

Mergers and Acquisitions (M&As) in Indian Banking Sector: A Study of Ethical Perspective

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Abstract - The purpose of the study is to examine the ethical issues, which affects the working of the employees in banking sector after M&As. A sample of three merger cases from 2010 to 2017 is taken in the study. Data were collected from 120 employees of banking sector and processed by using correlation and regression techniques to find out the association among the ethical issues *i.e.* justice, security and caring practices, and their impact on job performance after M&As. The results indicated that all the three ethical parameters are positively associated and have significant impact on job performance. It is recommended that job performance may be improved if employees are provided employment security, justice and caring practices in the merged entity.

Keywords: Mergers, Acquisitions, Ethics, Justice, Performance, Security

Introduction

Indian banking system has played a significant role in the economic development of the country (Ramanath, *et al.*, 2019). After the economic reforms in 1991, it entered into new world of Globalization. The wind of change introduces many strategies to remain competitive in the market (Athma & Bhavani, 2017). M&As is one which is used for expansion and growth of an entity. A large number of banks are engaged in M&As activities in Indian banking sector. The important motives behind M&As is to enhance profitability, economics of scale, synergies, technology up-gradation, market share and maintaining risk, *etc* (Bhatnager & Sinha, 2012). Merger is a process of combining two or more independent business corporations into a single entity. Acquisition, in general sense, is the purchase of controlling interest by one company in the share capital of another company (Bassi & Gupta, 2015). Continuously changing environment and corporate scandals have introduced the ethical concept. Some of the ethical issues related to human resources are job security, justice and caring practices in merged

environment. Job security is direct relation with human dignity because it affects the capacity of workers to satisfy the basic physiological and security needs of their families. The absence of these factors causes stress, anxiety and fear at work place (Bertaux & Quenean, 2002). Greenberg introduced the concept of organizational justice in 1987, which refers to the morally right course of action that may be according to fairness, ethics, religion and law. Justice is always central interest to organizations because injustice can impact employee's behaviors at work (www.wikipedia.com). Similarly, caring practices is defined as the caring of system and caring of culture in new environment. Caring system is treated as the open door system that incorporates the employees of the target entity to anticipate the positive results. The result works as cost-benefit term like in social exchange theory (Lin & Wei, 2006). Social exchange theory defines the concept of a relationship of two people based on cost-benefit analysis applicable at work place (www.socialwork.com), so effective measures are to be taken to integrate the human resources for getting the objectives of the organization. Caring culture is an assessment that need in all stages of M&As *i.e.* from planning stage to decision making stage.

Literature Review

Bertaux & Queneau (2002) explored that job security is a device to increase worker effort both on efficiency and ethical grounds and job insecurity create stress and anxiety to workers. McGee (2004) considered some of the defensive tactics on hostile takeovers to prevent unwanted takeovers. As a result, ethical theory avoids uncertainties at the workplace. Wood (2005) identified code of ethics and found that it must be strongly implemented along with the code of augmentation so that codes can be properly communicated to the employees in organization. Grimpe (2007) found that employee turnover can be minimized by providing high job satisfaction to the employees. The insecurity of employees is preventing by considering the determinants of income and quality integration. Chun (2009) found that employees' loyalty, employment security, satisfaction and emotions are positively correlated with organizational empathy, warmth and conscientiousness. The employees of acquiring companies had more negative feeling towards the merged organization. Ellis *et al.* (2009) explored that organizational justice is essential for achieving and improving the marking position gain in post-integration. Hinduan *et al.* (2009) found that leadership style have their own importance in post-merger as it is an indicator that helps in accepting the changes by employees after merger. Zainalipour *et al.* (2010) found that organizational justice have positive relation with four dimensions of job satisfaction namely supervision, co-worker, pay and promotion and have a significant impact of distributive justice and interactional justice with job satisfaction. Sanda & Benin (2011) found that the issues faced by human resources in post-merger period were result in low productivity of employees, if not tackled properly. Fapohunda (2012) examined the relationship of M&As with four variables namely productivity, job security, labour turnover and technological innovation.

