

Does the Merger of the Indonesian Islamic Bank Matter for Its Social Mission of Economic Empowerment?

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Abstract

Research Originality: Economic empowerment through financing Micro Small Medium Enterprises (MSMEs) is one dimension of the social mission of sharia banking in Indonesia. The merger action of Bank of Sharia Indonesia (BSI) raises the question of whether the performance of economic empowerment has changed.

Research Objectives: This research aims to analyse the differences in the BSI's performance of economic empowerment during pre- and post-merger periods and analyse the issues and strategies for improving BSI's post-merger economic empowerment performance.

Research Methods: It is a research using mixed method combining a quantitative explorative analysis approach using Wilcoxon Test, and a qualitative one using Analytic Network Process.

Empirical Results: This research finds that BSI's economic empowerment performance has increased in terms of the quantity but decreased in terms of proportion in the post-merger period. ANP research demonstrates that risk management is a priority issue for the BSI post-merger period. The social mission of economic empowerment indicates several priority issues, namely, the relatively higher rate of profit margin than interest, the inadequate supervision model, the low rate of risk management literacy, and the relatively higher risk of profit loss sharing (PLS)-based financing. The strategy analysis indicates that policy intervention for BSI's MSMEs financing is a top priority in improving the performance of its economic empowerment.

Implications: This research recommends some recommendations for sharia banks' MSMEs financing equivalent to the one of conventional banks. Economic digitalization as technological means to widen accessibility of economic empowerment and distribution segmentation focusing more on the halal sector.

Keywords:

economic empowerment; performance; Islamic banks; merger

How to Cite:

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INTRODUCTION

Several policies have been implemented to develop and improve the performance of Sharia banking, including the spin-off policy. Al Arif et al. (2017) stated that one of the reasons for the spin-off policy was to create growth in the Indonesian Islamic banking industry. This policy is expected to increase the number of full-fledged Islamic banks and make the industry more competitive, which will improve the performance of the Islamic banking industry. The merger policy is considered an alternative policy for developing the Sharia banking sector in Indonesia. The discourse on the merger of Sharia state-owned banks has existed since 2015 by merging Bank of Sharia Mandiri (BSM), bank of BRI Sharia (BRIS), Bank of BNI Sharia (BNIS), and Bank of BTN Sharia (BTNS). However, this policy was only realized on February 2, 2021. The government officially formed the Bank of Sharia Indonesia (BSI), which resulted from the merger of BSM, BRIS, and BNIS (Akram et al., 2021).

The three Sharia banks that have merged are a large force of Sharia banks, which account for around 40% of the total assets of all Sharia banks. The merger process of the three state-owned banks ensures that core capital will increase so that they can enter the ranks of commercial banks for business activities (Buku) level 3. The Sharia bank merger policy has been carried out so that Indonesia owns a large Sharia bank that can compete with conventional and Sharia banks on the global stage. This policy has been implemented to facilitate Indonesia's vision of being the center of the global Sharia economy and finance. After the merger, BSI occupied the seventh position in banking in Indonesia and entered the top 10 Sharia banks in the world.

This merger has made BSI a Sharia bank with huge assets that reached Rp. 240 trillion, core capital more than Rp. 22.60 trillion, total Deposit Funds of Rp. 210 trillion, and a total financing of Rp. 157 trillion. BSI's consolidated profits are supported by more than 1,241 branch offices, 2,447 ATM (Automated Teller Machine) networks, and more than 20 thousand employees spread throughout Indonesia (OJK, 2021). The presence of BSI further emphasizes that Indonesia is a powerful country in the sharia financial sector. However, such a merger has also faced some challenges and moral responsibilities. Several previous literatures have indicated that banking mergers have both positive implications and side effects.

Merger policy as a way to expand business externally has resulted from countries' tendency to embrace higher levels of globalization and deregulation (Kunwar & Paudel, 2023). Merger has become a significant tool for corporations' growth, restructuring, and diversification. However, mergers also can create and destroy some values on a large scale (Cumming et al., 2023). In his study, Hasan (2022) stated that inappropriate merger policies could impact banking liquidation. Al-Binali (2023) noted that merger activity does not affect solvency performance and investment ratios. Some other negative impacts of mergers include some issues of risks in efficiency (Kaddumi & Al-Rimawi, 2022), asset quality, management (Yadav & Jang, 2021), return on value, and resources (Sethy, 2017).

Studies of the impact of banking mergers have yet to reach a conclusive consensus regarding the effects of these policies. Post-merger requires efforts to overcome all shortcomings in the short and long terms with better management and wise financial policies. This policy is also a challenge for BSI in terms of strategic steps that need to be developed. Apart from financial performance aspects, some fundamental aspects need to be considered. As a Sharia-based bank, Islamic banks have different philosophies and goals from other business entities.

Sharia banking needs to refer to the basic concepts of Islamic economic philosophy. Islamic economic philosophy has been established based on the triangle concept, namely the philosophy of God, humans, and nature. This philosophical dimension has differentiated Islamic economics from other systems and has influenced the nature of sharia banking. Sharia banks are commercial business entities and carry the social mission to contribute to social welfare, prosperity, justice, and public benefit. This philosophy can be reflected in Sharia banking nature, which has a social mission, especially economic empowerment.

