

# Employees perception about merger management essay



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The present economic scenario has witnessed a large number of merger and acquisitions in banking industry all over the world. One of the principal objectives behind the merger & Acquisition in banking sector is to reap the benefit of economies of scale. The growing competition has compelled banks to expand their size and to penetrate in market place; it indicates the rule of the ocean that big fish will eat small fish. Consequently, one of the most widely used tools is mergers and acquisitions. However, the market situation is such that there is bombardment of many new and divers products from large pool of bankers. For survival, deliberate decisions are required to mitigate the diverse effects of market forces. At the time of taking decision of M&As, generally financial issues are taken care of and HR issues are ignored which is most important issue for success of any merger. Therefore, the aim of this research paper is to assess the level of satisfaction among employees of the merged bank i. e. the erstwhile bank of Rajasthan ltd. This study is based on a pilot survey; small sample of 30 employees, which is taken from the 14 selected branches from Udaipur city, and paired sample t-test, is applied to test the significant difference of the sample along with weighted average method. The results revealed that post merger satisfaction level is low and stress level is high among bank employees after merger. The implication of the study is for policy makers, strategist, bankers, future researchers, and scholars.

Key Words: Merger, Acquisition, Bank, Employees, Perception

## **1. Introduction:**

In recreation of organizational growth, augmenting geographic networks, to accelerate market share, creating strategic fit and synergy; organizations

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are adopting strategic tools like Mergers and Acquisitions (M&As). It is evident from the pages of history that M&As is the most widely used inorganic strategic tool for growth. A merger is a combination strategy of two or more organization in which one acquires the assets and liabilities of the other in exchange for share or cash. At this point of time, it becomes imperative for strategist and policy makers to undertake the confidence of their employees, customer, shareholder and subsidiaries and to understand how they perceive any strategic move because this surely affects the image of the company. Kotler (1997, p. 185-86) has illustrated in his book that perception is the process by which an individual selects, organizes and interprets information inputs to create a meaningful picture of the world.

Since the world market is shrinking and consumers are becoming aware about various products and services offered by global players due to the emergence of ICT, it has become strategically important for banks to understand the perception of employees under the purview of M&As, this is so, because they deliver the services. Many researchers have proved that human factor is the key element in delivery of services. Thus, we can say that core reason for success and failure of mergers are human resources i. e. personnel and behavioral issues, blends of cultures and sets of policies practices. Therefore, Transferee Company must create an environment where the employees of Transferor Company can project merger as a steps towards growth. Consequently, employees will strive to work with integration of vision and mission of Transferee Company.

Thus, this study can contribute in the field of strategic management as a view point of employees and human resource management. Strategist can consider this view as an input in strategy formulation.

In this scenario, this study on employees' perception may be a modest attempt to trace the hard realities regarding employees' perception of ICICI Bank Ltd. It will be helpful for ICICI mangers, executives, and employees, government, banking industry, RBI, research scholar, strategic managers, HR managers and policy makers.

## **2. Review of Literature:**

Schneider and Bowen (1985) reported significant relationships between branch employees' perceptions of organizational human resources practices and branch customers' attitudes about services.

Schweiger and Weber (1989) suggested that Mergers and acquisitions (M&As) are corporate events that have the potential to create severe personal trauma and stress which can result in psychological, behavioral, health, performance, and survival problems for both the individuals and companies involved. With the increasing size and number of M&As transacted and the number of employees affected, it is essential that executives and human resource professionals pay greater attention to understanding the sequence of actions and reactions associated with the process.

Schweiger and Denisi (1991) conducted a longitudinal field experiment to evaluate the various effects of a communication program on employees of an organization; they called it a realistic merger preview. This study was <https://assignbuster.com/employees-perception-about-merger-management-essay/>

intended to measure the effects of mergers and acquisitions on employees. Their results suggested that realistic communication during a merger process in the form of a realistic merger preview can help the employees to get through the process of merger. As illustrated by the significantly lower measures on global stress and perceived uncertainty and significantly higher on job satisfaction, commitment and self-reported performance for the experimental group, exposed to the communication program.

