

Human resources management: lloyds tsb group



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INTRODUCTION

A company's growth can normally happen in one of the two ways. Organic or inorganic growth. Merger and acquisition mainly results from inorganic growth. In the early 1990s, there was a great increase in the number of mergers and acquisitions in the banking industry.

Lloyds TSB has recently grown through a further acquisition. By acquiring HBOS (Halifax/Bank of Scotland) plc, the Lloyds Banking Group has become the largest retail bank in the UK. Around half of all people in the UK (30 million) now bank with the Lloyds Banking Group. The group has the largest branch network of any UK bank and 140, 000 staff. The acquisition also means that the new group has a broader range of expertise with multiple brands under its banner. It is a more diverse business, with stronger market presence in areas such as mortgages, insurance, finance and investments. With refer to this merger and acquisitions hold major organizational behavior challenges such as Change of Human Resources Management, Culture, Conflict and change within the organizational for managers at various levels of the firms involved.

This paper attempts to chronicle the acquisition of HBOS bank by Lloyds TSB bank that tried to create the UK's leading financial services group. Unlike previously written papers that describe the performance of the firm before and after the acquisition, this paper focuses on the human resources management, culture, conflict and change issues involved in the acquisition before and after the acquisition is completed. This paper tries to explain the organizational behavior of the acquired bank's personnel and what their

expectations, fears, hopes, and beliefs are before and after the transaction takes place.

1. 0 Background of Lloyds TSB Group

Lloyds TSB is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. The main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. The Group has a large and diversified customer base and services are offered through a number of well recognized brands (Lloyds TSB, Cheltenham & Gloucester, Scottish Widows), and via a unique distribution capability comprising one of the largest branch networks in the UK and intermediary channels. On January 16, 2009, Lloyds Banking Group plc acquired HBOS plc. In November 2009, The Bank of New York Mellon Corporation completed the acquisition of Insight Investment Management Limited from the Company.

Lloyds TSB Group is quoted on the London Stock Exchange and is one of the largest companies within the FTSE 100, with a market capitalization of £26. 7 billion on 31 December 2007. At the end of 2007 total group assets were £353 billion and the Group has nearly 70, 000 employees. Total income for the 12 months to 31 December 2007 was £18 billion with profit before tax totaling £4 billion.

The group activities are organized into three businesses: UK Retail Banking, Insurance and Investments and Wholesale and International Banking.

Question (i)

2. 0 Human Resource Management

Human Resources Management (HRM) can play a very important role in the success of HBOS merger. HRM is acting an important source of the input while evaluating whether to go ahead with a given merger or not. According to Carter McNamara “ The HRM function includes a variety of activities, and key among them is deciding what staffing needs you have and whether to use independent contractors or hire employees to fill these needs, recruiting and training the best employees, ensuring they are high performers, dealing with performance issues, and ensuring your personnel and management practices conform to various regulations. Activities also include managing your approach to employee benefits and compensation, employee records and personnel policies”. (Carter McNamara, 2009)

2. 1 Challenges faced by new organization

2. 1. 1HR policies

HRM help in ensuring that the employees of acquired new organization remain motivated after the merger. According to the Fisher (1989), transfer of the HRM practices can be difficult in organizations with different cultures compared to transfer of other resources like technology, capital and others. But this does not deter the transfer of HRM practices. It is further important to differentiate between the requirements of various organizations and it is not necessary a uniform policy can be successful across the broad.

After the merger, HR policies are directed focus at two directions. The first one, is to achieve integration and provide a good working environment

through a good compensation policy and training programs. Secondly, the main objective of the HR policies is to meet broader objective like bringing about a culture change in the organization.

According to Fisher (1989), immediately after merger there is focus to make the operations move profitability and productive, as a result to focus on restricting operations and cutting costs. One of the key tool applied is downsizing the workforce. So, new management uses merger an opportunity to implement some of the difficult decisions in both the acquired and acquirer organization.

2. 1. 2 Changing new strategy

The merger is essential to define new common strategies to align the new organization towards its new vision. According to Recklies (2001), the vision of the merged organization is one of the first issues to be addressed before merger stage of the process of the transaction. The Lloyds TSB is necessary to align the HRM strategy of the new organization with the M&A strategy. According to Aguilera and Dencker (2004) the following conceptual tools have been used to identify the key HRM challenges in M&A key:

Resources- people and capital

Processes- activities involved in converting inputs to output

Values- employee's mode of thinking

Table 1: Comparison of various merger strategic based on certain conceptual tools in the new organization

HR tools

Overcapacity strategy

Product/market Extension strategy

Substitute to R&D strategy

Resources

Reduce in manpower.

