair.ac.id

INTRODUCTION

The public recently realized the existence of Sharia banks, and this system has proven its flexibility in the ongoing global financial crisis. This is evidenced by the emergence of certain businesses such as Sharia Commercial Banks (BUS), Sharia Business Units (UUS) and Sharia Rural Financing Banks (BPRS). The growth of these assets has a significant trend related to the development of global Islamic finance. However, from 2000 to 2007, there was a yearly increase from 15 to 30% in the average growth of Sharia banks (Antonio, Sanrego & Taufiq, 2012). Nevertheless, most of the citizenry is unable to distinguish between the concept of profit sharing, interest rates and practices of this banking system from the conventional ones. This led to the numerous assumptions that they are similar (Ratnasari *et al.*, 2020).

Furthermore, to maintain the growth of Sharia banks, there needs to be a balance between its effectiveness building stakeholders' trust, as well as performing performance appraisal, which is a measurement system concerning the work capability of an organization under human resource management (Herianingrum *et al.*, 2019). This is observed from two perspectives, namely external and internal efficiencies both measured by the effectiveness of stakeholders and productivity, respectively. Conventional banks apply the traditional financial performance appraisal, the BSC and CAMELS Balanced Scorecard, which is centered on profit.

On the contrary, performance appraisal adopted by Sharia banks includes certain indicators such as the economy, environment, their role as a social organization and da'wah. Their activity needs to be beneficial to shareholders, the society and environment at large. There are at least four (4) Islamic values developed based on awareness and understanding of the subject matters related to performance appraisal, namely amanah, ihsan, muammalah and worship (Sedianingsih *et al.*, 2019). According to the Islamic perspective, performance

appraisal is referenced in the Qs. 59:18 which stated that all humans are rewarded by God in the hereafter based on their deeds while on earth.

Furthermore, the Sharia Maqasid Index model, proposed by Mohammed, Djulzastri and Taib (2008) was applied in this study. The Shariah Confortimy and Profitability Model (SCnP) approach was used in studies carried out by Kuppusamy, Saleh and Samudhram (2010). The proposed model is a combination of conventional and Sharia indicators. In addition, the performance appraisal is measured using the SCnP because it further elaborates on the income, Islamic profit sharing and investment (Ratnasari *et al.*, 2019). Conversely, Hameed, et. Al (2004) developed a performance appraisal model known as Islamic Indices, which is consisting of Islamicity Disclosure and Performance Indices.

Based on these explanations, it is expected of the public to understand the differences between Sharia and conventional banks. Sharia banks are part of an Islamic economic system aimed at realizing justice and other societal measures (Aisjah & Hadianto, 2013). According to Law Number 21 Article 3 of 2008, regulations related to this banking system support the implementation of national development to improve justice, equitable welfare and togetherness (Santoso *et al.*, 2020).

Consequently, before the Financial Services Authority was formed, Bank Indonesia carried out guidance and supervisory functions, irrespective, of the emergence of certain banking issues, for example, mergers, acquisitions or liquidation and bankruptcy or loss of competitiveness. However, cases such as the merging of Banks Multicor and Windu Kentjana (BWK), which ended with Bank Windu Kentjana Internasional Ltd being absolutely in control. This policy was implemented based on the provisions of BI, which is expected to have a core capital of IDR 45 billion (2006).

On 27th, October 2011, the Draft Law on Financial Services Authority (OJK) was enacted by the House of Representatives (DPR), and the government subsequently ratified law Number 21 on the 22nd, November 2011. According to the regulation, OJK is an independent establishment because its operational activities are carried out without the involvement of other financial institutions such as BI or savings and loan institutes.

Presently, the type of performance appraisal applied by this system of banking is dictated by the Financial Services Authority Regulation (POJK) Number 8 / POJK.03 / 2014 based on the health assessment of Sharia Commercial Banks (BUS) and Business Units (UUS). In accordance with the POJK, this health assessment is evident in several factors, such as risk profile, Good Corporate Governance, earnings and capital. Furthermore, it is obvious that POJK prioritizes profit, therefore, its objectives need to be considered in the Islamic social and economic elements to create a distributive order. The established performance appraisal system is consistent with Islamic jurisprudence, and its values are accepted because they are established from the main source (Adib & Khalid, 2010).

This study aims to analyze the development of the Performance Appraisal theory proposed in various studies, as well as its formation and regulation by the Financial Services Authority

LITERATURE REVIEW

Sharia Bank

In accordance with Article 1 paragraph 1 No. 10 of 1998, Sharia bank is defined as a business entity that obtains money from the public in the form of savings and distributes it to the community through the issuance of loans as well as other forms in order to improve the peoples' standard of living (Irman & Juventia, 2018). Bank operations vary in different countries, although there are certain similarities in the basic characteristics, such as the need to pay off an obligation (funds held by the public), liquid assets, difficulty in evaluating debt owned for an extremely long duration (Ratnasari *et al.*, 2020).

