



A Study on the Merger and Acquisition of Goliath Bank and David Bank Strategizing Pay-to-Stay Approach and Internal Communication

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Abstract. Merger and acquisition have seemed to be a generally-accepted and expected business strategy for any firm to grow. It does offer a compelling potential for exponential business growth and ROI to the shareholders. It is interesting that up to 70% of the global merger and acquisitions failed miserably. The million-dollar investment that the management and shareholders expected to be returned positively, turns out, even in some cases, to be a huge cost and an apparent value-destroying decision. HR management issues are mostly the cause behind these failures, starting from as simple as misinformation to as profound as cultural integration failure. This case study investigated the strategies and implementation of compensation, talent placement, and internal communication in a merger and acquisition case of two multinational banks in Indonesia, and the case was dated back in 2018. To obtain valuable information and a better understanding of the overall picture of strategic planning, implementation, and best methods, triangulation was used in this study. This study solely used interviews for data collection methods and has conducted fifteen interviews clustered into three main categories- migrated employees, change agents, and consultants. The result of this study showed that these variables should not be left ignored, as it happened in many M&A cases. Not to mention that these variables are apparently the main component of how well M&A companies could be able to shift into full speed on productivity level after the integration process.

Keywords: Case study · banking · Indonesia · internal communication · merger and acquisition · pay-to-stay

1 Introduction

All firms are continuously seeking the opportunity for business expansion and strengthening their foothold on the competition, and one of the strategies that creates exponential growth is through merger and acquisition (M&A). In Indonesia alone, KPPU, the Indonesian Commission for the Supervision of Business Competition, recorded as many as 195 cases of M&A reported in Indonesia in 2020, which is a significant increase of 62.5% from 2019 [1].

1.1 Rising Trend of M&A in the Indonesian Banking Sector

In recent years, the Indonesian banking sector has become a target for investment by domestic and foreign corporations due to the high potential for market penetration, as well as the positive trend of very promising digitalization in Indonesia. The compelling potential not only lies on the big banks, but also small and medium banks. On top of that, the OJK, the Indonesian Financial Services Authority, had envisioned to strengthen the domestic banking industry through OJK Regulation. Soon enough, numerous banks had taken the corporate steps of M&A to strengthen their foothold, and even non-financial corporations seemed to have taken their interest to jump into the banking industry.

1.2 The Failure-Prone Nature of M&A

M&A has undeniably seemed to be a generally-accepted method of exponential business growth. Although M&A is a prominent business development strategy, they often fail to produce the desired results. M&As represent complex change environments, with risky and opportunistic M&As breeding uncertainty and having high failure rates [2], yet so popular even in times of global recession, they remain established tools of corporate strategy [3]. It was noted that 80% of the global M&A transactions had failed to produce the expected output to be contributed to the shareholders [4].

1.3 Talent Retention on M&A

In a survey done to US companies in 2017, most of the failed M&A transactions were reported due to mismanagement of HR aspects [5]. This should be a stern warning to companies because one of the reasons for M&A is synergy in the human resources aspect. The idea is to make sure that the diversity of employees could lead to the maximization of value-creation activities. Hence, talent retention strategies are as important as it is to other change management corporate agendas [6].

However, it is undeniable that the nature of change management is challenging the status quo of the existing structure, values and beliefs, processes, and chemistry, so it is very common for the employees to exhibit the natural behaviors of feeling insecure, showing resistance and also resignation [7].

1.4 Pay-to-Stay Strategies

In order to ensure the retention of employees who are undergoing the M&A process, companies have provided sets of benefits and compensation packages to employees involved in the integration process [8].

Financial benefits, as opposed to non-financial benefits, are the most effective tool for ensuring employees' commitment and ownership because employees are willing to go off their comfort zones when they are being well-compensated [9]. According to the study done by Willis-Towers Watson, 84% of the companies that underwent M&A in 2020 used pay-to-stay approaches as the most important aspect in designing their talent retention strategy [10].

