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Dynamic Capability Theory in Islamic Bank Merger Discourse in Indonesia (Profitability, Productivity, and Efficiency Perspective)

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Abstract

The research aims to analyze the mergers that the Indonesian government of Islamic banks has carried out and to explore the potential for future Islamic bank mergers. The method used in this research is quantitative, supported by secondary data obtained from bank financial statements and also based on previous studies. The findings of this study are that the merger of Bank Syariah Indonesia (BSI) has not optimally improved the profitability, productivity, and efficiency aspects of the bank. Therefore, it is necessary to monitor and re-evaluate the internal conditions of the merged bank, which aims to optimize its resources to provide maximum added value. In addition, the merger plan between the Sharia business unit (UUS)-BTN and Bank Muamalat Indonesia needs to be studied in depth and comprehensively and not in a hurry so that the merger action can have a positive impact on both internal Islamic banks and the community and other stakeholders as external parties. The implication of this research is to provide references and information about merger events that occur and the potential for mergers in Islamic banks in Indonesia to stakeholders, both practitioners and academics. Novelty research related to the impact of mergers and potential mergers of Islamic banks in Indonesia is still limited, especially based on the perspectives of profitability, productivity, and efficiency.

Keywords: Islamic Bank, Merger, Productivity, Profitability, Efficiency.

JEL Codes: G2, G21, G28

Endonezya'daki İslami Banka Birleşme Söyleminde Dinamik Yetenek Teorisi: Kârlılık, Üretkenlik ve Verimlilik Perspektifi

Özet

Araştırma, Endonezya hükümetinin gerçekleştirdiği İslami banka birleşmelerini analiz etmeyi ve gelecekteki İslami banka birleşmeleri için potansiyeli keşfetmeyi amaçlamaktadır. Bu çalışmada kullanılan yöntem nicel olup banka mali tablolarından elde edilen ikincil verilerle desteklenmekte ve ayrıca önceki çalışmalara dayanmaktadır. Bu çalışmanın bulguları, Bank Syariah Indonesia (BSI) birleşmesinin bankanın karlılık, üretkenlik ve etkinlik yönlerini en iyi şekilde iyileştirmede olduğu yönündedir. Bu nedenle, maksimum katma değer sağlamak için kaynaklarını optimize etmeyi amaçlayan birleşmiş bankanın iç koşullarının izlenmesi ve yeniden değerlendirilmesi gerekmektedir. Buna ek olarak, Şeriat iş birimi (UUS)-BTN ve Bank Muamalat Indonesia arasındaki birleşme planının derinlemesine ve kapsamlı bir şekilde incelenmesi ve birleşme eyleminin hem İslami bankalar bünyesinde hem de dışarıda toplum ve diğer paydaşlar nezdinde olumlu bir etki yaratabilmesi için acele edilmemesi gerekmektedir. Bu araştırmanın sonucu, Endonezya'daki İslami bankalarda meydana gelen birleşme olayları ve potansiyel birleşmeler hakkında hem uygulayıcılar hem de akademisyenler olmak üzere paydaşlara referans ve bilgi sağlamaktır. Endonezya'daki İslami bankaların birleşmelerinin ve potansiyel birleşmelerinin etkisine ilişkin yeni araştırmalar, özellikle kârlılık, verimlilik ve etkinlik perspektiflerine dayalı olarak hâlâ sınırlıdır.

Anahtar Sözcükler: İslami Banka, Birleşme, Verimlilik, Kârlılık, Üretkenlik.

