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From Merger to Market Value: Short, Medium, and Long-Term Evidence from Bank Syariah Indonesia

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Abstract

The ability of bank mergers to generate sustained market value remains uncertain in emerging Islamic banking systems due to integration complexity, governance constraints, and heterogeneous investor expectations. To address this problem, this study examines whether the consolidation of three state-owned Islamic banks into Bank Syariah Indonesia (BSI) in 2021 succeeded in creating value across different time horizons. Using an event study approach with the CAR method, short-term market reactions to the merger announcement are evaluated, while the BHAR framework is used to assess medium- and long-term performance. The findings show that firm size has a significant positive effect on short-term market reactions, suggesting that larger Islamic banks are perceived as more capable of managing integration risk and realizing early synergy gains. In contrast, medium- and long-term value creation is driven primarily by the interaction between GCG and operational efficiency. These results imply that while short-term value creation is heavily influenced by investor perceptions and institutional scale, sustained performance depends on governance quality and the effectiveness of post-merger integration efforts. This study provides new empirical evidence on the temporal dynamics of value creation following the largest Islamic bank merger in Indonesia. Scientifically, the study advances the literature by demonstrating how synergy realization, governance mechanisms, and efficiency improvements jointly shape performance across multiple horizons. Practically, the findings offer guidance for regulators and practitioners by underscoring the importance of strong governance and disciplined integration strategies to maintain investor confidence and long-term stability in Islamic banking mergers.

Keywords: Merger; Islamic Banking; Value Creation; CAR; BHAR; GCG

Abstrak

Kemampuan merger perbankan dalam menciptakan nilai pasar yang berkelanjutan masih menjadi ketidakpastian dalam sistem perbankan syariah di negara berkembang, terutama karena kompleksitas integrasi, keterbatasan tata kelola, serta perbedaan ekspektasi investor. Untuk menjawab permasalahan tersebut, penelitian ini menguji apakah konsolidasi tiga bank syariah milik negara menjadi Bank Syariah Indonesia (BSI) pada tahun 2021 berhasil menciptakan nilai pada berbagai rentang waktu. Dengan menggunakan pendekatan event study melalui metode Cumulative Abnormal Return (CAR), penelitian ini mengevaluasi reaksi pasar jangka pendek terhadap pengumuman merger, sedangkan kerangka Buy-and-Hold Abnormal Return (BHAR) digunakan untuk menilai kinerja jangka menengah dan jangka panjang. Hasil penelitian menunjukkan bahwa ukuran bank berpengaruh positif secara signifikan terhadap reaksi pasar jangka pendek, mengindikasikan bahwa bank syariah berukuran besar dipandang lebih mampu mengelola risiko integrasi dan mewujudkan sinergi awal. Sebaliknya, penciptaan nilai pada jangka menengah dan panjang terutama didorong oleh interaksi antara Good Corporate Governance (GCG) dan efisiensi operasional. Temuan ini mengimplikasikan bahwa meskipun nilai jangka pendek lebih dipengaruhi oleh persepsi investor dan skala institusi, kinerja berkelanjutan sangat bergantung pada kualitas tata kelola serta efektivitas proses integrasi pascamerger. Penelitian ini memberikan bukti empiris baru mengenai dinamika temporal penciptaan nilai setelah merger bank syariah terbesar di Indonesia. Secara ilmiah, studi ini memperkaya literatur dengan menunjukkan bagaimana realisasi sinergi, mekanisme tata kelola, dan peningkatan efisiensi membentuk kinerja pada berbagai horizon waktu. Secara praktis, temuan ini memberikan panduan bagi regulator dan praktisi mengenai pentingnya tata kelola yang kuat serta strategi integrasi yang disiplin guna menjaga kepercayaan investor dan stabilitas jangka panjang dalam merger perbankan syariah.

Kata kunci: *Merger; Perbankan Syariah; Penciptaan Nilai; CAR; BHAR; GCG*

INTRODUCTION

The merger of financial institutions is often justified by the expectation of enhanced efficiency, competitiveness, and long-term value creation. However, the process of value creation following mergers is neither instantaneous nor uniform; it evolves across different time horizons, including short-term market reactions, medium-term integration outcomes, and long-term sustainable performance. In the short term, investors respond to merger announcements through price adjustments that reflect their expectations of future gains. Over the medium and long term, the realization of value depends on the successful alignment of strategic objectives, operational systems, and governance mechanisms. Despite extensive research on post-merger performance in developed markets, empirical evidence from emerging Islamic banking systems remains limited and inconclusive. The distinctive institutional characteristics of Islamic banks, such as profit-and-loss sharing mechanisms, Shariah compliance requirements, and the dual objectives of financial and social performance, raise questions about whether conventional post-merger theories adequately explain their value creation dynamics. From the perspective of Synergy Theory, mergers are expected to create additional value beyond the sum of individual entities through operational complementarities, economies of scale, and improved strategic fit (Hasnawati & Sawir, 2015; King et al., 2003). However, in Islamic banking, realizing such synergies can be more complex due to diverse Shariah interpretations, regulatory fragmentation, and governance challenges. Meanwhile, Agency Theory

(Jensen & Meckling, 1976) emphasizes the role of managerial incentives, monitoring mechanisms, and ownership structures in determining merger outcomes.

For Islamic banks, agency conflicts may manifest in unique ways, as managers must balance fiduciary responsibilities, profit-sharing arrangements, and ethical compliance principles (Firmansyah, 2021; Hermanto & Liem, 2022). Additionally, Signaling Theory (Spence, 1973) and (Ross, 1977) provides insights into how merger announcements, governance transparency, and financing decisions act as signals to the market, shaping investor confidence and expectations about future performance. As noted by (Erel et al., 2012) and (Curran et al., 2016), in emerging markets, post-merger value creation is often constrained by integration complexities, governance inefficiencies, and heterogeneous investor perceptions. Therefore, understanding how Islamic banks create, sustain, and communicate value following consolidation requires a contextual framework that integrates synergy, agency, and signaling perspectives within the realities of emerging financial systems.

