

# OPTIMIZING ISLAMIC BANKING THROUGH FINANCIAL SUSTAINABILITY

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**Abstract:** This study aims to identify optimization strategies for Islamic banking with a focus on financial sustainability using the Analytic Network Process (ANP) approach, which provides a comprehensive analytical framework for the interconnected elements within the Islamic banking system. The study involved 65 respondents, consisting of academics, practitioners, and Islamic banking customers, offering diverse and relevant perspectives on the issues under investigation. Data were collected using structured questionnaires designed to gain an in-depth understanding of the factors influencing financial sustainability, including the dimensions of financial performance, environmental responsibility, and social impact. ANP analysis was conducted to determine strategic priorities that can be effectively implemented, taking into account the interactions among these key elements. The findings reveal that the financial performance dimension, encompassing operational efficiency, profitability, and risk management, serves as a critical foundation for achieving financial sustainability, while environmental responsibility emerges as an increasingly relevant supporting factor in the context of modern sustainability-oriented banking. Additionally, the social impact of Islamic banking activities, such as community empowerment and financial inclusion, constitutes an inseparable dimension in efforts to achieve long-term sustainability goals. These three elements are interrelated in a complex network that requires a holistic and integrative approach to formulate strategies that not only ensure financial stability but also foster positive contributions to society and the environment.

**Keywords:** Islamic Banking, Financial Sustainability, financial performance

## Introduction

Islamic banking is one of the sector growing finance rapid with values that support justice and sustainability . However , for still competitive , Islamic banks must optimize sustainability financial (financial sustainability) with notice aspect economic , social , and environmental . Research This review optimization strategies based on ANP approach to determine priority intervention . In addition , optimization sustainability financial in Islamic banking requires integration between sharia principles and innovation modern management (Mujjatun et al., 2022). This is involving development products finances that are not only in accordance with sharia principles but also capable answer need an increasingly diverse society complex . On the other hand , Islamic banks are also required For increase efficiency operational through utilization digital technologies , such as service banking based on applications and automation financial process (Mubarrok et al., 2023) (Malini, 2022) . This strategy No only increase Power compete in an increasingly competitive market competitive , but also expand inclusion finance in various layer society (Putri et al., 2023) . The ANP (Analytic Network Process) approach used in study This allow identification factors mutual priorities related , including internal policies , preferences customers , as well as pressure

increasingly stringent regulations emphasize importance aspect environmental and social (Sihotang et al., 2022). With Thus , the results study This expected can give recommendation comprehensive strategic For increase Power resilience and relevance of Islamic banks in the dynamic global economic era (Rahmayati, 2021).

## Literature Review

### Sustainability Financial in Islamic Banking

Sustainability financial covers the bank's ability to produce profitability term long while consider impact social and environmental . In the context of Islamic banking , things This in line with principle maqashid sharia.

This alignment emphasizes the importance of achieving financial goals while upholding ethical values and ensuring equitable distribution of wealth. Islamic banking institutions are expected to operate in a manner that not only avoids harm but also actively promotes societal benefits, such as reducing poverty, supporting community development, and fostering environmental sustainability (Hassan et al., 2021). By integrating social and environmental considerations into their operations, these banks can enhance stakeholder trust, improve risk management, and contribute to the broader objectives of sustainable development. Moreover, the application of Maqashid Sharia provides a framework for Islamic banks to evaluate their performance beyond financial metrics, focusing on the holistic impact of their activities on the economy, society, and the planet (Harsono & Atina, 2023).

This holistic approach ensures that Islamic banks go beyond the traditional profit-driven model by embedding ethical and sustainable practices into their core operations. By adhering to Maqashid Sharia, they can align their financial products and services with the principles of fairness, transparency, and accountability (Fitria & Sulhani, 2021). For instance, Islamic banks are encouraged to offer financing solutions that support small and medium-sized enterprises (SMEs), promote affordable housing, and fund renewable energy projects, all of which contribute to societal well-being and environmental preservation.

