

Research Article

Measuring the Performance of Islamic Banking in Indonesia with Maqashid Sharia Index: Pre-Merger and Post-Merger Period

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Abstract.

This study examines the performance of Islamic Commercial Banks in Indonesia in the pre and post-merger periods based on the combination of the *Maqashid Syariah* Index of Ibnu Ashur and Abu Zahrah. With three main indicators, namely *tahdzib al fard* (individual education), *iqamah al adl* (justice), and *maslahah* (welfare). A comparative quantitative method using simple additive weighting (SAW) to measure the weight and performance rating of Islamic banking was used in this study. The results of the study indicated that the Islamic performance of Islamic Commercial Banks in Indonesia was below average. However, the merger has a positive impact on improving the performance of Islamic Commercial Banks in Indonesia in the post-merger period.

Keywords: Islamic performance, Maqashid Sharia Index, merger

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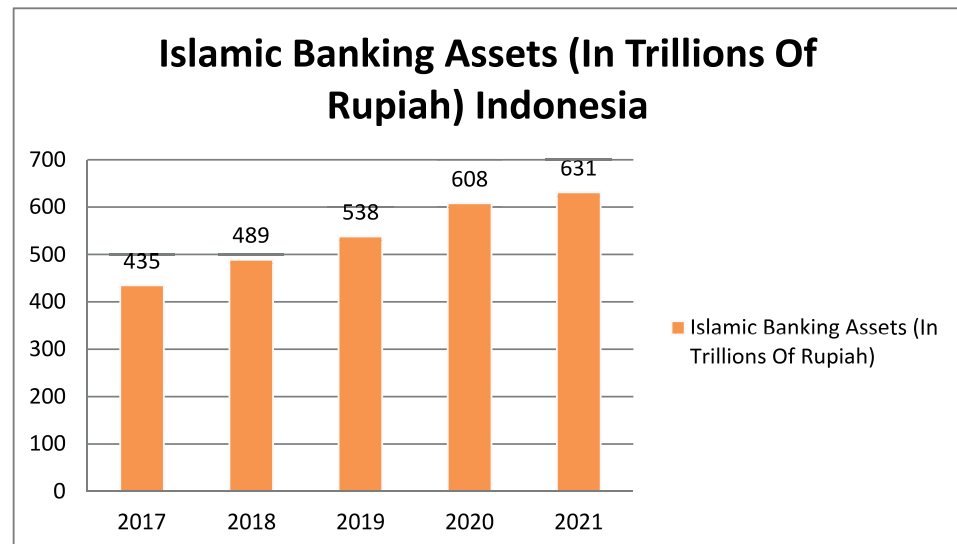
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1. Introduction

Banking sector is the most important financial institutions, including the global Islamic Banking sector which is predicted to reach USD 2439 billion in 2022. Based on a report from the OJK (Financial Services Authority) which states that the total assets of Islamic banking will continue to increase. In 2021, the value of total assets increased by more than 14% or IDR 631 trillion compared to the previous period [1]. The development of Islamic banking assets in Indonesia can be seen in Figure 1 below:

The challenges and opportunities faced by Islamic banking in the future are inseparable from several factors, the first factor is the low market share which is only around 6.52%. Indonesia has the largest Muslim population in the world, the Muslim population in Indonesia is more than 220 million people, ideally the market share in Indonesia will reach at least 30% [2]. The second factor, after the merger of three Islamic commercial

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Source: www.ojk.go.id, 2021.

Figure 1: Islamic Banking Assets in Indonesia.

banks (Syariah Mandiri Bank, BNI Syariah Bank, BRI Syariah Bank), makes Sharia Bank the largest force of Islamic finance in Indonesia. Currently, Sharia Banking Assets in Indonesia reach from IDR 240 Trillion and capital of more than IDR 21.74 Trillion.

