

MAQASHID SHARIA INDEX AND INDONESIAN SHARIA BANKING EFFICIENCY: PRE-MERGER AND POST-MERGER

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Abstract

This study aims to examine the impact of the merger of Bank Syariah Indonesia on the level of efficiency and performance of Islamic finance in Islamic banking Indonesia. The research period used is one year before the merger, and after the merger, in year 2019 and 2021 at Islamic Commercial Bank of Indonesia. This study uses a quantitative research model that uses secondary data form quarterly financial reports obtained from the annual report. The data analysis is non-parametric approach Data Envelopment Analysis (DEA) and Maqashid Sharia Index (MSI) to measure the level of efficiency and financial performance of the Islamic banking industry in Indonesia through three main categories of Ibn Ashur's maqashid sharia, developed by Abu Zahrah, namely tahdzib al-fard (individual education), iqamah al-adl (justice) and maslahah (welfare). The results showed that the impact of the merger of PT Bank Syariah Indonesia has not been able to have a significant impact on improving Islamic financial performance and the level of Efficiency of Islamic Commercial Banks in Indonesia.

Keywords: *efficiency, islamic financial performance, merger, maqashid sharia.*

1. INTRODUCTION

Indonesia's Islamic social finance sector is the most dynamic among all countries in the world which led Indonesia to first rank at Islamic Finance Country Index in the Cambridge Global Islamic Finance Report 2021 with the highest score of 83.35, followed by Saudi Arabia with a score of 80.67, Malaysia with a score of 80.01, Iran with a score of 79.73 and Pakistan with a score of 60.23 (bi.go.id). This achievement is expected to support the development of Indonesia's Islamic finance industry to continue to grow as part of the global economic plan in post-covid-19 economic recovery.

Since the signing Conditional Merger Agreement (CMA) on October 12, 2020, the three Sharia Banks of the Association of State Banks (Himbara) including Bank

Rakyat Indonesia Syariah, Bank Syariah Mandiri, and Bank Negara Indonesia Syariah officially merged to become Bank Syariah Indonesia. Currently, Indonesia has 12 Sharia Commercial Banks, 20 Sharia Business Units and 163 Sharia Rural Banks (ojk.go.id). State Owned Enterprises Erick Thohir said that this merger has the potential to put Bank Syariah Indonesia in the top 10 banks globally based on assets and market capitalization. With a larger amount of capital, banks will have more freedom to expand their business and expand the reach of Islamic financial services starting from the wholesale, consumer, MSME, retail and corporate segments on a larger scale (cnbcindonesia.com).

From 2017 to 2021 (figure 1), the Financial Services Authority (OJK) noted that the total assets of Islamic banking in Indonesia continued to increase.

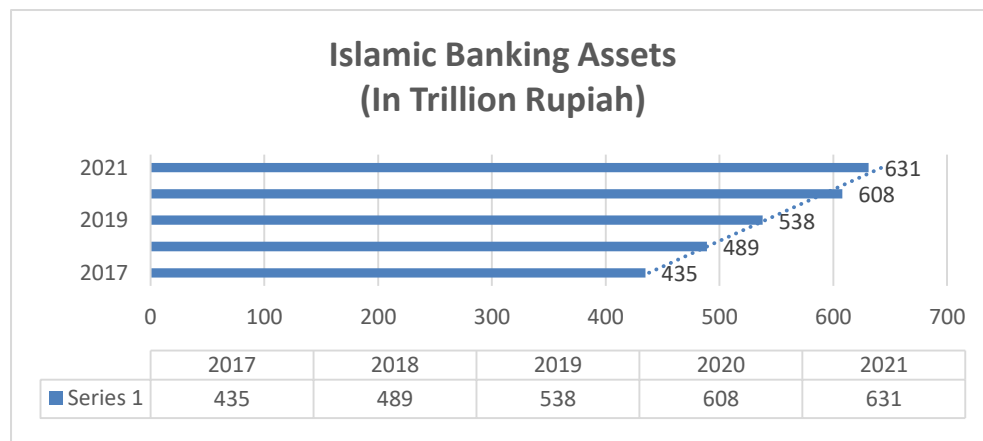


Figure 1. Increase in Islamic Banking Assets in Indonesia.

Source: Financial Services Authority (OJK), 2021.

