IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)
An International Open Access, Peer-reviewed, Refereed Journal

Merger and Acquisition in Indian Banks: A Comparative Study On Employee Productivity

P.Sudha[1], Dr.N.Sathya Sonia[2]

[1]Assistant Professor, Department of Commerce, Kongunadu Arts and Science College, Coimbatore.

[2] Associate Professor, Department of Commerce, Navarasam Arts and Science College for Women, Erode.

Abstract:

Merger and acquisition (M&A) plays a vital role in corporate finance by enabling firms achieve varied objectives and financial strategies. The explosion of bank M&A has been a global phenomenon. In many emerging economies including India, bank M&A has often been driven by government policies to improve stability in the financial system. In this regards, our study aim is to examine the impact of pre and post M&A on the bank employees productivity of the largest merger of Four banks Viz., Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank with six other banks in India (2017-2024) on 1st April 2020. The analysis was carried out as comparison of pre merger period (2017-2020) and post-merger period (2020-2024) ie., four years prior and four years after the merger period. The analysis was carried out to know the mean and standard deviation and paired t –test was applied to know significant difference in the selected variable via, Deposit per employee and advance per employee. The study concluded that merger and acquisition led to increase in the productivity of employees and there is significant difference in the means of pre and post merger period.

Keywords: Prductivity; Merger and Acquisitions; deposits; Advances;

Introduction

The banking sector in any country occupied a unique place in its economic development. The banking resources can be effectively utilized by flexibility of the banking system with the help of changes leading to financial market control, market liberalization, incredible competitiveness, economic reforms and technological development which brought new epoch to banking industry. The increased level of competition, the financial liberalization and the rapid technological changes are the basis of the flexibility extensively favoring the influence, presence, and participation of foreign-owned firms in national economies triggers a lot of corporate restructuring activities of domestic firms to retain competitiveness and increase their value. The rapid growth of the Indian economy has optimistic in encouraging domestic enterprises to invest more aggressively resulted in the tremendous growth of M&A in the last decades leading to face competitive pressures effectively**.** Multinational enterprises (MNEs) from India also have taken this opportunity to increase their presence and control in foreign markets (Basant, 2000).

Corporate restructuring in recent years is a response to the opportunity provided by the policies of the government in order to meet the emerging competitive challenges and increase their values. The rapid growth of the Indian economy resulted in incredible growth of M&A on account of more aggressive investment activities helped to meet the competitive pressure effectively. Multinational enterprises (MNEs) from India have also taken this opportunity to increase their presence and control in foreign markets (Basant, 2000).

The merger process reshaped many industrial sectors leading to significant reshuffling and redeployment of a firm’s assets. The present form of industrial ownership is witnessing strong mergers and acquisitions (M&A) activities around the globe leading to reconfiguration of a firm’s organizational structure and its core competencies.

In the present day dynamic global business environment, M&As have emerged as one of the fastest routes/platforms for operating in new markets and attracting new resources (including human). M&A has become a genuine tool/strategy for inorganic growth adopted by most companies both in times of boom and bust. M&A transactions are important not only to companies involved but also to other stakeholders like employees, competitors, communities, and the economy.

As an external growth strategy, M&As incidences, an external growth strategy, have increased significantly on account of growing privatization, deregulation, liberalization, and indeed, intensifying globalization of competition. Firms are interested in M&As due to numerous reasons or motives that have been provided benefits ranging from greater market share, related or unrelated diversification, supply chain expansion, acquisition of talent/expertise, sustainable competitive advantage, resource re-allocation and so on; and the like, directly or indirectly impacts an organization as a whole, in terms of the organization’s systems, business operations, and its employees. (Harris & Siegel, 2005; King, et al., 2004). However, the inability of firms to develop and implement strategies in managing the impact of such change can directly signify stringent implications for the firm’s profitability and by extension enhancement of its value.

Mergers in Indian Banking:

Mergers and acquisitions (M&A) have become a global phenomenon in today's free market economy impacted firms including banks to constantly evolve to stay competitive. Banking, now-a-days, has become an increasingly global industry with no geographical and regional boundaries. Apart from this, the efforts of the government and policy makers in the form of new policies and measures paved way to consolidation of banks which is emerged as the most preferred strategy. In the way of merger, two weak banks or the merger of one healthy bank with one weak bank can be considered as a quick and less expensive way to improve profitability while stimulating internal growth along with the major goal of achieving scale and space economies by them.

