



## Does The Merger of Large Sharia Bank Work? A Study of Islamic Bank in Indonesia

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### Abstract

In 2021, the Indonesian government merged three major state-owned Islamic banks to support the halal industry in the country. Numerous studies have analyzed balance sheet ratios to assess the conditions of Bank Syariah Indonesia (BSI) before and after the merger. However, the reliability of balance sheet ratios is highly contingent on the accounting method employed by companies. Consequently, this study utilizes Economic Value Added (EVA) to measure BSI's financial performance before and after the merger. The primary objective of this research is to test and provide empirical evidence regarding the effectiveness of the EVA approach in demonstrating the economic added value to BSI throughout the merger. Employing a quantitative approach and secondary data from the financial statements of BSI before and after the merger serves as the data source. The findings reveal that the financial performance of BSI before and after the merger provides economic added value to the company and aligns with stakeholder expectations. Notably, research on financial performance using EVA at BSI before and after the merger is scarce, as most studies resort to ratio analysis for this purpose. It is important to acknowledge the limitations of this research, which solely introduces EVA to assess the economic added value in financial statements. Other approaches beyond ratio analysis can be explored to measure the quality of financial statements.

**Keywords** *Shariah Bank, Halal Ecosystem, Economic Development, Islamic Finance, Indonesian Economy*

### INTRODUCTION

According to the most recent data from the Indonesia Central Statistics Agency, Indonesia became the world's largest Muslim population in 2021. Approximately 231 million Muslims make up about 86.88% of the country's total population. This data indicates that the majority of Indonesia's population adheres to Islam. The substantial Muslim population in Indonesia positions the country as having significant potential for the development of Islamic financial systems. The societal adherence to Sharia-based financial concepts necessitates the establishment of financial institutions capable of meeting the community's needs in adhering to Sharia economics (Salsabil, 2022). The inception of Islamic financial institutions, particularly Sharia banking, in Indonesia, traces back to the 1980s, initially with limited-scale establishments such as Bait Ar-Tamwil Salman ITB in Bandung and *Koperasi Ridho Gusti* in Jakarta.

In 1990, the Indonesian Council of Ulama (Majelis Ulama Indonesia or MUI) formed a group named the MUI Banking Team (*Tim Perbankan MUI*) to initiate the creation of Sharia banks in Indonesia, leading to the establishment of the first Sharia bank, PT Bank Muamalat Indonesia, on May 1, 1992, with an initial capital of Rp. 106,126,382,000. Subsequently, the government laid the legal groundwork for Sharia banking in Indonesia, culminating in the establishment of a dual banking system in 1998, encompassing both conventional and Sharia banking. This opportunity was aptly seized by various stakeholders, resulting in the emergence of several other Sharia banks.

Three prominent Sharia banks in Indonesia are Bank BRI Syariah, Bank Syariah Mandiri, and Bank BNI Syariah. These state-owned Sharia banks merged on February 1, 2021, forming Bank Syariah Indonesia (BSI), as officially proclaimed by President Joko Widodo through letter No SR-

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3/PB.1/2021. In accordance with the public documents of the Financial Services Authority regarding mergers and acquisitions, the ownership structure of these banks comprises 50.83% for Bank Syariah Mandiri, 24.85% for Bank BNI Syariah, 17.25% for Bank BRI Syariah, and the remaining shares held by other stakeholders. Post-merger, BSI's total assets exceed Rp 265 trillion, with total equity exceeding Rp 25 trillion, positioning BSI among the top ten banks with the largest capitalization in Indonesia (Putri & Ningtyas, 2022a). The establishment of BSI represents the Indonesian government's *ikhtiar* (endeavour) to contribute as a new force in national economic development and enhance societal well-being.

The formation of BSI is anticipated to bolster Indonesia's economy. Therefore, a thorough analysis is imperative to ascertain whether the establishment of Bank Syariah Indonesia can enhance the institution's financial performance, ultimately impacting economic growth. Financial performance evaluation can be conducted through various methods, with financial ratio analysis commonly employed. Financial ratio analysis is typically utilized to gauge a company's performance concerning liquidity, efficiency, asset utilization, and profit generation (Martalena & Dini, 2020). Previous research, such as that conducted by Mubarok (2022), utilized CAR, total assets, and ROA to measure BSI's performance. Similarly, the study by Yusuf and Ichsan (2021) utilized CAR, ROA, and BOPO to assess the performance of BSI. However, previous studies have lacked the use of EVA in measuring BSI's performance, the author employs an alternative analysis to measure BSI's financial performance.