In line with the increase of assets, market share Islamic banking in Indonesia continues to grow, in 2021 around 6% of total national banking, but still far from Bank Indonesia's target of 20% (idxchannel.com). With the merger, it is hoped that there will be a positive impact, not only for Bank Syariah Indonesia, but for all Islamic banking in Indonesia so that apart from being better known to the public, more competitive, efficient and in accordance with sharia values. For this reason, it is necessary to conduct an investigation (research) related to the efficiency and financial performance of Islamic Islamic banks in Indonesia because the large asset value has not been able to show high efficiency and financial performance based on maximum Islamic values.

Efficiency is focused on using minimum input to produce maximum output (Jaouadi and Zorgui, 2014). Data Envelopment Analysis (DEA) developed by Farrell (1957) is a non-parametric approach used to measure the efficiency of a business unit. Halkos and Tzeremes (2013) examined bank efficiency in Greece, then Lai et al. (2015) measured the increase in bank efficiency in Malaysia in the pre-merger and post-merger periods, the results showed that most banks could not produce operational efficiency.

In addition to efficiency, the characteristics of sharia inherent in the operations of Islamic banks cannot be separated (Ullah and Khanam, 2018). Sharia values, benefits and blessings are believed to be able to encourage Islamic banks to be more efficient. Efficiency assessment on sharia values is considered capable of improving performance (Parisi et al., 2021). Implementation maqashid sharia used in assessing the suitability of banking performance with the objectives and characteristics of Islamic Banking. The three main categories used to measure the financial performance of the Islamic banking industry are tahdzib al-fard (individual education), iqamah al-adl (justice) and maslahah (welfare) (Antonio, 2012). The higher the sharia value in Islamic banking, the higher the financial performance (Reza and Violita, 2018).

This study tries to analyze the level of efficiency with the approach Data Envelopment Analysis (DEA) and analyzed the performance level of Islamic finance with the perspective of Maqashid Sharia on the Islamic banking sector in Indonesia and the impact of the pre-merger and post-merger from Bank Syariah Indonesia.

2. LITERATURE REVIEW

Efficiency

Efficiency is defined as the use of minimum input to produce maximum output (Jaouadi & Zorgui, 2014). Efficiency will be optimal if the company can maximize its output by using fixed inputs or by minimizing the use of inputs to achieve the same level of output. Efficiency in economics refers to a number of concepts related to maximizing utility and utilization of all resources in the process of producing goods and services.

Data Envelopment Analysis (DEA) was first developed by Farrell (1957) which measures the technical efficiency of one input and one output into several inputs.

This analysis was popularized by several other studies, including Charnes Cooper Rhodes (1978) who stated that this model assumes Constant Return To Scale (CRS) which indicates that the addition of production factors (inputs) has no impact on additional production (output). The second analysis was carried out by Bankers Charnes Cooper (1984) otherwise known as the Variable Return To Scale (VRS) which stated that the increase in input and output did not have the same proportion.

This research uses Data Envelopment Analysis (DEA) method with Bankers Charnes Cooper (1984) model orientation. The variables used to analyze efficiency are input variables consisting of savings, total assets, general and administrative expenses and employee expenses. While the output variables used are financing and income.

Islamic Financial Performance (Maqashid Sharia)

Literally, maqashid is the plural form of the word 'maqsyud' which means the goal and syar'i which means the way to the source. The concept of the maqashid sharia index is aimed at defining the value of welfare and benefits (jalb al-masalih), and overcoming adversity (dar'al mafasid) (Antonio, 2012). Asy-Syatibi (2003) describes three levels of human needs including ad-daruriyyah (basic needs), al-hajiyah (secondary needs), tahsiniyah (tertiary needs). From this concept, it can be concluded simply that maqashid sharia is the goals to be achieved from sharia in all its legal aspects.

Maqashid Sharia Index (MSI) is a measure of Islamic banking performance that uses financial ratios based on the concept of maslahah on the theory proposed by Abu Zahrah which is divided into three categories, namely tahdzib al fard (education for individuals), iqamah al-adl (justice), and maslahah (benefits and welfare). This index is appropriate to be used as an assessment of the performance of Islamic Banking (Antonio et al., 2012).

Merger

Based on Law of the Republic of Indonesia, about Limited Liability Company No. 40 of 2007, a merger is defined as a legal act carried out by one or more companies to merge with another existing company and result in the assets and liabilities of the merged company being transferred by law to another company that accepts the merger. Merger can be interpreted as the implementation of a merger by two or more

companies to unite their operational activities for a stronger competitive advantage.