Furthermore, the emphasis on social and environmental impact allows Islamic banks to differentiate themselves in the competitive financial industry. Stakeholders, including customers, investors, and regulators, increasingly value institutions that prioritize sustainability and ethical governance. This alignment not only strengthens the reputation and trustworthiness of Islamic banks but also positions them as key players in addressing global challenges such as climate change, inequality, and financial exclusion (Kulmie & Omar, 2024).

Ultimately, the integration of financial sustainability with the principles of Maqashid Sharia reinforces the role of Islamic banking as a catalyst for positive change, demonstrating that profitability and responsibility can coexist in creating a more equitable and sustainable financial system.

## Method

### 1. Research Design

Approach quantitative with method survey use questionnaire as tool data collection.

### 2. Population and Sample

Respondents consists of of 65 people (academics , practitioners , customers). Selection done use technique purposive sampling.

3. Data

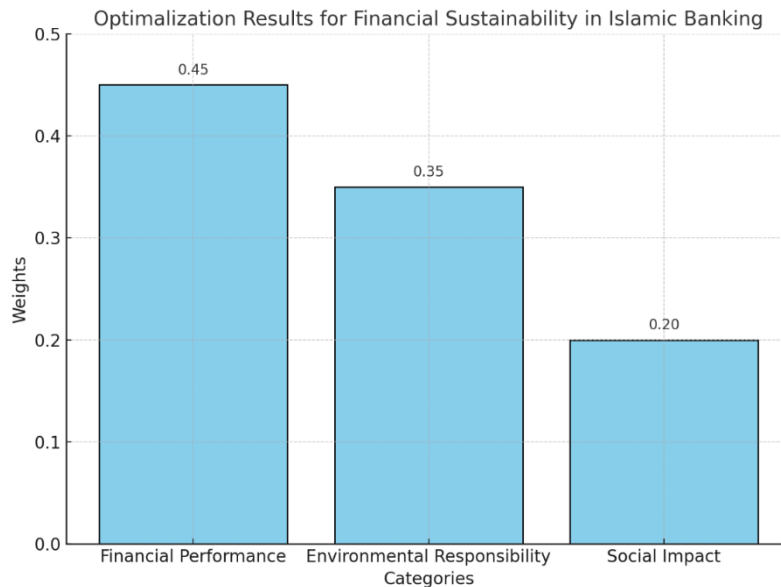
Processing: Data is analyzed using SuperDecisions software for ANP. Consistency test done For ensure validity results.

**Results and Discussion**

**1. Matrix Priority**

Three dimensions main analyzed :

- a) **Financial Performance ( Financial Performance ):** Efficiency operational , profitability .
- b) **Environmental Responsibility ( Environmental Responsibility ):** Investment green , management risk environment .
- c) **Social Impact :** Welfare society , inclusion finance .



The results of ANP data processing show weight priority as following :

- a) Financial Performance: **0.45**
- b) Environmental Responsibility: **0.35**
- c) Social Impact: **0.20**

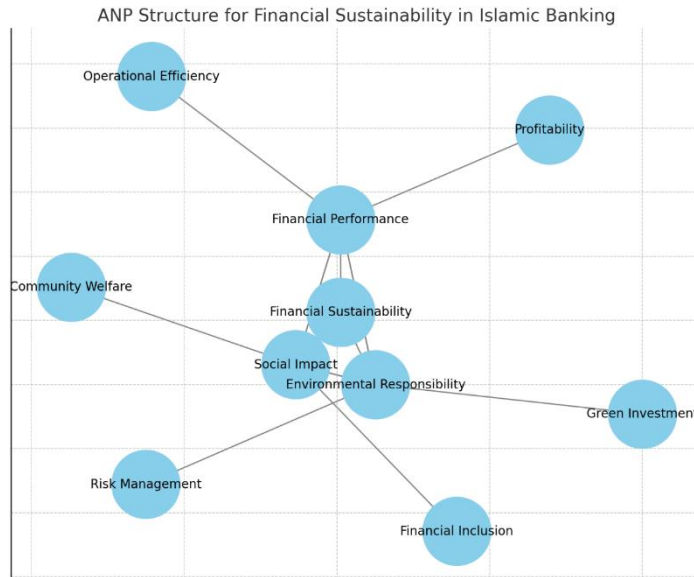
**2. Inter- Dimensional Interdependence**

ANP analysis shows connection each other influence between Dimensions. Dimensions *financial performance* own relatedness strong with *social impact*, which reflects importance contribution social in increase sustainability financial.

