

A Study on Post Merger Effect on Employee Engagement in Select Banks in India: A Causality Analysis

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Abstract. Employee engagement has been defined in a number of ways and the range of employee engagement techniques is even wider. Essentially what most organizations understand by 'employee engagement' is the state of emotional and intellectual commitment of employees towards the organization that gives the companies competitive advantages including higher productivity and lower employee turnover. The survey mainly analyzes the general reasons or the factors leading to employee engagement in the workplace; as well as evaluates the consequences of merger and acquisition on employee engagement by measuring the physical and psychological factors. Finally, the study also identifies the behavioral patterns exhibited by the employees post merger in the organization.

The results of the study try to promote those factors that enhance employee engagement and diminish those that lead to poor engagement levels. This study may contribute and give an idea to the top management of banking industry on the awareness of employee engagement post merger and also can be useful for them to understand the approaches to be taken in order to enhance the level of organizational performance and make organization a profitable entity.

Keywords: Banking Industry, Employee Engagement, Merger & Acquisition and Organizational Change.

1 Introduction

Employee Engagement is the state of emotional and intellectual commitment of employees towards the organization that gives the companies competitive advantages including higher productivity and lower employee turnover (Srivastava. A and Saxena. N, 2011). Employee engagement is the extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals. In enhancing the growth and overcoming competition, mergers and acquisitions have become a favored strategy that is used by most firms to ensure rapid penetration of new markets while lowering entry risks and costs. As a result, many employees may experience numerous psychological effects of mergers and acquisitions. The drivers of engagement that suffer the most post merger includes confidence of the

employees in the organization's future and its senior leaders, employee's belief that they have a promising future with the company and the capability to deal with the challenges faced due to changes (Wiley J.W, 2009).

M&As situations in particular can cause many employees to feel confused and unsure about how they will fit in the combined organization. Uncertainty and role conflict may lead to increased turnover, new or additional job expectations, and delays in accomplishing goals. For this reason, most employees in post-restructuring context are incessantly dissatisfied with the changing condition of work and find it more difficult to sustain loyalty by adjusting positively to the discomforts which accompanied restructuring in the workplace. Many organizations that restructured in order to increase productivity and gain competitive advantage find that what they have gained is a depressed, anxious and angry workforce at a time when they need spirit and creativity to ensure future success (Longe, 2013). Researchers, managers, and employees have become familiar with a new lexicon to describe these changes: downsizing, reengineering, core competencies, outsourcing, and off shoring, for example. Despite the frequency with which these terms are used, they often fail to connote what it is like for those working in these large corporations to live through these turbulent times. Thus, the critical challenge facing restructured organizations is the ability of the employees to adjust to the prevailing work situation by diminishing of old work-roles and developing new and propitious work attitudes that are consistent with goals and standards in the work-situation.

1.1 Indian Banking Industry: A Profile

India has an extensive banking network, in both urban and rural areas. All large Indian banks are nationalized, and all Indian financial institutions are in the public sector. 36 foreign banks operate in India with full banking licenses (Ruchi Sahay, 2010). There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. Due to cut throat competition, technological up gradation, recession in global economy and stock market volatility, Indian banks are facing various challenges at the market place. In response to these factors, banks in India and around the world are restructuring their assets, operations and contractual relationships with their shareholders, creditors and other financial stakeholders (Joshi.V and Goyal. K.A ,2012). Banking systems are consolidating many markets and banks and also extending their

presence across borders. The banks selected for the study includes the merger of ICICI Bank & Bank Of Rajasthan and State Bank of India & State Bank of Indore.

In the resent times banking sector has been undergoing a lot of changes in terms of regulation and effects of globalization. These changes have affected this sector both structurally and strategically. With the changing Environment many different strategies have been adopted by this sector to remain efficient and to surge ahead in the global arena. One such strategy is through the process of consolidation of banks emerged as one of the most profitable strategy. There are several ways to consolidate the banking industry; the most commonly adopted by banks is merger (Devrajappa).

As we are entering into an international banking phase it is must to have a fair number of large banks, which could play a meaningful role in the emerging economics. International banking system is dominated by large players. Banks in India are gradually moving towards:

- i. Consolidation of players through mergers and acquisitions,
- ii. Globalization of operations,
- iii. Development of new technology and
- iv. Universalization of banking.

