PUBLIC SECTOR BANK MERGERS IN INDIA: A STUDY ON FINANCIAL PERFORMANCE, CUSTOMER AND EMPLOYEE EXPERIENCE

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CHAPTER 10

CONCLUSION

This chapter major contributions of the study, direction for the future study and conclusion. The chapter is divided into four sections. The first section (Section 10.1) discusses theoretical contribution of the study to the existing body of knowledge. The second section (Section 10.2) puts forward the practical implications of the study and contribution of the research to the policy makers. The scope for future research has been discussed in Section 10.3. The last section (Section 10.4) draws conclusion of the study.

10.1 Theoretical Contribution of the Study

The present study has attempted to evaluate the four cases of public sector bank mergers that took place on April 01, 2020. This was a big phenomenon since the onset of 1991 reform, consisting of four big consolidations involving ten public sector banks at the same point of time. The present study has focussed on the three aspects of banking mergers, i.e., financial performance analysis, perception and experience of internal stakeholder (employees) and external stakeholder (customers).

Research studies on merger have been found to, focus on either financial aspect (Raiyani, 2010; Paul, 2017; Sahni and Gambhir, 2018) or employee aspect (Kansal and Chandani, 2014; Dhamija et al., 2020; Jindal and Mittal, 2022) or customer aspect (Kavishwar, 2014; Sangisetti, 2022). This study is a holistic and comprehensive one as it captures all the three aspects. Previous studies have taken into consideration a single merger event or done a time series analysis. This study has incorporated the four cases of mergers comprising of ten banks at one point of time. Many researchers have taken up one or two of these case studies at a time, while this study has taken all four simultaneously.

A comparative financial performance analysis of all of the anchor banks' taken together (before and after the merger), and each individual anchor bank's performance was analysed independently. This study hence provides a comprehensive as well as in-depth view of the four merger cases.

Furthermore, the employees’ perception and experience on merger reflects the behavioural outcome of the merger which has been measured in this study based on five dimensions. The dimensions were - communication and awareness, general view on merger, benefits, stress pertaining to merger and job satisfaction after merger.

The study also provides a good understanding of customers' views and experience on bank mergers. The extant literature review had revealed that very few studies were done addressing customers psychology during structural change, especially the group differences. This study captured the difference in the perception of anchor bank and amalgamating bank customers. Their perception on communication & awareness on merger, general view, benefits & problems pertaining to merger and service quality satisfaction post-merger was evaluated. Thus, our study is a unique addition to the existing literature on bank mergers.

The study contributes to the existing literature by pointing out on –

- how the banks overall financial performance improved post-merger as reflected by the indicators of CAMEL Model
- how the perceptions and experiences vary across the type of bank the employee belonged to, i.e., anchor bank and amalgamating bank.
- how employees perceive mergers across demographic characteristics like gender, marital status, age, designation, level of education, and years of experience, for both anchor and merging bank employees individually.
- how the customers differ in their views and experiences depending on the type of bank they were associated with (anchor or amalgamating bank).

10.2 Practical Implications of the Study

Every study is conducted with the end purpose of providing useful insights to practitioners, who may then use this knowledge to address the shortcomings and achieve their goal. The practical insights in this study is three fold, which corresponds to the three major objectives of the study, i.e., financial aspect, employees aspect and customers aspects relating to bank mergers. Analysis and comparison of financial performance of banks before and after the merger can be used by banks to work on its shortcomings and make improvements thereby. It will encourage banks to track down and keep in place the parameter where it is financially strong and to focus on the parameters that have a detrimental effect on their overall performance. This study's findings may serve as a foundation for further investigation into the efficacy of M&A as a strategy to enhance the performance of banks. This will also benefit the regulators of banking community as they may decide future policies required in the direction of M&A in the banking sector by looking at the before and after merger performance of selected banks. Examining the pre- and post-merger performance of certain banks will also be useful for banking regulators in determining the direction of future policy pertaining to M&A in the banking sector.

The results of second objective revealed significant difference in the perception and experience of anchor and amalgamating bank employees. Hence, it demands necessary attention towards the problems faced by employees, especially employees of amalgamating banks, to reduce their stress and ambiguity surrounding merger. The research penned down the various aspect of psychological turmoil an employee experiences with significant difference as per age, gender, designation, marital status, educational qualification and length of experience. Using this information, top management can create a list of employees that best represents the demographics who are most affected by the merger. Insights gained from this will assist banks understand their employees, allowing them to take the appropriate steps to lessen employees' feelings of insecurity, boost their morale, and increase their level of commitment to their work. The study will guide and motivate the banks to revise their strategies to enhance employees' satisfaction and thereby their productivity.

The results from the third objective revealed profound insights into the ways in which customers of different types of banks, i.e., "anchor banks" and "amalgamating banks," have different perception and experiences towards mergers. Taking an instance, the communication and awareness on merger was much low among anchor bank employees. Acting on this finding, banks can address the information asymmetry using appropriate channel. Amalgamating bank customers were perceived to have faced more problems due to merger and overall they were less satisfied as compared to their counterparts. Hence, such insights can help bankers and policy makers to carefully craft strategies to address these issues.

