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Indonesian Business Culture and Sharia Compliance: Does Better Pre or Post Merger Policy?

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ABSTRACT

Sharia compliance is an important entity of Islamic banks that needs to be maintained. The Indonesian merger policy can be a benchmark for how much Islamic banking pays attention to the dimensions of Sharia compliance. This study analyses the comparison of Sharia compliance pre-post merger policy of Islamic banks in Indonesia. This quantitative study uses a statistical approach to different tests, namely the nonparametric Wilcoxon Signed Rank Test. Data is collected from Islamic banking financial reports pre-merger (2019-2020) and post-merger (2021-2022). The research findings show differences in the Sharia compliance culture in Islamic banks pre-post merger. The Sharia compliance ratio of Islamic banking is better post-merger. This is because the merger makes the Sharia ecosystem more positive, increases religiosity values, and consistently applies existing Sharia standards. The study results have implications for the development of merger studies in Islamic banking, and the implementation of Sharia compliance needs to be continuously improved as a basic barometer of Islamic banking entities in Indonesia. The research limitations are expected to examine the culture of sharia compliance within the framework of strategic policies that need to be implemented by sharia banks.

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1. INTRODUCTION

Since 1990, the development of Islamic banking in Indonesia has continued to increase and has become a benchmark for the success of the Sharia economy. This is proven by Islamic banks, which continue to exist and can survive when many conventional banks are liquidated due to the failure of their interest systems. However, Indonesia, as the largest Muslim country, is still less competitive than other countries in the development of the Sharia financial sector. The SGIE (State of the Global of Islamic Economy) Report 2023 noted that Indonesia ranks seventh in the strength of Sharia finance in the world.

Stakeholders are responsible for improving the Islamic financial and banking sector. The merger policy is considered an alternative policy to develop the Islamic banking sector in Indonesia. The government officially formed PT. Bank Syariah Indonesia, which resulted from a merger of three state-owned companies, namely PT. Bank Syariah Mandiri, PT. Bank BRI Syariah, and PT. Bank BNI Syariah (Akram et al., 2021). The three Islamic banks that merged are a major force in Islamic banking, accounting for around 40% of the total assets of all Islamic banks. The merger process of the three state-owned banks ensures that core capital will increase so that it can enter the ranks of General Banks for Business Activities (Buku) 3. The Islamic bank merger policy was carried out so that Indonesia would have a large Islamic bank that could compete with conventional banks and Islamic banking in the global arena.

The merger policy is considered capable of improving banking financial performance. Research by Chotib & Utami (2014), Yusuf & Sheidu (2015), Hussain & Mubeen (2018), and Tripathi & Ahuja (2020) shows that post-merger banks improve financial performance. However, mergers can also have negative implications for bank financial performance, as reflected in the studies of Khurana (2017), Sary (2017), and Musah et al. (2020) which show that post-merger companies do not improve financial performance. In their study, Atahau & Rambu (2020) proved that economic performance was lower after the merger than before.

Islamic banks not only aim to seek profit but also have other greater responsibilities, namely their existence in implementing all their activities by Islamic principles. Sharia compliance is an urgent aspect that should be kept from the attention of Islamic banks post-merger. In carrying out their business activities, Islamic banks also aim to promote Islamic norms and values and protect the needs of the Islamic community as a whole (Lewis & Algaoud, 2001). Islamic banks are guided by a business philosophy derived from the Qur'an, Sunnah and ijtihad of scholars. This Islamic banking philosophy should be formulated correctly and used in at least two ways. First, management or policymakers use this philosophy to develop company policies and objectives. Second, this philosophy functions as an indicator of whether Islamic banks truly uphold Islamic principles (Haron, 2000).