2. Research Methodology

The researcher has attempted to study various dimensions of employee engagement i.e, the reasons, the consequences and the behavioral patterns related to employee engagement post merger in a banking industry. The research is descriptive and quantitative in nature.

2.1 STATEMENT OF THE PROBLEM

In these turbulent times, dramatic changes in the global economy over the past 25 years have had significant implications for commitment between employers and employees and thus for employee engagement. Although successful organizations are often marked by a modest, continuous level of change, the past few years have been marked by significant business and talent survival tactics in response to challenging economic conditions. The changes create anxiety and uncertainty among employees produce deterioration in many of their attitudes to their work and to the organization. Over the years it has become evident through compelling researches that an early involvement of HR goes a long way in contributing to a subsequent

beneficial Merger or an Acquisition. Thus, most important, organization must truly understand what are the factors that determine the employee engagement so that they can implement more effective human resource practices to enhance their employee engagement in the organization (AON Hewitt 2013).

2.2 OBJECTIVES OF THE STUDY

The main objective of the study is to examine different factors that contribute to Employee Engagement in banking industry post merger. Specifically, the objectives of this study are listed below:

- To compile the profile of respondents and examine its association with Employee Engagement.
- To identify the general causes of Employee Engagement and their relative propensity post merger in banking industry.
- To examine the effects on Employee Engagement post merger in banking industry.
- To study behavioral patterns exhibited at the work place post merger in banking industry.

2.3 Population and Sample

The population constitutes the employees of selected acquired banks at all management levels. The sample taken for the survey is 60 employees from the acquired banks. Convenient and purposive sampling technique is adopted to get the sample.

2.4 Tools for Data Collection

Both primary and secondary data has been collected for the study. Primary data was collected from the respondents using a self structured questionnaire based on 5 point Likert scale; whereas, secondary data was collected from books, journals, annual reports, previous researches, magazines and internet.

2.5 Statistical Tools

The collected data has been consolidated, tabulated, coded and analyzed using relevant statistical tools like Reliability Analysis, Chi Square and Correlation & Regression by structural equation modeling using SPSS AMOS V.22.

2.6 Variables for the Study

- a. *Independent Variable:* Variables that describe the effect on Employee Engagement.
- b. *Dependent Variable:* Employee Engagement.

2.7 Limitations of the Study

- a. Since the sample size of 60 being very small, the results can't always be generalized to the entire population.
- b. Convenient and purposive sampling is used and hence the results of the sample selected need not to be the true representative of the universe.

3 Data Analysis and Interpretation

3.1 Respondent's Profile

- a. 58.67% of the respondents were male and 41.33% females.
- b. 60% were married and 40% single.
- c. Age group: 20-30 yrs-40% , 31-40yrs-20%, 41-50yrs-6.67%, Above 50-33.33%.
- d. Work experience: Below 2yrs-20%, 3-5yrs-20%, 6-10yrs-13.33%, More than 10yrs-46.67%.
- e. Educational qualification: Masters-53.3%, Degree-40%, Secondary-6.67%.
- f. Designation: Asst./Officers-66.67%, Asst.Manager-26.67%, UpperManagement-6.67%.

3.2 Statistical Analysis

3.2.1 Reliability Test for each section of the questionnaire:

The analysis of data begins with reliability test for the scales through Cronbach's Alpha. Besides that the questions were being coded to enable for analysis using Statistical Packages for the Social Science (SPSS).The Cronbach Alpha testing is used as it is the most well accepted reliability test tools applied in the area of research to construct reliable measurement scales, to improve existing scales, and to evaluate the reliability of scales already in use. In Cronbach's Alpha reliability analysis, the closer Cronbach's Alpha to 1.0, the higher the internal consistency reliability.

Reliability Statistics:

Section	Cronbach's Alpha	N of Items
B	.852	22
C	.757	10

Cronbach measures:

Reliability less than 0.6 considered poor.

Reliability in the range 0.7 is considered to be acceptable.

Reliability more than 0.8 are considered to be good.

