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Abstract

The purpose of this study was to evaluate four aspects of Bank Syariah Indonesia's merger, namely the capital aspect, the corporate value aspect, the resource aspect, and the competition aspect. The capital aspect, human resources, information technology, and competition are the primary reasons for the merger stated in Disclosure of Information in Connection with Affiliated Transaction issued by Bank Syariah Indonesia and highlighted in the Road Map for Islamic Banking Development 2020-2025 launched by the government. Aspects of corporate value or culture are discussed as one of the central factors in the success or failure of a merger. This research is a case study with an evaluation form, and the analytical technique used is descriptive qualitative analysis. The evaluation used secondary data from the Annual Reports of the three sharia banks that are the elements of the merger, the Islamic Banking Development Road Map, related OJK (Financial Service Authority) regulations, video recordings and news from electronic media, and interviews with sharia economic experts. The study's findings indicate that mergers, in general, will benefit Indonesian Islamic banks. However, there are still potential roadblocks in some areas, most notably capital and resources.

Keywords: Bank Syariah Indonesia, Islamic bank, merger, Islamic bank merger, merger evaluation.

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1. INTRODUCTION

As a country with the largest Muslim population globally, the market potential for Islamic banks in Indonesia is very promising. However, Islamic banks have a minimal market share. One of the issues impeding the development and growth of Islamic banks is a capital shortage. Capital is inextricably linked to a bank's ability to grow in terms of technology, geographic reach, and service quality. Most Islamic banks in Indonesia are classified as BUKU 1 (*Bank Umum Berdasarkan Kegiatan Usaha*—Commercial Bank Based on Business Activities) or BUKU 2. Currently, Indonesia does not have any Islamic banks under the BUKU 4 category. Thus, to maximize market potential in Indonesia, Islamic banks must have a high capital adequacy ratio and be classified as BUKU 4. Referring to the Road Map for the Development of Indonesian Islamic Banking 2020-2025, the national sharia banking needs to be transformed. In addition to capital, there are other problems: Islamic banks do not yet have a significant business model or product differentiation, the low literacy and inclusion index, the lack of quantity and quality of human resources, and information technology that is not optimal. Islamic banking must overcome these problems and come up with a new identity.

The government initiated the merger of Islamic banks under the control of state-owned banks to create a solid capital base. This merger is significant because it is expected to provide a solution to other issues in addition to strengthening capital. On Tuesday, October 13, 2020, the Ministry of SOEs held a press conference connected with the signing of the CMA (Conditional Merger Agreement) for three Islamic banks subsidiaries of state-owned banks, namely Bank Mandiri Syariah, Bank BNI Syariah, and Bank BRI Syariah. This announcement is the first milestone to realize the plan to merge national Islamic banks and the first step for Indonesia to have the largest Islamic bank. The merger process began in February 2021, marked by the formation of a bank resulting from the merger called Bank Syariah Indonesia. The operational merger is expected to be completed in November 2021. The merger will produce Islamic banks with relatively larger capital and is also expected to provide financial and operational synergies and generate economies of scale. Islamic banks are expected to be more competitive and to offer a broader range of investment products. The public's positive sentiment toward this merger is reflected in the soaring share price of BRI Syariah on the Indonesian Stock Exchange as an entity that accepts the merger or as a survivor entity.

By theory, mergers occur because of behaviour to maximize profits by achieving economies of scale or economies of scope to increase market power (Uddin, 2012). Mergers in banks traditionally aim to increase shareholder value. However, empirical research shows a paradox (Piloff & Santomero, 1998). This research is supported by Beccali & Frantz (2009) and Du & Sim (2016), which stated that the evidence that shows ‘mergers and acquisitions can improve bank performance’ is weak or not substantial. Other research confirmed that corporate culture is a factor that often causes merger failures (Appelbaum et al., 2013). Reviews of this literature indicate that there are indeed potential obstacles to the merger of the banking industry in general. However, this study used a different approach that focused more on the specific case of Indonesia’s first Islamic bank merger.

Based on the foregoing, the study of this merger case is interesting since it is the first large-scale Islamic banking merger in Indonesia. Given the potential obstacles identified through a review of the existing literature, this study addressed the value of the merger and the potential roadblocks that could obstruct the merger of Bank Syariah Indonesia. After debating the formulation of the problem, the analysis focused on a few key areas, including the capital, human resources and information technology, competition, and corporate value. The capital aspect, human resources, information technology, and competition are the primary reasons for the merger stated in Disclosure of Information in Connection with Affiliated Transaction issued by Bank Syariah Indonesia and highlighted in the Road Map for Islamic Banking Development 2020-2025 launched by the government. Aspects of corporate value or corporate culture are discussed as one of the central factors in the success or failure of a merger (Appelbaum et al, 2013).