**Consistency Test**

Consistency Ratio (CR) value of matrix evaluation is 0.08, which is below threshold 0.1. This indicates that the data is valid and consistent .

**ANP Structure for Financial Sustainability in Islamic Banking**



Following is picture ANP (Analytic Network Process) structure which shows connection between dimensions and criteria For *financial sustainability* in Islamic banking . This diagram includes :

- a) **Dimensions main :**
  - 1) Financial Performance
  - 2) Environmental Responsibility
  - 3) Social Impact
- b) **Sub- criteria** for each dimension .
- c) **Interdependence** between dimensions that show two- way influence .

This picture help in understand How elements the each other related in the process of taking decision ANP based .

**Detailed Discussion of ANP Image**

The image above describe structure *Analytic Network Process* (ANP) for determine optimization strategy *financial sustainability* in Islamic banking . Here is discussion deep about existing elements and relationships in structure the :

**3. Main Dimensions**

**a . Financial Performance**

Dimensions This emphasize on aspects profitability and efficiency bank operations .

- 1) **Profitability** : Refers to the bank's ability to produce profit from activity its operations , which are component key from sustainability financial .
- 2) **Operational Efficiency** : Highlights effectiveness management source Power For maximize profit and reduce cost .

**. Environmental Responsibility ( Environmental Responsibility )**

Dimensions This covers commitment banking to sustainability environment , which is in harmony with Islamic principles for guard sustainability earth .

- 1) **Green Investment** : Investment in projects friendly environment , such as energy renewable or development green .
- 2) **Risk Management** : Efforts to identify and manage risk environment that can influence stability bank finance .

### c. Social Impact

Dimensions This focus on contribution social Islamic banking , which is the core of principle maqashid sharia.

- 1) **Community Welfare** : Welfare program society , such as financing business small and social programs .
- 2) **Financial Inclusion** : Providing access service finance to group the community that previously No unbanked *population* .

## 2. Inter- Dimensional Interdependence

In the ANP approach , the dimensions This No stand Alone but each other affect . Here is explanation connection The main ones shown in the picture :

### a. Financial Performance ↔ Environmental Responsibility

Two way relationship between performance finance and responsibility answer environment show that :

- 1) Investment in project green can increase bank reputation and attractiveness Customer new , which in the end increase profitability .
- 2) On the other hand , banks with performance good finance own more Lots source Power For support project environment .

### b. Financial Performance ↔ Social Impact

Connection This show that :

- 1) Social programs like inclusion finance and financing micro can increasing the customer base , which supports growth income .
- 2) On the other hand , success finance allows banks to more active in support welfare public .

### c. Social Impact ↔ Environmental Responsibility

Interaction This show How :

- 1) Project successful environment can bring benefit social , such as create field Work or increase welfare public .
- 2) Commitment social bank towards public often strengthens support public For initiative environment .

## 3. Analysis ANP Structure

### a. Dimensions Priority

ANP data processing results ( as shown ) previously ) shows that *financial performance* own weight highest (0.45), followed by *environmental responsibility* (0.35) and *social impact* (0.20).

This is indicates that although dimensions social and environmental important , sustainability finance become the basis that allows banks to supports two dimensions other .

### b. Relationship Multidimensional

Network properties from ANP allows analysis more connectedness realistic compared to approach hierarchy ( *Analytic Hierarchy Process* , AHP). Islamic banks can use approach This For formulate a strategy that takes into account impact direct and also No direct from every decision.

