

Employee Experience in Mergers & Acquisition Process towards M&A Success: The Case of Maybank Acquisition on Bank International Indonesia

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Abstract

Mergers and acquisition has become one of favorable strategies for companies to grow. It offers the opportunity for companies to grow instantly and the capability to have instant access towards the market in which the acquired company operates. However, many literatures documented few Mergers and Acquisition that actually considered to be successful, and of the argument that causing it was cultural differences between the acquiring and the acquired companies. The acquisition of Maybank on Bank International Indonesia (BII) gave an opportunity to study whether close cultural differences between the acquired and the acquiring companies might produce better results in such acquisition attempt. The aim of this study was to see whether the implementation of good leadership, people management, simplified organization structure, good communication and cultural development activities might enhance successful acquisition. Results indicated that all of those variables were implemented well during the acquisition process except communication.

Keywords: Organisation strategies; Employee behaviour; Mergers and acquisition.



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1. Introduction

Mergers and acquisition has become one of the favorable strategies for companies to grow. It is a mean on how company can instantly expand without the hassle of developing everything internally. The strategy can offer much for companies who adopted it especially in the form of deep market penetration that the acquired company had to offer (Nocke and Whinston, 2013). Aside from having the objective to grow, Mergers & Acquisition was also favorable implemented during financial crisis. Companies, which found themselves to be vulnerable during economic downturn, sometimes opted to merge or acquired another weak companies to make the merged company stronger. This practice was well documented during Asian economic & financial crisis of 1998, where Malaysian financial and banking institutions was told to merge by Malaysian Central Bank, which ended with only nine (9) stronger and more efficient commercial bank in the country (Rasiah *et al.*, 2014).

However, despite all the noble objective that Mergers and Acquisition had to offer, many research found that not all mergers nor acquisition would end up with much stronger nor efficient company. In fact some researchers argued that two out of three mergers and acquisition were failed to enhance shareholders value (Rasiah *et al.*, 2014). Erez-Erin *et al.* (2004) even argued that 50 to 70% of mergers and acquisition were doom to fail. Rasiah *et al.* (2014) argued that one of the most influential factors causing this failure was differences in organizational culture between the acquiring and the acquired firm.

Malayan Banking Berhad or simply called as Maybank was the second largest banking & financial institution group in Malaysia. The company had more than 384 local branches and 190 offshore branches all over Asia. The company in 2008 decided to acquire Bank International Indonesia (BII), which at that time was one of the 10 biggest Commercial Bank in Indonesia. Indonesia and Malaysian has been known for two countries with closely-related shared culture. The Maybank acquisition towards BII gave an opportunity to closely analyze whether acquisition characterized by closely-related (similar) culture were argued to be more successful compared to non-similar culture, as contrary being argued otherwise. Hence the objective of this paper is to analyze whether closely-related shared culture between acquiring and the acquired companies might enhance the success level of mergers and acquisition among related firms.

2. Literature Review

Mergers and acquisition has become one of few strategy of choice for companies who would like to jump start the growing process. The strategy offer an opportunity for companies to grow rapidly and intensely as the acquiring company secured the cash flow of the acquired company as well as the market that they currently served. By doing so, the acquiring company evaded the lengthy process of market development and market penetration with uncertain

results of positive cash flow. This strategy was also favorable from the perspective of financier as the acquired company had already proven track record of good business.

Despite all positive promises that mergers and acquisition offered, there were still many drawbacks on this strategy. Difficulty in integrating the process between acquiring and acquired company, determination of the 'real' value of the company, and fees involved in such process were among the few. There was also no guarantee that merged or acquired company would contribute to the performance increase of the acquiring company or whether such effort would result in the enhancement of shareholders' value (Moin, 2010). In addition, the increase in economics of scale that mergers and acquisition offered might not always be true for some reasons (Rasiah *et al.*, 2014).