1.5 Internal Communication Strategies

As M&A challenges certainty, employees might have to deal with the insecurities which are produced by the lack of understanding, uncertain information, and under-communication scenarios [11]. This has made the communication strategies of the company should not be undermined and prioritized instead. The communication strategies are contributing to the success on the integration process of M&A by ensuring the employees are committed and willing to be involved in the large-scale change management process such as M&A [12].

This was also an action plan to avoid turnovers caused by under-communication. In fact, many of the employees who are under a significant amount of duress have a natural tendency to resign even more. This tendency was said to be a result of the uncertain nature of change management and later creates discomfort [13]. Moreover, based on a survey done to 60 failed M&A transactions in Germany in 2010, 45% of the employees said that the corporate communication to the M&A-involved employees back then was largely under-communicated regarding the undergoing change [14].

The facts above have driven this research, which will unravel the talent retention strategies of pay-to-stay and internal communication designed and implemented in the case of the Indonesian M&A of Goliath and David banks back in 2018, which is one of the big calibers of banks in Asia and Australia respectively. The acquisition of David Bank was initially done by Goliath bank to grow their retail business by taking over the whole consumer banking unit of David Bank. More than 1500 employees of David Bank are involved in the process of employee movement.

1.6 Literature Review

Talent Retention on M&A

The most expected output of M&A is synergy [15], and one of the expected synergies is people. Therefore, as companies that undergo M&A intend to be able to increase the quality of talents by successfully integrating both workforces, talent retention is required to be well-planned and well-executed [16]. Chao also mentioned that the most effective steps in strategizing talent retention are first, to determine who is retained, as during this hardship of times, top performers are being hunted by other companies. Next, to determine how much incentive to be offered, as this short-term motivation to commit is the most considered aspect of not moving. Lastly, to execute and monitor, an assessment needs to be done to measure the success rate of the approach.

Pay-to-Stay Approach in Talent Retention on M&A

This approach can take many forms but their main purpose is to create a guaranteed compensation that operates as an incentive for an employer to retain key employees during financially difficult times. M&A certainly requires certain strategies to be offered to the employees who are under duress and faced with uncertainties ahead of them [17], especially those who are not in the executives' seats because they are key to the business growth, and these talents are on the other end of the companies, meeting customers, finding ways to generate sales and the largest contributors to the sales [18]. These managers, supervisors, and front liners will have to be compensated well enough to ensure

their loyalty to the company, and maybe more than that, to ensure their commitment to involve further work on the employee integration process of M&A, they need to be well-incentivized.

Internal Communication in Talent Retention on M&A

M&A-wise, internal communication needs to be done one-way and two-way, when sequentially implemented perfectly, the sense of uncertainty will be minimized, involvement will be effectively increased, and talents might be retained [19]. In order to ensure the understanding and commitment of the employees, the implementation of corporate communication strategies in M&A should be implemented as follow. First is the awareness phase, the first communication is planned to create symmetrical information among all stakeholders, which is done massively via town hall, email blast, or newsletter.

The second is the understanding phase. Communication is placed to minimize the insecurities of the employees by creating a two-way forum to obtain glimpses of concerns from employees, and this is usually done through a workshop, mini sessions, usage of change agents, and personal letters or emails. The last is the commitment phase where the communication method is designed to ensure vision understanding, education, and creating new behaviors, which usually takes place in workshops, newsletters, and training.

2 Methods

This study applied a qualitative research method. The method was chosen as means of finding specified issues that form the conceptualization and establishment of understanding on how the talent retention efforts were being designed and executed, moreover, qualitative studies allow for in-depth understanding when investigating process-related issues [20]. Interviews were the sole source of primary data for this research. Articles, press releases, and news were the sources of secondary data. Based on the interview and data collection results, the researcher sought for facts regarding the M&A of Goliath and David. These interviews were held ten times with ten different informants from October to January 2022.

The questions were asked using an unsystematic interview with question guidelines to ensure that no inquiries are left unasked. Interviews were recorded, written on short notes, and later summarized for further analysis. The primary data have been analyzed for preparing this paper extensively. Table 1 shows the list of informants.