The establishment of Bank Syariah Indonesia (BSI) in February 2021, through the merger of three state-owned Islamic banks (Bank Syariah Mandiri, BNI Syariah, and BRI Syariah), offers a distinctive empirical context for examining these dynamics. The merger aimed to position BSI as a global Islamic financial powerhouse capable of competing with regional and international peers, while simultaneously accelerating the development of Indonesia’s Islamic finance ecosystem. With total assets exceeding IDR 240 trillion at its inception, BSI immediately became one of the ten largest Islamic banks worldwide, marking a significant milestone in Indonesia’s pursuit of inclusive and sustainable finance. Nevertheless, whether this large-scale consolidation has effectively translated into measurable value creation, both from the market’s perspective and in terms of long-term operational performance, remains an open empirical question. In emerging economies, the realization of post-merger value is often hindered by integration frictions, cultural alignment challenges, and evolving investor expectations regarding long-term benefits (Bessler et al., 2020; Ng & Daromes, 2016).

Previous studies on Islamic bank mergers have primarily examined short-term market reactions using Cumulative Abnormal Return (CAR) to measure investor sentiment surrounding merger announcements. These studies suggest that short-term market responses are highly sensitive to information asymmetry, perceived synergy potential, and signaling effects. However, an exclusive focus on short-term analysis risks overlooking the gradual realization of operational and governance synergies that typically unfold over the medium to long term. To capture these extended dynamics, researchers have increasingly employed Buy-and-Hold Abnormal Return (BHAR) as a medium- and long-term indicator of sustained performance and value creation (Dhananjaya, 2023; Nogueira & Castro, 2019). Integrating both CAR and BHAR thus enables a more comprehensive assessment of how mergers influence firm value across temporal dimensions, from immediate market reactions to enduring performance outcomes.

Within this context, the merger of Bank Syariah Indonesia offers a compelling opportunity to examine value creation across short, medium, and long-term horizons. Guided by Synergy Theory, the merger reflects an effort to combine financial, technological, and operational capacities to achieve efficiency gains and strategic complementarity. From the Agency Theory perspective, BSI's post-merger period serves as a test of corporate governance mechanisms and managerial discipline within a state-owned framework, assessing whether governance reforms can mitigate opportunistic behavior and align managerial incentives with shareholder interests. Meanwhile, through the lens of Signaling Theory, the BSI merger functions as a strategic communication channel that conveys institutional confidence, national commitment to Islamic finance, and expectations of sustainable growth to both domestic and global markets. As a hybrid institution that embodies both religious and commercial objectives, BSI's experience provides valuable insights into how Islamic financial institutions navigate the trade-offs between ethical responsibility and profitability during large-scale transformation. Despite the growing attention to merger performance, research on post-merger value creation in Islamic banking remains limited and fragmented, particularly within emerging market contexts such as Indonesia. Most previous studies have concentrated on conventional banking systems, where institutional structures, profit motives, and governance mechanisms differ fundamentally from those of Islamic banks. Consequently, the applicability of conventional merger theories to Shariah-based financial institutions remains uncertain and warrants further empirical validation.

Existing studies on Islamic bank mergers have predominantly emphasized short-term market reactions, offering valuable yet partial insights into how investors perceive merger announcements. However, such a narrow focus provides limited understanding of how integration processes, strategic realignment, and governance reforms translate into medium- and long-term performance outcomes. Moreover, comprehensive analyses that integrate both market-based measures such as Cumulative Abnormal Return (CAR) and long-horizon indicators such as Buy-and-Hold Abnormal Return (BHAR) are still scarce. This gap underscores the need for a contextualized approach that captures the temporal evolution of value creation and reflects the unique institutional realities of Islamic banking. In response to these gaps, this study investigates how the merger of Bank Syariah Indonesia (BSI) has influenced firm value across short, medium, and long-term horizons. By employing both CAR and BHAR frameworks, the study seeks to provide a more holistic understanding of value creation dynamics following large-scale consolidation in the Islamic banking sector. Furthermore, the research integrates the perspectives of Synergy, Agency, and Signaling Theories to explain how strategic, managerial, and informational dimensions jointly shape post-merger outcomes. Through this multidimensional approach, the study contributes to the growing body of literature on Islamic finance by offering empirical evidence from one of the world's largest Islamic bank mergers, while also providing theoretical and practical implications for policymakers, investors, and financial institutions engaged in similar integration initiatives.

LITERATURE REVIEW

Synergy Theory

Within the framework of Synergy Theory, mergers and acquisitions (M&A) are regarded as strategic initiatives aimed at generating additional value through the combination of complementary resources, assets, and organizational capabilities. The fundamental rationale of synergy posits that the merged entity should create greater value than the sum of its individual components, expressed as $V(AB) > V(A) + V(B)$. This incremental value typically arises from enhanced operational efficiency, market expansion, technological advancement, and improved financial leverage. According to (Hasnawati & Sawir, 2015), firm value can increase when financial decisions and ownership structures are optimally managed within the context of business combination. Larger firms tend to possess stronger financial capacities, enabling them to absorb integration costs, optimize capital structure, and support postmerger consolidation processes (L. & Basana, 2020; Setiawan & Miftahurrohmah, 2021). (Sa'diyah & Hariyono, 2022) further emphasize that firm size and capital structure significantly influence firm value, suggesting that the ability to internalize integration costs plays a pivotal role in realizing positive postmerger synergy.

From an international perspective, (Faccio & Masulis, 2005) and (Fen-fang, 2019) found that successful mergers depend on firms' ability to manage financial risk and optimize resource utilization during consolidation. Similarly, (Tarannum et al., 2023) identified labor intensity and marketing strategy as additional determinants that strengthen postmerger performance. Horizontal mergers and acquisitions generate multiple dimensions of synergy, namely operational, managerial, and financial, which collectively strengthen firms' competitive positions (Jiang, 2019). Operational synergy arises from cost reduction and process alignment, managerial synergy emerges from shared expertise and leadership integration, and financial synergy is achieved through enhanced access to capital and risk diversification. In the context of Bank Syariah Indonesia (BSI), synergy is expected to materialize through the integration of systems, service networks, and Islamic financial products, enhancing both scale and competitiveness within the Islamic banking industry. Thus, Synergy Theory provides a fundamental lens to explain how consolidation can foster sustainable market value creation over the short to medium term.

