Abstract

1. Introduction

The stability of any economy relies heavily on its banking institutions, yet they remain susceptible worldwide. Hence, continuous monitoring is crucial to assess their risk and overall stability, particularly amidst changes like mergers and acquisitions. In India, the banking industry underwent significant restructuring post the 1991 economic reforms recommended by the M. Narasimham-led committee. In April 2020, the Indian government executed a "mega consolidation" by merging 10 public sector banks into four, reducing the total count to 12. This move aimed at achieving economies of scale, global presence, cost efficiency, and competitive advantage. Evaluating the success of such mergers hinges largely on their financial implications. Employees, integral to organizational functioning, are profoundly affected by such changes, underscoring the importance of considering their perspectives.

2. Need of the Study

The banking sector, often considered the backbone of an economy, remains highly susceptible to change, exerting profound effects on national economic growth. The 2020 merger marks a significant event since the inception of the 1991 reforms, necessitating comprehensive scrutiny. Financial performance emerges as a pivotal determinant of merger success, with research presenting varied outcomes regarding post-merger financial performance. While some studies indicate improved performance (Anderibom & Obute, 2015; Sahni & Gambhir, 2018), others depict stagnation or decline (Abdulwahab & Ganguly, 2017), warranting further investigation into the 2020 merger's impact on bank performance.

The status of banks post-merger cannot be completely understood without exploring stakeholders' perception on such consolidations It has also been seen that, while dealing in mergers and acquisitions, human resource aspect are ignored at the expense of financial aspect, which becomes one of the important contributing factors in merger failure (Holbeche, 1998). Additionally, scarce research addresses group differences in employee responses post-merger, highlighting a critical research gap. In today's customer-centric market, capturing customer views is imperative, particularly in service industries like banking, where customer satisfaction holds paramount importance. Thus, this study adopts a holistic approach, encompassing the perspectives and experiences of both internal (employees) and external stakeholders (customers), alongside the financial aspects of the merger.

3. Objectives of the Research

The objectives of the study are:

i. To analyse and compare pre-merger and post-merger Financial Performance of Anchor Banks involved in the Merger of 2020.
ii. To investigate employees' perception and experience on Bank Mergers 2020 after the event, with reference to Assam.
iii. To investigate customers perception and experience on Bank Mergers 2020 after the event, with reference to Assam.

4. Scope of the Study

The study covers the four cases of mergers involving ten public sector banks, with effect from 1st April, 2020. The study analyses and compares the pre-merger and post-merger financial performance of banks using CAMEL model incorporating 20 financial ratios. Data of four years, i.e., 2 years before merger (Financial year 2018-19 and 2019-20) and 2 years after merger (Financial year 2020-21 and 2021-22) was assessed. Views and experience of employees and customers on merger has been studied via primary survey. Two separate post merger surveys were conducted for employees and customers, along five dimensions. Two separate post merger surveys were conducted for employees and customers, along five dimensions. For customers, service quality experience post-merger was measured using SERVPERF model. Samples of employees and customers were taken from four districts of Assam that had presence of all the ten banks under four merger cases.

5. Research Methodology

Research methodologies for the three objectives were as follows:

Objective 1:

For the first objective, research design was descriptive in nature. The research was conducted to find the pre-merger and post-merger financial position of banks under the merger 2020. The study aimed to compare the financial position of the bank during both the time periods. Data was analysed for four years, financial year 2018-19 to 2021-22. Financial data of two years before the merger (2018-19 to 2019-20) and two years after the merger (2020-21 to 2021-22) were analysed and compared. The population consisted of all the four anchor banks under the banking merger of 2020, i.e., Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank. Secondary data was collected from the Reserve Bank of India official website and Annual reports of the banks under the study. To perform the financial performance analysis, CAMEL Model was adopted. The model consists of five parameters namely - Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality and Liquidity. This study has used a total of 20 financial ratios to measure these parameters. To analyse the financial data based on CAMEL Model ratios, paired t test was applied for comparing pre-merger and post-merger financial performance of banks.