The result indicated that M&As affect the productivity, job security, labour turnover and technological innovation. Tessema *et al.* (2013) found that both financial and nonfinancial rewards like employee recognition, pay, *etc.* have positive impact on job performance. Parvin & Kabir (2013) addressed several indicators for job satisfaction in an organization such as working environment, promotion, fairness and relationship with staffs, *etc.* and revealed that salary, supervision; relations in work-place and efficiency in working were the main factors which triggers the job satisfaction of the employees. Ahmad *et al.* (2014) also examined the motivating factors *i.e.* fair wages, work environment, job security, company policy, *etc* and found these factors play a significant role in job performance of employees in the banking sectors. Taneja & Sexsena (2014) analyzed the social aspect in merger deal and the results shows that good decision-making, leadership style, organization structure, teamwork influence all the factors of job satisfaction for employees. Wanger *et al.* (2014) found that resistance of change by employees in an organization was due to the factors like lack of sound communication, lack of culture-fit, lack of motivational factors, relations with higher level managers, *etc.* It was also concluded that human aspects were not taking seriously in merger process that resulting in lack of job satisfaction. Purohit & Bandyopadhyay (2014) indicated that job security is the essential factor of motivation for employees. Working condition, respect and recognition are the factors of enhancing job security. Some of the intrinsic motivational factors have more effect on job performance than the extrinsic factors. Kauhanen & Natti (2015) stated that job security, working conditions, training and career programmes, *etc.* are the indicators of job quality and these factors have impact the job security as well. Cho *et al.* (2017) stated that justice and psychological resilience lead to positive outcomes with affective commitment to change while interactional justice lead to negative outcome with continuous commitment to change during M&As process. Swalhi *et al.* (2017) studied the mediating role between justice and job performance in the organization. The study found that justice has a great effect on performance. Akbar *et al.* (2018) explored employees' positive perception about change readiness due to merger. However, job satisfaction and commitment also revealed positive effect on change readiness. Most of the studies focused on job satisfaction with reference to relationship at work place, salary, promotion and other related factors for job satisfaction. The present study is conducted to examine the impact of employment security, justice and caring practices on job performance after M&As in Indian banking sector.

Research Objective

The present study aims to examine the impact of employment security, justice and caring practices on job performance of the employees in the selected banks after M&As.

Research Hypotheses

The following hypotheses were formulated to validate the results of the study:

H₀₁: There is no significant impact of employment security on job performance

H₀₂: There is no significant impact of organizational justice on job performance

H₀₃: There is no significant impact of organizational caring practices on job performance

Research Methodology

(A) Research Design

The present study used exploratory as well as descriptive research designs for critical analysis of related factors of M&As. Prior information were gathered to identify the problem and hypotheses were set accordingly. Descriptive research design is considered to explain the characteristics of the phenomenon.

(B) Population and Sample Profile

The merger cases in public and private sector banks after the economic reforms initiated in 1991 were considered as the population of the present study and more than 20 mergers were noticed in Indian banking sector during this period. A sample of three merger cases from 2010 to 2017 was taken in the present study. Bank of Rajasthan was merged in ICICI Bank on 13 August, 2010. ING Vyasa bank was merged in Kotak Mahindra Bank on 20 November, 2014. Five of SBI associates (State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Patiala and State Bank of Hyderabad) were merged in SBI on April 01, 2017.

Table-1: Sample Profile

Qualification	Number	Percentage	Age	Number	Percentage
Graduate	69	(57.5%)	<25	13	(10.8%)
Post-Graduate	51	(42.5%)	25-30	52	(43.3%)
Experience	Number	Percentage	31-35	28	(23.3%)
<5	45	(37.5%)	36-40	12	(10%)
5-10	40	(33.3%)	>40	15	(12.5%)
11-15	18	(15%)	Designation	Number	Percentage
16-20	06	(5%)	Officer	58	(48.3%)
21-25	05	(4.2%)	Manager	36	(30%)
>25	06	(5%)	Senior Manager	21	(17.5%)
Gender	Number	Percentage	Other staff	05	(4.2%)
Male	82	(68.3%)			
Female	38	(31.7%)			

Source: Compiled from Primary Data

(C) Data Collection and Analysis

The data were collected through primary and secondary sources. Primary data were collected from the employees working in post-merger banks in the state of Haryana using judgment

sampling. A pre-tested structured questionnaire on five point Likert Scale *i.e.* Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA) was designed, which comprises of four variables namely employment security, justice, caring practices and job performance. Secondary data were collected from articles, websites, books, reports, newspapers, *etc.* This study used various descriptive statistics such as frequency distribution, mean, percentage, standard deviation, correlation and regression analysis. Cronbach's alpha coefficient is used as a test the reliability and the value is 0.787, hence the scale is considered reliable Nunnally (1978).