The analysis utilized in this research is Economic Value Added (EVA). Stewart (1994) asserts that EVA is the most effective tool for depicting genuine economic probabilities. Economic Value Added incorporates Net Operating Profit After Tax and Capital Charges in its measurement, signifying its capacity to evaluate a company's performance by considering capital charges in profit acquisition. This method elucidates whether a company possesses a commendable economic value addition and can contribute to and augment the company's overall value. Employing EVA instils confidence in potential investors prior to investment; a positive EVA assures investors that the company possesses a valuable economic addition, securing the investor's invested capital.

Conversely, a negative EVA serves as a warning to potential investors, indicating the company's lack of substantial economic value addition. EVA is an effective tool for measuring economic profitability. However, some studies, such as the one conducted by Syahputra (2016), state that EVA does not impact stock returns. This creates a gap between theory and reality. This research delves into the performance of Bank Syariah Indonesia both before and after the merger, covering the period from 2020 to 2022. Economic Value Added serves as the performance measurement tool in this study, aiming to offer a more detailed insight into the merger decisions undertaken by Bank Syariah Indonesia. The anticipated benefits of this research include providing insights into the post-merger performance of Bank Syariah Indonesia to support the economic development of Indonesia.

## LITERATURE REVIEW

### Sharia Bank

According to Banking Law No. 10 of 1998, a bank is an institution that gathers public funds in the form of deposits to be redistributed to the public in the form of credit, aiming to improve the standard of living. On the one hand, banks play the role of fund aggregators trusted by the public, while on the other hand, they act as distributors to individuals in need of funds (Ismail, 2011). Meanwhile, according to Law No. 21 of 2008, Islamic banks are institutions conducting their business activities based on Sharia principles and, based on their types, comprise Sharia Commercial Banks and Sharia People's Financing Banks. Thus, it can be inferred that Islamic banks are institutions that gather public funds for redistribution to those in need, adhering to Sharia

principles in their operations.

The mission of the Islamic financial system is to create a justice-based, beneficial, honest, truthful, balanced, transparent, anti-exploitative, anti-oppressive, and anti-unjust financial system (Soemitra, 2015). Chapra (2000) outlines steps towards the Islamic financial system, including:

1. Interest (*riba*) is forbidden in the Islamic financial system, and a profit and loss-sharing system is implemented.
2. Facilitating financial access through techniques such as *mudharabah*, *murabahah*, and others.
3. Tax system reform should accelerate the transformation of the financial system, promoting productive goals through equity and reserves.
4. Broad economic movements will enhance equity and help mobilize idle funds to investors, avoiding usury and utilizing them for productive purposes.
5. Government commercial projects should be converted to profit-sharing principles to avoid public treasury burdens. Issued stocks should be exchanged with Sharia bonds sold by state-owned enterprises or the government to the private sector, including financial institutions.
6. Interest should be eliminated from government-sponsored special credit institutions, and profit and loss-sharing systems should be promoted instead.
7. Conventional financial institutions need to be converted into Sharia systems using better investment alternatives, such as *mudharabah*, *musyarakah*, and stocks.
8. The establishment of several non-bank financial institutions to facilitate private sector fund placement and support commercial bank operations.

#### Sharia Bank in Indonesia

The Financial Services Authority (Known as *Otoritas Jasa Keuangan* or OJK) on its website summarises the history of Islamic banking in Indonesia (Otoritas Jasa Keuangan, 2017). The practice of Islamic banking has roots in the time of the Prophet Muhammad SAW and his Companions. In the economic history of the Muslim community, Prophet Muhammad SAW implemented commercial activities such as accepting entrusted wealth, lending money for consumption and business purposes, and conducting Sharia-compliant money transfers. Known as Al-Amin, Prophet Muhammad SAW was trusted by the community to receive wealth deposits. The practice of Islamic banking continued during the Umayyad and Abbasid periods. Subsequently, European banking practices began incorporating interest-bearing instruments into their business activities, leading several Islamic countries to establish non-usury banks, now known as Sharia banks.

