

## FALAH AS THE ULTIMATE GOAL IN SHARIA BANKING PERFORMANCE: BASED TO ISLAMIC ECONOMIC AXIOLOGY

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### Abstract

To achieve holistic prosperity (Falah), economics can be used to examine human behavior when faced with a dilemma. The Islamic economic system is founded on notions from the Qur'an and hadith, which give an economic order for achieving overall prosperity. To achieve this prosperity, Islamic commercial banks must be able to generate shareholder faith in the funds in which they invest; thus, it is vital to compare Sharia Banks' performance to their financial reports, which are based on Islamic values. This study examined the impact of BOPO (Operating Expenses and Operating Income) on Sharia Banking Performance, as measured by the Return On Assets (ROA) ratio, with FDR (Financing to Deposit Ratio) acting as a moderating variable. The research object is Bank Aceh Syariah using data analysis techniques used are financial reports published on the Bank Aceh Syariah website from 2016 to 2022. The test tool uses multiple linear regression tests and Moderate Regression Analysis (MRA) with SPSS. The research results show that BOPO has a significant effect on Sharia Banking Performance (ROA), but the FDR variable has not been able to moderate the relationship between BOPO and ROA.

**Keywords:** *BOPO, FDR, ROA, Fallah dalam Ekonomi Islam*

### Introduction

In 2022, Indonesia will keep its place in The Global Islamic Economy Indicator in the State of the Global Islamic Economy (SGIE), which was launched by DinarStandard in Dubai, United Arab Emirates. According to the Global Islamic Economic Index (EKI), Indonesia will remain fourth in 2023, trailing only the United Arab Emirates, Saudi Arabia, and Malaysia. Indonesia, with the world's biggest Muslim population of around 231 million people, should have outstanding potential for expanding the sharia economy (UINSU, 2023). According to Dinar Standard CEO Rafi-uddin Shikoh, while Indonesia maintained its ranking from last year, it had a substantial increase in the halal food market, rising two spots to second place. According to the 2023 study released by Dinar Standard in Dubai, United Arab Emirates on Tuesday, December 26, 2023, Indonesia climbed one position on The Global Islamic Economy Indicator in the State of Global Islamic Economy (SGIE) (RI, 2023). Despite rising to third place, Indonesia dropped one spot from sixth to seventh in terms of sharia financing. Indonesia is taking a number of initiatives to boost halal certification as well as the sharia financial sector, which looks promising after the merger of three state-owned bank subsidiaries into Bank Syariah Indonesia.

Sharia banking in Indonesia is growing and developing at a steady pace. Sharia Banking's progress is demonstrated by the emergence of sharia-based enterprises, which include Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and Sharia People's Financing Banks (BPRS). To achieve holistic prosperity (Falah), economics can be used to examine human behavior when faced with a dilemma. The Islamic economic system is founded on notions from the Qur'an and hadith, which give an economic order for achieving overall prosperity. To achieve this prosperity, Islamic commercial banks must be able to generate shareholder faith in the funds in which they invest; thus, it is vital to compare Sharia Banks' performance to their financial reports, which are based on Islamic values. As a result, a method is required to assess the performance of Islamic banks using performance evaluation.

Performance evaluation is a means of measuring a company's success based on goals established at the start. This is a crucial aspect of measuring control that can help businesses enhance their performance in the future.

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In Islam, performance evaluation is strongly encouraged. The notion of muhasabah is a basic depiction of performance appraisal that can be applied to individuals or businesses. This serves as a fundamental intellectual foundation for why Islamic banks must undergo performance evaluations. Islamic bank performance review is an assessment of an Islamic bank's level of success over a given time period based on work plans, work plan realization reports, periodic bank reports, regulatory compliance, and other factors. Bank Indonesia, Indonesia's central bank, is primarily responsible for evaluating the performance of Islamic banks. Other parties may conduct performance evaluations for a variety of purposes.