One of the challenges facing Islamic banking in Indonesia today is the public response that Islamic banking practices are not yet fully Sharia (Isman, 2024). Rahmi et al. (2020) emphasized that post-merger Islamic banks need to practice Sharia in an ethically responsible manner if they want to secure their identity. However, some financial institutions only use Sharia compliance as a branding of a banking identity without implementing the Sharia entity. Abbas & Ali (2019) research explains that Sharia compliance for new employees is limited to a requirement to become an employee of an Islamic bank in Pakistan; therefore, in their study, they recommend that Sharia compliance be the main foundation in the institutional and personal

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scope. Maslihatin & Riduwan (2020), in his research, concluded that Sharia compliance is still a formality or limited to the aspect of the contract. There is a gap in the expectations of Muslims towards Islamic banks. Customers still consider Islamic banks and conventional banks to be the same (Suretno, 2019).

Sharia compliance positively affects the performance of Islamic banks because it is one of the important pillars that differentiates them from conventional banks (Azzahra, 2020). The main argument is that the main role of Islamic financial institutions is to ensure that all transactions are based on sharia (Alotaibi & Hariri, 2020). Hekmatyar & Parkar (2019) found the importance of Sharia compliance standard guidelines in Islamic finance practices. Mansori et al. (2020) concluded that religiosity strongly influences an individual's intention to join an Islamic bank. Alkhan & Hassan (2021) illustrate that Islamic financial institutions are alternative financial programs compared to conventional ones. The essence of Islamic banks should have a contrasting colour with conventional banks. Islamic banking should assure customers that transactions, procedures, administration, laws and products align with Sharia principles.

Kaakeh et al. (2019) research shows that there are negative effects of not implementing Sharia compliance, such as customers can highlight the positive effects of the image of Islamic banks, which have an impact on their trust in Islamic banking, and they believe that Islamic banking only follows the concept of conventional banks. (Nugroho, 2021) stated that Islamic banks have successfully implemented sharia rules in muamalat. However, there are still obstacles to its implementation, so people still doubt the truth of Islamic banks. Masruki et al. 92020) in their research found that the most expressed aspect of the Sharia committee compared to the three functions of Sharia control, namely Sharia review, Sharia risk management and Sharia audit. Alshubiri & Ani (2023) concluded that Sharia governance practices in Oman could ensure and support asset quality and capital adequacy ratio.

Previous studies have widely discussed the implementation of Sharia compliance and the problems Islamic banks face in implementing Sharia compliance. However, they are still limited in examining Sharia compliance about Islamic banking mergers. On the other hand, Sharia compliance is urgent in Islamic banking. The policy of Islamic banking mergers can affect the ratio of Sharia compliance implementation. The essence of Islamic banks should have a contrasting colour with conventional banks so that all policy alternatives are oriented towards improving the dimensions of Sharia compliance.This study aims to compare of Sharia compliance culture pre-post merger policy and analyze the implications of mergers on sharia compliance culture of Islamic banks in Indonesia.

1.1. Islamic Banking Merger

The development of Islamic banks, in general, takes two patterns. First, Islamic banks should be established alongside conventional banks (dual banking system), and second, the banking system should be restructured according to Islamic law (full-fledged Islamic Financial System) (Isman, Kamil, et al., 2023). The role of regulation is crucial in both models because all early initiations of Islamic banks began with adequate regulatory support.

Various policies are taken to prove the existence of Islamic banking and increase its competitiveness. One alternative policy that can be implemented by Islamic banking is by conducting a merger. Banking mergers are one of the important transformations of the financial

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and banking sectors globally (Kaddumi & Al-Rimawi, 2022). Mergers are one of the main practices and strategies for market development, market penetration, expansion and company growth (Nahrio et al., 2021).

Merger combines companies or assets through various financial transactions, including asset purchases and management acquisitions (Alao, 2010). Kobayashi & Bremer (2022) define a merger as a form of union of two or more existing entities, in part or in whole, because there is a consensus in the will or interests so that they become one unit. According to the Encyclopedia of Banking and Finance, a merger is "a combination of two or more corporations, where the dominant unit absorbs the passive unit, the former continuing, usually the same name (Woelfel, 1955). A merger is a legal activity where two or more organizations merge, and only one company survives as a legal entity (Danjuma, 2021).

