An Empirical Study on Mergers and Acquisitions on Job Security of Employees in Indian Banks

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ABSTRACT

Financial sector reforms and liberalization are the by-products of globalization since 1990s. But they have brought the problem of efficiency and profitability to the fore of the banks. The increasing competition among banks and constant decline in profitability has created a lot of pressure on banks to merge and be acquired by other banks. With high competition, deregulation of rates of interest, and arrival of foreign and domestic banks, business of banks is no longer limited to just lending and deposits at regulated rates. In this changed economic scenario, only those banks can survive which can adopt proper cost control and customer-focused approach. Mergers and Acquisitions (M&A) has been a suitable option for banks to achieve a competitive edge. This trend is increasing among private and public sector banks but M&A somehow affects the overall productivity and job security of employees.
Hence, the aim of this study is to analyse the impact of mergers and acquisitions on job security of employees in Indian banks. The process of mergers and acquisitions is increasing in India. In order to fulfil this objective, this study is based on primary data collected through online survey. A self-structured questionnaire was prepared to share among employees in Indian banks to know about their opinion about mergers and acquisitions of their banks and impact on their job performance and security.

Keywords: *mergers and acquisitions, M&A, job performance, job security, Indian banks, employees, globalization, liberalization*

INTRODUCTION

In this day and age, “mergers and acquisitions (M&As)” are the approach used by companies for expansion, growth, and to deal with financial issues. In modern corporate world, the process of M&As has received a lot of attention. It is found that there are so many laws which are accessible on several corporate modes in India to restructure, such as the “Securities Contract Regulation Act, 1956”, “Companies Act, 2013”, “SEBI Act, 1992”, “Industries (Development & Regulation) Act, 1951”, “State Bank of India Act, 1955”, “Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002”, and the “Banking Regulation Act, 1949” (Al-Sharkas & Hassan, 2010).

In this day and age, there has been a change in M&As in India. There are diverse effects of M&As in various segments of economy. Banking is the core pillar of economy. Government-owned banks are the major part of banking sector in the country, “even though there are minority and private shareholders in some public sector banks. Banks are stimulated to have better synergy and global reach with bank mergers and also enable larger banks to achieve stressed assets of small banks. In India, merger between weak banks must grow instantly in a way that they can be reformed to provide consistency of jobs (Bouwman et al., 2003).

Commercial banks have adopted a classic restructuring strategy of “mergers and acquisitions” worldwide while hoping to improve the efficiency of banks. Various strategic benefits like improving stakeholders’ wealth, cost efficiency, and economies of scale can be achieved through this restructuring strategy. Over the years, it has been observed that financial meltdown has caused huge impact on economy and resulted in subprime crisis, making it important to improve the efficiency of commercial banks (Yogi, 2022).

BACKGROUND

Merger refers to the amalgamation of two businesses into one entity. As defined by Oxford Dictionary, “Merger refers to combination of two businesses into one.” Similarly, bank merger takes place when two different banks are combined into one body (Freixas and Santomerro, 2003). A merger usually takes place when an individual bank loses its charter and turns out to be the part of current bank with a unified branch and one headquarter (Geete, 2013). Mergers take place by adding the assets and liabilities of bidder banks to the balance sheet of target bank and acquiring the name of bidder’s bank with several administrative and legal procedures.

In Indian banks, mergers and acquisitions have been started by the reference of “Narasimham Committee II.” It is suggested that the merger among strong financial institutions or banks would make “better commercial and economic sense and it would be the case where the result would be better than the sum of its parts and make a force multiple effect (Narasimham committee II, chapter, para 5.13 -5.15)”. Table 1 lists some of the banks merged after liberalization in India.

Table 1 – Merger of Banks in India since 1990s

Year of Merger	Acquirer bank	Target bank	Purpose of merger	Merger type
1993	“Punjab National Bank (PNB)”	“New Bank of India”	Rebuilding weak bank	Forced
1993	“Bank of India (BOI)”	“Bank of Karad Ltd.”	---do---	---do---
1995	“State Bank of India (SBI)”	“Kashinath Seth Bank”	---do---	---do---
1997	“Oriental Bank of Commerce”	“Punjab Co-operative Bank Ltd.”	---do---	---do---
1997	“Oriental Bank of Commerce”	“Bari Doab Bank Ltd.”	---do---	---do---
1999	Union Bank of India	“Sikkim Bank Ltd.”	---do---	---do---
2000	HDFC Bank	“Times Bank”	For “scale and scope economies”	Voluntary
2001	ICICI Bank	“Bank of Madura”	---do---	---do---
2002	ICICI Bank	ICICI Ltd.	---do---	---do---
2002	“Bank of Baroda”	“Benaras State Bank Ltd.”	Rebuilding weak bank	Forced
2003	PNB	“Nedungadi Bank Ltd.”	---do---	---do---
2004	Oriental Bank of Commerce	“Global Trust Bank”	---do---	---do---

