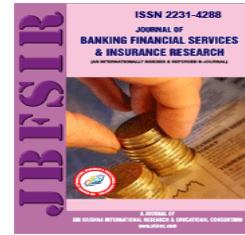




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IMPLICATIONS OF MERGER: A PERCEPTIONAL STUDY

DR. P. NATARAJAN

Professor, Department of Commerce,
 Pondicherry University,
 Puducherry – 605014

K. KALAICHELVAN

Ph.D. Scholar, Department of Commerce,
 Pondicherry University, Puducherry – 605014

ABSTRACT

Mergers and Acquisitions (M&A) is emerging as an important strategy for consolidating financial gains, more particularly in the banking industry. In India, banks of public, private as well as foreign institutions are evincing more interests on M & A, today more than ever, as an attempt in creating an environment to survive the challenges imposed on them by the dynamic business climate that prevails. Lowering their costs by enhancing operational efficiency has been their important focus in gaining competitive advantage. Mergers and the changes it brings to an organizational setting tremendously impact its members and their perceptions resulting in a change in their approach towards work and organization, by and large. There is a myth that the mergers pose as an extreme form of change and it is often perceived as threatening to individuals by heightening their feeling of vulnerability, insecurity and a breach in psychological contract. This study aimed to test the myth and known the realty.

This paper explores the sense-making of the existing employees of a merger bank in an attempt to understand the formation and maintenance of perceptual image or identify the context of the formation and maintenance of perception about their organizations at a rich at a rich micro-level during a pre and post merger period.

KEY WORDS: *Mergers and Acquisitions, Employees, Perception, Banking Industry, Change*

INTRODUCTION

Economic liberalization in India during the 1990s brought out significant structural change and transformation, especially within the business society. M&A is slowly emerging as one of the most effective long-term business strategy of corporate India (Pramond Mantravadi & Vidyadhar reddy 2007). Business enterprises today have realized the need to grow (Magnitude) and expand in businesses that they understand well (Competence) to face the growing competition. Mergers have been taken up as a restructuring exercise to sell off non-core business and to consolidate their stronger presence in their core areas of business interest.

MERGERS AND ACQUISITIONS OF BANKS IN INDIA

The banking industry is an important area in which mergers and acquisitions do make enormous financial gains. Banks of both Indian- public and private as well as foreign banks are evincing more interests on M & A and create competitions to survive with lot of challenges imposed on them. Increasing their operational efficiency by lowering their costs (both operational costs and the cost of credit) is the only way to sustain at this dynamic climate.

EMPLOYEES' PERCEPTION OF MERGER BANK

Mergers are a key context for the creation and management of a modified psychological contract or employment relationships between employees and firms thereby affecting the element of trust (Rosalind H. Searle and Kirstie S. Ball, 2004). Mergers force employees to examine, and often change, their understanding of the organization. To the employees, mergers pose as an extreme form of change and are often perceived as threatening to individuals, heightening vulnerability and loss of security (Saunders and Thronhill, 2003).

In spite of this growing concern, even today very limited attention has been given to management of perception of the employees within the merger context, particularly the cognitions, feelings and interpretations of those who remain with the firm. Perceptions are based not only on the fairness and treatment of departed colleagues, but also from experiences of existing and new employees. This is a significant phenomenon as

organizations expect an on-going cooperation of this group of employees, ensuring for the continuing viability of the firm. Particularly in India, where so much of social identity and esteem is attached to the work organization, the complexity rises out of mergers and acquisitions are manifold (Satish Kumar and Lalit K. Bansal, 2008).

This paper explores the perception (sense-making) of the existing employees of a merger bank to identify the context of the formation and maintenance of perceptual image about the effect of mergers at a rich micro-level through a pre and post merger period. In this paper, the researchers begin by conceptualizing the emerging employment relationship issues and its effect on mutuality of trust and justice perceptions within a merger context. The mean scores are calculated for ascertaining pre and post merger efficacy.