The Sharia banking merger policy is also legally explained in Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector that a merger is a legal act carried out by 1 (one) or more Sharia banks to merge with another existing Sharia bank, resulting in the assets, liabilities, and equity of the merging sharia bank being transferred by law to the sharia bank accepting the merger and then the legal entity status of the merging sharia bank ending by law (UU P2SK, 2023).

Financial Services Authority Regulation Number 41/POJK.03/2019 concerning the Requirements and Procedures for Mergers, Amalgamations, Acquisitions, Integrations, and Conversions of Commercial Banks, a merger is a legal act carried out by one or more banks to merge with another existing bank which results in the assets, liabilities, and equity of the merging bank being transferred by law to the bank receiving the merger and subsequently the legal entity status of the merging bank ending by law (POJK, 2019).

The main motivation for companies to merge is business synergy (Lin, 2023). Synergy is the added value of combining two or more companies to create opportunities that would only exist if the company operated together. Synergy can occur in two ways, namely operational synergy and financial synergy. The operational synergy increases the company's economic scale, pricing power, and growth potential. The financial synergy that can be obtained is tax benefits, diversification and an increase in the company's debt ceiling. Merger decisions provide benefits when the results provide a higher value than the sum of the values of two or more companies (Hadiputra, 2022).

Mergers generally result in greater diversification in terms of product offerings and geographic footprint, thereby reducing a company's exposure to a single industry or region, which can reduce the company's default risk (Baer et al., 2022). Mergers are an effective and efficient growth strategy in the banking sector as they increase bank turnover, provide efficient resource allocation and risk reduction, and bring synergistic benefits (Danjuma, 2021). Mergers allow banks to expand their customer base and increase their market share (Purnamasari et al., 2022).

Mergers allow businesses to establish relationships and change new statuses to ensure and protect their business continuity. Mergers unite organizations with different resources, customers, cultures, and internal and external processes. Therefore, the merger process is not only a financial transaction but also an institutional event that requires a lot of restructuring and reorganization.

1.2. Sharia Compliance in Islamic Banking

Sharia compliance is the obedience of Islamic banks to sharia principles and operates according to the provisions of Islamic procedures (Antonio, 2001). According to Rivai (2010), Sharia compliance is the compliance of Islamic bank operational activities with Islamic principles, where all of its products have received approval from the Sharia council and are by the fatwas of the Sharia council. Can (2021) stated that Sharia compliance is a set of principles that companies must follow in all conditions. In simple terms, sharia compliance can be interpreted as the compliance of Islamic financial institutions in implementing sharia principles.

Compliance culture consists of the values, behaviours, and actions that support the creation of bank compliance with the provisions of the Financial Services Authority. Preventive actions of the compliance function ensure that policies, requirements, systems and procedures, and business activities carried out by the bank are by the provisions and regulations of the laws and regulations, including sharia principles (POJK, 2017). The philosophical basis of corporate governance in Islam requires an additional governance layer for Sharia compliance (Ahmad et al., 2013). Amalia, (2019) stated that compliance with sharia principles is an important ethics and moral standard. Islamic banks' regulatory and compliance functions are a form of institutional strengthening support for the community regarding the existence of Islamic banks (Warde, 2000). Conversely, a lack of sharia compliance can increase the risk of bank losses (Noor et al., 2019).

Sharia compliance is important for the sustainability of Islamic banking operations and strengthening resources (Moses et al., 2020). The concept of sharia compliance stems from corporate governance in Islamic financial institutions, which involves carefully examining the disclosures made in annual reports (Chapra & Ahmed, 2002). Various indicators can measure the level of Sharia compliance in Islamic banking. One of them is through the concept first introduced by (Hameed et al., 2004), namely the idea of the Islamicity Performance Index. This concept elaborates on several aspects, namely Sharia compliance, corporate governance, and social/environmental issues, with various indicators. The Islamicity Performance Index in the Sharia compliance section has several indicators, namely the profit sharing ratio, income Islamic ratio, and Islamic investment ratio.

