

Islamic Bank Merger and the Efficiency–Risk Trade-off: Evidence from Bank Syariah Indonesia

ABSTRACT - The merger of three state-owned Islamic banks into PT Bank Syariah Indonesia Tbk (BSI) in 2021 marked a major structural shift aimed at strengthening efficiency and competitiveness within Indonesia's Islamic banking industry. This study examines the dual impact of the merger, focusing on the trade-off between efficiency gains and credit risk within the *Maqasid al-Shariah* framework, particularly the principle of *hifz al-mal* (protection of wealth). A quantitative panel data approach is employed, utilizing a Fixed Effects model on four major Islamic banks over the 2018–2024 period. To address pre-merger data limitations, a synthetic data construction technique is used for the 2018–2020 period. The merger's impact is assessed through the *Hifz al-Mal Performance Index*, a composite indicator capturing both asset development and asset protection dimensions. The findings reveal a dual pattern: profitability (ROA) and operational efficiency (BOPO) improved following the merger, while credit risk increased, as indicated by higher Non-Performing Financing (NPF). The regression results show a positive but marginally significant effect of the merger ($\beta_1 = 7.452$; $p = 0.057$). Sensitivity analysis further demonstrates that this positive effect depends on the index weighting scheme, with results becoming statistically insignificant when greater emphasis is placed on asset protection. These findings highlight the importance of balancing *tanmiyat al-mal* (wealth development) with the safeguarding function of *hifz*, particularly in the context of large-scale corporate restructuring in Islamic banking.

ABSTRAK - Merger Bank Syariah dan Trade-off antara Efisiensi dan Risiko: Bukti dari Bank Syariah Indonesia. Merger tiga bank syariah BUMN menjadi PT Bank Syariah Indonesia Tbk (BSI) pada tahun 2021 menjadi tonggak penting dalam upaya meningkatkan efisiensi dan daya saing industri perbankan syariah di Indonesia. Penelitian ini mengkaji dampak ganda dari merger tersebut dengan menelaah keseimbangan antara peningkatan efisiensi dan risiko kredit dalam kerangka *Maqasid al-Shariah*, khususnya prinsip *hifz al-mal* (perlindungan harta). Penelitian ini menggunakan pendekatan kuantitatif dengan desain data panel melalui model *Fixed Effects* pada empat bank syariah utama selama periode 2018–2024. Untuk mengatasi keterbatasan data sebelum merger, digunakan teknik konstruksi data sintesis pada periode 2018–2020. Dampak merger diukur melalui Indeks Kinerja *Hifz al-Mal*, yaitu indeks komposit yang mencerminkan dimensi pengembangan dan perlindungan harta. Hasil penelitian menunjukkan pola yang bersifat ganda: terjadi peningkatan profitabilitas (ROA) dan efisiensi operasional (penurunan BOPO), namun diiringi peningkatan risiko kredit yang tercermin dari kenaikan *Non-Performing Financing* (NPF). Secara agregat, hasil regresi menunjukkan pengaruh positif yang signifikan secara marginal ($\beta_1 = 7.452$; $p = 0.057$). Uji sensitivitas mengungkap bahwa hasil tersebut sangat bergantung pada skema pembobotan indeks, di mana pengaruh merger menjadi tidak signifikan ketika bobot perlindungan aset ditingkatkan. Temuan ini menegaskan pentingnya menjaga keseimbangan antara *tanmiyat al-mal* (pengembangan harta) dan fungsi perlindungan (*hifz*) dalam konteks restrukturisasi perbankan syariah.

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INTRODUCTION

Islamic banking in Indonesia has experienced a notable transformation following the merger of three state-owned Islamic banks—PT Bank BRI Syariah Tbk, PT Bank BNI Syariah Tbk, and PT Bank Syariah Mandiri Tbk—into PT Bank Syariah Indonesia Tbk (BSI) in February 2021 (Sayekti et al., 2023). This consolidation represents a strategic effort to establish a larger and more efficient institution, with the intention of strengthening the competitiveness of the Islamic banking sector in the face of conventional banking dominance (Ramadhan et al., 2022). The integration process included structural adjustments such as branch rationalization and cost efficiency measures, which introduced the possibility of diverse organizational and financial consequences. Despite these potential challenges, empirical findings indicate that the post-merger performance has remained strong (Baharudin et al., 2023; Masrukhan et al., 2024).