In 1988, the Indonesian government issued the 1988 Banking Deregulation Policy Package (Pakto 88), opening up opportunities for banking businesses to support development. Although predominantly conventional banks were established, some Sharia-based banking initiatives emerged in various regions. The initiative to establish Islamic banks in Indonesia began in 1980 through discussions on Sharia banking as a pillar of Islamic economics. As a trial, the idea of Islamic banking was implemented on a relatively limited scale, such as Bait At-Tamwil Salman ITB in Bandung and *Koperasi Ridha Gusti* in Jakarta.

In 1990, the Indonesian Council of Ulama (Known as *Majelis Ulama Indonesia* or MUI) formed the MUI Banking Team with the primary task of approaching and consulting with all parties involved in establishing Islamic banks in Indonesia. The MUI Banking Team successfully established the first Islamic bank in Indonesia, PT Bank Muamalat Indonesia (BMI), which commenced operations on May 1, 1992, with an initial capital of Rp 106,126,382,000. The existence of Islamic banks did not initially receive optimal attention, and the legal framework for banks operating under

Sharia principles was only accommodated in a single article concerning "profit and loss-sharing banks" in Law No. 7 of 1992, without detailed Sharia law.

In 1998, the People's Consultative Assembly refined Law No. 7 of 1992 into Law No. 10 of 1998, clarifying that Indonesia adopts a dual banking system, encompassing both conventional and Islamic banking systems. This opportunity was well-received, marked by establishing various Islamic banks in Indonesia. Over two decades, the development of the Islamic banking system in Indonesia has made significant progress in terms of institutions, infrastructure, regulations, and supervisory systems. As of June 2015, Indonesia has 12 Sharia Commercial Banks and 22 Sharia Business Units.

### **Merger**

The concept of a merger is categorized into three types: horizontal mergers, vertical mergers, and mergers of conglomerates. Horizontal mergers involve the consolidation of companies operating within the same business line, typically undertaken to achieve synergy and greater market power. Vertical mergers, on the other hand, entail merging companies from different parts of the value chain. Conglomerate mergers involve consolidating companies with diverse industrial backgrounds (Gaughan, 2007).

Merger remains a frequently discussed topic in accounting and finance, representing a common phenomenon in the business world aimed at corporate restructuring and expansion. Several reasons drive companies to pursue mergers, including the remediation of a financially ailing company by merging it with a financially sound one, winning competitive advantages, and ensuring sustained growth (Hariyani et al., 2011).

The decision to engage in a merger requires careful consideration due to inherent drawbacks despite the numerous benefits that can be derived from such corporate consolidations, including:

1. Rapid acquisition of cash flow, as products and markets are already defined.
2. Ease of obtaining funds or financing due to increased credibility with established creditors.
3. Acquisition of experienced personnel.
4. Acquisition of customers without the need for additional marketing efforts.
5. Attainment of effective operational and administrative systems.
6. Reduction of business failure risks, as there is no need to seek new customers.
7. Time savings in starting a new business.
8. Acquisition of infrastructure.
9. A profitable investment opportunity.
10. Attainment of control over another company.
11. Control over the supply of raw materials and auxiliary materials.
12. Business diversification.
13. Increase in the size of the company.
14. Reduction of business risks.
15. Reduction in competitive intensity.
16. Access to new technologies owned by the merged company.

Bank Syariah Indonesia (BSI) also realized these benefits following its merger. The consolidation of three major Islamic banks in Indonesia (BNI Syariah, Mandiri Syariah, BRI Syariah) into Bank Syariah Indonesia (BSI) aimed to unite the strengths and weaknesses of the three Islamic banks, providing more comprehensive services, broader reach, and improved capital capacity. Supported by government commitment, BSI is expected to compete globally to enhance economic prosperity.

### **Financial Performance**

Financial statements, not only serving as evaluation tools but also as the basis for determining a company's financial position, are utilized by stakeholders involved in decision-making (Munawir, 2014). Presented financial reports cannot be used as is; instead, they require analysis to provide an overview of the company's condition. Financial performance can be measured using various ratios, such as CAMEL (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity), or through value analysis obtainable by the company.

