A STUDY OF IMPACT OF MERGER ON EMPLOYEES

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Abstract

Every Merger is potentially traumatic to a considerable extent. Some of these turn out to be more traumatic than others when certain key considerations are not addressed properly. Though there are many papers available depicting the financial impact of Mergers, only a few have thrown light on the human perspective associated with it. Nowadays, Mergers and Acquisitions are predictable phenomena in the banking industry. Employees should be encouraged to embrace any change that may happen in the organization. If this is not taken care of, the entire system may be disrupted which may affect the productivity of the organization. This study is intended for the betterment of bank employees, providing guidelines for policy-makers, strategists, scholars, and researchers.

Key Words: Merger and Acquisition, Bank, Employees.

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Introduction

Why do mergers and acquisitions fail? This is a serious concern to be addressed and the extant literature has examined a wide variety of issues such as financial, human resource, management, etc. Due attention must be paid to take care of cultural conflicts that happen when two firms combine. It is found that employees often resist this change which may lead to consequences such as declined turn-over rate, lower commitment level, reduced co-operation. This paper tries to understand the importance of employee-level dynamics during an M&A.The author proposes the determinants of employee job satisfaction expecting that these can significantly contribute to the success of an M&A acculturation process.

In a dynamic business environment, banks are facing extraordinarychaos in the market. Delivering superior performance amidst technological advancement, fierce competition, global recession, volatility in stock market, and increasing interest rates has become a serious challenge for bankers. To overcome this, banks around the world are restructuring their operations, assets, and contractual relationships with their stakeholders. Corporate restructuring including M&As has facilitated many organizations to

regenerate their competitive advantage equipping them to respond promptly and effectively to new opportunities and unforeseen challenges in the market. M&As offer great opportunities for the growth of a company, enhancing its value and efficiency. A merger is not just the transfer of assets and liabilities, but it involves lives of employees who are associated with it. The organizational changes which take place during the course of a merger may largely impact the employee performance of the employees.It is understandable that respective employees of the firm may feel confused, stressed, disoriented, frustrated, and even shattered on Merger announcement. Thus, through this study, an attempt to assess the impact of Merger on bank employees is made and the findings of the study are expected to guide the leaders of firms.

Literature Review

Schweiger and Ivancevich (1985) examined the involvement of human factor in merger and acquisition and recognized some common merger stressors such as insecurity, uncertainty, insecurity, and fears related to job loss, etc. which should be given utmost attention in pre-merger phase [1].

According to Schweiger and Weber (1989), Mergers and acquisitions (M&As) are corporate events that could be traumatic at times leading to behavioral, psychological,health, performance, and finally survival problems for individuals as well as companies involved. Hence it is necessary that leaders along with human resource professionals pay greater care to understanding the actions and reactions associated with the Merger process [2].

Schweiger and DeNisi (1991) conducted a study which was intended to measure the effects of mergers and acquisitions on employees. The findings suggested that realistic and transparent communication during a merger process could help the employees to survive the merger process [3].

Cartwright and Cooper (1993) examined the human aspects of merger and acquisition and its impacton employee health and well-being. A sample size of 157 middle managers who were involved in the merger of two U.K. Building Societies was taken. It was found thatthoughthere existed a high degree of cultural compatibility between the merged organizations, post-merger measures of mental health proved to be a stressful life event [4].

Panchal and Cartwright (2001) conducted a study on post-merger stress in a sample of field sales employees. A survey methodology was made use of to study group differences and results revealed that those from the dominant pre-merger company showed the highest stress levels and most negative work attitudes [5].

Buono and Bowditch (2003) conducted longitudinal and cross-sectional field study, archival research, interviews, organizational surveys, and bibliographical search of mergers and acquisitions. The study was mainly focused on human side oforganizational combinations,where personal issues are involved at psychological as well as cultural level. The study concluded that a merger or acquisition is ultimately a human process and detailed attention should be given to the people element of the organization [6].

Lodorfos and Boateng (2006) investigated the role played by culture and provided a framework for boosting the success of mergers and acquisitions. The study was based on interviews with 32 senior managers who were involved in merger and acquisition deals in the chemical industry. According to them, cultural differences between the merging firms were key elements that can determine the effectiveness of the integration process, eventually resulting in the success of M&As.The study suggested a four staged approach in dealing with cultural differences. The authors concluded that cultural fit constitutes a key factor in M&As' success by providing a positive atmosphere for the change [7].