The three 'himbara' banks (Syariah Mandiri Bank, BNI Syariah Bank, BRI Syariah Bank) have officially merged into Bank Syariah Indonesia since the signing of the Conditional Merger Agreement (CMA) on October 12, 2020 and currently Indonesia has 12 Islamic commercial banks from the previous 14 Islamic commercial banks. The merger of the three himbara banks is expected to provide an increase for other Islamic banks, especially for Islamic Commercial Banks in Indonesia in order to improve their financial performance more optimally.

Assessment of banking performance is very important, with the unique character of Islamic banking enabling performance measurement from various sides including sharia compliance, social performance, and in terms of maqasid sharia objectives. Sharia characteristics inherent in Islamic banking operational activities cannot be separated [3]. *Tahdzib al-fard* (individual education), *iqamah al-adl* (justice) and *maslahah* (welfare) are the three main indicators in measuring the performance of Islamic banking [4].

Previous research tested Islamic banks in Malaysia and Bangladesh stating that the evaluation of bank performance based on sharia maqasid is an ongoing process and not only evaluates commercial performance but also to achieve social goals that will attract more customers [5]. Furthermore, the research states that the implementation of sharia maqasid-based performance will improve the technical efficiency of Islamic banking [6]. Further studies show that the merger decision made by Bank Panin Dubai Syariah has

increased the achievement of almost perfect efficiency of 99%, carried out by improving the sharia side of the bank through fulfilling the objectives and characteristics of Islamic banks in accordance with the objectives of maqasid syariah [7] [8]. However, the other research showed different results, the performance of banks in India experienced a decline after the merger in terms of various measurements of financial performance [9].

Currently, research on the performance appraisal of sharia maqasids as measured in terms of the impact of mergers has not been carried out before. This study analyzes the level of Islamic financial performance with the perspective of sharia maqasid that occurred during the pre-merger and post-merger periods at Indonesian Sharia Commercial Banks. Hopefully this research can help realize the strengthening of Islamic banking identity in Indonesia. Based on the formulation of the problem above, the hypothesis in this study is: there is an increase in the performance of Islamic Commercial Banks in Indonesia as an influence of the merger.

2. Literature Review

2.1. Maqasid Sharia

Maqashid sharia among *ushul fiqh* scholars is also referred to as sharia or wisdom contained in the law established by syara', which means benefit for humans. The *maqashid* sharia index is defined as the ultimate goal of sharia that leads to welfare values. The concept of *maqashid* sharia is an approach that can be built in several indicators that promote the value of welfare and benefits based on the five aspects of Ibn Ashur's basic needs namely religion, life, intelligence, heredity and wealth). Based on other views, sharia *maqashid* is divided into three categories developed by Abu Zahrah, namely the three main objectives of benefit, namely *tahdzib al-fard* (individual education), *iqamah al-adl* (justice) and *al-maslahah* (welfare) [4].

2.2. Maqashid Sharia as Performance Measurement

The rapid growth of Islamic banking must be balanced with performance measurements in accordance with Islamic financial principles. The regulation governing Islamic banking in Indonesia, namely Law No. 21 of 2008, regulates governance and the principle of prudence [10], then Bank Indonesia Regulation No. 6 of 2004 and No. 13 of 2011 regulates banking health which includes capital, assets, quality, management, earnings and liquidity [11] [12]. Furthermore, the Financial Services Authority with OJK regulation

No. 08 of 2014 also regulates banking health including risk, good corporate governance, rentability and capital [13].

The regulations above not fully refer to sharia-based performance. The need for standard concepts for measuring Islamic banking performance based on Islamic *maqasid* has not been legally structured and fully integrated [14]. A literature review reveals that there is still a dearth of studies on measuring the performance of banks with sharia *maqashid*. This study used the *maqashid* sharia index developed by Abu Zahrah, namely *tahdzib al-fard* (individual education), *iqamah al-adl* (justice) and *al-maslahah* (welfare) as measures commonly used to assess the performance of Islamic banking.