According to Aceh Qanun Number 11 of 2018, all financial service institutions in Aceh have a sharia system as of January 4, 2019. The profitability ratio, often known as ROA (Return On Assets), is used to measure the financial performance of Aceh Syariah institutions. ROA is significant for businesses since it measures a company's ability to create net profits based on the amount of assets possessed. According to (Amelia, 2020), the higher the ROA, the better the company's success, as the rate of return is higher. (Saputra, 2022) and (Wirantie, 2020) ROA is an indicator of a company's profitability.

According to Mawardi (2012), operational expenses and operating income (BOPO) are used to analyze a bank's financial success. BOPO compares total operating costs and total operating income. Banks conduct operational efficiency assessments to determine whether the bank's main business operations are carried out correctly (in accordance with management and shareholder expectations) and to demonstrate whether the bank has used all of its production factors appropriately and successfully. Thus, a bank's operational efficiency, as measured by the BOPO ratio, will affect its performance.

According to (Febriani, 2021), the Financing to Deposit Ratio (FDR) compares the bank's financing to third-party money that the bank has successfully collected. The lower the FDR, the less effective the bank is at distributing credit. Bank Indonesia sets the FDR ratio for most sharia banks at less than 100%, implying that the bank's earnings will rise if it can efficiently route its loans. FDR is the total amount of funds disbursed to customers of the sharia commercial bank itself, and the FDR ratio is a comparison to determine the capabilities of sharia banks when making payments or handling withdrawals of returned funds carried out by customers whose funds come from the disbursement of funds provided, which serves as a source of liquidity.

Table 1.1 shows the evolution of Bank Aceh Syariah's financial performance as evidenced by the net profit books:

**Table 1.1**  
**Development of Net Profit of Bank Aceh Syariah**

Years	Net Profit (Rupiah)
2016	369,16
2017	433,58
2018	439,43
2019	452,32
2020	333,20
2021	382,15
2022	422,20

Source: Bank Aceh Syariah Financial Report (2023).

Table 1.1 shows that Bank Aceh Syariah's net profit has increased from 2016 to 2021. However, in 2020, net profit declined to 333.20 billion rupiah. This is because to the impact of the Covid-19 pandemic, which produced a national economic crisis, affecting Bank Aceh Syariah's funding and net profit.

### Researchs Methods

This research focuses on firm financial accounting. This research was carried out at Bank Aceh Syariah. The data used in this study is qualitative data, which is data in the form of categorical characteristics or characteristics of a research object in the form of a general description of Bank Aceh Syariah, as well as quantitative data, which is data in the form of figures or numbers, both complete and incomplete, such as Bank Aceh Syariah's financial report for the 2016-2022 period.

The variables in this study include the dependent variable, Profitability (ROA), the independent variables, BOPO (Operating Expenses and Operating Income), and the FDR (Financing to Deposit Ratio) variable as a moderator.

Multiple Linear Regression is the test used to determine the influence of multiple independent variables on the dependent variable. In addition to the multiple linear regression test, the Moderated Regression Analysis (MRA) test is used to determine whether the FDR (Financing to Deposit Ratio) variable can moderate the BOPO variable's (Operating Expenses and Operating Income) impact on profitability.

## Data analysis method

### Financial Performance Measurement

Looking at financial reports is one way to measure banking financial performance. Investors can do performance analysis by examining the resulting profitability, as well as the financial ratios employed in this study (Rivai, 2015).

#### 1. ROA (Return on Asset)

ROA (return on assets) ROA is a statistic that measures management's capacity to generate overall profitability. The higher a bank's ROA, the higher its profit margin and asset utilization. This ratio is expressed as follows:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Asset}} \times 100\%$$

Return on assets (ROA) is a profitability statistic that assesses a company's capacity to create profits from its assets. Return on assets is a comparison of profits before interest and tax (EBIT) to the total assets owned by the company.