JEL Kodları: G2, G21, G28

Introduction

The establishment of Islamic banks in Indonesia differs from that in other countries, such as Malaysia. The community and religious institutions, particularly the Indonesian Ulema Council (MUI), initiated the process of establishing Islamic banks in Indonesia by formulating the concepts and principles of Islamic banking (Iqbal & Subhan, 2022; Rafiqoh, 2020). Furthermore, in response to the public demand for a financial system following Sharia principles, in 1992, MUI supported the establishment of Bank Muamalat Indonesia as the first Islamic bank in Indonesia (Biyantoro & Ghoniyah, 2019). The establishment of Bank Muamalat Indonesia marked a significant milestone in the development of Indonesia's Islamic banking industry. Furthermore, the process of establishing Islamic banks in Indonesia, which began with community initiatives, demonstrates the importance of various parties' active involvement in the development of the Islamic banking industry. Despite beginning from the ground up, the government's support and regulations are essential to fortify and broaden the scope of Indonesia's Islamic banking industry. Therefore, there are differences in the process of establishing Islamic banks in other countries, such as Malaysia, which started with government initiatives (top-down), while in Indonesia, the process started with community initiatives (bottom-up), which then received support from the government and related institutions (Melzatia et al., 2023; Nugroho et al., 2023; Nugroho, Husnadi, et al., 2017; Nugroho, Utami, Doktorlina, et al., 2017; Nugroho, Utami, Sukmadilaga, et al., 2017; Sukmadilaga et al., 2017).

Furthermore, the dynamics of the development of Islamic banks in Indonesia since their establishment until now have undergone a transformation, which, according to previous research conducted by Nugroho (2022) can be described as follows:

- Establishment of Bank Muamalat Indonesia (BMI): As a pioneer, BMI started operations on May 1, 1992. This marks the first time Indonesia has had a bank that operates entirely according to Sharia principles.
- Launch of PT Bank Syariah Mandiri (BSM): BSM began operations on November 1, 1999, as an effort from Mandiri to reach market segments that require Islamic banking products and services.
- The establishment of the PT Bank BNI Syariah (BNIS) foundation took place in 2010. Started operating effectively on June 19, 2010, BNIS is a financial institution that provides sharia alternatives for BNI (conventional bank) customers.
- PT Bank BRI Syariah (BRIS) Operations: Inaugurated after obtaining a license from Bank Indonesia on October 16, 2008, BRIS strengthened the presence of Islamic products in the market.
- Signing of Conditional Merger Agreement: On October 12, 2020, the directors of BSM, BNIS, and BRIS signed a merger agreement that will unite the three banks.

- Legal Merger into Bank Syariah Indonesia (BSI): On February 1, 2021, the three banks formally merged into a single legal entity, while maintaining their core banking operations.
- Post-Merger Core Banking Merger: BSI merged the core banking operations of BSM, BNIS, and BRIS into one on October 1, 2021.
- BSI Annual General Meeting of Shareholders: On May 27, 2022, the issuance of Dwi Warna Series A shares was approved, which changed BSI's status to a state-owned bank.

The transformation of the Islamic banking industry in Indonesia, from the establishment of Bank Muamalat Indonesia in 1992 to the merger that formed Bank Syariah Indonesia, reflects a government strategy to strengthen the Islamic financial sector in the country. This merger step was taken to increase the efficiency, increasing economies of scale, and competitiveness of Islamic banking at the national and international levels. However, there are several previous studies conducted by Al Arif et al. (2023), Miah & Sharmeen (2015), Wahid (2017), and Widarjono (2020), stating the factors that encourage Islamic bank mergers in Indonesia are as follows:

- Mergers aim to combine resources and reduce operational redundancies, potentially improving overall operational efficiency.
- Mergers aim to bring together the assets and financing portfolios of several banks, giving the merged bank greater financial capacity to compete in the global market.
- Mergers can also increase the size of the company or its scale, giving it more capability in research and product development. Therefore, the merged bank has the potential to create Islamic banking products that are more varied and by the needs of the community.
- Through mergers, networks, and services can be expanded, increasing accessibility for the public to utilize Islamic financial services.

The merger process of Bank Syariah Indonesia is certainly inseparable from the role of the National Committee for Sharia Economics and Finance (KNEKS). KNEKS has a critical role in developing policies and strategies that support the growth of the Islamic economy in Indonesia. KNEKS has conducted studies and provided policy recommendations to support the integration and growth of Islamic banking, including recommendations to establish a larger and more competitive Islamic state-owned bank. (KNEKS, 2019)

In addition, the phenomenon of the Islamic banking market share in Indonesia still being below 10% does suggest that the sector still has great growth potential and various challenges that need to be overcome to increase its contribution to the national economy (Choerudin et al., 2023; Purwanti et al., 2024; Vidyaningrum et al., 2023). The fact that Islamic banking only accounts for about 6.74% of the total national banking market, despite having existed since 1992, highlights some important issues and opportunities for further development, hence according to Afiyana et al. (2019), Awan & Bukhari (2011), and Mawardi et al. (2020) there are several challenges faced by Islamic banking, among others:

