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Analysis of The Role of Economic Value Added (Eva) As A Measure of Value-Based Performance in Islamic Banks

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ABSTRACT

This study analyzes the role of Economic Value Added (EVA) as a value-based performance measurement tool that is more comprehensive than traditional measurement tools in the context of Islamic banks. The background is the limitations of traditional accounting measurement tools that fail to take into account the cost of capital explicitly, whereas Islamic banks are required to achieve profitability while complying with Sharia principles. This qualitative research uses library research and Comparative and content analysis techniques to interpret theoretical concepts and compare EVA with traditional metrics. The results show that EVA doubles as an accurate metric for measuring real economic value creation by explicitly accounting for the cost of all capital, including profit-sharing funds, as well as a strategic managerial tool in the allocation of funds, determination of profit-sharing ratios, and remuneration bases. However, the implementation of EVA faces obstacles in the form of the complexity of adjusting the calculation according to Sharia and the need to change the organizational culture from earnings-based to value-based. In conclusion, EVA serves as a bridge between profitability objectives and Sharia principles, fostering operational efficiency and decision-making that leads to sustainable and responsible long-term value creation.

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ABSTRACT

Penelitian ini menganalisis peran *Economic Value Added* (EVA) sebagai alat ukur kinerja berbasis nilai yang lebih komprehensif dibandingkan alat ukur tradisional dalam konteks Bank Syariah. Latar belakangnya adalah keterbatasan alat ukur akuntansi tradisional yang gagal memperhitungkan biaya modal secara eksplisit, padahal Bank Syariah dituntut mencapai profitabilitas sekaligus mematuhi prinsip *Syariah*. Penelitian kualitatif ini menggunakan metode studi kepustakaan (*library research*) dan teknik analisis isi (*content analysis*) serta komparatif untuk menafsirkan konsep teoritis dan membandingkan EVA dengan metrik tradisional. Hasilnya menunjukkan bahwa EVA berfungsi ganda sebagai metrik yang akurat untuk mengukur penciptaan nilai ekonomi riil dengan secara eksplisit memperhitungkan biaya seluruh modal, termasuk dana bagi hasil serta sebagai alat manajerial strategis dalam alokasi dana, penentuan nisbah bagi hasil, dan basis remunerasi. Meskipun demikian, implementasi EVA menghadapi hambatan berupa kompleksitas penyesuaian perhitungan yang sesuai *Syariah* dan perlunya perubahan budaya organisasi dari *earning-based* menjadi *value-based*. Kesimpulannya,

EVA berperan sebagai jembatan antara tujuan profitabilitas dan prinsip *Syariah*, mendorong efisiensi operasional dan pengambilan keputusan yang mengarah pada penciptaan nilai jangka panjang yang berkelanjutan dan bertanggung jawab.

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INTRODUCTION

Islamic banking in Indonesia and globally is a growing sector with unique fundamentals (Ridwansyah et al., 2024). Its operating philosophy is based on the principles of Justice ('adl wa tawazun), beneficence (maslahah), and universalism, as well as a strict prohibition on practices containing gharar, maysir, and riba (Nainggolan, 2023). These demands require that Islamic banks operate with a dual purpose: achieving financial profitability for capital holders and, at the same time, realizing the ethical and social goals contained in the Sharia Maqashid or Falah.

Performance measurement is a fundamental aspect of business management, including in Islamic financial institutions. Islamic banks, as institutions operating based on Islamic principles, have a dual role: achieving profitability while ensuring compliance with Sharia in each of their activities (Maulidizen, 2024). This uniqueness requires the existence of performance measurement tools that are not only able to reflect the profitability of accounting, but also assess how effective the bank is in creating real value for capital owners and maintaining the continuity of its operations according to its objectives. Traditional measurement methods that focus too much on accounting profit often fail to capture the true economic value that companies create or destroy (Nuraini & Hammad, 2025).

Traditional accounting-based performance measurement tools, such as net income or net income, have some significant limitations. One of its main drawbacks is the failure to explicitly take into account the cost of capital. Accounting profits may seem high, but if the cost of capital used to generate those profits is also high, then in fact the company is not necessarily creating economic value for shareholders. In the context of Islamic banks, where trust and sustainability are key, biased or less comprehensive performance measurements can mislead management and investors in assessing operational efficiency and the bank's ability to create wealth.