2004	"Bank of Baroda"	"South Gujarat Local Area Bank"	---do---	---do---
2006	"Centurion Bank of Punjab"	"Lord Krishna Bank"	For expansion	Voluntary
2007	ICICI Bank	"Sangli Bank"	For expansion	Voluntary
2008	HDFC Bank	"Centurion Bank of Punjab"	For both expansion and scope economics	Voluntary

Source – Kaur & Kaur (2010)

LITERATURE REVIEW

Senanu & Narteh (2023) determined factors affecting switching behavior of customers in retail banks after mergers and acquisitions induced by regulatory bodies and banking sector reforms. The research approach was quantitative and research design was online survey. After a comprehensive review of literature, they identified five antecedents and conceptualized the same as factors of switching behavior and collected survey data from 392 participants of merged banks. They used "partial least square structural equation modeling" to test the model. Empirical evidence found direct relation between reputation, price, and ineffective communications as factors of switching behavior. The suitable alternatives available have moderated the direct relationship between switching behavior and price.

Cumming et al. (2023) analyzed the major themes and study patterns in mergers and acquisitions in accounting and finance. It is observed that takeovers as systems of governance, systems of mergers, drivers, cross-border mergers, bank mergers, effect of shareholder wealth of mergers and events, as well as role of ownership structure and financial experts form key themes of study in finance and accounting outcomes and corporate governance are key themes in accounting to predict takeovers and their effects, financial reporting, valuation, takeover, and financial performance and reporting.

Mergers and acquisition are not uncommon in businesses. However, it is not easy to say how and if customers will be affected by these processes. **Alvarez-González & Otero-Neira (2023)** assessed mergers and acquisitions in banks in terms of marketing and analyzed its effect on consumer loyalty. They employed purposive sampling approach to collect data from 232 participants with a self-administered questionnaire. PLS-SEM was used to test the model. Findings suggest that customers' perception is affected by mergers and acquisition about variables like their post-merger loyalty and company-customer relationship. These variables are relatively important along with potential impact of some moderators like pace of communication and integration, and customer orientation. Service quality along with prices and products, company image, sales force, and sales channels are the vital antecedents of loyalty.

Gupta et al. (2023) determines the effect of M&A on fiscal performance of real estate and construction sector with a huge range of financial ratios. The study was conducted from 2011 to 2020 and the research tool used was "paired sample t-test" to solve the hypothesis "there is a significant difference in pre-M&A period and post M&A period". It is found that liquidity and profitability ratio improved drastically, while there was no change in performance with leverage ratio. There was a substantial improvement in "fixed assets turnover ratio", but there was a slight improvement in "current asset turnover ratio" and "total asset turnover ratio". It is found that financial performance of real estate and construction sector in India was improved by acquiring firms after M&A.

Hsu & Ma (2023) evaluated whether M&As among 33 Taiwanese banks had potential gains with "dynamic data envelopment analysis (DEA)". It is found that effects of potential merger can be negative or positive.

Potential gains are not guaranteed in mergers. Banks who were performing poorly may improve their operational efficiency with the help of mergers and have ideal potential gains. This way, banks can improve in "economies of scope" through mergers by improving diversity of income.

RESEARCH GAP

Among several studies related to mergers and acquisitions, it is observed that most of the studies are related to policies, trends, and framework. There is a lack of attention given on human aspect of these decisions, while financial and profitability analysis is also very limited. Hence, this study would investigate the impact of mergers and acquisitions on overall performance and job security of employees in Indian banks.

RESEARCH QUESTIONS

- What is the impact of mergers and acquisitions of Indian banks on their employees and their job security?
- How well employees and banks perform after merger in India?

RESEARCH OBJECTIVES

- To evaluate post-merger performance of banks in India
- To find out the impact of mergers and acquisitions of Indian banks on job security of employees

HYPOTHESIS

H0 – There is no significant impact of mergers and acquisitions of Indian banks on job security of employees
H1 – There is a significant impact of mergers and acquisitions of Indian banks on job security of employees

RESEARCH METHODOLOGY

RESEARCH METHOD AND DESIGN

Research method for this study is descriptive in nature. Primary data has been collected through a self-structured questionnaire" which is distributed to employees in various banks in India to discuss the effect of merger on their job security and productivity. There is a lack of studies in developing countries like India conducted on job security in context of mergers and acquisitions of banks.

RESEARCH APPROACH

Research approach of this study consists of distributing questionnaire through Google Form among employees and managers in selected banks in India. The responses will be gathered through Excel spreadsheet and analysed using SPSS software.

RESEARCH TOOLS

Total 150 questionnaires were sent through Google Form and total 83 responses have been collected online. Research tools used in this study were Google Form, Excel Spreadsheet, and SPSS Software 22.0.

