

An Analysis of HR aspects of Merger and Acquisition in Banking Sector

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Abstract

Banking industry is growing at very fast pace in India. As a result of increasing competition, number of banks going bankrupt has also manifolded. Now a day's many small banks have join their hands with other banks in form of mergers and acquisitions to enjoy the benefit of financial synergy. It has helped banks in increasing their debt capacity and revenues. Undoubtedly mergers and acquisitions help banks to achieve their organizational objectives. But many of the merged banks have failed to achieve their desired objectives because of the lack of consideration towards many factors related to human resource management such as power & conflict, lack of communication, cultural differences, job security, lack of motivation, diminished trust etc. This article discusses the role of managing people as an essential tool for success of any mergers & acquisitions. In this paper efforts have been made to explore various aspects of human resource management which are required to be considered at the time of mergers and acquisitions.

Keywords: Human resources, Organizational, Banks, Merger, Acquisition, Dimensions.

Introduction

In the era of globalization, mergers and acquisitions have become as an important business strategy to order to improve the organizational performance. A merger is generally defined as the combination of two or more organizations and formed a new organization under the common owner and management structure. Whereas in case of acquisition, one entity takeover another entity in which all the assets and liabilities of the acquired bank get transferred to the acquirer bank. In order to improve profitability, many banks follow the path of merger and acquisition. The main aim of merger and acquisition is to diversify the risk. In both of the cases, HR professionals have to face a lot of challenges. In the process of merger and acquisition, the management team of both organizations consider all implications of a proposed merger or acquisition.

Literature Review

Swanson & Holton, (2001) in their study stated the importance of HR programs in training and development in order to improve employee performance. They laid emphasis on ensuring that employees will have the competencies required for future jobs.

Zingheim and Schuster, (2001) in their study has suggested a wide range of alternatives to make reward system work in favor of both the companies under merger and their workforce. They emphasized on continue paying stay bonuses to keep people with core competencies, implement total reward solution, follow pre-acquisition reward practice of the acquired company, blend few of the practices or design a totally new reward solution.

Thach and Nyman (2001) stated different roles played by leaders in different phases of the merger process. First of all, leaders must handle the emotional fallout while encouraging their employees to continue to focus on work. They need to 'renegotiate performance objectives'. They should communicate with employees about what work will stop, start, and continue. They should discuss with employees regarding positive impact of the merger. This might mean increasing the frequency of one-one discussions with employees. They have to supervise implementation and working through cultural and system differences between the merged companies.

Davenport (2002) emphasized on the integration stage to be most important in merger and acquisition process. He stated the role of integration due to difference in culture management practices, organization policies and work in order to achieve the merger and acquisition goals.

Cianne (2002) stated that during the merger and acquisition process, focus should be on the processes of integration of human capital and change management. The study emphasized on development of a new design for the entire combined entity focusing on organisation structures, organisation systems, and management practice and policy.

Zhu et al (2004) emphasized that depending on the nature of information, goals of the organization, specific needs and concerns of the employees, needs and expectations of employees, the communication should vary in its openness. Reward strategy should be redesigned after merger and acquisition.

Papadakis (2005) stated that there exists positive relationship between communication frequency and successful implementation of the mergers. He emphasized that in order to increase the success in the implementation process; communication frequency to employees should be increased. He pointed out that the existence of an integrated communication program was most significant factors for successful implementation of merger related changes. He found out that high level of communication helps in creating smooth working climate and in understanding cultural differences.

Schweiger and Goulet (2005) pointed out that ego

differences may arise in case of merger or acquisition due to cultural differences. For the successful integration, elimination of cultural differences is most important step. He stated that both the acquirer and acquired must rise above their ego and develop empathy for one another for successful merger and acquisition.

Gaughan (2005) stated that human resource departments have become very practical and strategic. He emphasized that human resource departments can add significant value for companies through development, managing personnel conflict, reinforcing the new HR system and corporate culture, and providing leadership and communication to reduce turnover.

Research Methodology

Merger and acquisition activities are coming up at very high speed in banking sector in India. Objective of the Study:

To find out the various dimensions of HR perspective of merger in Banking Sector.