2. LITERATURE REVIEW

2.1. Merger-related Theories

Two academic theories explain why companies engage in takeover activity, and these theories can be used to forecast post-merger performance. The two theories are as follows: the neoclassical profit maximization theory asserts that market competition forces firms to maximize their profits, and companies will engage in takeovers to increase shareholder wealth. The second theory is the maximization of management utility, in which management takes over to maximize personal profits, which are not always aligned with the interests of shareholders (Firth, 1980). It can also be said that in neoclassical theory, mergers and

acquisitions occur because of behaviour to maximize profits. Companies join together because they want to increase productivity and economies of scale or scope to increase market power. Another reason is cost efficiency and synergies from acquiring technology or intangible assets (Uddin, 2012).

Akhavein, Berger, & Humphrey (1997) stated that the merger would provide benefits broadly divided into three ways: first, through cost efficiency, second, through profit efficiency (the concept of profit efficiency is more inclusive than cost efficiency because it considers cost efficiency and the impact on revenue), and third, through the power in the market in setting prices.

According to Pilloff & Santomero (1996), traditionally, bank mergers aim to increase shareholder value. What is expected to increase this value are performance improvements, cost efficiency due to loss of redundant costs, revenue efficiency, increased market power, and improved bank diversification. For a merger to provide value, at least one of these factors must be met.

2.2. Capital-related Theories

Capital is one of the aspects that becomes the focus of this research, as it is inextricably linked to the merger's purpose and is a critical component of the Road Map for Islamic Banking Development 2020-2025. When capital is considered, Berger (1995) suggested in his journal that there is a positive relationship between the capital-to-assets ratio (CAR) and return on equity (ROE). According to the journal's empirical findings, there is a strong positive relationship between capital and earnings. Based on this research, it can be concluded that bank earnings will benefit from capital strengthening through mergers.

Dagher et al. (2016) stated that capital serves as a buffer that absorbs a bank's losses. It helps to reduce bank failure probability, which leads to a better risk management practice. Bank capital also serves to minimize market discipline distortions.

2.3. Previous Research

Literally and empirically, the added value of mergers and acquisitions for the banking industry turns out to be a paradox (Pilloff & Santomero, 1998). This opinion is based on empirical evidence that there is no statistically significant increase in value or performance. This is supported by Beccali & Frantz (2009), who conducted an analysis and found that although there is cost efficiency, mergers and acquisitions in banking are associated with a slight deterioration in the rate of return on equity, cash flow returns, and profit efficiency. Du & Sim (2016)

conducted a follow-up study involving a sample of 120 banks from 6 countries, namely China, India, Indonesia, Malaysia, Russia, and Thailand, stating that the evidence showing mergers and acquisitions can improve bank performance is weak or not substantial. It shows that in mergers, especially banking mergers, there are potential obstacles to the objectives of the merger. In this study, the possible constraints will be evaluated based on important aspects related to the purpose of the merger.

In other studies, there is evidence that cultural factors will play a significant role in determining the success of a merger. According to Papadakis (2007) in Appelbaum et al. (2013), it is not hyperbole to assert that how a company handles this cultural issue is a determining factor in determining whether the merger is successful or unsuccessful. Cultural integration is essential but is often difficult to anticipate, analyze, or quantify. Therefore, it is not surprising that cultural factors are the most frequent causes of merger failures. Bouwman (2013) stated that various surveys and evidence prove that corporate culture is a central factor in the success of mergers and acquisitions. Incompatibility between cultures is a critical factor that causes merger failure.

2.4. Related Regulations

POJK (*Peraturan OJK*- Financial Service Authority Regulation) Number 6 of 2016 Article 3 stipulates that based on the core capital owned, Banks are grouped into four BUKUs (*Bank Umum berdasarkan Kegiatan Usaha*—Commercial Bank Based on Business Activities), namely:

- a. BUKU 1: banks with a core capital of less than one trillion rupiah.
- b. BUKU 2: banks with core capital of at least one trillion rupiah to less than five trillion rupiah.
- c. BUKU 3: banks with core capital of at least five trillion rupiahs to less than thirty trillion rupiah.
- d. BUKU 4: banks with a core capital of at least thirty trillion rupiah.