Following the merger, BSI demonstrated consistent asset growth, reaching IDR 353.62 trillion by the end of 2023, with an annual growth rate of 15.67% (BSI, 2023). Several key performance indicators also improved. Gross non-performing financing (NPF) declined to 2.08%, while operational efficiency increased, as reflected in the reduction of the Operating Expense to Operating Income (BOPO) ratio to 71.27% in 2023 (BSI, 2023). These outcomes contrast with earlier concerns that large-scale consolidation might adversely affect financial stability and operational performance.

Nevertheless, an assessment based solely on aggregate performance indicators may not fully capture the complexity inherent in large-scale corporate consolidation. Strategic decisions of this scale often involve trade-offs. While efficiency gains and profitability improvements may be achieved, new forms of risk may also emerge (Sari et al., 2024). Preliminary observations suggest such a dynamic, where post-merger improvements in efficiency and profitability, as indicated by Return on Assets (ROA), occur alongside a slight increase in non-performing financing (NPF) (Ibrahim, 2024; Muarif et al., 2021). This pattern raises an important issue regarding the balance between efficiency gains and the maintenance of asset quality and long-term financial stability.

Within the framework of Islamic economics, financial performance is evaluated not only through conventional indicators such as ROA and net profit margin (NPM), but also through the principles of *Maqasid al-Shariah*. These principles emphasize the realization of *maslahah* (public benefit) through five primary objectives: *hifz al-din* (protection of religion), *hifz al-nafs* (protection of life), *hifz al-'aql* (protection of intellect), *hifz al-nasl* (protection of lineage), and *hifz al-mal* (protection of wealth) (Nafisah & Haryono, 2024; Nurmahadi & Setyorini, 2018). The dimension of *hifz al-mal* is particularly relevant in the context of consolidation, as organizational restructuring may affect the security of customer assets and stakeholder interests through liquidity-related risks and potential declines in trust. Previous research indicates that incorporating Maqasid al-Shariah into Islamic financial practices can contribute to enhanced financial resilience, including in post-crisis conditions, although existing measurement approaches remain largely qualitative (Guney, 2024). In parallel, empirical studies on PT Bank Syariah Indonesia report an increase in ROA following the merger (Anisa et al., 2024; Annisa et al., 2023; Suharsono et al., 2023).

Although the merger of BSI has attracted considerable academic attention, a significant gap remains in the literature. Existing studies predominantly rely on descriptive approaches and have yet to provide a quantitative examination of the trade-off between efficiency and credit risk within an integrated *Hifz al-Mal Performance Index* framework. This study addresses this gap through an analysis of how consolidation influences two key dimensions: “asset growth,” representing efficiency, and “asset protection,” representing asset quality. The analysis highlights that the observed positive impacts are relatively marginal and sensitive to the weighting scheme of the index variables employed. The study situates these findings within a broader effort to develop a more comprehensive understanding of consolidation outcomes in Islamic banking, particularly in relation to the objectives of *maslahah*.

LITERATURE REVIEW

The Bright Side of Mergers

Merger and consolidation strategies, frequently accompanied by organizational downsizing, are conceptually grounded in Synergy Theory and Agency Theory. From a theoretical perspective, mergers are expected to generate added value through economies of scale, allowing financial institutions to operate at lower average costs. In the context of PT Bank Syariah Indonesia (BSI), the integration of three state-owned Islamic banks was intended to reduce agency costs associated with overlapping leadership structures and operational duplication across separate entities (Faisal et al., 2020). A more centralized organizational structure is expected to facilitate closer alignment between principals and agents through improved coordination and oversight.

Empirical studies largely support these expectations. The literature indicates that strategic consolidation is associated with improvements in financial performance, commonly reflected in higher Return on Assets (ROA) and reductions in the Operating Expenses to Operating Income (BOPO) ratio. Post-merger analyses of BSI report consistent increases in profitability alongside enhanced operational efficiency (Aswin & Purnomo, 2024; Ramadhan et al., 2024). This development aligns with the Indonesian Sharia Banking Roadmap 2020–2025, which identifies consolidation as a key strategy for strengthening the competitiveness of Islamic banking in relation to conventional financial institutions. Within this perspective, mergers are understood as a rational approach to optimizing asset utilization and improving aggregate financial outcomes.

