
**TRANSITION OF MERGERS AND EMPLOYEE BEHAVIOR: A LATEST OVERVIEW
OF SHARIA BANKING ORGANIZATIONS**

By

Fitri Purnamasari¹⁾, Hanjar Ikrima Nanda²⁾, Gusti B'tari Artichah³⁾, Gracia Angelina**Nawang Wulan⁴⁾, Mohd. Rizal Palil⁵⁾**^{1,2,3,4)} **Malang State University, Indonesia**⁵⁾ **Universiti Kebangsaan Malaysia, Malaysia**Email: fitri.purnamasari.fe@um.ac.id**Abstract**

Various kinds of strategies tend to be carried out by business people in order to maintain their business while strengthening their position among other competitors, such as carrying out strategies in the form of business combinations or mergers. However, often the merger strategy also has an impact on the internal parties of the entities that do it. This study seeks to dig deeper into the perspectives and views of employees affected by the merger, especially employees of Islamic banking entities. The research was conducted using qualitative methods. Data were collected from a number of direct and indirect interviews (through open-questionnaire) on eight employees from upper management and lower management at Bank Syariah X in Malang City. Overall, employees can be said to respond positively to the merger in Islamic banking, although there are some negative things related to welfare that they are worried about.

Keywords: Merger, Employee Behavior, Organizational Culture, Banking**INTRODUCTION**

The development of the business world consistently shows improvement and continues to strive to generate economic added value for the entity and its stakeholders. Both internal and external strategies are prepared to strengthen its position in the midst of increasingly competitive business competition (Ika & Amalia, 2014). Companies can implement internal strategies such as improving performance and product diversification or external strategies in the form of business combinations or better known as mergers. In Indonesia, several companies have merged, such as PT Ciputra Development Tbk. in 2017. The merger was intended to strengthen the synergy between subsidiaries in order to strengthen PT Ciputra's position in the midst of increasingly fierce property company competition (Hartono & Widjojo, 2018). This is in line with the results of research by Rani et al., (2016) who conducted a survey of merger motives by companies in India. The results of the study revealed that the main motive for

companies to merge is synergy, followed by motives to increase profitability and expand market share.

According to Law Number 40 of 2007 concerning Limited Liability Companies Article 1 No.9 it has been explained that a merger or business combination is a legal act carried out by a company or more to merge with another company which results in the legal transfer of assets and liabilities. Mergers are considered to play an important role in the company's external expansion, which is restructuring and even becomes the company's control strategy. As in the research of Piesse et al., (2013) stated that mergers have a positive impact on companies because they are considered to be able to increase growth, management performance, productivity, to profitability. In the banking sector, mergers do not have a significant effect on financial ratios or performance (Fatima & Shehzad, 2014; Kemal, 2011; Kouser & Saba, 2011). However, mergers for banks are used as a strategy to increase the capital adequacy

ratio to meet the regulations set by Bank Indonesia (Hakim, 2015).

The integration generated by the merger requires adjustments from management lines, operations, and even employee work systems. Research conducted by Lawlor (2013) states that employees affected by the merger generally feel worried about their status in the company after the merger. Employees will be emotionally disturbed because of the company's lack of response in providing socialization about the new work environment, roles and responsibilities. In this case, the company should be able to provide a quick response regarding the clarity of employee status so that it can provide peace and satisfaction for employees. In addition, post-merger restructuring is needed which is intended to rearrange the organization within the company so that it can adapt to environmental changes and improve the company's operational activities (Soegiono & Soetanto, 2013).

The purpose of this study is to dig deeper into the perspectives and views of employees affected by the merger. The implementation of a merger in the midst of the current *COVID-19* pandemic is certainly a problem for employees. On the other hand, employees in the banking sector have different levels of knowledge, education and backgrounds. Therefore, this research is important to be carried out in order to be able to open up employees' insight about the merger process that occurs in the agency where they work.

Several previous studies have attempted to explain the impact of mergers on financial performance (Ahmed & Ahmed, 2014; Phukon et al., 2019), stock prices (Rahman et al., 2018), and company profitability (Yusuf, 2016). Therefore, this study wants to know the impact of the merger from the employee's point of view. The research will later photograph the most recent and in-depth conditions regarding the relationship between the impact of the merger

process on employees in the banking sector, especially Islamic banking in Indonesia.

