CHAPTER 2
LITERATURE REVIEW

This chapter aims to provide an extensive review of the existing literature pertaining to mergers and acquisitions (M&A) in the banking industry. The literature on M&A has been clubbed under three categories – financial aspect, employees' aspect, and customers' aspect, both in terms of national and international context

2.1 M&A: Financial Aspect

Financial factor is one of the most important factors determining if the merger has failed or succeeded. The leading banks should avoid selecting merger partners based on their sympathies. Regardless of politics or other economically irrelevant considerations, merger partners should be chosen in such a way that their status is improved economically (Guru et al., 2003).

<u>International Context:</u>

M&A is a common method of achieving economies of scale and increased productivity around the world. The move towards mergers in the financial sector is driven by pressures and challenges that globalization and its competitive global market impose. Shanmugam and Nair (2003) studied the M&A in the banking sector of Malaysia. According to them, globalization, liberalization, Asian Financial crisis of 1997, contributed to the rapid increase in the amalgamations in the financial sector. After the merger process kicked off, in 1999 with increased Return on Assets (ROA), the Malaysian banking system saw a significant increase in pre-tax profit, ROA and Return on Equity (ROE). Despite slower real GDP growth due to the local economic downturn, total loans and advances continued to grow post-merger.

Linder and Crane (1992) looked at the before and after results of all the New England states' bank mergers in the 1980s and '90s. According to the study, prior to their merger year, the amalgamating banks, on average, underperformed their sector category by 19 bps in terms of ROA. A year after the merger, on average, the amalgamating banks' performance increased by 5 bps compared to the industry group. Similar results were found with regard to operating income. As compared to before the merger, operating

income increased by 65.11%, whereas the industry as a whole increased by 52.71 percent. However, there was no significant difference in the parameters. With regard to expenses, it was opined that in the first two years after a merger, it is extremely difficult to cut operational expenditures in relation to assets.

Cornett et al. (2006) analyzed the bank consolidations in the 1990s and the 2000s in the U.S. using eight indicators namely "profitability, capital adequacy, asset quality, operating efficiency, loan composition, non-interest income, liquidity risk, off-balance sheet activities, and growth" consisting of a total of forty elements (ratios). According to the empirical findings, the operating performance of amalgamated banks improved dramatically following a merger. Also, large bank consolidations outperformed small bank consolidations, activity centred on mergers outperformed activity diversifying mergers, and geographically focusing mergers outperformed geographically diversifying mergers.

Abbas et al. (2014) studied the effects of M&A on Pakistani banks' financial performance between 2006 and 2011 using 15 financial ratios with four major indicators profitability, efficiency, liquidity, and leverage. Results were analyzed and compared using paired sample t test for the pre and post-merger performance of 10 such banks. The findings of the study revealed that ratios of profitability, efficiency, liquidity, and leverage all fell after the merger. The key reasons for no significant difference or improvement in financial performance as opined by the researchers were the liberalization, globalization, and the financial crisis of 2007 which hit the overall economy of the country. The researchers recommended a proper framework and thereby assessment of merger deals. Before selecting and implementing M&A, top-level management in banks is encouraged to assess latent prospects to improve financial performance. Banks that are underperforming following M&A should reduce their operational costs and enhance their operating systems.

Lai et al. (2015) conducted a pre and post-merger study to understand if mergers affected the financial performance in the banking sector in Malaysia from 1999-2010 using "four parameters namely banks' profitability, cost reduction, liquidity, leverage and shareholder's wealth". Pre-merger data were analyzed for the financial year 1999-2001 and after merger data were analyzed from 2002-2010. Data Envelopment Analysis (DEA), T-Value Testing, and paired-sample t-test were employed to analyze the data.

The t test results showed no improvement in the performance of banks post-amalgamation in terms of financial performance, level of productivity, management of cost saving, and efficiency level. Corresponding to the same, the DEA test also showed no improvement in the majority of banks. Two major financial crises severely impacted the Malaysian economy which made the banking industry vulnerable. Besides, the Central Bank of Malaysia imposed a stringent standardization policy on the bank's products and services which might have caused the poor outcomes of banks according to the researchers.

A study conducted in Pakistan by Kemal (2011) investigated the case of the Royal Bank of Scotland after the merger. Ratio analysis consisting of twenty ratios was used and analyzed for four years, from 2006-2009. Liquidity, Profitability, Solvency, Return on Investment (ROI), and Market Stock Indicators were used. It was found that the bank solvency parameter showed improvement after the merger indicating banks' better long-term paying capacity as shown by total debt-equity ratio, interest coverage, proprietary ratio, and debt ratio. However, the bank exhibited more favourable Liquidity, Profitability, ROI, and Stock Market positions prior to the merger.