Sharia banking system is based on Islamic legal principles which reference the Al-Qur'an and Hadith (Sedianingsih *et al.*, 2018). It operates in accordance with the provisions of the law. For instance, transaction-related procedures do not include practices that involve interest rates in addition, investment activities are not based on profit sharing. The purpose of these banking systems, are as follows

- Directing the economic activities of the community based on Islamic doctrine.
- Realizing economic equity through income distribution and investment activities.
- Improving the quality of life in the community by creating more job opportunities.
- To overcome issues of poverty.
- Maintaining economic and monetary stability, as well as the dependence of Muslims on non-Islamic banks.

There is need for Sharia banks to collaborate with other national institutions by upholding the spirit of cooperation for the benefit of the community. This led to approximately 23.6% increase in banking profits. In 2006, IDR. 28.3 trillion was realized compared to IDR. 35,015 trillion obtained in 2007. Furthermore, there was an increase in total assets from IDR. 1,693.85 trillion in 2006 to IDR. 1986.5 trillion in 2007. The amount of loans disbursed in 2006 was IDR. 792.29 trillion, however, a significant increased of IDR. 1,002.01 trillion was recorded in 2007.

Ironically, 23.28% of loans were distributed to industries, while 5.39% was disbursed to fisheries and agriculture. However, in 2007 12.09 million workers were recorded in the industrial sector, compared to the 42.61 million agriculturalists. Imbalances were also recorded in credit distribution between the agricultural and property sectors. It was discovered that luxury apartments, were issued loans of IDR 33.069 billion, compared to the IDR 11.329 billion disbursed to the agricultural sector.

Financial Services Authority (OJK)

On the 27th October 2011, the OJK Draft Law was enacted by the DPR in accordance with formulated Law Number 21 dated 22nd, November, of the same year. The Financial Services Authority (OJK) is an independent entity, and its operational activities are carried out without the interference of other financial establishments such as Bank Indonesia and the Deposit Loan Institution. Article 69 paragraph (1) letter (a) Law no. 21 of 2011 states that the duties of Bank Indonesia which involve the regulations and supervisions of banks need to be transferred to the OJK, while the BI handles micro issues which focus on financial stability and mitigation of systemic risk (Herianingrum *et al.*, 2019).

OJK has a narrower scope of supervisor activities because it is directly limited to the supervision of specific institutions such as the capital market, insurance companies and pension funds, financial institutions, as well as other monetary service establishments. These are all based on the role of BAPEPAM-LK (Capital Market and Financial Institution Supervisory Agency), which involves regulating and supervising the capital market and the non-bank financial industry (IKNB). In addition, the OJK formation is based on the principles of independence, accountability, responsibility, transparency and fairness. It contains regulatory provisions and governance of authorized institutions and also supervises the financial services sector (Mustika *et al.*, 2020).

Practically, it protects consumers, specifically in relation to its regulatory and supervisory functions in fostering a partnership between Sharia financial institutions and consumers. OJK is a financial supervisory agency in Indonesia that requires attention because being adequately established in all aspects supports its existence (Ratnasari *et al.*, 2020). It maintains and supervises the activities of the Financial Stability Forum, non-banking institutions in accordance with the current structure, and banking establishment as authorized by the BI which is perceived as being similar to the central bank.

According to POJK Number 8 / POJK.03 / 2014 the accurate assessment of Sharia Commercial Banks (BUS) and Sharia Business Units (UUS), is stipulated by several factors, such as risk profile, Good Corporate Governance, earnings and capital. Furthermore, the POJK prioritizes profit and not social activities or da'wah.

Performance Appraisal

Performance appraisal is an important aspect of management, which is affected by several factors such as employee motivation, skills, training, intrinsic and extrinsic rewards, internal communication, work environment and organizational commitment (Saeed & Shah, 2016). It is a discrete, formal, organizational approved event, usually carried out once or twice a year. It also clearly illustrates the performance dimensions applied in the evaluation process. Furthermore, the measurement of this process is absolutely important because it involves the issues associated with evaluating motivation. An effective appraisal system involves the

ability of the assessor to accurately measure employee performance and motivation (DeNisi & Pritchard, 2006). Generally, bank performance is evaluated by financial ratios such as liquidity, profitability, capital adequacy, asset quality, etc. However, assessing the performance of Sharia bank is extremely complicated, both at the profitability level and its compliance with Islamic law (Ratnasari *et al.*, 2017). Based on this perspective, several criteria which indicate the objectives of the Islamic economic system is stated as follows

- Economic welfare within the framework of Islamic moral norms,
- Universal brotherhood and justice,
- Fair income distribution,
- Freedom of individuals in the social equality context,

Based on these, it was concluded that Sharia banks are not only financial institutions that serve consumers by securing their funds, however, they also play an essential role in strengthening social welfare. Subsequently, its performance appraisal measures integrate both financial and non-financial activities which reflects the objectives of the Islamic economic order and collaborates with public practices.