Downsizing strategy is essential for achieving economic of scale.

Reserve of manpower as the managers of the two organizations specializes in different function.

Reserve of employees in order to facilitate sharing of technology and knowledge.

Processes

Processes are similar and not much changes are required.

Processes are different and their integration is one of the key issues for the success in the merger. Training system can help in this regard.

Processes of the participating organization are different and need to be aligned with the help of training to help on transfer of knowledge.

Value

Differences in values are not much different if the organization is operating in the same geography and market.

Values are differences and should be integrated smoothly.

Value is similar and can be aligned easily.

2. 1. 3 Structure issues

Due to the acquisition with HBOS, this is an important decision to be made by HR during the integration of the merger is determination of the management structure. According to Anderson (1998), this is a decision that should be made as soon as the deal for the merger is signed by both the parties to avoid confusion among the manager about their roles in the new organization. A centralized structure with well defined relationships is necessary in order to enable quick decision making and accountability among the managers. Conflicts are likely to occur while designing the organizational structure due to the assignment of positions in the hierarchy. This can be prevented to certain extent by ensuring the managers from both the organizations are present in the different layers of the organization. The determination of the hierarchy of the organizations should be purely based on the merit.

2. 1. 4 Leadership issues

After the merger, a new clear leadership will be appointed. These appointments are subject to formal FSA approval and will become effective upon the completion of the HBOS acquisition. (Source from Lloyds TSB press release) According to Sitkin and Pablo (2004), a clear leadership has a positive impact on the employees of the organization. Leadership includes the individual leader of the organization at the top and both the top

management. According to De Georgio (2003), the management is likely to face the barriers while deciding the leaders of the organization:

Lack of time

Lack of information about candidates from the other organization

Culture conflict

Split in the differences in culture, the leader should be able to communicate the mission, values and vision of the organization successfully to the employees.

2. 1. 5 Downsizing and persisting key talent

The merger usually results to redundant people. The objective of the new entity is to persist with the most capable person regardless of the original company they belong in. The process is not based on the objective measures and fairness it could change the attitude of employees towards the merger and employees may not look at it favorable. This will make employee focus on their personal job security and worries rather than on the larger organizational objectives.

The management is reluctant to communicate with the employees of these issues in before merging stage. Any failure in the communication or vague communication will makes the employees uncertain about their career and future role in the organization. They may seek other information source like informal communication and rumors which has a very negative impact on their performance and also will increase the anxiety. The only way to solve this matter for the management is to open a frequent channel of

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communication with the employees. Regular and honest communication can stabilize the effect on the employees. For more effective in the communication, the management should address the issues that are most relevant to the employee such as layoffs, compensation, change in benefits and change in responsibilities.

2. 1. 6 Culture integration issues

The new organization will face culture integration issues. Where, this is the toughest matter that companies face in merger is the two different cultures. According to Bowick who led the HR through the HP-deal merger deal day “it’s critical to get people speaking the same language. For instance, discovered the people at both organizations were using the term ‘customer solution’, but it meant different things to each of them”. In order to solve culture integration, HR management needs to be the first to identify the disconnection and get discussion. The role of HR in the whole merger process has undergone changes in given the failures in number of deals that due to problems in cultural integration. (Bowick, 2002)

The key role of the HR manager will face after merging phase is to identify the mission, vision, values and culture that the organization plan to implement. These activities of HR manager in the integration process include the aligning and defining employees with the strategies vision, developing effective communication channels, integration philosophy, conflict management and defining uniform HR practices across the whole entity.

The HR managers need to make a proper assessment of the new organization’s culture. There is also a trend that the HR executive needs

interviews with the senior management of the new organization to evaluate the leadership qualities. HR Executive also need to create a profile of the best practices of the organization and compare it with their own staff to identify similarities and differences. Besides that, HR executives also need to identify common points in the two culture from where they can base the whole process of the integration after the acquisition.

2. 1. 7 Conflict management

Conflict is likely to occur almost the employees in the after merging phase. HR manager need to keep in place on conflict resolution and escalation plan. It is also responsible for organizing training the managers in conflict management. Conflict can often arise due to culture differences, control, structure, not clear demarcation of role and responsibilities, organizational hierarchy and miscommunication. Through these issue of conflict resolution will be part of the integration plan the HR should be ready for contingencies.

Question (ii)

3. 0 Culture

Organization can be conduct in many ways such as culture, virtual, organism, brain, political system and so on. Organizational culture is the first issues that they need to consider to acquisition HBOS. Organization culture refers to the general culture within an organization, and is always also referred to as corporate culture, though that isn't the best description since a large non-profit organization or charity could also have its own organizational culture even though they are definitely not corporations.