The profit-sharing ratio is the ratio of bank performance based on Sharia principles reviewed from the implementation of profit-sharing financing systems, namely mudharabah and musyarakah. Islamic income ratio is the ratio of bank performance based on Sharia principles in achieving halal income from productive asset management activities. Islamic Investment ratio is the ratio of bank performance based on Sharia principles reviewed from halal investment with the total investment made as a whole (Hameed et al., 2004). The explanation of this ratio is the basis for assessing the implementation of Sharia compliance in Islamic banking.

Several studies have shown that Sharia compliance is the most important factor for potential customers when choosing a bank. Ongera & Ndede (2019) stated that Sharia compliance is the most significant element in selecting a bank's potential customers. Customers should pay more attention to bank profitability and prioritize the implemented Sharia compliance. Ahmed et al. (2017) explained that Sharia compliance positively and significantly affects the quality of service and customer satisfaction in Islamic banking.

Customer perception of Islamic banking services can decrease when Islamic banks do not comply with Sharia principles and if the quality of service is not good (Suhartanto et al., 2018).

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Many customers are attracted to Islamic banking services because of their Sharia compliance. Increasing the number of Islamic banking customers could improve financial performance. Conversely, if customers decrease, the economic performance of Islamic banking will be reduced.

Sharia compliance is not an obstacle to competing with conventional banks (Ahmed et al., 2017). Most shareholders and investors consider whether the funds invested follow Sharia principles (Nidyanti et al., 2022). Sharia compliance is one component that attracts investors to invest their funds in Islamic banks. Sharia compliance is an advantage of Islamic banks; it stimulates the trust of stakeholders and ensures the credibility of banking (Olaide & Kareem, 2021).

Institutionally and personally, Sharia practices are a very important need. Therefore, Islamic banks should reflect Islamic values in all their activities to implement sharia compliance. The merger of Islamic banks is expected to improve a culture of compliance with Islamic values.

2. METHODS

This research is a quantitative method with a statistical approach to different tests. The statistical model of different tests is a model to evaluate special treatments on the same sample but on two other observations. This test is used to test the research hypothesis, which is a ranking, and evaluate certain treatments on two observations before and after a certain treatment.

The difference test consists of the parametric paired sample t-test or the nonparametric wilcoxon signed rank test, which is based on the assumption of data normality. The paired sample test tests two paired samples to analyze whether the two related samples have significantly different average values. The Wilcoxon test is also an analysis of observations of two paired data that have differences or not.

Data collection in this study is the financial report of Islamic banking and Islamic banking statistics obtained from the Financial Services Authority report for pre-merger (2019-2020) and post-merger (2021-2022). Other data comes from literature studies that search for international journals, articles, and sources relevant to the research theme.

The statistical method of different tests consisting of the parametric Paired Sample t-test or the nonparametric wilcoxon signed rank test has several stages, namely the data normality test, to determine the right statistical tool. If the data meets the normality assumption, use the parametric paired sample t-test method. However, if the data does not meet the normality assumption, use the nonparametric Wilcoxon Signed Rank Test. The normality test is used to determine whether the data used is normally distributed or not. The basis for making decisions on the normality test is based on the Kolmogorov-Smirnov Test value because it is a common method used to test data normality. The sample is normally distributed if the probability value> significance level is 5% or 0.05 (Lind et al., 2014).

Statistical testing of different tests conducted observations pre-post merger of Islamic banking in Indonesia on the aspect of Sharia compliance. The Wilcoxon test compares the mean value of a variable from two paired sample data. The wilcoxon test compares observations before and after treatment and determines the effectiveness of the treatment.

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3. RESULTS AND DISCUSSION

3.1. Measurement of Comparative Analysis Sharia Compliance Pre-Post Merger

Sharia Compliance measurements consisting of profit sharing ratio, Islamic income ratio, and Islamic investment ratio describe fluctuations in the transition period of Islamic bank mergers. Based on these ratios, Sharia compliance at Bank Syariah Indonesia has been implemented well.