- One of the main challenges is the lack of understanding among the general public about the principles and benefits of Islamic banking. Effective education to the public is necessary to increase the adoption of Islamic products and services.
- Islamic banking competes with the established conventional banking industry that has a wider network and products. A special strategy is needed to position Islamic products as an attractive alternative.
- Develop innovative Sharia products that are relevant to current market needs so that they can compete with conventional banking products in terms of features and benefits.
- The regulatory infrastructure and government support for Islamic banks need to be continuously improved to ensure that these institutions can operate effectively and efficiently in the national financial system.

On the other hand, the merger process under the KNEKS study in 2019, which at that time was still called the National Committee for Sharia Finance (KNKS), is still not complete because there is a next step, namely BSI is expected to acquire the Sharia Business Unit of Bank Tabungan Negara (UUS-BTN). However, there were objections from UUS BTN Syariah to join BSI which were conveyed by several parties, including:

- Chairman of the Central Leadership Council of APERSI (All Indonesian Settlement Association), Junaidi Abdillah, stated that BSI's core business is different from the core business of UUS-BTN Syariah so it will hinder the development of the existing business of UUS-BTN Syariah, namely in housing sector financing (Alexander, 2022).
- The Chairperson of the Indonesian Young Entrepreneurs Association (HIPMI) Syariah Ibnu Riyanto, also expressed his rejection of BSI's action to acquire UUS-BTN Syariah. The rejection of the Chairman of HIPMI Syariah is because, in addition to the different focus of the UUS-BTN Syariah financing business in contrast to BSI, but also the merger of Islamic banks will eliminate competition in the Islamic banking industry so that it can lead to slow product and policy development and have an impact on low market penetration (low productivity) (F. Sari & Laoli, 2022).
- The Chairman of the National Consortium for Public Housing (Kornas-Pera), Muhammad Joni, also rejected BSI's acquisition of UUS BTN Syariah because it was considered to weaken and complicate access from the lower middle class or low-income people (MBR) to get healthy and livable homes. In fact, according to him, BSI has no focus and experience in the field of housing finance (Tim-Redaksi, 2022).
- In addition, Anwar Abbas, the Deputy Chairman of the Indonesian Ulema Council and also the Chairman of the Muhammadiyah Central Executive Board (PP), stated that he did not agree with BSI's acquisition of UUS BTN Syariah. His reason is that UUS BTN Syariah does not need to be acquired, but the two Islamic banks can contribute to each other according to their respective advantages for the development of the Islamic economy in Indonesia (Pratama, 2022). Even before, Anwar Abbas has also expressed his disapproval regarding

the merger of three Islamic banks consisting of BSM, BNIS, and BRIS because what is needed in the current conditions is how Islamic banks can focus on developing products and expanding their access to Micro and Small Enterprises (MSEs) (Laucereno & Iswahyudi, 2022).

However, by the dynamics of 2024, there is a plan to merge UUS BTN with Bank Muamalat to create a competitor to Bank Syariah Indonesia (BSI) (Binekasri, 2024). Therefore, the merger between UUS BTN and Bank Muamalat aims to create an entity that can compete with BSI. This reflects the realization of the importance of having a strong competitor in the industry to improve service and product quality and encourage innovation. On the other hand, Islamic banks should be able to compete with conventional banks to increase the market share of Islamic banks. Therefore, whether a merger between Islamic banks can solve the problem of market share of Islamic banks that tend to stagnate at this time. Furthermore, following the above phenomenon, the problem formulation in this article is as follows:

- How to analyze the results of the merger of Bank Syariah Indonesia (BSI) from the aspects of profitability, productivity, and efficiency?
- What is the prospect of a merger between UUS BTN Syariah and Bank Muamalat Indonesia (BMI)?