The Other Side of Mergers

Despite the anticipated efficiency gains, the literature also highlights the risks associated with merger strategies, often conceptualized as integration risk. Large-scale organizational restructuring can introduce instability in financial performance, particularly in terms of asset quality. The consolidation of distinct financing portfolios from previously independent institutions requires the harmonization of risk management frameworks, a process that may involve significant complexity. Empirical findings suggest that although BSI experienced improvements in profitability, its Non-Performing Financing (NPF) exhibited fluctuations during the transition period, indicating a degree of vulnerability (Christyanti et al., 2023). This pattern underscores the continued exposure of Islamic banks to credit risk, which may intensify during periods of organizational change.

The human dimension represents another critical aspect of merger outcomes. Downsizing and restructuring extend beyond financial metrics and can affect the psychological well-being of employees (Brauer & Vandepoele, 2024). Job uncertainty associated with mergers has been shown to reduce organizational commitment and employee engagement (Ishfaq et al., 2022). In the case of BSI, the integration of distinct organizational cultures presents additional challenges for human resource management (Kurniawan, 2023). From the customer perspective, changes in branch networks and service structures may disrupt service quality, which remains a central determinant of customer loyalty in Islamic banking (Lestari & Rahman, 2024; Rahmati et al., 2022). These findings suggest that efficiency gains achieved alongside social and organizational strain may carry longer-term implications, including potential forms of *mufسادah* that are not immediately visible in financial indicators (Dwivedi et al., 2025; Gandolfi, 2013).

Weighing Both Sides through the Maqasid al-Shariah Perspective

The Maqasid al-Shariah framework provides a comprehensive lens for examining the dual dimensions of merger outcomes. Within this framework, the principle of *hifz al-mal* (protection of wealth) serves as a central evaluative criterion. This principle encompasses two interconnected dimensions: *tanmiyat al-mal* (the development and growth of wealth) and *hifz al-mal* in the narrower sense, referring to the protection of wealth from loss. Improvements in ROA and operational efficiency may be interpreted as indicators of *tanmiyat al-mal*, while the control of NPF reflects efforts to safeguard asset quality and financial stability.

Within the discourse on the Sharia Maqasid Index (IMS), an ongoing debate concerns the relative priority of profit generation and risk protection. Drawing on the fiqh principle *dar'ul mafasid muqaddamun 'ala jalbil mashalih* (the prevention of harm takes precedence over the pursuit of benefit), the protection of customer funds and systemic stability is generally regarded as more fundamental (*daruriyyat*) than the maximization of profit, which is often categorized as *hajiyyat* (Asmar et al., 2023; Maulida & Firdaus, 2025). This perspective suggests that the evaluation of merger outcomes should extend beyond conventional measures of efficiency to include considerations of asset security and broader stakeholder welfare, including aspects related to *hifz al-nafs* (protection of life and well-being).

METHODOLOGY

Research Design

This study adopts a quantitative research approach using a panel data framework to examine the impact of the BSI merger policy on financial performance from the perspective of *hifz al-mal*. The analysis focuses on four of the largest Islamic banks in Indonesia, selected through purposive sampling to reflect institutions with significant market share and data availability. The observation period spans seven years (2018–2024), resulting in a balanced panel dataset.

Given that the merger forming PT Bank Syariah Indonesia (BSI) occurred in 2021, the study constructs a synthetic representation of pre-merger BSI for the 2018–2020 period. This construction involves aggregating financial statement data—specifically the statements of financial position and income statements—of PT Bank BRI Syariah Tbk, PT Bank BNI Syariah Tbk, and PT Bank Syariah Mandiri Tbk. This approach facilitates a consistent comparison

between the pre-merger and post-merger conditions. The final dataset consists of 28 observations (4 banks \times 7 years), which, while limited in size, captures a substantial proportion of the Islamic banking sector in Indonesia.

Data Collection Method

The study relies on secondary data obtained from published financial reports of the sampled Islamic banks and relevant macroeconomic sources. The primary variables are constructed to reflect the *hifz al-mal* dimension within the Maqasid al-Shariah framework.