To examine the variations in employee perception in relation to various dimensions of HR perspective of merger in Banking Sector.

To compare dimensions of HR perspective of merger between various banks.

Research Hypotheses:

To conduct this research following hypotheses have been formulated:

H1: There is significant difference between in perception of employees regarding various dimensions of HR perspective of merger in Banking Sector on the basis of their experience.

H2: There is significant difference between in perception of employees regarding various dimensions of HR perspective of merger in Banking Sector on the basis of their gender.

H3: There is significant difference in response of employees of various banks in relation to dimensions of HR perspective of merger in Banking Sector.

Scope of the study:

The duration of the research work is one and a half year. The survey was limited to Delhi NCR.

Data Collection: For the purpose of study, both primary and secondary data has been used. The secondary data has been collected through journals, magazines, and other published research papers. The primary data has been collected with

the help of structured questionnaire. A total of 250 questionnaires have been distributed. Out of 250, 180 respondents filled the questionnaire. Out of 180, 160 questionnaires are filled properly and qualified for further study. The questionnaire is based on 5 point Likert scale where 1 means strongly agree, 2 means Agree, 3 means Neutral, 4 means Disagree and 5 means strongly disagree.

Sample Design:

Questionnaires have been filled by the employees of those banks which banks have merged successfully. For the purpose of study the size of sample taken is of 250 employees working in banks of NCR region.

Analytical Tools:

For the purpose of data analysis, statistical techniques such as Exploratory Factor Analysis, Reliability Testing and

ANOVA have been applied. The analysis has been carried out with the help of SPSS software.

Analysis and Interpretation

After data collection, data preparation, and data analysis was carried out. Total 160 questionnaires have been considered for analysis. The captured responses were entered, coded and tabulated in SPSS software.

Respondent's profile:

To get an overview of sample characteristics, an analysis of the demographic characteristics of 60 respondents was carried out. With the help of simple descriptive statistics the respondents' characteristics were summarized. Table 1 presents the profile of the respondents.

Table 1 Respondent's Profile

		No. of Respondents
Gender	Male	88
	Female	72
Experience	Less than 5 year	13
	5-10 year	75
	More than 10 year	72
Bank Name	ICICI Bank	65
	Kotak Mahindra bank	45
	HDFC Bank	15
	State Bank of India	45
Merged Bank Name	Bank of Rajasthan	65
	ING Vyasya Bank	45
	Centurion Bank of Punjab	15
	State Bank of Indore	45

The analysis results pointed out that the sample represented the entire population as survey captured responses from people from various banks, gender, and experience.

Various dimensions of HR perspective of merger in Banking Sector:

The 20 items related to HR practices for merger & acquisition as shown in Table 2 has been used for the

purpose of study. EFA has been applied to identify the factors of HR practices for merger & acquisition in banking industry.

Table 2

ITEM CODE	DESCRIPTION
P1	Working culture has been improved.
P2	Employees' salary or pay level has increased.
P3	Job security of the employees has increased.
P4	Growth opportunities of staff have increased.
P5	Working environment has become friendlier.
P6	Promotion policies have become more unbiased and transparent.
P7	Employee participation in decision making has increased.
P8	Alignment of compensation, benefits and welfare schemes has transformed.
P9	Employee's turnover of bank has reduced.
P10	HR policies and procedures of bank have improved.
P11	Organizational structure has been improved.
P12	Incentives for the employees have increased.
P13	Job responsibilities of employees have revised.
P14	Retrenchment policies have been followed.
P15	Employees have been reallocated their job.
P16	Proper Training has been provided before merger.
P17	Induction program has been conducted after merger.
P18	Co-workers give their support after merger.
P19	Sufficient Resources are provided to perform your job.
P20	Value system of bank has improved.

Exploratory Factor Analysis:

To identify the factors, the factor analysis has been applied to the captured responses from 160 respondents. The variables with loadings of at least 0.4 were considered in the analysis. Five factors have been extracted which affect

job satisfaction. The extracted factors have been rotated using varimax rotation method. These rotated factors with their variable constituents are given in Table 3 and factor loadings are given in Table 4.

