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A Performance Measurement Model for Islamic Banks Based on Falah

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Abstract

This study aims to develop a model of falah-based performance measurement for Islamic banks that evaluates financial performance and normative aspects in line with Islamic economic principles. The performance of Islamic banks in Indonesia is currently assessed using approaches such as capital ownership, risk, or financial ratios, which inadequately reflect sharia-compliant operations comprehensively. Therefore, a measurement methodology aligned with sharia values is required to evaluate Islamic bank performance. This study employs quantitative methods with a Multi-Criteria Decision-Making (MCDM) approach. Specifically, the two-phase multi-attribute decision-making approach is applied to rank the performance of the banks, while the Simple Additive Weighting (SAW) method is used for weighting and data aggregation. The population in this study consists of 10 Islamic commercial banks in Indonesia, evaluated using a falah-based performance measurement model developed under the Maqashid Syariah Index framework and referred to as the falah model. The findings reveal that BTPN Sharia Bank and TB Bukopin Sharia Bank exhibit outstanding performance with a falah score of 0,852504 and 0,835432. Meanwhile, Aladin Sharia Bank, Panin Dubai Sharia Bank, Aceh Sharia Bank, Muamalat Bank, and BJB Sharia Bank demonstrate exceptional performance. Additionally, Mega Sharia Bank achieves satisfactory performance. This study highlights the need for a comprehensive sharia-based performance evaluation to better reflect the operational objectives of Islamic banking institutions.

Keywords : Falah; Islamic Bank Performance; Sharia Banking.

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INTRODUCTION

The Islamic finance sector has shown consistent growth, which the expansion of the Indonesian sharia banking industry, including Islamic Banks (BUS, *Bank Umum Syariah*), Islamic Business Units (UUS, *Unit Usaha Syariah*), and BPRS, *Bank Pembiayaan Rakyat Syariah*) institutions have marked. As of April 2022, there were 15 BUS, 34 UUS, and 165 BPRS, with total BUS assets rising to IDR448.06 trillion from IDR399,89 trillion in 2021. UUS assets grew to IDR220.94 trillion, and BPRS assets increased to IDR14,9 trillion (Otoritas Jasa Keuangan, 2022). The Islamic financial sector's growth relies heavily on its banking professionals' performance. "Performance" encompasses actions such as executing tasks, fulfilling obligations, completing responsibilities, and meeting expected outcomes (The Scribner-Bantam, 1984).

According to Hersey and Blanchard (1988), performance depends on aptitude and drive. Effort alone is insufficient to complete a task without clear understanding and readiness (Blanchard et al., 1993). Schermerhorn defines performance as the quality and quantity of completed work by individuals, teams, or organizations (Schermerhorn, 2002). Nonetheless, Robbins argues that opportunity, motivation, and ability determine performance, stating that performance = □ (A x M x O) shows that opportunity, motivation, and ability determine performance (Robbins et al., 2014).

According to previous studies, banking performance is a description of the accomplishments made by the bank in its operations, including marketing and financial components (financing and landing), as well as technology and human resources (Mursyid & Lamtana, 2022; Mursyid et al., 2021). As a result, achieving performance is crucial since it shows how well the business can manage and distribute its resources to carry out its activities.

The approach of liquidity, profitability, solvency, and efficiency ratios, which are represented by financial ratios like ROA, ROE, BOPO, CAR, FDR, CAR, NPF, and others (Hanafia & Karim, 2020; Rufaidah et al., 2021; Subekti & Wardana, 2022; Zulvia, 2020), dominates research on performance measurement, especially in the banking industry, both sharia and conventional (Bikker & Bos, 2008). The findings consistently show that CAR, DPK, NPF, FDR, and FDR have an impact on ROA.

Performance measurement tools like CAMELS, financial ratio analysis (FRA), and risk-based bank ratings (RBBR) prioritize financial metrics and shareholder interests in both sharia and conventional banking. According to Badreldin (2009), the accuracy and reliability of the financial ratio approach utilized to assess the efficacy of Sharia Bank needs to be revised. In addition, using the financial ratio approach for measurement may cause partial or complete harm to the assessment of sharia bank performance (Antonio et al., 2012; Mohammed et al., 2008).

The proposal to modify the Islamic banking performance measurement mechanism is not without justification; Islamic banking differs significantly from conventional banking in a number of areas, including goals, functions, and operational traits that are largely unaffected by Islamic ethics (Ghauri, 2011; Maharani & Rahmawati, 2021). Other distinctions include the products that support the principles of justice and the Sharia Supervisory Board (DPS, *Dewan Pengawas Syariah*) to maintain and ensure sharia compliance (Mursyid, 2011). Conventional banking, rooted in 2000 BC Babylonia and Europe, predates Islamic banking, which began in Malaysia in the 1940s (Muhith, 2017; Suryani, 2012).