Sharia banking is essential in supporting the growth of Micro, Small, and Medium Enterprises (MSMEs) and bridging economic needs through financing models. Economic empowerment is central to the foundation of Islamic finance (Hassan et al., 2021). However, BSI in the post-merger stage has faced a tough challenge in building its capacity, especially due to pessimism regarding its impact on economic empowerment (Isman et al., 2023). The reason is that the distribution of financing to MSMEs is relatively low, which is only around 0.01 percent, where in practice, the distribution of financing by Islamic banks to the MSME segment never reaches 20 percent of the total distribution (Akram H et al., 2021). At the same time, Sharia banking, as a result of the merger, is required to produce optimal profits and reduce costs effectively (Al Arif et al., 2020). This raises concerns that the portion of the financing for MSMEs will decrease compared to that for corporate businesses.

Economic empowerment relies on a shift from merely financial inclusion to economic inclusion by establishing economic value chains that provide a supporting ecosystem (Jouti, 2019). Working within an ecosystem will enable all stakeholders to utilize financial resources optimally, determine impact indicators, identify gaps, and adopt remedial measures. Economic empowerment through financing and value chain implementation can guarantee business sustainability by offering solutions to obstacles such as business opportunities, finance, investment, and others. Linkage with the real economic sector, especially the halal industry, is needed in economic empowerment because financial inclusion alone is not enough to achieve the goals of economic empowerment (IDB Report, 2020).

The growth of a country can be reflected in the success of economic productivity, which is expected to increase every year. One of the appropriate policies to boost economic growth is carrying out empowerment activities in the financial sector. This empowerment involves providing capital assistance and must be supported by strengthening institutions, human resources, business partnerships, and facilities and infrastructure (Latifah et al., 2021). Empowerment programs at Islamic financial institutions can offer solutions when

financial inclusion is low by reducing risk and promoting equality, social welfare, and economic security (OECD, 2020). By implementing such policies, Indonesia can become a huge global player in Sharia finance for economic empowerment.

Financial performance is an issue that has been widely researched during the post-merger of BSI. However, more research is needed to study the performance of its social mission. Therefore, this research aims to fill in such a gap by assessing the BSI's performance in terms of economic empowerment. Many Sharia banking economic empowerment is implemented through financing for Micro, Small, and Medium Enterprises (MSMEs). Law no. 4 of 2023 concerning the Development and Strengthening of the Financial Sector outlines several Sharia bank financing models, namely cards financing, rental or *ijarah* financing, and profit and loss-sharing financing consisting of *mudharabah* and *musyarakah*. Sharia banking's economic empowerment is widely implemented through business capital assistance to Micro, Small, and Medium Enterprises (MSMEs). The aim is to help strengthen small businesses to increase their income and standard of living.

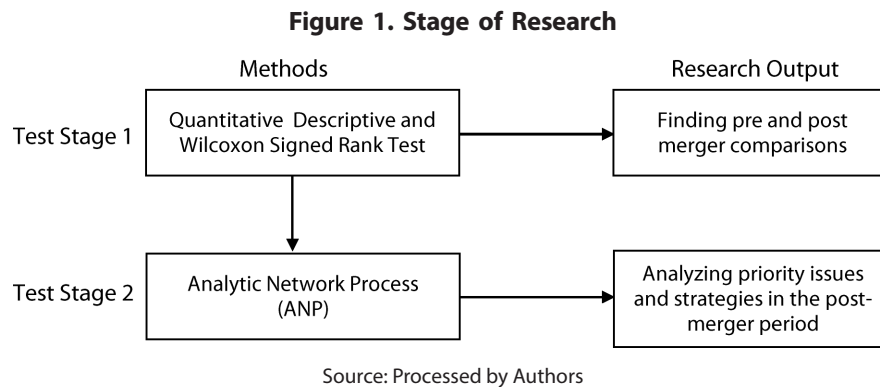
The big goal of the Sharia banking merger is to improve financial performance. Studies of banking mergers related to financial performance from various aspects have been carried out, such as post-merger bank profitability by Hassan & Giouvris (2021) in the UK that banks that carry out mergers have positive implications for profitability, Ahmed et al. (2022) in Pakistan describe the post-merger performance of the banking sector on profitability and loans/deposits which is entirely satisfactory, and Adhikari et al. (2023) in Nepal stated that mergers had various impacts on financial performance ratios. Still, there was a significant increase in return on assets, net interest margin, and earnings per share. Post-merger bank efficiency by Patel (2018) in India, Hamid et al. (2018) in Malaysia, and Al-Hroot et al. (2020) in Jordan revealed similar findings to Coccorese & Ferri (2020), who found that the financing ratio aspect in banking in Italy has improved due to the merger.

Previous studies have studied many aspects of financial performance, such as financial ratios, profitability, efficiency, and effectiveness. Research on banking mergers concerning social missions such as economic empowerment still needs to be completed, especially in Sharia banking. This research is essential as a basic framework for assessing changes after the merger policy regarding economic empowerment and analyzing the main issues and strategic priorities of Sharia banking in Indonesia.