2.3. Merger

Most mergers are carried out on the basis of perceived economic benefits and for the more specific purpose of increasing efficiency potentially on performance improvements. Based on Law No. 40 of 2007, a merger is defined as the external development of a company by means of a merger of two or more companies in which in the end there is a company that remains alive as a legal entity [15]. Horizontal merger is carried out as a form of acquisition of two or more companies that have the same type of business as carried out by Syariah Mandiri Bank, BNI Syariah Bank, BRI Syariah Bank. Pre-merger conditions are defined when a deal is made and negotiated by the executive and legally approved by shareholders and regulators, and post-merger is when the combined entity converges in the initial implementation on the new entity [16].

2.4. Previous research

Conducted by previous research with testing on performance as measured by return on assets showed that the performance of the three himbara banks before and after the merger showed good results [17]. In line with Patel's research (2018), the research compared between pre-merger and post-merger measurements of Bank performance in India and the results stated that mergers bring improvements to banking performance [9]. Further stated that there is a positive relationship between the sharia *maqasid* index and the performance of Islamic banking in Malaysia by improving technical efficiency [6]. Sharia *maqasid* is a prerequisite for the development of Islamic banking performance because it already has a concept on sharia goals and objectives, in the end it will improve Islamic efficiency and performance [7].

3. Research Method

The research was conducted with descriptive quantitative methods using The Simple Additive Weighting (SAW) or the weighting of Islamic banking performance based on the final results of the *Maqashid* Syariah Index (MSI). The secondary data used comes from the Annual Report of Islamic Commercial Banks in Indonesia which is compared in the Pre-merger and post-merger periods, namely 2019-2021. There are 14 Sharia Commercial Banks contained in the OJK's Sharia banking statistics in 2019, and it was reduced in 2021 to 12 Sharia Commercial Banks due to the merger of three Himbara Islamic banks into Bank Syariah Indonesia (BSI). The fourteen banks are:

- (1) Bank Muamalat Indonesia (BMI)
- (2) BRI Syariah Bank (BRIS)
- (3) Mandiri Syariah Bank
- (4) BNI Syariah Bank (BNIS)
- (5) Mega Syariah Bank (BMS)
- (6) Panin Syariah Bank (BPS)
- (7) Bukopin Sharia Bank (BSB)
- (8) Bank BCA Syariah (BCAS)
- (9) Victoria Sharia Bank (BVS)
- (10) Bank Jabar Banten Syariah (BJBS)
- (11) Maybank Syariah (Maybank)
- (12) BTPN Syariah (BTPNS)
- (13) BPD West Nusa Tenggara Syariah (BNTBS)
- (14) Bank Aceh Syariah (BAS)

Equations built after weighting:

$$1. PI-1 = W11(E1 \times R1 \times E2 \times R2 \times E3 \times R3 \times E4 \times R4)$$

$$2. PI-2 = W22(E5 \times R5 \times E6 \times R6 \times E7 \times R7)$$

$$3. PI-3 = W33(E8 \times R8 \times E9 \times R9 \times E10 \times R10)$$

PI = Performance Indicators

W = Weight for (PI)

E = Elements (E1-E10)

R = Performance Ratios (R1-R10)

The measurement of *maqashid* sharia performance in the pre-merger and post-merger periods is carried out in the following stages:

Concepts (Objective)	Dimensions	Elements (E)	Performance Ratios (R)	Average Weight	Source Of Data
Educating Individual (PI-1)	D1. Advancement of knowledge	E1. Education	R1. Education Grant of Scholarship/Total Expenses	24	Annual Report
		E2. Research	R2. Research Expenses/ Total Expenses	27	Annual Report
	D2. Instilling new skills in improvement	E3. Traming	R3. Traming Expenses/Total Expenses	26	Annual Report
	D3. Creating awareness of Islamic Banking	E4. Publicity	R4. Publicity Expenses/Total Expenses	23	Annual Report
Total				100	
Establishing Justice (PI-2)	D4. Fair Returns	E5. Fair Returns	R5. Profit Equalization Reserves (PER)/Net Of Investment Income	30	Annual Report
	D5. Cheap Product an Services	E6. Fungsional Distribution	R6. Mudharabbah and Musyarakah Modes/Total Investment Modes	32	Annual Report
	D6. Elimination of Negative Elements that Breed Injustices	E7. Interest Fee Product	R7. Interest Free Income/Total Income	38	Annual Report
Total				100	
Public Interest (PI-3)	D7. Profitability	E8. Profit ratios	R8. Net Income/Total Assets	33	Annual Report
	D8. Redistribution of Income & Wealthy	E9. Personal Income	R9. Zakah Paid/Net Assets	30	Annual Report
	D9. Investment in Vital Real Sector	E10. Investment Ration in Real Sector	R10. Investment in Real economic Sector/Total Investment	37	Annual Report
Total				100	

Source: Mohammed & Razak, 2008)

Figure 2: MSI Weight of Sharia Banking Based on Purpose, Dimensions and Elements.

1. Calculating all performance ratios of Islamic Commercial Banks (BUS)
2. Calculating performance indicators
3. Calculating BUS ratings and analyzing IMS indicators
4. Analyze the performance of Islamic Islamic banking during the pre-merger and post-merger period.

4. Results and Discussion

4.1. Educating Individual

The concept used in this study is the Ibn Ashur concept developed by Abu Zahrah, *maqashid* performance in Islamic banking is grouped into three categories, namely educating individuals (*tahdzib al-fard*), establishing justice (*iqamah al-adl*), and thirdly welfare / public interest (*al maslahah*) [4]. The results of the calculations can be seen in table 2:

The performance of the first sharia *maqashid tahdzib al-fard* (individual educating) was measured through four indicators, namely educational grants (E1), research grants

BANK	E1	E2	E3	E4	AMOUNT	AVERAGE
BMI	0.0053	0.0019	0.0061	0.0116	0.0249	0.006225
BSM	0.0047	0.0006	0.0059	0.0074	0.0186	0.00465
BPS	0.0027	0	0.0037	0.0076	0.014	0.0035
BRIS	0.0023	0	0.0037	0.0091	0.0151	0.003775
BNIS	0.0097	0	0.0126	0.0227	0.045	0.01125
BVS	0.003	0	0.0006	0.0044	0.008	0.002
BCAS	0.006	0	0.0014	0.003	0.0104	0.0026
BMS	0.0024	0	0.0035	0.0023	0.0082	0.00205
BSB	0	0	0.0017	0.009	0.0107	0.002675
BJBS	0	0.0006	0	0.0018	0.0024	0.0006
Maybank	0.0051	0	0.0067	0.0017	0.0135	0.003375
BTPNS	0.0091	0	0.0098	0.0098	0.0287	0.007175
BNTBS	0	0	0.0019	0.0034	0.0053	0.001325
BAS	0.0055	0	0.0059	0.0022	0.0136	0.0034
BSI*	0.00835	0.00030	0.01110	0.01960	0.03935	0.00984

Source: Processed Data, 2022.

Figure 3: Performance Indicators 1 (Educating Individual of Islamic Commercial Banks Indonesia 2019-2021).

(E2), training (E3) and publications (E4). From table2 above, Bank BNI Syariah has the highest average performance measurement of 0.01125 and the lowest is BJBS, which is 0.0006.

4.2. Establishing Justice

Source: Processed Data, 2022.

The second *maqashid* sharia performance is iqamah al-adl (establishing justice) which is measured through three indicators, namely fair returns (E5), functional distribution (7), interest free product (E7). From table 3, the one with the highest establishing justice is BPS at 0.5127333, but after the merger of the three himbara banks, BSI became the top rank in fulfilling the second *maqashid* performance, namely iqamah al-adl (establishing justice) which was 0.5770833. And the lowest performance score is occupied by BNTBS at 0.1045333.