According to Orniati (2009), financial performance is a company's prospect or future outlook, growth, and potential development. Other studies also define financial performance as a depiction of a bank's financial condition from the past and as a future prospect, whether it be improvement or decline. From these definitions, it can be inferred that financial performance is the outcome of decisions made by the company, influencing the company's future prospects, whether in favourable or unfavourable conditions. Financial performance is crucial in a company, as it reveals everything related to its strengths and weaknesses. Understanding these factors is essential for maintenance, improvement, or correction (Kasmir, 2014).

### **Economic Value Added (EVA)**

The definition of Economic Value Added, as per the Merriam-Webster (2016) dictionary, is as follows: Economic is defined as something related to the process or system where goods and services are produced, sold, and bought. Value represents a certain amount of valuable money, the price of something that can be bought at a reasonable cost. Added is defined as the act of putting something with another thing or group of things, mixing or combining an ingredient with other ingredients, or including something with something else. From this understanding, it can be inferred that Economic Value Added (EVA) is a sum of money valued fairly to support the activities of producing, selling, and buying goods or services. Economic Value Added (EVA) is a metric that indicates a company's ability to create wealth by generating more than its own capital costs and liabilities (Costin, 2017).

Various methods are employed to measure a company's performance in business activities. Maximizing returns through traditional calculation methods does not automatically reflect the profits to be received by shareholders. Return on Investment (ROI) can be maximized but may overlook invested capital. ROI cannot reflect allocation errors, and therefore, mismatch with increasing returns may occur. Return on Equity (ROE) does not consider the increase in leverage resulting from taking on additional debts. ROE can be maximized by reducing returns through increasing leverage risk (Costin, 2017). Therefore, Economic Value Added differs from other performance measurement tools because most rely on accounting information (Sabol et al., 2017). Other metrics are deemed unable to measure economic value in a company, and the reasons, according to Shil (2009), are 1) The accounting methods used, 2) Business risk (determined by the company's operational system) and financial risk (determined by the proportion of debt and equity used to finance assets) are not considered, 3) Accrual accounting differs from cash flow from operations, 4) Dividend policies, 5) The time value of money is ignored.

### **RESEARCH METHOD**

This research adopts a quantitative approach, as asserted by Coghlan and Brydon-Miller (2014), wherein quantitative methodology stands as the predominant research framework in the social sciences. It encompasses a set of strategies, techniques, and assumptions employed to investigate social and economic processes by examining numerical patterns. The data source utilized in this study comprises secondary data derived from the financial records within the annual financial reports of Bank Syariah Mandiri, Bank BNI Syariah, Bank BRI Syariah, and Bank Syariah

Indonesia for the period spanning from 2020 to 2022.

The measurement of Economic Value Added (EVA) adheres to [Stewart's \(1994\)](#) approach, involving the subtraction of Net Operating Profit After Tax (NOPAT) from Capital Charges. The procedural steps for its computation are as follows:

1. NOPAT = EBIT (1-T)
2. T = Tax Expense/Profit Before Tax
3. Invested Capital = Short-Term Debt + Long-Term Debt + Equity
4. WACC = [(D x rd) (1-T) + (E x re)]
  - Debt Level (D)

$$D = \frac{\text{TOTAL DEBT} + \text{SYIRKAH FUNDS}}{\text{TOTAL LIABILITIES}}$$

- Cost of Debt Capital (rd)

$$rd = \frac{\text{PROFIT SHARING EXPENSE}}{\text{TOTAL DEBT} + \text{SYIRKAH FUNDS}}$$

- Equity and Debt Level (E)

$$E = \frac{\text{TOTAL EQUITY}}{\text{TOTAL LIABILITIES}}$$

- Cost of Equity (re)

$$re = \frac{\text{NET INCOME AFTER TAX}}{\text{TOTAL EQUITY}}$$

5. Capital Charges = WACC x Invested Capital
6. EVA = NOPAT – Capital Charges

The evaluation of a company's performance using Economic Value Added (EVA) is categorized into three groups:

- a. EVA > 0, indicating a positive economic value addition by the company.
- b. EVA = 0, signifying a breakeven point where the company neither advances nor regresses in economic value addition.
- c. EVA < 0, or negative EVA, indicating that the company lacks economic value addition and fails to meet shareholder expectations.