METHODS

This research uses a mixed method with quantitative and qualitative approaches through two stages. The first stage is through quantitative explorative and statistical non-parametric tests, such as the Wilcoxon Signed Rank Test. The second stage is the Analytic Network Process (ANP), which is part of the qualitative method. Data collection in this research is primary and secondary data. Primary data was obtained from interviews with Islamic banking practitioners and academics or experts in Islamic banking. The

secondary data used are Sharia banking financial reports and Sharia banking statistics obtained from the Financial Services Authority reports for the pre-merger period (2019-2020) and post-merger one (2021-2022).



Statistical testing of the nonparametric Wilcoxon Signed Rank Test observes several aspects of economic empowerment pre and post-Islamic banking merger in Indonesia. The Wilcoxon test compares observations before and after treatment and determines the effectiveness of the treatment. The basis for decision-making for the nonparametric Wilcoxon Signed Rank Test is based on a probability value of 5% or 0.05. If the probability value is > 0.05 , there is a significant difference, whereas if the probability value is < 0.05 , there is no significant difference. The descriptive statistical analysis can be seen in the Sharia banking financial report data tabulation and the mean value in the pre and post-merger comparison data output.

The economic empowerment research variable refers to several Sharia bank financing models outlined in Law no. 4 of 2023 concerning the Development and Strengthening of the Financial Sector, namely cards financing, rental or ijarah financing, profit-loss sharing financing consisting of mudharabah and musyarakah. Qardh financing is financing with funds or bills between a Sharia bank and the borrower, requiring the borrower to make installments within a certain period. Profit-loss sharing financing is financing with a profit-sharing agreement when the owner of funds/capital provides capital (100%) to entrepreneurs as managers to carry out productive activities on the condition that the profits generated will be shared according to a previously determined agreement. Rental financing involves an agreement to transfer use rights to goods or services by paying rental fees.

The Analytic Network Process (ANP) method is a powerful tool that can analyze the level of importance (priority) of various parties or elements by considering the interrelationships between them. ANP, a mathematical theory, can analyze influences using assumed approaches to solve problems. This method is used as a solution by considering adjustments to the issue's complexity through synthetic decomposition accompanied by priority scale analysis, which produces the greatest priority effect. Moreover, ANP can explain the dependent factor model systematically (Saaty, 2001).

Table 1. Criteria, Clusters, and Nodes for the ANP Development

Criteria	Cluster	Node	
		Problems	Strategies
Economic Empowerment	Sharia-Based Financing Procedures	<ul style="list-style-type: none"> - MSME financing procedures are more complex than conventional ones - Profit-sharing margin is greater than the interest - Many financing problems 	<ul style="list-style-type: none"> - Economic empowerment market segmentation mapping - Improving the quality of human resources
	Supervision of MSMEs	<ul style="list-style-type: none"> - The supervision model is inadequate - MSME financing is not well-targeted - supervision model is inadequate - Empowerment supervision is a formality 	<ul style="list-style-type: none"> - Improvement of supporting facilities and technology - Business risk management training, assistance, and mentoring
	Risk Management	<ul style="list-style-type: none"> - Low-risk management literacy - Economic empowerment is less priority-based - Risk of return on PLS financing 	<ul style="list-style-type: none"> - Islamic Bank MSME financing policy intervention

Our analysis through the ANP approach model is comprehensive, aiming to build a robust model for developing sharia banking in Indonesia post-merger. We focus on the main issues and strategic priorities in the aspect of economic empowerment, providing a thorough discussion of its development, including problems and strategies in the post-merger period. To ensure a comprehensive understanding, in-depth interviews were conducted with several Sharia banking experts, including academics and Sharia banking practitioners, as well as regulators on the issue of Sharia banking mergers. The in-depth interview results revealed the following criteria, clusters, and nodes for the development of sharia banking in Indonesia post-merger.

Table 2. List of Informants/Research Respondents

No	Respondent List
1	Director of Sharia Ecosystem Infrastructure KNKES/Associate Professor at Gunadarma University
2	Secretary for Sharia Banking DSN-MUI/Professor of UIN Syarif Hidayatullah Jakarta
3	Head of KNKES Sharia Banking Division
4	Director of Sharia Banking Licensing Department OJK (Financial Services Authority)
5	Senior Deputy of BI Sharia Economics and Finance Department (Bank Indonesia)
6	Central Executive of MES (Sharia Economic Society)/Lecturer in Islamic Economics, University of Indonesia
7	Vice President Syariah Business and Retail Banking Analytics
8	Central Management of IAEI (Association of Islamic Economic Experts) for Sharia Banking
9	Chair of IAEI (Association of Islamic Economic Experts) Yogyakarta/Head of Islamic Finance Masters Study Program, Gadjah Mada University
10	Branch Manager of PT. Bank Syariah Indonesia Tbk
11	Director Priority Banking of PT. Bank Syariah Indonesia Tbk

The informants in this research were selected using purposive sampling, considering the suitability and understanding of the informants regarding the issue of sharia banking

mergers in Indonesia. Data collection was carried out from August 2023 to March 2024. The number of informants consisted of 11 people who were considered competent regarding the research theme. In ANP analysis, the number of samples/respondents is not used as a benchmark for validity. The condition for valid respondents in ANP is that the informants are experts with special skills regarding the research theme being studied. The research sources shown in Table 2.