Muslim scholars have also made a number of attempts to alter the conventional paradigm for measurement, such as (Hameed et al., 2004) introducing the Islamicity Performance Index (IPI) method, (Mohammed et al., 2008) with the Maqashid Index (MI), (Kuppusamy et al., 2010) elaborating on the relationship between sharia adherence and financial success, which they named the Sharia/Islamic Conformity and Profitability (SCnP) method (Mursyid et al., 2021). Additionally, these scholars attempted to find solutions for evaluating the efficacy of sharia banks by extending research (Mohammed et al., 2008) by adding new sharia objectives (maqashid al-sharia), namely *falah* (well-being) alongside *tahdzib al fard* (personal development), *iqamah al'adl* (justice), and *jalb al maslahah* (public benefit).

However, over time, it is necessary to further revise research on falah in maqashid al-sharia as a novelty (Mursyid, 2020). The ultimate aim of a performance evaluation is falah, or, to put it another way, the highest standard for evaluating and quantifying the performance of Sharia Bank.

The verb *aflaha-yuflihu* wazan/scale from *af'ala-yuf'ilu* is the source of the word falah. Falah signifies triumph, achievement, or glory over the long haul—that is, triumph, success, or glory in this world as well as the next—meaning

that the objective must encompass not only the material realm but all facets and facets of life, including social, political, and economic (Khan, 1984). Falah and its derivation appear in forty verses, seventy percent of which deal with mandatory actions, and the other thirty percent with prohibitions in Al Qur'an.

The existing literature on banking performance, including Islamic banks, reveals several research gaps. Firstly, performance measurement is predominantly dominated by financial ratio approaches such as Return on Equity (ROE), Return on Asset (ROA), Capital Adequacy Ratio (CAR), and Non-Performing Financing (NPF) (Hanafia & Karim, 2020; Rufaidah et al., 2021; Subekti & Wardana, 2022; Zulvia, 2020), which prioritize financial metrics and shareholder interests while neglecting the broader ethical and normative dimensions crucial to Islamic banking. This highlights the inadequacy of conventional tools in evaluating sharia compliance and the holistic performance of Islamic banks. Secondly, despite the significant differences between Islamic and conventional banking in terms of objectives, functions, and operational characteristics, conventional metrics such as capital adequacy, assets, management capability, earnings, liquidity, sensitivity (CAMELS), and financial ratio analysis remain widely used. This underscores the need for sharia-specific performance metrics that align with Islamic values and principles, particularly those rooted in maqashid al-sharia. Thirdly, the incorporation of falah as the ultimate objective of Islamic banking remains underdeveloped, requiring further refinement to encompass all dimensions of sharia objectives, while concepts of the Islamicity Performance Index (IPI) and Maqashid Index (MI) have been previously introduced.

Additionally, existing frameworks often omit essential dimensions such as risk profile, earnings, and capital in the context of Islamic banking, leaving a gap in developing a comprehensive model. Lastly, current measurement tools fail to address the socioeconomic and spiritual objectives of Islamic banking, which aim to achieve not only financial success but also broader societal impact. These gaps underscore the need for a holistic performance evaluation framework that integrates financial, ethical, and spiritual dimensions, with falah as its core focus.

The study's failure is the addition of the Risk Profile dimension (Islam & Barghouthi, 2017; Sitasari, 2021; Toumi et al., 2011), Earnings (Akhtar et al., 2011; Asutay & Izhar, 2007; Javaid & Alalawi, 2018), and Capital (El-Ansary et al., 2019; Louati et al., 2015). The notion of bank performance assessment and

measurement is then extended by adding features to these three dimensions (Sekaran & Bougie, 2016). This research is necessary to monitor and evaluate perform of sharia banks and to add to the body of knowledge already in existence since falah is the ultimate objective of performance.

LITERATURE REVIEW

Agency Theory

The grand theory used in the research is Agency Theory, as introduced by Alchian and Demsetz (Mitnick, 2006) and Jensen and Meckling (Delves & Patrick, 2010). This theory explains the relationship between a principal (such as shareholders) and an agent (such as management), emphasizing the delegation of authority and decision-making. It highlights how agents are expected to act professionally to achieve optimal outcomes, such as profit maximization and cost efficiency, while addressing issues like fraud or misconduct.

This theory forms the foundation for understanding agents' behavior and responsibilities within the framework of Islamic banking, aligning with the unique ethical and operational principles of sharia compliance.