The key independent variable is a merger policy dummy, which distinguishes the post-merger period (2021–2024 = 1) from the pre-merger period (2018–2020 = 0). The dependent variable is the *Hifz al-Mal Performance Index*, developed as a composite measure that captures multiple dimensions of financial performance. The index initially assigns weights of 40% to Return on Assets (ROA) as a proxy for profitability, 30% to the inverse of Non-Performing Financing (NPF) to represent asset protection, and 30% to Financing to Deposit Ratio (FDR) as an indicator of intermediation capacity.

To address potential subjectivity in the weighting scheme, the study incorporates a sensitivity analysis. An alternative index specification is constructed with a stronger emphasis on asset protection, allocating 50% weight to NPF, 25% to ROA, and 25% to FDR. This alternative specification allows for an examination of how different weighting structures influence the interpretation of merger effects.

Data Analysis Method

The empirical analysis employs a fixed effects panel regression model as the primary analytical tool (Wooldridge, 2002). Model selection is informed through the Hausman test, which indicates that the fixed effects specification is more appropriate than the random effects model ($p < 0.05$). The use of the Generalized Method of Moments (GMM) is not considered, given the limited number of cross-sectional units ($N = 4$), which may lead to biased and unstable estimates in small samples. The regression model is specified as follows:

$$\begin{aligned} \text{Hifz al-Mal Index}_{it} = & \beta_0 + \beta_1 \text{Merger}_{it} + \beta_2 \text{BOPO}_{it} + \beta_3 \text{Asset}_{it} \\ & + \beta_4 \text{Inflation}_{it} + \sum \delta_j \text{Bank}_j + \varepsilon_{it} \end{aligned} \quad (1)$$

where:

- $\text{Hifz al-Mal Index}_{it}$ represents the composite performance index for bank i at time t ;
- Merger_{it} is the dummy variable indicating the merger period;
- BOPO_{it} reflects operational efficiency;
- Asset_{it} represents bank size;
- Inflation_{it} captures macroeconomic conditions;
- Bank_j denotes bank-specific fixed effects;
- ε_{it} is the error term.