Many studies found that the success rate of mergers and acquisition were much less than expected even some scholars argued that more failures than success stories (Brock, 2005; Erez-Erin *et al.*, 2004; Mc Intyre, 2015; Rasiah *et al.*, 2014; Ravenscraft and Scherer, 1989) merely two-third of mergers and acquisition were failed to enhance shareholders' value and performance of the acquired companies were somehow below the target after acquisition being performed (Ravenscraft and Scherer, 1989). Erez-Erin *et al.* (2004) even argued that rate of failure for acquisition reached between 50% to 75%. Research performed by PA Consulting (Mc Intyre, 2015) on 85 cases of global acquisition showed that for the first 11 days after the announcement of acquisition, the shareholders' value of related companies increased on average of 2%. However the shareholders' value experienced a decrease on average of 8% for the next 100 days afterwards. Research performed by KPMG (Brock, 2005; Rasiah *et al.*, 2014) found that 70% cases of mergers & acquisition failed to enhance company's value while 83% failed to increase shareholders' value.

On the other hand, there were also many scholars argued that in fact mergers and acquisition did improve company and shareholders' value. A research performed by Manchester School of Management on 146 CEOs from top-performing British companies found that 63% of those CEOs argued that the acquisition they made were successful and lead them to the next strategic decision to performed another mergers and acquisition (Devine, 2002). Sinha and Gupta (2011) also found that post-merger performance of financial companies involved in mergers and acquisition were improved although the same cannot be said in the aspect of liquidity of those companies.

There were many studies investigating factors contributing to successful mergers and acquisition. One of key factors according to Bruner (2005) was the planning and implementation process. The ability of the acquiring company to make detailed plan and successfully implemented the integration process and avoiding pitfalls during this period was one of key factor for successful mergers and acquisition (Rankine and Howson, 2006). Level of complication in the business model between the acquiring and the acquired companies might also become additional factor that influence success level of mergers and acquisition. The differences of culture between these two companies can be categorized within this factor as well. Dissimilarities of corporate culture practiced by the acquiring and the acquired companies would increase the level of complication hence increasing the rate of failures for such mergers and acquisition being implemented (Bruner, 2005). Many companies believed that the acquired company would be ready by any means to adopt the culture of the acquiring firms. This believe were found to be one of the obstacles in having smooth mergers and acquisition. (Trompenaars and Hampden-Turner, 2004) argued that the culture of the acquiring firm should not be forced into the acquired companies, instead these cultures should mingle freely and merged creatively into another distinctive culture that combined all the positive characteristics of the two previous culture.

Zollo and Singh (2004) argued that knowledge sharing and experience sharing in the form of knowledge transfer from the acquiring towards the acquired companies would enhance success rate of mergers and acquisition. Zollo and Singh (2004) further argued that such form of knowledge sharing would enhance relationship build-up between two companies which in a way can improve 'trust' level as well as injecting the desired corporate values as being planned by the acquiring firm. Another factor that might influence mergers and acquisition success was the level of asset owned by the acquiring company (Rankine and Howson, 2006). They argued that the bigger the asset owned by the acquiring firm would indicate larger resources that could be used by such company to performed and implemented mergers and acquisition. Rankine and Howson (2006) also argued that communication was another important factors in determining mergers and acquisition success. Higher intensity of communication between the acquiring and the acquired companies would indicate larger transfer of information and better level of transparency between the two firms. This might indicate clearer vision, mission and even discussion on intended strategies pursued by these companies.

3. Methodology

This paper evaluates acquisition success through five (5) variables namely leadership, people management, structure, communication and culture, which was developed previously by Zollo and Singh (2004), Rankine and Howson (2006) and Terranova (2007). The variable of leadership was used to measure the intensity of good leadership being performed on the acquired firm, as well as decision making process, delegation process and employee turnover rate after acquisition executed. The variable of people management was used to measure the level of knowledge sharing and knowledge transfer between the acquiring towards the acquired firm. The variable of structure was used to measure how effective the implementation of new organization structure as well as its impact on bureaucracy experienced within the acquired company. The variable of communication was used to measure the intensity of communication and dialogue being performed from the acquiring towards the acquired firm. This include the quantity as well as the quality of the communication and whether it was more towards an open 2-way communication or just a mere direction. The final variable of culture was used to measure changes of personality

being absorbed by the acquired company (includes changes in dress code and working environment), changes of operational characteristic and employee engagement after the acquisition was executed.