Performance of Sharia Banks

Performance is a specific accomplishment of a business during its operations that is measured every three, six, or yearly. Tyas (2020) asserts that financial performance indicates the firm's operational capacity to handle its finances more accurately. Financial ratios are used to view and assess performance, which may be considered an image of the accomplishment of undertaking actions.

Several studies related to Islamic banks' performance are evaluated using financial measures, including ROA, ROE, BOPO, CAR, FDR, CAR, NPF, and others (Hanafia & Karim, 2020; Rufaidah et al., 2021; Subekti & Wardana, 2022; Zulvia, 2020). Research evaluating Islamic banks' performance mostly focuses on these ratios (Bikker & Bos, 2008). According to the results, ROA is impacted by CAR, DPK, NPF, FDR, and FDR. Meanwhile, the research methodology is dominated by the financial assumptions approach, which is represented by the analysis of financial ratios, or FRA, and economic value added, or EVA, as well as the capital, assets, management, equity, liability, and sensitivity approach, also called the CAMELS method, and the most recent approach, RBBR.

Thus, most of the Islamic bank's operational activities are different from those of a non-sharia bank, and the establishment of a sharia bank was motivated by sharia. It is imperative that the financial ratios used to evaluate a bank's financial performance be replaced (Badreldin, 2009) with a more humanistic approach. This is because these ratios will seriously harm the assessment and measurement of Islamic bank performance in the current environment. Even when performance measurement is conducted using a sharia framework (PMMS), Islamic bank performance is still superior to conventional banks. However, an intriguing finding from Antonio et al. (2012) shows that Indonesian Sharia bank performs better compared to other Islamic banks in Jordan.

The Islamic Performance Index (IPI) was created by Hameed et al. (2004), Kuppusamy et al. (2010, and Mohammed et al. (2008). They also discussed an association between profitability and Sharia conformance, which led to the Sharia Conformity and Profitability (SCnP) method. Additionally, Mursyid et al. (2021) attempted to contribute to the process of assessing sharia banks' performance by conducting research, specifically by incorporating the sharia objective of falah in addition to other sharia objectives of Imam Abu Zahrah, such as tahdzib al-fard, iqamah al-'adl, and jalb al-maslahah.

Even though Jazil disregarded some of the study's findings, particularly regarding the interest-free income performance ratio, performance evaluation using these techniques reveals that no Islamic banks are operating profitably (Jazil, 2013).

The Hartono and Sobari (2017) study produced slightly different results, but it also strengthened earlier research and analyzed large banks' inconsistent treatment of smaller banks. Large banks tend to have lower maqashid indexes than BPRS and do not prioritize sharia objectives.

Falah

The verb aflaha-yuflihu wazan/scale from af'ala-yuf'ilu is the source of the word falah. Falah signifies triumph, achievement, or glory over the long haul—that is, triumph, success, or glory in this world as well as the next—meaning that the objective must encompass not only the material realm but all facets and facets of life, including social, political, and economic (Khan, 1984). Forty verses in the Qur'an contain the word falah or its derivatives: seventy percent deal with obligatory deeds, and thirty percent deal with prohibitions.

The development of the Maqashid Syariah Index performance measurement model (Antonio et al., 2012; Mohammed et al., 2008; Mursyid et al., 2021) by adding the risk profile dimension (Islam & Barghouthi, 2017; Sitasari, 2021; Toumi et al., 2011), earnings (Akhtar et al., 2011; Asutay & Izhar, 2007; Javaid & Alalawi, 2018), and capital (El-Ansary et al., 2019; Louati et al., 2015) is the research's failure. The notion of bank performance assessment and measurement is then extended by adding features to these three dimensions (Sekaran & Bougie, 2016). This study is required to track and assess Islamic banking's performance and contribute to the body of existing information since falah is the ultimate objective of performance. Thus, falah encompasses all facets of human existence, including spiritual, financial, cultural, and political.

According to Dali et al. (2015), evaluating growth in relation to Islamic norms is inappropriate when using the current and evolving growth model because the traditional method places greater emphasis on material concerns. On the other hand, Khan (1984) states that falah is both micro and macroeconomic well-being and triumph is the same. As a result, assessing the Islamic viewpoint is crucial to achieving falah, particularly for nations that are members of the Organisation of Islamic Cooperation (OIC, Organisasi Kerja Sama Islam).