#### 2. The financing-to-deposit ratio (FDR)

The Financing to Deposit Ratio (FDR) is a ratio used to assess a bank's liquidity in repaying fund withdrawals made by depositors using the financing given as a source of liquidity. The Financing to Deposit Ratio is calculated by comparing the amount of money delivered to the total third-party funds. Table 2.1 shows how the Bank Aceh Syariah FDR has evolved:

**Tabel 2.1 FDR Bank Aceh Syariah Tahun 2016-2022**

Tahun	FDR (%)
2016	84,59
2017	69,44
2018	71,98
2019	68,64
2020	70,82
2021	69,46
2022	73,30

**Source: Bank Aceh Syariah Annual Report (2023)**

The highest FDR occurred in 2016, at 84.59%. Meanwhile, the lowest FDR occurred in 2019, at 68.64%. The higher the financing-to-deposit ratio (FDR), the more funds are directed to third-party funds (DPK). This growth occurred because the bank was able to manage its role as a middleman effectively.

(Sudarsono, 2017) defines the Financing to Deposit Ratio (FDR) as a ratio used to quantify a bank's liquidity in repaying fund withdrawals made by depositors by relying on the financing given as a source of liquidity, specifically by dividing the amount of financing provided by the bank. towards third-party funds (DPK). The higher the financing-to-deposit ratio (FDR), the more funds are directed to third-party funds (DPK). The distribution of substantial Third Party Funds (DPK) increases the bank's Return on Assets (ROA) income, resulting in a positive effect on the Financing to Deposit Ratio (FDR).

$$\text{FDR} = \frac{\text{Amount of funds distributes}}{\text{Thirds-Party of Funds}} \times 100\%$$

3. BOPO (Operating Expense and Operating Income).

Table 2.2 shows the development of Aceh Syariah Bank BOPO.

**Tabel 2.2 BOPO Bank Aceh Syariah Tahun 2016-2022**

Tahun	BOPO (%)
2016	83,05
2017	78,00
2018	79,09
2019	76,95
2020	81,50
2021	79,44
2022	82,90

Source: Annual Report Bank Aceh Syariah (2023)

Table 2.2 shows that the highest BOPO value was in 2016 at 83.05%, while the lowest BOPO was in 2019 at 76.95%. BOPO fluctuates in response to the company's income and costs.

BOPO compares operational expenditures, including interest expenses, to operational income, which includes interest income. The higher the BOPO ratio, the less efficient the bank is. Bank efficiency is claimed to be improving, as seen by a drop in the optimum BOPO value for a bank to be considered efficient, which is 70% - 80%. Operational costs to operational income is a ratio whose value changes are actively monitored, particularly in the banking sector, because Bank Indonesia's standards for establishing level of soundness are incorrect. The other factor is the size of the ratio.

The higher this ratio, the less efficient the bank is because it signifies the significant operational expenditures that must be incurred. The lower this ratio, the more efficient the operational costs incurred by the bank in question, reducing the likelihood of a bank failing. The BOPO formula goes as follows:

$$\text{BOPO} = \frac{\text{Operational Cost}}{\text{Operational Income}} \times 100\%$$

**Results & Discussion**

**Table 3**

Model	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
1 (Constant)	,820	5,892	,139	,896
BOPO	,024	,080	,306	,005

a. Dependent Variable: ROA

The partial test findings indicate that the BOPO variable (Operating Expenses and Operating Income) has a substantial effect on profitability (ROA), with a significance value of < 0.005.

MODERATE REGRESSION ANALYSIS (MRA)

Tabel 3.2 Uji Moderasi

Model	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
1 (Constant)	,894	1,455	,614	,572
BOPO.FD	,015	,000	1,040	,357

a. Dependent Variable: ROA

The regression coefficient for FDR (Financing to Deposit Ratio) as a moderating variable with the BOPO variable is 0.015. The coefficient is positive, indicating that the interaction of the moderating variable FDR (Financing to Deposit Ratio) with the BOPO variable of 1% will result in a 1.5% improvement in ROA. The interaction produces a significant value of 0.357, which is greater than 0.05. As a result, FDR (Financing to Deposit Ratio) as a moderating variable has failed to enhance or weaken the BOPO variable on ROA.