3.2.2 Ranking Cases

Employees were asked to rank various factors on a five point scale i.e 1 to 5. Scores of all 60 respondents were compiled to calculate the weighted total, and then ranking of the weighted total was done.

3.2.3 Weighted Total and Ranking of Factors related to EE.

	Weights	1	2	3	4	5				
Sno	Factors	S. Disagree	Dis-agree	Uncertain	Agree	S. Agree	Total	Weighted Total	Rating	Rank
A1	Changes communicated prior to implementation	10	16	10	20	4	60	172	2.87	11
A2	Everybody treated fairly	11	21	12	12	4	60	157	2.62	15
A3	Performance evaluations are fair	0	19	6	24	11	60	207	3.45	5
A4	Pressure to finish my work on time	11	25	10	14	0	60	147	2.45	17
B1	Pay is fair and benefit packages	8	28	4	12	8	60	164	2.73	13
B2	Reward/ incentive schemes	8	21	6	18	7	60	175	2.92	10
B3	Good Retirement and Insurance Plans	0	3	19	30	8	60	223	3.72	1
C1	Training to perform my job well	0	23	18	11	8	60	184	3.07	8
C2	Good Job- promotion	0	11	19	22	8	60	207	3.45	5
C3	Skills and abilities	11	25	10	14	0	60	147	2.45	17

C4	Progress in my Job	3	28	6	20	3	60	172	2.87	11
D1	Teamwork and cooperation	7	9	22	19	3	60	182	3.03	9
D2	Balance between work and personal life	9	28	6	17	0	60	151	2.52	16
D3	No unreasonable amount of stress in my life	12	15	16	14	3	60	161	2.68	14
D4	Regular information of mission and goals	0	5	22	27	6	60	214	3.56	3
D5	Care about as a person	0	9	22	28	1	60	201	3.35	6
E1	Continue my career	0	5	23	26	6	60	213	3.55	4
E2	Recommend employment to a friend	3	23	22	10	2	60	165	2.75	12
E3	Better ways to do my Job well	2	7	12	27	12	60	220	3.67	2
E4	I feel proud	2	18	13	20	7	60	192	3.2	7
E5	I enjoy working	13	24	16	3	4	60	141	2.35	18
E6	Committed and emotionally attached	6	30	5	15	4	60	161	2.68	14

Source: *Questionnaire*

Analysis shows that Employees of the acquired banks agree that the organization has good retirement and insurance plans and vacation pays. The last rank is given to enjoy working, which shows most employees have disagreed upon this and post merger employees don't enjoy working in the organization.

3.2.4 Weighted Total and Ranking of Behaviour Pattern of Employees post merger.

	Weights	1	2	3	4	5				
Sno	Factors	S. Disagree	Dis-agree	Uncerta in	Agree	S. Agree	Total	Weighted Total	Rating	Rank
1	Take situation as an opportunity	0	4	5	27	24	60	251	4.18	1
2	Try to solve problems	0	8	4	40	8	60	228	3.8	3
3	Direct to other work	0	9	11	24	16	60	227	3.78	4
4	Cool down myself	0	4	10	26	20	60	242	4.03	2

5	Seek company of friends and family	4	5	20	21	11	60	213	3.49	6
6	Get irritated and react aggressively	4	20	12	20	4	60	180	3	8
7	Leave work and go home	16	24	0	20	0	60	144	2.4	10
8	Take immediate actions	0	12	16	25	7	60	207	3.45	7
9	Accept the situation	0	12	12	20	16	60	220	3.66	5
10	Dont care, high migration value	8	10	23	10	9	60	148	2.84	9

Source: *Questionnaire*

Analysis shows that post merger Employees have taken the situation as an opportunity to learn and they do what is expected of them. The last rank is given to Leave the work and go home early, which shows that Employees don't leave their work.

3.2.5 Chi-Square Test

The chi-square (χ^2) test is used to determine whether there is a significant difference between the expected frequencies and the observed frequencies in one or more categories. Based on the outcome of the chi-square test we will either reject or fail to reject the null hypothesis.