Performance Based on Falah

Muslim academics have also attempted to change the traditional paradigm for measurement in a number of ways (Mursyid et al., 2021). For example, Hameed et al. (2004) found the IPI method, Mohammed et al. (2008) brought the Maqashid Index (MI), and Kupusamy et al. (2010) elaborated on the connection between profitability, sharia compliance utilizing, Sharia Compliance, and Financial Gains (SCnP) technique. Furthermore, by including falah alongside tahdzib al-fard, iqomah al-'adl, and jalb al-maslahah as new sharia aims (maqashid al-sharia), these scholars are trying to add to the current study (Mohammed et al., 2008).

However, over time, it is necessary to further revise research on falah in maqashid al-sharia as a novelty (Mursyid, 2020). The aim of a performance evaluation is to falah, or, to put it another way, the highest standard for evaluating and quantifying the performance of Sharia Bank.

Researchers have not extensively studied falah-based performance measurement, or more precisely, how Islamic banking performs, except for a few studies that attempt to pinpoint the variables that affect falah. For example, the investigation by Razak et al. (2019) and several studies such as Fatimah-Salwa et al. (2013), Wahab and Rafiki (2014) use non-financial indicators to represent success in addition to non-financial performance (social environment) and also use a parametric approach to show whether or not there is a significant relationship in all factors.

The research by Barom (2018*)* defines falah using three activities, including (1) obedient behavior is written in QS 64:16 and 31:4-5, which also contribute to the measurement of falah, (2) altruistic behavior, or the disposition to be helpful to others, is written in QS 3:130 and 5:90, (3) sacrificial behavior (the attitude of being willing to sacrifice) is included in QS 5: 100, 59: 9 92: 17–21, and 3: 104.

However, the definition of falah is only mentioned as normative—that is, as the equilibrium between this world and the hereafter (Aqbar et al., 2020; Daud & Sulaiman, 2020; Nasrulloh, 2021). There is no further analysis of the concept, except for the falah philosophy, which calls for a Moeslem to orient toward maslahah for each micro and macro stuff.

This study aims to close the knowledge gap regarding falah-oriented measures of sharia banking's efficacy. Specifically, it aims to support the evaluation of Sharia banking performance conducted by several Muslim scholars using various approaches, including the IPI, index of maqasid, Islamic profitability, and conformity methods.

The finding undertaken by Mohammed et al. (2008) served as the basis for this study, which was expanded upon by Mursyid and Lamtana (2022) and Mursyid et al. (2021) by incorporating falah as a new sharia objective. However, research with maqashid al-sharia of falah needs to be revised further as a novelty (Mursyid & Lamtana, 2022; Mursyid et al., 2021). In this context, falah is the goal of a performance assessment rather than a component of maqashid al-sharia; in other words, it is the peak achievement of the evaluation and measurement of Islamic bank performance. As mentioned in several studies (Islam & Barghouthi, 2017; Sitasari, 2021; Toumi et al., 2011) regarding earnings (Akhtar et al., 2011; Asutay & Izhar, 2007; Javaid & Alalawi, 2018) and capital (El-Ansary et al., 2019; Louati et al., 2015), this investigation also adds the dimension of risk profile. The factors that

make up these three dimensions are then expanded; thus, the idea may be used to measure and evaluate bank performance (Sekaran & Bougie, 2016).

Falah signifies long-term success, triumph, or honor, encompassing the world and the afterlife. Consequently, the objective is not limited to the material realm but encompasses all social, economic, and political facets (Khan, 1984). The term falah and its derivatives are present in 40 verses of the Qur'an. Approximately 30% of the commandments are in the form of nahi (prohibition), while 70% are in the form of 'amar (commandments that must be fulfilled).

RESEARCH METHOD

Data Source

The yearly reports from BUS in Indonesia for the years 2020–2022 that were retrieved from each bank's website serve as the study's data source.

Population and Sample

As of January 2023, every Sharia Bank in Indonesia is concerned about the investigation population. The researcher employed sampling in this study due to research restrictions, including access to financial records, completeness of data on all variables, comprehensive/comprehensive elements, and representativeness. These samples, Muamalat Bank, Mega Sharia Bank, Sharia Bukopin Bank, Panin Dubai Sharia Bank, Jabar Banten Sharia Bank, Aladin Sharia Bank, BCA Sharia, Victoria Sharia, BTPN Sharia, and Aceh Sharia Bank, were obtained by the application of purposive sampling technique.