Gareth Morgan has described organizational culture as: " The set of the set

of beliefs, values, and norms, together with symbols like dramatized events and personalities that represents the unique character of an organization, and provides the context for action in it and by it." (Morgan, 1997)

Figure 1- Ways of seeing an organization (2006 p. 139 fig. 5. 4) Brooks claims there are many ways of seeing an organization.

Organism

Virtual

Organizational is a....

Brain

Culture

Political System

Machine

The Lloyds TSB takeover of HBOS is not only means merging of two different financial organizations but also an acquisition of two different cultures. The new management have to be ready to facing new challenges when the two organisations are merging. Bicultural audit is important for the merging of two organisation's culture. This audit produces data for starting work platform, strategy required for successful merger. The three types are as follows:

Identification of cultural gap- Is comparing the values, vision and management behaviour for both companies, this phase recognizes the gap.

Analysis of cultural gap- This phase brings out the similarities and dissimilarities between the two organizational cultures.

Culture bridging- Refer to the basis of the above two information's the data management team can start the bridging of culture process.(Bicultural Audit, by Richard Cook)

3. 1 The Cultural perspective:

According to Brooks I (2006 p. 140) " Culture and organization can be viewed as an iceberg, a metaphor which suggests you to see on the surface masks a much deeper, mystical and powerful reality".

Lloyds TSB

HBOS

It seen that though Lloyds TSB, they have merged with many companies in previously, they were all similar culture so that the original culture of Lloyds TSB is still stayed undiluted. (Source: Company Corporate Responsibility Review 2007, VAULT Employee Satisfaction Surveys and Media Articles)

Lloyds TSB is based on Artifacts:

Recruit talented people through tough selection procedure.

Customer oriented.

Employees rewarded on the basis of client satisfaction.

Create framework for employee clear learning and future needs.

Provide personal development programs for employees.

Their Anglo-Scottish merger earlier between Halifax and Bank of Scotland however it seems have resulted in dilution of both cultures. (Source: Company Corporate Responsibility Review 2007, VAULT Employee Satisfaction Surveys and Media Articles)

HBOS is based on Values:

Market savvy.

Younger.

Mortgage expertise.

Rewards-oriented company.

3. 2 Type of Culture between Lloyds TSB and HBOS

Lloyds TSB

HBOS

Lloyds TSB is based on role cultured:

Produce more output in good environment.

Strong banking system.

HBOS is based on task cultured:

Focused on goals.

Work in team.

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It seems there are cultural differences between Lloyds TSB and HBOS, due to these culture differences it can make misunderstandings, fuelled emotional reactions, and conflicts. This can conduct to negative attitudes by the key top managers and be a major obstacle to the successful integration of the two organizations. Cultural differences will appear to be a critical factor in creating such an atmosphere and obtaining people's cooperation.

Figure 2: As per Deal & Kennedy Feedback-Rise Model:

High

Risk

HBOS

- High Risk

- High Feedback

- Bet your company culture

High Risk

Lloyds TSB

-Low Risk

-High Feedback

-Process driven culture

Feedback

High

As per Hofstede's study model (Source: Social Responsibility Report 07/08)

Lloyds TSB

HBOS

Power distance

High-Disciplined

Low-Acceptance of responsibility

Uncertainty Avoidance

High- Precision

Low- Basic innovations

Collectivism vs. Individualism

High-Employee commitment

Low- Management mobility

Masculinity vs. Femininity

High-Mass production, efficiency and bulk chemistry

Low- Personal service, custom made products and biochemistry

Long vs. Short term orientation

High- Developing markets

Low- Fast adaptation

4. 0 Conflict

Is process that begins when an organization or party perceives differences and opposition between itself and another organization or party about interest and resources, belief, values or practices that matter to them. According to Gareth R. Jones and Jennifer M. George's, " conflict is the discord that arises when the goals, interests or values of different individuals or groups are incompatible and those individuals or groups block or thwart one another's attempts to achieve their objective." (Gareth R. Jones and M. George, 2008)

4. 1 Positive of conflict

4. 1. 1 Clarification of view

The Boards of HBOS and Lloyds TSB believe that the Acquisition is a compelling business combination which offers substantial benefits for shareholders and customers. There is a clarification of view in the Acquisition is accelerates to build the UK's leading financial services company by focusing on growing sustainable earnings streams, based on deep customer relationships.