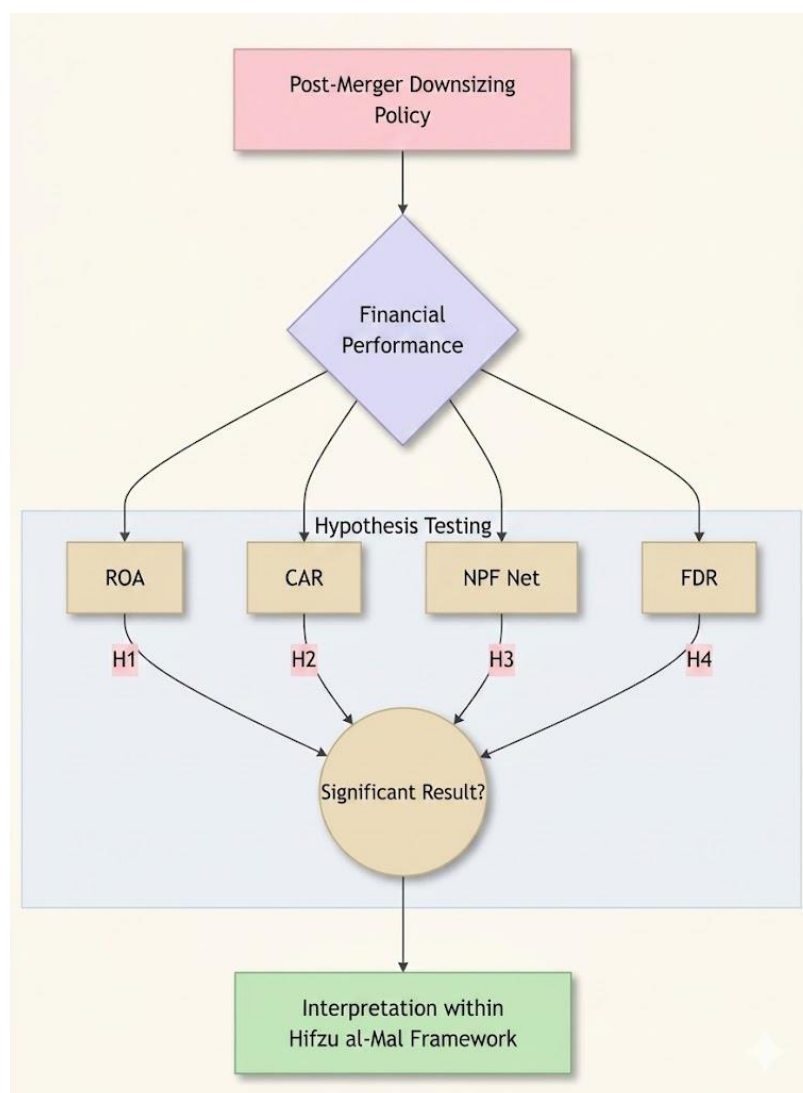


Figure 1. Conceptual Framework

Data processing and statistical analysis are conducted using EViews 12 software. The analytical procedure includes descriptive statistics and a series of diagnostic tests to assess the robustness and validity of the regression estimates. Figure 1 presents the conceptual framework of the study, illustrating the analytical flow from the merger policy as the initial event, through the measurement of key variables, to hypothesis testing within the framework of *Maqasid al-Shariah*.

RESULTS AND DISCUSSION

This section presents the empirical findings of the study and situates them within the relevant theoretical and empirical literature. The analysis is structured in two parts. The first part reports the results derived from descriptive statistics and panel regression models, including robustness checks through sensitivity analysis. The second part interprets these findings through the lenses of Agency Theory and Maqasid al-Shariah, with particular attention to the hifz al-mal dimension. This structure allows for a systematic examination of how the merger of PT Bank Syariah Indonesia relates to both financial performance indicators and broader considerations of asset development and protection.

Results

Descriptive Statistics

The analysis begins with a descriptive comparison of financial conditions before and after the implementation of the BSI merger policy in 2021. The dataset consists of 28 panel observations derived from four Islamic banks over the 2018–2024 period. The *Hifz al-Mal Index* is constructed as a composite measure based on weighted indicators of Return on Assets (ROA) (40%), inverse Non-Performing Financing (NPF) (30%), and Financing to Deposit Ratio (FDR) (30%).

Table 1. Descriptive Statistics of Main Variables Based on Merger Period

Period	Maslahah (Mean)	Maslahah (Std.Dev.)	ROA (Mean)	NPF (Mean)	BOPO (Mean)
Pre-Merger (2018–2020)	58.33	7.88	2.30	1.66	80.30
Post-Merger (2021–2024)	65.14	8.23	2.91	1.81	72.26

Source: Author's calculations based on OJK data and bank financial reports (2025)

Table 1 indicates an increase in the *Hifz al-Mal Index* of 6.81 points (11.7%) in the post-merger period. This change corresponds with an increase in ROA of 26.5% and a reduction in BOPO of approximately 10%, suggesting improved operational efficiency. At the same time, the average NPF increased from 1.66% to 1.81%, indicating a rise in credit risk during the same period.

Regression Analysis Results

To examine the effect of the merger while controlling for bank-specific characteristics, the study employs a fixed effects panel regression model. The estimation results are presented in Table 2.

Table 2. Fixed Effects Panel Regression Estimation Results (Main Model)

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	65.680	32.456	2.024	0.048
Merger	7.452	3.891	1.915	0.057
BOPO	0.018	0.198	0.092	0.940
Assets	-0.138	0.086	-1.603	0.117
Inflation	0.783	3.782	0.207	0.846

Note: R-squared = 0.317; F-statistic = 1.327 ($p = 0.057$); $N = 28$.

The coefficient of the merger variable is positive (7.452) and statistically significant at the 10% level ($p = 0.057$), indicating an association between the merger policy and improvements in the *Hifz al-Mal Performance Index* under the baseline specification.

Sensitivity Analysis

To further examine the robustness of these findings, a sensitivity analysis is conducted using an alternative weighting scheme that emphasizes asset protection. The revised index assigns weights of 50% to NPF, 25% to ROA, and 25% to FDR.

Table 3. Original Model vs. Sensitivity Analysis (Protection-Heavy Weighting)

Model	Merger Coefficient	Std. Error	t-value	p-value	Weighting (NPF/ROA/FDR)
Original Model	7.452	3.891	1.915	0.057	30% / 40% / 30%
Sensitivity Model	0.012	0.021	0.570	0.569	50% / 25% / 25%

The results indicate that when greater emphasis is placed on credit risk, the merger coefficient becomes statistically insignificant ($p > 0.10$) and shows a weaker magnitude. This shift highlights the sensitivity of the results to the weighting structure of the composite index.