Data Analysis Techniques

The weighting procedure, aggregation or summation, uses The Simple Additive Weighting Method (SAW) as the data analysis technique. Ascarya (2016) states that the SAW method was selected because it yields a more accurate concept of falah in the Islamic Bank compared to other methodologies like the Bedoui and Mansur (2015)'s method of five-point pentagon-shaped maqasid al-shari'ah performance. The ranking, on the other hand, makes use of the fundamental ideas of the two-phase multi-attribute decision-making approach, which is a technique for selecting the best option among several options based

on specific criteria. The integrated methodology used in this research step uses the TOPSIS (Technique for Order Performance by Similarity-to Solution) method and the fuzzy-heuristic multi-attribute utility method (Budianto, 2016; Chan et al., 2018; Junior et al., 2014). This study used the Sekaran idea, which translates the concept (C) or objective (O) into behavior that can be evaluated and observed to measure every attribute of falah so that it can be quantified. The following graphic illustrates the Sekaran and Bougie concept:

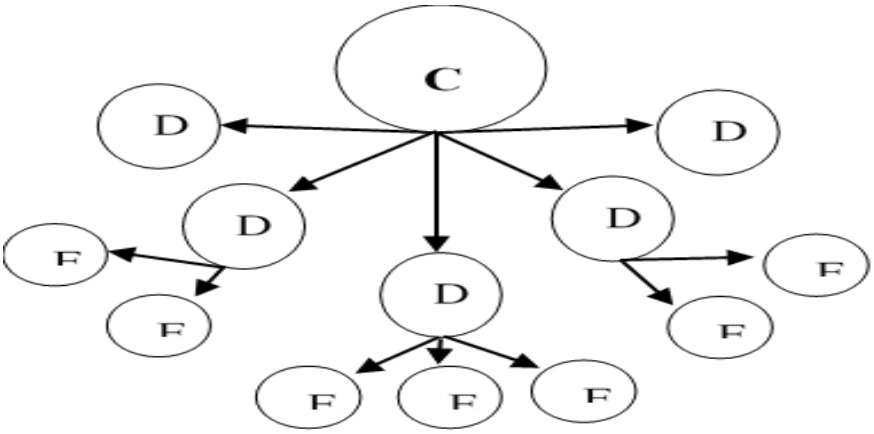

Figure 1: Current Concept

Verification of Falah Variabel

Falah Assessment Weight Formulation

The researcher initially evaluated the weight based on the opinions and judgments of many parties that the researcher deemed experts (expert judgment) to assess Islamic institutions' effectiveness by utilizing falah. These parties are the Islamic banking practitioners and academics, *Otoritas-Jasa-Keuangan* (OJK, Financial Services Authority), *Dewan Syariah Nasional – Majelis Ulama Indonesia* (DSN-MUI, National Sharia Board of the Indonesian Ulama Council), and *Dewan Pengawas Syariah* (DPS, Sharia Supervisory Board) of Islamic banks. In addition, Figure 2 presents the weighting assessment results, consisting of two DSN-MUI representatives, three DPS representatives, two OJK representatives, eight academics each from UIN Sunan-Kalijaga in Yogyakarta, UIN Syarif-Hidayatullah in Jakarta, STIQ Jakarta, UGM Yogyakarta, Universitas Islam

Indonesia Yogyakarta, UIN Antasari Banjarmasin, UIN Samarinda, and Mulawarman University Samarinda, and sixteen Islamic banking bankers have offered suggestions and opinions.

Tahdzib al-Fard (Education Individuals) = Objective 1 (T1)
IK from T1 is as follows:

$IK\ (T_1) = W_1^1 \times E_1^1 \times R_1^1 \times W_1^1 \times E_1^2 \times R_1^2 + W_1^1 \times E_1^3 \times R_1^3 + W_1^1 \times E_1^4 \times R_1^4$ (3.1)

Where:

T_1 = The initial goal of the Maqashid Shariah (Tahdzib al-Fard)
W_1^1 = For the initial objective, the average weight (Tahdzib al-Fard)
E_1^1 = The weight of the first element of objective 1 on average (education)
E_2^1= The weight of the second element of objective 1 on average 1
E_3^1 = The weight of the third element of objective 1 on average
E_4^1= The weight of the fourth element of objective 1 on average
R_1^1= Ratio of performance for the initial component of objective 1
R_2^1 = The second element of objective 1's performance ratio
R_3^1= The third element of objective 1's performance ratio
R_4^1= The fourth element of objective 1's performance ratio