The data were analyzed through the qualitative approach based on theory as suggested by Creswell [21]. The study began with interviewing all the informants and followed by three stages, 1) Data reduction, finding the residual idea from the interview transcript by summarizing keywords and the nature of each opinion exhibited by the informants, 2) Coding, categorizing each keyword to a bigger idea, usually according to the research question, 3) Data display, an informative flowchart or mind map was generated to gain the understanding, and 4) Data drawing and verification, the interview results were analyzed through the suitable method based on the projection of the problems implication result.

Table 1. List of Informants

Category	Informants	Profile		
		Level	Service Length	Work Experience
Migrated Employees (K)	K1	Manager	8 Years	15 Years
	K2	Supervisor	10 Years	15 Years
	K3	Supervisor	3 Years	5 Years
	K4	Manager	3 Years	8 Years
	K5	General Manager	4 Years	6 Years
Task Force Team (T)	T1	General Manager	5 Years	8 Years
	T2	Assistant Vice President	6 Years	10 Years
Consultants (P)	P1	Consultant	3 Years	3 Years
	P2	Senior Consultant	4 Years	5 Years
	P3	Manager	6 Years	10 Years

3 Results and Discussion

3.1 Pay-to-Stay Strategies

There are three main components found in the pay-to-stay strategy to ensure talent retention in the M&A of these two banks; severance pay, bonuses, and salary increases.

Severance Pay

It was found that giving out severance pay to migrating employees is a form of compliance with government regulations regulated by law by the Ministry of Manpower. The law has also determined the formula for the amount of compensation that must be received by migrating employees due to M&A, the calculation is as follows:

$$(2n + 1(= 1)) \times 15\% \tag{1}$$

n: Years of Service

(+1): Bonus to employees with more than 3 years length of service

15%: Compensating gap in benefits

Although the formula has been regulated, severance pay has been categorized as an effort to retain talent because of the bonus component given to employees in the severance pay formulation, and this is a reflection of appreciation for David Bank employees who have loyally worked for a certain time. This company’s discretion is one of the factors that should be appreciated by migrating employees because, in addition to increasing income for employees, it must also be perceived as a complementary aspect of the form

of recognition given by the company for the dedication that has been given in addition to the bonus component in talent retention efforts.

Bonus

Bonuses are one of the components that reward employees who stay after integration. Based on the results of interviews with several sources from the category of migrated employees and the task force team, bonuses were given to all David Bank employees equally as an effort to retain talent, which was done to minimize the potential for high turnover rates after integration. In planning the bonus strategy, the amount offered was an average of one salary and given to employees who lasted for 6 months. In addition, the bonus package for employees was given differently based on level and performance. Employees with higher levels were given bonus offers because employees with higher positions had higher levels of competence and knowledge, so they were sought to be retained. Employees who were considered high performers and high potential were also given higher bonuses because they were expected to be the main source of the success of the expected people synergy.

The practice of giving bonuses has indeed become a common practice for companies that go through M&A in order to retain their talents and prevent them from moving to competing companies or other companies. Different companies, of course, have different requirements and amounts, depending on the company's goals and ability to provide bonuses to its employees. However, bonuses generally must be balanced and supported by other talent retention efforts to ensure the achievement of the main goal of talent retention. It is known that the provision of financial benefits, in this case, bonuses, is only a short-term stimulus. The implication is that even though the employee has been given a bonus, the employee still feels that there are other things that are considered more important to be fulfilled. For example, employees who need to fulfill the work comfort factor, if given this bonus, will continue to have a tendency to fulfill their priorities and will continue to be willing to change companies when their priorities have not been met.

Hence, when a bonus is supported by other aspects, then talent retention efforts can be maximized and will reduce the turnover rate and attrition rate.