Agency Theory

The Agency Theory highlights the inherent conflict of interest between principals (shareholders) and agents (managers), which arises due to divergent objectives and information asymmetry. Managers, acting as agents, may pursue personal interests that do not align with shareholders' wealth maximization, especially in complex financial decisions such as mergers and acquisitions (Carlin & Purwaningsih, 2022). This divergence can result in inefficient investment or financing decisions, commonly referred to as agency costs, which have the potential to erode firm value. In the context of mergers and acquisitions, agency problems often appear in the choice of financing method, debt policy, and postmerger resource allocation (Hermanto & Liem, 2022). (Margaretha & Afriyanti, 2017) show that implementing strong corporate governance practices can reduce agency costs and improve financial performance. Similarly, (Firmansyah, 2021) and (Susanto & Fransiska, 2022) emphasize the importance of audit quality and financial transparency in minimizing managerial opportunism.

International literature has further established the relationship between agency mechanisms and M&A outcomes. The choice of payment method in mergers and acquisitions reflects underlying managerial preferences to maintain control, as managers tend to favor structures that minimize ownership dilution. Such choices carry important strategic implications for managerial autonomy and underscore the need to understand preference driven factors shaping payment decisions in M&A dynamics (Zheng et al., 2016). Extending this perspective (Chatfield et al., 2012) and (Huang et al., 2016) observed that payment decisions often reveal differing risk preferences between owners and managers, especially in cross-border acquisitions. Furthermore, (Berg, 2017) added that financial constraints and misvaluation tendencies amplify managerial opportunism in acquisition financing strategies. These findings align with (Jensen & Meckling, 1976) classical argument that effective monitoring and incentive alignment are critical for ensuring managerial actions remain consistent with shareholder interests. In the case of Bank Syariah Indonesia (BSI), the role of Good Corporate Governance (GCG) is central to reducing agency conflicts during the integration phase. Transparent and accountable governance mechanisms help ensure that merger-related decisions, including resource allocation and strategic expansion, are carried out in the best interests of all stakeholders, particularly depositors and shareholders. Therefore, Agency Theory explains that the success of BSI's merger depends not only on the achievement of operational synergies but also on the effectiveness of its governance structures in managing the relationship between agents and principals.

Signaling Theory

Signaling Theory explains that managerial decisions in mergers and acquisitions function as communication tools that convey information about a firm's intrinsic value and future prospects to the market. In situations where information asymmetry exists between managers and investors, corporate actions such as payment methods, disclosure quality, and financing strategies operate as nonverbal signals that influence investor perceptions (Ng & Daromes, 2016). (Fahdiansyah, 2016) argues that the level of information disclosure and transparency directly affects perceived risk and the cost of capital, thereby influencing market valuation. Similarly, (Prayogo et al., 2023) identify Environmental, Social, and Governance (ESG) disclosure as a credible indicator of corporate sustainability, while (Sugiarti & Fitria, 2022) demonstrate that strong financial performance reinforces positive investor perceptions by amplifying the strength of managerial signals. From an international perspective, (Bessler et al., 2020) and (Faccio & Masulis, 2005) find that different payment methods generate distinct market interpretations. Cash payments are generally perceived as a signal of managerial confidence in the firm's future performance, whereas stock payments are often associated with uncertainty or potential overvaluation. (Yung et al., 2013) further show that the earnings quality of acquiring firms serves as a crucial signal that shapes market reactions to merger announcements. In addition, (Chen, 2017) concludes that mixed payment strategies can serve as risk-mitigation signals in environments characterized by imperfect information. These studies align with the foundational works of (Spence, 1973) and (Ross, 1977), who conceptualize signaling as a mechanism that reduces information asymmetry and strengthens investor trust through observable managerial actions.

In the context of Bank Syariah Indonesia (BSI), signaling mechanisms play a significant role in influencing market perceptions during and after the merger. Transparent communication regarding integration progress, operational performance, and adherence to Islamic financial principles provides credible signals that enhance investor confidence. Consistent disclosure of merger outcomes, supported by effective governance and sustained profitability, reinforces the perception of stability and long-term viability. Therefore, Signaling Theory offers a theoretical framework for understanding how managerial communication and disclosure strategies shape short-term and medium-term market reactions in post-merger Islamic banking institutions.

Short-Term Value Creation

Short-term value creation in the context of mergers and acquisitions is commonly assessed using the Cumulative Abnormal Return (CAR), which captures market reactions to merger announcements. A positive CAR reflects that investors perceive the merger as value enhancing and anticipate potential gains in shareholder wealth. Previous research demonstrates that cash-financed acquisitions generally produce higher CAR compared to stock-financed transactions, as cash payments provide valuation certainty and minimize the risk of stock mispricing (Ulrich & Michalke, 2024). In addition, transparency in transaction structures and clear disclosure of pro forma earnings strengthen investor confidence, leading to more favorable market reactions (Alexandridis et al., 2017). Operational initiatives such as cost reduction, process alignment, and resource optimization also contribute to short-term synergies that enhance profitability and support positive CAR outcomes (Ibrahimi & Meghouar, 2019).

Empirical evidence further indicates that firms engaging in post-merger restructuring tend to experience positive short-term market reactions, suggesting that integration efforts are viewed as credible signals of managerial commitment to efficiency (Renneboog & Vansteenkiste, 2019). Nevertheless, an excessive emphasis on short-term performance can jeopardize long-term value creation by diverting attention from strategic integration and capability development. Therefore, while CAR provides an essential metric for evaluating immediate market responses, it should be complemented by medium- and long-term assessments to ensure sustainable synergy realization.

From a theoretical standpoint, short-term value creation following mergers is shaped by several interrelated factors, including transaction value relative to total assets, firm size, method of payment, and managerial ownership. Each of these factors influences how investors interpret the strategic intent and financial soundness of the merger. Consequently, the short-term market reaction serves not only as an indicator of investor sentiment but also as an early reflection of the market's confidence in the merged entity's ability to generate long-term value.