Objective 2 and Objective 3:

The research design was descriptive in nature. In objective 2, the research was done to study the views and experience of employees on bank mergers of 2020. Whereas, objective 3 dealt with the customers views and experience on the bank merger of 2020. Separate surveys were done for employees and customers associated with the ten public sector banks under merger (4 anchor banks and 6 amalgamating banks) during the financial year 2021-22. Data was collected from the four districts of Assam, i.e., Tinsukia, Dibrugarh, Kamrup Metro and Jorhat. Districts were selected based on availability of bank branches. The districts that had branches of all the ten Public Sector Banks under the four merger cases of 2020 were chosen. Snowball sampling was adopted for choosing a bank branch in a particular district. After branch selection, employees and customers were chosen on the basis of convenience sampling technique. Separate structured questionnaire was given to employees and customers for the primary data collection. A total of 312 employees and 390 customers participated in the survey. Mean, t test and ANOVA were used to analyse the primary data.

6. Findings of the Study

With regard to Objective 1, the Capital adequacy was measured by incorporating four financial ratios. All the studied anchor banks maintained the minimum recommended figure for CAR throughout the studied period. Advances as a proportion to assets decreased in three out of four cases, implying cutting down on lending after merger or target banks' low lending activity which is now reflected post-merger. Asset quality was measured using four financial ratios. The Net NPA to Net Advances Ratio and Net NPA to Total Assets Ratio of the anchor banks were much higher before the merger. Management efficiency was measured using five financial ratios. Business per employee and profit per employee increased post-merger. The total advance to deposits ratio decreased post-merger implying banks' inability to turn deposits into high-earning advances. Earnings ability was measured using four financial ratios. Return on equity increased post-merger. Banks were able to maintain a favourable interest rate spread between deposits and advances as indicated by the increase in the Net Interest Margin (NIM) after merger. Liquidity was measured using three financial ratios. Not much change was seen with regard to cash deposit ratio. Liquid assets as a proportion to total assets and liquid assets to deposits improved post-merger.

Regarding Objective 2, communication and awareness among anchor bank workers were higher than those among employees of amalgamating banks, who viewed the structural change less positively. Anchor bank employees displayed more positive attitudes towards the merger and its potential benefits, while the merger induced considerable anxiety among staff due to significant cultural disparities. Increased workload, relocation, longer working hours, and work-family conflict were major stressors, with employees of the merging bank experiencing higher stress levels than those of the anchor bank.

For Objective 3, higher communication and awareness were noted among customers of amalgamating banks. A significant difference was observed between customers of anchor and amalgamating banks, with anchor bank customers viewing the merger more positively and perceiving it as more beneficial. Amalgamating bank customers encountered more problems and expressed lower satisfaction compared to anchor bank customers overall.

7. Theoretical Contribution of the Study

The study evaluates the four public sector bank mergers that occurred on April 01, 2020, marking a significant event since the 1991 reform. Previous research often focused on single merger events or conducted time series analyses. In contrast, this study encompasses all four mergers involving ten banks simultaneously, a unique addition to existing literature on bank mergers.

The study is a holistic and comprehensive one and 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 by making 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.
- how the perceptions and experiences vary across the type of bank the employee belonged to, i.e., anchor bank and amalgamating bank.
- how employees perceived 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 differed in their views and experiences depending on the type of bank they were associated with (anchor or amalgamating bank).

8. Scope for Future Research

The study's future directions and potential areas for additional study are outlined below:

- It is suggested that the consequences of mergers be further examined over longer pre- and post-merger periods.
- An additional topic of study would be the impact of selected merger cases on the stock market after its announcement.
- More in-depth analysis of how employees and customers feel about the merger could be achieved by including longitudinal studies carried out at various stages of the merger process.

- Further research can be done by capturing the views of other stakeholders and interested parties like investors, bank officials of top management, RBI officials, media, Government, etc. on mergers in banking sector.
- Further research could be done analysing the perception and experience of customers across demographic variables such as age, gender, marital status, occupation, income, etc.
- Comparative analysis on group differences among the employees and customers of anchor and amalgamating banks were done specifically. Separate analysis for each individual bank under the merger cases of 2020 could further be researched on in future.