Adhikari et al. (2023) conducted an assessment on the effects of mergers and acquisitions (M&A) on the financial performance of two commercial banks in Nepal between the period from 2013 to 2020. Utilizing twelve accounting ratios around four parameters i.e., Profitability, Liquidity, Leverage and Shareholders' wealth they examined the impact of the merger on financial performance indicators using paired sample t-tests. Results for the first bank indicated a mixed impact on financial ratios, notwithstanding notable enhancements in return on assets, net interest margin, and earnings per share. Conversely, findings for the second bank revealed an insignificant effect of M&A on most financial ratios, with the exception of dividends per share (DPS) during the pre-post-M&A period.

Frestiva and Sholahuddin (2024) conducted a study in Indonesia. The study analysed the financial performance of Islamic banking institutions, specifically BNI Syariah, BRI Syariah, and Bank Syariah Mandiri, both before and after the merger process that led to the establishment of the new Bank Syariah Indonesia. Conducted between 2019 and 2023, the research aimed to offer a comprehensive and detailed understanding of the evolving financial performance over this period. Employing a quantitative methodology,

the study involved gathering and analyzing numerical data, focusing on financial ratios associated with profitability and risk, i.e., Return on Assets (ROA), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR) in Islamic banks. The findings of the research revealed discernible differences in financial performance between the pre and post-merger phases.

CAMELS is an internationally-recognized rating framework employed by banking regulators to classify a bank's overall condition "according to six factors represented by its acronym, i.e., Capital Adequacy, Asset Quality, Management Quality, Earning Quality, Liquidity and Sensitivity to market risk" (Board of Governors of the Federal Reserve System, 1994). It was developed in 1979 by federal banking supervisors in the U.S. as CAMEL. Dzeawuni and Tanko (2008) studied the nine-year financial performance of eleven Nigerian commercial banks, i.e., 1997-2005 based on CAMEL. The best ratio for each parameter of the model was found. Similarly, academicians from several other countries like Malaysia (Muhmad and Hashim, 2015) and Bangladesh (Nimalathasan, 2008) employed this model to assess the financial health of banks.

It was found during the literature review that several studies have been conducted by researchers who used the CAMEL model to analyze the effect of M&A on the banks' performance. Anderibom and Obute (2015) investigated "the pre and post-merger financial performance of commercial banks in Nigeria using CAMEL model with the ratios namely capital adequacy ratio, performing loans to total loans, return on assets, profit before tax and investment deposit ratio". The study was conducted for the period 2000-2010. Paired t test was used to analyze the financial ratios. The results showed that the bank was more capital adequate after merger, with better asset quality, better liquidity-profitability position, and more competent management. Hence, mergers had a positive and substantial impact on the financial outcomes after the merger.

Abdulwahab and Ganguly (2017) studied four cases of M&A in the Kingdom of Bahrain during 2004-15. Each case was analyzed for three years prior to and three years subsequent to the merger using the CAMEL rating model incorporating fifteen accounting ratios in the model. The combined results of all four merger deals revealed no significant improvement in the study period after merger. Only in one out of four cases studied, a positive impact on financial position was seen post-merger.

Sorongan (2013) employed the CAMEL model for financial performance analysis "to study the acquisition case of PT Bank Internasional Indonesia by Maybank using Capital Adequacy Ratio (CAR), Assets Quality (AQ), Net Profit Margin (NPM), ROA, Operating Expenses to Operating Income (OEOI) and Loan Deposit ratio (LDR)". Data was analyzed using paired t test. The period of study was 2005-2012. The results revealed that the bank was more financially sound before consolidation.

The effects of corporate reorganizations including M&A, and stock transfers on the financial results of Turkish banks were studied by Küçükkocaolu and Bozkurt (2018) using "seven independent variables namely CAR, Fixed Assets to Total Assets, Financial Assets to Total Assets, Interest Income to Total Assets, Liquid Assets to Short-term Liabilities, Net Profit to ROA, Net Profit to ROE". They studied nine banks from 2001-2012. They employed two methods namely the CAMELS model, in which 7 out of 51 ratios were selected using factor analysis and the Probit model was used. The study The findings revealed that merger, acquisition, or transfer of shares in the Turkish banking sector had a diminishing effect on the five indicators represented by the acronym CAMELS. The needed advantages of M&A were not obtained in comparison to the costs involved.

Table 2.1 Studies relating to the financial performance of banks post-merger: International context