## FINDINGS AND DISCUSSION

The rapid development of information and technology has significantly impacted society. The increased accessibility of information has led to a rise in the population's knowledge level. Similarly, in Indonesia, which has the largest Muslim population globally, increased access to information has prompted most of the population to become more conscious of various aspects related to values-based Islamic practices, including selecting financial institutions aligned with Islamic principles. The merger of three major Islamic banks in Indonesia in 2021 was a step taken by the government to meet the demands of the public for larger-scale Shariah-based financial services. Therefore, ensuring that the merger of Islamic banks is a sound step requires precise analysis, which involves utilizing Economic Value Added (EVA) as a financial performance measurement tool for Bank Syariah Indonesia before and after the merger.

The Economic Value Added (EVA) method emphasizes several elements, such as Net Operating After Tax (NOPAT), Invested Capital (IC), Weighted Average Cost of Capital (WACC), and Capital Charges. The data processed by the author from financial reports spanning 2020-2022

reveals the following:

**Table 1. NOPAT (Net Operating After Tax)**

<b>Bank/Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
BNI Syariah	Rp. 1.179.435.229.472	-	-
Mandiri Syariah	Rp. 3.407.074.954.111	-	-
BRI Syariah	Rp. 1.436.305.098.063	-	-
BSI	-	Rp. 6.425.367.771.483	Rp. 7.429.328.596.926

Source: Author's processed data (2023)

The NOPAT value for Bank Syariah Indonesia before and after the merger clearly indicates a change. In 2020, the total NOPAT for the three Islamic banks (BNI Syariah, Mandiri Syariah, BRI Syariah) was Rp 6,022,815,281,646. After the merger into Bank Syariah Indonesia (BSI) in 2021, the total NOPAT increased to Rp. 6,425,367,771,483, indicating a 6.68% rise in Net Operating After Tax. Subsequently, in 2022, NOPAT experienced a significant increase of 15.62% from Rp. 6,425,367,771,483 to Rp. 7,429,328,596,926. The consistent growth of Net Operating After Tax aligns proportionally with the company's after-tax profits, signifying that post-merger, the company's total earnings demonstrate an increasingly favorable return to all stakeholders. The change in the NOPAT value is due to the change in the company's net profit. This shows that the merger of three Islamic banks in Indonesia to Bank Syariah Indonesia has increased the company's net profit.

**Table 2. IC (Invested Capital)**

<b>Bank/Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
BNI Syariah	Rp. 55.009.342.000.000	-	-
Mandiri Syariah	Rp. 126.907.940.000.000	-	-
BRI Syariah	Rp. 57.715.586.000.000	-	-
BSI	-	Rp. 265.289.081.000.000	Rp. 305.727.438.000.000

Source: Author's processed data (2023)

Invested Capital indicates the company's liabilities that will subsequently impact Capital Charges. The total Invested Capital for the three Islamic banks (BNI Syariah, Mandiri Syariah, BRI Syariah) before the merger was Rp. 239,632,868,000,000, and after the merger into Bank Syariah Indonesia, the Invested Capital value increased to Rp. 265,289,081,000,000, representing a 10.71% increase. This increase is considered reasonable as merging companies combine the liabilities and equities of the involved entities. In the second year of the merger, Invested Capital again demonstrated an increase, rising by 15.24% to Rp. 305,727,438,000,000. This implies a continuous augmentation of invested capital or liabilities held.

**Table 3. WACC (Weighted Average Cost of Capital)**

<b>Bank/Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
BNI Syariah	2.144 %	-	-
Mandiri Syariah	2.675 %	-	-
BRI Syariah	2.377 %	-	-
BSI	-	2.413 %	2.420 %

Source: Author's processed data (2023)

The Weighted Average Cost of Capital (WACC) is employed to calculate Capital Charges based on the debt-to-equity ratio held by the company. The table above illustrates the average WACC rate in 2020, before the merger, as 2.399%, which increased to 2.413% in 2021 after the merger. In 2022, WACC further increased to 2.420%. WACC shows the elements of capital based on their relative proportions. The Weighted Average Cost of Capital increase shows that the expected minimum return on Bank Syariah Indonesia's capital has increased.