Transaction Value and Short-Term Market Reaction

The transaction value relative to the acquirer's total assets can influence market perceptions of post-merger financial stability. When the transaction value is disproportionately large compared to total assets, investors may view it as financially risky, potentially destabilizing the firm's balance sheet. As a result, investors often respond negatively to transactions perceived as excessive relative to firm capacity (Ulrich & Michalke, 2024). Therefore, the larger the portion of assets allocated to the acquisition, the greater the perceived short-term risk reflected in market reactions.

H1: The transaction value relative to the acquiring firm's total assets has a negative effect on Cumulative Abnormal Return (CAR).

Method of Payment and Market Signaling

The method of payment serves as a critical market signal regarding managerial confidence in the firm's intrinsic value. Stock-based payments are frequently perceived negatively, as they may indicate limited liquidity or uncertainty about internal valuation. In contrast, cash payments are interpreted as signals of financial strength and managerial confidence in firm value, thereby eliciting a positive response from investors (Alexandridis et al., 2017; Ulrich & Michalke, 2024). Consequently, stock-financed mergers are expected to yield lower CAR than cash-financed ones.

H2: The stock-based method of payment has a negative effect on Cumulative Abnormal Return (CAR) compared to cash or mixed payment methods.

Firm Size and Short-Term Stability

Firm size is closely linked to a company's ability to manage post-merger integration complexity. Larger firms generally possess stronger financial and managerial capacity to absorb integration costs and maintain operational stability, thereby enhancing investor confidence in the success of synergy realization (Ibrahimi

& Meghouar, 2019). Consequently, mergers involving larger firms are likely to receive positive market reactions, as they are perceived as more capable of achieving short-term value creation.

H3: Firm size (Ln Total Assets) has a positive effect on Cumulative Abnormal Return (CAR).

Moderating Role of Managerial Ownership

Managerial ownership plays a critical role in aligning the interests of managers and shareholders. According to Agency Theory, higher managerial shareholding reduces agency conflicts and discourages self-serving behavior that could harm shareholders (Carlin & Purwaningsih, 2022; Firmansyah, 2021). In merger contexts, strong managerial ownership is expected to reinforce the positive impact of firm size on CAR, as managers become more committed to ensuring successful integration and maximizing shareholder value.

H4: Managerial ownership moderates the relationship between firm size and Cumulative Abnormal Return (CAR), such that greater managerial ownership strengthens the positive effect of firm size on CAR, particularly in related acquisitions.

Short-term value creation following a merger, typically observed within a 1–3 month window after the merger announcement, is measured by the Cumulative Abnormal Return (CAR), which reflects the market's immediate response to merger-related information. Based on Synergy Theory and Signaling Theory, the market reacts positively when mergers are perceived to generate value through operational efficiency and credible managerial signals (Alexandridis et al., 2017; Ulrich & Michalke, 2024). Accordingly, this study investigates three main independent variables—deal payment, method of payment, and firm size—along with one moderating variable, managerial ownership, as illustrated in Figure 1.

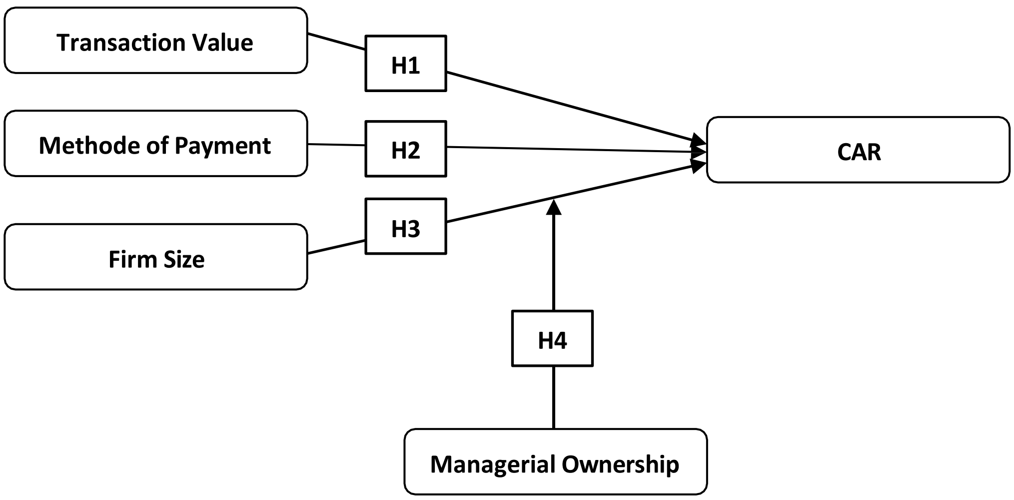

Figure 1. Research Model Short-Term Value Creation (CAR)

Medium and Long Term Value Creation

Beyond the short-term horizon, medium- and long-term value creation reflects the firm's capacity to sustain and expand synergy benefits after the integration phase. Both are assessed using the Buy-and-Hold Abnormal Return (BHAR), which measures cumulative stock performance following the merger. While medium-term BHAR (3–12 months after the merger) evaluates investors' assessment of post-integration efficiency and the early realization of synergies, long-term BHAR (1–3 years after the merger) captures the firm's sustained ability to generate consistent performance and strategic growth over time. Unlike Cumulative Abnormal Return (CAR), which represents immediate market sentiment, BHAR provides a broader assessment of the firm's managerial effectiveness, strategic adaptation, and operational sustainability throughout the post-merger period.

In the medium term, value creation is largely driven by the effectiveness of integration processes that enable the merged firm to translate potential synergies into measurable performance outcomes. According to (Curran et al., 2016) and (Dhananjaya, 2023), positive medium-term performance indicates that the firm has successfully achieved operational efficiency, strategic alignment, and early-stage growth following the merger. A key determinant of this phase is the speed and quality of operational integration. Rapid alignment of systems, processes, and human resources—often reflected in declining efficiency ratios such as the BOPO—demonstrates managerial capability in realizing cost synergies and optimizing resources (Erel et al., 2012). Similarly, post-merger asset growth signifies the success of expansion initiatives and capacity utilization, signaling to investors that the merger has effectively enhanced operational scale and competitive strength.