To overcome these limitations, a more comprehensive value-based performance measurement concept emerged, one of which is Economic Value Added (EVA). EVA represents the estimated real economic profit of a company, which is calculated by subtracting the adjusted cost of capital from operating profit after tax (NOPAT) (Leki & Nosita, 2019). The basic concept is that a company is said to be successful in creating value only if its operating

profit exceeds the total cost of all capital used. Mathematically, EVA measures the net worth generated by exceeding investor expectations.

Economic Value Added (EVA) emerged as the most popular financial performance measurement tool in the VBM framework (Sholeh & Yanthi, 2023). EVA, developed by Stern Value Management, serves to evaluate the company's ability to generate true economic profit after deducting capital costs. EVA, sometimes called Economic Profit, based on the Residual Income technique, measures the return generated above the rate of return required by the investor (Angelica & Latifah, 2022).

The application of EVA in Islamic banks offers high relevance. EVA can provide a more accurate picture of a bank's financial performance, as it explicitly takes into account the entire cost of capital, including third-party funds managed on the principle of profit sharing (Ramadana, 2023). With EVA, management can focus on projects and investments that actually generate returns on top of the cost of capital, thereby improving resource allocation efficiency and value for shareholders. In addition, EVA supports the philosophy of Islamic finance that encourages justice and well-being, where real economic value creation is an indicator of sustainable prosperity (Judijanto et al., 2025).

Although EVA offers a superior measurement framework, the implementation and analysis of its role in the context of Islamic banks still face problems and research gaps. Conceptually, there are challenges in adjusting the calculation of the cost of capital and NOPAT to be fully in accordance with Sharia principles. For example, how is the treatment of profit-sharing-based instruments in the calculation of the cost of capital? Empirically, there are still limited studies that specifically analyze the extent to which EVA correlates with the market value or sustainability of Islamic banks compared to traditional measuring instruments. Therefore, further research is needed to test the effectiveness and implementation of EVA as a value-based performance measurement tool in the Islamic banking industry in Indonesia.

Based on the background of the above problems, this study aims to analyze the role of Economic Value Added (EVA) as a value-based performance measurement in Islamic banks and compare it with traditional measuring instruments. This study is expected to provide theoretical contributions by enriching the literature on value-based performance measurement in the context of Islamic finance. In practical terms, the results of this study are expected to provide input for Islamic Bank management, regulators, and investors in choosing and implementing performance measurement tools that are more holistic, accurate, and in accordance with the objectives of the Islamic economy, thereby encouraging better decision-making and sustainable value creation.

METHOD

This study uses a qualitative approach to the type of research literature studies (library research). Literature research was chosen because the main focus is to conduct in-depth analysis and interpretation of theoretical concepts and empirical studies that already exist on Economic Value Added (EVA) and its application in Islamic banks. The qualitative approach allows the researcher to explore holistically and in depth the relevance, challenges, and adjustments required in the use of EVA as a value-based performance measurement tool in the context of

Sharia-based banking. The data collected comes entirely from relevant written and digital sources.

The data sources in this study are classified as secondary data, consisting of academic literature, national and international scientific journals, textbooks, working papers, annual reports of Islamic banks, and related regulations from financial authorities. The data collection technique used is documentation, namely by identifying, collecting, and classifying documents and literature relevant to the research variables. The data collection process involves the stages of searching (searching), recording (recording), and grouping (grouping) based on the relevance of the topic to ensure the completeness of theoretical and empirical data.

Data analysis techniques used are content analysis and comparative analysis. Content analysis was conducted to interpret the meaning and key concepts contained in the literature, especially regarding the formulation, advantages, and limitations of EVA, as well as adjustments needed for the application of Sharia. Furthermore, a comparative analysis was applied to compare the EVA concept with traditional performance measurement tools in the context of Islamic banks. The results of this comparison will be used to formulate conclusions about the role of EVA as a more comprehensive value-based performance measurement tool. The validity of the data is ensured through cross-checking of different literature sources to ensure consistency and accuracy of conceptual information.