This study aims to analyze the impact and potential of government mergers against Islamic banks in Indonesia. Moreover, the implication of this article is to provide references and information about the merger events that took place in Islamic banks in Indonesia to stakeholders for academics and practitioners. Furthermore, the originality of this research is a merger study that relates to impacts based on aspects of profitability, productivity, and efficiency. Thus, this research has significant importance in providing insights, information, and guidance that can be used by various stakeholders, including academics, practitioners, and policymakers, in the context of Islamic bank mergers in Indonesia.

1. LITERATURE REVIEW

In this study, the grand theory used about the merger action of Islamic banks is the dynamic capability theory presented by Teece et al. (1997). Dynamic capability theory is an important concept in strategic management, especially in understanding how companies adapt to rapid environmental changes. The definition of dynamic capability theory is the ability of an organization to respond rapidly to environmental changes in a way that allows the organization to maintain or create a competitive advantage (Roberts & Grover, 2012; Teece, 2011). This theory emphasizes three main processes, including:

- Ability to scan, search, and explore new opportunities in the market and technology.
- The ability to seize such opportunities through coordination of resources and organization and appropriate decision-making.
- The ability to continuously innovate and transform the organization and its resources to meet changing market needs.

Therefore, dynamic capability theory also states that not only assets and resources are important, but also the organization's ability to make strategic changes that can bring continuous adaptation and innovation (Helfat & Peteraf, 2009; Piening, 2013). Organizations with strong dynamic capabilities cannot only react to environmental changes but also proactively shape their environment to create a competitive advantage (Eisenhardt & Martin, 2000; Schilke, 2014). In the context of the merger of Islamic banks in this study, the dynamic capability theory is very relevant to be implemented. Dynamic capability refers to the ability of a firm to integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing business environment. In the event of a merger bank, this is particularly important because of the following:

- Mergers allow banks to combine assets and resources, which can include technology, talent, and infrastructure (Boloupremo & Ogege, 2019; Devos et al., 2016). Dynamic capabilities assist companies in integrating these assets effectively, ensuring that the integration supports overall strategic objectives.
- In a merger bank, reconfiguration of resources is required to eliminate redundancies and maximize operational efficiency (Wu et al., 2016). Dynamic capabilities enable a company to adapt its structure and processes quickly according to new market needs and strategic objectives.
- Combining capabilities and resources, merged banks can be more competitive (Lorenzo Ochoa et al., 2017). Dynamic capabilities facilitate innovation and faster response to changing market conditions, which can help maintain and improve position in a competitive market.
- Mergers are potentially followed by high uncertainty, both internally and externally (Choné & Linnemer, 2008). Dynamic capabilities provide a framework for companies to adapt and survive in the face of this uncertainty.

Under the dynamic capability theory, this study examines the impact of mergers on competitiveness indicators with a focus on profitability, productivity, and efficiency. These three aspects play an important role in assessing how effective mergers are in improving the competitive capabilities of Islamic banks.

Furthermore, the three aspects of profitability, productivity, and efficiency can be explained as follows:

- Profitability is a direct measure of financial success and is often used as a key indicator of merger success where one of the indicators is return on assets (ROA) (Shanmugam & Nair, 2003).
- Productivity measures the effectiveness of a company in using its resources, i.e. how the assets and resources of both banks are combined and used to achieve greater output with the same or fewer inputs (Maksimovic et al., 2011).

- Efficiency can be measured by the bank's ability to reduce costs and utilize economies of scale (da Silva et al., 2020).

In addition, according to several researchers, including Delong & Deyoung (2007), Farah (2017), Hassan & Giouvriss (2021), Purnamasari et al. (2022), merger action in the context of business and economics is a strategic decision made by companies to achieve various benefits which include :

- Mergers allow companies to capitalize on shared strengths and create greater added value than if they operated separately. Synergies can take many forms, including operational efficiencies, cost savings, or the creation of new products.
- By joining forces, companies can increase their market share or expand their product offerings to new market segments.
- Through merging operations, companies can achieve greater economies of scale, reduce overlap in business functions, and improve overall operational efficiency.
- By combining resources and expertise, companies can strengthen their innovation capabilities and develop new and better products or services.