In order to know whether the opinion of the respondents about pre and post merger status is independent of their socio-economic characteristics or not, the mean perception scores are compared across categories by socio-economic characteristics and the significance of the difference in mean values are checked using t-test for two groups and F-test (one-way ANOVA) for more than two groups.

OBJECTIVE OF THE STUDY

To understand employee's perception about the implications of mergers in the banking industry

SAMPLE CHARACTERISTICS

M&A are not new to the Indian banking sector. Between 1961- 2004, 71 mergers took place among various banks in India. M&A deals undertaken in banking sector during pre and post financial sector Reform periods are given in the table1.

TABLE NO. 1 SCHEDULE OF BANK M & A IN INDIA IN POST REFORM PERIOD

Sr.No	Merger Bank	Merged Bank	Year
1.	Bank of Karad Ltd.	Bank of India	1993-1994
2.	Kashinath Seth Bank*	State Bank of India	1995-1996
3.	Punjab Co-op. Bank Ltd.	Oriental Bank of Commerce	1996-1997
4.	Bari Doab Bank Ltd.	Oriental Bank of Commerce	1996-1997
5.	Bareilly Corp. Bank Ltd.	Bank of Baroda	03-06-1999

6.	Sikkim Bank Ltd.	Union Bank of India	22-12-1999
7.	Times Bank Ltd.	HDFC Bank Ltd.	26-02-2000
8.	Bank of Madura	ICICI Bank	Mar. 2001
9.	Benaras State Bank Ltd.	Bank of Baroda	20-07-2002
10.	Nedungadi Bank Ltd.	Punjab National Bank	01-02-2003
11.	Global Trust Bank Ltd.	Oriental Bank of Commerce	24-07-2004
12	Centurian Bank	Bank of Punjab Ltd.	01.04.2005
13	United Western Bank Ltd.	IDBI ltd.	02.04.2005
14.	The Ganesh Bank of Kurundward ILtd.	The Federal Bank Ltd.	02.09.2006.
15.	Bharat Overseas	Indian overseas Bank	31.03.2007
16	The Sangli Bank Ltd	ICICI Bank	19.04.2007
17.	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	29.08.2007

Source: Lakshminarayanan, P., (2005), Consolidation in the Banking Industry through Mergers and Acquisitions, Special Issue, Indian Banks Association Bulletin, Indian Banks Association, (January), pp. 92-99. Manoj kumar “Efficiency Gains from Mergers and Acquisitions of Indian Banks: A Data Envelopment Analysis Approach

*These banks are selected for the purposes of the study.

METHODOLOGY OF THE STUDY

The main purpose of this empirical study was to analyze the perceptions of employees of a merger bank and its impact on the performance of such banks. A comprehensive survey was undertaken among the employees of banks that have gone for M&A during the post-reform period on the effectiveness of M & A- **employees' perception about the banks performance were collected for eliciting inferences..**

DATA COLLECTION

The primary data collection was done among the employees of the selected banks by adopting cluster sampling technique. A comprehensive questionnaire was created with two sections. The first section consisted of the job demographic details and the second consisted of 14 statements measuring the perception of employees. 5-point Likert type scale was adopted for this individual statements and notified as, '1' for "strongly disagree", '2' for "disagree", '3' for "neutral" (Neither disagree nor agree), '4' for "agree" to '5' for "strongly agree". The questionnaire was then distributed to 100 employees, who have been working with 8 merged banks during pre and post merger period in the UT of Pondicherry. The collected data was subsequently entered into SPSS for data analysis and conclusion generation.

DEMOGRAPHIC PROFILE OF RESPONDENTS

To elicit the views of employees about the attitudinal changes in post merger period an in-depth survey has been conducted from among bank employees. The demographic profiles of the employees are given below.