Sakas and Triantafyllopoulos (2009) analyzed factors such as staff's attitudes, beliefs, and social representations and the part it plays in the negotiation efforts of the two leaders of the Greek banking branch to merge. To clarify the trends for negotiations, they used codification by means of software, and

the study concluded that the private or public character of each banking organization involved in the negotiation process would affect its strategic choices with respect to the role played by human beliefs and professional attitudes during the negotiations. The fear of change, loss of morale, insecurity, and the stressare also pointed out as being significant factors [8].

Marmenout, K (2010) performed experimental study to know how employees make sense of a merger announcement and figured out the relationship between deal characteristics such as culture clash potential, degree of integration, position in deal structure and employee attitudes. It was observed that when employees make sense of the merger, higher perceived uncertainty is associated with greater dysfunctional outcomes [9].

Clarke and Salleh (2011) undertook a qualitative study evaluating the emotional impact of a merger between two banking institutions on managers in Brunei. It was found that the distinctive national culture representing a fusion of Malay and Islamic valuesinfluences the emotional merger impact. The findings suggested Western transactional models of perceived control to explain how people manage change and sometimes it may have far more limited application within a Bruneian context [10].

Human resources management within the merged entity would be problematicdue to changes in the policies, procedures andpractices followed by the companies before the merger. Most of the employees consider Merger and Acquisition as athreat to their jobs, as shareholders oftendemand a reduction in the number ofemployed staff. These factswill eventually lead to a lesser number of employees working in the engaged companies is actually than before. (Archontakis et.al., 1998,Georgakopoulou, 2000) [11].

The impact of Merging on the older staff is of due importance, due to the extent of the phenomenon. The most common employee reduction strategy that was followed in European banking mergers involves the preparation and implementation of early retirement programs which led to a remarkable reduction in the number of employees who were aged over 55years. This was seen as a type of discrimination against older employees, who are considered to be incompetent in getting adjusted to current jobrequirements. It is observed thattechnologies and corporate restructuring types such as M&As will not bring down number of jobs in the financial services sector. Instead, they will redistribute these jobs among the new duties (Uni-Europa Finance, 2001) [12].

Benefits of M&As

When superfluous expenses are eliminated, a revenue rise could be made possible within the organization. Potential gains in market share can come from cross-border sales or from devoted customers who are open to trying new items created as a result of the merger or acquisition. Innovation is enhanced resulting in better profit margins. It also provides an opportunity to get access toresources and human capital that were previously denied.
There are chances of brand awarenessrise and the combined assets and lower expenses could lead to an increase in stock values. The aforementioned advantages may facilitate incremental growth more readily.

The Impact of Merger on Employees

Although mergers and acquisitions are used interchangeably, the two terms have slightly different meanings. A merger happens when two corporations combine to form a new entity. Their stocks are surrendered and new equity shares are issued for the merged entity. An acquisition takes place when one company takes over another company, and the acquiring company turns out to be the owner of the target company.

1. **Effects on Target Company Employees**

The stress levels of personnel involved in mergers and acquisitions might be affected quickly. Numerous mergers require approval from attorneys general, regulators, and local governments; this can cause the process to take longer than a year. Employees of the two companies involved may find the time it takes to close a merger to be challenging.

2. **Uncertainty**

For employees of the target company, the uncertainty that follows a merger or acquisition signifies risk. If the staff didn't like the change, this uncertainty could show up negatively. It makes sense to believe that workers who experience fear or intimidation may be less productive than those who feel safe and happy.

3. Job Losses

Jobs have historically been lost as a result of mergers and acquisitions. The majority of this can be attributed to inefficient processes and attempts to increase productivity. The CEO of the target firm and other senior management positions are among those under peril; they are frequently given a severance package and let go. To assist fund the acquisition, the acquiring company's management team will, however, try to maximize cost synergies, which typically results in job losses for staff members in unnecessary divisions.

4. Cultural Clash

Employees of the target organization are also expected to be familiar with the new operating system, management structure, and corporate culture. Employee dissatisfaction may arise if the new management team finds it difficult to communicate effectively to facilitate the transition.

There are certain advantages to mergers and acquisitions, despite the fact that they may have a negative effect on workers.

1. Retirement Benefits

Employees of the target company often don't need to worry about their present accrued retirement benefits. Post-retirement pensions and other benefits are safeguarded under the Employee Retirement Income Security Act. The purchasing company is aware that, both during and after the transaction, it must maintain employee confidence and loyalty in the target company.

Before finalizing an agreement, the purchasing business must give careful thought to the treatment of retirement plans, as it is a complicated topic. Transferring current target employee assets into a new retirement system frequently proves to be extremely challenging.

2. Stock Options

As a reward and incentive, the newly formed entity's employees may occasionally earn additional advantages, such as new stock options or employee stock ownership plans. Stock options are agreements that grant an employee the right to purchase stock at a certain future price, known as the strike price. Employee stock ownership plans provide employees choices without requiring them to pay for them, as would normally be the case in the markets.

