

Impact of Mergers & Acquisitions on Job Security and Motivation

(A Case Study of Banking Employees of Pakistan)

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Abstract. To achieve competitive advantage M&A's has become a strategic option for organizations. The process of M&A is rising without there being reason of economic performance to justify such action. A phenomenal change has been witnessed in the banking industry of Pakistan in recent years, owing to the liberal reforms executed by the State Bank of Pakistan and the effective restructuring of banks. This theoretical framework demonstrates how this process of M&A has recently affected the occupational and skill profiles of job in banking industry of Pakistan. On the basis of different views of authors, a conceptual framework is developed that is supported by a questionnaire. It is suggested that this framework can give a new sight into explaining the impact of M&A on employee's job satisfaction and security. This framework investigated the impact of M&A on the employee's job motivation and job satisfaction having both pre & post M&A job experience and those having only post M&A experience.

Keywords: Mergers & Acquisitions (M&A), Job Security, Job Satisfaction

1. Introduction

A phenomenal change has been witnessed in the banking industry of Pakistan in recent years, owing to the liberal reforms executed by the State Bank of Pakistan and the effective restructuring of banks. The industry has been transformed from sluggish, government-dominated sector into a much more active, competitive and profitable industry. In order to sustain this strong performance, the State Bank aims to further consolidate the banking sector by encouraging Mergers and Acquisitions. This is becoming an increasingly global phenomenon. Due to the increasing competitions and changes in the regulations mergers and acquisitions has become popular strategic tool for increasing product portfolio entering new markets and value creation. Cross borders take over accounted for a significant portion of M&A; deregulation and privatization also opened another path way for cross border M&A. Spreading globalization and technological advancement also tempted this wave. Despite for the increasing popularity 80% M&A do not reach their financial goals. The banking sector in Pakistan shows a large volume of M&A, which indicates the size of this sector and its contribution to the overall GDP. The main aim of this paper is to look at the impact of mergers and acquisitions on employees in the banking sector of Pakistan. It will assess the overall impact these processes have had on the number of individuals employed in this sector of Pakistan. In doing so, it is important to distinguish between the impact of the general global restructuring process and the impact of mergers and acquisitions in the financial services in particular.

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2. Literature Review

Various researches have been conducted on M&A on banking sector so far. The overall impact of M&A has been studied by number of researchers of developed countries like USA, UK and EU countries. In the context of emerging economies like Pakistan, very few research works has been conducted. The aim of this paper is to cover the impact of M&A in Pakistani environment.

The wave of M&A is rising without there being any reasons of economic performance to justify such actions. Most of the banking sector employees regard this M&A as a threat for their jobs. Hellenic Bank has been negative terms on employment. From the period of 1998-2003 it has cancelled 3627 jobs as the shareholders always demanded the limited number of staff in their organization. Therefore it leads to job security to the employees and dissatisfaction. (John Melonakos)

History of M&A, first wave of M&A in 1890s, it was characterized by horizontal take over for consolidating industrial production. The first wave introduced new corporate laws and NYSE. This period is called as Great Merger Waves but came to end by the First World War. Second M&A wave 1910s, anti-trust laws were initiated which ultimately brought the second take over waves. This wave attempted the vertical integration. It resulted as Oligopoly and it governed dominant structure, as Monopoly disappear by anti-trust laws. The end of second wave was the year of 1929, when NYSE collapsed. Third wave of M&A 1950s to 1970s, from 1930s to 1940s can be said the dark age. Firms were eager for own survival due to the great depression and subsequently Second World War. Third M&A waves begin in 1950s and ended in 1970s, when the first oil crisis brought turmoil in 1973. Two giants US and Europe showed different behaviors. US focused on diversification and size expansion through non-related and verticals M&A while Europe focused on Horizontal M&A. The fourth wave 1980s, it begins with end of second oil crisis. The turning point of this wave was to recover stock markets from economic recession. Fourth wave is mostly induced by financial sector as well as electronics. Hostile M&A were frequent. The fifth wave 1990s started with economic boom in 1993 and came to an end with the collapse of equity market in 2000. During 1993 to 2000 M&A in US recorded 119035 and Europe 114925. Transaction value reached to 20 trillion dollar. New wave (Banking Sector Reforms), since the mid 2003 another wave begin by the US, Europe and Asia. Among industry groups telecommunication industry is experiencing and numerous M&A. Banking industry shows a large volume of M&A, which indicates that size do matter in bank industry. (Hayng Rok Yim) Objective of this approach was to find out the reasons by most of the M&A failure. The four main reasons related to the culture clashes are Ambiguity and communication problem, Management of cultural integration, Acquisition and organization culture, improper acculturation process among merged organizations. It was concluded that inappropriate communication is the origin for many of the ambiguities seen in M&A and other important factor is the trust between groups of the cultures. Merged organizations can be enhanced by shared goals, regular dialogues and shared knowledge. (Mohibullah)