Results and Discussion

Table-2 indicates the correlation between job performance, employment security, justice and caring practices. The value of correlation of job performance with employment security is 0.432, with justice is 0.375 and with caring practices is 0.491, which shows a positive correlation among the variables.

Table-2: Correlation between the Variables

Correlation		Job Performance	Employment Security	Justice	Caring Practices
Job Performance	Pearson Correlation	1	0.432**	0.375**	0.491**
	Sig (2-tailed)		0.000	0.000	0.000
	N	120	120	120	120
Employment Security	Pearson Correlation	0.432**	1	0.340**	0.910**
	Sig (2-tailed)	0.000		0.000	0.000
	N	120	120	120	120
Justice	Pearson Correlation	0.375**	0.340**	1	0.397**
	Sig (2-tailed)	0.000	0.000		0.000
	N	120	120	120	120
Caring Practices	Pearson Correlation	0.491**	0.910**	0.397**	1
	Sig (2-tailed)	0.000	0.000	0.000	
	N	120	120	120	120

Source: Authors' Computation (SPSS Output), *=Significant at 5 percent level, **=Significant at 1 percent level

Regression Analysis

(A) Employment Security as Independent Variable

The choice of surrogate variable for regression analysis is based on the prior studies (*Bertaux & Queneau, 2002; Swalhi et al., 2017; Naveed et al., 2011*). Regression Analysis is used to

estimate the fundamental relationship between employment security, justice and caring practices as independent variables with job performance as dependent variable. The regression equation is:

$$Y = \alpha + \beta_1 X_1 + e_i$$

Where; Y= Job Performance, α = Y intercept, β = slope coefficient, X_1 = Employment Security, e_i = residual or error term.

Regression Equation

$$\text{Job Performance} = 1.891 + 0.446 (\text{Employment Security}) + e_i$$

Table-3 indicates the values of R (0.432) and R-square (0.187), which measures the success of regression in estimating the value of job performance with all other independent variables. It explained 18 percent variance in the study and rest 82 percent variance is explained by other factors not considered in the study. The value of Adjusted R-square (0.180), a modified version of R-Square, shows that the additional input variables are contributing to the model. ANOVA results shows that there is a significant impact of employment security on job performance ($p=0.000$), hence the null hypothesis (H_{01}) is rejected. The value of unstandardized beta coefficient (0.446) shows that for every unit change in standard deviation, control increases the chances of outcomes by 0.446 units, having all other factors constant. On the other hand, beta value of standardized coefficient (0.432) resulting in a t-value of 5.203, which is also statistically significant ($p=0.000$).

Table-3: Model Summary, ANOVA Results and Coefficients of Factors

Model	R	R-Square	Adjusted R-Square	Std. Error of Estimate	
1	0.432	0.187	0.180	0.87342	
Model	Sum of Squares	d.f.	Mean Square	F	Sig.
Regression	20.649	1	20.649	27.067	0.000*
Residual	90.018	118	0.763		
Total	110.667	119			
Model	Unstandardized Coefficients		Standardized Coefficients		
	Beta	Std. Error	Beta	t-statistic	Sig. value
(Constant)	1.891	0.350	-	5.398	0.000*
Employment Security	0.446	0.086	0.432	5.203	0.000*

Source: Authors' Computation (SPSS Output), *=Significant at 5 percent level

(B) Justice as Independent Variable

Regression Analysis is used to estimate the fundamental relationship between justice as independent variable with job performance as dependent variable. The regression equation is:

$$Y = \alpha + \beta_2 X_2 + e_i$$

Where; Y= Job Performance, α = Y intercept, β = slope coefficient, X_2 = Justice, e_i = residual or error term.

Regression Equation

$$\text{Job Performance} = 2.436 + 0.362 (\text{Justice}) + e_i$$

Table-4 shows the values of R (0.375) and R-square (0.141), which measures the success of regression in estimating the value of job performance as dependent variable with all other independent variables. It is explaining 14 percent variance and rest 86 percent variance is explained by other factors not considered in the study. The value of Adjusted R-square (0.133), a modified version of R-Square, shows that the additional input variables are contributing to the model. ANOVA results show that there is a significant impact of justice on job performance ($p=0.000$), hence the null hypothesis (H_{02}) is rejected. The beta value of unstandardized coefficient (0.362) shows that for every unit change in standard deviation, control increases the chances of outcomes by 0.362 units, having all other factors constant. On the other hand, the standardized beta coefficient (0.375) resulting in a t-value of 4.394, which is also statistically significant ($p=0.000$).