Model construction begins by compiling a network of groups or components and elements relevant to each control criterion. Each control criterion has its elements determined, and each one is connected according to the influence of dependence from the outside (outer dependence) and from within (inner reliance). The Analytic Network Process (ANP) has three work stages: creating an ANP framework or model construction, model quantification, and synthesis and analysis of results.

RESULT AND DISCUSSION

Comparative Analysis of Indonesian Sharia Bank's Economic Empowerment Performance during Pre and Post Merger Period

BSI's MSMEs financing financial reports before and after the merger consist of qardh, rental, and profit-sharing financing. The economic empowerment of BSI through qards financing and rental financing increased after the merger, while profit-sharing funding decreased. This report means that economic empowerment at BSI has been implemented through the financing sector for MSMEs but has yet to be maximized in profit-loss sharing financing modes. However, the economic empowerment of MSMEs with qardh, rental, and profit-loss sharing financing schemes has increased after the merger policy.

Table 3. Economic Empowerment of Sharia Banking Pre and Post-Merger

Period	Year	Economic Empowerment (million IDR)			Amount
		Qardh Financing	Ijarah Financing	Profit-Loss Sharing Financing	
Pre-Merger	2019	5,665.39	15,592.19	8,272.10	29,530.13
	2020	8,424.47	17,918.44	13,641.49	39,984.40
Post-Merger	2021	9,468.01	21,091.99	13,023.34	40,409.78
	2022	9,370.07	26,011.30	12,657.03	43,119.08

Source: Quarterly Sharia Banks (Financial Services Authority) reports, 2019-2022.

Economic empowerment at BSM, BRIS and BNIS has been implemented well through the financing sector for MSMEs pre-merger. It has remained consistent during the post-merger period and even increased. One of the factors causing MSME financing to increase during the post-merger period was the pandemic, which aimed to provide economic stimulus to the real sector that was experiencing difficulties. In addition, the greater number of assets has also contributed to a positive effect on the bigger amount of financing provided to the MSME sector.

The economic empowerment that continues to be provided to MSMEs shows that BSI continues to pay attention to the welfare of society. BSI has undertaken economic empowerment for MSMEs because it has to comply with the provisions of the Sharia Banking Law, which defines *Islamic banks* as banks with a social mission, including economic empowerment. Islamic finance should ensure the circulation of funds to contribute to the real economic sector (Sarker et al., 2020). Islamic banks have a role in the success of the business sector. The flexibility of service development and support provided by Islamic banks is a factor that plays a role in economic empowerment (Tawfiqi et al., 2018).

Comparative Analysis of Pre and Post Merger Economic Empowerment Performance

To compare BSI's economic empowerment performance during pre and post-merger, we calculated the average qardh, ijarah, and profit sharing (mudharabah and musyarakah) financing. The mean of economic empowerment ratio in qardh financing during post-merger, namely 9419036.13, is greater than that of pre-merger, namely 7843154.50. This condition indicates that BSI's qardh financing has increased during post-merger compared to pre-merger. The mean value of rental financing during post-merger, 23551641.75, is greater than that of pre-merger, 16755312.38. This data indicates that BSI's rental financing has increased post-merger compared to pre-merger. The mean value of profit-sharing financing during post-merger, 12840181.00, is greater than that of pre-merger, 10956797.13. This data indicates that BSI's profit-loss sharing financing has increased during post-merger compared to pre-merger.

Table 4. Research Variable Statistical Summary

Variable	Period	Mean	Minimum Value	Maximum Value
Qardh Financing	Pre-Merger	7843154,50	5798977	9280855
	Post-Merger	9419036,13	8874875	10050966
Ijarah Financing	Pre-Merger	16755312,38	15259814	19245186
	Post-Merger	23551641,75	19443347	26893337
Profit-Sharing Financing	Pre-Merger	10956797,13	7682590	17891391
	Post-Merger	12840181,00	12313210	13564475

Source: Processed by SPSS, 2024

This finding confirms the results of previous research, which shows that merger corporate actions can increase the company's nominal financing. Sun et al. (2017) found that mergers of state-owned companies have increased financing capacity. Cui and Leung (2020) study found that the stronger the management capability, the higher the companies' long-term operating performance and financing ability due to mergers in America. Bindal et al. (2020) found that American companies can promote small and medium financing capabilities post-merger. Tang and Han (2018) found that large-scale mergers can result in more significant asset inflows from target firms.

Table 5 shows that the economic empowerment aspect has a significant value. This result means that BSI's economic empowerment pre-merger was significantly different from its post-merger empowerment. This difference proves that BSI's economic empowerment was better than before the merger. The discourse regarding the differences in economic empowerment after banking mergers is also relatively minimal. However, some studies explaining economic empowerment through access to post-merger financing are still an academic debate. Bank mergers can harm marginal borrowers; namely, groups served only by small banks, because they have the potential to be ignored by larger banks, which has negative impacts on development and inequality (Coccorese & Ferri, 2020). Nissen and Zarakol (2021) even stated that non-elite groups could be frustrated due to less-than-optimal empowerment.