Author (Year)	Place of the study	Variables
Shanmugam and Nair (2003)	Malaysia	ROA, ROE, loans and advances
Linder and Crane (1992)	England	Income, assets, expenditures
Cornett et al. (2006)	U.S	Profitability, capital adequacy, asset quality, efficiency, non-interest income, liquidity
Abbas et al. (2014)	Pakistan	Profitability, efficiency, liquidity and leverage
Lai et al. (2015)	Malaysia	Profitability, cost reduction, liquidity, leverage and shareholder's wealth
Kemal (2011)	Pakistan	Liquidity, profitability, solvency, ROI, debt

		to equity ratio, interest coverage ratio.
Adhikari et al. (2023)	Nepal	Profitability, Liquidity, Leverage and Shareholders' wealth
Frestiva and Sholahuddin (2024)	Indonesia	Return on Assets (ROA), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR)
Dzeawuni and Tanko (2008)	Nigeria	CAMEL ratios
Muhmad and Hashim (2015)	Malaysia	CAMEL model ratios
Nimalathasan (2008)	Bangladesh	CAMEL model ratios
Anderibom and Obute (2015)	Nigeria	CAR, performing loans to total loans, ROA, profit before tax and investment deposit ratio
Abdulwahab and Ganguly (2017)	Kingdom of Bahrain	Fifteen accounting ratios in the CAMEL model
Sorongan (2013)	Indonesia	CAR, AQ, NPM, ROA, operating expenses to operating income and loan deposit ratio
Küçükkocaoğlu and Bozkurt (2018)	Turkey	CAR, fixed assets to total assets, financial assets to total assets, interest income to total assets, liquid assets to short-term liabilities, ROE

Indian Context:

According to Bodla and Verma (2006), PSBs must try to considerably enhance efficiency by controlling spreads, growing non-interest revenue, and optimising business per capita to strengthen their position. "The effect of the 1991 financial reforms on the financial health of Indian banking" was evaluated by Chaudhary and Singh (2012) by examining asset efficiency. According to them, management of risk and cost, level of NPA, and financial inclusion are critical to preserving this soundness. Patel (2018) looked into the select Indian banks' long-term profitability from 2003-04 to 2013-2014, both before and after the merger using "various ratios and variables such as business per employee, earnings per share, net profit margin, profit per employee, ROA, ROE, yield

on advances and yield on investments". Five merger cases were studied. The financial health of anchor banks was also compared with the industry performance. As per the study, in the majority of merger cases studied, mergers had shown mixed impact on the performance of banks. Some variables were positive, whereas some showed negative results. It was been found that, subsequent to the merger; the assets, equity, investments, and advances of banks grew. However, there was a corresponding yield decline as a result of underutilization. On the other hand, due to the efficient utilization of human resources, the business per employee and profit per employee rose post-merger.

In the study by Kumar (2013) and found "considerable improvement was found in Business per Employee, Investment and Advances, Interest Income, and Other Income post-merger with regard to the merger case of Bharat Overseas Bank with Indian Overseas Bank". But with regard to Return on Advances, Profit per Employee, and NPA ratio the figures showed no positive impact. As opined by the researcher, before enabling mergers to occur, various requirements must be met to guarantee that the merger is advantageous to all parties involved. Mergers should produce not only strong domestic banks but also institutions capable of competing on a global scale. However, it should not result in the formation of a single or a group of dominant banks capable of holding monopoly power.

Sai and Sultana (2013) in their study analysed "the financial performance of Indian Overseas Bank and HDFC Bank after merger taking into consideration six ratios namely gross profit margin, net profit margin, operating profit margin, return on capital employed, ROE and debt-equity ratio". Both the case showed opposite results. For instance, there were significant differences with respect to "net profit margin, operating profit margin, return on capital employed, ROE, and debt-equity ratio for the case of Indian Overseas Bank before and after the merger", however, there was no significant difference with regard to the said ratios for HDFC merger case after the application for paired t test.

By analyzing 10 cases, Kuriakose and Paul (2016) shed light on the strategic and financial commonalities shared by bank merger partners that took place in India after liberalization by taking into account crucial factors such as "relative size of targets, diversity of earnings, efficiency, financial leverage, prudential norms and profitability; and found that in size-related characteristics such as market capitalization, balance sheet

size, deposits, advances, and owner's equity" the bidding banks were larger than the target banks. There was a very high level of variation among anchor banks and target banks. In terms of capital adequacy, consistency, NPA levels, and profitability the pre-merger scenario of anchor banks was better than the target banks. According to the results of the study, the dissimilarity in the financial figures of the merging partners may dilute the future performance of the merged bank.

Maity and Sahu (2017) conducted a study using "Data Envelopment Analysis (DEA), with three output variables (deposit, advance, and total income) and four input variables (number of bank branches, number of ATMs, total assets, and gross NPA to measure the extent of Overall Technical Efficiency (OTE), Pure Technical Efficiency (PTE), and Scale Efficiency (SE) to see whether before merger banks were operating at efficiency level or inefficiency level". The 5 associates banks of SBI and SBI were studied. According to the model under Constant Return Scale (CRS) assumptions, except for one of the SBI associates, the other four associates and SBI were found to be efficient. Whereas, as per the model under Variable Return Scale (VRS) assumptions, all six banks were found to be efficient. The results concluded these mergers as a healthy one.

The internationally recognized CAMEL model has been widely used in India as well as a measure of the financial soundness of banks. "In India, this system was adopted in 1995 at the suggestion of Mr. Padmanabhan, Governor RBI" as mentioned by Sangmi and Nazir (2010). Following this, much research has been conducted in India using the CAMEL model to analyze the financial performance of banks (Dash and Das, 2009; Sangmi and Nazir, 2010; Mishra and Aspal, 2012).