TABLE 2 PROFILE OF THE RESPONDENTS

Profile	Number of Respondents	% to Total
Banking Sector		
Public	79	79.0
Private	21	21.0
Age		
Up to 30	34	34.0
31 - 40	35	35.0
Above 40	31	31.0
Sex		
Male	71	71.0
Female	29	29.0
Designation		
Clerk	50	50.0
Officer	50	50.0
Marital Status		
Married	64	64.0
Unmarried	36	36.0
Education		
Below Degree	17	17.0
Degree	54	54.0
Above Degree	29	29.0
Profile	Number of Respondents	% to Total
Experience: Up to 5 years	37	37.0
6 - 15 years	41	41.0
Above 15 years	22	22.0

Monthly Income		
Up to Rs.150000	39	39.0
Rs.150000-500000	44	44.0
Above Rs.500000	17	17.0
Family Type		
Joint	55	55.0
Nuclear	45	45.0
Total Sample	100	100.0

Source: Primary Data.

This table clearly states that the respondents (employees in the sample) from public sector banks (79%) outnumber the private sector banks (21.0%). The respondents aged above 40 years comprise 31.0 per cent of the sample, while 34.0 per cent and 35.0 per cent of the employees in the sample aged between 31-40 years and up to 30 years respectively. The male groups constitute 71.0 per cent while remaining 29 per cent comprises of female employees.

The clerks and officers in the sample are equally divided. While number of married cases is 64.0 per cent, the remaining 36.0 per cent of the total cases is unmarried. Regarding education, graduates are higher (54.0%) followed by post-graduates and above degree group with 29.0 per cent and below degree group with 17.0 per cent. The employee group with experience between 6-15 years is 41.0 per cent, up to 5 years is 37.00 per cent and those with experience in the job for above 15 years is 22.0 per cent.

As far as the annual income is concerned, 44.0 per cent of the respondents in the sample tend to earn between Rs.150000 – 500000, while 39.0 per cent earn up to Rs.150000. Further, it is evident from that the sample respondents from joint families (55.0%) outnumber those from nuclear families.

HOW EMPLOYEES FEEL ABOUT MERGER

The attitude of the bank employees before merging activities are analyzed by averaging the scores of all five statements. In order to find out whether obtained mean scores are in

the “disagree”, “agree” or “neutral” range, the calculated mean opinion scores are compared with 3, the value for neutral level, which is considered as hypothetical mean, Z test is used. The significant and negative Z value reveals the “disagree” attitude and significant positive Z value indicates the “agree” attitude of the entire respondents in the sample. From insignificant Z value, it can be understood that the respondents are neither disagree nor agree with the statement. In the comparative analysis, the mean scores below 2.50 indicates that the number of respondents with “disagree” and “strongly disagree” opinion is more. Similarly, the mean scores above 3.50 shows that there are more cases with “agree” opinion. The score above 2.50 and below 3.50 shows the dominance of “neutral” opinion cases.

TABLE 3 HOW EMPLOYEES FEEL ABOUT MERGER

Sl. No	Statements	Mean	Z value	Banks		T value
				Pub. (N=79)	Pvt. (N=21)	
1	I was nervous about my future when I heard about the merger	3.61 (0.99)	6.14***	3.77 (0.93)	3.00 (1.00)	3.32* **
2	The communication from top management about the merger plans was assuring	3.64 (0.88)	7.26***	3.72 (0.86)	3.33 (0.91)	1.81*
3	I feel sufficiently informed about the process of the merger	3.51 (0.87)	5.86***	3.54 (0.89)	3.38 (0.80)	0.76
4	I understand the objectives behind the merger	3.52 (0.98)	5.31***	3.48 (1.04)	3.67 (0.73)	-0.77
5	I believe that the merger is the right way for the Bank to become market leader in India	3.53 (0.92)	5.79***	3.52 (0.95)	3.57 (0.81)	-0.23

***Significant at 1% level. Figures in **brackets** are standard deviation.

In this table, it is observed that the mean scores are above 3.50 for all statements, and all scores are significantly different from ‘neutral’ level. That is, most of the employees in

both public and private sector bank have agreed that “they are nervous about their future when they heard about the merger”, “the communication from top management about the merger plans was assuring”, “feel sufficiently informed about the process of the merger”, “understand the objectives behind the merger” and “believe that the merger is the right way for the Bank to become market leader in India”.