Performance Appraisal and Employee Performance

Performance appraisal and employee performance have an inseparable causal relationship. Assessments either individually or in groups are the center of attention in efforts to improve employee performance. The criteria for measuring tools for assessing employee performance are as follows (Robbins & Judge 2007):

1. Quality, the level to which the adjustment process is ideal when carrying out activities in accordance with what is expected.
2. Quantity, the amount that has been generated and realized as measured by money by the number of activity cycles that can be completed properly.
3. Timeliness, the level at which activities can be completed in a way that is faster than predetermined and maximizes the remaining time to do other activities.
4. Cost effectiveness, the achievement in which the utilization of the resources owned by the company such as human resources, technology and money is maximized to the fullest to get maximum results and reduce losses from each existing unit.
5. Need for supervision, the achievement by which a worker can perform his job without a request for help from his supervisor. Employees at this level will also feel confident, have a good desire and work together among colleagues.

The management of human resources will greatly determine how the performance achieved by the organization concerned shows that trust in managers will more or less have an influence on the social exchange process. Meanwhile, organizations that are considered successful need employees who want to do more than just formal daily tasks and want to work beyond what is expected. In this very dynamic world of work, where tasks are increasingly being carried out in teamwork, therefore flexibility is needed (Dharma, 2018).

Nasution & Rafiki (2019) explain that to improve employee performance it is not enough to only maximize one antecedent variable. There are many components that influence employee performance to increase

significantly. Xanthopoulou *et al.* (2009) good management should provide examples and a strong desire to form a strong culture within the organization / company that is being led by it.

Stairs *et al.* (2006) in their researchers recommend building quality relationships with colleagues because this has a significant effect on the level of employee engagement. Meanwhile the actions of a transformative leader can increase a positive socio-emotional climate so that it can affect employee engagement (Xanthopoulou *et al.*, 2009). Basically, the sense of engagement that is built in employees is a measure of the company's success in dealing with problems regarding human resource management (Buil, Martinez & Matute, 2018).

According to the research of Hayati & Caniogo (2012), although the research indirectly examines the variables regarding sharia engagement, the results of the research show that Islamic work ethics or work ethics that have a world and ukhrawi orientation have a big influence on job satisfaction which modernizes improve employee performance.

Therefore, performance appraisal which aims to improve employee performance must pay attention to variables concerning leadership, employee commitment, job satisfaction and employee engagement. As an institution that carries the concept of sharia, of course in its management, Islamic banks cannot be separated from the habits that are carried out. Because work culture is influenced by spiritual values or beliefs and rituals (Schein, 2004). Therefore, in examining the effect of the performance of Islamic banking, it is impossible to leave out the accompanying medical aspects.

Previous Research

Belsito & Reutzel (2020), reported that the formality of performance appraisal has a positive effect on trust in leadership (TIL) changes. Employees' perceptions concerning its utility, and procedural justice are positively related to changes in TIL. It was also discovered that this effect was mediated by the employees' satisfaction with the performance appraisal process.

Cappelli & Conyon (2017), stated that performance appraisal scores have a significant relationship with certain important job status, namely promotion and demotion. Changes in performance have a significant, positive and independent effect on this research results. The analysis shows an overview of the appraisal process as a functional job assignment. Conclusively, employment is related to economic valuation processes such as wage distribution, managers and those that have lost their jobs. According to research carried out by Widhiani (2018), the effect of the Sharia banks on shareholder trust shows that it strives to meet their interests, to boost their expectations. Furthermore, Sharia banks strive to improve their financial performance and compliance with Islamic law provisions in accordance with income, investment and profit-sharing.

Rana and Malik (2017) carried out research aimed to establish the impact of HR practices on organizational performance as well as moderate the effects of Islamic principles on Pakistani business. Secondly, the effectiveness of HR practices and Islamic teachings on business in Indonesia was also determined. This research results showed that there is an existent positive and significant relationship among certain HR practices, namely selection, training, compensation, performance appraisal and employee participation. In addition, moderation of Islamic principles is observed to be positive.

Idowu (2017) carried out a study which analyzes the effectiveness of performance appraisal on employee motivation. It was proven that the 360-degree performance appraisal system is quite effective in offering a comprehensive review of the performance of Shine Communications. This scale performs a useful role specifically in work tasks based on explicit and naturally quantifiable goals. Consequently, Shine Communications adopted both extrinsic and intrinsic motivations. Organizations need to adapt personal approaches to linking performance appraisals with rewards and incentives. This significantly contributes to boosting employee motivation and job satisfaction.