Raiyani (2010) assessed "the effect of the merger on efficiency of Indian Banks. A modified CAMEL model was adopted consisting of spread ratios, burden ratios, profitability ratios, liquidity ratios, solvency ratios, and asset quality ratios to check the differences before and after the event". A sample of six banks was selected consisting of a mix of public and private sector banks. Five years before and five years after the merger data were analyzed. Pvt. Banks were found to be more successful than public ones in profitability and liquidity, whereas the results were contrary for capital adequacy and NPAs.

Sahni and Gambhir (2018) assessed "the merger case of Centurion Bank of Punjab Ltd and HDFC Bank Ltd using ten years of financial data to compare the success of two groups of commercial banks before and after a merger through the CAMEL model". Data was analyzed using a total of twenty one financial ratios. The study concluded that ratios relating to Capital Adequacy, Earning Quality, and AQ were favourable for the merger. However, ratios relating to Management Quality and Liquidity were not favouring mergers.

The performance of acquiring commercial banks was identified by Paul (2017) for the year 2000-2012 using 22 financial ratios bifurcated under five broad parameters, i.e., "Capital Adequacy, Asset Quality, Management Efficiency, Earnings and Liquidity as the CAMEL model suggests" were taken into consideration. A sample of ten banks were selected for the study. Even though the banks were maintaining CAR as per the regulatory norms, no significant difference was found in the figures after merger. Sound indications of banks in light of AQ and Management Efficiency were found after the merger. Yet, banks must make optimal use of their assets in order to generate more revenue. The earning ability of banks degraded because it represented the lack of banks' capacity to maintain low interest rates on deposits while generating substantial returns on advances. Post-merger, the acquiring banks were able to retain a level of position that was at least as high as it had been before, indicating that the banks were able to discharge their commitments.

Kalra et al. (2013) investigated mergers within the Indian banking system to assess if Indian banks attained effectiveness in terms of "profitability, liquidity, shareholder wealth, and share price volatility" after the merger. An overall study of mergers in the Indian banking sector (accounting performance and market response) revealed no significant influence on their financial performance.

Sangmi and Nazir (2010) investigated the financial performance of two prominent banks operating in north India, from the private sector and the public sector. CAMEL parameters were used in the study assessing the financials for 5 years i.e., from 2001-2005 using 19 financial ratios. According to this model, the state of the banks under examination was sound and good in terms of capital adequacy, asset quality, managerial capacity, and liquidity.

Mehta and Gupta (2022) investigated the combined bank's (Bank of Baroda) financial behaviour. The CAMEL Model analysis, which consists of 12 financial ratios for Capital Adequacy, Asset Quality, Management Capability, Earning Quality, and Liquidity Risk, was used to assess the bank's performance before and after the merger. There has been application of Paired Sample Statistics. The Bank of Baroda's (BOB) performance did not significantly change following the merger, according to the parameters of the CAMEL model. The authors determined that there hasn't been any instant change in BOB's performance after doing a statistical study using a paired t-test to further support the findings.

Sreedevi and Krishna (2023) evaluated the post-merger performance and financial stability of two selected private sector banks, ICICI Bank and HDFC Bank. The results showed that both banks' managerial skill and financial performance had a combination of strengths and limitations. ICICI Bank demonstrated superior liquidity in comparison to HDFC Bank, while HDFC Bank demonstrated resilience by having sufficient capital buffers to withstand losses. Over time, both banks' credit-to-deposit ratios fluctuated, indicating possible financial concerns related to giving out more credit than they were receiving in deposits. Effective management skills were shown by ICICI Bank, as seen by its steadily rising ROA and ROE as well as its profit per employee. However, as seen by its dropping business per employee and ROA ratios, HDFC Bank has to increase the efficiency with which it generates revenue and profits from its operations and assets.

Mishra (2024) assessed the impact of the merger on SBI's financial performance before and after the merger. Additionally, the study aimed to compare the pre- and post-merger effects on financial performance using the CAMEL approach incorporating 12 financial ratios and paired sample t-test. Secondary data was employed, spanning a total of eight years, including four years prior to the merger (2012-16) and four years post-merger (2017-2021). The results revealed a significant increase has been seen in Capital adequacy, Earning efficiency, and liquidity position. The overall analysis revealed that SBI's financial performance improved following the merger, indicating a positive impact of the merger activity.