Discussion

Efficiency Gains and the Reconfiguration of Agency Costs

The empirical results indicate improvements in profitability and operational efficiency following the BSI merger, as reflected in higher ROA and a lower BOPO ratio. These outcomes are consistent with the expectations of Agency Theory, which posits that consolidation can reduce inefficiencies arising from fragmented governance structures and overlapping managerial functions (Faisal et al., 2020). Prior to the merger, the coexistence of three state-owned Islamic banks created structural redundancies, including duplicated monitoring mechanisms and internal competition over similar market segments (Hendrastuti & Harahap, 2023). The integration into a single entity appears to have streamlined decision-making processes and reduced coordination costs.

The decline in BOPO suggests that cost rationalization has been realized at the operational level. This likely reflects the elimination of duplicated organizational layers and the consolidation of branch networks, which has also been documented in previous studies on BSI (Aswin & Purnomo, 2024; Ramadhan et al., 2024). At the same time, the increase in ROA indicates more efficient utilization of assets and a potential realization of economies of scale. Larger asset bases may enable participation in financing activities that were previously inaccessible to smaller, fragmented institutions (Lestari & Rahman, 2024).

However, these efficiency gains warrant careful interpretation. The reduction in agency costs at the organizational level does not necessarily eliminate agency problems altogether; rather, it may transform them into different forms. A larger, more centralized institution can introduce new layers of complexity, including information asymmetry between central management and operational units. In such settings, monitoring challenges may shift rather than disappear. The observed improvements in efficiency may therefore reflect short- to medium-term gains, while longer-term governance dynamics remain uncertain.

Profitability within the Framework of Tanmiyat al-Mal

Within the *Maqasid al-Shariah* framework, improvements in profitability and efficiency can be interpreted as part of *tanmiyat al-mal* (wealth development). From this perspective, financial performance is not solely an end in itself but also a means to support broader socio-economic objectives. The increase in ROA suggests that BSI has strengthened its capacity to generate

internal resources, which may enhance its ability to fulfill developmental roles within the Islamic financial system (Sofya et al., 2024).

The relationship between profitability and institutional resilience is particularly relevant. Empirical evidence indicates that higher profitability contributes to stronger capital positions, as retained earnings form an important component of bank capital (Hidayati & Segoro, 2025). This dynamic implies that improvements in ROA may indirectly support financial stability through enhanced capital adequacy. A stronger capital base, in turn, can expand the bank's capacity to absorb shocks and sustain financing activities during periods of economic uncertainty.

In addition, increased financial capacity may facilitate greater engagement with the real sector, including financing for micro, small, and medium enterprises (MSMEs), as well as investments in financial inclusion initiatives (Syarifuddin, 2020). These functions align with the broader objectives of Islamic finance, which emphasize the creation of socio-economic value and the promotion of equitable growth (Al-Ayubi & Halawatuddu'a, 2021). Nevertheless, the extent to which these potential benefits materialize depends on institutional priorities and the allocation of resources, which are not directly captured in the financial indicators used in this study.

Credit Risk Dynamics and the Fragility of Asset Protection

While improvements in efficiency and profitability are evident, the increase in Non-Performing Financing (NPF) introduces a critical dimension to the analysis. Although the rise in NPF appears moderate in magnitude, it signals potential vulnerabilities in asset quality. This pattern is particularly relevant in the context of post-merger integration, where the consolidation of heterogeneous financing portfolios may generate inconsistencies in risk assessment and management practices (Christyanti et al., 2023).

The increase in NPF can be interpreted as an indication of transitional frictions. Differences in underwriting standards, sectoral exposures, and risk cultures across the pre-merger institutions may create challenges in achieving a unified risk management framework. These challenges may not be immediately visible in aggregate performance indicators but can manifest gradually through changes in financing quality. The persistence of such dynamics may have implications for long-term financial stability, particularly if risk accumulation is not adequately addressed.

From the perspective of *Maqasid al-Shariah*, this issue relates directly to the principle of *hifz al-mal*, particularly in its protective dimension. The safeguarding of wealth requires not only the generation of returns but also the prevention of loss and the preservation of asset quality (Syahrani et al., 2024). An increase in problematic financing, even at a modest level, raises questions about the balance between growth-oriented strategies and prudential considerations. This tension reflects a broader dilemma in Islamic finance, where the pursuit of profitability must be aligned with risk management practices that ensure the sustainability of financial outcomes (Supeno et al., 2025).