Table 5. Nonparametric wilcoxon test

Z	-1.829 ^b
<i>Asymp.Sig (2-Tailed)</i>	.000

Source: Processed by SPSS, 2024

Our comparative analysis indicates that BSI's MSME financing has increased nominally during the post-merger period. However, the proportion of financing distributed to MSMEs has decreased compared to that distributed to the large business sector. One of the reasons for the merger is to improve a more significant portion of financing to corporations. However, in terms of quantity, the nominal funding has continued to increase for the MSMEs financing sector. Mergers have led to more significant economies of scale, so the reach and target market have also widened. This condition has a consequence in a smaller proportion of financing to MSMEs. The decline in the ratio for MSME financing post-merger is attributed to the fact that before the merger, among the three banks that merged, only BRIS focused on MSME financing. BNIS and BSM had yet to make MSME financing their primary focus. When all three banks become BSI, adjustments are made to prioritize segments.

In the post-merger period, BSI has more significant assets and more considerable third-party funds that should be able to become a benchmark for increasing economic empowerment, even though they prioritize financing to large-scale sectors. Suppose the issue of economic empowerment receives excellent attention. In that case, the stimulus for BSI during post-merger through economic empowerment can trigger business actors to be more productive, play an essential role in the economy, and revive the entrepreneurial ecosystem. Once implemented, BSI, as one of the Islamic banks, can compete with large banks in capital and assets but retain its identity as Islamic banks oriented towards social missions through economic empowerment.

Cluster Analysis of Post-Merger Sharia Banking Economic Empowerment Issues

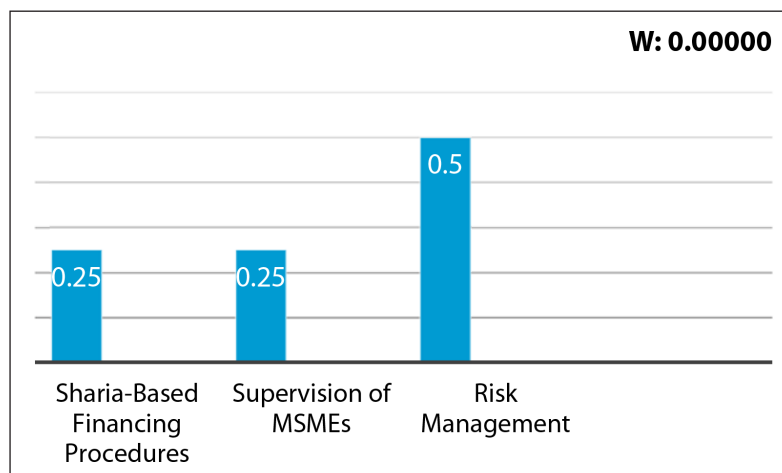
Our research finds that the social mission of economic empowerment BSI during the post-merger period has indicated several issues and problems. Essential issues in

economic empowerment after the Sharia banking merger policy are procedural aspects of Sharia-based financing, supervision of MSMEs, and risk management. There are three procedurs of Sharia-based financing. First, procedural problems for MSME financing are more complex than conventional ones. Second is the greater rate of profit-sharing margins the bank charges more than interest. Third, some other financing problems.

MSME supervision includes problems with inadequate supervision models. Furthermore, MSME financing needs to be on target, while in practice, many MSME financing schemes are not on target. Risk management comprises low-risk management literacy, less priority-based economic empowerment, and a higher risk of returns on PLS financing.

The rater agreement level for BSI's economic empowerment after the merger is 0.00000. This high level of agreement, where all respondents determined fairly balanced priorities, provides reassurance about the robustness of our research process. Figure 3 shows that risk management is a priority issue in post-merger BSI's economic empowerment with a value of 0.5000. This is followed by a procedural rater assessment of Sharia-based financing, supervision of MSMEs of 0.2500.

Figure 3. Priority Issues on Economic Empowerment



Source: Processed by ANP, 2024.

Risk management is the most crucial issue that BSI has faced in terms of economic empowerment. BSI needs to help entrepreneurs manage the business risk by identifying, analyzing, evaluating, and managing the risks. Diagnosing risk sources in SMEs is the most important risk management phase because preventive measures can be designed to eliminate identified risks. The bad consequences of not having business risk management threaten the existence of a business. These include its inability to pay debts, employee salaries, or unfavorable financial indicators. These side effects translate into business bankruptcy and often lead to liquidation (Dvorsky et al., 2021).

Banks are institutions exposed to various risks, including credit, market, liquidity, and operational risks. A sound financial strategy allows banks to identify, measure, and

manage these risks effectively, ensuring they are within acceptable limits (Calandro & Flynn, 2007). Banks need to meet expected business needs, causing great uncertainty for banks. Islamic banks have broader responsibility and can pose a risk known as a moral hazard. Profit and loss sharing implemented to avoid risks will threaten banks (Miah & Suzuki, 2020). Profit-sharing financing has the potential for imperfect information to occur, causing asymmetric information. An imbalance in information between both parties can create risks that cause losses and increase non-performing financing for banks.

Having well-defined risk management, banks can reduce the possibility and impact of financial losses caused by unexpected events (Calandro & Flynn, 2007). Understanding risk management will create a business that is relevant to developing business model trends. Theoretical and practical studies regarding risk management in MSMEs will support and protect the company, increase value, and gain significant benefits from managing various types of risks.