ANALYSIS OF STUDY

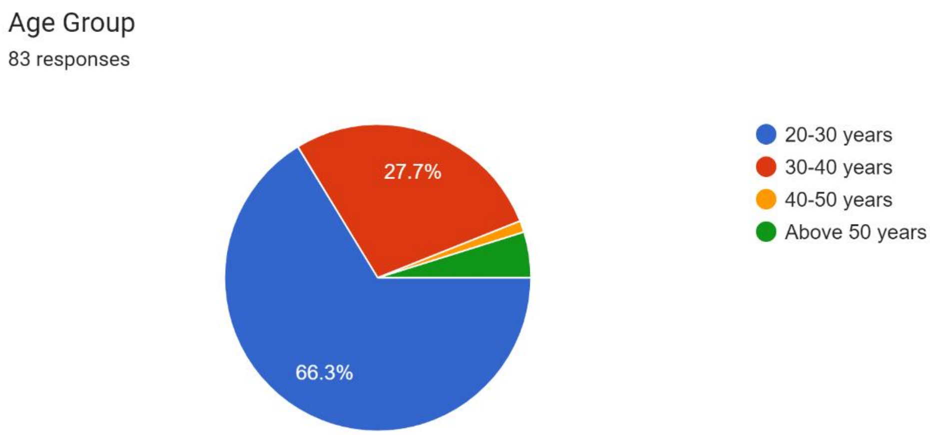
DEMOGRAPHICS

Out of 83 participants, 55 (66%) participants are aged 20 to 30 years old, 23 (28%) participants are 30 to 40 years old, 1 (1.2%) participant is 40 to 50 years old, and 4 (5%) participants are above 50 years old (Table 2) (Figure 1).

Table 2 - Age Group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30 years	55	66.3	66.3	66.3
	30-40 years	23	27.7	27.7	94.0
	40-50 years	1	1.2	1.2	95.2
	Above 50 years	4	4.8	4.8	100.0
	Total	83	100.0	100.0	

Figure 1 – Age Group of participants

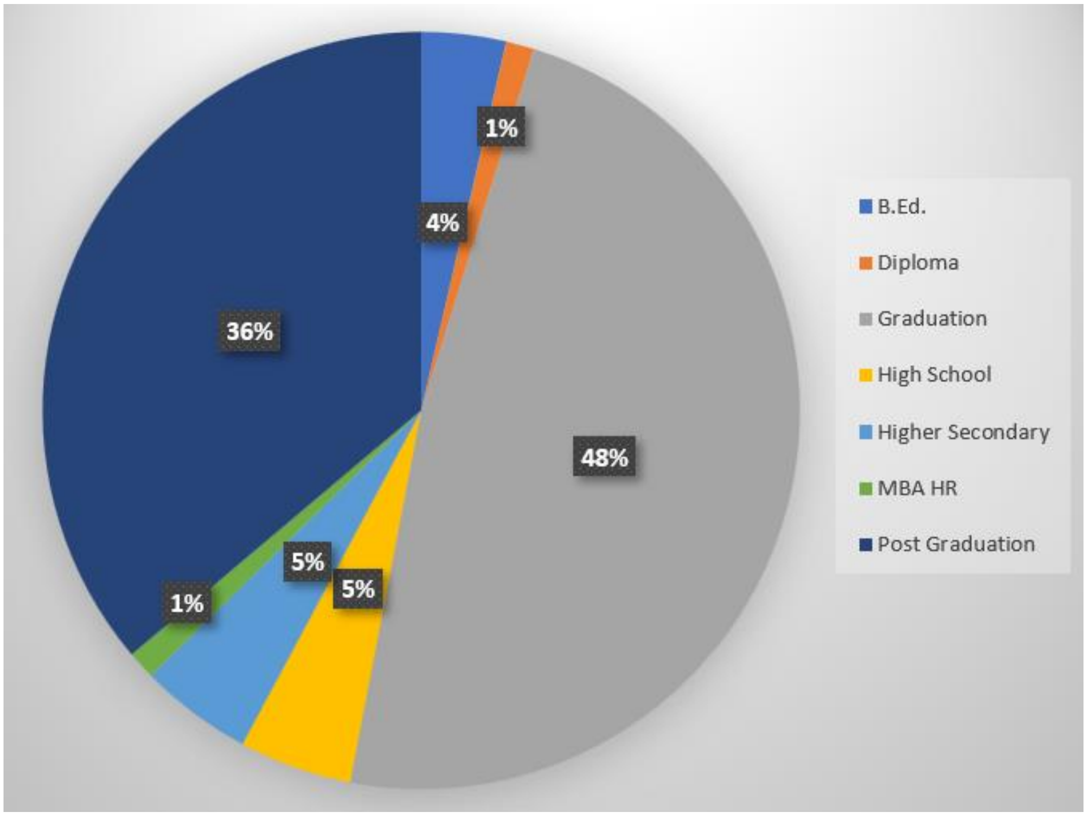


When it comes to educational qualification, there are 3 (3.6%) participants who completed B. Ed, 1 participant completed diploma, 40 (48%) participants have been graduated, 4 (5%) participants have completed high school, 4 (5%) participants have completed higher secondary, 1 participant has completed MBA in HR, and 30 (36%) participants have done post-graduation (Table 3) (Figure 2).