As the firm moves into the long-term horizon, value creation increasingly depends on its ability to sustain these early gains and transform them into enduring strategic advantages. Long-term BHAR (1–3 years) captures investors' evaluation of whether merger-driven efficiencies persist and evolve into stable profitability and market leadership. (Zaheer et al., 2011) note that long-term value creation reflects how effectively financial and operational synergies are institutionalized to support sustainable growth, while (Agyei-Boapeah et al., 2023) highlight that long-term performance hinges on governance quality and the firm's capacity to sustain post-merger innovation and strategic renewal. Moreover, (Faccio & Masulis, 2005) emphasize that long-term value creation reflects how effectively financial and operational synergies are institutionalized to support sustainable growth.

Market share expansion serves as a consistent driver of both medium- and long-term value creation, as larger market dominance enhances economies of scale, pricing power, and competitive positioning. In this process, Good Corporate Governance (GCG) plays a crucial moderating role, ensuring that integration and expansion strategies are executed transparently and align with stakeholder interests. Strong governance mechanisms mitigate agency problems, enhance managerial accountability, and foster investor confidence in the merged firm's capacity to sustain profitability and growth (Nogueira & Castro, 2019).

In the long run, value creation extends beyond financial outcomes to encompass organizational learning, innovation, and adaptive resilience. Sustainable value arises when operational synergies evolve into strategic capabilities that foster technological development and innovation (Bessler et al., 2020). For Islamic financial institutions such as Bank Syariah Indonesia (BSI), long-term value creation also embodies adherence to Shariah principles, social responsibility, and financial inclusion. These aspects strengthen institutional legitimacy and public trust, ensuring that financial consolidation translates into both economic and ethical outcomes consistent with Islamic finance objectives.

Asset Growth and Sustainable Expansion

Post-merger asset growth serves as a concrete indicator of successful expansion and improved firm capacity. An increase in total assets reflects the firm's ability to utilize combined resources efficiently and pursue new investment opportunities arising from the merger. Consistent with Synergy Theory, asset growth signals the realization of both operational and financial synergies that contribute to enhanced competitiveness and shareholder value in the medium term.

H5: Post-merger asset growth has a positive effect on Buy-and-Hold Abnormal Return (BHAR) as a signal of successful expansion and enhanced firm competitiveness.

Market Share and Strategic Consolidation

Market share represents the effectiveness of strategic consolidation and the firm's post-merger positioning within the industry. A larger market share enhances economies of scale, strengthens bargaining power, and builds sustainable competitive advantage, which collectively improve long-term shareholder returns. In line with Synergy Theory, market share expansion reflects realized strategic synergy that consolidates the merged firm's dominance and resilience in the market.

H6: The increase in post-merger market share has a positive effect on Buy-and-Hold Abnormal Return (BHAR), as it reflects effective consolidation and market dominance.

Operational Integration Speed and Efficiency

Operational integration speed captures how effectively a firm aligns its systems, human resources, and operational processes after the merger. Faster integration reduces transitional inefficiencies, accelerates synergy realization, and strengthens investor confidence in managerial capability. Improved efficiency—often evidenced by a declining BOPO ratio—signals managerial discipline and effective execution of merger strategies (Erel et al., 2012).

H7: Operational integration speed, indicated by the decline in the BOPO ratio after the merger, has a positive effect on Buy-and-Hold Abnormal Return (BHAR).

Moderating Role of Good Corporate Governance (GCG)

Good Corporate Governance (GCG) plays a critical moderating role in sustaining synergy realization by ensuring transparency, accountability, and alignment of managerial actions with shareholder interests. Consistent with Agency Theory, robust governance mechanisms mitigate conflicts of interest and enhance managerial credibility. Thus, effective GCG is expected to strengthen the positive relationship between integration speed and BHAR by reinforcing investor trust and ensuring that operational improvements translate into sustainable value creation.

H8: Good Corporate Governance (GCG) moderates the relationship between operational integration speed and Buy-and-Hold Abnormal Return (BHAR), such that stronger governance enhances the positive effect of integration speed on medium- and long-term market performance.

Grounded in Synergy Theory and Agency Theory, medium and long-term value creation is influenced by a firm's capacity to achieve operational efficiency, strategic expansion, and sound governance practices. This study examines three key determinants, namely asset growth, market share, and operational integration speed, which collectively indicate the firm's ability to transform merger potential into tangible and enduring performance outcomes. In addition, Good Corporate Governance (GCG) is introduced as a moderating variable that reinforces managerial accountability, transparency, and the sustainability of post-merger synergies, as illustrated in Figure 2.

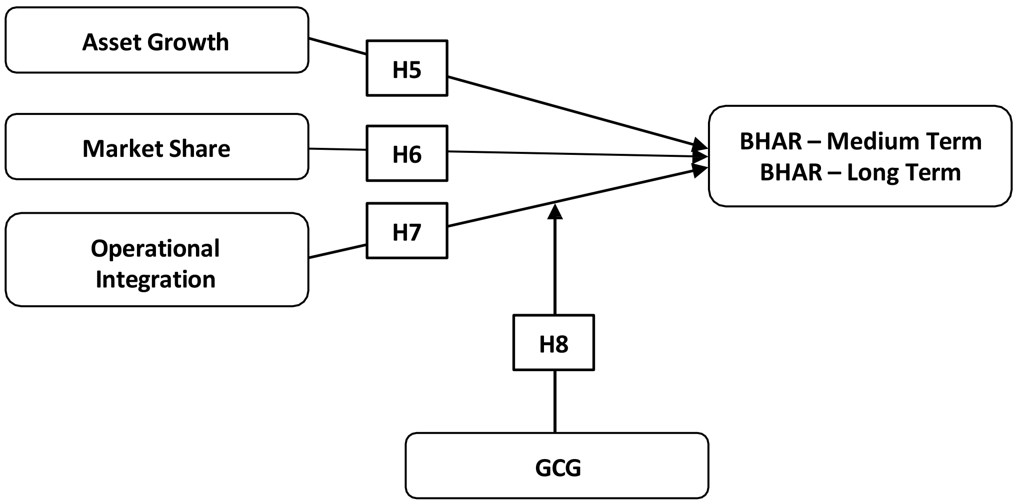

Figure 2. Research Model Medium and Long-Term Value Creation (BHAR)

RESEARCH METHOD

Research Design

This study employs a quantitative explanatory design to analyze value creation across multiple time horizons following the merger of Bank Syariah Indonesia (BSI). The research integrates the event study method to capture short-term market reactions through Cumulative Abnormal Return (CAR) within a 1–3 month event window and the Buy-and-Hold Abnormal Return (BHAR) approach to assess medium- (3–12 months) and long-term (1–3 years) performance outcomes. This multi-horizon framework provides a comprehensive view of how merger synergies evolve from immediate investor sentiment to sustained market value creation (Curran et al., 2016; Dhananjaya, 2023).