RESULT

Implementation of Economic Value Added (EVA) in an Islamic Bank

Islamic banks that are the object of study in this study generally represent Islamic commercial banks (BUS) operating in Indonesia. As a financial institution, Islamic banks operate within the framework of the national banking law, but their operations and products are based on the principles of Sharia (Islam). Its main products include financing, fundraising, and services. The role of Islamic banks is not only for profit but also to encourage the benefit of the people and social justice, in accordance with the concept of Maqashid Sharia. The bank's financial profile shows significant asset and profit growth in recent years, but it is faced with the challenge of maintaining competitiveness and capital efficiency amid industry competition.

Despite showing growth, Islamic banks face unique challenges in performance measurement. Performance assessed solely from accounting profit (such as net income or ROA) often does not reflect actual capital efficiency. Islamic banks manage a variety of funds, including custodian funds (wadiah) and riskier investment funds, each with different cost-of-capital implications. The limitations of these traditional measuring instruments lie in their failure to take into account the cost of equity capital (the funds of bank owners) and the potential risks associated with profit-sharing instruments. This creates an urgent need to adopt more holistic and value-based measurement tools that can provide a clearer picture of real wealth creation.

Economic Value Added (EVA) emerged as a solution for measuring relevant value-based performance (Tanjung, 2024). Currently, EVA is not yet the main performance measurement tool required by Islamic banking regulators, but conceptually, it is increasingly being adopted or considered by Islamic Bank management as an internal tool. The current use of EVA centers on an attempt to measure whether a bank has generated returns that exceed the

expectations of investors and capital owners after deducting the cost of all capital used. In other words, EVA is used to find out whether a bank's operations during a certain period actually create economic value or actually destroy the value of the invested funds.

In the context of Islamic banks, the implementation of EVA has a dual purpose. First, to provide metrics that are more accurate and unbiased by accounting manipulation, thereby increasing management's transparency and accountability to shareholders. Secondly, EVA is used as a tool for investment and financing valuation. By integrating EVA into the decision-making process, management is encouraged to choose investments and financing that have potential returns above the cost of capital adjusted to Sharia principles. Thus, the current context of EVA is as a strategic management tool to drive efficiency, optimal capital allocation, and sustainable value creation.

The role of Economic Value Added (EVA) in decision making

The main role of Economic Value Added (EVA) in Islamic Bank decision-making is as a leading indicator in the allocation of funds and investments (Andriany Nasution et al., 2024). When a business unit or project shows a positive EVA value, it indicates that the project can generate operating profit that exceeds all capital costs used (Sambuaga, 2020). In other words, the project has created real economic value for shareholders. On the contrary, negative EVA portends the destruction of values. Therefore, Islamic Bank management will tend to allocate more resources and funds to units or projects with positive EVAs, while projects with negative EVAs should be reevaluated, restructured, or even terminated to optimize shareholder wealth and overall bank efficiency.

EVA has a crucial influence on the decision to determine the profit-sharing ratio between Islamic banks and fund-owning customers. A fair and competitive ratio is essential to attract and retain customers. If the bank consistently records a high positive EVA, this indicates a highly efficient and effective fund management performance. This strong performance can serve as a basis for management to offer more attractive profit-sharing ratios to customers who own funds, so that the bank can compete with other banks while still ensuring that the remaining profit-sharing received by the bank is sufficient to cover its capital costs and create a surplus.

EVA serves as an effective evaluation tool for product and service expansion strategies. Any new product or service, such as new financing or sharia-based investment products, must be analyzed for EVA potential. Before launching or expanding a product, management uses EVA projections to determine if the product will generate adequate returns above the capital costs required to support it. The decision to expand (for example, opening a new branch or launching a large-scale Murabaha financing) will be strongly supported if the pre-implementation analysis shows a sustainable positive EVA, ensuring that the expansion is value-adding, not just increasing transaction volume.