Table 1. *Descriptive Ratio of Sharia Compliance Pre-Post Merger*

Period	Year	Economic Empowerment		
		Profit Sharing Ratio	Islamic Income Ratio	Islamic Invesment Ratio
Pre-Merger	2019	1,1976087	0,7133492	0,9999598
	2020	1,4849683	0,6994559	0,9999550
Post Merger	2021	0,3465455	0,68313862	0,9997803
	2022	0,3490464	0,68576584	0, 9998138

Source: Processed Islamic bank quarterly report data, 2024.

Sharia compliance in Islamic banks, in general, is quite positive because it can still achieve a satisfactory ratio after the merger, even increasing in 2022 compared to the previous year. This is due to the consistency of Islamic banking in pursuing Sharia values in every operational management and service factor based on religious considerations. The next measurement is Comparing means, which compares research variables/indicators. This distinction will show the level of performance of Islamic banking in Indonesia before and after the merger in terms of Sharia compliance.

Table 2. *Comparing Means of Sharia Compliance Pre-Post Merger*

Indicator/ Variable	Period	Mean	Minimum	Maximum
Profit Sharing Ratio	Pre-Merger	33002,88	3661	38314
	Post-Merger	308887470	34585354	34508388
Islamic Income Ratio	Pre-Merger	61984,37	7694	80551
	Post-Merger	68445223,00	51437125	80199691
Islamic Invesment Ratio	Pre-Merger	87495,87	1	99996
	Post-Merger	774824551,90	99976056	10000009
Total of Sharia Compliance	Pre-Merger	64994,29	3661	99999
	Post-Merger	384052,00	34585	999928

Source: Processed SPSS data, 2024.

The mean profit sharing, Islamic income, and Islamic investment ratios are better pos-merger. The mean sharia compliance value of Bank Syariah Indonesia is generally better post-merger. There was a percentage increase of 6.9%, which means that the implementation of Sharia compliance in Islamic banking is better post-merger policy. In Islamic jurisprudence, a bank is considered a company that complies with Sharia if it follows Islamic ethical guidelines. Sharia compliance in Islamic banking is a set of laws and procedures derived from the Qur'an and Sunnah.

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Several studies have shown that Sharia compliance is the most important factor for potential customers when choosing a bank, especially post-merger banks. Ahmed et al. (2017) explained that Sharia compliance positively and significantly affects the quality Islamic banking. Suhartanto et al., (2018) stated that many customers are attracted to Islamic banking services because of their Sharia compliance culture. Ongera & Ndede (2019) stated that Sharia compliance is the most significant element in selecting a bank's.

3.2. Wilcoxon Test of Shariah Compliance Pre-Post Islamic Banking Merger

The first step of the difference test is to conduct a normality test based on the kolmogorov-smirnov test value. The normality test results will determine the type of difference test between the parametric paired sample t-test or the nonparametric wilcoxon signed rank test. The results of the normality test are described in the following table:

Table 3. *Normality Test of Sharia Compliance Pre-Post Merger*

Indicator	Df	Statistic	Sig.	Result
Profit Sharing Ratio	16	.487	.000	Doesn't Normality
Islamic Income Ratio	16	.251	.000	Doesn't Normality
Islamic Invesment Ratio	16	.491	.000	Doesn't Normality

Source: Processed SPSS data, 2024.

The Sharia compliance variable's Asymp.Sig. (2-tailed) the profit sharing ratio indicator value is 0.000, followed by the Asymp.Sig. (2-tailed) value of the Islamic income ratio of 0.008 and the Islamic investment ratio with a value of 0.000. Based on the Asymp.Sig. (2-tailed) value of all research indicators, there is an Asymp.Sig. (2-tailed) value smaller than the significance level = 5%, so there is not normally distributed data. The difference test used to compare Sharia compliance pre-post Islamic banking merger is the wilcoxon test because there are not normally distributed indicators. The results of the difference test pre-post Islamic banking merger on the Sharia compliance aspect are as follows:

Table 4. *Wilcoxon Test* of Sharia Compliance Pre-Post Merger

Wilcoxon Test Result Pre-Post Merger	
Z	-1.286^{b}
Asymo.Sig. (2-Tailed)	.000

Source: Processed SPSS data, 2024.