Table 6 shows that the rater agreement cluster level on Sharia-based financing procedural problems during post-merger is 0.05156. This result means that all respondents determine their priorities variedly, so the agreement value is low. The level of cluster rater agreement regarding the supervision of Islamic banking MSMEs post-merger is 0.00000. This result means all respondents determined fairly balanced priorities, so the agreement value was high. The rater agreement level for the cluster of risk management problems post-merger is 0.03044. This result means all respondents determined fairly balanced priorities, so the agreement value was high.

Table 6. G-Mean Priority of Economic Empowerment Problems

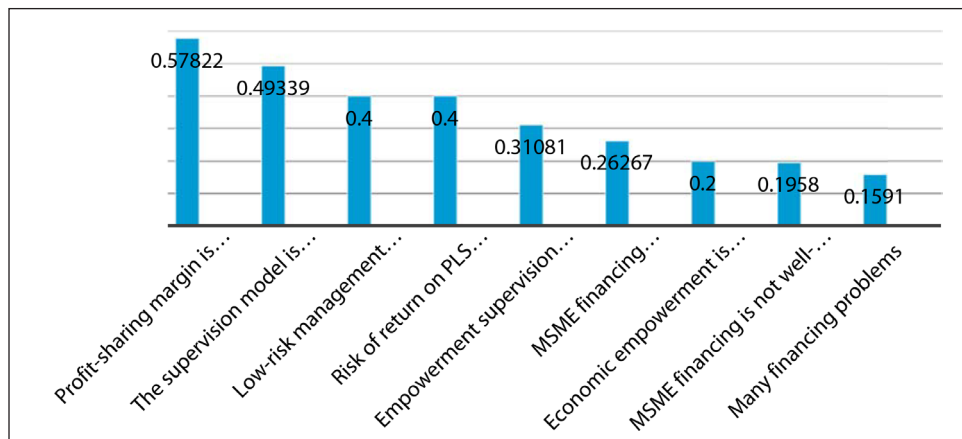
Problem Clusters	Rater Agreement	Problem Nodes	G-Mean
Sharia-Based Financing Procedures	0.05156	MSME financing procedures are more complex than conventional ones	0.26267
		Profit-sharing margin is greater than the interest	0.57822
		Many financing problems	0.15910
Supervision of MSMEs	0.00000	The supervision model is inadequate	0.49339
		MSME financing is not well-targeted supervision model is inadequate	0.19580
		Empowerment supervision is a formality	0.31081
Risk Management	0.03044	Low-risk management literacy	0.40000
		Economic empowerment is less priority-based	0.20000
		Risk of return on PLS financing	0.40000

Source: Processed by ANP, 2024.

The issue of the higher rate of profit-sharing margin charged by the bank than interest is a top priority in the economic empowerment of Sharia banking post-merger with

a rater agreement of 0.57822. This is followed by the issue of an inadequate supervision model of 0.49339, the issue of low-risk management literacy and the risk of return on PLS financing of 0.40000, the issue of formality empowerment supervision of 0.31081, the procedural issue of MSME financing being more complex than conventional at 0.26267, the issue of economic empowerment not being prioritized is 0.20000, the issue of MSMEs financing not being on target is 0.19580. The lowest is the issue of lots of problematic funding with a value of 0.15910.

Figure 4. Priority Problems on Economic Empowerment



Source: Processed by ANP, 2024.

This argument is explained in research, and many still do not use Sharia bank products because they think borrowing funds from Sharia banks is more expensive than conventional bank interest rates (Ismartono, 2023). The merger policy changes Sharia banking conditions regarding assets, capital, size, and financing ratios (Shawtari et al., 2018). Jedidia (2020) outlines that higher margin figures are positively related to banks with large capital, a high ratio of loans to total assets, and larger bank size. The profit-sharing margin in Sharia banking is greater than the interest applicable in conventional banks. However, this margin is considered balanced with the benefits received. In traditional banking, bank interest follows the market, so there can be fluctuations, but Sharia banking uses a flat profit-sharing concept. This assumption is the basic paradigm for people who consider Islamic banks not to be an alternative, but the advantages of large margins have yet to be discovered. The risk is shared if there are obstacles to the financing process, adjusted to certain conditions.

Supervising the development of MSMEs is necessary for Islamic banks. However, supervision must be arranged in such a way that the supervision functions as guidance. Apart from that, supervision must also be carried out periodically and in a more structured manner. Therefore, the problems faced by MSMEs can be detected from the start to develop their business (Indarti, 2020). The proactive role of supervision in detecting and solving problems instills confidence in the support provided by Islamic banks. Supervisory behavior includes moral and professional support, building a healthy work culture, and

helping to improve performance (Min et al., 2020). Post-merger, Islamic banks faced the challenge of developing the MSME sector with a supervision model that could support and produce excellence in banking financing performance.

The approach applied to MSMEs for risk management has yet to be specifically studied and understood. Some parts of risk management, such as financial and management risk management, could be better understood (Lima & Verbano, 2020). Goncharenko (2020) identified that risk management knowledge is a core element of strategic management. Nurdin & Yusuf (2020) found the importance of management knowledge in improving organizational performance, emphasizing the urgency of this aspect. Knowledge has business benefits through service planning and design.