DISCUSSION

**The Effect of BOPO (Operating Expenses and Operating Income) on Sharia Banking Performance (Aceh Sharia Bank Case Study).**

BOPO has a significant effect on sharia banking performance at Bank Aceh Syariah, as indicated by a significance value of 0.005 ( $p < 0.005$ ). Bank efficiency is believed to be improving, as seen by a fall in BOPO values. The ideal figure for a bank to be considered efficient is 70% - 80%. Operational costs to operational income is a ratio whose value changes are regularly monitored, particularly in the banking sector, due to the criteria used by the bank to determine its level of soundness. One example in Indonesia is the size of the BOPO ratio.

BOPO has an impact because Islamic banks tend to invest their capital prudently and place a higher value on bank survival, lowering bank profitability. The BOPO at the Aceh Syariah Bank is still within the ideal average for a bank, so Fallah, the ultimate goal of the Aceh Syariah Bank, has been implemented, where the Islamic economic axiology study discusses Islamic economics in terms of value and benefits, and where the existence of Islamic economics is expected to become a problem solver. World existence is today dominated by two major forces: economy and faith (Abdut Tawwab, Awaluddin, & Arifin, 2023). Economic life becomes a country's standard of living; even a country's supremacy is judged in terms of economic advancement, and the definition of success becomes increasingly materialistic. Experts think that only an ethical and moral economic system is capable of controlling the global economy (Al-Butary, 2021).

Essentially, the purpose of every human being's existence is to pursue prosperity, albeit people define "prosperity" in different ways. Most (conventional) economists define welfare as worldwide material welfare. The traditional economic approach focuses on welfare, which is so narrow and barren that it misses spiritual dimensions of people. The pattern and process of economic development are primarily focused on increasing per capita income, physical consumption is hedonistic, and products are pushed into the market without regard for the harmful influence on other people's life. On the other side, Islamic economics introduces the notion of Al-Falah, which corresponds to the Islamic concept of humanity itself. Al-Falah is true success in the form of material and spiritual bliss, as well as prosperity in this life and the next (Nasrulloh, 2021). A material success does not become meaningful if it harms other aspects of humanity such as brotherhood and morality. As is known in Islam, the essence of humans is in their spirituality; thus, all worldly activities, including economic ones, are directed not only to meet physical demands but also to fulfill spiritual needs, as the spirit is the essence of human beings.

**The Effect of BOPO (Operating Expenses and Operating Income) on Sharia Banking Performance, using FDR (Financing to Deposit Ratio) as a Moderating Variable (Bank Aceh Syariah Study).**

The greater the FDR ratio, the less efficiently the bank operates, since it indicates the vast amount of operational expenditures that must be incurred. The safe limit for the FDR level of a sharia bank is 78% to 100%, since if a sharia bank has an FDR value of more than 100%, it can be determined that if the sharia bank exceeds the

third-party funds that have been gathered. The interaction results in a significant value of 0.357, which is greater than 0.05. As a result, FDR (Financing to Deposit Ratio) as a moderating variable has failed to improve or lessen the BOPO variable's effect on ROA. In Sharia banking, there are no loans, only financing, hence Bank Aceh Syariah's high financing is unrelated to its Operating Expenses and Operating Income (BOPO).

## CONCLUSSION

- BOPO has a substantial impact on Shariah banking performance at Bank Aceh Syariah. BOPO has an impact because Islamic banks tend to invest their capital prudently and place a higher value on bank survival, lowering bank profitability. BOPO at Aceh Syariah Bank remains within the appropriate range for a bank, therefore Fallah, the bank's ultimate purpose, has been implemented.
- FDR (Financing to Deposit Ratio) has not been shown to strengthen or decrease the BOPO variable on ROA. In Sharia banking, there are no loans, only financing, hence Bank Aceh Syariah's high financing is unrelated to its Operating Expenses and Operating Income (BOPO).

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