Schneider and Dunbar (1992) suggest that media plays an important role in shaping the social context for mergers and acquisition.

Weber (1996) assessed the role of corporate cultural fit, autonomy removal, and commitment of managers to the merger in predicting effective integration between merger partners in different industry sectors. He found that relationship was very complex; they varied across industries and had different relationships with different measures of performance. Further, he found that cultural differences at the top management level were most likely to influence the merging organizations' ability to realize synergies.

Literature shows that communication also plays vital role in the success of a merger. Nikandrou, Papalexandris and Bourantas (2000) explored a number of variables which bear an impact on managerial trustworthiness, for example frequent communication before and after acquisition, and already the existing qualities of employee relations seem to play the most important role. Therefore, a carefully planned, employee-centered communication programme, together with a good level of employee relations, seem to form the basis for a successful outcome as far as employee relations in the face of

mergers and acquisitions is concerned. Therefore issues related to human resource management are also raised by researchers in articles.

Appelbaum, Gandell, Yortis, Proper and Jobin (2000) conclude that communications throughout the M&A process plays a crucial role in its eventual success. Providing clear, consistent, factual sympathetic and up-to-date information in various ways will increase the coping abilities of employees, which will in turn increase their productivity. This increased productivity will positively impact on firm's performance and create sustained competitive advantage by achieving the projected strategic fit and synergies. Communication and a transparent change process are important, as this will often determine not only how a leader will be regarded, but who will be regarded as a leader. Leaders need to be competent and trained in the process of transforming organizations to ensure that individuals within the organization accept the changes prompted by a merger.

Hurt, Kreuze and Langsam (2000) suggest that growth is the primary reason for M&As.

Panchal and Cartwright (2001) investigated post-merger stress in a sample of field sales employees. A survey methodology was used to examine group differences, comparing those from the two pre-merger companies and those newly merged organization. Results revealed that group differences in both sources and effects of stress existed. Those from the dominant pre-merger company reported the highest stress levels and most negative work attitudes.

Lynch and Lind (2002) also suggest that mergers and acquisitions is one of the major tools for organizational growth and on the other hand Dario, Fabio and Carmelo (2002) investigated using Italian data that mergers seek to improve income from services.

Bryson, (2003) reviewed the literature around managing HRM risk in a merger. He found that poor merger results are often attributed to HRM and organizational problems, and that several factors related to maintaining workforce stability are identified as important in managing HRM risk.

Schraeder and Self (2003) also found that organizational culture is one factor as a potential catalyst to M&A success.

DeLong (2003) studied sample of 54 bank mergers announced between 1991 and 1995, tests several facets of focus and diversification. The study found that upon announcement, the market rewards the merger of partners that focus their geography and activities and earning stream. Only of these facets, focusing earning streams enhances long-term performance.

Shanmugam and Nair (2004) identified factors in their study on mergers and acquisitions of banks in Malaysia like globalization, liberalization and information technology developments have contributed to the need for a more competitive, resilient and robust financial systems.

George and Hegde (2004) reported a case for the delicate aspect of employees' attitudes, their satisfaction and motivation, which are posited as prerequisites for customer satisfaction, which is, again, sine qua non for the competitive sustenance of the organization.

Chew and Sharma (2005) examined the effectiveness of human resource management (HRM) and organizational culture on financial performance of Singapore-based companies involved in mergers and acquisition activities. They used the method of content analysis to collect information on cultural values and HRM effectiveness, using Kabanoff's content analysis. Culture profiles were then assigned to organizations in the sample following the results from cluster analysis. Various financial ratios were used to measure organizational performance. Finally, regression analysis was performed to test various hypotheses. The key finding of the study suggests that organizations with elite and potential leader, when complemented by human resource effectiveness, had a better financial performance as compared to other organizations. At the end it was concluded that to achieve better financial results by undertaking merger and acquisition activities organizations need to have elite or leadership value profile.