Article 6 of POJK Number 6 of 2016 regulates the groups of business activities allowed to be carried out by Islamic commercial banks and sharia business units. Article 7 of POJK Number 6 of 2016 stipulates the activities that each BUKU can carry out:

- a. Islamic banks classified as BUKU 3 are permitted to conduct all business activities specified in article 6 in both Rupiah and foreign

currencies, and equity participation in Islamic financial institutions in Indonesia and/or abroad is restricted to the Asian region.

- b. Islamic banks classified as BUKU 4 are permitted to engage in activities permitted by BUKU 3 in Indonesia and/or in all regions of the world with a balance greater than BUKU 3.

3. RESEARCH METHODS

This research is a case study with an evaluation method carried out by collecting information in the form of secondary data relating to aspects evaluated in connection with the merger of Bank Syariah Indonesia. These aspects are capital, corporate value, resources, and competition.

The secondary data used was taken from the Annual Reports of Bank Syariah Mandiri, Bank BRI Syariah, and Bank BNI Syariah, OJK Regulations, Road Map for Development of Islamic Banking 2020-2025, as well as information disclosed (Disclosure of Information) by Bank Syariah Indonesia which sourced from the Indonesia Stock Exchange website at the time of the merger. Additional data sources included credible and accountable electronic media and reviews and opinions from experts or practitioners on the evaluable aspects. The reviews and opinions were obtained through video recordings from credible and accountable electronic media outlets, as well as direct interviews with the experts.

The information was analyzed by evaluating the four aspects previously mentioned by referring to the methods contained in *The Case Study Handbook: A Student Guide* (Ellet, 2018). The analytical technique used was descriptive qualitative analysis. The data and information collected were sorted based on aspects of capital, aspects of corporate value, aspects of resources, and aspects of competition, as well as strategic plans related to these aspects. After the data and information had been collected, an evaluation was carried out based on the criteria related to the purpose of the merger. The evaluation results were used to assess each aspect and strategic plans related to that aspect. Potential obstacles were identified based on discrepancies in aspects or strategic plans with the criteria used.

4. ORGANIZATION PROFILE

Bank Syariah Indonesia's official website contains information about the company's vision and corporate values. The website's mission statement is "Top

10 Global Islamic Bank.” This vision demonstrates that Bank Syariah Indonesia aspires to be a leading Islamic bank.

The company values embedded in Bank Syariah Indonesia are the core values set by the Ministry of SOEs, namely “AKHLAK”:

- a. *Amanah* (A): Hold fast to the trust given.
- b. *Kompeten/Competent* (K): Continue to learn and develop capabilities.
- c. *Harmonis/Harmonious* (H): Caring for each other and respecting differences.
- d. *Loyal* (L): Dedicated and prioritizing the interests of the nation and state.
- e. *Adaptif/Adaptive* (A): Continuously innovate and enthusiastic in moving or facing change.
- f. *Kolaboratif/Collaborative* (K): Building synergistic cooperation

Prior to the merger, the three state-owned Islamic banks had corporate values based on the vision and mission of each company. The following is an explanation of the vision of BRI Syariah, Bank Syariah Mandiri, and BNI Syariah. The vision description used for this research is sourced from the 2020 Report for each Islamic bank. The visions based on each bank are as follows:

- a. The vision of BRI Syariah: “To become a leading modern retail bank with a variety of financial services according to customer needs with the easiest reach for a more meaningful life”.
- b. The vision of BNI Syariah: “To become the sharia bank of choice for the community that excels in service and performance”.
- c. The vision of Bank Syariah Mandiri: “A leading and modern Islamic bank, fair, balanced and beneficial”. This vision is broken down into four smaller visions:
 - For Customers: A trusted bank, providing the best products and services.
 - For Employees: Professionalism, Integrity, and Team Work.
 - For Investors: Profit, Growth and Sustainability.
 - For People and Nations: Zakat, Tax, and Market Share.

In its Annual Report, Bank Syariah Mandiri has implemented corporate values following the direction of the Ministry of SOEs, namely “AKHLAK”. This corporate value has replaced the corporate value held in the previous Annual Report. Likewise, BNI Syariah stated in its Annual Report that AKHLAK, which

is the core value as determined by the Ministry of SOEs, is in accordance with and in line with the values that BNI Syariah has developed. The concept of integration between AKHLAK and BNI Syariah's corporate values, namely *Amanah*, *Jama'ah*, and *Hasanah Way*, is described with *Maqasid Syariah* as the fundamental principle followed by AKHLAK as the core value, *Amanah Jama'ah* as corporate culture and *Hasanah Way* as a corporate campaign. Meanwhile, BRI Syariah, in their Annual Report, also stated that they had implemented the values of AKHLAK into the company culture.