According to studies carried out by Farouk, Elanain, Obeidat and Al-Nahyan (2016), it was discovered that banks with strong governance mechanisms were able to curb the adverse effects of crisis related to market turmoil, and they showed better operating performance from 2009 onwards. It was also discovered that banks possessed better ownership structures, as well as higher operating income, particularly before and after the crisis.

Ashraf (2013) stated that the criteria for stock selection caused the IMF to generate an effective investment return during the economic slowdown period. Conversely, combining the superior stock-selecting capabilities and the negative market timing of conventional funds showed that the IMF offers investors better hedging opportunities during the economic crisis.

The difference between this research and previous ones is that the object of this study involves analyzing the development of performance appraisal theory proposed in different years by collecting library data.

METHODS

This study applied a library research method, which encompasses literature (library) texts in the form of books, notes and reports from previous studies.

Studi Limitations

The research limitation applies to the development of performance appraisal theories reported in previous studies carried out in different years as well as its formation and regulation by the Financial Services Authority (OJK).

RESULTS AND DISCUSSION

Based on research carried out by Allinson (1977), three essential findings concerning performance appraisal interviews were discovered. First, the participants undergoing training had improved in almost every aspect of the assessment; second, the interview was based on both essential skills, as well as understanding the role of performance appraisal, and finally, mid-career managers underwent frequent training sessions.

In 1978, Wilsted and Taylor (1978) discovered that emphasis on realistic training, performance feedback and natural curiosity rates improves expectations, and provides guidance for work behavior. Furthermore, in 1985, a certain study reported the critical problems involved in performance appraisal (Banner & Graber, 1985). This resulted in professional management development which required the involvement of political strategists, systems experts, appraisers, trainers, salespeople and catalysts to boost the potentials of appraisal performance.

In 1989, Gomez-Meija proposed a validation model designed to identify job-related performance appraisal dimensions for various groups of employees. Based on the data from this research, the system plays a significant role

in achieving the main objectives of performance appraisal, namely employee recruitment, low-contamination criteria for test validation purposes and reduction in psychometric errors.

Furthermore, Townley (1993) stated that it shows active managerial constitution while assessment describes the asymmetrical powers and improves capillary function. Schweiger & Sumners (1994) reported that in order to optimize performance appraisal, a carefully designed system is needed for evaluation, thereby providing the basis for improving the future performance of the internal audit department as well as ensures increased productivity.

Edmonstone (1996) stated that its purpose is to improve individual and organizational performance. It is desirable to design and implement a system which serves as part of a broader approach for performance management. Its enhancements are also used to address complex issues. On the contrary, Ahmed (1999) stated that effective measures need to be applied by the human resource management in order to boost the mission of the organization and employee support. In essence, this measure assesses functions, such as its contribution towards the organization's mission, including the promotion and achievement of goals. Their findings showed that although performance appraisal is widely practised as a function of support, it is an effective measure.

Meanwhile, Ahmad and Ali (2004) carried out research explaining the steps involved in performance appraisal practices by studying the cognitive processing model (CPM). Furthermore, Chang & Hahn (2006) reported that pay-for-performance has significant implications based on the perceptions of fairness among Korean employees. Therefore, company managers need to consider the implementation of committed performance appraisal practices.

Bard Kuvass (2007) stated that in order for performance appraisal to have a significant effect on employee behavior and future development, there is a need to experience positive assessment reactions. According to the research, the enhancement was unable to improve job performance. The relevant factors include affective commitment, intrinsic motivation and autonomy orientation, which moderate the relationship between performance appraisal development and work performance.

Caruth & Humphreys (2008) stated that an in-depth performance management system is beneficial to the organization and all stakeholders, as well as provides managerial and employee satisfaction and motivation. Meanwhile, Prowse & Prowse (2009) stated that performance appraisal provides great potential for employee feedback related to increased motivation, opportunities to clarify goals and long-term individual achievements as well as career development. According to an empirical study discovered by Barokava & Palvia (2010), performances associated with weak decline are strongly related to increasing executive turnover. This relationship was clearly evident in properly managed banks because they tend to engage in value-enhancing disciplinary actions.

Thurston Jr & McNall (2010) stated that procedures of fairness and social interactions have a significant effect on employees. In addition, these perceptions influence their attitudes and behavior. Procedural justice actualized through an effective appraisal system, fairness and information, is beneficial to the organization. Furthermore, Rowland & Hall (2012) designed the framework of organizational justice. The scoring system

has a significant impact on the earnings realized by different organizations. This affects the varying rewards and other benefits which serves as a means of justifying the allocation of tasks.