Table 2.2 Studies relating to the financial performance of banks post-merger: National context

Author (Year)	Variables
Bodla and Verma (2006)	Efficiency
Chaudhary and Singh (2012)	NPA levels, cost management, asset efficiency
Patel (2018)	Business per employee, earnings per share, NPM, profit per employee, ROA, ROE, yield on advances
Kumar (2013)	Business per employee, investment and advances, interest income, return on advances, profit per employee, and NPA ratio
Sai and Sultana (2013)	Gross profit margin, NPM, operating profit margin, return on capital employed, ROE, and debt-equity ratio
Kuriakose and Paul (2016)	Earnings, efficiency, financial leverage, profitability, deposits, advances, capital adequacy, NPA levels
Maity and Sahu (2017)	Deposit, advance and total income, total assets, and gross NPA
Sangmi and Nazir (2010)	CAMEL model ratios
Dash and Das (2009)	CAMEL model ratios
Mishra and Aspal (2012)	CAMEL model ratios
Raiyani (2010)	Spread ratios, burden ratios, profitability ratios, liquidity ratios, solvency ratios, and AQ ratios
Sahni and Gambhir (2018)	Twenty one financial ratios related to capital adequacy, earning quality, and AQ
Paul (2017)	Twenty two financial ratios of the CAMEL Model
Kalra et al. (2013)	Profitability, liquidity, shareholder wealth, and share price volatility
Mehta and Gupta (2022)	CAMEL model ratios
Sreedevi and Krishna (2023)	CAMEL model ratios
Mishra (2024)	CAMEL Ratios - Capital Adequacy, Debt Equity

	Ratio, Gross NPA to gross advances, Net NPA to net advances, Return on asset, Total advances to total deposit, Return on equity, Interest expenses to total asset, Interest income to total asset, Non-interest income to total asset, Liquid assets to total assets, Liquid assets to total deposits

2.2 M&A: Human Aspect

Human resources are a vital part of every firm. Employees are critical assets who help the organization achieve its goals (Priyadarshini et al., 2015). They are the wheels that enable an organization to function. When it comes to M&A, according to Holbeche (1998), the human resource side is often overlooked at the cost of the financial aspect, which becomes one of the major contributing causes of merger failure. Employees are one of the stakeholders that are heavily impacted, whenever changes in the entity take place. Thus, for a sustainable comparative advantage post-merger, it is critical to prioritize behavioural factors alongside the economic aspect.

International Context:

Clear communication and awareness are essential from the time a merger is announced, at the time of the merger as well as during the whole implementation, execution, and scrutiny of the activities involved throughout the merger. Employees' perceptions, experiences, and stress levels are all influenced by it. The core reason for a bad merger, according to Marks and Mirvis (1985), is "merger syndrome," which is defined in the research as the phenomenon of greater centralization and decreased downward communication. Abdullah et al. (2018) in their study in Indonesia found that “only 13% of respondents felt that the studied bank did an excellent job of communication during the acquisition process, while another 30% felt that communication was performed sufficiently. As many as 57% of respondents felt that the bank did not do a good job in communicating the company intent during the acquisition process”. The communication was very inadequate, with little advice on the company's path. The study emphasized that during the consolidation, the bank failed to make its vision and objective clear to the employees. Also, the communication frequency was insufficient. Employee ambiguity

and confusion rose as a result of a lack of proper information, leading to misinterpretation and psychological distress. Appelbaum et al (2000) stated that "if organizational communication is not addressed, reduced productivity and employee absenteeism and turnover will result, leading ultimately to an unsuccessful merger or acquisition. Only increased communication and employee/ management interaction can prevent or repair the damage done”. Hence, precise and up-to-date information must be provided to employees to avoid such a situation.

Cartwright and Cooper (1993) opined that "many M&A fail, or develop often avoidable problems from the outset because one of the parties does not recognize, share, or accept the other's perception of the marriage terms. Consequently, the cultural dynamics and direction of any subsequent culture change are misinterpreted". They called a merger as an organizational marriage, where cultural incompatibility is one of the primary causes of bad merger performance. Low morale and poor job productivity are caused by cultural mismatch. Hence, it is necessary to first examine the existing culture between the parties involved in the “marriage”.

Schweiger et al. (1987) in their study, "discussed five areas of concern that worsened employees’ sense of loss of attachment namely loss of identity, lack of information and anxiety, survival becomes an obsession, lost talent, and family repercussions. Employees experienced shock, anger, disbelief, depression, and helplessness before, during, and after the acquisition”. The absence of prompt and precise information made employees anxious and insecure about their jobs. The insecurities related to the job were further directed in the study due to their concerns about the wide range of probable changes such as loss of job, changes in job responsibility, transfer to another place of work, changes in salary, perks, compensations, changes in organizational power, status, culture, authority, and staff. As said by the researcher the employee acts like a kid who perceives a future devoid due to the loss of parental attachment, as they feel that the new environment where the earlier employment position, bonding with the co-workers, and organizational culture to which he or she is used is now lost permanently.