LITERATURE REVIEW

a. Merger

According to Law Number 40 of 2007 concerning Limited Liability Companies Article 1 No.9 states that a merger or business combination is a legal act carried out by a company or more to merge with another company which results in the legal transfer of assets and liabilities. Specifically a merger is a combination of two or more companies where only one company survives while the other is no longer operating. The company's background in conducting a merger is based on several factors, including: increasing liquidity from owners, increasing funds, increasing growth, improving management skills and supporting tax considerations (Hanafih, 2010: 68).

Merger is a form of external business expansion. According to (Ahdizia et al., 2018), company merger activities are expected to obtain several benefits, including: (1) creating synergies, (2) increasing market share, (3) product diversification, (4) increasing revenue, (5) reducing costs, (7) raising funds, (8) acquiring products or technology, (9) tax considerations, (10) increasing core business by expanding the most competitive areas, (11) gaining positions in other countries and achieving competitive size. Mergers tend to be carried out on companies that have similar products to complement each other. In addition, the company intends to create higher added value and strengthen its position in the midst of similar industry competition.

From 2001 to the end of December 2019, there were 19 merger activities in the banking sector (Kayo, 2020). Merger activities can interpret all banking sectors

so that they are more competitive and efficient. According to (Ahdizia et al., 2018), a study shows that Islamic banking mergers have two main reasons. First, the achievement of economies of scale caused by the increased synergy between Islamic banks involved in the merger. Second, merger activities can change the market structure which can affect the profitability of Islamic banks. Mergers can have a significant impact for Islamic banks to be able to grow quickly and provide benefits because they can create economies of scale or scope. Thus, the company can have better access to the capital market to lower the cost of capital for its financial benefits. Merger activities in banks are considered to be more focused on macroeconomic order than microeconomics.

b. Islamic Bank

Syariah bank is a financial institution that carries out banking activities based on Islamic law. According to Law Number 21 of 2008 concerning Islamic Banking. Sharia bank is a bank that carries out business activities based on sharia principles, according to its type consisting of sharia commercial banks and sharia people's financing banks. The purpose of Islamic banking is to support national development to improve togetherness, justice and the achievement of equitable people's welfare.

Based on the OJK (2017), Islamic banks have several functions, including: (1) Islamic banks and sharia laws have the obligation to channel and collect public funds, (2) Islamic banks and sharia laws can form *baitul mal* institutions to carry out social functions, (3) Islamic banks and sharia law can collect social funds and distribute them to waqf managers at the will of the wakif. The characteristics of Islamic banks are based on the principle of profit sharing so that they can provide benefits for the banking sector and the community, and can improve aspects of

justice in investment ethics, transactions, brotherhood values and togetherness in production. Activities in Islamic banking can avoid speculative activities in transactions. Islamic banks play an important role in improving the national economy through various contracts from Islamic banks to be able to reach the real sector directly.

Islamic banks have great potential with the majority of the Indonesian population being Muslim. Based on data from *Global Religious Future (2020)* the number of Muslim population in Indonesia in 2020 is 87% or as many as 229 million people. To improve the development of Islamic banking in Indonesia, the government set a policy to merge into Bank Syariah Indonesia (BSI). The merged sharia bank is here with the aim of providing more convenience for the community, and banks can increase their *market share* .

c. Employee Behavior

Employee performance behavior is every individual who shows himself and his attitude in the work environment (Robbins, 2002:37). In general, employee performance has an interrelated relationship with the success of the company's performance. So the company must be able to make efficient and effective management to understand the performance of employees. Companies that have more job satisfaction tend to be more effective. According to Robbins (2002: 39) employee performance analysis consists of several things, including: initiative, cooperation, quality of work, quantity of work and personal quality of employees.

Merger activities in companies have an effect on labor aspects related to the status of employment relationships and work agreements. Mergers have an impact on employees both materially and non-materially due to changes in the leadership structure and employment

relationship status, so that if there is a decline after the merger, it can lead to downsizing of employees in a company. Bank employees can receive legal protection as a result of the merger through banking policies, namely supervision and restrictions on certain actions based on the approval of the original bank to anticipate losses from banking individuals.