**Consistency Test**

The Consistency Ratio (CR) value of 0.08 indicates data validity , so that results priority can reliable .

**4. Implications for Optimization Strategy**

1) **Balance Dimension :**

Islamic banks must create balance between profitability , responsibility answer environment , and contribution social . Excessive focus on one dimensions can sacrifice sustainability overall .

2) **Innovation Product Finance :**

a) Develop product finance sharia- based friendly environment , such as green sukuk , to attracting caring investors environment .

b) Expand financing micro For increase inclusion finance .

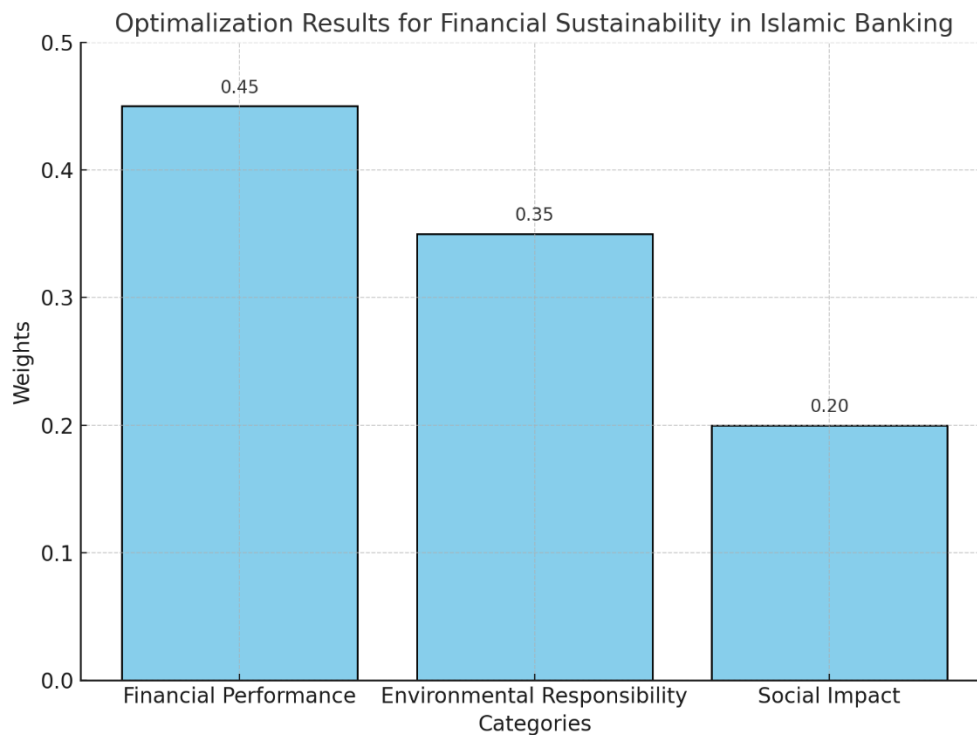
3) **Collaboration Multisectoral :**

Collaboration with government , NGOs, and organizations environment can strengthen impact social and environmental from initiative Islamic banking .

4) **Measurement Success :**

Banks need to develop indicator performance For measure impact financial , social and environmental in a way simultaneously , so that every intervention can evaluated with comprehensive .

5) Optimization Results for Financial Sustainability in Islamic Banking



The image above show results optimization For *financial sustainability* in Islamic banking based on ANP analysis . The results :

1. **Financial Performance** own weight highest (0.45), emphasizes importance efficiency and profitability as base sustainability financial .

2. **Environmental Responsibility** (0.35) becomes priority second , shows role important not quite enough answer environment in support reputation and sustainability term long .
3. **Social Impact** (0.20) shows focus on well-being community and inclusion finance as element key in principle maqashid sharia.