Table 4. shows that the Sharia compliance aspect has sig. at 0,000 with a degree of error set at 0.05. This proves the value of sig. 0,000 greater than 0.05 means the sig value is smaller than the degree of error. It can be concluded that Sharia compliance Islamic Banking pre-post merger, there are significant differences. This difference proves that Sharia compliance is a better post-merger policy.

Studies related to Sharia Compliance assessments in banking after the merger have yet to be found in the previous literature. However, the view of prediction and implementation of Sharia compliance after the merger has been stated. Like the study of Rulindo & Rifqi (2022), there is no sharia issue in the merger of Islamic banking in Indonesia. However, the results of the bank merger must still maintain its sharia status. Sharia banking mergers still need to maintain comparative advantages in the form of capital synergy, human resources, products and other activities that lead to healthy business competition, bring benefits, and meet the requirements of business competition validity and Sharia standard requirements (Umam & Kimberly, 2022).

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Sharia compliance is an important factor for prospective customers when choosing banks. Customers need to pay more attention to bank profitability but prioritize Sharia compliance that is carried out (Ongera & Ndede, 2019). Sharia compliance positively affects the quality of services and satisfaction of Islamic banking customers. Customer's perception of Islamic banking services can decrease when Islamic banks do not comply with Islamic principles; on the contrary, many customers are interested in Islamic banking services for their reasons of Sharia compliance.

The reason banking is merged is to benefit from the scale of the economy through the maximization of each economic and non-economic benefit (Sharma & Garg, 2022). One of the non-economic benefits of Islamic banking is Sharia Compliance. Indonesia, with a majority Muslim community that has reached 90%, has an impact on community interest in applying Sharia principles in banking (Rizka & Rafii, 2022). Applying Sharia standards is the main differentiator from conventional banks because Sharia guides the principle based on the guidance of the Qur'an and As-Sunnah. Islamic banking should be an Islamic monetary institution whose activities are fiqh guidelines.

The value of Islamic banking religiosity places a special position to attract the community's interest in using Islamic banking. Mergers of Islamic banking show the commitment of the state as an implementative national banking based on Islamic law as a form of non-economic benefit. After the merger, Sharia Compliance is expected to impact increasingly higher community interest to increase reach and greater economic scale. The difference between Sharia compliance after the merger can be seen through better profit-sharing financing; investment based on Sharia principles is increasingly improved, and banking profits are maintained sourced from halal income.

3.3. Comparative Analysis of Sharia Compliance in Islamic Bank Pre-Post Merger

This study proves differences in the aspects of sharia compliance pre-post mergers of Islamic banking. Sharia compliance ratio Islamic banking is better post-merger. After the merger of Islamic banking, it successfully proved its characteristics as a bank based on religious values. Islamic banking post-merger consistently provides financial products based on prohibitions from a spiritual point of view. It stands on the principle of halal investment, is interest-free, avoids uncertainty in transactions, prohibits speculation, and increases financing through profit-sharing schemes.

In the context of divestment, Islamic banks are prohibited from changing their business to that of conventional banks. Therefore, when Islamic banks receive OBA from LPS or when LPS established Islamic banks or are sold to third parties, the bank must remain an Islamic bank. There is an Islamic bank option combined with Islamic Windows. Islamic banks are transferred to Islamic banks, and Islamic bank options are combined with Islamic banks. In this context, the entire bank is Islamic, even though some conventional banks still apply all their activities by Sharia Compliance.