In terms of the type of business carried out, Bank Syariah Indonesia carried out a horizontal merger, where the merger was Bank Rakyat Indonesia Syariah, Bank Syariah Mandiri, and Bank Negara Indonesia Syariah which were engaged in the same field and objectives. Pre-merger in this study is defined as the phase of merger process when the deal is conceived and negotiated by executives and then legally approved by shareholders and regulators. Meanwhile, post-merger is defined as the phase of merger when the combined entity and its people regroup from initial implementation and new organization settles in (Moreira & Silva, 2019:124). Thus, a pre-merger condition is defined when an agreement is made and negotiated by the executive and legally approved by shareholders and regulators, and a post-merger is when a combined entity comes together in the initial implementation of a new entity.

Framework

Rusydia and Firmansyah's research (2018) has measured the efficiency of the banking industry and its performance, and the results of the study state that there are still many Islamic banks that fall into the low quadrant group in terms of efficiency and performance. Parisi et al. (2021) examined a number of Conventional Banks and Islamic Banks in Indonesia, the results stated that Conventional Banks are considered more efficient than Islamic Banks, and the Islamic maqashid index in Islamic Banks is still very low. Lai et al. (2015) examined the level of efficiency and financial performance of banks in Malaysia after mergers and acquisitions, the results showed that there was no significant increase in the performance and efficiency of banks resulting from mergers in Malaysia. Ibrahim & Ismail's research (2020) states that Islamic banks with a higher ratio of financing to assets tend to have higher efficiency scores. With better Islamic performance that will increase bank efficiency, the maqashid sharia approach is a prerequisite for the development of Islamic banking because it will be a benchmark for the level of performance of Islamic banking which is more conceptualized on sharia goals and objectives (Supriyono et al., 2019). The merger of Panin Syariah Bank with Dubai Islamic Bank resulted in perfect efficiency values and an increase in the characteristics of Islamic banks in accordance with Islamic law. (Supriyono et al., 2019). Research on efficiency and Islamic performance in the pre-merger and post-merger period has never been conducted in Indonesia.

3. RESEARCH METHODS

Population and the sample used consists of Islamic Commercial Banks in Indonesia, by comparing 14 Islamic Commercial Banks before the merger in 2019 and after the merger as many as 12 in 2021 using quarterly financial reports. This study uses a purposive sampling technique, based on the completeness of the data used in the test, the sample obtained was 104 banking data. The data is a type of secondary data form annual reports and banking financial reports for 2019 and 2021. Microsoft Excel 2013, Banxia Frontier Analyst Version 4, and SPSS Version 24 are used in this study to measure the level of efficiency with the Data Envelopment Analysis approach and Islamic financial performance with the Maqashid Sharia Index approach.

Table 1
Islamic Commercial Banks In Indonesia

No	Banks	Code
1.	Bank Muamalat Indonesia	BMI
2.	Panin Syariah Bank	BPS
3.	Mandiri Syariah Bank	BSM
4.	BRI Syariah Bank	BRIS
5.	BNI Syariah Bank	BNIS
6.	Victoria Syariah Bank	BVS
7.	BCA Syariah Bank	BCAS
8.	Mega Syariah Bank	BMS
9.	Bukopin Syariah Bank	BSB
10.	Bank Jabar Banten Syariah	BJBS
11.	Maybank Syariah	Maybank
12.	BTPN Syariah	BTPNS
13.	NTB Syariah Bank	BNTBS
14.	Aceh Syariah Bank	BAS

Source: Financial Services Authority (OJK), 2019-2021.

There are 14 Sharia Commercial Banks listed in the Financial Services Authority, sharia banking statistics in 2019, and reduced in 2021 to 12 Sharia Commercial Banks due to the merger of three himbara sharia banks into Bank Syariah Indonesia (BSI).