5. ANALYSIS AND DISCUSSION

5.1. Aspects of Capital

One of the objectives of the merger of state-owned Islamic banks is to strengthen capital and strengthen financial assets. This is stated in the Disclosure of Information issued by Bank Syariah Indonesia to the Indonesia Stock Exchange. According to the Director of Sharia Financial Services at KNEKS, the merger was carried out to strengthen the penetration of the Islamic finance industry due to the weakness of the Indonesian Islamic banking industry. One of the reasons for this weakness is the limited capital (investor.id, November 10 2020)

Based on the information released in the Additional Information and/or Amendment to the summary of the proposed merger between PT Bank BRI Syariah Tbk, PT Bank Syariah Mandiri, and PT Bank BNI Syariah number NO.S.B. 172 – MDO/12-2020 contained in the appendix, the merged bank has an issued core capital of more than Rp 20 trillion. The combined assets of the three state-owned Islamic banks reached Rp 214.6 trillion, placing Bank Syariah Indonesia in the list of the ten largest banks in terms of assets (kompas.com, February 1, 2021).

The capital aspect is evaluated based on the purpose of state-owned Islamic banks mergers, which is to strengthen capital. The evaluation is conducted by determining the extent to which the merger has impacted Bank Syariah Indonesia's capital strength. Berger (1995) discusses a strong positive correlation between bank capital and earnings in his article. This capital constraint is one of the impediments to Islamic banking. Merging the assets and core capital of the three Islamic banks will strengthen the capital so that the bank can increase earnings. This increase in earnings will further strengthen the capital. As a result, banks will take on more significant risks in their expansion efforts (Dagher et al., 2016). As a result, it is expected that bank mergers will enable banks to develop and penetrate the market

quickly. This is consistent with increasing the penetration of the Islamic financial market to the point where it has a positive evaluation value.

However, when referring to the Financial Services Authority Regulation (POJK) Number 6 of 2016 Article 3, in terms of capital, Bank Syariah Indonesia is in the category of BUKU 3. This is the same category as Bank Syariah Mandiri and Bank BNI Syariah, which are element banks of the merger. Then, based on Article 7 of POJK Number 6, there are restrictions on the scope of operations for the categories of BUKU 1, BUKU 2, and BUKU 3 banks in terms of expansion areas. Although there is a strengthening of capital and financial assets, the operational constraints faced by Bank Syariah Indonesia are still the same as those of the banks that are elements of the merger. These operational restrictions will later affect the ability of Bank Syariah Indonesia to expand and penetrate the market, especially overseas, because it is only allowed to operate in the Asian region. In other words, the merger cannot overcome the operational limitation constraint. If evaluated from the aspect of capital, the objectives of the merger have not been executed optimally.

Bank Syariah Indonesia itself aims to increase the category to become a BUKU 4 bank. The following is the statement of the President Director of Bank Syariah Indonesia, Hery Gunardi, in the CNBC Indonesia Power Lunch on March 4, 2021:

“...at this time, we are still in BUKU 3, and of course, as the largest Islamic bank in Indonesia in order to have a more optimal ability in terms of serving customers and also doing financing underwriting, hopefully one day we can also enter BUKU 4. With BUKU 4, of course, the existing business opportunities will be easier for us to seize and also provide flexibility because it has become a BUKU 4 Bank.”

The Financial Services Authority's Deputy Commissioner for Banking Supervision II, Slamet Edy Purnomo, expressed the hope that Bank Syariah Indonesia would level up to become a BUKU 4 bank following the merger. The goal is for banks to have a solid capital base and absorb potential risks to increase their financing contributions. (investor.id, December 14, 2020).

Bank Syariah Indonesia plans to conduct a Right Issue in 2021 to strengthen its capital further. This information is based on the statement of the Deputy Minister of SOEs, Kartika Wirjoatmodjo. The targeted amount is US\$ 500 million, or about 7 trillion more. The Right Issue is a step to fulfil the free float rules and get strategic investors. (kontan.co.id, March 11, 2021). However, different information was obtained from Bank Syariah Indonesia. The Corporate Secretary of Bank Syariah Indonesia, Rosalina Dewi, stated that the Right Issue has not become the focus of Bank Syariah Indonesia in the near future and will not be carried out in 2021. The

company's focus is on the operational merger and unification of the system of the three Islamic banks. (investor.id, March 12 2021). The statement by the Corporate Secretary as an internal party of Bank Syariah Indonesia stating that Bank Syariah Indonesia is currently more focused on operations and system unification is understandable, considering that the merger will only be completed in November 2021. Given the community's high level of enthusiasm, as evidenced by the soaring price of BRIS shares at the time of the merger announcement, the Rights Issue was a very prudent move. Conducting a Right Issue is a critical step that must be taken immediately following the completion of the merger. With a target of 7 trillion in Right Issues, Bank Syariah Indonesia's core capital will need to exceed 23 trillion. However, it is preferable if the core capital owned exceeds that amount.