RESEARCH METHODS

This study uses an interpretive paradigm with a qualitative approach. Qualitative research indicates that each object of research will be seen in terms of thought patterns, tendencies, irregularities and behavioral displays as well as their integrity in case studies (Muhadjir, 1996: 243). While the use of the interpretive paradigm is used to obtain an analysis of social and cultural events based on the experiences and perspectives of the individuals studied (Muslim, 2016). The use of the interpretive paradigm because the researcher wants to know the point of view of employees in the banking sector as a result of the merger of Islamic banks.

The data collection technique in this study used a questionnaire containing questions about the impact of the merger of Islamic banks based on the perspective of banking employees. The questionnaire given is an *open questionnaire* so that it requires answers from the thoughts of the respondents without any choices provided by the researcher. It is intended that respondents can explore answers based on personal opinions and thoughts. In addition to questionnaires, data collection also uses interview techniques to find out information from respondents accurately. The parties who were used as resource persons were eight employees from upper management and lower management at Bank Syariah X in Malang City.

This research was carried out in 2021 and was carried out for approximately five months. Data collection was carried out online

taking into account the COVID-19 pandemic conditions which limited movement and direct interaction between researchers and respondents. Even so, data collection is still carried out systematically to obtain the information needed to support research.

RESULTS AND DISCUSSION

A. Impact of the Merger Process on Organizational Culture in Agencies

Respondents stated that the merger process had an impact on changes in organizational culture in the agency. As a result of the unification of three companies with three different cultures, the new company needs to make adjustments by establishing new policies and management. This is based on the opinion of one respondent of a sharia banking employee who conducted a merger conveying the impact of the merger process on the organizational culture of the new agency:

"There was a *culture shock* with the work system from the previous *legacy* with the new one, and we are required to be able to understand new products quickly." (Respondent-KR, 28 July 2021).

In general, the organizational culture of the post-merger agency creates a new rule based on the new management decree. This requires employees to quickly adapt and understand new products after the merger. In this way, employees affected by the merger are vulnerable to experiencing *culture shock* due to the new work system. In this case, the company is expected to be able to properly handle the problems that arise after the merger. Problems experienced by employees must be considered and responded to properly to improve employee performance.

The culture that comes after the merger is generally a collaboration of the culture of the agency that carried out the merger. However, there is a phenomenon

encountered by one of the employees who stated in his interview:

“Organizational culture is experiencing a difference where the one used now tends to use the organizational culture of one of the banks that dominates” (Respondent-IFS, 15 September 2021).

Organizational culture after the merger process more specifically will tend to set the basis for the organizational culture of one of the companies that dominates. On the other hand, companies with a less dominating proportion of ownership must follow the organizational culture of the more dominating company, but the new organizational culture will still be adapted to conditions and needs after the merger of three Islamic banks. So that there will be a new organizational culture adjustment for the employees of the three Islamic banks after the merger.

B. Impact of Post-Merger Process on Position and Employee Welfare

The following are the results of the study in the form of diagrams based on data obtained from respondents:

1. Results of Respondents' Answers The Impact of Post-Merger Process on Employee Positions

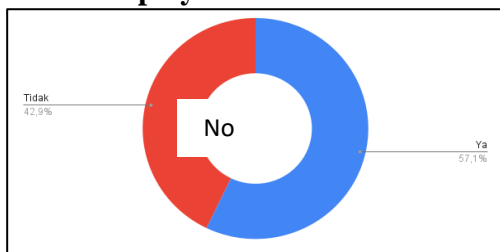


Figure 1. Diagram of the percentage of respondents who experienced a change in position

Based on Figure 1, it can be seen that 57.1% of respondents who are employees of sharia banking that have merged stated yes/agree that there was a change in position after the merger process. Meanwhile, 42.9% of respondents who are employees of sharia banking that have merged stated that they did not/didn't agree that there was a change in position after the merger process. So based on the results of the interview, it is stated that in

general employees will experience a change in position/division/position in an agency after the merger.