In table 2 below is a weighting on the dimensions and elements of the Maqashid Sharia Index (MSI):

Table 2
MSI Weight of Sharia Banking Based on Purpose, Dimensions and Elements

Concepts (Objective)	Dimensions	Elements (E)	Performance Ratios (R)	Average Weight	Source Of Data
Individual Education (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. Training	R3. Training Expenses/Total Expenses	26	Annual Report
		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 products and services	E6. Functional distribution	R6. Mudharabah and Musyarakah Modes/Total Investment Modes	32	Annual Report
			R7. Interest Free Income/Total Income	38	Annual Report
	D6. Elimination of negative elements that breed injustices	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 ratio in real sector	R10. Investment in Real Economic Sector/Total Investment	37	Annual Report
			Total		

Source: Mohammed & Razak, 2008.

Equations built after weighting:

$$\begin{aligned}
 1. \text{ PI-1} &= W11 (E1 \times R1 \times E2 \times R2 \times E3 \times R3 \times E4 \times R4) \\
 2. \text{ PI-2} &= W22 (E5 \times R5 \times E6 \times R6 \times E7 \times R7) \\
 3. \text{ PI-3} &= W33 (E8 \times R8 \times E9 \times R9 \times E10 \times R10)
 \end{aligned}$$

Information:

PI = Performance Indicators

W = Weight for (PI)

E = Elements (E1-E10)

R = Performance Ratios (R1-R10)

Meanwhile, to measure efficiency using Data Envelopment Analysis (DEA), according to the research objective, namely measuring the efficiency level of Islamic Commercial Banks using the Data Envelopment Analysis (DEA) method, this study uses input and output variables in the calculation. The identification of input-output

variables used in this study uses an intermediation approach. Therefore, the estimated DEA model consisting of 3 inputs (I) and 2 outputs (O) is as follows:

1. Input Variables

The input variable is an input variable that functions to determine what proportion or percentage is needed to achieve a balanced condition between needs and expectations so that efficiency is achieved. In this study, the input variables used are:

- a. Deposit funds (saving)
- b. Assets are all rights that can be used in the company's operations.
- c. Administrative and general costs are costs incurred to carry out business activities.

2. Output Variables

Output variable is the output variable which is the result of a process of an economic activity unit. In this study, the output variables are:

- a. Financing means the product of Islamic bank fund distribution to the public, both individuals and legal entities with muamalah contracts.
- b. Other operating income is income resulting from operational activities of Islamic banks.

4. RESULTS AND DISCUSSION

Sharia Commercial Bank Performance Based on Maqashid Sharia Index

There are four stages that have been carried out in measuring banking performance based on Islamic maqashid, firstly calculating the performance ratio of all Syariah Commercial Banks, second calculating performance indicators based on performance ratios, and thirdly accumulating previously found performance indicators to determine rankings based on the sharia maqashid index then which fourth is to compare it at the time of pre-merger and post-merger.

Table 3 is the result of an assessment of maqashid sharia performance indicators based on the Ibn Ashur concept developed by Abu Zahrah which has three main elements, namely educating individual (tahdzib al-fard), establishing justice (iqamah al-adl), and third welfare/public interest (maslahah) (Antonio, (2012) & Mohammed and Razak, (2008)).

Table 3
Performance Indicators of Maqashid Sharia Islamic Commercial Banks in
Indonesia (Pre-Merger and Post-Merger)

BANK	PRE-MERGER			Average MSI Bank	BANK	POST-MERGER			Average MSI Bank
	Individual Education (PI-1)	Establishing Justice (PI-2)	Public Interest (PI-3)			Individual Education (PI-1)	Establishing Justice (PI-2)	Public Interest (PI-3)	
BMI	0.006225	0.4251333	0.1623333	0.197897	BMI	0.006525	0.425433	0.162633	0.198197
BPS	0.0035	0.5127333	0.1844333	0.233556	BPS	0.0038	0.513033	0.184733	0.233855
BSM	0.00465	0.3989667	0.1643	0.189306	BSM*	0	0	0	0
BRIS	0.003775	0.4013667	0.1657	0.190281	BRIS*	0	0	0	0
BNIS	0.01125	0.3538333	0.1761	0.180394	BNIS*	0	0	0	0
BVS	0.002	0.4896	0.1590667	0.216889	BVS	0.004075	0.401667	0.166	0.190581
BCAS	0.0026	0.4529667	0.1832333	0.212933	BCAS	0.0029	0.453267	0.183533	0.213233
BMS	0.00205	0.2904	0.1855333	0.159328	BMS	0.00235	0.2907	0.185833	0.159628
BSB	0.002675	0.4434667	0.2010333	0.215725	BSB	0.002975	0.443767	0.1333	0.216025
BJBS	0.0006	0.3307333	0.1968667	0.176067	BJBS	0.0009	0.331033	0.197167	0.176367
Maybank	0.003375	0.2764667	0.1067	0.128847	Maybank	0.003675	0.276767	0.107	0.129147
BTPNS	0.007175	0.2604	0.1019333	0.123169	BTPNS	0.007475	0.2607	0.102233	0.123469
BNTBS	0.001325	0.1045333	0.0623	0.056053	BNTBS	0.001625	0.104833	0.0626	0.056353
BASS	0.0034	0.194	0.0813	0.0929	BASS	0.0037	0.1943	0.0816	0.0932
BSI*	0	0	0	0	BSI*	0.00984	0.577083	0.0813	0.222741
AVERAGE					AVERAGE				
MSI/	0.0039	0.352471	0.152202		MSI/	0.004153	0.356049	0.142997	
Indicator					Indicator				