Table 3 - Educational Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
	B.Ed.	3	3.6	3.6	3.6
	Diploma	1	1.2	1.2	4.8
	Graduation	40	48.2	48.2	53.0
	High School	4	4.8	4.8	57.8
	Higher Secondary	4	4.8	4.8	62.7
	MBA HR	1	1.2	1.2	63.9
	Post Graduation	30	36.1	36.1	100.0
	Total	83	100.0	100.0	

Figure 2 – Educational Qualification

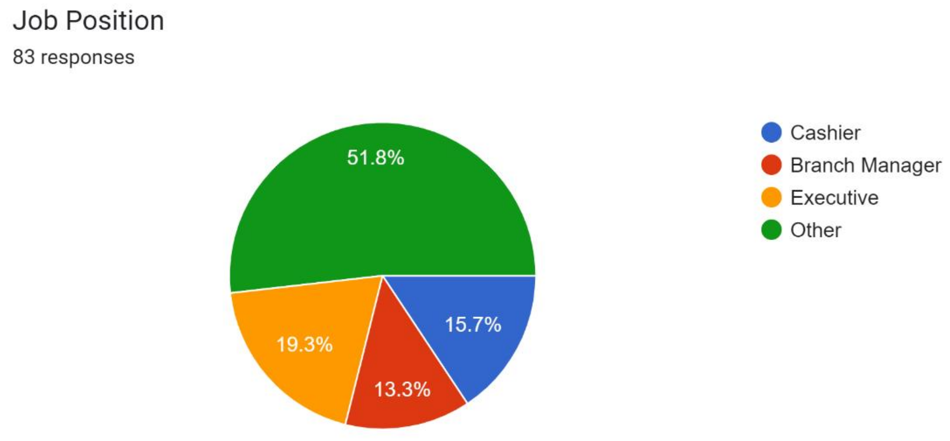


In terms of job position, 16 (19%) participants have been employed in executive position, 13 (16%) participants were cashier, 11 (13%) participants were branch managers, and 43 (52%) participants have other job positions (Table 4) (Figure 3).

Table 4 - Job Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Branch Manager	11	13.3	13.3	13.3
	Cashier	13	15.7	15.7	28.9
	Executive	16	19.3	19.3	48.2
	Other	43	51.8	51.8	100.0
	Total	83	100.0	100.0	

Figure 3 – Job Position of participants

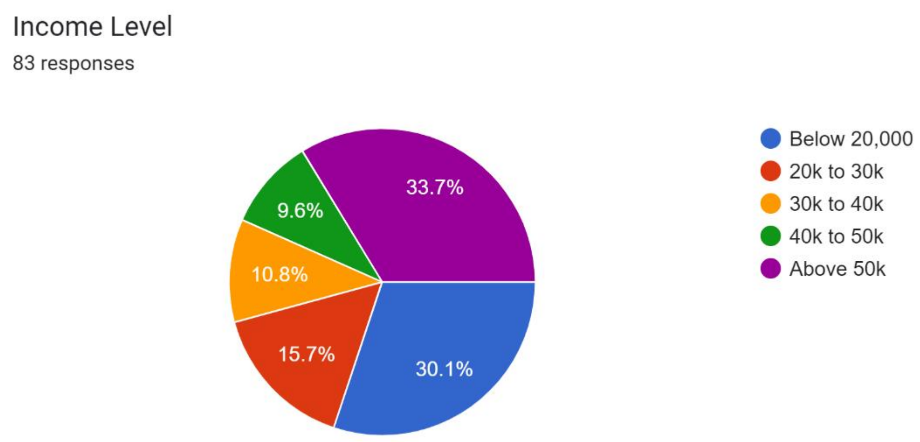


When it comes to income level, 25 (30%) participants were earning below Rs. 20,000, 28 (34%) participants were earning above Rs. 50,000, 13 (16%) participants were earning Rs. 20,000 to Rs. 30,000, 9 (11%) participants were earning 30k to 40k, and 8 (10%) participants were earning 40k to 50k (Table 5) (Figure 4).

Table 5 - Income Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20k to 30k	13	15.7	15.7	15.7
	30k to 40k	9	10.8	10.8	26.5
	40k to 50k	8	9.6	9.6	36.1
	Above 50k	28	33.7	33.7	69.9
	Below 20,000	25	30.1	30.1	100.0
	Total	83	100.0	100.0	