Salary Increase

Another component in the effort to retain talent in the M&A of these two banks is an increase in salary. Based on the results of interviews that have been conducted with migrating employees and the task force team, all migrating employees were given a salary increase without exception. As mentioned by the task force team, this strategy was aimed at ensuring the retention of migrating employees and reducing the turnover rate through the provision of long-term stimulus.

In planning a salary increase, the task force team received assistance from the HR department of both banks and this planning has also gone through a fairly long process. The process went through several stages, including determining the recipient of the salary increase and its amount.

In the stage of determining the recipient of a salary increase, it was stated that the higher the level of employees will receive a higher percentage increase in salary, this is due to the expectation of more effective talent retention at the managerial level. The

salary increase is still within the Goliath Bank salary range scale, and this is related to the next stage, namely determining the amount of the salary increase.

This salary increase is common to be implemented in any company that undergoes management changes, but to determine the amount of the salary increase, based on consultant sources, it was known that there was no standard because the amount of salary increase was a form of appreciation and discretion of the company concerned. However, salary increases should be an absolute thing in order to ensure the expected talent retention efforts. The amount of salary increase must also be determined based on the company's financial ability to be able to implement this for all related employees.

3.2 Internal Communication Strategies

The series of stages in this internal communication are perceived by the migrated employees as very satisfying because they are considered to be able to anticipate the various questions and concerns that the migrated employees have, which at the time of employee integration is collectively felt by the employees of David Bank. Based on the results of interviews with several informants from migrating employees and the task force team, it was found that the internal communication strategy was carried out in a very structured manner to provide comfort for employees in going through the integration process of these two companies. This series consisting of two main stages were carried out to ensure internal communication runs smoothly and according to plan. The sequence carried out is as follows:

Townhall Meeting

This meeting is the first official meeting between David Bank employees and Goliath Bank management, as well as being a means of information about the acquisition and integration that will be carried out. This meeting was intended to provide an introduction to Goliath Bank, the vision and mission of this acquisition, as well as to inform the next series of communications and forums that would be held to ensure a smooth integration.

The townhall meeting was organized by the task force team from the process of transferring employees from these two banks, HR teams from both banks, and several executives from both banks, which was also attended by the CEO of Bank Goliath's head office in Singapore. The one-way meeting became a means designed to communicate the acquisitions to be made and announcements regarding the timeline for the employee transfer process that will be experienced by all David Bank employees. The meeting was opened with the announcement of the acquisition that would be carried out by Goliath Bank to David Bank, introductions regarding the history, vision and mission of Goliath Bank, expectations for the M&A that would be carried out, as well as notification of the next series that must be passed by David Bank employees.

This meeting is a crucial stage of a communication process in a change, where migrating employees will go through a series of quite essential change processes, considering several aspects that have been carried out for some time such as culture, workflow, systems, and other things to be changed according to the company. The transformation that will be passed is not a quick process since there is an adaptation process that employees must also go through. With the clarity of the process, and then the sense that the

executives are also directly involved in the employee transfer process, this can provide optimism, confidence level, as well as security and comfort for David Bank employees.

Discussion Sessions

After the townhall meeting, the task force team held several discussion sessions with a smaller audience, which were carried out per sub-unit. In this session which was divided into several meetings, communication was expected to be more two-way, where migrating employees were expected to provide input, and aspirations and express concerns related to the integration process. The task force team hoped that input from employees involved in the transfer was important, on the one hand, this can provide benefits for Goliath Bank to get a point of view of all forms of needs for migrated employees to ensure the smoothness of this transfer process, and on the one hand, this process can also provide a sense of security, reduce the impact of anxiety, and increase the sense of belonging of the migrated employees to the process of transferring employees of David Bank to Goliath Bank.