**Table 4.** Capital Charges

<b>Bank/Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
BNI Syariah	Rp. 1.179.435.229.472	-	-
Mandiri Syariah	Rp. 3.395.162.845.277	-	-
BRI Syariah	Rp. 1.372.132.828.665	-	-
BSI	-	Rp. 6.402.030.235.543	Rp. 7.397.963.116.289

Source: Author's processed data (2023)

Capital Charges represent the integration of WACC and Invested Capital, and fluctuating values of WACC and Invested Capital will influence the level of Capital Charges. The total Capital Charges in 2020 amounted to Rp. 5,946,730,903,414, and after the merger in 2021, it experienced an increase of 7.66% to Rp. 6,402,030,235,543, as also reflected in the increased WACC value in 2021. In 2022, BSI's Capital Charges increased significantly by 15.56% from Rp. 6,402,030,235,543 to Rp. 7,397,963,116,289. The values presented in Tables 1, 2, 3, and 4 are subsequently used to calculate Economic Value Added (EVA), which involves determining the value of NOPAT subtracted from Capital Charges.

**Table 5.** Economic Value Added (EVA)

<b>Bank/Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
BNI Syariah	-	-	-
Mandiri Syariah	Rp. 11.912.108.834	-	-
BRI Syariah	Rp. 64.172.269.398	-	-
BSI	-	Rp. 23.337.535.940	Rp. 31.365.480.637

Source: Author's processed data (2023)

The Economic Value Added (EVA) for Mandiri Syariah before the merger was Rp. 11,912,108,834, BRI Syariah amounted to Rp. 64,172,269,398, while BNI Syariah broke even, signifying that the Net Operating After Tax and Capital Charges values were equal. Following the merger in 2021, when analyzed individually, Mandiri Syariah experienced an increase in EVA from Rp. 11,912,108,834 to Rp. 23,337,535,940 post-merger, while BRI Syariah underwent a decline in EVA from Rp. 64,172,269,398 to Rp. 23,337,535,940. However, when viewed holistically, the average EVA value in 2020 is Rp. 25,361,459,411, the EVA after the merger in 2021 decreased by 7.98% from Rp. 25,361,459,411 to Rp. 23,337,535,940. In the second year of the merger, Bank Syariah Indonesia's financial performance, assessed by its ability to enhance the company's economic value, witnessed a highly significant increase of 34.4% from Rp. 23,337,535,940 to Rp. 31,365,480,637.

The financial performance analysis, utilizing the Economic Value Added method, reveals that overall, Mandiri Syariah, BRI Syariah, and Bank Syariah Indonesia all have EVA values greater than 0, indicating positive economic value addition both before and after the merger. Before the merger, Mandiri Syariah had an EVA value of 0, signifying the company was at a break-even position without any increase or decrease in economic value addition. Subsequent to the merger of BNI



Syariah, Mandiri Syariah, and BRI Syariah into Bank Syariah Indonesia, the EVA value remained positive ( $EVA > 0$ ), suggesting that the company continued to provide economic value addition despite a percentage decrease and a rapid increase of 34.4% in 2022.

According to [Stewart \(1994\)](#), economic value added is approximately 50% superior to traditional-based measurement, and the findings of this research support this assertion. A study conducted by [Putri and Ningtyas \(2022b\)](#), measuring the performance of Bank Syariah Indonesia before and after the merger using Liquidity Ratio, Solvency Ratio, Profitability Ratio, and Activity Ratio, aligns with this conclusion. Liquidity Ratio, measured by Loan to Deposit Ratio (LDR), indicates improved liquidity levels for Bank Syariah Indonesia post-merger. Solvency Ratio, measured by Capital Adequacy Ratio (CAR) and Debt to Equity Ratio (DER), shows an increased solvency ratio for both CAR and DER after the merger. Profitability Ratio, measured by Return on Equity (ROE) and Return on Asset (ROA), demonstrates enhanced profitability levels post-merger according to ROE and ROA measurements. Activity Ratio, measured by Total Assets Turnover (TATO) and Fixed Assets Turnover (FAT), reveals better activity levels for Bank Syariah Indonesia before the merger. [Putri and Ningtyas \(2022b\)](#) conclude that out of the four ratio types used to assess Bank Syariah Indonesia's performance after the merger, only the activity ratio experienced a decline. In contrast, Economic Value Added (EVA), despite its decrease post-merger, presents an improvement, contrasting with the ratio analysis indicating an increase after the merger of Bank Syariah Indonesia.