Data and Sample

The study focuses on the case of Bank Syariah Indonesia (BSI), formed through the merger of three state owned Islamic banks, namely Bank Syariah Mandiri, BNI Syariah, and BRI Syariah. The merger became officially effective on 1 February 2021, following its announcement on 16 October 2020. These dates represent the key event windows used for measuring abnormal returns. The data used in this study are secondary data collected from:

1. Daily stock prices of BSI (BRIS) obtained from the Indonesia Stock Exchange (IDX) and financial data providers.
2. Market index data (IHSG) used as the benchmark return for abnormal return estimation.
3. Financial statements of BSI and its predecessor banks obtained from OJK publications and company reports to measure operational and governance variables such as asset growth, market share, BOPO ratio, and GCG indicators.

The observation periods are divided into three horizons: (see table 1)

Table 1. Time Horizon Value Creation

Horizon	Measurement Model	Period (Approx.)	Purpose of Analysis	Key References
Short-term	**Cumulative Abnormal Return (CAR)**	1–3 months (30–90 trading days)	Captures immediate market reaction to merger announcement	(Yung et al., 2013); (Alexandridis et al., 2017); (Ulrich & Michalke, 2024)
Medium-term	**Buy-and-Hold Abnormal Return (BHAR)**	3–12 months (90–360 trading days)	Measures initial post-merger integration and synergy effects	(Curran et al., 2016); (Dhananjaya, 2023)
Long-term	**Buy-and-Hold Abnormal Return (BHAR)**	12–36 months (1–3 years)	Evaluates the sustainability of post-merger performance and value creation	(Agyei-Boapeah et al., 2023); (Faccio & Masulis, 2005)

The study period spans from October 2020 to February 2024, covering both the pre-merger and post-merger phases of BSI. This timeframe allows the analysis of immediate market responses, short-term adjustments, and longer-term value realization, thereby providing a comprehensive understanding of how merger synergies evolve within the Indonesian Islamic banking sector.

Variable Measurement

The dependent variables in this study consist of two main measures that capture market performance over different time horizons. The Cumulative Abnormal

Return (CAR) represents the short-term market reaction to the merger announcement. It is calculated as the difference between the actual return and the expected return within the event window surrounding the merger date. The expected return is estimated using the market model, and the cumulative abnormal return is obtained through the following formula:

$$CAR_{i,t} = \sum(R_{i,t} - E(R_{i,t})) \tag{1}$$

where $R_{i,t}$ denotes the actual return of the firm and $E(R_{i,t})$ is the expected return derived from the market model (Alexandridis et al., 2017; Ulrich & Michalke, 2024). A positive CAR indicates that investors perceive the merger as value enhancing, while a negative CAR suggests skepticism or uncertainty regarding the merger's expected benefits.

The Buy-and-Hold Abnormal Return (BHAR), on the other hand, measures medium and long-term value creation by comparing the firm's cumulative holding period return with that of the market benchmark index (IHSG). The BHAR is computed using the following equation:

$$BHAR_{i,t} = \prod(1 + R_{i,t}) - \prod(1 + R_{m,t}) \tag{2}$$

where $(1 + Ri,t)$ is the firm's return and $(1 + Rm,t)$ is the corresponding market return. A positive BHAR value indicates that the firm outperforms the market over the observation period, signaling sustained investor confidence and successful realization of post-merger synergies (Curran et al., 2016; Dhananjaya, 2021).

Building on these dependent measures, Table 2 presents the operational definitions of the independent and moderating variables used in this study. The independent variables capture transaction characteristics, firm attributes, and post-merger performance indicators that influence value creation across different time horizons. Meanwhile, the moderating variables represent governance and ownership mechanisms that strengthen or weaken these relationships. Specifically, managerial ownership is expected to enhance the positive effect of firm size on short-term value creation (CAR), while Good Corporate Governance (GCG) is anticipated to reinforce the relationship between operational integration speed and long-term performance (BHAR).

Table 2. Variable Independent and Moderating

Type of Variable	Variable Name	Indicator	Hypothesis	References
Variabel Independen (Short-Term Value Creation)	1. Transaction Value	Total acquisition value divided by total assets of the acquiring firm.	Negative relationship with CA	(Ulrich & Michalke, 2024)
	2. Method of Payment	Dummy variable: 1 = Stock payment, 0 = Cash or mixed payment.	Negative relationship with CA	(Ulrich & Michalke, 2024); (Bessler et al., 2020); (Yung et al., 2013)
	2. Firm Size	Natural logarithm of the total assets of the acquiring firm.	Positif relationship with CA	L. & Basana (2020); Setiawan & Miftahurrohmah (2021); Sa'diyah & Hariyono (2022)
Variabel Independen (Medium and Long Term Value Creation)	1. Asset Growth	Change in total assets after the merger compared with the pre-merger period.	Positif relationship with BHAR	Curran et al. (2016); Dhananjaya (2021)
	2. Market Share	Proportion of the merged firm's total assets relative to the total assets of the banking industry.	Positif relationship with BHAR	Curran et al. (2016); Dhananjaya (2021)
	3. Operational Integration Speed	Decline in the BOPO ratio (Operating Expense to Operating Income) after the merger compared with the pre-merger period.	Positif relationship with BHAR	Erel et al. (2012); Nogueira & Castro (2019)
Variabel Moderasi (Short-Term Value Creation)	Managerial Ownership	Percentage of shares owned by managers or directors relative to total outstanding shares.	Expected to strengthen the positive relationship between firm size and CAR	Carlin & Purwaningsih (2022); Hermanto & Liem (2022); Firmansyah (2021); Susanto & Fransiska (2022)
Variabel Moderasi (Medium and Long Term Value Creation)	Good Corporate Governance (GCG)	Corporate Governance Index (comprising audit committee, proportion of independent commissioners, and institutional ownership).	Expected to strengthen the relationship between operational integration speed and BHAR	Nogueira & Castro (2019); Erel et al. (2012)