This paper took on the approach of qualitative study as it embarks on getting insight on how people (within the acquired firm) feel about the acquisition execution and its aftermath. The new BII-Maybank consisted of 7 departments and each department should be represented in this research. The survey was performed using open-ended qualitative unstructured questionnaire with the objective to gain insight on what the respondents felt and experienced. Samples of 2 respondents were taken from each department except from the department of Human Resources which selected 3 respondents for this study that made the total number of 15 respondents. The respondents were selected based on their long-term tenure in making sure that they had experienced working with acquired company prior and after the acquisition took place.

4. Results

4.1. Comparison of Performance Before and After Acquisition Success on Mergers and Acquisition usually evaluated based on financial performance of the acquired company before and after the acquisition took place. Two financial performance measures, namely Return on Asset and Return on Equity were used to measure the performance of BII Maybank prior and post-acquisition.

Based on data shown below, financial performance of BII-Maybank has shown tremendous growth for the past 8 years ending 2015. Net income has peaked to nearly 5 times before acquisition in 2007, while base of asset also has been growing 300% if compared with the same period. The performance for both Return on Asset and Return on Equity also had doubled during the same period of time. One of the main contributor for Asset growth (according to the interview) was the increase on fixed deposit. This increase had shown tremendous penetration performed by BII-Maybank after acquisition. This asset increase also shown the commitment by the parent company in improving Bank International Indonesia performance during acquisition. These data showed conclusive evidence that Mergers and Acquisition process of BII – Maybank was categorized as successful Mergers & Acquisition.

Table-1. Financial Performance of BII – Maybank prior acquisition

	2015	2014	2013	2012	2011	2010	2009	2008	2007
Nett Income (IDR Bio)	1.545	973	2.218	1.722	985	790	39	637	305
Total Asset (IDR Bio)	157.619	143.365	140.601	115.904	94.919	75.130	60.966	56.868	55.029
Equity (IDR Bio)	15.743	14.495	12.231	9.258	7.954	7.459	5.427	5.061	5.356
ROA (%)	0,98	0,68	1,58	1,49	1,04	1,05	0,06	1,12	0,55
ROE (%)	9,81	6,71	18,13	18,60	12,39	10,59	0,72	12,59	5,69

4.2. The Variable of Leadership

Several indicators were selected to measure the variable of leadership after the acquisition process of BII – Maybank, namely: (1) the level of workload, (2) employee turnover, (3) bureaucracy process in decision making process, (4) speed in decision making, (5) improvement in SOP, and (6) whether leaders did accept subordinate input. Results of the interview had shown that majority of the respondents argued that more workload were assigned to them post-acquisition (70% of respondents), while the rest argued that workload was just the same compared to the period before acquisition. On the perspective of turnover rate, all of respondents argued that they experienced much higher turnover rate after acquisition. This was happened due to higher workload being assigned or perhaps dissatisfaction towards the new management of BII-Maybank. In terms of bureaucracy process, 75% of respondents argued that this perspective were minimized and much more efficient in making decision. Around 70% of respondents were also felt that the speed in decision making process was improved with clearer delegation of job which made jobs better controlled and monitored. Relationship between managers and subordinates were argued to be improved, as 70% of respondents argued that their managers were asking subordinate's opinion in making decision. Finally, in terms of better SOP, all of respondents argued that Standard Operating Procedures were much better post-acquisition of BII-Maybank.