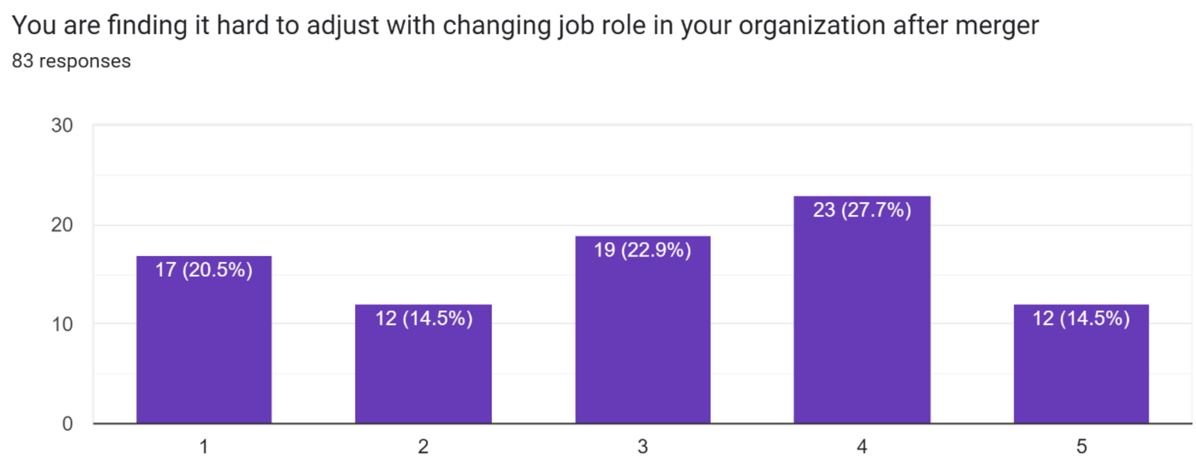
Figure 4 – Income level of participants



IMPACT OF MERGERS AND MERGERS AND ACQUISITION ON JOB SECURITY OF EMPLOYEES

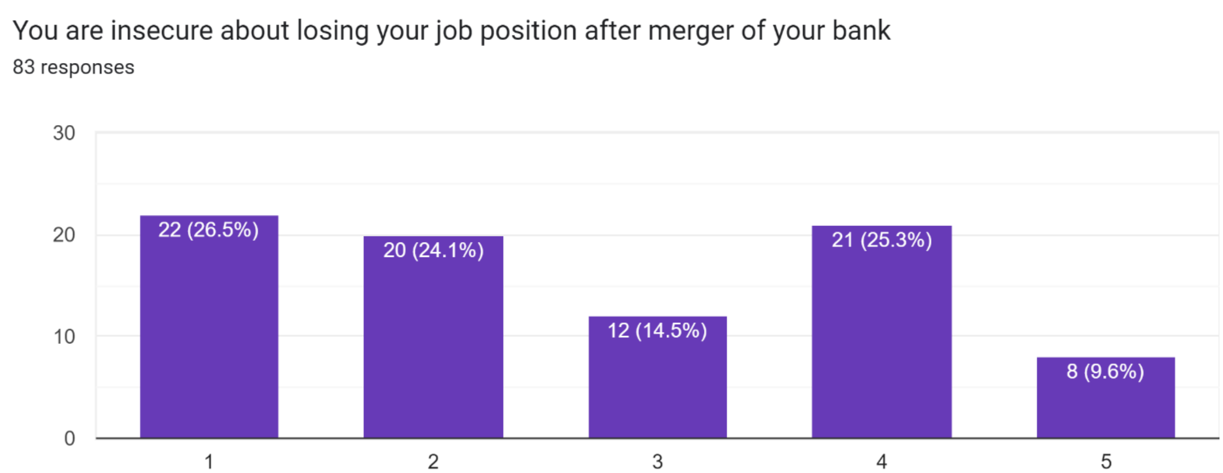
When it comes to "impact on mergers and acquisitions, a self-structured questionnaire was prepared with questions based on 5-Point Likert scale. Participants were asked to rate their answers on a scale of 1 to 5 (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree)". In Figure 5, 23 (28%) participants agree and 12 (15%) participants strongly agree that they are finding it hard to adjust with changing job role in their organization after merger and acquisition, while 19 (23%) participants were neutral, 12 (15%) participants disagree, and 17 (20.5%) participants strongly disagree with that statement.

Figure 5 – Adjustment with changes after M&A



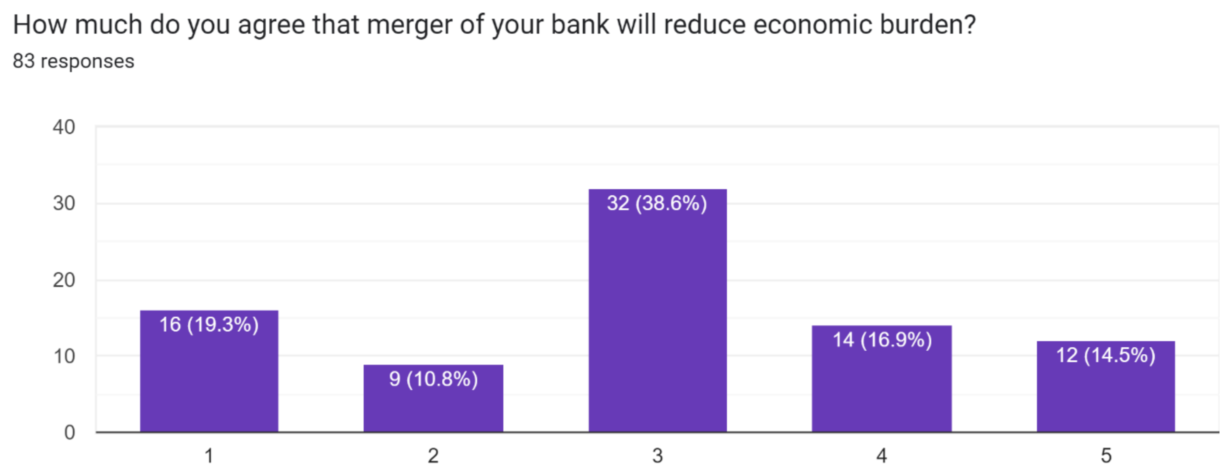
There are 21 (25%) participants who agree and 8 (10%) participants strongly agree that they are insecure about losing their job position after merger of their bank, while 12 (14.5%) participants were not sure, 20 (24%) participants disagree and 22 (26%) participants strongly disagree (Figure 6).