4.3. Public Interest

The result of the third performance is al-maslahah (public interest) which is measured through three indicators, profit ratios (E8), personal income (E9), investment ratios in real sector (E10). From the results of the calculations in table 4, the highest public interest

BANK	E5	E6	E7	AMOUNT	AVERAGE
BMI	0.0087	0.3958	0.8709	1.2754	0.4251333
BSM	0.0048	0.2477	0.9444	1.1969	0.3989667
BPS	0.0076	0.6649	0.8657	1.5382	0.5127333
BRIS	0.0065	0.2929	0.9047	1.2041	0.4013667
BNIS	0.0067	0.188	0.8668	1.0615	0.3538333
BVS	0.0106	0.538	0.9202	1.4688	0.4896
BCAS	0.011	0.4333	0.9146	1.3589	0.4529667
BMS	0.0051	0.1333	0.7328	0.8712	0.2904
BSB	0.0049	0.4458	0.8797	1.3304	0.4434667
BJBS	0.0007	0.1994	0.7921	0.9922	0.3307333
Maybank	0.0036	0.0721	0.7537	0.8294	0.2764667
BTPNS	0.0036	0.0007	0.7769	0.7812	0.2604
BNTBS	0.0029	0.0817	0.229	0.3136	0.1045333
BAS	0.0037	0.0495	0.5288	0.582	0.194
BSI*	0.009	0.3643	1.35795	1.73125	0.5770833

Source: Processed Data, 2022.

Figure 4: Performance Indicators 2 (Establishing Justice of Islamic Commercial Banks Indonesia 2019-2021).

BANK	E8	E9	E10	AMOUNT	AVERAGE
BMI	0.0012	0.0003	0.4855	0.487	0.1623333
BSM	0.0043	0.0004	0.4882	0.4929	0.1643
BPS	-0.0082	0.0003	0.5612	0.5533	0.1844333
BRIS	0.0024	0.0004	0.4943	0.4971	0.1657
BNIS	0.0057	0.0004	0.5222	0.5283	0.1761
BVS	-0.0012	0.0003	0.4781	0.4772	0.1590667
BCAS	0.0043	0.0003	0.5451	0.5497	0.1832333
BMS	0.0057	0.0004	0.5505	0.5566	0.1855333
BSB	0.0016	0.0003	0.6012	0.6031	0.2010333
BJBS	-0.0092	0.0003	0.5995	0.5906	0.1968667
Maybank	-0.0253	0.0003	0.3451	0.3201	0.1067
BTPNS	0.0322	0.0003	0.2733	0.3058	0.1019333
BNTBS	0.0026	0.0003	0.184	0.1869	0.0623
BAS	0.0062	0.0003	0.2374	0.2439	0.0813
BSI*	0.0062	0.0006	0.75235	0.75915	0.25305