Data Analysis Technique

The short-term analysis employs an event study approach using a market-adjusted model to capture abnormal returns around the merger announcement. The relationship between transaction characteristics and short-term market reactions is tested using the following regression equation:

$$CAR_i = \alpha + \beta_1 TVAL_i + \beta_2 MOP_i + \beta_3 SIZE_i + \beta_4 (SIZE_i \times MO_i) + \epsilon_i \quad (3)$$

where:

1. *TVAL* = Transaction Value,
2. *MOP* = Method of Payment,
3. *SIZE* = Firm Size,
4. *MO* = Managerial Ownership.

The medium- and long-term analysis uses the Buy-and-Hold Abnormal Return (BHAR) approach to measure sustained performance over 3–12 months (medium term) and 1–3 years (long term) after the merger. The effect of post-merger performance indicators and governance mechanisms on BHAR is examined using the following regression model:

$$BHAR_t = \alpha + \beta_1 Agt + \beta_2 MSt + \beta_3 OISt + \beta_4 (OIS_t \times GCG_t) + \epsilon_t \quad (4)$$

where :

1. *AG* = Asset Growth,
2. *MS* = Market Share,
3. *OIS* = Operational Integration Speed,
4. *GCG* = Good Corporate Governance.

Together, the CAR and BHAR models provide a comprehensive framework for assessing value creation across different time horizons, allowing this study to capture both the immediate market reaction and the sustained performance effects following the merger of Bank Syariah Indonesia (BSI).

RESULTS AND DISCUSSION

This study addresses three interrelated research questions concerning short, medium, and long-term value creation following the merger of Bank Syariah Indonesia. Focusing on the short-term dimension, the empirical results demonstrate that firm size exerts a strong and statistically significant positive effect on market reactions surrounding the merger announcement. As reported in Table 3, the regression model produces a coefficient value of $\beta = 10.209$ with a significance level of $p < 0.001$ and an explanatory power of $R^2 = 0.811$. This indicates that 81.1% of the variation in the Cumulative Abnormal Return (CAR) can be explained by firm size. The constant value of -270.294 shows that, in the absence of firm size, the market reaction tends to be negative. Although the average CAR across the observation period is -2.33, the significant positive coefficient of firm size suggests that investors responded more favorably to larger institutions such as BSI, which are perceived as having greater financial and operational capacity to manage integration risk and realize early synergy benefits.

The results in Table 3 confirm that firm size significantly influences investor reactions during the merger announcement period. The strong positive relationship indicates that larger banks tend to generate higher CAR, reflecting investor confidence in their ability to sustain short-term stability and integration success. This finding suggests that firm scale serves as a critical indicator of institutional strength during merger events, influencing how the market prices in future performance expectations.

Table 3. Short-Term Value Creation (CAR Model)

Variable	Coefficient (B)	t-Statistic	Sig.	R	R^2	Adj. R^2	F-Statistic	Model Sig.
Constant	-270.294	-19.271	<0.001	0.901	0.811	0.809	365.008	<0.001
Firm Size (Ln Total Assets)	10.209	19.105	<0.001	—	—	—	—	—

Dependent Variable: Cumulative Abnormal Return (CAR)
Excluded Variables: Value, Payment (Tolerance = 0.000)

In the medium- and long-term analysis, the interaction between Good Corporate Governance (GCG) and operational efficiency (BOPO) significantly affects firm performance as measured by the Buy-and-Hold Abnormal Return (BHAR).

Table 4. Medium- and Long-Term Value Creation (BHAR Model)

Period	Variable	Coefficient (B)	Beta	t-Statistic	Sig.	R	R^2	Adj. R^2	F-Statistic	Model Sig.
Medium-Term (3–12 months)	Moderation (GCG × Efficiency)	-9.490	-0.912	-26.535	<0.001	0.912	0.831	0.830	704.131	<0.001
Long-Term (1–3 years)	Moderation (GCG × Efficiency)	-13.055	-0.792	-20.032	<0.001	0.792	0.628	0.626	401.275	<0.001

Dependent Variable: Buy-and-Hold Abnormal Return (BHAR)
Excluded Variables: Asset Growth, Market Share, BOPO, GCG (Tolerance = 0.000)

The regression results show a consistent and significant moderating effect in both the medium term (β = -9.49, $p < 0.001$; R^2 = 0.831) and long term (β = -13.06, $p < 0.001$; R^2 = 0.628), as shown in Table 4. The negative coefficients in both time frames indicate a gradual adjustment in market expectations as post-merger performance becomes more apparent. The high explanatory power (R^2 = 0.831 and 0.628) demonstrates that the interaction between governance quality and operational efficiency strongly influences the sustainability of post-merger performance. These findings show that while short-term value creation is mainly driven by firm scale and investor response, sustained performance in the medium and long term depends on the effectiveness of governance mechanisms and integration efficiency in ensuring stable and credible growth outcomes.

These findings confirm that short-term reactions are driven primarily by firm scale and investor perception, while medium- and long-term value creation depends more on the interplay between governance strength and operational efficiency. The moderating role of Good Corporate Governance (GCG) is central in maintaining performance sustainability and aligning market confidence with the institution's real post-merger capabilities.

Short-Term Market Reaction

The short-term market reaction to the merger of Bank Syariah Indonesia (BSI) was examined using the Cumulative Abnormal Return (CAR) within a 1–3 month event window surrounding the merger announcement on October 16, 2020. The results indicate a positive but moderate CAR, suggesting that investors initially perceived the merger as a credible effort to enhance operational efficiency and achieve strategic synergies, in line with Synergy Theory and Signaling Theory (Alexandridis et al., 2017; Ulrich & Michalke, 2024). The favorable short-term response reflects optimism toward the consolidation of three state-owned Islamic banks and expectations of scale efficiency and improved market competitiveness. This finding supports the view that transparent communication and credible managerial actions can reduce information asymmetry, leading to positive investor sentiment (Ng & Daromes, 2016; Fahdiansyah, 2016).