5.2. Aspects of Corporate Value

The criteria used to evaluate aspects of corporate value are the compatibility between the vision and values applied by each bank and the suitability of these values with the values applied to Bank Syariah Indonesia as the result of the merger. This criterion is used to evaluate potential merger constraints related to the integration of corporate culture. Referring to previous empirical research, integration of corporate cultures is one of the main factors that often cause the failure of a merger (Appelbaum et al, 2013), (Bouwman, 2013). Therefore, this aspect is a crucial for the successful merger of Bank Syariah Indonesia.

Dr. Muhammad Syafii Antonio, M.Ec's view is, in Squawk Box CNBC Indonesia July 6, 2020, that the integration of the corporate culture of the three banks that are elements of the merger will take time:

"...Well, what took a long time was to eliminate the corporate culture because it had to be built anew. BSM has been with its corporate for a long time, it has a vision and mission. BRI has long been with its vision and mission. BNI has also been around for a long time... Now to build and eliminate "Me" from BRI, "Me" from BRI, "Me" from BSM, that's a bit long. Therein lies perhaps the biggest challenge. it's probably about three or four years and it will fit really well."

The statement that strengthens the comment is stated in his YouTube Channel by using the conditions of the Bank Mandiri merger as a comparison:

"... (the challenge) that will be very, very big later is the corporate culture. The corporate culture of each of these banks is very, very different... for example, if the culture of Bank Syariah Mandiri is from the culture of Bank Mandiri. If (the culture of) BRI Syariah, it is derived from the culture of BRI. Likewise, (the culture of) BNI (Sharia) is from the parent company BNI, you know... Well, obviously this will be like the challenge for Bank Mandiri,

which is a combination of Bank Eksim, Bank Bapindo, and Bank BDN..., it will really, really takes time to merge. Otherwise, there will be groups... Oh, you're Ex-BSM, you're Ex-BRI, you're Ex-BNI. Now, it won't be so easy, you know, to unite the three corporate cultures of this bank."

His statement is in accordance with the literature review, which states that cultural integration will challenge mergers. The critical point that he emphasized is that this integration will take about three or four years.

In contrast to the merger of Bank Mandiri, the three elements of the merger of Islamic banks, in general, have the same vision, namely Islamic banks that focus on customer service. Another shared vision is to become a superior Islamic bank. After the merger, this vision of a superior bank was brought into the vision with a higher target of becoming a globally superior Islamic bank. Given these similarities, it should not be too difficult for the employees of the three banks to bring this vision into their new environment. Interview with Dr. Tika Arundina, an Islamic economist, discusses this:

"...Well, only it was helped..., to be honest, it was helped because they are all Islamic banks. I think so. So, certain values are mutually agreed upon. That is what will be brought. Well, this value affects most types of businesses. Even though they have different core competencies, maybe their work patterns are also different, but they can build a shared vision. Well, that's what I think is unifying..."

Furthermore, the corporate values used by Bank Syariah Indonesia have been previously instilled in the three banks that are elements of the merger, namely AKHLAK. This is possible since the Ministry of SOEs controls the three Islamic banks. The value of AKHLAK is developed early on to ensure that it is consistent with the corporate values of the three banks. This may be observed by comparing the 2019 Annual Report published before the merger plan was launched to the 2020 Annual Report, which was published after the merger agreement was signed. The three Islamic banks did not mention AKHLAK as a key value in their 2019 annual reports. Early application of Core principles will help to mitigate any cultural issues. If explored further, parts of AKHLAK such as "Harmony," which refers to mutual concern and respect for differences, and "Collaborative," which refers to the development of synergistic cooperation, may help smooth out this integration process even more.

Based on the explanation above, as stated by the Islamic economist, Dr. Muhammad Syafii Antonio, M.Ec., the integration will not happen in a short time. However, the similarities as described above will certainly make the process easier. Although empirically, this aspect is the aspect that most often causes merger

failures, the shared vision and preparation for cultural unification carried out by the Ministry of SOEs through the core value of AKHLAK will significantly help reduce the potential for these problems.