Mergers of banks in India is not a new phenomenon because in the 1960s, 14 banks were brought together in order to bail out the weaker banks and protect the customer interests. Again in 1969, steps have been taken resulted in nationalization of another 6 banks. Then in the post liberalization which stretches from 1991 -2015, major economic reforms have been initiated by the Government of India. New policies were framed including permission of greater inflow of FDI and Foreign investment which saw resurgence in Indian Banking. Different waves of bank mergers that include mergers during 1993-2004 viz., the merger of Oriental Bank of Commerce with Global Trust bank in 2004 to save the million of depositors and a decent market in South India and mergers of Punjab National Bank (PNB) with the New Bank of India (NBI) in 1993-94 and Benaras State bank Ltd with Bank of Baroda in 2002 helped the weaker banks also proved to be life saving for the weaker bank.

During consolidation of banks during 2015 - 2017**,** five associates of SBI and Bhartiya Mahila Bank merged in SBI with a vision to have strong banks rather than having large number of banks leading to making SBI one amongst the 50 largest banks in the world. In continuation of this there was merger of Bank of Baroda with Vijaya bank and Dena Bank on April 1, 2019 and largest merger in India on 1st April, 2020 by the four largest banks viz., Punjab nation bank, Canara Bank, Union Bank of India and Indian Bank taking over six banks viz., Oriental Bank of Commerce, United Bank of India, Syndicate Bank, Andhra Bank, Corporation Bank and Allahabad Bank for various reasons.

Concept of Employee Productivity:

Productivity refers to the efficiency of the firms in utilizing corporate resources to attain corporate objectives in terms of quantity and quality at a given period of time (Nwannebuife, 2017; Hanaysha, 2015). Kopleman, (1986) observed that productivity is the outcome of production process on account of correlation between physical output and one or more of the related tangible efforts expended. Among other things, the success of an organization largely depends on the productivity of its human resources, (Sharma & Sharma, 2014; Cato & Gordon, 2012; Ajala, 2012).

Sharma & Sharma, (2014) in a study on measuring post merger performance in metal industry highlighted that enhanced productivity level of employees resulted in increased profitability, economic growth, social advancement and aggregate organizational competitive advantage leading to long term success. Shortly it is true that the human resources in an organization is very crucial than the other factors of production and the human capital is the distinguishing factor in any organisation (Maimuna & Rashad, 2013). Hence, for firms to attain and sustain competitive advantage, they must be able to attract and retain efficient and effective human resources in order to enhance productivity and other related benefits(Sunia, 2014). Similarly, Aluko (2016) and Mukundi, (2016) affirmed that human elements that manage the organization adds value to the firms.

Problem Statement:

Productivity can be understood from enhanced quality and quantity with reduced time cost. However, Bernardin, (2007) highlighted that measurement of productivity is a difficult process but it can be viewed in form of effectiveness and efficiency of workers. Singh & Kamlesh, (2013), also pointed out that productivity in the manufacturing sector is different from the one used in case of service industry like the banking industry where the product offerings are accounts, cheques, credit and debit cards, drafts, exchange remittances, travelers' cheques, services for guarantees, different kinds of loans, etc.

Measuring of service is an intricate task as it is difficult to quantify the services offered which is in the form of no physical output like quantitative production. In other words the concept of productivity which contributed to the growth of any economy so productivity cannot be overlooked in the banking sector. Individual productivity can be assessed considering the efforts contributed by an individual success (Ruch, 1994). As a service industry, in case of banks measuring employee productivity in the banking industry is difficult. But the researcher used **deposit per employee and advances per employee to measure the employee productivity** based on earlier studies like studies by Kumar, (2016); Sommanek, (2014); Singh & Kamlesh, (2013).

t is a fact that consumption cannot be isolated from production most of time. So in case of banks, assessing the performance after an event like M&A can best be accomplished by evaluating change in the productivity of the human elements (employees) of such organizations. Purse (2013) insisted that employee productivity to a large extent determines to value and longevity of an entity. It has been observed that M&A resulted into issues like negativity, lack of motivation, resistance to change, and conflicts with colleagues in the minds of the employees and productivity issues, including turnover of worthy personnel (Adembesa, 2014). So during M&A, changes cannot be avoided and which includes stress, negative impact on morale and so on (Kangetta & Kirai, 2017). Firms have to understand these issues and deal with the people carefully in such a way to ensure the successful consummation of M&A.