However, according to previous research (Bikker & Haaf, 2000; Rhoades, 2000) mergers also have the potential to raise some concerns such as the following:

- Mergers can result in high market concentration in a particular industry, which can reduce competition and give the merged entity substantial market power.
- Mergers can reduce the number of competitors in a particular industry, which can hurt consumers and limit their choices.
- Mergers may require the approval of regulators or competition watchdog agencies to ensure compliance with antitrust laws and maintain fair competition in the market.
- Mergers that result in high market concentration or reduce competition may raise antitrust concerns and attract the attention of competition supervisory authorities.

Furthermore, mergers are also events that have a significant impact on various stakeholders, including the companies involved, employees, shareholders, customers, and the market as a whole (Kumar & Bansal, 2008). The success of a merger depends on several key factors which include:

- Careful planning before a merger is essential to identify the necessary integration objectives, risks, and strategies. This includes a thorough evaluation of the finances, operations, and cultures of the companies involved.
- Mergers require a good integration strategy to smoothly combine operations, systems, and corporate cultures. The integration strategy should be designed to achieve the expected synergies and maximize the value of the merger.

- Clear and open communication with all stakeholders, including employees, customers, and business partners, is essential. This helps reduce uncertainty and anxiety and builds trust among the parties involved.
- Different corporate cultures can be a major challenge in a merger. Aligning organizational cultures and goals through an inclusive and structured approach can help reduce integration barriers and facilitate better collaboration among teams.
- A successful merger not only creates immediate value, but also creates long-term value for all stakeholders involved, including employees, shareholders, and customers. This requires focusing on sustainable growth, operational efficiency, and superior customer service.

2. METHOD

The research method used is quantitative by comparing secondary data, namely indicators of profitability, productivity, and efficiency in bank reports from 2021 to 2022. The 2021 and 2022 periods are determined as a result of the BSI merger in February 2021, while 2022 will be the reference year after the merger. Therefore, the stages of data collection and data analysis methods are as follows:

- Define operational variables from the aspects of profitability, productivity, and efficiency.
- Define banks that have assets comparable to Bank Syariah Indonesia (BSI).
- Comparing the profitability, productivity, and efficiency scores of banks comparable to BSI.

The purpose of the research stages is to answer the formulation of research problems that include:

- How to analyze the results of the merger of Bank Syariah Indonesia (BSI) in terms of profitability, productivity, and efficiency?
- What is the prospect of a merger between UUS BTN Syariah and Bank Muamalat Indonesia (BMI)?

2.1. Operational Research Variables

Operational research variables consisting of aspects of profitability, productivity, and efficiency can be explained as follows:

- Return on Asset (ROA): ROA measures how efficient a bank is in generating profits from its assets (Hidayah et al., 2021; Menicucci & Paolucci, 2016; Nugroho et al., 2019) The formula is:

$$\frac{\textit{Profit}}{\textit{Total Assets}}$$

- Productivity ratio: This ratio measures how efficiently the bank uses its human resources to generate profit. (AlAli, 2020; Rakshit, 2023). The formula is:

$$\frac{\textit{Profit}}{\textit{Number of Officers}}$$

- Efficiency ratio: This ratio measures the bank's efficiency in managing its operating expenses against operating income. (Harfiah et al., 2016; Nugroho & Bararah, 2018; Soekapdjo et al., 2018) The formula is:

$$\frac{\text{Operational Costs}}{\text{Operational Revenue}}$$

In addition, the banks with assets comparable to that of Shariah Bank Indonesia (BSI), if based on bank asset data as of December 2023, are as follows:

Table 1: Seven Banks in Indonesia with the Largest Total Assets

In trillion rupiah

No.	Bank Name	Assets
1	Bank Mandiri	2,174.21
2	Bank Rakyat Indonesia (BRI)	1,965.00
3	Bank Central Asia (BCA)	1,408.10
4	Bank Negara Indonesia (BNI)	1,086.66
5	Bank Tabungan Negara (BTN)	438.74
6	Banks Syariah Indonesia (BSI)	353.62
7	CIMB Niaga	334.36

Source: Respati & Djumena (2024)

As per Table 1 above, it can be seen that the assets of Bank Tabungan Negara (BTN) and CIMB Niaga are close to those of BSI.