Table 3 shows the mean opinion level as well as t-test results comparing the mean opinion between public and private sector bank employees pertaining to various aspects of before merging activities.

Further, the table reveals table that the private sector bank employees (Mean = 3.00) neither nervous nor relaxed about their future when they heard about the merger differ significantly from public sector bank employees (Mean = 3.77), who are nervous (F value = 3.32, p < 0.01). Similarly, the attitude of private sector bank employees towards “communication from top management about the merger plans was assuring” (Mean = 3.33) is neither positive nor negative and differ in their view from public sector employees (Mean = 3.72) who have agreed with the above (F value = 1.81, p < 0.10). Regarding other before merging activities, there is no difference of opinion between public and private sector bank employees.

ATTITUDE OF BANK EMPLOYEES IN POST – MERGER SITUATION

In this table, it is observed that the Z values for all statements are positive, in turn indicating that there has been an agreement among respondents about various aspects of “after merging activities”. The mean value is as high as 3.80 (“I look towards my professional future at the Bank in a positive way”) and low of 3.22 (“Present Salary Structure at the Merged Bank is good”). So, it is deduced that the bank employees have agreed that they “perceive the professional future at the bank in a positive way after merging activities”, “feel welcome and respected by my new colleagues”, “feel adequately involved in changes to my work environment”, “their supervisor provides them with the necessary orientation concerning the merging process”, “suggestions / feedback are always received

**TABLE 4 ATTITUDE OF BANK EMPLOYEES IN POST – MERGER
SITUATION**

Sl. No	Statements	Mean	Z value	Bank		T value
				Pub. (N=79)	Pvt. (N=21)	
1	I feel adequately involved in changes to my work environment	3.69 (0.96)	7.18*** 4.54***	3.65 (1.05)	3.86 (0.48)	-0.90 1.70*
2	My supervisor provides me with the necessary orientation concerning the merging process	3.51 (1.12)		3.61 (1.14)	3.14 (1.01)	
3	I miss my colleagues from the previous bank	3.42 (1.07)	3.94*** 2.95***	3.39 (1.09)	3.52 (0.98)	-0.50 1.76*
4	I feel out of place in the new Bank	3.33 (1.12)		3.43 (1.12)	2.95 (1.07)	
5	I experience frustration and stress from my attempts to adapt to the culture in the merged Bank	3.27 (1.09)	2.48** 3.98***	3.32 (1.12)	3.10 (1.00)	0.82 0.89
6	There are things in my new work environment that I find surprising	3.42 (1.06)		3.47 (1.06)	3.24 (1.04)	
7	I feel nervous and uncomfortable when meeting individuals from the merged Bank	3.27 (1.17)	2.31** 4.23***	3.35 (1.17)	2.95 (1.16)	1.41 -2.15**
8	I have a clear understanding of my role within the new Bank	3.46 (1.09)		3.34 (1.15)	3.90 (0.62)	
9	I feel welcome and respected by my new colleagues	3.74 (0.93)	7.97*** 3.89***	3.71 (1.00)	3.86 (0.57)	-0.65 -0.38
10	My suggestions / feedback are always received by my supervisors	3.48 (1.23)		3.46 (1.33)	3.57 (0.81)	
11	I look towards my professional future at the Bank in a	3.80	8.58***	3.84	3.67	0.74

	positive way	(0.93)		(0.98)	(0.73)		
12	Feel good with the merged Bank	3.40	4.24***	3.43	3.29	(0.72)	0.62
		(0.94)		(1.00)			
13	Present Salary Structure at the Merged Bank is good	3.22	2.01**	3.24	3.14	(0.96)	0.36
		(1.10)		(1.13)			
14	I am happy at my Work place	3.42	3.55***	3.32	3.81	(0.93)	-1.72*
		(1.18)		(1.23)			