Under this background, the productivity on account of merger and acquisition process in the banking needed to be measured to know whether merger and acquisition process led to increase in productivity of employees in the acquirer firm to know success or failure of the firm. So the researcher is interested in taking up the present study with the following objectives.

Objectives:

-To determine the productivity of employees in the merged organization

-To find out the impact in the form of improvement in the productivity level of employees of the merged banks.

Research Methodology:

This study is intended to understand comparative position of employee productivity in relation to selected Banks currently merged in India. Further, the study also assessed the performance of the selected variables to know whether there is improvement in the performance of the banks in terms of advances and deposits collected by the banks compared to prior period of and after the merger period. This study employed descriptive analysis style. This study was carried out for a period of eight years, 4 years before and 4 years after the date of merger.

Sample Banks and Data for the Study:

The data was obtained for four years (2016-17 to 2019-20) ie., period before the acquisition and four year after the merger (2020-21 to 2023-24) for only the acquirers as the target banks ceased to exist after the year of consummation, 2019. The mean accounting ratios of four years before the year of consummation were calculated for both the acquirers banks. The data analyzed for the pre-merger period was derived by finding the mean of each parameter from the year 2014-15 to 2018-19 of the acquiring and target firms, while the post-merger data of each parameter was used directly from 2019-20 to 2023-24. The details of the banks underwent merger process and selected for the study are:

1. Punjab National Bank Oriental Bank Of commerce, United Bank Of India merged on April 1, 2020
2. Canara Bank Syndicate Bank merged on April 1, 2020
3. Union Bank Of India Andhra Bank, Corporation Bank merged on April 1, 2020
4. Indian Bank Allahabad Bank merged on April 1, 2020.

Data for the Study:

The required ratios for the study viz., deposit per employee and advances per employee have been calculated from the data taken from the balance sheets and annual report of the banks.

Variables and Hypothesis:

Deposits per Employee and advance per employee, based on the earlier studies by Kumar, 2016; Mohan, 2005; Singh & Kamlesh, 2013; and Sommanek, 2014, are used to know the improvement in productivity of the merged banks. These parameters measure productivity of the acquirer banks on account of Merger and acquisition.

Advance per Employee, extracted from the assets section in the banks' annual balance sheets, is arrived by dividing the total amount of bank advances by the total number of employees for the year. Bank advances are the loans and advances given by the banks to individuals and business firms. These are given for a specified period of time with fixed rate of interest and repaid in installments or completely at an appointed date (Pass, 2005).

Deposits per Employee, extracted from the liabilities section in the banks' annual balance sheets, is calculated by dividing the total amount of bank deposits by the total number of employees for the year. Deposits are the money individuals or businesses put into their respective bank accounts for safekeeping. They are liabilities the banking institutions owe to the depositors (Kagan, 2018).

Hypotheses:

The following hypotheses have been framed to know the impact of merger and acquisition on the selected variables for the study:

H0a: There is no significant difference in Advance Per Employee between the pre-merger and post-merger period in the selected Indian banks.

H0b: There is no significant difference in Deposits Per Employee of post merger period compared to pre-merger in the selected Indian banks.

Statistical tools used:

The paired sample t-statistic test was performed to investigate change in employee productivity parameters (Advance per Employee and Deposits per Employee). The t-statistic was performed using MS Excel to show the mean difference of the parameters selected for the study. The paired samples t-test was particularly used to test a sample group (Employee productivity) at two different periods (pre and post-merger).

The test was carried out with decision rule:

Reject null hypothesis if $P < \alpha$, and accept null hypothesis $P > \alpha$. For the purpose of this study, α is set at .05 for data analysis

Review of Literature:

1. (Kangetta & Kirai, (2017) from their study pointed out that employee morale can be diminished by the stress and anxiety that comes with infusing two different cultures, loss of job, underestimate of themselves, unfaithfulness, and the environmental changes, insufficient information, unclear direction, and obscure messages which all lead to uncertainty among employees not good for the positive things. Thus employees have the tendency to become less productive or leave during periods of uncertainty. Hence, the study recommended to give importance and recognition to the human aspects in the process of mergers and acquisitions.

2. Sanjay Sharma & Sahil Sidana(2017) in their research it expressed the impact of SBI merger on financial condition of SBI. The study found that SBI get visibility at global level in the network increase of SBI and it is also able to provide cheaper funds more easily. The gross & net non-performing assets of SBI will come down after merger with their associate and the efficiency and effectiveness of the business will increased because of single management.