Seo and Hill (2005) identified six theories viz. anxiety theory, social identity theory, acculturation theory, role conflict theory, job characteristics theory, and organizational justice theory to explain problems in managing the merger and acquisition and organizational change process. These theories have implicitly or explicitly formed the basis for the past M&A literature. The authors integrate these theories into one conceptual framework that clearly delineates unique sources of problems that can emerge in different stages of M&A integration, their psychological and behavioral effects on employees, and prescriptions to address the problems.

According to Mylonakis (2006a) an important parameter in the relationship between the number of branches and employment is branch size. He has <https://assignbuster.com/employees-perception-about-merger-management-essay/>



used most well-known indicators for the evaluation of staff efficiency in banking sector i. e. operating revenue per employee, personnel expenses per employee and pre-tax profits to personnel expenses. He observed that operating revenue either fall or remains stable, administrative expenses per employee increase for every examined bank and pre-tax profits to personnel expenses indicator showed how many Euros are gained by the bank for every euro spent in staff payroll.

Mylonakis (2006b) has examined in his article that how bank employees perceive bank M&As and how it is expected to affect their personal and professional career. The results showed that bank employees feel personally threatened by mergers and acquisitions, which are not considered to be justified and necessary entrepreneurial activities conducive to enhanced, quality banking services. Mergers and Acquisitions often have a negative impact on employee behavior resulting in counterproductive practices, absenteeism, low morale and job dissatisfaction. It appears that an important factor affecting the successful outcome of acquisitions is top management's ability to gain employee trust.

Wickramasinghe and Chandana (2009) took views of 109 employees of two banks of Sri Lanka, which had undergone an extension merger and a collaborative merger and reported that employee perceptions are affected by the type of the merger and employees are less satisfied in the collaborative merger than in the extension merger. Further findings revealed that age, gender, and marital status influence the perceptions of the respondents and among those age is the most influential.

DeYoung, Evanoff and Molyneux (2009) have found in their study that the changes in deregulation, allowed commercial banks and other financial services firms to expand through mergers and acquisition into geographic markets and product markets.

Marmenout, K (2010) conducted experimental study to examine how employees make sense of a merger announcement and investigates the relationship between deal characteristics (culture clash potential, degree of integration, position in deal structure) and employee attitudes. As employees make sense of the merger, higher perceived uncertainty is associated with greater dysfunctional outcomes.

Calipha, Tarba and Brock (2011, p. 1-24) have reviewed M&A motives and success factors in their article such as entering a new market, gaining new scarce resources, achieving synergies and other managerial and organizational factors that are associated with M&A i. e. relative size of M&A partner, managerial involvement, culture and organizational structural issues etc.

Goyal and Joshi (2012a) identified the general sentiments, challenges and opportunities for the Indian Banking Industry. They concluded challenges and opportunities like rural market, transparency, customer expectations, management of risks, growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, employee and customer retentions. They further concluded that banks are striving to combat the competition and the competition from global banks and

technological innovation has compelled the banks to rethink their policies and strategies.

———— (2012b) studied the growth of ICICI Bank Ltd. through mergers, acquisitions, and amalgamation. The article concluded that a firm must devise a strategy in three phases i. e. Pre-merger phase, acquisition phase and post-merger phase.

### **3. Research Methodology**

#### **3. 1 Objectives of the Study:**

To identify the factors responsible for employees satisfaction.

To assess the satisfaction level of employees, after merger.

To assess the stress level of employees' (post merger).

#### **3. 2 Sampling Distribution**

##### **3. 2. 1 Universe**

Total 463 branches of BoR were operating across India before merger and out of this total 293 Branches were operating in Rajasthan. Out of these 293 branches, there were total 31 branches operating in Udaipur before merger and merely 14 branches were situated in Udaipur city.