Table 3
Component Matrix

	Component					
	1	2	3	4	5	6
p1		.408	.527			
p2			.705			
p3	.616					-.501
p4	.591					
p5	.636					
p6	.736					
p7	.833					
p8	.511				.514	
p9	.667					
p10	.527	.414		-.418		
p11	.500	.475		-.480		
p12	.407		.497			
p13	.623					
p14	.502	-.477				
p15	.657	-.445				
p16	.653					
p17	.631					
p18	.627					
p19	.589				.437	
p20	.466					
Extraction Method: Principal Component Analysis.						
a. 6 components extracted.						

Table 4
Factor Loading based on Rotational Matrix

S.NO.	Factors	Item	Loading
1.	Job Design	Incentives for the employees have increased.	.468
		Job responsibility of employee has revised.	.828
		Retrenchment policies have been followed.	.812
		Employees have been reallocated their job.	.675
2	Employee participation, development and welfare	Employee participation in decision making has increased.	.590
		Alignment of compensation, benefits and welfare schemes has transformed.	.807
		Proper Training has been provided before merger.	.636
		Induction program has been conducted after merger.	.529
3	Supportive HR System	HR policies and procedures of bank have improved.	.753
		Organizational structure has been improved.	.736
		co-workers give their support after merger	.475
		sufficient Resources are provided to perform your job	.763
4	Working Environment	Working environment has become more friendly.	.804
		Promotion policies have become more unbiased and transparent.	.499
		Value system of bank has improved.	.729
5	Career Advancement	Job security of the employees has increased.	.777
		Growth opportunities of staff have increased.	.754
6	Job Satisfaction	Working culture has been improved.	0.704
		Employees salary or pay level has increased	.831

Reliability of the factors was calculated using the Cronbach's alpha test and values are presented in Table 5. A Cronbach's alpha value of greater than or equal to 0.7 is considered acceptable for the factor to be reliable. In this

research, five factors affecting job satisfaction after merger and acquisition have been found to have a satisfactory value of Cronbach's alpha.

Table 5
Reliability test results

S.No.	Factors	Cronbach's Alpha (Reliability Coefficient)
1	Job Design	.764
2	Employee participation, development and welfare	.805
3	Supportive HR System	.756
4	Working Environment	.719
5	Career Advancement	.720
6	Job Satisfaction	.499
Overall Scale		.865

Taking into consideration variables loaded on different factors and relevant literature, six dimensions are named as Job Design, Employee participation, development and welfare, Supportive HR System, Working Environment, Career Advancement, and Job Satisfaction.

Job Design :

Total four items loaded on this factor, which was a maximum number of items on any factor in this study. The factor included following items: Incentives for the employees have increased, Job responsibility of employee has revised, Retrenchment policies have been followed and Employees have been reallocated their job. The reliability coefficient of this factor was 0.764 which is more than the acceptable value of 0.7.

Employee participation, development and welfare :

Total four items loaded on this factor, which was a maximum number of items on any factor in this study. The factor included following items: Employee participation in decision making has increased, Alignment of compensation, benefits and welfare schemes has transformed, Proper Training has been provided before merger, Induction programme has been conducted after merger. The reliability coefficient of this factor was 0.805 which is more than the acceptable value of 0.7.

Supportive HR System :

Total four items loaded on this factor, which was a maximum number of items on any factor in this study. The factor included following items: HR policies and procedures of bank have improved, Organizational

structure has been improved, co-workers give their support after merger, and sufficient Resources are provided to perform your job. The reliability coefficient of this factor was 0.756 which is more than the acceptable value of 0.7.

Working Environment :

Total three items loaded on this factor, which was a maximum number of items on any factor in this study. The factor included following items: Working environment has become friendlier, Promotion policies have become more unbiased and transparent, and Value system of bank has improved. The reliability coefficient of this factor was 0.719 which is more than the acceptable value of 0.7.

Career Advancement :

Total two items loaded on this factor, which was a maximum number of items on any factor in this study. The factor included following items: Job security of the employees has increased, Growth opportunities of staff have increased. The reliability coefficient of this factor was 0.720 which is more than the acceptable value of 0.7.