3.R.Patel, (2018) conducted study on Pre & Post-Merger Financial Performance of Bank of Baroda, Oriental bank of commerce, State bank of India , IDBI Bank and Indian overseas bank for a period of 2003- 04 to 2013-2014. The study concluded that merger negatively impacted negatively in case of return on equity, return on assets, Net profit ratio, yield on advance and yield on investment and positively in case of the variables Earnings per Share, Profit per employee and Business per employee.

4. Saraf (2017) identified four main areas M&As affect employees; the strategic fit, communication, cultural differences, and organizational structure.

5. Sharma, 2016 examined the impact of merger on the financial performance of 9 merging companies in metal industry listed BSE during the year 2009-10. The study used Paired sample t test to assess the difference in performance between post-merger and pre-merger periods. It concluded that there is marginal but not significant improvement in case of liquidity and leverage but the profitability results showed significant decline in RONW and ROA.

6.Georgiades & Georgiades, (2014) in their study of the impact of an acquisition on the employees of financial institutions found that the employees of the acquired firms experienced a threat to job security, changes in social groups, and loss of familiarity and security.

7. Mirc (2013) studied the psychological effects of M&As on employees in terms of increased stress and anxiety, as a result of changes in environment, co-workers, decision making routines, chain of command, etc.

8. Kivuti (2013) found that pay/remuneration, ownership, job security and chain of command re moderately influenced by M&As of financial institutions.

9.Dutta & Dawn, 2012) conducted a study to examine the performance of merged banks in terms of its growth of total assets, profits, revenue, deposits, number of employees etc, from four years of pre merger and four years of post-merger as the time frame by selecting 5 bank mergers from 1994-2004. The findings of the study indicated that the post-merger periods were successful as the merger process resulted in significant increase in the selected variables of the study related to the acquirer banks selected for the study.

10.Mahesh & Prasad (2012) in their study analyzed post merger and acquisition financial performance analysis of selected 3 banks by taking two year data for both Pre and Post merger using Mean, Variance and standard deviation and revealed that there is no development in case of return on equity, net profit margin, interest coverage, earning per share and dividend per share after merger & acquisition.

Results of Analysis:

The analysis of research-based study is done using two different sets:

- The Pre- and Post-merger productivity performance measurement
- Comparative Analysis using Paired t test

The Pre- and Post-merger Monetary performance measurement compared the selected variables on the basis of mean variable for four years before merger and four years after mergers from the date of merger.

Hypothesis 1:

H0a: Deposit Per Employee between the pre- merger and post- merger periods showed no significant difference.

The result of the hypothesis is given in the table 1 as below:

Table 1

Descriptive Statistics and Results of Paired t- test Analysis of Deposit Per Employee

Particulars	Duration	Mean	SD	t-value	p-value	Significance
PNB						
Deposit Per Employee	Pre	9.19	0.85	1.159669	0.000396	Rejected
	Post	11.91	0.84			
Canara Bank						
Deposit Per Employee	Pre	9.68	0.91	-6.85153	0.006365	Rejected
	Post	13.42	1.91			
Union Bank of India						
Deposit Per Employee	Pre	11.09	0.75	-5.53662	0.011613	Rejected
	Post	14.11	1.81			
Indian Bank						
Deposit Per Employee	Pre	11.05	2.17	-11.7575	0.001322	Rejected
	Post	15.04	1.70			

Source: Calculated by the Researcher based on Secondary data

In case of Average mean of deposit per employee as shown in the above table for the selected banks for the pre and post merger period, it is observed that the comparison of mean value between pre and post merger revealed (Punjab National Bank (9.19 and 11.91), Canara Bank(9.68 and 13.42), Union Bank of India(11.09 and 14.11) and Indian Bank(11.05 and 15.04) that the value showed improvement as post merger mean is improved higher compared to re-merger period. So we can say that there is improvement in using the productivity of the employees after the merger.

The above Table also showed the mean difference between Deposit per employee during the pre-merger period as well as during post merger period. Here the p-values of deposit per employee are - Punjab National Bank (0.000396), Canara Bank (0.006365) Union Bank of India (0.011613) and Indian Bank(0.001322). This indicated that these values are smaller than alpha =0.05, so the null hypothesis in relation to the selected banks is rejected. Sufficient evidence is available to say that there is a statistically significant difference between the mean pre-test and post-test score.