So that $IK\ (T1) = IK_1^1 + IK_2^1 + IK_3^1 + IK_4^1$ (3.2)
Where:
$IK_1^1 = W_1^1 \times E_1^1 \times R_1^1$ (3.3)
$IK_1^2 = W_1^1 \times E_1^2 \times R_1^2$ (3.4)
$IK_1^3 = W_1^1 \times E_1^3 \times R_1^3$ (3.5)
$IK_1^4 = W_1^1 \times E_1^4 \times R_1^4$ (3.6)
Iqamah al-'Adl (Upholding Justice) = Objective 2 (T2)
The IK for Objective 2 is as follows:
$IK\ (T2) = W_2^2 \times E_2^1 \times R_2^1 + W_2^2 \times E_2^2 \times R_2^3 + W_2^2 \times E_2^3 \times R_2^3$ (3.7)
So that $IK\ (T2) = IK_1^2 + IK_2^2 + IK_3^2$ (3.8)
Where,
$IK_2^1 = W_2^2 \times E_2^1 \times R_2^1$ (3.9)
$IK_2^2 = W_2^2 \times E_2^2 \times R_2^2$ (3.10)
$IK_2^3 = W_2^2 \times E_2^3 \times R_2^3$ (3.11)
Jalb al-Maslahah (Public Interest) = Objective 3 (T3)
The IK for Objective 3 is as follows:
$IK\ (T3) = W_3^3 \times E_3^1 \times R_3^1 + W_3^3 \times E_3^2 \times R_3^2 + W_3^3 \times E_3^3 \times R_3^3$ (3.12)
So that $IK\ (3) = IK_1^3 + IK2^3 + IK_3^3$ (3.13)
Where:
$IK_3^1 = W_3^3 \times E_3^1 \times R_3^1$ (3.14)
$IK_3^2 = W_3^3 \times E_3^2 \times R_3^2$ (3.15)
$IK_3^3 = W_3^3 \times E_3^3 \times R_3^3$ (3.16)
Falah = Objective 4 (T4)
The IK for Objective 4 is as follows:
$IK\ (T4) = W_4^4 \times E_4^1 \times R_4^1 + W_4^4 \times E_4^2 \times R_4^2 + W_4^4 \times E_4^3 \times R_4^3$ (3.17)
So that $IK\ (4) = IK_1^4 + IK_2^4 + IK_3^4$ (3.18)
Where:
$IK_4^1 = W_4^4 \times E_4^1 \times R_4^1$ (3.19)
$IK_4^2 = W_4^4 \times E_4^2 \times R_4^2$ (3.20)
$IK_4^3 = W_4^4 \times E_4^3 \times R_4^3$ (3.21)

Figure 2: The Formula of Performance Measurement Model for Islamic Banks based on the Falah Concept

Determination of Falah for BUS

The next step in figuring out each BUS's falah is, to sum up all of the performance indicators so that the falah may be represented by the equation that follows:

***FALAH* = IK 1 + IK 2 + IK 3 + IK 4 + IK 5 + IK 6**

Thus, falah is the total number of IK 1 to IK 6. Furthermore, the falah value is reprocessed to mean very poor, poor, sufficient, good, and very good (Chan et al., 2018; Kahraman et al., 2007).

Development of the Falah

Mursyid (2020) conducted research that included the adoption of the Maqasid Syariah Index (IMS) as the measuring instrument in question. As shown in Table 2, the measurement device is created by providing weights derived from expert judgment in an effort to decide the evaluation score of the objects (falah) and elements:

Table 1: Falah Measuring Instrument

Falah	Skor (rata-rata)	Elemen (E)	Skor (rata-rata)
Tahdzib al-Fard (Education)	0,17	E1. Educational Assistance	0,25
		E2. Research	0,24
		E3. Training	0,26
		E4. Publication	0,25
		Total	**1**
Iqamah al-'Adl (Justice)	0,17	E5. Fair Return	0,33
		E6. Distributional Function	0,33
		E7. Interes-Free Product	0,34
		Total	**1**
Jalb al-Maslahah (Public Interest)	0,18	E8. Profit Ratio	0,34
		E9. Individual Income	0,33

		E10. The Investment Ratio in The Real Sector	0,33
		Total	**1**
Risk Profile	0,15	E11. Credit Risk	0,33
		E12. Liquidity Risk	0,34
		E13. Operational Risk	0,33
		Total	**1**
Earnings	0,16	E14. ROA	0,34
		E15. NOM	0,33
		E16. BOPO	0,33
		Total	1
Capital	0,17	E17. CAR	0,34
		E18. Core Capital (Tier 1)	0,33
		E19. Core Capital	0,33
		Total	**1**
Total	**1**		

Analysis of Islamic Bank Performance as Measured by Falah

Analysis shows that general banks are based on the falah evaluation of ten sharia general banks. Calculating the assessment score involves multiplying the average object weight by the average element weight and performance ratio, as per the previously provided data. The formula used in the score assessment is W x E x R. Falah is a metric that is used to ascertain the extent to which an Islamic bank implements each falah that has been established. The scores acquired by each BUS on each element of assessment performance, which is either high or low, serve as an indicator of the BUS's effectiveness in implementing and attaining falah. The scores obtained from the measurement and appraisal of falah performance are presented in the appendix.