2.2. Comparison Scoring Method

The scoring method used in the operational research variables consisting of aspects of profitability, productivity, and efficiency with comparative analysis of financial indicators between BTN, BSI, and CIMB Niaga is measured by the following method:

- The highest value is given a score: of 3
- The second highest value is given a score: of 2
- The lowest value is given a score: of 1

3. RESULTS AND DISCUSSION

3.1. Analysis of Bank Syariah Indonesia (BSI) Merger Results from the Aspects of Profitability, Productivity, and Efficiency

Under the results of data collection and scoring methods in this study, it can be shown that the comparison of indicators of profitability, productivity, and efficiency aspects between BSI, BTN, and CIMB Niaga is as follows:

Table 2: Scoring Results of Financial Indicators in the Aspects of Profitability, Productivity, and Efficiency between BSI, BTN, and CIMB NiagaBank Name

	Financial Indicators	Year			
		2022	Score	2021	Score
BTN	ROA	1.02	1	0.81	1
	Employee Productivity	256.77	2	212.31	2
	BOPO	89.28	1	91.61	1
	Total Score		4		4
BSI	ROA	1.98	2	1.61	2
	Employee Productivity	229.28	1	155.70	1
	BOPO	75.88	2	80.46	2
	Total Score		5		5
CIMB Niaga	ROA	2.16	3	1.88	3
	Employee Productivity	466.05	3	376.35	3
	BOPO	74.1	3	78.37	3
	Total Score		9		9

Source: From various sources that have been processed

Following Table 2 above, the following can be explained are follow:

- ROA: The best ROA is Bank CIMB Niaga both in 2021 and 2022 with a score of 3. This is followed by BSI with a score of 2 both in 2021 and 2022. Meanwhile, BTN is in the last place in ROA with a score of 1 both in 2021 and 2022.
- Employee Productivity: The highest score for employee productivity is CIMB Niaga, both in 2021 and 2022, followed by BTN with a score of 2 in 2021 and 2022. Meanwhile, the lowest score for employee productivity is BSI with a score of 1 for 2021 and 2022.

- BOPO: The highest BOPO with a score of 3 is CIMB Niaga in 2021 and 2022, followed by bank BSI with a score of 2 in 2021 and 2022. Meanwhile, the highest BOPO is with a score of 1 in 2021 and 2022 found in BTN bank.

According to the results of the data processing above, it is found that Bank Syariah Indonesia (BSI) has less favorable profitability, productivity, and efficiency indicators compared to CIMB Niaga, which has lower assets than BSI. Furthermore, several strategic steps can be taken to improve the governance and performance of BSI post-merger, which include:

- Conduct a thorough evaluation of the company's management and governance structure. This may include a review of internal policies, resource allocation, inefficient organizational structures, and executive-level decision-making. Improvements in governance can help clarify strategic direction and increase accountability.
- With a higher operating cost to operating income ratio than CIMB Niaga, BSI needs to look at its operational processes. Steps such as process automation, redundancy reduction, and human resource optimization can be taken to reduce costs and improve efficiency.
- One of the risks post-merger is the tendency to be less innovative due to greater scale and more bureaucratic processes. BSI needs to encourage a culture of innovation through investment in new technologies, more adaptive financial products, and services that are more responsive to customer needs.
- Results showing lower productivity per employee may indicate issues in human resource management. Banks can improve training programs, career development, and incentive systems to motivate employees and increase their involvement in achieving company goals.
- Implement an effective performance measurement system to regularly assess and adjust the strategies implemented. This includes the use of key performance indicators (KPIs) to objectively assess the effectiveness of actions taken.
- Engage a wide range of stakeholders, including employees, customers, and investors in the change process to ensure there is broad support and understanding of the new direction the merged bank is taking.

However, when reviewed from previous research related to bank mergers, bank mergers fail to achieve the desired results or even cause losses. Research by Becher & Campbell (2005) is one example that informs the failure of several bank mergers, especially in the post-deregulation era of the 1990s in the United States. Some of the reasons behind the failure of bank mergers are as follows:

- Mergers between banks with high levels of branch overlap may result in redundancies and low efficiency. This can result in high integration costs and reduced revenues, especially if the branches compete with each other in the same region.