Contribution of the research to the Policy makers:

***Policy Formulation for Mergers and Acquisitions (M&A*)**:** The research provides empirical evidence on the financial performance, employee perceptions, and customer experiences related to bank mergers. Policymakers can utilize these insights to formulate guidelines and regulations governing M&A activities in the banking sector. This can include setting criteria for evaluating the success of mergers, ensuring transparency in communication with stakeholders, and implementing measures to mitigate potential negative impacts on employees and customers.

Enhancing Regulatory Oversight: The study's findings can inform regulatory bodies about the effectiveness of M&A strategies in improving financial performance and stakeholder satisfaction. Regulators can use this information to refine their oversight mechanisms, ensuring that mergers contribute positively to the stability and competitiveness of the banking sector while safeguarding the interests of employees and customers.

Promoting Stakeholder Engagement: By highlighting the importance of considering the perspectives of employees and customers in merger processes, the research underscores the need for enhanced stakeholder engagement. Economic policymakers can encourage banks to adopt practices that facilitate transparent communication, address concerns, and actively involve employees and customers in decision-making processes related to mergers and acquisitions.

Supporting Economic Growth: The study's insights into the factors influencing employee satisfaction and customer perceptions can help policymakers devise strategies to promote a conducive environment for banking sector growth. By fostering employee morale, reducing job uncertainty, and enhancing customer trust, policymakers can contribute to the overall stability and growth of the economy through a resilient and customer-centric banking sector.

Informing Human Capital Development Policies: The research sheds light on the diverse demographic factors influencing employee perceptions and experiences during mergers. Economic policymakers can use this information to design targeted interventions aimed at supporting affected employees, such as training programs, counselling services, or job transition assistance. By investing in human capital development, policymakers can mitigate the adverse effects of mergers on employees and foster a skilled and adaptable workforce in the banking sector.

10.3 Scope for Future Research

The focus of the current study is on the investigation into mergers in the Indian banking industry. Nonetheless, additional research would be required at various points in time due to the prevalence of distinct eras and scenarios. The study's future directions and potential areas for additional study are outlined below:

- ***Extended Financial Analysis:*** This study analyzes financial performance two years before and after the merger. Future research could extend this period to include a longer timeframe, such as five or ten years, to capture the long-term financial effects of mergers on banks.
- ***Stock Market Impact:*** Further research could examine the impact of bank mergers on stock prices. An event study could be conducted with a 30-day window before and after the merger announcement to understand the market's reaction and investor sentiment.
- ***Longitudinal Studies:*** The present research is cross-sectional, focusing on the post-merger phase. Future studies could adopt a longitudinal approach, collecting data at multiple stages: before the merger, during the merger process, and after the merger. This would provide a more comprehensive view of how perceptions and experiences evolve over time.
- ***Regional Comparisons:*** The study could be expanded to compare the experiences and perceptions of employees and customers in different regions of India, such as East vs. West or North vs. South. This regional analysis could highlight geographic variations in the impact of mergers.
- ***Stakeholder Perspectives:*** Future research could incorporate the views of additional stakeholders, such as investors, top bank management, Reserve Bank of India (RBI) officials, media, and government representatives. This would provide a multi-faceted understanding of the mergers' impact.
- ***Demographic Analysis of Customers:*** While this study focused on the type of bank (anchor or amalgamating), further research could analyze customer

perceptions across different demographic variables, such as age, gender, marital status, occupation, and income. This would reveal how different customer segments perceive and experience bank mergers.

- ***Individual Bank Analysis:*** The current study provides a comparative analysis of group differences among employees and customers of anchor and amalgamating banks. Future research could conduct a detailed analysis for each individual bank involved in the 2020 mergers, offering insights into specific organizational dynamics.

10.4 Conclusion

Given the rise of both domestic and foreign competition in the aftermath of economic reforms, Indian firms have begun consolidating around their core business activity through M&A. Since the reforms of 1991, the banking industry has also experienced a significant increase in M&A. However, there are very few instances of merger between Public Sector Banks. The Government of India merged 10 public sector banks (PSBs) into four in April 2020 and referred to the move as a "mega consolidation" (PIB, 2020).

Some motives behind these four mergers as mentioned in the Press release (PIB, 2020) by the Cabinet of Government of India were scope and scale economies, strong global presence, cost efficiency, risk management, larger database, greater accessibility and strong competitive edge globally. Banks were somewhat able to attain scale and scope economies since business size, customer base, services offered, number of ATMs (Table 10.1) and geographical spread (Table 10.2) increased post-merger. After the merger, customers had wider access to financial services due to an increase in the availability of ATMs and bank branches (Table 10.1). Fixed cost has reduced since the branches of merging banks operating in close proximity were shut down. In addition, banks were able to cut down on the cost incurred on technological integration as merging banks were using same Core Banking Solution (CBS) Platform. Thus, cost efficiency at some level was achieved. Banks were also able to expand their customer databases as a result of the mergers.