Figure 6 – Insecurity about job position



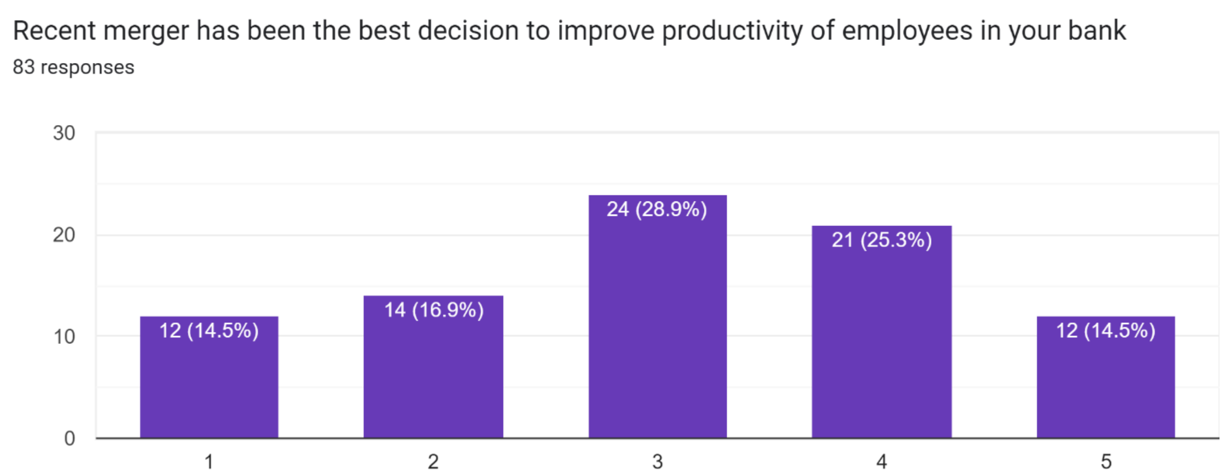
Majority of participants (32, 39%) neither agree nor disagree that merger of their bank will reduce economic burden, while 14 (17%) agree and 12 (15%) participants strongly agree with that, and 9 (11%) participants disagree and 16 (19%) participants strongly disagree with that (Figure 7).

Figure 7 – Economic burden due to merger



There are 24 (29%) participants who neither agree nor disagree that recent merger has been best decision to improve productivity of employees in their bank, while 21 (25%) employees agree, 12 (15%) employees strongly agree, 14 (17%) employees disagree, and 12 (15%) employees strongly disagree with that (Figure 8).

Figure 8 – Productivity improvement with recent merger



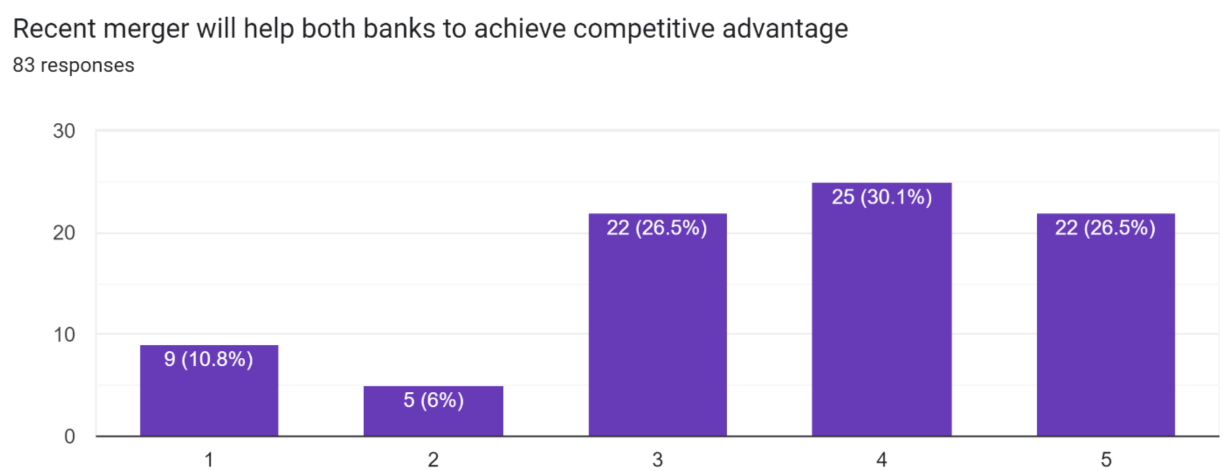
There are 31 (37%) participants who agree and 16 (19%) participants who strongly agree that recent merger will help both banks to achieve strategic goals and help in overall growth of employees, while 17 (21%)

participants were neutral, 8 (10%) participants disagree, and 11 (13%) participants strongly disagree with that (Figure 9).