- Poor integration between merged systems, processes, and corporate cultures can disrupt business operations and performance. Failure to manage integration well can result in disruptions in customer service, decreased productivity, and loss of key employee talent.
- An inaccurate assessment of the business value of the banks involved in the merger may lead to a mismatch of prices and expectations, which in turn may reduce the expected added value of the merger.
- Differences in organizational culture between merging banks can be a major obstacle in achieving synergy and efficiency. Difficulties in aligning organizational cultures and goals can disrupt integration and contribute to merger failure.
- External factors such as regulatory changes, poor market conditions, or changes in industry dynamics can also affect the success of bank mergers. Economic instability or policy changes can alter the business landscape and reduce the expected benefits of a merger.

Therefore, it is important for banks intending to merge to conduct a thorough evaluation, careful planning, and careful execution to minimize risks and maximize value from the merger. Factors such as integration readiness, cultural compatibility, and accurate assessment of potential benefits and risks should be carefully considered before deciding to merge. (Sarala & Vaara, 2010; Tahir, 2014; Vieru et al., 2014). In addition, studies such as those conducted by Garmaise & Moskowitz (2004) have explored the real and social impact of credit market competition resulting from bank mergers. This study related to the complexity and potential negative consequences that can arise from increased competition after a merger, including social dynamics in communities i.e. increased competition in the banking industry, especially after a significant bank merger, can change social dynamics in the affected community or society. For example, branch closures or service reductions may affect access to financial services for communities that depend on such branches.

3.2. The prospect of a Merger between UUS BTN Syariah and Bank Muamalat Indonesia (BMI)

Bank mergers, including in the Islamic banking sector, often face significant challenges and can sometimes be counterproductive. The history of state-owned bank mergers in Indonesia with the formation of Bank Mandiri through the merger of BDN, Bapindo, Bank Eksim, and BBD during the monetary crisis of the late 1990s, is one example of how mergers were intended as a rescue strategy amidst a severe financial crisis. Furthermore, the merger process involving Bank Syariah Mandiri (BSM), BNI Syariah (BNIS), and Bank BRISyariah (BRIS) into Bank Syariah Indonesia (BSI) that took place on February 1, 2021 is an example of the massive consolidation within Indonesia's Islamic banking sector. The merger process was announced and completed in a relatively short period, which posed various challenges in terms of post-merger integration and adjustment. The following is according to some previous scholarly sources (Alaranta & Mathiassen, 2014; Berger & Humphrey, 1992; Dokotri et al., 2016; Febriani & Yancey, 2019; Isonne et al., 2021; Obuba, 2023) stated that several aspects often require special time and attention after a merger such as BSI:

- Integration of information technology systems between different banks is a complex and time-consuming task. This includes the unification of digital service platforms, risk management systems, and accounting and financial systems.
- Harmonizing and optimizing the products and services offered by the merged banks is an important challenge. It is necessary to ensure that the products offered are relevant to market needs and still fulfill Sharia principles.
- Each bank carries its own corporate culture. Creating a cohesive corporate culture from different entities requires strategic efforts in human resource management and internal communications.
- Ensure that all new bank operations follow strict regulations from financial authorities, especially in Islamic banking which has specific principles that must be followed.
- Mergers often raise concerns about redundancy of positions and changes in job structure. Management must handle these issues carefully to maintain employee morale and productivity.
- Maintaining customer trust and satisfaction is vital. Effective communication of the benefits of the merger and the resulting service improvements should be made to ensure customers remain loyal.

One significant example that the BSI merger process is not yet complete is the ransomware attack incident that occurred at Bank Syariah Indonesia (BSI) on May 8, 2023, which paralyzed financial services for five days, indeed indicating significant vulnerabilities in the bank's information technology (IT) security system (H. P. Sari & Ika, 2023). This incident emphasizes the importance of improving information technology security and infrastructure, especially in the post-merger context, where the integration of the IT systems of the merged banks is crucial. This is because, in a merger, the integration of IT systems of the merged entities is often complex and prone to security gaps, especially if the process is rushed or without adequate security testing (Dameri, 2013). In addition, post-merger, management focus is on merging operations and less on improving IT infrastructure. This can create gaps in system security.