Several studies have found that stress levels and insecurity differ among acquired bank and acquiring bank employees. Panchal and Cartwright (2001) investigated “post-merger stress on a sample of 95 employees using Pressure Management Indicator (Williams and Cooper, 1996) measuring workload stress, organizational climate stress, relationship

stress, managerial role stress, recognition stress, home/work balance stress and daily hassles stress”. The study revealed that the target company's employees’ documented the most elevated degree of stress and unfavourable job disposition compared to acquiring firm and new employees. Acquired firm employees were less satisfied and had low job commitment in comparison to the employees in the acquiring firm. The reasons as identified by the researcher were inferiority complex among the employees of the acquired firm due to the changes in their job status. They were undergoing recognition stress. Secondly, the differences in the culture of both the organization and changes in organizational climate were the factors as cited by the researcher in their study which led to differences in the stress level of employees.

The results found in the study conducted by Grotto and Andreassi (2020) suggested that “employees viewed the integration differently based on team composition. Team composition affected employee strain, with an acquiring team context being the least straining and an acquired team context the most straining". 51 percent of the acquired team employees appraised negatively about the merger. 69% of the acquired team employees were insecure about their jobs as compared to 17% of the acquiring team employees. Cultural differences, ineffective team management, inadequate interaction between both groups, lack of communication/information, unfair treatment, lack of teamwork, and uncertainty were the major job stressors for the employees as identified in the study.

Wickramsinghe and Karunaratne (2009) studied employees' experience with people's management across extension merger and collaborative merger in banks with reference to Sri Lanka. The study found that collaborative mergers resulted in lower employee satisfaction than extension mergers. Also, it was opined that demographic variables had an impact over the perception of respondents. Bennett and Durkin (2000) studied the commitment of employees at large retail banks experiencing structural changes testing “the three bases of employee commitment – internalized commitment, identification commitment, and compliance commitment” across different employees. This exploratory study was conducted in Northern Ireland.

Olaniyi et al. (2013) investigated employee welfare in the post-consolidation era in Nigeria taking employees from ten selected banks. The study revealed that employees' welfare was compromised because of bank consolidations. A study by Ojedokun (2008) in Nigeria taking a sample of 209 bank employees post-consolidation and found that there was a "significant joint influence of perceived job insecurity, job satisfaction, gender, age, marital status, working experience, and educational qualification on intention to quit among bank employees. Also, perceived job, job satisfaction, gender, age, marital status, working experience, and educational qualification all contributed independently to intention to quit of bank employees". It was concluded that work instability and job satisfaction have a considerable impact on bank employees' willingness to leave. In other words, the higher the levels of work insecurity higher the levels of desire to quit, whereas the better the levels of job satisfaction lower the levels of intention to resign.

Huang et al. (2022) studied that M&As in US and found that "the social pillar (which includes the following drivers: human rights, working conditions, health and safety, and career development and training) is the most important sustainability dimension for improving M&A financial performance by addressing issues of cultural friction and brain drain".

Gautam (2016) surveyed 180 employees of 27 Nepalese Banks and Financial Institutions (BFIs) to measure the association between job satisfaction and switching intention among employees after M&A. The study emphasized the role of employees in the merging process and how dissatisfaction among them negatively impacts the firm. It was revealed that employees were less satisfied in comparison to before the merger, but switching intention was not found. However, if they get better opportunities or similar jobs, they intend to switch. It was suggested that implementing a participatory strategy, such as including employees in the work design process, would minimize employee discontent and job switching intention.

Hussain et al. (2019) performed a case study after a bank merger in Pakistan "focussing on the acquisition impact on employees' performance in terms of organizational cultural change, communication issues between acquirer and target employees, change management by the acquired firm, and satisfaction level amongst the employees; the employees of the acquirer as well as the targeted firm". The study justified that the above

factors were the deciding factors of whether a merger would succeed or fail. Researchers found that the analyzed merger was a success because the acquiring business paid close attention to these aspects in order to alleviate employee stress and, ultimately, their performance. Understanding the psychology of employees is very important to run the organization smoothly. "Employees expect equitable treatment and rewards at the workplace in exchange for their work contribution" (Kang and Sohal, 2011).

Sharma (2018) analyzed employees' psychology in Nepal and found that "88% of employees were fully communicated about M&A, a major chunk of employees were expecting a better chance of career growth as an employee of the newly acquired firm and the majority of respondents agreed that they were given necessary orientation and training before merger". It was found that the reasons behind the positive attitude of employees towards the structural change were proper information and communication, training and orientation, proper implementation of changes, free expression of opinion, organizational culture change acceptability, and regular collection of feedback by management.

Bach et al. (2022) found that after mergers, there was an increase in the occurrence of stress, anxiety, depression, mental medication use, and even suicide. This data was gathered from employer-employee level information that was connected to individual health records. Employees from both targets and acquirers, in both struggling and expanding, successful businesses, were subject to these consequences. The most impacted groups included "blue-collar" workers, those with less advanced cognitive and non-cognitive skills, and individuals who had unfavourable career advancements inside the combining companies. Endogeneity problems were addressed by a range of tests, one of which exploited a merger that failed. According to the results, mental health disorders significantly increase the non-financial cost of purchases.