Social Dimensions of Consolidation

The implications of the merger extend beyond financial metrics to include social and organizational dimensions. The literature on downsizing and corporate restructuring highlights the potential effects on employee well-being, including increased job uncertainty, stress, and

reduced organizational commitment (Brauer & Vandepoele, 2024; Snorradóttir et al., 2015). These factors may influence productivity and institutional cohesion, particularly during periods of transition.

In the context of BSI, the integration of distinct organizational cultures introduces additional complexity. Differences in managerial practices, corporate values, and operational routines may create friction during the consolidation process (Kurniawan, 2023). These challenges are not easily quantifiable but may have indirect effects on performance, including service quality and customer satisfaction.

From the customer perspective, changes in branch networks and service delivery mechanisms may affect accessibility and perceived service quality. Islamic banking places particular emphasis on trust and relational engagement, which are central to customer loyalty (Lestari & Mutmainah, 2024). Disruptions in these areas may not be immediately reflected in financial ratios but can influence long-term institutional performance.

Within the *Maqasid al-Shariah* framework, these dimensions are closely related to *hifz al-nafs*, which emphasizes the protection of individual well-being. This perspective broadens the scope of evaluation beyond financial outcomes, highlighting the interconnected nature of economic and social considerations in Islamic finance.

Sensitivity Analysis and the Normative Tension in Measurement

The sensitivity analysis provides important methodological and theoretical insights. The shift in the significance of the merger variable under alternative weighting schemes indicates that the overall assessment of performance is contingent upon the relative importance assigned to different components of the *Hifz al-Mal Index*. When profitability (ROA) receives a higher weight, the merger appears to have a positive and statistically significant effect. However, when greater emphasis is placed on asset protection (NPF), the effect becomes statistically insignificant.

This variation underscores the role of normative assumptions in the construction of composite indices. Weighting schemes are not purely technical choices; they reflect underlying value judgments regarding what constitutes “performance.” In this context, a profitability-oriented weighting aligns more closely with conventional financial evaluation frameworks, while a protection-oriented weighting resonates with the ethical priorities of *Maqasid al-Shariah*.

The debate within the *Maqasid* literature further illuminates this tension. The principle *dar'ul mafasid muqaddamun 'ala jalbil mashalih* suggests that the prevention of harm should take precedence over the pursuit of benefit (Asmar et al., 2023; Maulida & Firdaus, 2025). From this perspective, greater weight on asset protection may be theoretically justified. However, empirical measurement requires operational trade-offs, as the relative importance of different dimensions must be quantified within a single framework.

The divergence in results across weighting schemes highlights the sensitivity of conclusions to methodological design. It also raises broader questions regarding how Islamic financial performance should be operationalized in empirical research, particularly when integrating normative principles with quantitative indicators.

Implications

Theoretical Implications

The findings of this study contribute to the ongoing development of Islamic financial theory, particularly in relation to the integration of conventional financial frameworks with *Maqasid al-Shariah*. The results highlight a persistent tension between Agency Theory, which emphasizes efficiency and profitability, and the normative framework of *Maqasid al-Shariah*, which prioritizes the preservation of wealth (*hifz al-mal*) alongside its development (*tanmiyat al-mal*). This tension suggests that existing theoretical models may not fully capture the dual objectives of Islamic banking, especially in the context of large-scale corporate restructuring.

The sensitivity of the *Hifz al-Mal Performance Index* to different weighting schemes also raises important methodological considerations. The variation in results indicates that performance measurement in Islamic finance is inherently value-laden, as different weight allocations reflect different normative priorities. This finding points to the need for more refined and standardized measurement frameworks that explicitly incorporate both efficiency and protection dimensions in a balanced manner. It also encourages further exploration of composite indices that can better operationalize *Maqasid al-Shariah* principles within empirical research.

Managerial Implications

For bank management, the findings underscore the importance of maintaining a balance between efficiency-driven strategies and prudent risk management. While consolidation appears to enhance profitability and operational efficiency, the observed increase in NPF suggests that these gains may be accompanied by emerging vulnerabilities in asset quality. This dynamic highlights the need for more robust post-merger integration processes, particularly in the harmonization of risk management systems and credit assessment standards across previously separate entities.