##### **3. 2. 2 Sample unit**

There were total 14 branches of erstwhile BoR, which are now functioning as ICICI Bank's branches after merger, Employees of these branches are considered for sampling purpose.

### **3. 2. 3 Sample Size**

A small sample of 30 bank employees from erstwhile BoR is drawn by using stratified purposive sampling.

### **3. 2. 4 Data Type**

Primary and Secondary data will be used to achieve the objectives.

### **3. 2. 5 Research Instrument**

Schedules (structured) and personal interviews methods are used for primary data collection.

Publications from company, books, journals, magazines and various websites are referred for secondary data collection.

### **3. 2. 6 Research Tools**

Paired sample t-test and is used to test the hypothesis and process the data. Data processing is done by SPSS 13 software (student version) and weighted average method is used.

Where;

$$d = x - y$$

### **3. 2. 7 Limitation of the Study**

The limitation of the study is that it is based on small sample size with geographical constraint and time. The respondents were contacted at the respective bank and appointments were taken. Then, they were contacted as per their convenience and ease. The budget was a major constraint for this study.

### **3. 2. 8 Hypotheses**

H01: There is no significant difference between employees' satisfaction level (pre-merger and post merger).

H02: There is no significant difference in stress level of employees between pre-merger and post-merger.

### **4. Conceptual Framework:**

Mergers and acquisitions is a phenomena which has been used as a tool for growth and a tool for survival of sick units in banking industry. There are certain provision in the Banking Regulation Act 1949, which helps us to understand the basic concept of mergers and acquisition. 44A of Banking Regulation Act 1949 clearly defines procedure for amalgamation of banking companies. According to it a draft of amalgamation scheme should be produced before shareholders of each banking company. If the scheme of amalgamation is approved by the requisite majority of shareholders in accordance with the provisions of this section, the sub-section (4) states that it shall be submitted to the Reserve Bank for sanction and shall, if sanctioned by the Reserve Bank by an order in writing passed in this behalf, be binding on the banking companies concerned and also on all the shareholders thereof.

Section 45 of the act defines the power of Reserve Bank to apply to Central Government for suspension of business by a banking company and to prepare scheme of reconstitution of amalgamation in certain condition like public interest, depositor's interest, for the interest of banking system and reconstruction of the banking company.

## **5. Conceptual Analysis of Merger of the Erstwhile Bank of Rajasthan Ltd. and ICICI Bank Ltd.**

### **5.1 Historical Background:**

The Bank of Rajasthan Ltd. (BoR) was incorporated on May 7, 1943 as a Company defined under the Companies Act, 1956 and has its Registered Office at Udaipur, Rajasthan. The Bank of Rajasthan had a network of 463 branches March 31, 2009. The primary object of the Transferor Bank was banking business as set out in its Memorandum of Association. For over 67 years, the Bank of Rajasthan had served the 24 states with 463 branches as a profitable and well-capitalized Bank in India. It had a strong presence in Rajasthan with branch network of 294 which is 63 percent of the total branches of BoR in India. The men power strength of BoR was more than 4300 employees across India.

The balance sheet of the Bank shows that it had total assets of Rs. 173 billion, deposits of Rs. 150. 62 billion and advances of Rs. 83. 29 billion as on March 2010. The profit and loss account of the bank shows the net profit as Rs. -1. 02 billion as on March 2010, which shows that bank, was not in good financial condition.

On the other hand The ICICI Bank Ltd. was incorporated on January 5, 1994 under the Companies Act, 1956 and has its Registered Office at Landmark, Race Course Circle, Vadodara, Gujarat. The Transferee Bank, as on May 21, 2010, has a network of 2, 000 branches and extension counters and has over 5, 300 automated teller machines (ATMs). At present the bank has 79, 978 employees with strong financial position like total assets of Rs. 3634 billion,

total deposits of Rs. 2020. 16 billion, advances of Rs. 1812. 06 billion and net profit of Rs. 42. 25 billion as on March 2010.