The formation of Bank Syariah Indonesia aimed to unite the strengths and weaknesses of three major state-owned Islamic banks in Indonesia, providing more comprehensive services, broader outreach, and improved capital capacity. This commitment is expected to enhance Indonesia's economic well-being by facilitating the financial needs of the Indonesian population through Shariah-based financial institutions. In this study, the steps taken to merge the major Islamic banks in Indonesia are deemed appropriate based on the Economic Value Added generated. Essentially, Economic Value Added is an analysis demonstrating a company's ability to create wealth if it can generate more than the capital charges and liabilities it holds. EVA is a metric used to measure performance based on real economic profit in the company ([Costin, 2017](#)). The EVA values for Bank Syariah Indonesia before and after the merger indicate positive figures ( $EVA > 0$ ), signifying the company's ability to generate more than its capital charges and liabilities. The company's capital also significantly increased due to the merger of the three major banks, meaning the goal of establishing Bank Syariah Indonesia with a better capital capacity has been achieved. The community's financial needs for large-scale Shariah-based financial institutions are also met. The establishment of a unified and powerful Islamic bank in Indonesia promotes the principles of Islamic finance more effectively. BSI can lead the way in educating the public and advocating for the benefits of Sharia-compliant financial products, thereby contributing to the growth and development of the Islamic finance industry domestically and internationally.

## CONCLUSIONS

The abundance of measurement tools available for assessing a company's financial performance constitutes a highly valuable set of instruments, as various stakeholders stand to benefit from their utilization. Analyzing financial reports using diverse measurement tools proves advantageous to various parties, particularly in endeavours aimed at decision-making. This includes management's determination of the steps a company should take or an investor's decision-making process regarding investments. Measuring financial performance through ratio analysis or economic value added (EVA) presents distinct advantages, and the combination of both yields more detailed insights into the actual condition of the company. This research employs Economic Value Added (EVA) as a measurement tool to assess the financial performance of Bank Syariah Indonesia

(BSI) before and after its merger. The results indicate that financial performance measured by EVA in the first year of the merger (2021) remains in positive territory ( $EVA > 0$ ), signifying the company's ability to generate economic value. However, a closer examination reveals that the EVA value in 2020, combining three Islamic banks (BNI Syariah, Mandiri Syariah, BRI Syariah), and comparing it to 2021 after becoming Bank Syariah Indonesia, experienced a decline of 7.98%. This implies that Bank Syariah Indonesia, post-merger, maintains a positive EVA position but undergoes a reduction. In the subsequent year, Bank Syariah Indonesia demonstrates a significantly improved performance with a 34.4% increase in EVA. From this research, it can be concluded that the merger of Bank Syariah Indonesia has the capacity to generate economic value for the company, despite experiencing a downturn in the initial stages of the merger.

By incorporating EVA into the analysis, this study offers a more robust assessment of BSI's financial performance post-merger. EVA is an effective tool for measuring economic profitability, providing insights into whether the bank is generating returns above its cost of capital. This approach addresses a gap in the existing literature and offers a novel perspective on evaluating the financial health and performance of BSI, highlighting the bank's ability to create economic value for its shareholders. In summary, the research contributes to the body of knowledge by integrating EVA as a key performance metric, offering a more nuanced and complete evaluation of BSI's financial performance post-merger compared to previous studies.

#### **LIMITATION & FURTHER RESEARCH**

Future research should consider integrating a broader range of performance metrics beyond Economic Value Added (EVA) and traditional financial ratios. This can include metrics such as Market Value Added (MVA), Cash Flow Return on Investment (CFROI), and Shareholder Value Added (SVA) to provide a more comprehensive assessment of the bank's financial health and performance. Qualitative research methods, such as interviews with key stakeholders, could provide valuable insights into the strategic decisions and management practices that have influenced BSI's performance post-merger. Understanding the human and organizational factors can complement quantitative findings.

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