Hypothesis 2:

H0b: Advance Per Employee between the pre- merger and post- merger periods showed no significant difference.

Table 2

Descriptive Statistics and Results of Paired t- test Analysis of Advance Per Employee

Particulars	Duration	Mean	SD	t-value	Significance	
PNB						
Advances per Employee	Pre	6.2	0.56	-5.29591	0.013138	Rejected
	Post	7.69	1.11			
Canara Bank						
Advances per Employee	Pre	6.83	0.61	-3.61839	0.034473	Rejected
	Post	9.09	1.79			
Union Bank of India						
Advances per Employee	Pre	8.46	1.05	-1.38326	0.260551	Accepted
	Post	9.47	1.68			
Indian Bank						
Advances per Employee	Pre	8.43	1.91	-11.5149	0.001406	Rejected
	Post	10.58	0.87			

Source: Calculated by the Researcher based on Secondary data

In case of Average mean of deposit per employee as shown in the above table for the selected banks, it is observed that the comparison between pre and post merger revealed (Punjab National Bank(6.2 and 7.69), Canara Bank(6.83 and 9.09), Union Bank of India 8.46 and 9.47) and Indian Bank(8.43 and 10.58) that the value showed improvement as post merger mean is improved higher compared to re-merger period. So we can say that there is improvement in using the productivity of the employees after the merger.

The above Table showed the mean difference between Advance per employee during the pre-merger period as well as during post merger period. Here the p-values of Advance per employee are - Punjab National Bank (0.013138), Canara Bank (0.034473), Union Bank of India (0.260551) and Indian Bank (0.001406). This indicated that these values are smaller than alpha =0.05 in case of thee banks viz., Punjab National Bank, Canara Bank and Indian Bank. So in these three cases, the null hypothesis is rejected. Sufficient evidence is available to say that there is a statistically significant difference between the mean pre-test and post-test score. In case of Union Bank of India the p-value of Advance Per Employee ratio is more than the alpha value of 0.05. Hence, in this case, the null hypothesis is accepted and there is no significant difference between the mean pre-test and post-test score.

Results and Discussions:

From the t-test analysis, the two hypotheses were rejected because their p-values of each respective parameter of employee productivity were less than the significant level (.05) except in case of Union Bank of India. Therefore, there is a significant difference between bank M&A before and after the year of consummation on employee productivity in terms of Advances Per Employee and Deposits Per Employee. The mean of Employee Productivity with respect to the two parameters during the post-merger period were enhanced compared with the Employee Productivity during the premerger periods, refer to (Tables 1, and 2). This suggests that Employee Productivity with respect to the metrics saw improvements during the post-merger period for the banks except Union Bank of India.

Conclusion and Implications:

The study investigated the comparative effects of Mergers and Acquisitions (M&As) on employee productivity in selected Indian banks. From the research findings, it is therefore concluded that M&A positively influences Employee Productivity of selected Indian banks. The study showed that Employee Productivity has been changed positively by increased level and it confirmed that employees of a firm are key elements in the selected banks for its success.

The key managerial implication of this study largely affirmed the contribution of employees to the overall performance of bank after M&A. Firstly, the finding explicates the fact that the total amount of bank advances (bank loans of different forms) to investors, businesses and other loan seekers in the banking system is largely dependent on the efforts of bank employees through intensive marketing, publicity, customer relationship management and other human relations skills. Furthermore, the study underscored that fact that total amount of bank deposits (savings, current and fixed deposits) made by individual customers and corporate businesses is largely dependent on the efforts of bank employees through intensive marketing, publicity, customer relationship management and other human relations skills. Therefore, the Indian banks should give best possible attention to the human elements and their corporate strategies, as empirical findings found that employee productivity largely contribute to overall performance of the organization.

Recommendations:

From our findings, it can be understood that this study set an example and guide to firms to take up the activity of merger or acquisition or in any other form as it showed that the process merger and acquisition lead to improving the employees' level of productivity. So it can be taken as guide, especially for those that plan to or have already engaged in M&A as a growth strategy; as a means of adapting to economic and environmental changes; or a means of creating value. It is revealed that human elements are considered important irrespective of the motive of the M&A strategy and they should not be neglected on any cause.

In addition, the findings of this research indicated an increase in employee productivity within four years of engaging in M&A, however, M&A strategy can be adopted as a go-to strategy to enhance the performances of firms with fewer resources within a short period of time.

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