## **5. 2 Scheme of Amalgamation:**

According to the scheme of amalgamation of the Transferor Bank with the Transferee Bank, it is clearly stated that the Scheme was formulated as per the Section 44A of the Banking Regulation Act, 1949, as per the guidelines of Reserve Bank of India for merger/amalgamation of private sector banks and in accordance with the applicable provisions of the Companies Act, 1956, and the Memorandum and Articles of Association of the Transferor Bank and the Transferee Bank and other applicable provisions of laws.

## **5. 3 Strategic Intent:**

The objectives and benefits of this merger are clearly mentioned in the scheme of this merger by ICICI Bank that its customer centric strategy which places branches as the focal points of relationship management, sales and service in geographical micro markets. As it is evident that the BoR had deep penetration with huge brand value in the State of Rajasthan where it had 294 branches with a market share of 9. 3% in total deposits of scheduled commercial banks.

It was presumed that the merger of BoR in ICICI Bank will place the Transferee Bank among the top three banks in Rajasthan in terms of total deposits and significantly augment the Transferee Bank's presence and customer base in Rajasthan and it would significantly add 463 branches in branch network of ICICI Bank along with increase in retail deposit base.

Consequently, ICICI Bank would get sustainable competitive advantage over its competitors in Indian Banking.

### **5. 4 Issues Emerged:**

When the information about this merger was communicated to the employees, they did not accept this merger. All the employees were against this merger as it was evident from the strike and agitation by all the three major employee unions i. e. All India Bank of Rajasthan Employees Federation, All India Bank of Rajasthan Officers' Association and Akhil Bhartiya Bank of Rajasthan Karmchari Sangh, subsequently demanding the immediate termination of the ICICI-BoR merger proposal. It is a very strong phenomenon from the behavioral aspects of employees in the growth strategy like mergers and acquisitions. It is quite possible that this human aspect may hamper the whole strategic challenges of the bank or any other organization adopting the strategic tool.

### **5. 5 Future Implication:**

The issue of employees' perception towards mergers needs special attention from researchers and thinkers in order to convert mergers as synergy. At this juncture, the prevalent challenge for ICICI Bank Ltd. was to encounter the agitation from the 4300 BoR employees.

Now, since the merger has taken place the critical issue for discussion is the management of Human Resources in the course of Mergers and Amalgamation. The mist of human aspect in the process of M&As can be removed by the turning the pages of available literature for better vision in strategy formulation.



## 6. Data Analysis and Interpretation:

### Demographics

#### Table 1: Age \* Gender Cross tabulation

Gender

Total

Male

Female

Age

20-30

1

2

3

31-40

2

7

9

41-50

3

5

8

51-60

8

2

10

Total

14

16

30

## **Table 2: Designation of the Employees \* Gender Cross tabulation**

Gender

Total

Male

Female

Male

Designation of the Employees

Branch Manager

10

0

10

Senior Manager

2

1

3

Manager

2

3

5

Senior Executive

3

4

7

Executive

2

3

5

Total

19

11

30

In analysis, following scale (Table 3) will be used to interpret the mean values of ranks.