Null Hypothesis	Chi-square (χ^2) test statistic	Probability level	Conclusion on Null Hypothesis
There is no association between Age factor and Employee Engagement post merger in banking industry.	22.116	.036	Rejected at 5% level
There is no association between Gender and Employee Engagement post merger in banking industry.	10.375	.049	Rejected at 5% level
There is no association between Marital Status and Employee Engagement post merger in banking industry	31.921	.004	Rejected at 1% level
There is no association between the Formal Position of the incumbent and Employee Engagement post merger in banking industry	12.448	.331	Do not Reject
There is no association between Educational Level and Employee Engagement post merger in banking industry	23.688	.050	Rejected at 10% level
There is no association between Length of Service and Employee Engagement post merger in banking industry	25.785	.012	Rejected at 5% level

3.2.6 Structured Equation Modeling

For causality analysis, a Path diagram is drawn to establish relationship between the independent variables and the dependent variable. The latent variables assume to underlie the observed variables in the study.

Independent variables: Work Environment, Compensation and Benefits, Career Growth and Advancement, and Intrinsic Motivation.

Dependent variable: Employee Engagement.

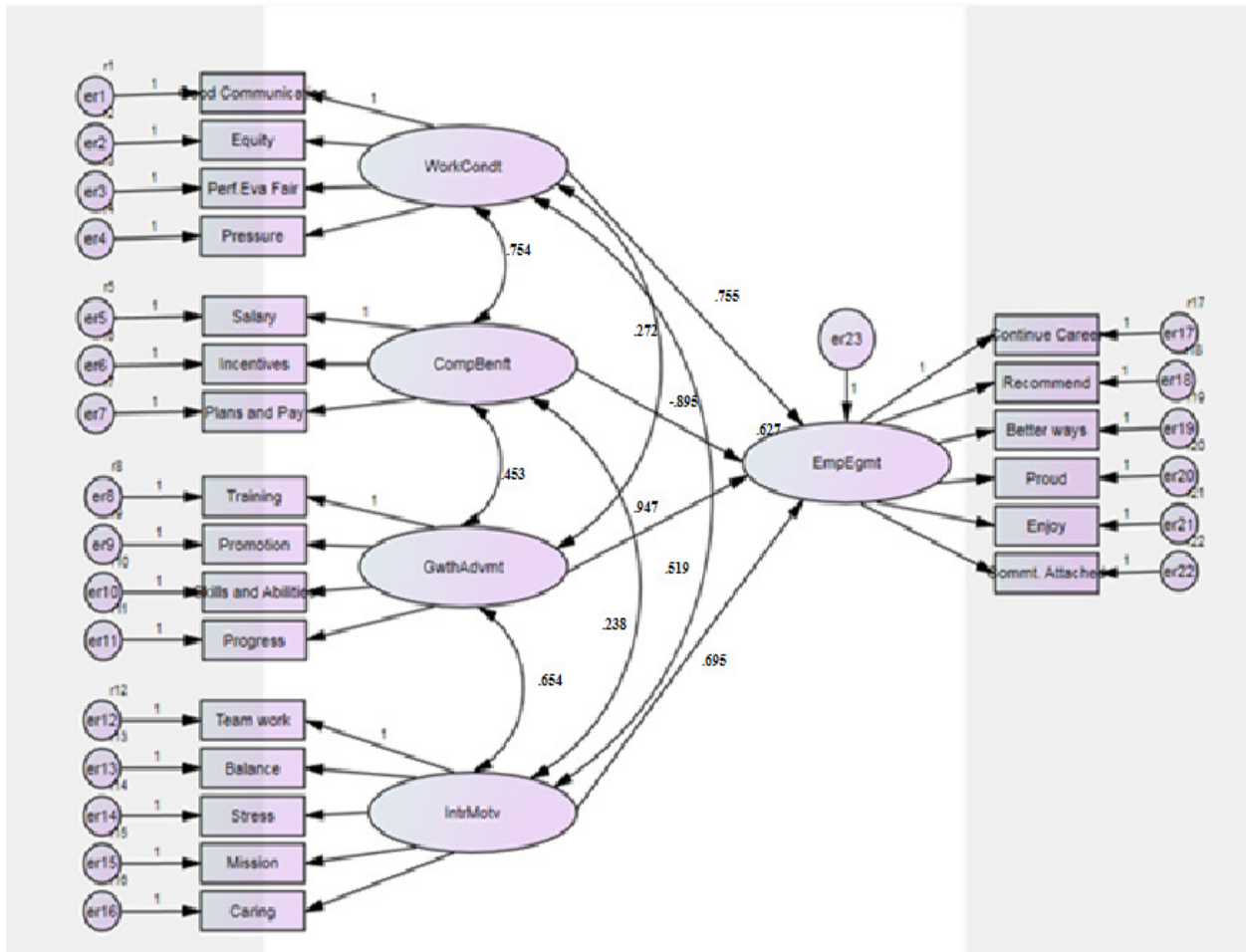


Figure1: Path Diagram in Structured Equation Modeling

3.2.7 Result and Intrepretations

Chi-square = 186.209 (p value = 0.250)

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
EmpEngagement	<---	WorkCond	1.444	1.489	1.970	.062	
EmpEngagement	<---	CompSal	-.059	.051	-1.151	.250	
EmpEngagement	<---	GrowthAdv	.245	.059	2.544	.007	
EmpEngagement	<---	IntMotivation	.236	.055	2.520	.050	

Correlations: (Group number 1 - Default model)

			Estimate
WorkCond	<-->	CompSal	.754
CompSal	<-->	GrowthAdv	.453
GrowthAdv	<-->	IntMotivation	.654
WorkCond	<-->	GrowthAdv	.272
WorkCond	<-->	IntMotivation	.519
CompSal	<-->	IntMotivation	.238

Model Fit Summary

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.662	.552	.968	.949	.962
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000
Model	RMSEA	LO 90	HI 90	PCLOSE	
Default model	.034	.000	.069	.730	
Independence model	.153	.137	.170	.000	

The overall model fit appears quite good. The chi square (χ^2) test yields a value of 186.209 which has a corresponding p-value of .250. This p-value > 0.05, is too high to reject the null of a good fit. Additionally the RMSEA is .034, well below the .05 cut-off and CFI > 0.95. Thus, the tests suggest that the model is a good fit to the data.

We can observe that all the items related to the latent factor (Employee Engagement) indicate good loading values. For working environment (WorkCond) the loading is .755, for