In addition to being a measuring tool, EVA also acts as a tool of managerial control and the basis for award (remuneration). When EVA is used as a basis for performance measurement, it encourages managers at various levels to think like owners of capital and focus on efficient use of capital. The system of incentives and bonuses in Islamic banks can be directly related to the increase in EVA work units. Managers will be motivated to reduce inefficient capital (idle

capital), increase NOPAT, and be careful in taking risks, which is directly in line with the principle of prudence in Islamic banking.

Ultimately, the use of EVA guides Islamic Bank management towards long-term value creation in line with Maqashid Sharia. Decisions based on EVA ensure that the bank not only seeks accounting benefits but also strives for sustainable and healthy growth. Consistent positive EVAs are evidence of efficient and fair operations, which increase the trust of customers and investors. Therefore, EVA acts as a bridge between profitability objectives and Sharia principles, helping banks make optimal and responsible resource allocation decisions.

Barriers to Islamic banks implementing Economic Value Added (EVA)

One of the main obstacles in adopting EVA in Islamic banks is the technical complexity and the need for Sharia adjustments in its calculation formulas. EVA requires an accurate determination of NOPAT and Capital Charge. In the context of Sharia, the determination of NOPAT is complicated because Islamic banks have a unique income and expense structure, including income and profit sharing derived from mudharabah or Musharakah contracts. In addition, the determination of the cost of capital for Islamic banks should specifically take into account third-party funds that are Profit-Sharing, which are accounted for differently from interest. These adjustments require an in-depth understanding of Sharia accounting and financial conventions, which are often not yet fully standardized or require interpretations agreed upon by the Sharia Supervisory Board (DPS).

The implementation of EVA is not just a formula change, but also requires a fundamental change in organizational culture, from an earnings-based culture to a value-based culture. In Islamic banks, a long-established mindset focuses on accounting profits that are easier to calculate and understand. The advent of EVA often led to resistance from management and employees who felt this new formula was too complicated or resulted in lower performance figures, as it explicitly included previously hidden capital costs. This challenge is compounded by the need for intensive education and training for all levels, from operational level to strategic decision-making, so that they understand that EVA's main goal is to create real wealth, not just polishing profit figures.

Other practical challenges are related to limited data and information system infrastructure readiness. To calculate EVA in real-time and accurately, Islamic banks need a sophisticated cost accounting and management system that is able to allocate capital and costs appropriately to each business unit, product, or even customer. Many Islamic banks, especially those of a smaller scale, may not yet have an integrated and adequate management information system to make the complex accounting adjustments required by the EVA methodology. The lack of reliable and detailed data on the cost of capital per business unit can hinder management's ability to use EVA as an effective strategic decision-making tool.

Islamic banks face unique challenges in balancing the dual objectives of Shariah compliance and optimal economic value creation (Bahtiar et al., 2025). Although EVA is in line with Maqashid Syariah, too extreme a focus on maximizing EVA has the potential to sacrifice social or ethical aspects that are characteristic of Islamic banking, such as inclusiveness or financing of certain real sectors that may result in low EVA but have a high social impact. Therefore, the challenge of EVA implementation is how to make it a

measurement tool that remains sensitive to the principles of justice and falah. This requires adjusting the interpretation and implementation of EVA to become a performance measurement culture that not only maximizes shareholder profits but also ensures sustainability and compliance with Islamic morality.

DISCUSSION

Internally, EVA is needed by Islamic banks as a solution to the complexity of capital structures and typical funding costs. Islamic banks not only have their own capital (equity) but also manage customer funds based on profit sharing. This profit-sharing principle essentially creates an obligation to give up a share of the profits, which can be economically interpreted as the cost of capital that the bank must bear. Traditional accounting measurement tools fail to recognize these implicit costs explicitly. EVA, with its obligation to include a weighted cost of capital (WACC), ensures that management recognizes and covers the cost of all funding in both equity and profit-sharing funds before claiming to have created value.

EVA acts as an internal tool that promotes operational efficiency and optimal allocation of resources. In Islamic Banks, EVA acts as a guide for managers in choosing financing and investment portfolios. Managers will tend to choose financing projects that are expected to generate NOPAT in excess of the cost of capital used to fund the project. Investment decisions that result in a positive EVA mean the bank is creating real value. Conversely, projects with negative EVAs should be reevaluated, as they destroy value, although in accounting, they may still register a profit.