This result is achieved if conditions are created by management knowledge to develop, acquire, transfer, and run a business and establish appropriate business strategies. This condition will result in product quality, increased revenue, and achieved a competitive advantage. Management knowledge in Islamic banks is very diverse because of the two educational backgrounds: Islamic and conventional ones. Knowledge in Islamic banking is integrated through mechanisms to produce general knowledge to suit the Islamic banking context.

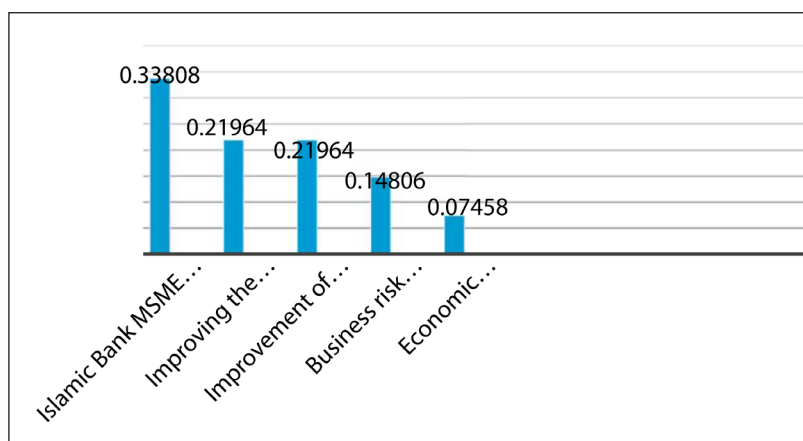
Priority Strategy for BSI's Economic Empowerment Development in the Post-Merger Period

Based on the complexity of the issue of post-merger Islamic banking economic empowerment, there are several strategies to improve Islamic banking economic empowerment, namely mapping the economic empowerment market segment, improving the quality of human resources, improving supporting facilities and technology, training and mentoring on business risk management, as well as MSMEs financing policy interventions. The rater agreement value for the economic empowerment aspect of the strategy is 0.03044. This result means that all respondents determined fairly balanced priorities, so the agreement value was high.

As per the strategy analysis, the BSI's MSMEs financing policy intervention is identified as the linchpin of the post-merger Sharia banking development strategy in the economic empowerment aspect, with a substantial value of 0.33808. This underscores its paramount importance in our future plans. It is followed by a plan to enhance the quality of human resources and improve supporting facilities and technology, which hold a value of 0.21964. The strategy of business risk management training and mentoring follows with a value of 0.14806, and the final strategy, mapping the economic empowerment segment, holds a value of 0.07458.

Financing the MSMEs sector is still a challenge for all banks. The risk of providing financing to MSMEs is quite large, so what is needed is how to manage the risk of MSMEs financing. Interestingly, risk management already has standards and guidance from the regulator in the form of POJK, which regulates sharia and conventional bank financing regulations at the same level.

Figure 5. Sharia Banking Economic Empowerment Strategy Priorities Post-Merger



Source: Processed by ANP, 2024.

Al-Melahi et al. (2022) recommend specific supervisory policies and regulations that will support the management of banking financing businesses. Access to finance is the dominant factor influencing the growth of small and medium enterprises. Policymakers must build an efficient, strong, and well-functioning financial market system to provide MSMEs affordable finance and sustainable services. Sharia banking stakeholders need to improve the performance of MSMEs financing and avoid risks that could harm banks and MSMEs.

KUR (Small Business Credit) is still the choice for MSMEs when choosing financial access because of the low interest rates. Policy intervention must be carried out to determine the profit-sharing margin to balance the interest rate on KUR. If the financial access policy in Sharia banking is relevant to the needs of MSMEs, it will increase Sharia banking financing. A detailed monitoring plan model is also needed through steps that lead to business improvement. The real sector is the most important in the Islamic economic system because it is directly related to increasing output and improving people's welfare. All components of the economy are directed at encouraging this real sector for business actors.

Economic empowerment requires interaction between the bank and the customers, so improving the quality of human resources is important. Such an effort will improve the quality of economic empowerment by assisting customers. BSI has significant funds that can be used more efficiently in management. It is expected that BSI will consistently distribute funds. First, of course, with an orientation towards empowerment. Second, BSI can also provide training not only to large players but also to small businesses. Third, sustainable empowerment is in the form of mentoring. Some of them have attended training programs and understand the business's basics, but assistance is still needed. One expert said, "Don't let training be provided, but then they have to run the businesses alone because there is no assistance provided."

A critical element in advancing small and medium businesses is the availability of human resource management (Arief et al., 2021). Improving human resources quality means facing global challenges (Jamaluddin & Abdullah, 2019). Arief et al. (2021) prove in

their study that quality human resource management relationships will help SMEs achieve their goals. Improving HR governance is a continuous effort to develop quality staff and personnel by MSMEs with various work skills. Nurani et al. (2021) emphasize that small and medium enterprises (SMEs) can only operate effectively with quality human resources.

The first principle of good governance for an organization is the selection of appropriate and high-quality human resources (Malib et al., 2022). In essence, improving the quality of human resources is crucial for every business job. This condition is based on quality human resources who can master all skill requirements and become market leaders nationally and internationally (Dangles & Casas, 2019). Human resource development must be carried out in a way relevant to the needs of MSMEs (Arief et al., 2021).