## **Results**

### **Interpretation**

1. 00-1. 80

Very poor

1. 81-2. 60

Poor

2. 61-3. 40

Moderate

3. 41-4. 20

Good

4. 21-5. 00

Very good

**Table 4: Pre-Merger Rank Analysis**

**S. No.**

**Factors**

**Weight**

**Total**

**Weighted**

**Total**

**Weighted**

**Mean**

**Rank**

**1**

**2**

**3**

**4**

**5**

**Very Poor**

**Poor**

**Moderate**

**Good**

**Very Good**

**1**

Satisfaction Pre-Merger

0

8

12

9

1

30

93

6. 20

9

2

Work Culture Pre-Merger

0

7

16

6

1

30

91

6. 07

12

3

Quality of Management Pre-Merger

0

7

18

5

0

30

88

5. 87

17

**4**

Infrastructure Pre-Merger



**0**

**7**

**9**

**12**

**2**

**30**

**99**

**6. 60**

**2**

5

Salary Pre-Merger

0

7

17

6

0

30

89

5. 93

16

6

Time Schedule Pre-Merger

0

7

19

4

0

30

87

5. 80

18

7

Communication with Senior Pre-Merger

0

4

21

4

1

30

92

6. 13

11

8

Authority Provided by the Bank Pre-Merger

0

7

17

5

1

30

90

6. 00

13

9

### Responsibility Level Pre-Merger

0

9

18

3

0

30

84

5.60

21

10

### Designation Provided by the Bank Pre-Merger

0

10

15

5

0

30

85

5. 67

20

11

Benefit Provided Pre-Merger

0

7

16

7

0

30

90

6. 00

14

12

### Involvement In Decision Making Pre-Merger

0

6

22

2

0

30

86

5.73

19

13

### Job Security Provided Pre-Merger

0

7

16

7

0

30

90

6. 00

15

14

Opportunity for Advancement Pre-Merger

0

3

21

6

0

30

93

6. 20

10

**15**

Working pattern Pre-merger

**0**

**3**

**18**

**6**

**3**

**30**

**99**

**6. 60**

**3**

**16**

Stress Level Pre-Merger

**0**

**4**

**19**

**6**

**1**

**30**

**94**

**6. 27**

**5**

17

Ambience Pre-Merger



0

4

20

4

2

30

94

6. 27

6

**18**

Training & Development Pre-Merger

**0**

**4**

**17**

**8**

**1**

**30**

**96**

**6. 40**

**4**

19

Compatibility Pre-Merger

0

4

19

6

1

30

94

6. 27

7

20

Perks & Responsibility Pre-Merger

0

4

20

4

2

30

94

6.27

8

**21****Redressal Pre-Merger****0****3****14****12****1****30****101****6.73****1**

Table 4 reveals the ranks of the variables used in the study and derived by weighted average method. The responses were taken from bank employees on five-point Likert scale and as per the above table it can be observed that the most ranked variables are redressal, infrastructure, working pattern, training and development, stress level, and ambience and so on. Thus, we can say that employees were on the verge of merger and they were in ambiguous situation what to do.

On the contrary, in table 5, the employees rated one of the most important factor is Benefit Provided Post-Merger, infrastructure, compatibility, working pattern, stress level, perks and responsibility and so on. Thus, it can be said that financial benefits provided by the transferee banks like salary hike has affected employees. Some more variables rated by employees like working

pattern which has also affected the employees. BoR employees were not exposed to high end technologies in banking sector. Stress management in the course of mergers and acquisition is one of the most debatable issue as M&As brings new working culture, new technology, infrastructure, colleagues and peers and it takes time to make adjustments with these.

### **Table 5: Post-Merger Rank Analysis**

**S. No.**

**Factors**

**Weight**

**Total**

**Weighted**

**Total**

**Weighted**

**Mean**

**Rank**

**1**

**2**

**3**

**4**

**5**

**Very Poor**

**Poor**

**Moderate**

**Good**

**Very Good**

**1**

Satisfaction Post-Merger

0

2

8

16

4

30

112

7.47

12

2

Work Culture Post-Merger

0

2

7

14

7

30

116

7. 73

8

3

Quality of Management Post-Merger

1

2

11

11

5

30

107

7. 13

19

**4**

Infrastructure Post-Merger



**1**

**1**

**3**

**19**

**6**

**30**

**118**

**7.87**

**2**

5

Salary Post-Merger

1

3

8

14

4

30

107

7.13

20

6

Time Schedule Post-Merger

0

3

8

14

5

30

111

7. 40

13

7

Communication with Senior Post-Merger

0

2

11

13

4

30

109

7. 27

16

8

Authority Provided by the Bank Post-Merger

0

6

6

6

12

30

114

7. 60

10

9

### Responsibility Level Post-Merger

0

4

9

12

5

30

108

7. 20

18

10

De