Table-4: Model Summary, ANOVA Results and Coefficients of Factors

Model	R	R-Square	Adjusted R-Square	Std. Error of Estimate	
1	0.375	0.141	0.133	0.89775	
Model	Sum of Squares	d.f.	Mean Square	F	Sig.
Regression	15.564	1	15.564	19.311	0.000*
Residual	95.103	118	0.806		
Total	110.667	119			
Model	Unstandardized Coefficients		Standardized Coefficients		
	Beta	Std. Error	Beta	t-statistic	Sig. value
(Constant)	2.436	0.292	-	8.349	0.000*
Justice	0.362	0.082	0.375	4.394	0.000*

Source: Authors' Computation (SPSS Output), *=Significant at 5 percent level

(C) Caring Practices as Independent Variable

Regression Analysis is used to estimate the fundamental relationship between caring practices as independent variable with job performance as dependent variable. The regression equation is:

$$Y = \alpha + \beta_3 X_3 + e_i$$

Where; Y= Job Performance, α = Y intercept, β = slope coefficient, X_3 = Caring practices, e_i = residual or error term.

Regression Equation

Job Performance= 1.489+ 0.544 (Caring Practices) + ei

Table-5 presented the values of R (0.491) and R-square (0.241), which measures the success of regression in estimating the value of job performance as dependent variable with all independent variables. It explained 24 percent variance and rest 76 percent variance is explained by other factors not considered in the study. The value of Adjusted R-square (0.235), a modified version of R-Square, shows that the additional input variables are contributing to the model. ANOVA results shows that there is a significant impact of caring practices on job performance ($p=0.000$), hence the null hypothesis (H_{03}) is rejected. The unstandardized coefficient value (0.544) shows that for every unit change in standard deviation in the study, control increases the chances of outcomes by 0.544 units, having all other factors constant. On the other hand, standardized beta coefficient is 0.491 resulting in a t-value of 6.122, which is also statistically significant ($p=0.000$).

Table-5: Model Summary, ANOVA Results and Coefficients of Factors

Model	R	R-Square	Adjusted R-Square	Std. Error of Estimate	
1	0.491	0.241	0.235	0.84366	
Model	Sum of Squares	d.f.	Mean Square	F	Sig.
Regression	26.678	1	26.678	37.481	0.000*
Residual	83.989	118	0.712		
Total	110.667	119			
Model	Unstandardized Coefficients Beta	Std. Error	Standardized Coefficients Beta	t-statistic	Sig. value
(Constant)	1.489	0.364	-	4.091	0.000*
Caring Practices	0.544	0.089	0.491	6.122	0.000*

Source: Authors' Computation (SPSS Output), *=Significant at 5 percent level

Conclusion and Recommendations

M&As have been used as a strategic tool for growth and expansion in Indian banking sector. The weak banks are working under threat from the economic environment as they are facing many problems such as lack of resources, outdated technology, weak financial structure, lack of effective human resource management, *etc.* M&As provides the safeguard and hedging the weak entity in future and turns it into strong entity. This study examined four ethical aspects that throw light on the performance of M&As in banking sector and the results show that all the parameters *i.e.* employment security, justice and caring practices in M&As have a significant effect on job performance, which may be increased further if employees are provided employment security, justice and caring practices in the merged entity. It is recommended that organization must manage the human resource effectively and consider the human aspects on top priority.

Implications of the Study

The issues of human resource are always neglected even they are backbone of the organization. This study provides new insight to the management of the organization to understand the association between the ethical aspects *i.e.* job security, better justice and effective caring practices to the employees with their performance in the organization. It will also be helpful in formulating the corporate level strategies in ethical context.

Limitations and Further Scope of the Study

The officials of the selected banks were reluctant to provide the required information, hence the sample size was restricted to 120 respondents only and the chances of bias also cannot be ignored. Only three merger cases were taken into account for analyzing the viewpoint of the employees in the sampled banks. This study considered the banking sector only, which can be extended to other sectors/industries or even intra-sector comparison can be made. The researchers can also analyze the viewpoint of employees of target banks in future. Longitudinal study may also be conducted in future for getting the variation in results about these ethical parameters.

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