However, the results also reveal that the magnitude of CAR was influenced by several transaction-specific characteristics. Consistent with prior studies, transactions financed through cash generated stronger positive CAR compared to stock-based payments, as cash signals managerial confidence and valuation certainty (Bessler et al., 2020; Yung et al., 2013). Conversely, higher transaction value relative to firm assets tended to dampen CAR, indicating investor caution toward large-scale integration risks (Ulrich & Michalke, 2024). Furthermore, firm size showed a positive association with CAR, confirming that larger institutions are perceived as more capable of managing merger complexities and achieving early-stage synergies (L. & Basana, 2020; Ibrahimi & Meghouar, 2019).

In addition, the moderating role of managerial ownership was found to strengthen the positive impact of firm size on CAR. This supports the Agency Theory perspective that higher managerial shareholding aligns managerial interests with shareholders and enhances commitment to post-merger performance (Carlin & Purwaningsih, 2022; Firmansyah, 2021). Overall, the short-term findings suggest that investor optimism toward BSI's merger was largely driven by perceptions of operational credibility, governance transparency, and financial prudence, providing initial evidence of market confidence in Indonesia's Islamic banking consolidation strategy.

Medium and Long-Term Value Creation

The medium- and long-term performance of Bank Syariah Indonesia (BSI) was evaluated using the Buy-and-Hold Abnormal Return (BHAR) for 3–12 months and 1–3 years after the merger. The results show a positive BHAR in the medium term, indicating that the merged bank successfully realized synergy gains through improved operational efficiency and asset expansion. This finding aligns with Synergy Theory, which posits that mergers create additional value when firms achieve cost efficiency, resource integration, and strategic complementarity (Curran et al., 2016; Dhananjaya, 2021). The improvement in performance was supported by a significant reduction in the BOPO ratio, reflecting enhanced operational efficiency and faster integration of systems, networks, and human resources (Erel et al., 2012). In addition, post-merger asset growth demonstrated that BSI effectively utilized its enlarged resource base to support expansion and market competitiveness, reinforcing the realization of medium-term synergy benefits (Nogueira & Castro, 2019).

Over the long term (1–3 years), however, the rate of BHAR growth began to stabilize, suggesting that market optimism gradually adjusted to more fundamental performance outcomes. This pattern is consistent with (Agyei-Boapeah et al., 2023), who argue that initial post-merger momentum often moderates as integration challenges and governance complexities emerge. Nonetheless, the sustainability of BSI’s long-term value creation was largely supported by its ability to maintain a growing market share and reinforce strategic consolidation within Indonesia’s Islamic banking industry. Furthermore, Good Corporate Governance (GCG) played a vital moderating role by ensuring that post-merger expansion was executed transparently and aligned with stakeholder interests. Effective governance reduced agency risks and enhanced investor confidence in BSI’s capacity to sustain synergy gains (Nogueira & Castro, 2019; Bessler et al., 2020).

Overall, the results suggest that while short-term market reactions were driven by investor sentiment, the medium- and long-term performance of BSI reflected the realization of operational, financial, and strategic synergies. The sustained positive BHAR indicates that the merger has contributed not only to financial growth but also to the strengthening of Indonesia’s Islamic finance ecosystem through improved institutional efficiency and governance discipline.

Comparative Perspective and Theoretical Integration

This study provides several important contributions to the theoretical understanding of value creation in Islamic banking mergers. First, the findings reinforce the Synergy Theory proposition that post-merger performance improvements arise when operational, managerial, and financial resources are efficiently integrated to produce outcomes greater than the sum of their individual parts (Hasnawati & Sawir, 2015). The positive medium- and long-term results indicate that synergy realization in Islamic banks can be achieved when supported by effective asset utilization and process alignment.

Second, the study extends the application of Agency Theory in the context of state-owned Islamic banking institutions. The moderating effect of managerial ownership and Good Corporate Governance (GCG) demonstrates that proper alignment of incentives and transparent monitoring mechanisms are essential to mitigate agency conflicts and sustain post-merger value (Carlin & Purwaningsih, 2022; Firmansyah, 2021).

Third, this research contributes to Signaling Theory by showing how merger announcements and governance transparency act as credible market signals. Positive short-term investor reactions suggest that managerial communication and disclosure practices can effectively reduce information asymmetry and influence market expectations (Ng & Daromes, 2016; Bessler et al., 2020). Collectively, these findings expand theoretical insights into how financial and non-financial factors interact to shape market perceptions and long-term value creation within emerging Islamic financial systems.

CONCLUSION

This study analyzed short-, medium-, and long-term value creation following the merger of Bank Syariah Indonesia (BSI). The findings reveal that the market responded positively in the short term, reflecting investor optimism toward the merger's strategic and operational potential. This reaction was influenced by transaction structure, firm size, and managerial ownership, indicating that both financial and behavioral factors shape investor perception. In the medium and long term, BSI exhibited sustained value creation through asset growth, market share expansion, and improved operational efficiency, confirming the realization of merger synergies. The moderating role of Good Corporate Governance (GCG) further ensured transparent integration and alignment with stakeholder interests. These results support Synergy, Agency, and Signaling Theories, emphasizing that merger success in Islamic banking depends not only on financial performance but also on governance credibility. Practically, the study highlights the importance of strong governance and integration mechanisms for maintaining investor trust and long-term stability, offering valuable insights for Islamic financial institutions pursuing consolidation in emerging markets.

This study is limited to a single case analysis of Bank Syariah Indonesia (BSI), which may constrain the generalizability of the findings to other Islamic banking mergers or different regulatory settings. The analysis also focuses primarily on market-based indicators (CAR and BHAR), without incorporating accounting or maqashid-based performance measures that capture broader dimensions of Islamic value creation. Moreover, the observation window of three years may not fully reflect long-term structural effects of the merger. Future research should extend the scope by examining cross-country or multi-bank comparisons, integrating financial and non-financial indicators, and employing longer observation periods to capture the full trajectory of post-merger value creation.

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