Mergers have become a growth instrument, as have restructuring and diversification of banking. The merger policy is expected to increase the overall operational efficiency and income of Islamic banking. The merger serves as an improvement effort to optimize the role of Islamic banks in the Indonesian economy and provide broad benefits for the community, including the application of increasing Sharia compliance (Isman et al., 2023) .Sharia compliance is a sensitive issue faced by Islamic banks. This is related to whether the activities of Islamic banks are by Sharia principles or not.

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Islamic banking is based on Islamic Sharia law, which includes the provisions of fiqh mu'amalah (transaction rules). Islamic banking is even defined as a banking activity system consistent with Sharia's principles and its application to economic implementation (Isman & Putra, 2022). Islamic banks that have not met sharia compliance cannot be treated as Islamic banks. For Muslim customers, Sharia compliance is very important because the main preference of Muslims in making transactions is based on the concept of halal. Muslim customers are not only concerned with financial gain but also pay close attention to sharia aspects (Hasani & Muhammad, 2022). Furthermore, the discussion of Sharia compliance in Islamic banks aims to attract Muslim customers and as a form of accountability to Allah SWT.

Islam offers a joint effort to share risks and benefits in business management. Islam also provides a profitable arrangement of resource accumulation to increase value (Usman et al., 2021). Religious considerations are one of the main reasons individuals visit Islamic banking (Baklouti, 2022). The fundamental reason for the existence of Islamic banking is the emergence of awareness among Muslim communities who want to carry out all activities in the financial sector based on Islamic law, so the implementation of operational activities of Islamic banking must pay attention to Sharia compliance (Oktafiani et al., 2022).

Sharia compliance focuses on the criteria of financial ratios, Sharia governance, and business activities (Can, 2021). As part of the Islamic concept, the banking system is not only required to generate profits for every commercial transaction but also to apply the sharia values contained therein by the Qur'an and Al Hadith. The governance structure of Islamic banking that emphasizes Sharia governance is to guarantee the main interests, which are the institutional lens (Rosidah, 2020). (Muhammad et al., 2021)stated that Sharia banking follows rational Sharia compliance to improve Islamic financial features.

The implementation of Sharia compliance is independent of state regulations but on specific criteria that follow Islamic teachings. Sharia compliance in Islamic financial instruments provides ethical returns. Namely, returns should not be based on interests, excessive risk-taking, or gambling (short selling). Risks and profits must be shared fairly between creditors and debtors so that both are positive partners; business and investment in Islamic finance are based on activities not permitted in religious teachings. Islamic banking may not carry out business and investment activities in non-Islamic finance, alcoholic beverages, drugs, pork, and adult entertainment. Muslim banking not only follows positive legal regulations but also Islamic teachings. Implementing Sharia compliance creates higher synergy and ethics in society.

Islamic banking is a small percentage of financial services in Indonesia, but it has been operating faster than the banking system as a whole. Fulfilling Sharia compliance after the merger is vital for Islamic banking because, in developing Islamic banks, this pillar is the differentiator between Islamic and conventional banks. Post-merger must reflect the existence of Islamic banking with the sustainability of increasingly consistent Sharia compliance pillars.

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CONCLUSION

This study proves that the Sharia compliance aspect of Islamic banks is a different pre-post merger. The sharia compliance ratio of Islamic banking is better post-merger. In this context, all Islamic banks that merge are Islamic banks, although some are still from conventional parent banks, and all their activities are implemented by Sharia compliance. Sharia compliance of Islamic banks is better post-merger because the merger makes the Sharia ecosystem more positive and consistent in implementing existing Sharia standards. After the merger, Islamic banking consistently provides financial products based on Sharia principles, namely halal investment, interest-free, avoiding uncertainty in transactions and prohibiting speculation, and increasing financing through profit-sharing schemes. The study results have implications for the development of merger studies in Islamic banking, and the implementation of Sharia compliance needs to be continuously improved as a basic barometer of Islamic banking entities in Indonesia. The research limitations are expected to examine the culture of sharia compliance within the framework of strategic policies that need to be implemented by sharia banks.

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