But before the options can be cashed out, many plans have a holding period of time, like a year, that must be fulfilled. The employees can redeem the option whereby they would be granted the shares of stock when the holding term has passed, and if they so like, they can sell the stock for cash on the open market. One possible compensation for relinquishing previous perks is stock options.

3. Stock Price Appreciation

Additionally, if the acquirer offered a greater stock price than the target company's stock was trading at before to the sale, the acquired company's stock price could increase significantly. Employees may therefore realize capital gains on whatever shares they may hold. Additionally, those capital gains would increase tax-free if their shares were held in the company's 401(k) plan.

4. Surviving a Difficult Time

Employees who have lost their jobs as a result of an M&A deal are most likely the most affected. Employees who may be affected by staff reductions should be notified in advance and given time to find other employment.

The remaining staff members will probably discover themselves in a strange environment with new supervisors and colleagues. It may be necessary for certain employees to put in more effort in order to keep up with their new peers. The communication between the target company's surviving employees and their new management team will determine how much of a difficulty the employees will encounter. Culture clashes resulting from inadequate communication are frequently the most detrimental factor contributing to M&A failures.

The Impact of Mergers on the Economy

Mergers can affect the economy in both positive and bad ways. Mergers may occasionally result in higher production, creativity, and efficiency—all of which are advantageous to the economy as a whole. For instance, the merger of T-Mobile and Sprint was anticipated to boost investment in 5G technology, perhaps resulting in the creation of jobs and economic expansion in the telecommunications sector. Mergers may, however, also result in less competition in other areas, which may raise consumer costs and stifle innovation.

Following are some detailed insights to understand how mergers affect the economy:

1. **Job Losses:** As previously indicated, as businesses look to reduce costs and eliminate redundancies, mergers may result in job losses. A National Bureau of Economic Research analysis found that between 1990 and 2007, mergers and acquisitions were responsible for 12% of all employment terminations in the US. However not every merger results in employment losses. Employers from the acquired firm may occasionally decide to keep certain staff members, especially if they have specialized knowledge or abilities.
2. **Modifications to Benefits, Pay, and Working Conditions:** Mergers may lead to changes in working conditions, pay, and benefits in addition to job losses. For instance, in the healthcare sector, employee healthcare benefits may alter as a result of a merger between two facilities. Similar to this, employee compensation plans may alter as a result of a merger between two banks in the finance sector. Employees may find these changes upsetting, which could lower morale and raise stress levels.
3. **Enhanced Productivity and Efficiency:** Mergers can also result in heightened productivity and efficiency, which is advantageous for the economy as a whole. A merger, for instance, between two manufacturers could result in enhanced output and supply chain management. It is crucial to remember, though, that not all mergers result in higher productivity and efficiency. Sometimes integrating two businesses can be difficult and lead to lower productivity and efficiency.
4. **Less Competition:** Mergers may also result in less competition, which may drive up consumer costs and stifle innovation. For instance, a merger of two airlines can result in increased ticket costs for passengers. Furthermore, fewer competitors may also mean fewer incentives for businesses to develop and enhance their goods and services.

Although mergers can benefit businesses in many ways, they can also have a big effect on the labor force and the whole economy. Businesses and legislators should thoroughly analyze the possible effects of mergers and take action to lessen any unfavorable effects.

Suggestions to overcome the challenges due to Merger

- Adopting a "people perspective," wherein employees' emotions can be taken into account, is strongly advised. Raise awareness among the staff and persuade them of the merger's advantages.
- Clear communication makes it easier to find areas of agreement and pinpoint the issues, allowing for prompt correction. It fosters an environment of confidence and trust.
- The involvement of employees is essential to the processes' realism. Establishing objectives and sharing them with the public provides a common direction and focuses the efforts toward achieving them.
- Leaders must possess a great deal of vision, maturity, and operational understanding in addition to persuasive abilities and the capacity to assemble a diverse team.
- Training and supportive leadership aid in the adapting process. Employees gain confidence from it, and they will adjust to the change in the friendliest way possible.
- Establish review panels to make sure issues are promptly resolved so that improvements can continually be made.

- Discussion boards should be promoted everywhere and at all levels to allow people to express their thoughts, ideas, and proposals.

Conclusion

Employees may find that mergers and acquisitions are among the most stressful situations they encounter. However, the short-term difficulties may be outweighed by the long-term advantages of mergers and acquisitions for management, investors, and the company's financial line. For this reason, M&As are frequently discussed as a calculated approach to expand a budding business.

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