## Discussion

### 1. Strategy Implications on Financial Performance

Improvement strategy efficiency operational and diversification product sharia based increase profitability . Support technology financial (fintech) can expand access customers and improve efficiency. Improving operational efficiency and diversifying sharia-compliant products are key strategies to enhance the financial performance of Islamic banks (Kulmie & Omar, 2024). By streamlining processes and minimizing wasteful expenditures, banks can reduce operational costs and improve profit margins. Product diversification, such as introducing innovative Islamic financial instruments like Sukuk (Islamic bonds) or Murabaha-based financing, can attract a broader customer base and cater to diverse financial needs (Fitria & Sulhani, 2021). Additionally, the integration of financial technology (fintech) can play a transformative role. Fintech solutions enable banks to expand their customer outreach, especially in underserved areas, while enhancing service efficiency through automation, data analytics, and digital platforms. These technological advancements not only reduce transaction costs but also improve customer satisfaction, which, in turn, contributes to better financial performance and long-term growth (Shodiq, 2021).

### 2. Impact on Environmental Responsibility

Investment in projects green , like financing energy renewable , contribute to reputation of Islamic banks as supporting institutions sustainability environment. Islamic banks have a unique opportunity to champion environmental sustainability by prioritizing investments in green projects (Ilyana et al., 2022). Financing initiatives such as renewable energy projects, sustainable agriculture, or eco-friendly infrastructure demonstrate a commitment to environmental stewardship. Such investments align with the global agenda for combating climate change and preserving natural resources. Moreover, these projects enhance the reputation of Islamic banks as institutions that uphold ethical and sustainable values. This commitment to environmental responsibility not only attracts socially conscious investors and customers but also aligns with international regulatory frameworks encouraging sustainable finance (Yusuf et al., 2023). By integrating environmental considerations into their investment portfolios, Islamic banks can position themselves as leaders in driving the transition towards a green economy, while simultaneously meeting the objectives of Maqashid Sharia .

### 3. The Role of Social Impact

Islamic banking can increase inclusion finance with provide financing micro For segment society that has not unbanked population, which supports mission Islamic social. Islamic banking has a pivotal role in promoting financial inclusion by providing access to financial services for underserved populations. Through microfinancing programs, Islamic banks can empower unbanked and underbanked segments of society, including small entrepreneurs, rural communities, and low-income households. These programs often rely on principles like Qard Hasan (benevolent loans) or Mudarabah (profit-sharing), which align with the Islamic mission of social equity and poverty alleviation. By fostering entrepreneurship and economic participation among

marginalized groups, Islamic banks contribute to the socio-economic development of communities (El-Essa et al., 2024). This social impact reinforces their image as institutions rooted in ethical and communal well-being, building stronger connections with society and supporting their broader mission of advancing justice and welfare.

#### 4. **Inter- Dimensional Interdependence**

Dimensions strong finances allows banks to invest in social and environmental programs . On the other hand , responsibility answer good social and environmental increase loyalty customers , which has an impact positive on performance finance (Aliyu et al., 2017).

The interplay between financial, social, and environmental dimensions creates a mutually reinforcing cycle of sustainability for Islamic banks (Rehman et al., 2023). A robust financial foundation enables these banks to allocate resources toward impactful social and environmental initiatives, such as community development projects or green financing programs (Kamaliyah, 2018). Conversely, visible commitments to social and environmental responsibility strengthen customer loyalty and trust. Customers and stakeholders are more likely to support institutions that demonstrate accountability and contribute positively to society. This increased loyalty leads to a larger customer base, higher retention rates, and enhanced profitability. The interdependence among these dimensions underscores the holistic approach of Islamic banking, where achieving financial stability goes hand in hand with fulfilling social and environmental obligations, creating a sustainable ecosystem for long-term success (Nor & Hashim, 2015).

#### **Conclusion**

This ANP image describe complexity connection between dimensions main sustainability financial in Islamic banking . Approach This help in formulate a strategy that is not only profitability oriented but also supports not quite enough answer social and environmental , which ultimately strengthen Power competition Islamic banking globally .

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