It was found that there were several things that became the main concerns of migrating employees, including the provision of severance pay, uncertainty, future roles, future salaries, differences in health benefits, ongoing housing loan programs, new bosses in the future, and different cultures. The discussion session held by Goliath Bank was then aimed at this discussion session being directed to provide clarity regarding the concerns of migrating employees as mentioned above. The high level of empathy in the internal communication strategy carried out by Goliath Bank is a differentiator from M&A cases in general because the management of Bank Goliath has high hopes for smoothing the course of this change for the perfection of the HR synergy process from this M&A through talent retention efforts. Although there was no measurable monitoring or control by Goliath Bank to ensure that this had an effective impact on talent retention, based on interviews with interviewees of migrating employees, it was found that the majority of migrating employees were satisfied with the implementation of the internal communication series carried out.

In general, the communication process for a change must meet the awareness stage first to inform the changes that will be made by the company to the stakeholders of the change itself, then the stakeholders must go through an understanding process where the communication process will be two-way and requires open-mindedness from both parties. The next process is to ensure commitment and reinforcement, where stakeholders involved will get the right stimulus to participate in the change process. The criteria for the ideal internal communication process are carried out in the change process and in this case, the M&A has been partially carried out by Goliath Bank, which is reflected in the research findings in interviewing migrating employees, which received positive reactions and the perception that the planning and implementation of the strategic internal communication provided comfort, security and as needed by employees.

3.3 Other Findings

Based on the results of interviews conducted with resource persons for the category of migrating employees, this study captured several points outside the variables that were the focus of this research. It was considered that the issues need to be disclosed

and related to the research focus to help analyze and ultimately form conclusions and suggestions that are more actual with the facts found.

The issues mentioned by the interviewees occurred sometime after the integration was carried out and when employees migrated through an adjustment period to become employees of Goliath Bank. These issues include Goliath Bank employee disclosure and cultural differences, employee misplacement, and salary gap.

The three issues found were based on the results of the analysis that had the same impact, namely the occurrence of massive turnover that occurs one to two years after the effective date. After the exit interview of the migrating employees who resigned, it was found that the lack of comfort was caused by the lack of intervention by Goliath Bank after the effective date. Control and measurement of talent retention efforts were also not implemented properly, so the effectiveness of the planned strategy was not sustainable.

4 Conclusions

It is important for companies that will conduct M&A to ensure that employees who are included in the employee transfer process stay in the new company, this is because one of the driving factors for M&A is synergy, and one of the synergies is HR synergy. The pay-to-stay strategy is the company's tactic to attract commitment from the migrating employees to stay at the company, and the internal communication strategy is also one of the efforts to make the migrating employees feel involved, comfortable, and away from anxiety.

Change in any form is synonymous with insecurities, discomfort, and anxiety. This is because a change must be against the beliefs, behavior, and work patterns that have been built up by employees because essentially, the change is a movement from one point of a comfort zone to another that gives uncertainty. This leads to potential resistance and resignation from the employees involved. For this reason, the company should provide talent retention efforts for each individual involved in the change process.

In addition, it is undeniable that M&A is a very high-cost business strategy. Starting from the value of the acquisition itself, compensation for migrating employees to hidden costs will arise in the middle of the employee transfer process. Thus, the risks that can damage the value-creation efforts and HR synergy must be highly anticipated, such as failures in the employee integration process. Indeed, this process has the potential to become a very significant source of loss if not handled very carefully. In this case, talents that are expected to have a positive impact on the company can easily move to other companies if there is mismanagement, and recruiting other talents costs a lot of money. For this reason, companies need to ensure that there is another support from strategies that can have a long-term effect on the M&A that will be carried out because the integration process ideally does not revolve around the area that is the focus of this research but also includes deeper variables such as cultural integration.

In this M&A, it can be learned that the lack of support from efforts to retain talent after the long-term employee transfer process causes costs, and efforts to prioritize employee comfort and welfare that have been previously planned and harmonized in such a way can potentially be wasted. In fact, the occurrence of mass resignations like what happened in this M&A can really thwart the HR synergy expected from this M&A because by losing

talent due to resignations, the company's investments that have been made to employees are in vain. Although this issue has been mitigated by anticipatory efforts in the form of maximizing knowledge transfer, the cost of recruiting new employees certainly requires a large amount of money, especially with the number of employees who have resigned, creating an urgency for massive hiring.

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