RESULTS AND DISCUSSION

Results

Before outlining the results, here is a list of bank codes in this study:

BAS (Bank Aladin Syariah), BVC (Victoria Sharia Bank), BM (Muamalat Bank), BPDB (Panin Dubai Sharia Bank), BAcS (Aceh Sharia Bank), BTPNS (BTPN Sharia), BJBS (BJB Sharia), BMS (Mega Sharia Bank), BCAS (BCA Sharia), dan BSB (Bukopin Sharia Bank).

In part, the falah measurement model was employed to determine the BUS scores and rankings:

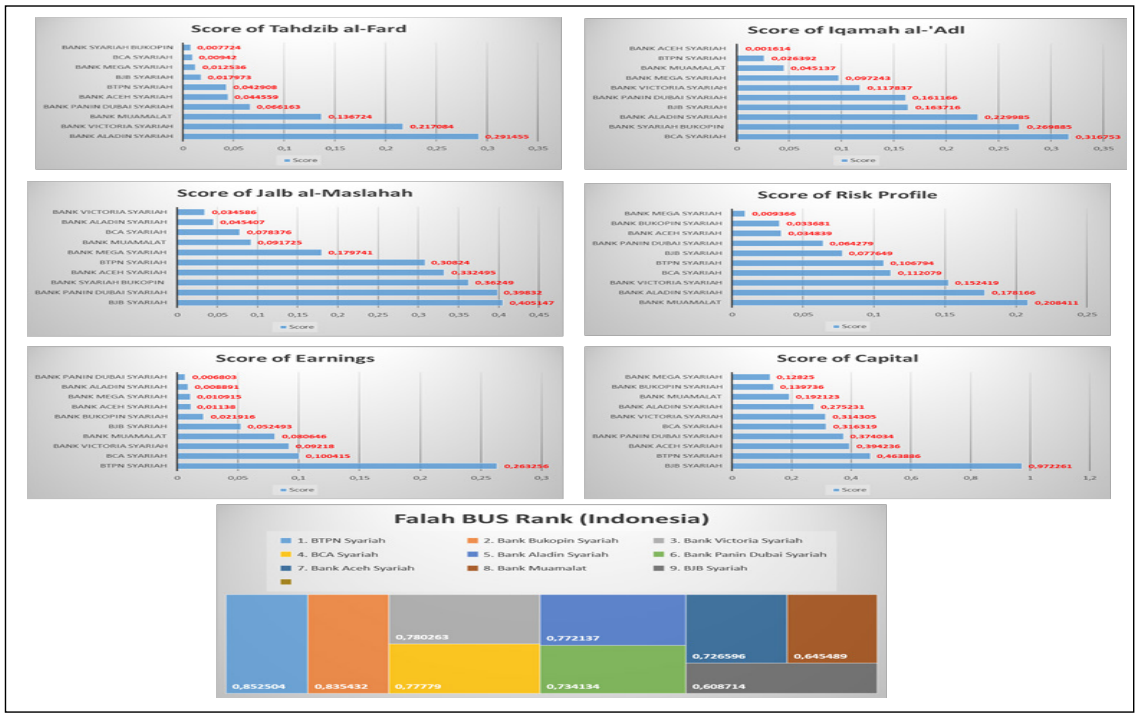

Figure 3 *BUS ranking based on Falah Measurement Model*

The data in Figure 3 indicates that Bank Aladin Syariah is the top-ranked institution in the category of tahzib al-fard. It also reveals that iqamah al-'adl indicates that BCAS is the highest-ranked institution, and BJBS is the top-ranked institution in jalb al-maslahah .

It also shows that BM is the first bank in the Risk Profile ranking, BTPNS is

at the top of the list in the Earnings category, and BJBS, with the Capital score, ranks first among other BUSs. The results of the falah BUS ranking in Indonesia are presented in Figure 3.

Discussion

This research provides a significant advancement in measuring Islamic banking performance by introducing the falah-based model, which integrates both financial and normative dimensions. The inclusion of elements such as Risk Profile, Earnings, and Capital alongside maqashid syariah components—tahdzib al-fard (personal development), iqamah al-adl (justice), and jalb al-maslahah (public benefit)—marks a shift from conventional financial ratio-based approaches that dominate the banking sector.

The findings highlight that financial performance alone, measured by indicators like ROA and CAR, fails to capture the holistic objectives of Islamic banking. This study supports the critique by (Antonio et al., 2012) and (Mohammed et al., 2008), who argued for including sharia compliance and ethical considerations in performance measurement. The model aligns closely with Islamic principles by emphasizing falah, interpreted as long-term success encompassing both material and spiritual dimensions (Khan, 1984).