*Consideration in calculation when merger.

Source: Data Processed, 2022.

The first objective of individual education (tahdzib al fard) is the obligation for banks to support every scientific development for all employees and the community. In table 3, after the merger the individual educating indicator (tahdzib al-fard) increased by 0.000253. The second indicator, namely establishing justice (iqamah al-adl) is the bank's obligation to be fair and free from usury and after the merger, the second indicator has increased by 0.0036. Meanwhile, the third indicator, namely public interest (maslahah), is the obligation of banks to prioritize their business activities to provide broad benefits to the public, but after the merger there was a decrease of 0.0092 in this third indicator.

Based on table 3, the average ranking of banks that performed according to maqashid sharia before the merger, BPS (Panin Syariah Bank) ranked first at 0.233556 then followed by BVS (Victoria Syariah Bank) which ranked second at 0.216889. Meanwhile, after the merger, Bank BPS (Bank Panin Syariah) still occupies the first

position at 0.233855, but the second place is BSI (Bank Syariah Indonesia) with an average indicator point of 0.222741. This research is supported by the research of Supriyono et al. (2019) that after the merger, it increases the efficiency and characteristics of Islamic banks in accordance with Islamic law. In line with research (Akram et al., 2021) that when a very important aspect of the principle of justice (maqashid sharia) is implemented in a banking merger, it will have implications for the benefit of all stakeholders of Islamic banks. The maqashid sharia index value of the average performance of banking in Indonesia is 17%, it can be seen in table 1, there are almost 40% of banks that have not met the average performance index. According to the research by Rusydiana and Firmansyah (2018) that there are still many Islamic banks that belong to the low quadrant group in terms of efficiency and Islamic performance.

Sharia Commercial Bank Performance Based on Efficiency Level with DEA

The efficiency level in this study was obtained using the Banxia Frontier Analysis Software Version 4. And the average efficiency level was obtained as follows:

Table 4
Average Efficiency Level of Islamic Commercial Banks in Indonesia
Pre-Merger and Post-Merger

BANK	PRE MERGER	POST MERGER
Bank Muamalat Indonesia (BMI)	86.61	88.2
Panin Syariah Bank (BPS)	100	100
Mandiri Syariah Bank (BSM)	79.13	0
Bank Rakyat Indonesia Syariah (BRIS)	85.5	0
Bank Negara Indonesia Syariah (BNIS)	76.63	0
Victoria Sharia Bank (BVS)	88.84	90
Bank Central Asia Syariah (BCAS)	86.71	93
Mega Syariah Bank (BMS)	100	100
Bukopin Syariah Bank (BSB)	96.70	96
Bank Jabar Banten Syariah (BJBS)	80	80
Maybank Syariah (Maybank)	100	98
BTPN Syariah (BTPNS)	81	82
NTB Syariah Bank (BNTBS)	79	80
Bank Aceh Syariah (BAS)	82	83.22
Bank Syariah Indonesia (BSI)*	0	88
AVERAGE	87.29429	89.86833

*Consideration in calculation when merger.

Source: Data Processed, 2022.