***Significant at 1% level. Figures in brackets are standard deviation

by my supervisors”, “have a clear understanding of my role within the new Bank”, “feeling happy at Work place”, “Feel good with the merged Bank”, “Present Salary Structure at the Merged Bank is good”. They also have agreed that “they miss their colleagues from the previous bank”, “out of place in the new Bank”, “they experience frustration and stress from their my attempts to adapt to the culture in the merged Bank” and “feel nervous and uncomfortable when meeting individuals from the merged Bank” after merging activities.

Perusal of the Table 4 shows that the level of attitude of public sector employees is significantly higher than that of private sector employees in respect of “My supervisor provides me with the necessary orientation concerning the merging process” (Mean = 3.61 for public sector bank employees and 3.14 for private sector bank employees; t-value = 1.70, $p < 0.10$) and “I feel out of place in the new Bank” (Mean = 3.43 for public and 2.95 for private sector bank employees; t-value = 1.76, $p < 0.10$). On the other hand, the level of attitude of private sector bank employees is significantly higher than that of those in the public sector banks with regard to “I have a clear understanding of my role within the new Bank” (Mean = 3.90 for private and 3.34 for public sector bank employees; t-value = -2.15, $p < 0.05$) and “I am happy at my Work place” (Mean = 3.81 for private and 3.32 for public sector bank employees; t-value = -1.72, $p < 0.10$). Regarding other aspects due to after merging activities, the level of attitude remains same

between public and private sector banks employees. As the attitude of the public and private sector bank employees “after merging activities” is similar towards most of the aspects, it is deduced that there is no significant difference in the level of attitude between public and private sector bank employees “after merging activities”.

DISCUSSION

This study traced the perceptions of employees in an organizational merger among banks in India. It is observed from the findings of this study that the job demographic characteristics and the level of attitude of public and private sector banks employees towards “before merging activities” and “after merging activities” are independent. A significant finding that reinstated other researches in the merger context was that of the reaction pattern of the bank employees. These employees experienced nervousness about their future when they heard about the merger” before merging activities. However, communication efforts directed by the top management were somewhat reassuring to them and they expect the management to be open and promptly communicate the organizational change. It is therefore concluded that employees of merger companies are quite sceptical about the management decision to merge initially and they are not prepared for ‘surprises and shocks’ in the form of mergers all of a sudden. Also, employees are increasingly aware of the potential opportunities that arise out of merger strategy and a significant proportion of them feel it is important to undertake merger to gain competitive edge among competitors.

Further, it is concluded that the bank employees “after merging activities” have felt adequately involved in changes to their work environment, welcome and respected by their new colleagues and looked towards their professional future at the Bank in a positive way. They have also agreed that their supervisor provided them with the necessary orientation concerning the merging process “after merging activities”.

CONCLUSION

This perception study offers insights into the importance of employees perception management of employees during the merger process and after. Sustaining the interests and positive perceptions among employees require synergy between what was done and how it was done at an individual level in a merged context; particularly justice perception elements such as: showing respect for staff, providing information and keeping promises are crucial. Public bank organizations need to improve on this dimension when compared to private banks. One significant limitation of this study is that, it failed to appreciate the importance of others' experiences as a factor for influencing positive perceptions. The researcher feels that this dimension is more prominent where there was a dearth of formal communication during the mergers.

An effective and open communication strategy is found to alleviate some of the existing concerns of mistrust during the process. Although a small sample, these rich data does concur with other findings. Further research is required to establish the contribution of psychological well-being of employees, quality of supervisory relationships and the antics of new management in determining the perceptions during and after the mergers. Further, this study can also be extended to other industrial sectors to examine the generalization of this finding.

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