The application of the falah-based model to 10 Islamic banks revealed disparities in performance. While some banks excelled in normative dimensions, others demonstrated strong financial outcomes. These results suggest that achieving falah requires a balanced approach that harmonizes financial stability with adherence to sharia principles. This reflects the interaction between financial metrics, such as Risk Profile and Earnings, and normative goals, as Khan (1984) and Sekaran (2003) theorized.

Integrating normative indicators like tahdzib al-fard and jalb al-maslahah address gaps in frameworks like CAMELS and RBBR, which focus on financial health but neglect ethical and social objectives. This highlights the need for a distinct evaluation model tailored to Islamic banking principles. Stakeholder engagement, including input from regulators and scholars, strengthens the falah-based framework, ensuring practical relevance and robustness.

Future research should explore the dynamic interplay between financial and normative dimensions, validating the model's adaptability across diverse markets. Findings emphasize the model's utility in balancing profitability with ethical commitments. BTPN Syariah excelled in earnings and capital, demonstrating sustainability and resilience, while Aladin Syariah Bank led in individual development, fostering ethical and spiritual growth. BCA Syariah prioritized justice through equitable financial practices, and BJB Syariah focused on public benefit via impactful community initiatives. Bank Muamalat showed strong risk management, aligning with sharia principles and ensuring operational stability. These results underscore the holistic potential of the falah model in Islamic banking.

Although several banks showed exemplary performances in specific dimensions, others, such as Mega Syariah Bank, revealed areas for improvement, particularly in social and ethical dimensions such as justice and public welfare. This underscores the need for banks to adopt a balanced approach that not only emphasizes financial metrics but also aligns operations with maqashid principles. The findings highlight that financial strength alone does not equate to alignment with maqashid al-shariah. For instance, while some banks excelled in earnings and capital, their lower scores in social dimensions such as public benefit and justice indicate a gap in fulfilling their sharia mandate. These insights emphasize the interdependence of financial, social, and moral dimensions in achieving falah. The ability of smaller banks, such as Aladin Syariah and BJB Syariah, to outperform larger institutions in maqashid dimensions reinforces prior research findings (Hartono & Sobari, 2017), that smaller Islamic banks often prioritize maqashid goals more effectively than their larger counterparts. This suggests that larger banks could learn from these smaller institutions by incorporating more substantial maqashid-aligned initiatives to enhance their social impact.

The findings show that Islamic banks can balance profitability with ethical and social responsibilities. BTPN Syariah exemplifies this balance, contributing to social welfare while maintaining efficient operations. The study emphasizes the importance of individual development, public benefit, and justice in enhancing performance, with strong risk management, as seen in Bank Muamalat, ensuring sharia compliance and operational stability.

Agency Theory underpins the analysis of principal-agent relationships in Islamic banking, highlighting the need for alignment between management actions and maqashid al-sharia objectives like justice and public benefit. Agency problems arise when management prioritizes short-term profits over ethical norms, creating 'information asymmetry' between shareholders and managers.

The falah-based model bridges this gap by integrating financial and normative dimensions, guiding management toward holistic maqashid achievements. It also reduces agency costs by prioritizing sustainable, sharia-aligned decision-making and enhancing stakeholder trust. This study expands Agency Theory by incorporating sharia-specific dimensions like social justice and sustainability, addressing conflicts, and supporting a value-driven performance framework in Islamic banking.

CONCLUSION

This research develops a falah-based performance measurement model for Islamic banks, integrating financial and normative aspects aligned with sharia principles. The model provides a comprehensive evaluation framework by enhancing the Maqashid Sharia Index with dimensions like Risk Profile, Earnings, and Capital. Its application to ten Indonesian Islamic banks confirms its effectiveness, with BTPN Syariah and TB Sharia Bukopin Bank excelling in aligning financial and ethical objectives, showcasing the model's practical utility. Overall, this research contributes significantly to the field by addressing the limitations of conventional financial performance metrics. The falah-oriented model offers a holistic tool for stakeholders to evaluate and enhance Islamic banks' sustainability and sharia compliance, paving the way for their continuous development and contribution to the broader economy.

The research is limited by its focus merely on Indonesian Islamic banks, which may not fully capture the diversity of Islamic banking practices globally. Additionally, the reliance on expert judgment for weighting criteria could introduce subjectivity. Furthermore, future research should expand the application of the model across different regions to validate its adaptability and scalability. Thus, longitudinal studies are recommended to examine the dynamic relationships between financial and maqashid dimensions over time.

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