Table 10.1 Status of Banks: Before and After the Merger

Banks	**Business Size (in lakh crore)**	**Business Size (in lakh crore)**	**Branch Network as on 31/03/2019**	**Branch Network as on 31/03/2022**	**No. of ATMs as on 31/03/2019**	**No. of ATMs as on 31/03/2022**
PNB + OBC + United Bank	Rs. 11.82 + 4.04 + 2.08	Rs. 19.31	6992 + 2390 + 2055	10,098	9255 + 2625 + 2017	13,350
Canara + Syndicate	Rs. 10.43 + 4.77	Rs. 18.27	6310 + 4032	9734	8851 + 4509	12,208
Union Bank + Andhra Bank + Corporation	Rs. 7.41 + 3.98 + 3.19	Rs. 17.48	4292 + 2885 + 2432	8870	6650 + 3798 + 3015	11,232
Indian Bank + Allahabad Bank	Rs. 4.29 + 3.77	Rs. 10.09	2875 + 3229	5735	2849 + 836	4,929

(Source: Data published by RBI and Annual Reports of Banks)

Table 10.2 Highest Regional Concentration of Bank Branches as on 31st March, 2019

Anchor Banks	**Banks under merger**	**Region(s)**
PNB	Punjab National Bank	Northern, Central and Eastern India
	Oriental Bank of Commerce	Northern and Central India
	United Bank of India	Eastern and Northeast India
Canara Bank	Canara Bank	Southern, Central and Eastern India
	Syndicate Bank	Southern, Central and Northern India
Union Bank of India	Union Bank	Central, Southern and Western India
	Andhra Bank	Southern, Eastern and Northern India
	Corporation Bank	Southern, Western and Northern India
Indian Bank	Indian Bank	Sothern and Northern India
	Allahabad Bank	Central and Eastern India

(Source: Data published by RBI)

The present study focussed on analysing the mergers of PSBs in 2020 from three major perspectives, i.e., financial, employees and customers. The financial performance of anchor banks was compared 2 years before and 2 years after the merger, i.e., from 2018-19 to 2021-22. CAMEL Model representing its five parameters namely capital adequacy, asset quality, management efficiency, earnings and liquidity was used to analyse the financial position of banks incorporating 20 financial ratios. M&A are more than just monetary transactions; they are processes that can significantly alter people's daily life on the job (Cartwright and Cooper, 1996). Employees' perception and experience on merger in this study was investigated using five dimensions. The results of the study empirically exhibited that 'communication and awareness' and 'perception on benefits regarding merger' was lower in amalgamating bank employees. On the contrary, the anchor bank employees viewed the structural change more positively in comparison to amalgamating ones. Employees experienced significant stress and dissatisfaction as a result of M&A. Employees at the banks that merged felt the effects of the change far more acutely than those at the anchor banks. Effective and adequate communication at all levels of the organisation and throughout all phases of the merger process, from the announcement of the merger until the implementation period, is essential to increasing the level of job commitment, satisfaction, and maintaining a positive attitude of employees towards the merger. Firms must adopt stress avoidance and reduction measures to manage stress among employees. Results revealed variations in the perception and experience of employees across demographic variables such as gender, age, marital status, designation, educational qualification and length of service. Studies on mergers concerning customers are still very few in number. The satisfaction of consumers is of the utmost importance, particularly in the case of service industries like banking; thus it is essential to get their feedback on mergers. This is especially true given the customer-centric nature of the modern market. The third objective of this study is focussed on investigating the perception and experience of customers on bank mergers of 2020. Significant difference in the awareness, communication, perceived benefits, problems and service quality satisfaction among anchor and amalgamating bank customers has been found in this study.

Overall, the present study provides a holistic and comprehensive view on bank merger of 2020. Though, the financial figures post-merger were quite satisfactory; employees experienced significant stress and dissatisfaction as a result of mergers. Integration of the human resources is the most important factor in the merger of organizations. Cultural differences, politics, lack of effective communication and lack of training among employees posts negative effect on merger performance (Hoetzel, 2005; Haspeslagh and Jemison, 1991 and Salame, 2006). In many cases, mergers failed due to overlooking employees’ aspect (Holbeche, 1998; Lynch and Lind, 2007; and Koi-Akrofi, 2016). In this study, amalgamating bank customers were also perceived to have faced more problems due to merger as compared to their counterparts. Bank mergers may result in customer attrition or churn as a result of customers' anxiety over changes to service levels, costs, and credit availability (Mclelland et al., 2014; Broaddus, 1998). Hence, it is important to study financial figures alongside stakeholders’ perceptions.

Four cases of merger, especially involving ten big public sector banks is certainly a big phenomenon and hence the findings of this study is a value addition to the past literatures on M&A. Very few studies in the literature have done a thorough analysis from both a financial and stakeholder point of view. In addition, the study incorporated the perspectives and experiences of both internal and external stakeholders, i.e., employees and customers. Therefore, the study has accomplished its goals and filled the gaps in knowledge that were identified through the review of the existing literature.