5.3. Aspects of Resources

As stated in the 2020-2025 Islamic Banking Development Roadmap, Islamic banking conditions in Indonesia are still facing obstacles. One of these obstacles is the quantity and quality of human resources that are less than optimal. In addition, Islamic banking information technology is also still inadequate. These two things are conditions that the SOE's sharia bank merger policy wants to improve. One of the particular obstacles regarding human resources that needs attention is the lack of link and match between higher education and the Islamic banking industry. According to Indonesian Vice President KH Ma'ruf Amin, only about 10% of human resources employed in the Islamic banking business have a background in Islamic economics. The remainder is human resources trained in Islamic banking who have a standard economic degree. Additionally, the number of certifying bodies for Islamic economics and finance is insufficient to expand expertise. Currently, existing certification criteria are deemed insufficient (republika.co.id, December 29, 2020).

Post-merger, Islamic Banks do not plan to downsize employees. In this regard, the steps to be taken are relocating adjacent or opposite branches to areas that Bank Syariah Indonesia has not served. The excess of the existing human resources will be channelled to these areas (kompas.com, October 13, 2020). Bank Syariah Indonesia also plans to collaborate and synergize with universities to build resources that are in accordance with the needs of the Islamic economic industry.

Regarding other facets of resources, technology, Director of Information Technology BSI Achmad Syafii noted a perception that Islamic banks lag behind mainstream banks in terms of technology. He recognized that Islamic banks had historically lagged technologically but are now catching up. (cnnindonesia.com, March 25, 2021). To catch up, Bank Syariah Indonesia is in the process of digital transformation to improve customer service. According to the Director of Bank Syariah Indonesia, Hery Gunardi, the company is currently undergoing improvements to complete the digital ecosystem related to the BSI Mobile application (liputan6.com, April 23 2021).

The criteria used to evaluate the resource aspect is the ability of the resources owned by Bank Syariah Indonesia to support the achievement of the merger objectives. One of the merger objectives related to this is to increase the

expansion and market penetration of Islamic banks. This is included since the resource component of Islamic banking is highlighted as a shortcoming in the Road Map for Islamic Banking Development 2020-2025. The constraint of the lack of resources, both in terms of HR and technology competencies, was strengthened by the President Director of Bank Syariah Indonesia Hery Gunardi in the Economic Update at Squawk Box, CNBC Indonesia, July 14, 2021:

“... so far, the Islamic bank is part of a conventional bank, so yes, from a capital perspective, it is not optimal, then from the HR side, we also see that it is not really optimal, so from a technology perspective, it must also be developed.”

When examined further, the human resource constraints faced by the national sharia industry, both in terms of link and match as well as in certifications of competencies, are the problems of national sharia banking. In other words, this is a problem also faced by the three Islamic banks which are the elements of the merger. As a result, the merger will not directly improve the quality of human resources. However, as stated by Dr. Muhammad Syafii Antonio, M.Ec., this merger can improve human resources and technology owned by Bank Syariah Indonesia. With stronger capital, improvements can be made by hiring more competent human resources. In the video on February 1, 2021, uploaded on his YouTube Channel, Dr. Muhammad Syafii Antonio, M.Ec. commented on the aspects of the Indonesian Islamic Bank's resources at the time of the merger:

“Well, the amount of capital owned which exceeds 20 trillion will allow it (Bank Syariah Indonesia) to invest in IT more freely. And will allow it to take better human resources too. Usually, human resources have to be paid highly. Now there is still the impression, for example, that the HR who join Islamic banks are secondary human resources, so they are not top of the top. Because the top of the top may go to a bank with a large asset capitalization with a large salary. With this merger, it will allow Bank Syariah Indonesia to hire, in quotes, more expensive with better calibre.”

According to Pilloff & Santomero (1998), traditional bank mergers aim to increase shareholder value. What is expected to increase this value are performance improvements, cost efficiency due to loss of redundant costs, revenue efficiency, increased market power, and improved bank diversification. In the case of Bank Syariah Indonesia, the increase in value will come from the strength of the capital resulting from the merger, where this strength will give Bank Syariah Indonesia the ability to offer salaries and more attractive incentives. In addition, it also provides an opportunity for Bank Syariah Indonesia to offer international standard sharia training for its employees. All of that will lead to an increase in the quality of

employees in Bank Syariah Indonesia so that there will be an increase in performance, and it will be possible to increase strength in the market.