Figure 9 – Growth of employees due to merger

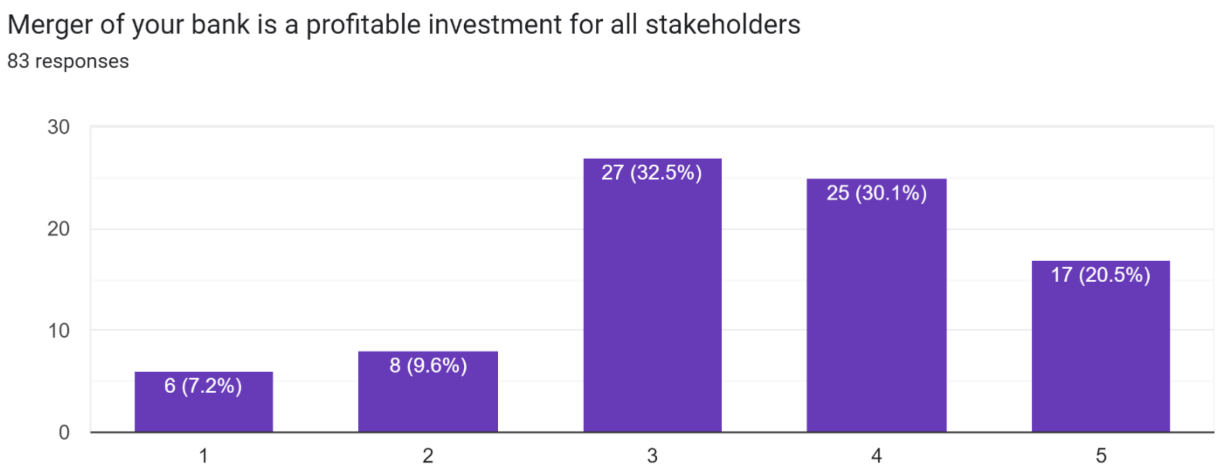
There are 25 (30%) participants who agree, 22 (27%) participants who strongly agree, 22 (27%) participants who neither agree nor disagree, 5(6%) participants who disagree, and 9 (11%) participants who strongly disagree that recent merger will help both banks to achieve competitive edge (Figure 10).

Figure 10 – Competitive edge due to recent merger



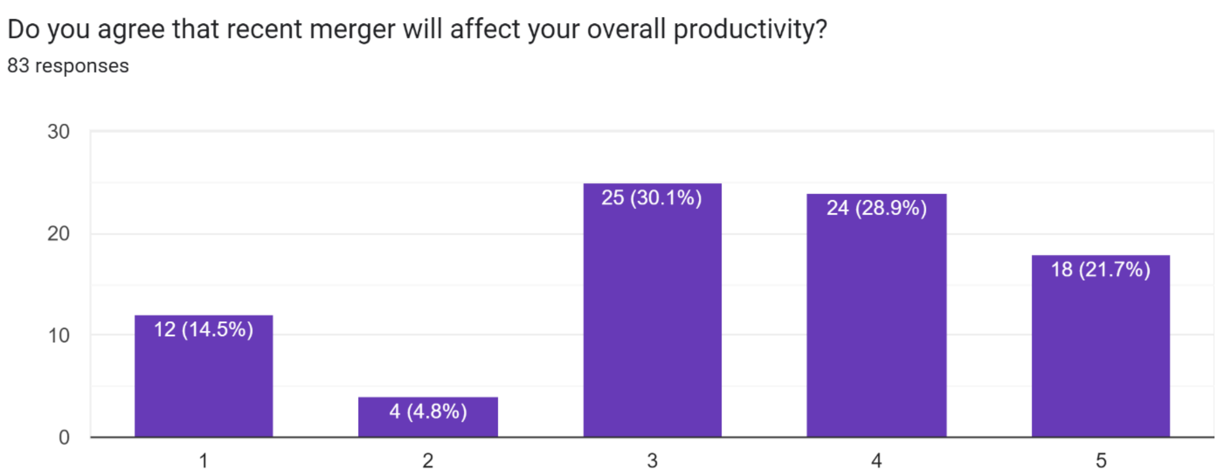
There are 27 (33%) participants who neither agree nor disagree, 25 (30%) participants who agree, 17 (21%) participants who strongly agree, 8 (10%) participants who disagree, and 6 (7%) participants who strongly disagree that merger of their bank is a profitable investment for their bank (Figure 11).

Figure 11 – Merger as a profitable investment



There are 25 (30%) participants who neither agree nor disagree, 24 (29%) participants who agree, and 18 (22%) participants who strongly agree that recent merger will affect their overall productivity, while only 4 (5%) participants disagree and 12 (15%) participants strongly disagree (Figure 12).