Gerry E. Mullins has addressed the following questions. What are the mechanics of M&A? Is this an example of corporation greed? Why do M&A occur? What is the impact associated with M&A? It has been reviewed by this paper the basic mechanics of corporate combinations and reasons both legitimate and illegitimate that such combinations occur and it highlighted the impact of M&A on shareholders, management and employees

In the most recent development in banking sector the trend of M&A is more dominant. This process of M&A is still continued and resulting in consolidation and the employee's turnover. In the countries of Central and Eastern Europe, M&A is a interesting process of privatization in banking sector, the attempts by some western banks to gain control of the market. The current reforms in banking sector could lead to the circumstances where one bank would have better market standings in several other countries.

3. Hypothesis

Ho1: M&A has a negative impact on the employee's job security.

Ho1:M&A has negative impact on employee's job motivation.

4. Methodology and Data Collection.

For this research paper the data used gathered through constructive questionnaires, distributed to middle management as well as strategic apex of various banks in operation under the environment of M&A. In emerging economies like Pakistan, virtually there has been few research studies have been conducted on the dimension of job security and job motivation in the context of M&A. 165 questionnaires were circulated among employees working under the environment of M&A. The sample comprised of 94 respondents. All the banks in Islamabad/Rawalpindi were short listed; questionnaires were then distributed by hand to specific employees and managers of short listed banks. The employees and managers of few banks were personally interviewed. For this particular research the target respondents were 165 out of which 94 responded from 15 different banks of Islamabad/Rawalpindi region. The purpose of this conceptual framework is to investigate the impact of M&A process on the employee's job motivation and job security. It will assess the overall impact of these processes have had on individuals employed in banking sector of Pakistan.

The questionnaire developed was consisting of 8 questions with the domain of two dimensions, each having a scale of 5 possible outcomes. Following are the research questions used in our conceptual framework,

(First dimension)

1. What do you feel in new merged environment?
 2. Please rate you banking experience in new environment?
 3. New banking environment creates competition between employees for promotion.
 4. M&A offers more fringes benefits then before.
 5. M&A offers new courses and training.
- (1= Excellent 5 = Poor)

(Second Dimension)

1. M&A provides job security.
 2. I feel satisfied in merged environment.
 3. M&A provides effective progress to bankers.
- (1= highly likely 5 = Highly unlikely)

4.1. Constructs of Study.

The *constructs* of our study seeks to highlight how these processes are interlinked. In our research the term '*Merger*' covers both merger and acquisition. *Merger*, "The union of two or more commercial interests or corporations" It is a planned activity where the corporations having the same culture and product lines are combined together to form a new entity: e.g. *KASB –ATLAS Bank Ltd, Habib Metropolitan Bank Ltd*. Whereas '*Acquisition*' signifies, "When one company takes over another and clearly established itself as the new owner, the deal is called as an acquisition." e.g. *acquired ABN-Amro, NIB acquired PICIC, Standard Chartered Bank acquired Union Bank*.

4.2. Variables.

Independent Variable: The process of Mergers and Acquisitions in banking sector.

Dependent Variable:

1. Impact of M&A on Employees Job Motivation.
2. Impact of M&A on Employees Job Security.

5. Descriptive Analysis.

To show the impact of M&A on job motivation and job security of the employees' working in banking sector of Pakistan, the data collected by using a questionnaire is structured in tabulated format. The outcome of the circulated questionnaires was total 57%, whereas 20% questionnaires were not duly filed and rest of questionnaires had not received.

1. Overall Impact of M&A

Table 1.1

Impact of M&A on Job Motivation
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Bands	Questions				
	1 (Excellent)	2 (Satisfactory)	3(Average)	4 (Unsatisfactory)	5 (Poor)
Q1	17%	29%	37%	9%	8%
Q2	16%	40%	27%	14%	3%
Q3	18%	16%	36%	25%	5%
Q4	19%	22%	30%	21%	8%
Q5	25%	14%	27%	30%	4%
Total	19%	24%	31%	20%	6%

Based on bands assigned to the questionnaire, Table 1.1 shows the overall impact of M&A on the job motivation of employees. The behavioral tendency of employees reflects 19% (Excellent), 24% (Satisfactory), 31% (Average), 20% (unsatisfactory) and 6% (poor)

Table 1.2

Impact of M&A on Job Security					
Bands	Questions				
	1 (Excellent)	2 (Satisfactory)	3(Average)	4 (Unsatisfactory)	5 (Poor)
Q1	13%	17%	17%	24%	27%
Q2	14%	15%	37%	26%	8%
Q3	19%	20%	39%	14%	10%
Total	15%	17%	31%	21%	15%

Table 1.2 shows overall impact of M&A on the job security of employees. Results displays this perception as 15% employees consider M&A as excellent, 17% satisfactory, 31% average, 21% unsatisfactory and 15% as poor. These results are derived through bands assigned to the questions regarding “Job Security”.