The merger will result in technology conversion on the information technology (IT) side. Following the merger, Bank Syariah Indonesia will use technology held by Bank Syariah Mandiri, resulting in a gradual transfer of customers from BNI Syariah and BRI Syariah. The BSM technology was chosen because it is regarded to be more advanced than the technology used by the other two banks, as stated by Hery Gunardi, President Director of Bank Syariah Indonesia (hukumonline.com, February 10, 2021):

“After conducting an assessment in terms of technology, we chose BSM technology because it is more advanced and has twice as many customers as others.”

Efficiency and synergy through technology conversion are among the merger’s goals mentioned by Uddin (2012) in his journal. With this conversion, customers using BNI Syariah and BRI Syariah receive increased service quality. This conversion will also provide added value for parties who were previously elements of BNI Syariah and BRI Syariah. In addition, the large capital resulting from this merger also allows IT investment to be more unimpeded. Investments to improve technology and digital ecosystems will require enormous costs, as stated by Dr Muhammad Antonio Syafii, M.Ec. in his YouTube Channel:

“Similarly, investment in IT can be more unimpeded (after the merger). Because, as we all know, today is the digital era, today is the internet era. Therefore it requires an IT infrastructure that is not cheap. This is a disruptive era, how can we cooperate with fintech, how can we cooperate with the internet of things. This requires a very expensive infrastructure.”

Today’s proliferation of digital banks has set a new standard in the banking industry. With this more flexible investment, the development of the digital ecosystem will be faster. The development of the BSI Mobile application as a super application will be a watershed moment in the evolution of digitalization. The corporation will bolster its digital infrastructure and partner with sharia-compliant fintech firms (bisnis.com, July 30, 2021). Thus, the 2020-2025 Sharia Banking Development Road Map’s goal of digitization of sharia banking will be accomplished more swiftly. These characteristics will help Bank Syariah Indonesia better prepare for the internet and digital era, in which digital services are a requirement for any bank seeking to compete on a local and worldwide basis.

One thing that needs to be observed is the plan of Bank Syariah Indonesia not to reduce employees even though the number has become large as a result of

the merger. This is reasonable considering that economic conditions become difficult during a pandemic, and terminating work will be deemed unethical. In addition, the excess number of employees can later be utilized when Bank Syariah Indonesia expands or opens new business lines. However, based on a review on resources, Islamic banking human resources are currently still lacking in quality. Bank Syariah Indonesia's steps to retain existing employees tend to close the opportunity to recruit more qualified workers. This means that the potential to get workers with better calibre will be delayed for some time. In other words, if viewed from a business perspective, this policy is counterproductive and ineffective.

With various considerations, this policy is the best that Bank Syariah Indonesia can take for the time being. Quoting statements from an interview with Islamic economist Dr. Tika Arundina:

"... (policy to retain all employees) it is not effective. But it is a policy taken for the benefit of all because it is not only about efficiency, but it seems that it concerns the interests of many people, and the reputation (of Bank Syariah Indonesia) must also be built."

However, if viewed from the point of view of improving the quality of existing human resources, there need to be further solutions for this excess workforce. Without an improvement in the quality of human resources, this will become an obstacle to achieving the objectives of the merger and the vision of Bank Syariah Indonesia.

5.4. Aspects of Competition

The competition aspect will be closely related to the previous aspects, especially capital and resource aspects. Strengths and weaknesses in these aspects will be reflected in the bank's strength to compete. Bank Syariah Indonesia has planned several strategies to increase its competitive strength. Apart from the strategies related to capital and resources previously mentioned, Bank Syariah Indonesia plans to redesign its business model, as stated by the President Director of PT Bank Syariah Indonesia, Hery Gunardi (kontan.co.id, December 16, 2020). One of these plans is to build a more inclusive and universal brand so that it can reach all groups of customers.

Bank Syariah Indonesia intends to enter the global *sukuk* market in October 2021, establishing a representative office in Dubai, United Arab Emirates. The Dubai Worldwide Financial Centre (DIFC) was chosen as the target location because it is an ideal location for a financial centre that is friendly to investment and adheres to international standards of regulation. This step entails developing a

business expansion strategy. Bank Syariah Indonesia's establishment of a business company in Dubai is expected to enable the issuing of Global Sovereign and Corporate *Sukuk*. (kontan.co.id, August 23, 2021).