4. 1. 2 A chance for people to test their capabilities

The group has excellent breadth and balance with strong positions in Retail, Corporate Banking, SME Business Banking and Long Term Savings. The group will have a substantial direct personal customer base and the means to unlock the significant commercial opportunities offered by Lloyds TSB's <https://assignbuster.com/human-resources-management-lloyds-tsb-group/>

and HBOS's. The combined group will benefit from a portfolio of strong and trusted brands including Bank of Scotland, Halifax, C&G and Scottish Widows. With these strong trusted brands, customers have more confidence to choose or try the different products that the new organization offers.

4. 1. 3 Long-standing problems brought to the surface and resolved

Normally, cost synergies savings are always a long-term issue for an organization to solve, with the merger with HBOS will lead to an additional contribution to earnings before tax from cost synergies significantly in excess of £1 billion per year.

4. 1. 4 To produce better idea

The Acquisition brings together two of the leading retailers in UK financial services, with strengths in customer relationship management, product design, branch sales processes and in telephone and internet banking through gain sustainability competitive advantage in banking industry.

4. 2 Conflict comparison between Lloyds and HBOS

4. 2. 1 Differences in perception

Lloyds TSB

Remains to grow the business through developing long-term customer relationships and building customer franchise.

HBOS

Delivering growth in profits to its many shareholders and transparent, fair, value-for-money products and services to its customers.

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Positive Argument

Perception is the process of acquiring, interpreting, selecting and organizing sensory information to achieve the organizational goals. The important of perception is to find innovative solution for the problems, to leverage creativity and motivation the higher plateau of thinking, to help of perception, habits and attitudes will get changed and can find solution the most difficult problems.

Negative Argument

Lloyds TSB and HBOS may have different motives on perception going such as increasing market share, achieving economic of scale, entering new market, acquiring new technologies, warding off threats of hostile takeover and diversification. Different perception might cause the failure in Merging.

4. 2. 2 The Nature of work activities

Lloyds TSB

HBOS

Its main business activities are

Retail

Commercial and corporate banking

General insurance and life

Pensions and investment provision.

The HBOS Group's products and services can be categorized into the following business

divisions:

Retail

Corporate

Insurance & Investment

Strategy & International

Treasury and Asset Management.

Positive Argument

The merge of Lloyds TSB and HBOS were similar nature of working activities so there is no much changes of the organizations business or activities. In might change in the staff's working activities such as changing department, office and so on. With this change, staffs will beneficial in changing new working environment where some of the staff had feel bored, inefficiency with the current position. Secondly, staffs are able to learn new skills in the new working place.

Negative Argument

Change nature of activities will change characteristics, beliefs, values, and expectations. Some of the staff will have demanding in the salaries, position, rewards and so on. Besides that, changes a person's nature of working activities might waste time because the person might not have the skills or confident with the department they change it need to take time to learn.

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4. 2. 3 Role Conflict

Lloyds TSB

HBOS

And despite its black horse logo, Lloyds TSB is more of an old nag, following the market and paying poor rates to long-standing customers.

Lloyds TSB, on the other hand, markets decent-sounding accounts to new savers but then closes them, often paying dreadful rates of interest to those still stuck in them.

In Lloyds TSB's subsidiary Cheltenham & Gloucester has complicated accounts which dock interest when you take money out or limit you to a certain number of withdrawals a year from an easy access account.

Halifax has a reputation as an innovator when it comes to savings accounts - its behavior can still hark back to its building society roots as it balances the interest of savers and borrowers.

For instance, Halifax was among the first to offer a regular savings account paying a top rate of interest. Halifax makes a great effort to persuade its savers to move from old accounts to better-paying ones, and has been a leader in trying to reunite savers with old, forgotten accounts.

Positive Argument:

Role is an important process functional in an organization. May increase efficiency in process and product and services and gain competitive advantage in banking industry.

Negative Argument

Changes in role for both organizations will have negative impact such as inefficiency structure, lack process, take longer time than previously, and change in new rules and regulation and so on.

4. 2. 4 Departmentalism and specialization

Lloyds TSB

HBOS

Lloyds TSB Corporate Markets is one of the UK's leading providers of corporate banking, supporting businesses with an annual turnover in excess of £15m.

We provide specialized financing to a range of industry sectors. Some of these services include:

Cash management and payments,

Foreign exchange and risk management,

Loans and bonds,

Trade finance,

Structured investments.

It is about integrating business activities so that HBOS acts as a good corporate citizen and meets the expectations of its stakeholders: colleagues, customers, shareholders, Government, the media and society. Included amongst the activities that HBOS aim to integrate are:

Marketplace - products, financial literacy, inclusion - promoting the interests of shareholders and customers; dealing fairly with suppliers.

Employment - total reward, diversity, wellbeing - how HBOS aim to attract and retain the best workforce.