2. Results of Respondents' Answers The Impact of Post-Merger Process on Employee Welfare

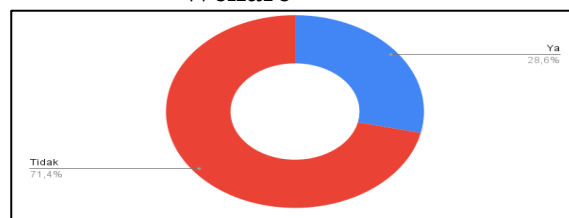


Figure 2. Diagram of the percentage of respondents who experienced changes in welfare

Based on Figure 2, it can be seen that 71.4% of respondents who are employees of Islamic banking that did the merger stated that they did not/disagree that there was a change in employee welfare after the merger process. Meanwhile, 28.6% of respondents who were employees of sharia banking that did the merger stated yes/agree that there was a change in employee welfare after the merger process. So based on the results of the interview, it is stated that in general employees will not experience changes in welfare in a post-merger agency, in accordance with organizational culture policies based on the conditions and needs of the new agency.

C. Changes in Employee Welfare After the Merger Process

Respondents stated that the merger process had an impact on changes in employee welfare in the agency. As a result of the unification of the three companies, new companies need to make adjustments, one of which is specifically with the standardization of employee salaries. This is based on the opinion of one respondent of a sharia banking employee who conducted a merger conveying the impact of the merger process on changes in employee welfare in the new agency:

"There is still an imbalance in the salary received for the same position (the difference in salary between previous employees, BNIS, BRIS and BSM, even

though the positions are the same)." (Respondent-KR, 28 July, 2021).

The welfare of employees from post-merger institutions can be seen from the determination of salaries received by employees based on the position of each employee. Determination of salary payments to employees is influenced by adjustments from the largest shareholder from the agency, the merger of three Islamic banks has not yet issued information or provisions for changes in salary payments. This is as contained in the following interview results:

"There is no standardization of salary for employees, they are still following the policies of each legacy bank, the information is waiting for the decision of the board of directors" (Respondent-ISB, 15 September 2021).

Currently the standardization of salary provision for employees is still in accordance with the policies of the respective Islamic banks of origin, there is still no definite information from the agency's directors whether the salary distribution will be adjusted to the previous one. So that up to now there is still no visible change in employee welfare after the merger of three Islamic banks, however, the new institutional arrangements and policies are still in the process of being better and employee welfare will gradually be adjusted to the merger of the three Islamic banks. The company will continue to harmonize and strive to provide clarity to ensure the welfare of employees after the merger.

D. Employee Reduction in Institutions After the Merger Process

The following are the results of the study in the form of a diagram of the impact of post-merger employee reduction based on data obtained from respondents:

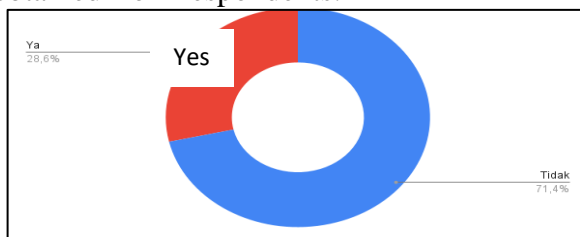


Figure 3. Diagram of the percentage of respondents who experienced a reduction in employees

Based on Figure 3, it can be seen that 71.4% of respondents who are employees of Islamic banking that have merged stated that they did not/disagree that there was a reduction in employees after the merger process. Meanwhile, 28.6% of respondents who are employees of sharia banking that have merged stated yes/agree that there is a reduction in employees after the merger process. So based on the results of the interview, it is stated that in general employees will not be affected by the reduction of employees in a post-merger agency, in accordance with organizational culture policies based on the conditions and needs of the new agency.

E. The Effect of the Merger Process of Three Islamic Banks on Increasing/Decreasing Employee Performance

Respondents stated that the merger process had an impact on decreasing and increasing employee performance from changes in organizational culture at the agency. As a result of the unification of the three companies, the company needs to adjust several factors to establish new policies and management so that employee performance can be further improved after the merger. This is based on the opinion of one respondent of a sharia banking employee who conducted a merger conveying the impact of the merger process on increasing or decreasing employee performance in the new agency:

"The merger process affects the increase in employee performance because they have to adjust the latest targets according to the new policy." (Respondent: AIS, 16 July 2021).