In addition, the results suggest that efficiency improvements should not be pursued in isolation from broader organizational considerations. The integration of corporate cultures, employee well-being, and service quality remain critical factors that can influence long-term performance. Attention to these dimensions may help mitigate potential disruptions associated with large-scale restructuring and support more sustainable institutional development.

Policy and Regulatory Implications

From a regulatory perspective, the study provides insights into the broader implications of consolidation policies within the Islamic banking sector. The findings suggest that while mergers can strengthen institutional capacity and competitiveness, they may also introduce new forms of risk that require careful monitoring. Regulatory frameworks may therefore need to extend beyond conventional performance indicators to include measures of asset quality stability and risk concentration, particularly during post-merger transition periods.

The relevance of *Maqasid al-Shariah* in evaluating financial performance also has implications for regulatory approaches. Incorporating Maqasid-based indicators into supervisory frameworks may provide a more comprehensive assessment of institutional health, particularly in terms of balancing growth and protection objectives. This perspective aligns with the broader goal of

ensuring that Islamic banking development remains consistent with its ethical and socio-economic foundations.

Methodological Implications

The use of a composite index to measure *hifz al-mal* highlights both the potential and the limitations of quantitative approaches in capturing normative concepts. The sensitivity analysis demonstrates that empirical findings can vary significantly depending on the structure of the index, particularly the weighting of its components. This observation suggests that future research should consider alternative weighting methods, such as data-driven approaches or expert-based evaluations, to reduce subjectivity and improve robustness.

Furthermore, the study points to the importance of incorporating sensitivity testing as a standard practice in empirical research involving composite indices. Such approaches can provide a more nuanced understanding of how methodological choices influence research outcomes, especially in areas where theoretical and normative considerations are closely intertwined.

CONCLUSION

The findings portray the merger that established Bank Syariah Indonesia (BSI) as a complex and multidimensional strategic development. The empirical results indicate that consolidation is associated with improvements in operational efficiency and profitability, as reflected in increased Return on Assets (ROA) and reduced Operating Expenses to Operating Income (BOPO). These outcomes align with the *tanmiyat al-mal* dimension within the *hifz al-mal* framework, which emphasizes the development of wealth. At the same time, the analysis reveals an increase in Non-Performing Financing (NPF), pointing to emerging challenges in asset quality and the protective dimension of *hifz al-mal*. The panel regression results show that the merger variable has a positive but only marginally significant effect on the *Hifz al-Mal Performance Index* ($\beta_1 = 7.452$; $p = 0.057$). This pattern reflects a condition in which efficiency gains coexist with rising risk exposure, highlighting the presence of an inherent trade-off within the consolidation process.

The interpretation of these findings is closely tied to the construction of the performance index. Sensitivity analysis demonstrates that the positive impact of the merger is contingent on the weighting structure of the index components. When profitability indicators receive greater emphasis, the merger appears to contribute positively to overall performance. However, when the weighting shifts toward asset protection, particularly through a higher emphasis on NPF, the statistical significance of the merger effect diminishes. This variation indicates that the observed outcomes are not absolute, but rather reflect the interaction between efficiency gains and risk dynamics. From a theoretical perspective, the study contributes to the literature by operationalizing the *Maqasid al-Shariah* framework in a quantitative setting, illustrating how composite indices may obscure underlying tensions between growth and protection if not examined critically. From a practical standpoint, the findings highlight the importance of maintaining a balanced strategic focus that considers both profitability and risk management in evaluating consolidation outcomes.

Several limitations should be acknowledged in interpreting the results. The relatively small sample size and the limited observation period constrain the generalizability of the findings and require careful interpretation of the regression estimates. The choice of a fixed effects model reflects these constraints, while more advanced estimators such as the Generalized Method of Moments (GMM) are not utilized due to concerns regarding reliability in small samples. Future research may benefit from extending the time horizon as BSI continues to evolve, which would allow for a more comprehensive assessment of long-term merger effects. In addition, incorporating non-financial dimensions—such as employee well-being (*hifz al-nafs*) and customer satisfaction—could provide a broader understanding of *maslahah* beyond financial indicators, particularly in capturing the social and institutional dimensions of Islamic banking performance.

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