Community - community investment, volunteering, sponsorship - how HBOS manage our relationship with society in general.

Environment - responsible resource stewardship, etc. - managing organizational environmental impacts effectively.

Positive Argument:

Departmentalism and specialization is a structures and the performance of the respective firms. By working in departmentalism and specialization, the staff in Lloyds TSB and HBOS are able to work efficiently through their skills, knowledge, professional and interest.

Negative Argument

Failure on departmentalism and specialization, the organization will not perform well, loss on business profit, lack of efficient, organization collapse, in a mess daily function and so on.

4. 2. 5 Limited Resources

Lloyds TSB

HBOS

Branches: 1, 900

Employees: 70, 000

Customers: 16 million

Savings: Lloyds is the UK's fourth largest saving provider.

Retail saving balance: £65 billion

Revenue: £18 billion (2007)

Profit: £4 billion (2007)

Branches: 1, 100

Employees: 72, 000

Customers: 22 million

Savings: HBOS is the market leader

Retail saving balance:£139 billion

Revenue: £21, 291 million (2007)

Operating income: £5, 149 million (2007)

Profit: £4, 109 million (2007)

Positive Argument

Mergers and acquisitions generally succeed in generating cost efficiency through the implementation of economies of scale. It may also lead to tax gains and can even lead to a revenue enhancement through market share

gain. With refer to the acquisition; Lloyds TSB could achieve ' cost saving' from the £1. 5 billion a year.

Negative Argument

In order to achieving revenue and cost synergies, Lloyds TSB and HBOS will face the conflict problems such as reduces 20, 000 redundant staff, 164 branches network to close.

4. 3 Conflict challenges faced between Lloyds TSB and HBOS are as follows:

Lloyds TSB

HBOS

Job insecurity due to recession

Financial crises in the market

Searching for new investors

Quick decision on merging with HBOS

Financial crisis

Fund raising from the whole sale market

Misleading interview

Clearing the picture about the organization

5.0 Nature of Organizational Change in Lloyds TSB and HBOS

It refers to the overall nature of activities, such as their extent and rate, that occurs during acquisition that aims to enhance the overall performance of the organization. The activities are often led by a change agent, or person currently responsible to guide the overall change effort. The activities are often project-oriented and geared to address a current overall problem or goal in the organization. Besides that, organizational change also involves the external and internal environment of an organization is in a state of constant change. The organization has to re-adjust itself to this changing scenario in order to sustain competitive advantage in the market.

5.1 External forces of change

External forces of change create from outside the organization. This is because these forces have global effects; they may cause an organization to question the essence of what business it is in and the process by which products and services are produced. There are four key external forces for change such as: demographic characteristics, technological advancements, market changes, and social and political pressures.

5.2 Internal force to change

Internal forces to change are come from inside the organization. These forces may be subtle, such as low morale, or can manifest in outward signs, such as low productivity and conflict. Internal forces for change also come from both human resource issues and managerial behavior.

5. 2. 1 Human Resource issues

This issues stem from employee perceptions about how they are treated at job and the match between individual and organization needs and desires.

5. 2. 2 Managerial Behavior

Excessive interpersonal conflict between managers and their subordinates is a sign that change is needed. Both the manager and the employee may need interpersonal skills training, or the two individuals may simply need to be separated.

5. 3 The stage of Organizational Change in Lloyds TSB and HBOS

According to Robbins (2003), a well-known approach to managing change, that requires people to go through three separate processes, is called Lewin's Three-Step Change Model. Lewin developed the three-stage model of planned change which explained how to initiate, manage, and stabilize the change process. The three stages are unfreezing, changing, and refreezing (p. 564).

Figure 3: Movement of an organization from a status quo to a desired state

The first transition step is unfreezing, requires a personnel to say goodbye to the way things used to be. The managers must understand that their employees are being asked to give up tasks and processes that have made their previous successful in the past and all the emotional and resistance factors will kick in if enough time is not allotted for this step. The second step is movement, when everyone shifts into neutral. The employees in the organization may have given up their old ways of accomplishing tasks, but

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they may not quite ready to start using the new process. Employees may seem a slight uncomfortable and there is often confusion. Managers have to manage movement step carefully if not the staffs may try to revert back to the old process. A comparison for unfreezing and movement differences is provided at below. The final step is refreezing, when everyone moves forward and starts accomplishing tasks in the new manner. Again, the great care must be taken when managing this step to identify resistance and prevent personnel from going back to the original process.

Figure 4: The differences between unfreezing and movement

Table: (a) An organization before the change; the Change Group is inactive

(b) O