Job Satisfaction: Total two items loaded on this factor, which was a maximum number of items on any factor in this study. The factor included following items: Working culture has been improved; Employees salary or pay level has increased.

Variations in employee perception in relation to various dimensions of HR perspective of merger in Banking Sector:

To examine the variations in employee perception in relation to various dimensions of HR perspective of merger

in Banking Sector, various hypotheses have been formulated and ANOVA has been applied for Hypothesis testing.

H1: There is significant difference between perceptions of employees regarding various dimensions of HR

perspective of merger in Banking Sector on the basis of their experience.

Perception of employees regarding various dimensions of HR perspective of merger in Banking Sector on the basis of their experience has been presented in Table 6.

Table 6
Difference in perception of employees about HR Perspective based on experience

Dependent Variable	F	Sig.
F1 (Job Design)	.499	.610
F2 (Employee participation, development and welfare)	.731	.486
F3 (Supportive HR System)	1.102	.339
F4 (Working Environment)	.483	.619
F5 (Career Advancement)	.342	.712
F6 (Job Satisfaction)	.074	.928

As per the Table 6, the results indicate that the p value for Job design, Employee participation, Development and welfare, Supportive HR System, working environment, career advancement and job satisfaction are higher than 0.05. It indicates that there is no significance difference in perception of employees for various HR perspective in case of merger in banking sector on the basis of their experience.

H2: There is significant difference between in perception of employees regarding various dimensions of HR perspective of merger in Banking Sector on the basis of their gender.

Perception of employees regarding various dimensions of HR perspective of merger in Banking Sector on the basis of their gender has been presented in Table 7.

Table 7
Difference in perception of employees about HR Perspective on the basis of Gender

Dependent Variable	F	Sig.
F1 (Job Design)	.064	.801
F2 (Employee participation, development and welfare)	4.783	.033
F3 (Supportive HR System)	1.891	.174
F4 (Working Environment)	1.824	.182
F5 (Career Advancement)	.194	.661
F6 (Job Satisfaction)	.055	.816

As per the Table 7, the results indicate that p value for Job design, Supportive HR System, working environment, career advancement and job satisfaction are higher than 0.05 whereas p value for Employee participation, Development and welfare is less than 0.05. It indicates that there is no significance difference in perception of employees towards dimensions such as; Job design, Supportive HR System, working environment, career advancement and job satisfaction on the basis of their gender. It also indicates that there is significance difference in perception of employees towards Employee participation, Development and welfare on the basis of their gender.

Comparison of dimensions of HR perspective of merger between various banks:

H3: There is significant difference in response of employees of various banks in relation to dimensions of HR perspective of merger in Banking Sector.

The responses of employees of various banks in relation to dimensions of HR perspective of merger in Banking Sector has been presented in Table 8.

Table 8
Difference in perception of employees of different banks
Regarding various dimensions of HR Perspective of merger

Dependent Variable	F	Sig.
F1 (Job Design)	3.681	.017
F2 (Employee participation, development and welfare)	3.663	.018
F3 (Supportive HR System)	5.872	.001
F4 (Working Environment)	3.341	.026
F5 (Career Advancement)	.896	.449
F6 (Job Satisfaction)	7.031	.000

As per the Table 8, the results indicate that the p value of career advancement is higher than 0.05 whereas p value for Job design, Employee participation, Development and welfare, Supportive HR System, working environment and job satisfaction are less than 0.05. It indicates that there is no significance difference in perception of employees of different banks towards the career advancement. It also indicates that there is significance difference in perception of employees of different banks towards the Job design, Employee participation, Development and welfare, Supportive HR System, working environment and job satisfaction.

Conclusion

In this article, it has been pointed out that during merger and acquisition various HR aspects like communication, working culture, pay scale, job security, growth opportunity, motivation, leadership, power & conflict,

incentives, training, retrenchment policies, induction programmes, value system etc. should be duly taken care of for successful implementation of merger. Based on results of the study, the role of various aspects of human resource management has been emphasized in the process of merger and acquisition.

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