In accordance with the study carried out by [Ashraf \(2013\)](#), the screening criteria for the stock selection has proven that the IMF provides a better investment return during economic slowdown periods. However, a combination of the superior stock-selecting capabilities and the negative market timing of conventional funds showed that the IMF offers investors better hedging opportunities during the economic crisis. Furthermore, [Javad & Sumod S.D \(2015\)](#) stated that every appraisal process is intended to develop performance objectives during this period. Common problems that arise at this stage are inaccurate or incomplete definitions of skills as well as inappropriate measures. The performance appraisal system has three basic elements, namely, appraiser and rating methods. The research carried out by [Idowu \(2017\)](#) analyzes the effectiveness of the performance appraisal system and its effect on employees' motivation. It was further proven that the 360-degree approach is quite effective in delivering a comprehensive analysis of the performance of Shine Communications. This scale performs a useful role, particularly in work tasks based on explicit and naturally quantifiable goals. Subsequently, Shine Communications utilizes extrinsic and intrinsic motivations. Organizations need to adapt personal approaches to linking performance appraisals with rewards and incentives. This significantly contributes to boosting employees' motivation and satisfaction level.

[Cappelli & Conyon \(2017\)](#) reported that performance appraisal scores are positively related to an individual's job status, namely promotion and demotion. Although performance changes have a positive, significant, and independent effect on these research results. The analysis is an overview of the appraisal process as a functional job assignment. In conclusion, employment is related to economic valuation processes such as wage distribution, managers and those that have lost their jobs.

Several previous studies examined the performance assessment of Sharia banks in accordance with Islamic principles. Based on studies carried out by [Mohammed, Djulzastri, and Taib \(2008\)](#), a theoretical performance measurement model referred to as the Sharia Maqasid Index was designed. This index is divided into 3, namely individual education (tahdzib al-fard), justice (iqamah al-adl) and welfare of the people (maslahah). Firstly, individual education (maqasid) simply means the development of individual knowledge and experiences, which boosts spiritual values. Therefore, Sharia Bank needs to design educational and training programs with ethical values to enhance employees' knowledge and skills. It also provides the stakeholders which certain information in accordance with Islamic law.

Secondly, Maqashid, which implies justice means that Sharia Bank needs to guarantee honesty and fairness in transactions and commercial activities that include products, prices and contract terms. Furthermore, all contracts need to be free from unfair elements such as gambling, gharar, and usury. Thirdly maqasid is maslahah, which means that banks need to develop investment projects and social services to improve people's welfare. The ratios in this third scale are profit, transfer of personal income (zakat), and the investment in the real sector ([Ratnasari & Rahmandani, 2020](#)).

According to [Hameed *et al.* \(2014\)](#), performance appraisal provides other alternatives for Sharia banks, namely Islamicity Indices, which consists of Islamicity Disclosure and Performance Index. It aims to assist stakeholders in descriptively assessing the performance of Bank Islam Malaysia Berhad (BIMB) and Bahrain Islamic Bank (BIB). This index is also used to measure the performance of Sharia banks due to the increasing awareness of the Islamic community. Additionally, most Muslims have been able to realize that it is not only about the benefits obtained, rather it is paramount for them to understand where their money is invested ([Widiastuti *et al.*, 2019](#)).

The Islamicity Disclosure Index is used to test the effectiveness of Sharia banks in delivering useful information to the stakeholders. The primary indicators are sharia compliance, corporate governance, social and environmental factors. Meanwhile, the Islamic Performance Index is a method used to evaluate the performance of this banking system in terms of finance, fairness, and recommendations by Sharia commercial banks. It contains six financial ratios, such as profit sharing, zakat performance, equitable distribution, the welfare of board members and employees, including Islamic and non-Islamic related investments and income.

[Farouk, Elanain, Obeidat and Al-Nahyan \(2016\)](#) stated that banks with strong governance mechanisms were able to curb the adverse effects of the market turmoil, and they showed better operating performance from 2009 onwards. The research also shows that banks have an effective ownership structure, including higher operating income, particularly before and after the crisis.

The studies carried out by [Rana and Malik \(2017\)](#) was aimed to establish the impact of HR practices on organizational performance and the moderate effects of Islamic principles on Pakistani businesses. Subsequently, the effectiveness of HR practices and the effect of Islamic teachings on businesses in Indonesia were determined. This research results indicate that a positive and significant relationship exists between certain HR practices, such as selection, training, compensation, performance appraisal and employee participation. Furthermore, the moderation of Islamic principles is observed to be positive.

Consequently, before the formation of Financial Services Authority, Bank Indonesia supervised functions of Sharia banks, although, there were some banking related issues, namely, mergers, acquisitions or liquidation and bankruptcy or lose competitiveness. In addition, cases such as the merging of Bank Multicor and Bank Windu Kentjana (BWK) caused Bank Windu Kentjana International Ltd to be in charge. This was based on the policy enacted by BI, which stated that all banks is required to have a minimum core capital of IDR 80 billion and at that time BWK only had IDR 45 billion ([December 2006](#)). Another case which involved the Century Bank and various legal institutions in Indonesia concerning CAR benefits led to reduction of minus 3.53% in October. This shows that the supervisory activities carried out by Bank Indonesia is relatively weak.