Figure 12 – Impact of merger on employees' productivity



Hypothesis testing

In order to test the following hypothesis, we have conducted one-sample T test using SPSS software on responses, which is conducted to find out the impact of one variable over another. In this case, it is observed that the value of significance (2-tailed) was 0.000 ($p<0.005$) for all the questions, which means H1 is accepted and null hypothesis is rejected.

H1 – "There is a significant impact of mergers and acquisitions of Indian banks on job security of employees
H0 – There is no significant impact of mergers and acquisitions of Indian banks on job security of employees"

Table 6 - One-Sample Test on samples

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
You are finding it hard to adjust with changing job role in your organization after merger	20.223	82	.000	3.012	2.72	3.31
You are insecure about losing your job position after merger of your bank	17.885	82	.000	2.675	2.38	2.97
How much do you agree that merger of your bank will reduce economic burden?	21.053	82	.000	2.964	2.68	3.24
Recent merger has been the best decision to improve productivity of employees in your bank	22.282	82	.000	3.084	2.81	3.36
Recent merger will help both banks to achieve strategic goals and help in overall growth of employees	24.225	82	.000	3.398	3.12	3.68
Recent merger will help both banks to achieve competitive advantage	25.866	82	.000	3.554	3.28	3.83
Merger of your bank is a profitable investment for all stakeholders	27.716	82	.000	3.470	3.22	3.72
Do you agree that recent merger will affect your overall productivity?	23.980	82	.000	3.386	3.10	3.67

Banking sector in India has been moulded by mergers and acquisitions perfectly. There are various options but there is still a room for improvement in existing scenario of mergers. Here are some of the reasons behind mergers in banks (Kumar, 2013) –

- **Saving weaker banks** – Stronger banks are merged with weaker ones to add stability in them. But Narasimhan Committee observed that risk management can be diversified by mergers.
- **Increasing competition** – Merger of regional financial system and invention of novel financial products are the main reasons behind merger. Markets have been more competitive and industrialized and market share have been condensed.
- Firms are merged to produce economies of scale.
- When two organizations are merged, skills are allocated among two organizations to be more competitive and progress.
- Introduction of some financial instruments and e-banking.
- Entry barrier has been removed by opening gates for new banks with superior technologies and old banks choose to merge because they cannot compete and sustain in the market.
- The sole motive of merger of two organizations is to come up with a positive result, which is bigger than the shared impact of two companies operating individually".
- Merger helps poor performing banks survive with improved branch network across the nation.
- Customer base can be improved with rural reach and higher market share.

- Competition can be reduced with added infrastructure and reduced congestion. This way, underutilized resources can be used by both banks to compete with foreign banks in this age of globalization.

FINDINGS

This study was conducted on some of the managers and employees in commercial banks in India. After collecting the primary data, here are some of the findings of the study –

1. Majority (66%) of participants are young and aged 20 to 30 years, and majority (48%) participants are graduated and 36% participants are post-graduated in this study.
2. As a result, 34% participants were earning above Rs. 50,000 per month while 30% participants were earning below Rs. 20,000.
3. A self-structured questionnaire was prepared to determine the impact of mergers and acquisitions on employees' job security. There are 43% participants who claimed that they are finding it hard to adjust with changing job role due to merger and acquisition in organization.
4. There are 35% participants who are insecure about losing their job position after merger of the bank, while 29% participants don't feel so.
5. Majority (39%) participants neither agree nor disagree that merger of their bank will reduce their economic burden.
6. There are 29% participants who are not sure whether merger has been the best decision to improve their productivity, while 40% participants agree and strongly agree with that.
7. There are 37% participants who agree and 19% participants who strongly agree that recent merger will help both banks to achieve strategic goals and help in overall growth of employees.
8. Majority (57%) participants agree that recent merger will help both banks to achieve competitive advantage.
9. Similarly, 51% participants agree and strongly agree that merger of their bank will be a profitable investment for all stakeholders.
10. There are 30% participants who are not sure whether this merger will affect their overall productivity, while 50.6% participants are sure about that.
11. After performing one-sample T-test, it is observed that there is a significant impact of mergers and acquisitions of Indian banks on job security of employees ($p<0.005$).

CONCLUSION

Banking industry is facing significant mergers and acquisitions these days with a lot of leading players emerged with successive mergers in banking industry. There is a huge scope for improvement in profitability in future. However, mergers resulted in higher cost-efficiencies for the banks which are merging. Efficiency is not gained significantly in participating banks when merger took place between strong and weak banks. The findings of the study suggested that there is a significant impact of mergers and acquisitions on job security of employees in Indian banks. Structural factors like relative sizes of banks, financing techniques, and bidder count in mergers and acquisitions can influence the success rate of mergers. Large banks need to absorb various risks related to operations in international and domestic markets due to financial system in India. The prima facie aspect of mergers covers various challenges like need of large investment banks and free convertibility. Hence, policymakers and governments must be more thoughtful to endorse merger to achieve scope and economies of scale.

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