Based on the calculation of the efficiency level using Data Envelopment Analysis in table 4, the average Islamic Commercial Bank in Indonesia has an efficiency level of 87.29% in the pre-merger, while in the post-merger period, it

increased by 2.57% to 89,87%. Even though there was an increase, it can be concluded that the efficiency level¹ was not maximal in the two periods even though several banks began to achieve maximum efficiency at 100% including Panin Syariah Bank (BPS), Mega Syariah Bank (BMS) and Maybank Syariah Bank (Maybank). The existence of a merger has proven to have little impact on the average efficiency level of Islamic Commercial Banks in Indonesia, it can even be seen from the results of the analysis in table 4 that there are several banks whose effectiveness has decreased, such as Bukopin Syariah Bank (BSB) and Maybank Syariah Bank (Maybank).

From the results, the effectiveness level of several Islamic Commercial Banks is still below the average. This research in line with the research of Rusydiana and Firmansyah (2018) that there are still many Islamic banks that fall into the low quadrant in terms of efficiency. Then it is supported by research by Parisi et al. (2021) that some conventional banks are considered superior in the level of efficiency.

Comparison of Maqashid Sharia Index and Efficiency Level

The comparison of the performance of the sharia maqashid index with the level of efficiency in table 5 below is based on previous calculations.

Table 5
Comparison of Maqashid Sharia Index and BUS Efficiency Levels in Indonesia
Pre-Merger and Post-Merger

BANK	MSI		EFFICIENCY LEVEL	
	PRE MERGER	POST MERGER	PRE MERGER	POST MERGER
Bank Muamalat Indonesia (BMI)	0.197897	0.198197	86.61	88.2
Panin Syariah Bank (BPS)	0.233556	0.233855	100	100
Mandiri Syariah Bank (BSM)	0.189306	0	79.13	0
Bank Rakyat Indonesia Syariah (BRIS)	0.190281	0	85.5	0
Bank Negara Indonesia Syariah (BNIS)	0.180394	0	76.63	0
Victoria Sharia Bank (BVS)	0.216889	0.190581	88.84	90
BCA Syariah Bank (BCAS)	0.212933	0.213233	86.71	93
Mega Syariah Bank (BMS)	0.159328	0.159628	100	100
Bukopin Syariah Bank (BSB)	0.215725	0.216025	96.70	96
Bank Jabar Banten Syariah (BJBS)	0.176067	0.176367	80	80
Maybank Syariah (Maybank)	0.128847	0.129147	100	98
BTPN Syariah (BTPNS)	0.123169	0.123469	81	82
NTB Syariah Bank (BNTBS)	0.056053	0.056353	79	80
Aceh Syariah Bank (BAS)	0.0929	0.0932	82	83.22
Bank Syariah Indonesia (BSI)*	0	0.222741	0	88
MEAN	0.169525	0.167733	87,29429	89.86833

*Consideration in calculation when merger.

Source: Data Processed, 2022.

To see the comparison between maqashid sharia index and efficiency level more easily, the cartesian diagram below using the average value of each X and Y axis. Maqashid Sharia Index as the X axis and Efficiency Level as the Y axis using the SPSS 24 application. Then the Cartesian diagram is shown in Figures 2 and 3 the following:

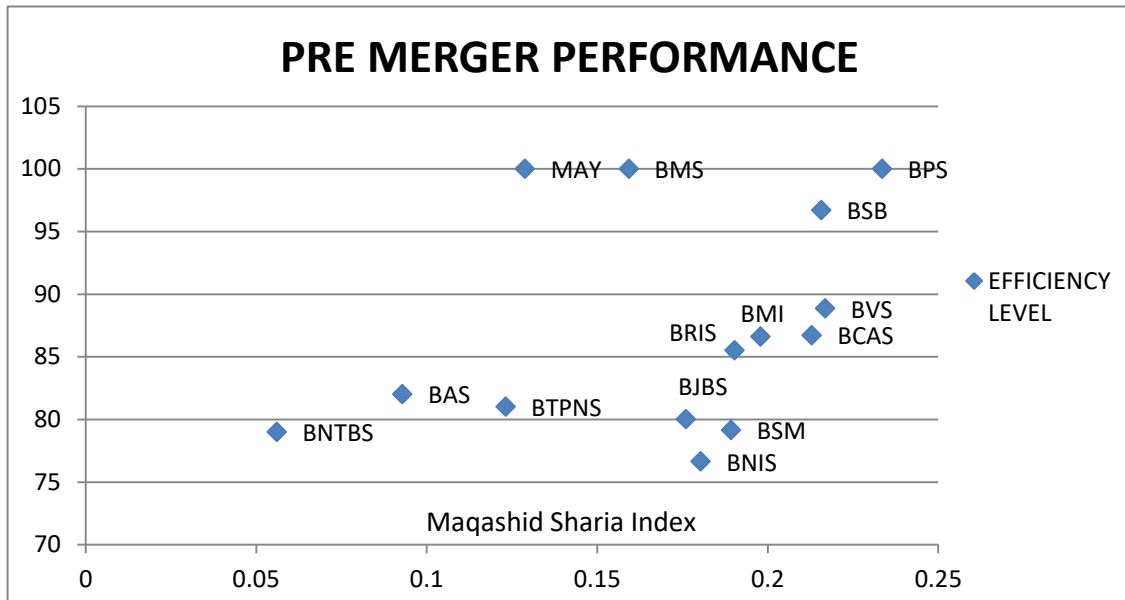


Figure 2. Pre-merger Performance (Maqashid Sharia Index & Efficiency Level).

Source: Data Processed, 2022.

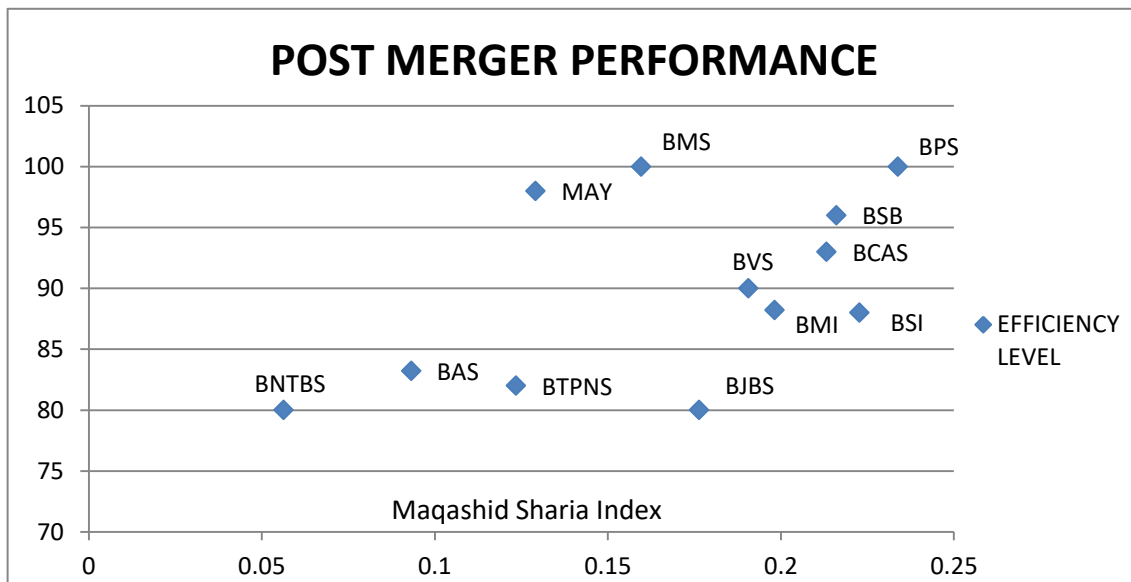


Figure 3. Post-merger Performance (Maqashid Sharia Index & Efficiency Level).

Source: Data Processed, 2022.

From Cartesian in Figures 2 and 3, it can be seen that there are differences in the comparison of the performance of Islamic Commercial Banks in Indonesia during the Pre-merger and Post-merger periods. The banks that occupied the best performance of sharia maqashid and efficiency stably in the pre-merger and post-merger period were Panin Syariah Bank (BPS) and Bukopin Syariah Bank (BSB).

5. CONCLUSIONS

The average islamic performance of banking in Indonesia is 17% and almost 40% of Islamic Commercial Banks have not met the average performance index. In addition, the efficiency of Islamic Commercial Banks compared through pre-merger and post-merger has not experienced a maximum efficiency increase of 100%. There are still many Islamic Commercial Banks that are below the quadrant of the average efficiency level. The results of the comparison of the performance of the Maqashid Sharia Index with the efficiency level of Indonesian Sharia Commercial Banks have not shown a significant increase as a result of the post-merger of Bank Syariah Indonesia (BSI).

The author realizes that there are still many shortcomings in this research. The researchers are further expected to expand the sample and use other dimensions in measuring the financial performance of Islamic banking.

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