On the 27th October 2011, the OJK Draft Law was enacted by the DPR in accordance with formulated Law Number 21 dated 22nd November, of the same year. It was stated that the Financial Services Authority (OJK) is an independent institution, and its operational activities do not include the interference of other financial establishments such as Bank Indonesia and the Deposit Loan Institution. According to Article 69, paragraph (1) letter (a) Law no. 21 of 2011, Bank Indonesia transferred its regulatory and

supervisory duties to OJK, in order to handle micro issues that focus on financial stability and mitigation of systemic risk. Although BI has a broader task related to economic growth, suppressing inflation by increasing interest rates, etc. OJK has the authority to handle minor cases which focuses on the performance of each banking institution. Its scope is limited to direct supervision of the capital market, insurance and pension establishments, and other financial service institutions. Furthermore, the role of BAPEPAM-LK in regulating and supervising the capital market and non-bank financial industry (IKNB) has also been transferred to the OJK.

In the POJK Number 8 / POJK.03 / 2014 concerning the healthy assessment of Sharia Commercial Banks (BUS) and Sharia Business Units (UUS), is stipulated by several factors, such as risk profile, Good Corporate Governance, earnings and capital. It is evident that POJK prioritizes profit, as well as considers the objectives of the Islamic social and economic elements.

It was concluded that Sharia banks need to establish a valid performance appraisal system, thereby, enabling them to describe and implement strategies efficiently, guide employee behavior, assess managerial effectiveness and provide the basis for rewards. Sharia Bank also needs to apply the concept of performance appraisal, which combines the external environment and community welfare.

CONCLUSION

Based on the research results, it was concluded that the development of performance appraisal theory was inconsistent with the research carried out by Allinson in 1977. Meanwhile, when Bank Indonesia handled its development, there were problems such as mergers and liquidations in certain banks, it was therefore concluded that the supervision was relatively weak. Although, since its transfer to the Financial Services Authority (OJK), it is expected that they continue to carry out supervision according to the stipulated procedures, in order to avoid cases of bankruptcy in the future.

REFERENCES

- Adib, Noval dan Siti-Nabiha Abdul Khalid. 2010. "Performance Measurement System in Islamic Bank: Some Issues and Considerations". *Jurnal Akuntansi Multiparadigma*, Volume 1, Issue 3.
- Ahmad & Ali. 2004. "Performance Appraisal Decision in Malaysian Public Service". *The International Journal of Public Sector Management*, Volume 17, Issue 1.
- Ahmed. 1999. "The Emerging Measure of Effectiveness for Human Resource Management an Exploratory Study with Performance Appraisal". *The Journal of Management Development*, Volume 18, Issue 6.
- Aisjah, Siti dan Agustian Eko Hadiano. 2013. Performance Based Islamic Performance Index (Study on the Bank Muamalat Indonesia and Bank Syariah Mandiri). *Asia-Pacific Management and Business Application*. University of Brawijaya Malang, Indonesia.
- Allinson. 1977. "Training in Performance Appraisal Interviewing: An Evaluation Study". *The Journal of Management Studies*.
- Antonio, Muhammad Syafii, Sanrego Yulizar D. dan Taufiq Muhammad. (2012). "An Analysis of Islamic Banking Performance: Maqashid Index Implementation in Indonesia and Jordania". *Journal of Islamic Finance*, Volume 1, Issue 1.
- Ashraf. 2013. "Performance evaluation of Islamic mutual funds relative to conventional funds Empirical evidence from Saudi Arabia". *International Journal of Islamic and Middle Eastern Finance and Management*, Volume 6, Issue 2.
- Banner & Graber. 1985. "Critical Issues in Performance Appraisal". *Journal of Management Developpnet*, Volume 4, Issue 1.
- Barakova & Palvia. 2010. "Limits to Relative Performance Evaluation: Evidence from Bank Executive Turnover". *Journal of Financial Economic Policy* Volume 2, Issue 3.
- Belsito & Reutzel. 2020. "SME Employee Performance Appraisal Formalization and Trust in Leadership Change".
- Buil, I., Martínez, E., & Matute, J. (2018), Transformational leadership and employee performance: The role of identification, engagement and proactive personality, *International Journal of Hospitality Management, elsevier*, 77(1), 64-75. <https://doi.org/10.1016/j.ijhm.2018.06.014>
- Capelli & Conyon. 2017. "What Do Performance Appraisals Do? *Industrial and Labor Relations Review*, DOI: 10.1177/0019793917698649.
- Caruth & Humphreys. 2008. "Performance Appraisal: Essential Characteristics for Strategic Control". *Measuring Business Excellence*, Volume 12, Issue 3.
- Chang & Hahn. 2006. "Does Pay-For-Performance Enhance Perceived Distributive Justice for Collectivistic Employees?". *Personnel Review*, Volume 35.
- Darul Kutub al-Ilmiyyah. Hameed, Shahul *et al.* 2004. "Alternative Disclosure and Performance Measures for Islamic Banks". Malaysia: IUM.
- DeNisi, Angelo S. & Robert D. Pritchard. 2006. "Performance Appraisal, Performance Management and Improving Individual Performance: A motivational Framework". *Management and Organization Review* 2:2. USA: Tulane University & University of Central Florida.
- Dharma, Y. (2018). The effect of work motivation on the employee performance with organization citizenship behavior as intervening variable at bank aceh syariah, Proceedings of MICoMS 2017 (Emerald Reach Proceedings Series), 1(1), 7-12, <https://doi.org/10.1108/978-1-78756-793-1-00065>.
- Edmonstone. 1996. "Appraising the State of Performance Appraisal". *Health Manpower Management*, Volume 22, Issue 6.
- Farouk, Elanain, Obeidat dan Al-Nahyan. 2016. "HRM practices and organizational performance in the UAE banking sector the mediating role of organizational innovation". *International Journal of Productivity and Performance Management*, Volume 65, Issue 6.
- Gomez-Mejia. 1989. "Performance Appraisal: Testing a Process Model". *Journal of Managerial Pshycology*, Volume 4, Issue 3.
- Hayati, K., & Caniogo, I. (2012), Islamic work ethic: the role of intrinsic motivation, job satisfaction, organizational commitment and job performance, *Procedia - Social and Behavioral Sciences, Elsevier*, 65(1), 272-277. DOI: 10.1016/j.sbspro.2012.11.122
- Herianingrum, Sri, Fitri Drasmawita, Ririn Tri Ratnasari, Hanif Fadlillah, (2019), The Social Function Of Imi's In The Exemption Of Micro Business Loans, *Journal of Opcion*, Volume 35, Issue 88.