Table 2.3 Studies relating to HR aspect of merger: International context

Author (Year)	Place of the study	Variables
Marks and Mirvis (1985)	US	Communication
Abdullah et al. (2018)	Indonesia	Proper communication, communication of

		acquisition objectives, communication frequency, employee
Appelbaum et al. (2000)	Canada	Communication, employee/ management interaction, employee absenteeism and turnover, clear up-to-date information
Cartwright and Cooper (1993)	US	Cultural mismatch
Schweiger et al. (1987)	US	Helplessness, loss of identity, lack of information and anxiety, survival becomes an obsession, lost talent, family repercussions, changes in job responsibility, transfer to other place of work, changes in salary, perks, compensations, changes in organizational power, status, culture, authority, and staff, bonding with co-workers.
Panchal and Cartwright (2001)	UK	Workload stress, organizational climate stress, relationship stress, managerial role stress, recognition stress, home/work balance stress, and daily hassles stress
Grotto and Andreassi (2020)	USA	Cultural differences, communication/information, unfair treatment, lack of teamwork, and uncertainty
Wickramsinghe and Karunaratne (2009)	Sri Lanka	Satisfaction, commitment, demographic variables
Olaniyi et al. (2013)	Nigeria	Employee’s welfare
Huang et al. (2022)	US	Human rights, working conditions, health and safety, and career development and training
Ojedokun (2008)	Nigeria	Job insecurity, job satisfaction, employees' willingness to leave, gender, age, marital status, working experience and educational qualification
Gautam (2016)	Nepal	Job satisfaction and switching intention

Hussain et al. (2019)	Pakistan	Organizational cultural change, communication issues, satisfaction
Kang and Sohal (2011)	China	Equitable treatment and rewards
Sharma (2018)	Nepal	Communication, the chance of career growth, orientation, and training, culture change
Bach et al. (2023)	Sweden	Stress, anxiety, depression

Indian Context:

"Rigid structural pattern of the banking industry in India with centralized formal decision making has led to high stress perception. Stress affects the health of an individual which affects the mind and thought process" (Rajeshwari, 1992). Few studies have been undertaken in India with reference to employees' psychology on the merger. Goyal and Joshi (2012) studied the case of the Bank of Rajasthan merger with ICICI Bank to measure the level of stress among employees. The study recognized various psychological stressors namely "uncertainty, insecurity, job loss, job changes, compensation changes, changes in power, growth, responsibility and work itself; and job culture stressors such as working hours, technology used, grievance handling, designation, branch, HR practices, compensation, appraisal, reporting system, company policy, supervision, and relationship with boss and peers" which leads to employees' dissatisfaction. It was found that with regard to cultural stressors, the technology used in the bank was the major aspect that caused tension among employees following the merger, followed by the reporting system, working hours, and relationship with co-workers and boss. With respect to psychological stressors, major stressor was job insecurity followed by the change in job, loss of job, and changes in autonomy.

Bhaskar et al. (2012) designed a model showing the interlinkage between the merged entity (vision & mission statements, management team, market strategy, and new firm identity), timely and continuous communication, strategic HR integration (distribution of work, salary, rewards, talent retention, harmonization, career management, stress management, and performance appraisal) and merger synergy thereof (efficient utilization of resource, increased market share, growing business volume and revenue and quality of customer service). The researchers emphasized the importance of career

progression. Appropriate designing of career paths at all levels for employees is a key to employee satisfaction and retention. The study also gave importance to awareness and communication to employees regarding mergers. Deficiency in communication leads to confusion, anxiety, stress, and dissatisfaction among employees. There is a need to explain the logic and objective behind the merger to them by the upper-level management.

Dhamija et al. (2020) examined the experience of employees after the merger in the Indian banking sector and revealed that "by involving them in the process of change, the employees felt confidence in their employer and started appreciating the objectives of the merger strategy. Though the employees were nervous initially about the information about the merger, communication from the management helped them to cope with the change".

Maity (2021) listed the various challenges faced during and after the merger in the banking sector. Integrating technology is one of the biggest challenges in a banking merger. It takes around 2-3 years since banks use distinct packages and Core Banking System (CBS) software. The next challenge on the list was synchronization of financial products as they range and differ from bank to bank. Growing bad loans and their management, deterioration of Asset Liability Management (ALM), harmonizing human resources, restructuring and retrenchment, short-term Cost and customer service were some other challenges listed in the study.

Singh et al. (2022) investigated the relationship between effective change implementation (CIE), specific human resource (HR) practices, and workers' resistance to change (RTC) in Indian public sector banks during mergers. It underlined RTC's involvement as a mediator in this mechanism. A structured questionnaire was provided to staff of chosen PSBs that had merged. The hypothesized correlations were tested on 220 responses using structural equation modelling. HR strategies such as change training and communication have been shown to have a substantial impact on change implementation. It was revealed that RTC completely mediated the link between training and CIE, whereas communication and CIE were only partially mediated. Communication had a larger effect on RTC compared to training. The discovery highlighted the importance of communication, indicating that training can enhance effective

communication of change but may not affect implementation if it does not address resistance.