The merger of three Islamic banks has an impact on employee performance so that there can be an increase or decrease in performance. With the new post-merger policy, it is expected that employee

performance will increase in line with the increase in agency performance. On the other hand, mergers can have an impact on employees both materially and non-materially due to changes in the leadership structure and employment relationship status. So that if there is a decline after the merger, it can lead to downsizing of employees in an agency. The following are the results of interviews regarding downsizing of employees after the merger:

"For now there is no reduction, but it looks like in the future there will be a downsizing of employees to provide a company's HR effectiveness" (Respondent-KR, 28 July 2021).

The informant stated that at this time there is still no definite information on the reduction of employees after the merger of three Islamic banks, but to increase the effectiveness of the agency's human resources (HR) it is necessary to reduce employees. Employees with previous good achievements or performance will be paid more attention by the new agency management to be retained as employees, this will greatly affect employee performance. Employees from each field with a fairly large and important proportion of work will be considered to be retained in the new post-merger agency.

In addition, resource persons stated that performance improvement can be based on the motivation provided by the agency. As in the results of interviews with the following sources:

"With the vision to become the largest Islamic Bank in Indonesia and the top 10 in the world, it motivates employees to be able to make it happen" (Respondent-ES, 15 September 2021).

The unification of three Islamic banks into one new institution has its own motivation for agencies that decide to merge. This is considered a special vision in the form of becoming the largest Islamic banking in Indonesia and entering the top 10 Islamic banking in the world, so that it can motivate

employees to improve performance in order to make it happen. Leaders can take advantage of this to increase employee motivation to continue to perform well. That way, after the merger, elements from all agencies including leaders and employees can work together to improve performance after the merger and can increase the scale of the company to be bigger.

F. Impact of the Merger Process on Institutional Progress

According to Ulfa (2021), the impact of the merger process on agencies affects several things, including: on customers for migrating accounts to BSI (Bank Syariah Indonesia); BSI employees will later harmonize employee criteria and HR policies, so that there will be no reduction of employees; to the community, BSI will later provide literacy programs on sharia economics, to educate and increase public literacy interest. The impact of the merger of three BUMN Islamic Banks into BSI (Indonesian Sharia Bank) is that it can solve capital problems in Islamic banks (Fatinah et al., 2021).

Merger has its own impact for every line of agency. All parties seek positive changes in line with the merger process. However, based on interviews with informants stating that the changes after the merger were not too significant, the following is an interview with informants on September 15, 2021:

"It took approximately 3 years to unite 3 banks into 1 both in terms of systems and human resources so that for now the results have not been seen significantly" (Respondent-ES, 15 September 2021).

Employees stated that the impact of the merger was not too significant because it was still just starting and still in the adjustment period. The resource persons hoped that over time the positive impact would be felt for all related parties. Employees are also expected to adapt well along with the emergence of new products, new work systems, and new organizational structures. In the future, it is

hoped that the merged bank will be better known to the public and will have a positive impact from both users and employees.

CONCLUSION

This study aims to dig deeper into the perspectives and views of employees affected by the merger. Employees who have different backgrounds will certainly face their own problems during the merger process at the agency where they work. This research has highlighted the most recent and in-depth conditions regarding the relationship between the impact of the merger process on employees in the Islamic banking sector in Indonesia. Employees as one of the human resources owned by banks are certainly affected by the merger.

Based on the interviews that have been conducted, it can be said that employees respond positively to the merger in Islamic banking. However, they still need to adapt or adjust to the new culture that emerged after the merger. They also stated that the merger had a positive impact on the existence of Islamic banking to strengthen its capital structure. In terms of welfare, employees still experience uncertainty from the board of directors regarding the salary system. The standardization of the new salary system will still be under discussion to find the best solution. After the merger, employees stated that there was a possibility of a reduction in employees to improve the efficiency and effectiveness of their human resources. It is hoped that the merger of Islamic banks will be better known to the public so that people are interested in choosing Islamic banking products

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