23. Herianingrum, Sri, Ririn Tri Ratnasari, Tika Widiastuti, Imron Mawardi, Rachmi Cahya Amalia & Hanif Fadhlillah. (2019), The Impact of Islamic Bank Financing on Business, *Journal of Entrepreneurship and Sustainability Issues*, Volume 7 Number 1.
24. Idowu. 2017. "Effectiveness of Performance Appraisal System and its Effect on Employee Motivation". *Nile Journal of Business and Economics*, Volume 5.
25. Irman, Mimiellentesa & Angie Juventia. 2018. "Analysis of Banking Performance Differences Before and After the Appearance of OJK in 2011 Using CAMEL Method (Case Study on Banking Companies Listed on IDX Year 2006-2016)". *BILANCA* Vol. 2 No. 3: STIE Pelita Indonesia.
26. Javad & Sumod S.D. 2015. "It's Time to Bring Performance Appraisal into the Twenty-First Century". *Human Resource Management International Digest*, Volume 23, Issue 7.
27. Kuvaas, Bard. 2007. "Different Relationships Between Perceptions of Developmental Performance Appraisal and Work Performance". *Personnel Review*, Vol. 36
28. Laela, F Sugiyarti. 2014. "Dynamic Strategic-Fit dan Kinerja (Studi pada perbankan syariah)". *STEL. Jurnal Akuntansi dan Keuangan Indonesia*, Volume 11, Issue 1.
29. Mustika, Hindah, Anis Eliyana, Tri Siwi Agustina, Ririn Tri Ratnasari, (2020), Determinants of Innovation Capability in the Islamic Banking, *Journal of Sys Rev Pharm*, Volume 11, Issue 3.
30. Nasution, F. N., & Rafiki, A. (2019), Islamic work ethics, organizational commitment and job satisfaction of Islamic banks in Indonesia, *RAUSP Management Journal*, 55(2), 195-205. <https://doi.org/10.1108/RAUSP-01-2019-0011>
31. Parera, J.D. 2014. *Bank Indonesia, Bank Sentral Republik Indonesia, Suatu Pengantar, Penerbit-Pusat Pendidikan dan Studi Kebanksentralan (PPSK)* Bank Indonesia, Jakarta.
32. Peraturan Otoritas Jasa Keuangan Nomor 8/POJK.03/2014 tentang Penilaian Tingkat Kesehatan Bank Umum Syariah dan Unit Usaha Syariah.
33. Prowse & Prowse. 2009. "The Dilemma of Performance Appraisal". *Measuring Business Excellence*, Volume 13, Issue 4.
34. Ratnasari, Ririn Tri, Nadira Rahmandani, (2020), The Correlation of Financial Development on Energy Consumption: A Study Case in Indonesia, *Published by: The Mattingley Publishing Co., Inc.*, Volume 83, Issue March - April 2020.
35. Ratnasari, R.T., Gunawan, S., Mawardi, I. & Kirana, KC (2020), "Emotional experience on behavioral intention for halal tourism", *Journal of Islamic Marketing*, Vol. ahead-of-print.
36. Ratnasari, Ririn Tri, Sri Gunawan, Bayu Taufik Possumah, Sylva Alif Rusmita & Tika Widiastuti, (2019), Halal food certification for improving the competitiveness of small and medium enterprises, *Journal of Opcion*, Volume 35, Issue 22.
37. Ratnasari, Ririn Tri, Sri Gunawan, Moh Qudzi Fauzi & Dina Fitriasia Septiarini. (2017), Patient Intimacy and Innovation Development to Improve Health Service Performance, *International Journal of Engineering & Technology*, Volume 7, Issue 2.29.