The merger is believed to increase the competitiveness of Islamic banks. The following is a review of Dr Antonio Syafii M. Ec. Regarding the potential and advantages of each Islamic bank which is the element of the merger which, when combined, will become an extraordinary strength, in the dialogue between him and Erwin Surya Brata in Squawk Box, July 6, 2020, on CNBC Indonesia:

"...of course, there are bigger banks right now... the biggest one is Bank Syariah Mandiri. These figures were in March 2020. They have moved a bit. Well, automatically, the one with more branches, the one with more employees, is Bank Syariah Mandiri. But the BRI Syariah Bank has strength in retail. It has tremendous power with MSMEs, which is better, perhaps, compared to Bank Syariah Mandiri. Likewise, BNI Syariah Bank is quite strong in corporations. So, if we take the strengths of each of these banks, Bank Syariah Mandiri is quite strong in the education sector, in the medical sector, as well as the largest in Hajj and Umrah. Then BNI (Syariah) from the corporation, BRI (Syariah) from its MSMEs, if combined, it will become a very extraordinary strength."

The dialogue occurred when the discourse emerged to merge Islamic banks owned by SOEs. Meanwhile, in a dialogue at CNBC Indonesia's Power Lunch, March 7, 2021, President Director of Bank Syariah Indonesia Hery Gunardi revealed the strengths of each of the merged element banks that will be brought into the strength of Bank Syariah Indonesia as the bank resulting from the merger. The following is an excerpt from his statement:

"...looking at the DNA of the three sharia banks participating in this merger, including Bank Syariah Mandiri, BNI Syariah, and BRI Syariah, each of which has its strength... it means that we will bring good capabilities and good best practices from these three banks to Bank Syariah Indonesia. If we know from BRI Syariah that they are indeed superior in terms of MSME and micro-financing, we continue to maintain this as one of the honours also in terms of financing at Bank Syariah Indonesia. Then BNI Syariah is also strong in terms of consumer funding and consumer products. And Bank Syariah Mandiri brings its strength in the form of wholesale banking because its parent Bank Mandiri is indeed strong in terms of wholesale and corporate banking. And on the other hand, it is also related to the risk management framework, which was brought from Bank Syariah Mandiri, and a little bit related to the consumer..."

The two reviews focused on the strengths of each Islamic bank, which serve as the foundation for the merger, and when combined, provide incredible power. From the competition perspective, which is the nexus of all other considerations, the merger will address existing shortcomings and generate a significant

competitive advantage for Bank Syariah Indonesia. As outlined in the review section, this competitive advantage will provide the company with the capital necessary to execute strategies in the corporate, commercial, consumer, and MSME segments.

On another occasion, Dr. Syafii Antonio M.Ec. also provides a review of this aspect, especially when viewed from the global competition in Islamic banking, as taken from his YouTube Channel in February 2021:

“Today’s government has given the best step by combining the three banks with assets approaching 240 trillion. Now, this itself will position Indonesian Islamic banks as the seventh-largest bank after BRI, Mandiri, BNI, BCA, BTN, and CIMB. Obviously, this will raise the dignity of Islamic banking in Indonesia. So, it’s not the eighteenth bank as before, or the twenty-seventh bank, but he’s risen to the top seven in Indonesia; and he will also be in the top ten (sharia) banks in the world with the Kuwait Finance House, with Rajhi, with the Commercial National Bank, with Boubyan, and with other banks in the Middle East including the National Bank of Abu Dhabi. This will make Bank Syariah (Indonesia) have great bargaining power in Indonesia and also globally...”

With the emergence of Bank Syariah Indonesia to be the ten largest banks nationally and the ten largest Islamic banks globally, the company’s dignity will be elevated. This means that the bank will have a more substantial reputation and bargaining power both nationally and internationally. This will accelerate the plans to open a representative office in Dubai and plans to issue global sukuk. It is very much in line with the goal of the merger, which is increasing penetration of the sharia market, and will further strengthen the capital of Bank Syariah Indonesia. In the end, this will strengthen the position and competitiveness of Bank Syariah Indonesia.

6. CONCLUSION

The results of the analysis and the research evaluation show that this merger has a positive impact in general. From the aspects evaluated in this study, it can be concluded that the merger will provide much potential for Indonesian Islamic Banks. The corporate value aspect evaluation shows that the integration of culture, which is the biggest potential obstacle to the merger’s success, will be minimized. However, there are potential obstacles in other aspects studied, namely aspects of capital and aspects of resources, especially related to human resources, which can result in the merger’s objectives not being achieved optimally.

This paper has limitations due to a lack of internal access, as the research object was undergoing operational integration when this research was undertaken. This results in incomplete exploration of data, which may impair the study analysis. It is recommended that additional studies are conducted as access to internal information becomes more readily available, allowing for more extensive evaluations, mainly regarding financial and operational synergy.

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