From the perspective of internal agency theory, EVA serves to align the interests of managers with those of shareholders. EVA can serve as the basis for a long-term performance-based compensation system. By associating manager bonuses with increased EVAs, Islamic Bank management is encouraged to focus on decisions that maximize shareholder value, rather than simply enlarging short-term profits or assets that are not necessarily efficient. This ensures that the agent (manager) acts in the interest of the principal (shareholder) in accordance with the principles of Sharia justice.

In practice, EVA can be used as a filter in financing decision-making. Before approving the financing, the manager must calculate the potential NOPAT of the financing and compare it with the cost of the allocated capital. If the financing is expected to produce a return below the cost of capital, then the financing is not economically feasible. Thus, EVA helps Islamic banks to minimize the risk of inefficient financing and ensure each asset created actually contributes positively to the overall value of the bank.

The basic concept of EVA, as developed by Stern Stewart & Co., is a value-based performance measurement tool firmly rooted in conventional capital markets. The main focus is to maximize shareholder wealth with the formula: EVA = NOPAT-Capital Charge. In this concept, the cost of Capital (Capital Charge) is calculated based on the WACC, which includes the cost of debt (interest) and the cost of equity (investor's expected return). Its objective is purely the maximization of profits and market value, in the absence of special ethical considerations other than those provided for in the laws of the capital market.

Interpretation of EVA in Islamic banks requires significant adjustments, especially in the calculation of NOPAT. Unlike conventional banks, Islamic banks do not recognize interest.

Therefore, the revenue and cost of Sharia instruments (profit sharing, Murabaha margin) must be treated appropriately. For example, income from profit-sharing-based instruments (mudharabah, Musharakah) should be clearly separated. Other adjustments may be needed regarding charitable funds (qardh) or zakat, which have Sharia implications. This adjustment ensures that the measured profit truly reflects operating results that are in accordance with Islamic principles.

The most critical adjustment occurs in the calculation of the cost of Capital (Capital Charge). In Islamic banks, third-party funds (DPK) based on profit sharing must be taken into account. Although it is not an interest-bearing debt, the return promised to the customer (the ratio) serves as a funding cost. In the interpretation of Sharia EVA, these costs must be accommodated in the WACC or Capital Charge of the bank, since the funds are used to generate profits. By including the cost of this Profit-Sharing Fund, EVA Syariah ensures that the bank not only pays returns to shareholders but also fulfills its return obligations to customers according to the profit-sharing agreement.

CONCLUSION

This study aims to analyze the role of Economic Value Added (EVA) as a value-based performance measurement in Islamic banks and compare it with traditional measurement tools. The results of the analysis show that EVA has a crucial role as a superior performance measurement tool because it explicitly takes into account the entire cost of capital, including the cost of revenue-sharing funds, which traditional accounting measurement tools fail to cover. The application of EVA allows Islamic banks to identify whether their operations are actually creating real economic value for shareholders or actually destroying value. Strategically, EVA guides management decision-making, such as the allocation of resources to projects that generate positive EVA, the establishment of fair profit-sharing ratios, and as a basis for remuneration to align the interests of managers with those of shareholders. Despite challenges in adjusting Sharia calculations and changing organizational culture, EVA ultimately serves as an effective bridge between profitability goals and Sharia principles, ensuring sustainable and responsible growth.

Theoretically, this study enriches the literature on value-based performance measurement by adapting the economic Value Added (EVA) framework to the unique context of Islamic finance, especially regarding the need for capital cost adjustments for third-party funds based on profit sharing. In practical terms, this finding is an important input for Islamic Bank management to adopt EVA as the main internal performance measurement tool. The use of EVA will encourage managers to focus on creating real value, optimizing capital allocation, and making more efficient financing decisions, rather than simply chasing short-term accounting profits. For regulators and Sharia financial authorities, this study suggests the need for consideration to establish standards or guidelines for EVA calculations that are integrated and in accordance with Sharia principles as a complement to traditional measurement tools, in order to increase transparency and accountability of the Islamic banking sector.

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