BSI also provides economic empowerment through BSI Maslahat Sociopreneur, where this program aims to produce undergraduate graduates with alternative careers so they are no longer oriented as job seekers but as job creators. BSI Maslahat Sociopreneur is a business incubator scholarship program that prepares students to become Muslim entrepreneurs with business skills and social impact. This program is committed to carrying out a series of business incubation and training processes for students from various regions of Indonesia who have talent in the entrepreneurial sector.

Human resource empowerment is seen as the ability that humans have to be utilized to run an organization or business so that it is efficient and successful. Human resource development is developing human qualities or skills through planning, education, training, and management to achieve optimal results (Adla et al., 2020). Empowerment means focusing on the problem of how individuals, groups, or society try to shape a better future (Adams et al., 1998). Community empowerment can be interpreted as an effort to restore or increase a community's capacity to act following their dignity in carrying out their rights and responsibilities as citizens. Economic empowerment involves succeeding financially and acting on financial decisions.

Improving the quality of human resources is carried out by conducting internal training programs on banking products and Sharia banking risk management. Integral empowerment based on Islamic principles includes empowering access to capital (financial institutions), marketing (market access), and capacity building (assistance and training) (Saripudin et al., 2020). Training is very much needed to develop human resources related to business products and administrative training. The aim is to help MSME owners manage their businesses and create further training programs to drive innovation in developing MSME skills (Malib et al., 2022). The training process is a procedure that improves human resource skills in supporting MSMEs (Wuen et al., 2020).

Sharia banks would carry out training and capacity-building programs to support the sustainability of the MSMEs business of Sharia banks (Nurdin & Yusuf, 2020). Bank intermediation in MSME projects is a credible signal for banking reputation. A diversity of bank products is needed to meet the needs and expectations of MSMEs (Hachimi & Salahddine, 2019). Improving the quality of human resources includes further improvement steps in Islamic financial infrastructure and Sharia banking in the future (Marlina et al., 2021).

Access to finance is the dominant factor influencing the growth of small and medium enterprises. Policymakers must build an efficient, well-functioning financial market system to provide MSMEs with affordable finance and sustainable services. Sharia banking stakeholders need to pay attention to supporting human resource development in improving MSME's financing performance and avoiding risks that could harm banks and MSMEs.

CONCLUSION

There are significant differences in the economic empowerment performance of the Islamic bank, using BSI as a case study, during pre and post-merger periods. This difference proves that Sharia banking's economic empowerment performance is better in the post-merger period in terms of quantity, reflected in the more significant amount of financing distributed to MSMEs. However, in terms of proportion, there has been a decreasing percentage of financing distributed to MSMEs compared to the ones distributed to corporate financing. This condition can be explained by the shifting focus of BSI from three relatively smaller Sharia banks (BSM, BNIS, and BRIS) to a bigger Sharia bank. The economic empowerment performance of Sharia banking through qardh financing and rental financing has increased during the post-merger period, while profit-loss sharing funding has decreased. This result means that economic empowerment at Bank Syariah Indonesia has been implemented through the financing sector for MSMEs but has yet to be maximized in profit-sharing financing modes. However, overall, the economic empowerment of MSMEs with qardh, rental, and profit-sharing financing schemes has increased in the post-merger period.

The ANP analysis indicates that risk management is a priority issue in the post-merger BSI's economic empowerment. This is then followed by the issues of sharia-based financing procedures and supervision of MSMEs. In the aspect of economic empowerment issues, the issue of higher rate of profit-sharing margins charged by the sharia bank than interest is the main priority in the economic empowerment of BSI's post-merger period. This is followed by the issue of inadequate supervision models, low-risk management literacy, risk of return on PLS financing, more formalistic empowerment supervision, more MSME financing procedures than the ones of conventional banks, less priority economic empowerment, unreached MSMEs financing target, and the larger number of problematic financings in the form higher NPF. Strategy analysis shows that the sharia bank needs a policy intervention in MSMEs financing. This is a key strategy to make the sharia bank more competitive and attractive to MSMEs. This is followed by a strategy to improve the quality of human resources, improve supporting facilities and technology, training and mentoring on business risk management, and the final strategy, namely mapping the economic empowerment segment.

This research recommends the intervention of the sharia Bank's MSME financing policy that are balanced with conventional banks so that the sharia bank can become the public's choice in financing the MSMEs sector. The yield policy at sharia banks can be equated with the low KUR interest rate at conventional banks. If there is no

policy intervention on this issue, MSME business actors will prefer conventional banks and may turn away from Islamic banks, which have a social mission of economic empowerment. Another recommendation is to strengthen the economic digitalization of financing distribution to the MSMEs sector as a technological means to support the accessibility of economic empowerment and distribution segmentation to focus more on the halal industry from upstream to downstream. The research contribution can be used as a reference for strategic studies, sharia banking policy makers, and the development of literature related to banking mergers that integrate aspects of financial performance with economic empowerment. BSI's presence as a large bank should be ready to compete with conventional banks. Still, it is crucial for BSI to maintain its identity as a Sharia bank oriented towards social missions through economic empowerment.

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