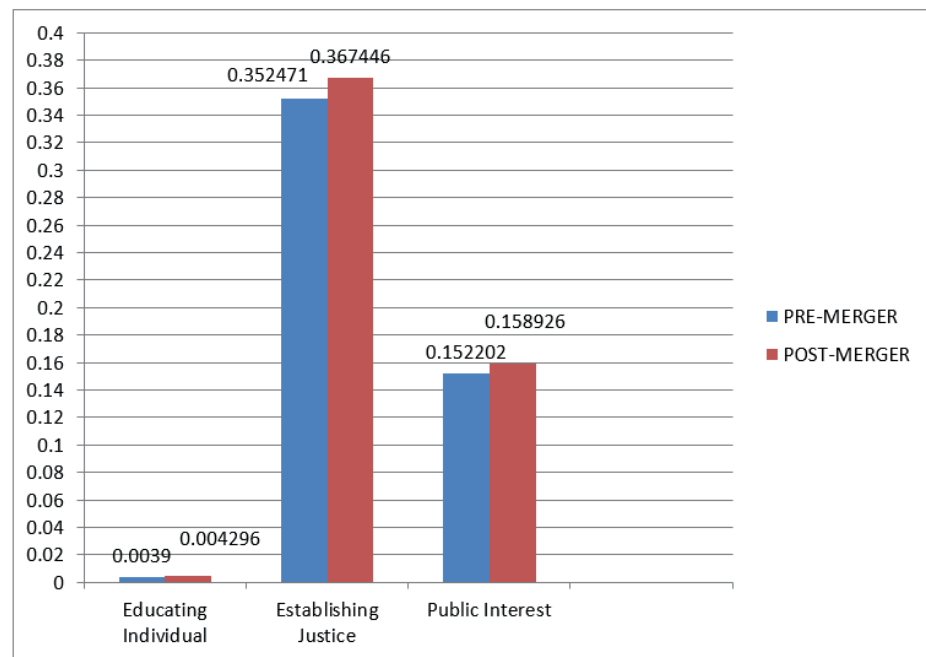
Source: Processed Data, 2022.

Figure 5: Performance Indicators 3 (Public Interest of Islamic Commercial Banks Indonesia 2019-2021).

is BSB with a value of 0.2010333, after the merger with the Islamic Himbara bank, the top position in the performance of public interest is occupied by BSI, which is worth 0.25305.

4.4. Performance Analysis of Sharia Maqashid in the Pre-Merger and Post Merger Periods

Based on Figure 6, through the analysis of the sharia *maqashid* performance index which is measured through three performance categories, namely educating individuals, establishing justice and public interest. Each indicator increased after the merger, the individual educating indicator increased by 0.0004, the establishing justice indicator increased by 0.022, while the public interest indicator increased by 0.0067. It can be concluded that there is an increase in Islamic performance in a positive direction based on the difference in the average performance value in the pre-merger and post-merger periods.



Source: Processed Data, 2022.

Figure 6: Comparative Graph of the Growth of the Sharia *Maqashid* Performance Index Pre-Merger And Post-Merger.

This research is in accordance with research which examined the performance of banks in India, that banking performance has improved after the merger [9]. Furthermore, this research is supported by the other research that there is a positive relationship between the sharia *maqashid* performance index and Islamic performance which is a comprehensive assessment of Islamic banking [6] [7].

5. Conclusions and Suggestions

5.1. Conclusion

Based on the results of the analysis and discussion that have been described regarding the measurement of the *Maqashid* Syariah Index MSI in the pre-merger and post-merger periods, it can be concluded that the highest score was achieved by BNIS on the first indicator, namely educating individuals who carry out the objectives of *maqashid* sharia to improve education. The second indicator is establishing justice, the highest score is achieved by BPS and after the merger the highest score for the establishing justice indicator is achieved by BSI. Furthermore, for the third indicator, namely public interest, the highest score was achieved by BSB, but after the merger, the highest rank was achieved by BSI.

The average *Maqashid* Sharia Index for Islamic Banking in Indonesia in 2019-2021 is 0.176889. Although there are still many Islamic Commercial Banks in Indonesia that have Islamic performance values below the average, the results of the study show that the merger has had an impact on improving performance, especially for Himbara banks, namely Syariah Mandiri Bank, BNI Syariah Bank, BRI Syariah Bank, generally for improving the Islamic performance of Islamic Commercial Banks in Indonesia.

5.2. Suggestion

After getting the results of this research, the authors realized that there was a need to improve aspects of Islamic performance for Islamic banking. Although there is no regulation that fully regulates the fulfillment of Islamic performance obligations. For further researchers, it is hoped that there will be an increase in the number of research samples and the breadth of the theory used. Measurement of the performance of Islamic banks is not only seen from the three aspects of the concept of Abu Zahrah but there are still many aspects of *maqashid* that can be researched and developed.

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