2. Impact on Employees having both “Pre and Post M&A Experience”

RESPONDENTS HAVING EXPERIENCE OF PRE AND POST M&A ENVIRONMENT

Table 2.1

Impact of M&A on Job Motivation					
Bands	Questions				
	1 (Excellent)	2 (Satisfactory)	3(Average)	4 (Unsatisfactory)	5 (Poor)
Q1	7%	13%	25%	38%	17%
Q2	8%	20%	14%	36%	22%
Q3	15%	20%	13%	23%	29%
Q4	4%	11%	32%	24%	29%
Q5	2%	10%	14%	36%	38%
Total	7%	15%	20%	31%	27%

Table 2.1 demonstrates the impact of M&A on banking employees’ “Job Motivation”, those who have been working in pre & post M&A environment. Result shows this perception of employees as 7% employees consider M&A as excellent, 15% satisfactory, 20% average, 31% unsatisfactory and 27% as poor. These results are derived through bands assigned to the questions regarding “Job Motivation”.

Table 2.2

Impact of M&A on Job Security					
Bands	Questions				
	1 (Excellent)	2 (Satisfactory)	3(Average)	4 (Unsatisfactory)	5 (Poor)
Q1	12%	14%	13%	31%	30%
Q2	9%	11%	18%	25%	37%
Q3	11%	10%	22%	37%	20%
Total	11%	12%	18%	31%	29%

Table 2.2 consists of 3 questions regarding “Job Security” showing the impact of M&A on banking employees’, who have been working in pre M&A and post M&A as well. Table 2.2 results shows this perception as, 11% employees consider M&A as excellent, 12% satisfactory, 18% average, 31% unsatisfactory and 29% as poor. These results are derived through bands assigned to the questions regarding “Job Security”.

3. Impact on Employees having “Post M&A Experience”

RESPONDENTS HAVING EXPERIENCE OF POST M&A ENVIRONMENT

Table 3.1

Impact of M&A on Job Motivation					
Bands	Questions				
	1 (Excellent)	2 (Satisfactory)	3 (Average)	4 (Unsatisfactory)	5 (Poor)
Q1	21%	38%	30%	10%	1%
Q2	18%	46%	28%	8%	0%
Q3	26%	23%	36%	9%	6%
Q4	40%	20%	32%	6%	2%
Q5	40%	32%	14%	12%	2%
Total	29%	32%	28%	9%	2%

Table 3.1 showing 5 questions regarding “Job Motivation” showing the impact of M&A on banking employees’, who have been working in post M&A. Table 3.1 results show this perception as, 29% employees consider M&A as excellent, 32% satisfactory, 28% average, 9% unsatisfactory and 2% as poor. These results are derived through bands assigned to the questions regarding “Job Motivation”.

Table 3.2

Impact of M&A on Job Security					
Bands	Questions				
	1 (Excellent)	2 (Satisfactory)	3 (Average)	4 (Unsatisfactory)	5 (Poor)
Q1	12%	29%	14%	17%	28%
Q2	17%	17%	40%	14%	12%
Q3	14%	20%	40%	14%	12%
Total	14%	22%	31%	15%	17%

Table 3.2 consists of 3 questions regarding “Job Security” showing the impact of M&A on banking employees who have been working in pre M&A and post M&A as well. Table 3.2 results show this perception as, 11% employees consider M&A as excellent, 12% satisfactory, 18% average, 31% unsatisfactory and 29% as poor. These results are derived through bands assigned to the questions regarding “Job Security”.

6. Conclusion & Implications.

Based on the findings of this research study different dimensions have been evaluated from the information gathered through questionnaire. Employees those who have worked in both pre and post-mergers & acquisitions environment strongly feel that their motivation level is unsatisfactory. Employees who worked at both pre and post-mergers & acquisitions environment feel strong threat to their job security while working in such environment.

On the other hand the employees having only post M&A job experience had shown satisfactory results as they didn’t work in a pre M&A environment. Therefore, their response was positive regarding job motivation and job security. Employees join the bank after mergers are very satisfied with their job security and they are fully motivated because they don’t have any threat and this has increased their level of motivation.

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