4.3. The Variable of People Management Several indicators were used to measure the variable of people management after the acquisition process of BII-Maybank, especially in terms of (1) skill development, (2) chances to be involved in comparative study, and (3) chances on the job rotation. Results of the interview showed that as many as 87% of the respondents agreed skill and knowledge development of employee were much better in BII-Maybank after acquisition took place. In fact, all respondents agreed that employee had much better chances to develop their skill and knowledge through international comparative study especially to Maybank Malaysia. In terms of job rotation, all respondents were also agreed that they had much better chances to be involved in job rotation after Maybank acquired BII. BII-Maybank implemented an easy-to-use Human Resource & Development system allowing employee to see available vacant position within the company. BII-Maybank also has the policy to offer internal employee first before recruiting external candidate. The implementation of people management system with such openness by BII-Maybank has no doubt to smoothen up the acquisition process.

4.4. The Variable of Organization Structure

Several indicators were selected to measure the variable of organization structure after the acquisition process of BII-Maybank, such as through (1) cross-division working environment, (2) superior-subordinate working distance (gap), and (3) cross-division bureaucracy. Results of the interview showed that 60% of the respondents felt that cross-division working environment were more or less the same as the condition prior to the acquisition and there were no significant difference brought by Maybank acquisition towards BII. However, 73% of the respondents felt that superior-subordinate working distance (gap) were much smaller after acquisition took place. More than one-third of the respondents felt that discussions involving different level of management run smoothly without the feeling of seniority being experienced significantly. In fact, all respondents felt that cross-division bureaucracy were much improved and significantly simplified after Maybank acquisition of BII. Clear level of decision making were much improved causing faster decision making were able to be performed. In addition Maybank also performed 'rightsizing' by making smaller number of employees within certain business units with clearer job description and responsibility which in turn produce much efficient and effective job process.

4.5. The Variable of Communication

Several indicators were selected to measure the variable of communication after acquisition took place and comparing it with the condition prior to the acquisition. These indicators, namely (1) communication style, (2) the communication of vision and mission statement, (3) the communication on acquisition process and implementation, and (4) the intensity and frequency of communication performed during acquisition process, were asked to the respondents to evaluate the level of communication performed during acquisition. As many as 67% of respondents felt that communication style exercised by Maybank after acquisition were not significantly different than the communication style performed by BII prior to the acquisition. As many as 60% of respondents also felt that Maybank did not communicate their vision and mission statement well enough during the acquisition process. Many did not aware of Maybank Indonesia vision and mission statement during acquisition although many of them aware that acquisition were taken place. On the question whether Maybank implemented good communication on the company intention during acquisition, the results were somewhat inconclusive. Only 13% of respondents felt that Maybank did an excellent job of communication during acquisition process, while another 30% felt that communication were performed sufficiently. As many as 57% of respondents felt that Maybank did not do a good job in communicating the company intent during acquisition process of BII. In terms of intensity and frequency of communication performed by Maybank during acquisition process, only 30% of respondents felt that the intensity & frequency of communication were sufficient. As many as 70% of respondents felt that the intensity & frequency of communication shown by Maybank towards BII employees were pretty bad during acquisition process. Few comments even showed that the communication were pretty much lacking with no guidance whatsoever on the direction of the company.

5. Conclusion

The objective of this paper was to analyze whether closely-related shared culture between acquiring and the acquired companies might enhance the success level of mergers and acquisition among related firms. The case of Maybank acquisition towards Bank International Indonesia (BII) was the focus of this study due to the characteristic of both company which argued to have a shared closely-related cultures. Several variables were studied qualitatively namely (1) the variable of Leadership, (2) the variable of people management, (3) the variable of organization structure, and (4) the variable of communication. Results showed that almost all of those variable mentioned above were implemented well by Maybank during acquisition process except communication. Maybank acquisition towards BII considered to be successful as the acquired company asset was improved three folds while the net income increase as much as five times after the acquisition took place. This study managed to shed some light in the literature of Mergers and Acquisition especially on the perspective of implementation.

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