The merger plan between UUS-BTN Syariah and Bank Muamalat Indonesia is expected to be completed before October 2024, before the change of the Indonesian president (Burhan & Nugroho, 2024). The merger plan, indeed, needs a very mature and careful approach. Referring to previous merger experiences such as Bank Mandiri and Bank Syariah Indonesia (BSI), there are important lessons that can be learned to minimize the risks and maximize the benefits of this merger process. The critical aspects to be studied in the merger according to previous studies Beck et al. (2006), Joseph (2014), and Wijnhoven et al. (2006) are as follows:

- It is important to conduct a thorough examination (due diligence) of all operational and financial aspects of both banks. This includes analyzing the credit portfolio, asset quality, as well as the suitability of IT systems and corporate culture.

- BSI's experience shows that poorly integrated IT systems can lead to major problems, including security vulnerabilities. IT integration projects must be carefully executed, including comprehensive security testing before the new system goes live.
- Managing change on a large scale is key to mergers. This includes effective communication with all stakeholders, including employees, customers, and investors, as well as training and support for employees in adapting to change.
- The development of a clear operational and business strategy post-merger, including new target markets and service improvements, is vital. This strategy should be oriented toward long-term growth and customer satisfaction.
- Ensure compliance with all applicable regulations, especially in Islamic banking, which has very specific rules regarding financial operations.
- Identify potential risks that could arise from the merger, including operational, financial, and reputational risks. The development of mitigation plans for these risks is essential.
- After a merger, it is important to have a robust monitoring and evaluation system in place to periodically assess the performance of the new bank and adjust strategies as needed.

Furthermore, according to previous research, Wang et al. (2022) and Kaiser (2020) stated that the bottom-up approach in bank merger initiation is considered more effective as it focuses on the real needs of the organization and its stakeholders, including customers. This approach allows banks to identify integration needs that arise from within, which are often more accurate and relevant to actual operational and market conditions. Therefore, two things need to be considered in the bottom-up merger process, namely:

- Advantages of Bottom-Up Approach in Bank Mergers:
 - a. Mergers that are initiated from real operational needs are more likely to support sustainable efficiencies and synergies. This is in contrast to top-down mergers, which may be driven more by policy or political reasons without considering operational fit.
 - b. Banks undertaking need-based mergers are more likely to innovate and adapt to market needs. They can be more responsive to changes in technology and consumer preferences.
 - c. Mergers with the support of employees tend to have a lower risk of internal conflict, as they see the value and direct benefits of the process.
 - d. When the merger is truly aimed at improving services and performance, it will strengthen the trust and satisfaction of customers and other stakeholders.
 - e. Banks that initiate mergers based on their internal analysis have greater control over the process, allowing them to customize the integration according to their exact needs.
- Effective Bottom-Up Bank Merger Implementation Strategy:

- a. Conduct an in-depth analysis of the financial, operational, and strategic conditions of both banks to ensure that a merger is indeed the best strategy.
- b. Enable early employee engagement in the merger process to gain input and strengthen buy-in from within.
- c. Maintain full transparency at every stage of the merger process. Clear and open communication with all stakeholders helps build support and reduce uncertainty.
- d. Establish key performance indicators (KPIs) to monitor the merger process and outcomes, ensuring that the expected objectives are achieved.

Furthermore, mergers driven by real needs and not by external or political pressures are more likely to be successful as they meet clear strategic criteria receive greater support from within the organization and create a stronger foundation for long-term growth and stability. (Bairizki et al., 2021; Kavanagh & Ashkanasy, 2006; Liu et al., 2021; Nugroho, 2023).

Conclusion

Based on the results and discussion, the conclusions related to the merger action of Islamic banks in Indonesia based on dynamic capability theory can be concluded:

- The merger of Bank Syariah Indonesia has not optimally improved the profitability, productivity, and efficiency of the bank. Therefore, it is necessary to monitor and re-evaluate the internal conditions of the merged bank which aims to optimize its resources to provide maximum added value.
- The merger plan between UUS-BTN and Bank Muamalat Indonesia needs to be studied in depth and comprehensively and not in a hurry so that the merger action can have a positive impact on both internal Islamic banks and the community and other stakeholders as external parties.

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