Career growth and advancement (GrowthAdv) has a strong loading of .947 whereas for Intrinsic motivation (IntMotivation) it is .695. However, the loading for Compensation and Benefits (CompSal) is negative i.e -0.895, with p value .250. In other words, the regression weight or the loading associated with CompSal is not significantly different from zero as the p value is greater than .05. Thus, these independent variables are strong predictors or they show a strong direct effect on Employee engagement in the structural equation modeling.

Additionally, the four independent latent factors (WorkCond, CompSal, GrowthAdv and Int Motivation) are moderately correlated with values ranging from 0.24 to 0.75.

The squared multiple correlation table shows that the R-square value for the model is .627. This means that 62.7 percent of the variation in Employee engagement (dependent variable) can be explained from the independent variables. *So, we can reject the null hypothesis that no relationship exists between the independent and dependent variables.*

4 Conclusion and Suggestions

Efforts to manage change at the times of merger and acquisitions should begin with understanding employee's perception of the factors influencing employee engagement. Once perceptions have been identified, management can implement the activities that will help the employees to manage with the change. Involving employees in decisions that may affect them can increase their job involvement which would ultimately lead to employee engagement. The ultimate goal of change management is to help and encourage employees to work more efficiently and moreover help them to lead a happy and satisfactory life as well. To ensure that change initiatives are successful, organizations need to develop a workforce adept at handling change in whatever form it takes. This undertaking requires not only understanding and fostering effective behaviors and attitudes, but also developing a comprehensive organizational process infusing change agility throughout the company — a system ensuring the right organizational structures are in place and that individuals have the appropriate capabilities required at each level. The author suggests the following:

- i. Training may be given to the employee on the basis of need identification.
- ii. Flexi time (Flexible working hours) may be introduced in the organization.
- iii. Role clarity and responsibilities of the job can be educated to the employees.

- iv. Work pressure can be minimized by consulting the concerned person to fix deadlines to complete the work.
- v. Employees can be kept well informed about the changes in the organization.
- vi. Teamwork and cooperation should be encouraged.

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