38. Ratnasari, Ririn Tri, Sri Gunawanb, Jasmi bin Abu Talibc, Sri Herianingrumd, Tika Widiastutie & Dina Fitriasia Septiarini. (2020), The Moderating Effects of Gender between Patient Intimacy, Trust, and Loyalty, *International Journal of Innovation, Creativity and Change*, Volume 12, Issue 10.
39. Ratnasaria, Ririn Tri, Sri Gunawan, Dina Fitriasia Septiarinic, Sylva Alif Rusmitad & Kusuma Chandra Kiranae, (2020), Customer Satisfaction Between Perceptions of Environment Destination Brand and Behavioural Intention, *International Journal of Innovation, Creativity and Change*, Volume 10, Issue 12.
40. Robbins, S. P., & Judge, T. (2007). *Organizational behavior*. Upper Saddle River, N.J: Pearson/Prentice Hall.
41. Rowland & Hall. 2012. "Organizational Justice and Performance: is Appraisal Fair?". *EuroMed Journal of Business*, Volume 7, Issue 3.
42. Saeed, Sobia & Faiza Maqbool Shah. 2016. "Impact of Performance Appraisal on Employees Motivation in Islamic Banking". *Arabian Journal of Business and Management Review (OMAN Chapter)*, Volume 5, Issue 7.
43. Santoso, Adi, Erdawatib, Ririn Tri Ratnasari, Dyah Palupiningtyas & Muh. Yani Balaka, (2020), Determinants of Social Media Use by Handicraft Industry of Indonesia and Its Impact on Export and Marketing Performance: An Empirical Study, *International Journal of Innovation, Creativity and Change*. Volume 12, Issue 9, 2020
44. Schweiger & Sumners. 1994. "Optimizing the Value of Performance Appraisals". *Managerial Auditing Journal*. Volume 9, Issue 8.
45. Sedianingsih, Ririn Tri Ratnasari, Ari Prasetyo & Hendarjatno (2019), Antecedents recommendation and repurchase intention on medical tourism, *Journal of Opcion*, Volume 35, Issue 23.
46. Sedianingsih, Ririn Tri Ratnasari, Ari Prasetyo, Imron Mawardi, (2018), Determinant of Intention to Check-Up Back to Doctors at Public Hospital, *International Journal of Engineering & Technology*, Volume 7, Issue 3.21.
47. Thurston Jr & McNall. 2010. "Justice Perceptions of Performance Appraisal Practices". *Journal of Managerial Psychology* Volume 25, Issue 3.
48. Townley. 1993. "Performance Appraisal and the Emergence of Management". *Journal of Management Studies* 30:2.
49. UU Nomor 21 Tahun 2008 tentang Perbankan Syariah.
50. Widhiyani, Baiq Rahayu. (2018). "Pengaruh Kinerja Bank Syariah dengan Pendekatan Sharia Conformity and Profitability Model dan Dampaknya Terhadap Kepercayaan Stakeholder". *Journal Studi Akuntansi dan Keuangan*, Volume 1, Issue 1.
51. Widiastuti, Tika, Kusuma Chandra Kirana, Ririn Tri Ratnasari, Taqiyah Dinda Insani, Anidah Robani, (2019), Measuring The Corruption Measurement Model (Cmm) Based On Maqasid Shariah Framework, *Humanities & Social Sciences Reviews*, Volume 7, Issue 2.
52. Wilsted & Taylor. 1978. "Identifying Criteria for Performance Appraisal Decisions". *The Journal of Management Studies*.
53. Xanthopoulou, D., Bakker, A.B., Demerouti, E., & Schaufeli, W.B. (2009). Work engagement and financial returns: A diary study on the role of job and personal resources. *Journal of Occupational and Organizational Psychology*, 82(1), 183-200. <https://doi.org/10.1348/096317908X285633>