Kansal and Chandani (2014) enumerate different factors behind resistance to change among employees such as “the lack of communication, no clear vision, no proper reward system, confusion and frustration, force of habit, fear of unknown, fear of insecurity, loss of competency and lack of support”. When a company undergoes a major reorganization, top management should deal with staff strategically by communicating and implementing an integration plan. Engaging workers in the decision-making process and hearing their input is crucial to boosting happiness and motivation. Changes can be more easily adapted to when the organization's vision, aims, objectives, and policies are all crystal clear. Most failed mergers can be traced back to misunderstandings over cultural norms and values, making cultural awareness paramount for a successful transition. Management should have an open dialogue about the upcoming shifts in compensation, benefits, workplace location, duties, and advancement opportunities. The research highlights the importance of training, counselling, and other forms of professional assistance in the integration process.

The objective of the study conducted by Jindal and Mittal (2022) was to “examine the association between newcomer employees' behaviour and the performance of M&A during the post-merger phase in the Indian Banking context. The results revealed that five factors relating to newcomer employees' behaviour, i.e., Internal Communication, Work Culture Support, Work Engagement, Role clarity, and Speed of integration have a direct and significant association with the performance of M&A”. The study emphasized the significance of role clarity. The study's results stressed the significance of defining one's roles. It fosters a safe workplace and encourages workers to learn more about the local culture so they can better integrate into the company's traditions and values.

The study conducted by Mankani (2018) presented the post-merger scenario of ICICI Bank and Sangli Bank. The majority of employees at the target bank believed that the merger had been beneficial to their working circumstances. (Sangli Bank). In general, they approved of the company's culture, salary, and technological advancements. Upon the bank's merger, employees saw a positive effect on the company's income. The participants voted in favour of the merger because they believed the merging of the two banking systems would enhance economic growth.

One of the major benefits of the merger, according to Kambar (2019), is that both the merging company and the new entity improve their professional standards. Therefore, employees at comparatively smaller banks will have the chance to enhance their performance through the transfer of knowledge and technology. On the contrary, because of the strain to keep up with larger banks, workers at smaller banks often feel like they've lost their sense of purpose. The prospect of layoffs as a result of a merger sparks opposition from employees and unions who fear for their futures in terms of job security, working conditions, and advancement opportunities within their respective banks. Hence, integrating the workforce presents a significant obstacle to successful mergers.

Table 2.4 Studies relating to HR aspect of merger: National context

Author (Year)	Variables
Rajeshwari, 1992	Job stress
Goyal and Joshi (2012)	Psychological stressors, Cultural stressors
Bhaskar et al. (2012)	Stress, dissatisfaction, retention, career management, performance appraisal, communication
Dhamija et al. (2020)	Involvement in the process of change, objectives of the merger
Maity (2021)	Financial products and services, harmonizing human resources, restructuring and retrenchment
Singh et al. (2022)	Resistance to change, training and communication
Kansal and Chandani (2014)	Involvement of employees in the decision making process, clarity of vision, goals, objectives, cultural differences, conflicts, salary, perks, job location, job roles and responsibilities and career paths, training
Jindal and Mittal (2022)	Employees' behaviour, internal Communication, work culture support, work engagement, role clarity, and speed of integration
Mankani (2018)	Culture, salary, and technological advancement, economic growth
Kambar (2019)	Transfer of knowledge and technology, workforce integration

2.3 M&A: Customer Aspect

The attitude of customers regarding services provided by the organization is an important aspect that affects the overall performance of the organization. Service quality is an important dimension of the same. "Since the financial services sector, especially banks competes in the marketplace with generally undifferentiated products, service quality becomes a primary competitive weapon" (Stafford, 1996). With reference to the banking sector, service quality has a high positive correlation with "revenue, cross-sell ratio, customer retention, and market share" (Bennett and Higgins, 1988; Bowen and Hedges, 1993). One of the most widely used models by researchers around the globe to measure service quality is "SERVQUAL" proposed by Parasuraman et al. (1988). It is a five dimensional model and includes – tangibles, reliability, assurance, responsiveness, and empathy.

<u>International Context:</u>

Tahir and Abu Bakar (2007) conducted a study in the East Coast region of Malaysia taking 300 respondents to assess the service quality gap in commercial banks. This analysis involved a comparison between consumers' expectations and their actual impressions. A total of 22 attributes relating to the SERVQUAL model was used. The results indicated that there was a significant disparity between overall service quality and expectations in a negative way. Hossain and Leo (2009) studied "the perception of customers on service quality of retail banking" in the Middle East, with special reference to Qatar. The study was administered on a sample of 120 customers involving 4 banks. The SERVQUAL model results unveiled that the degree of customers' perception was highest in the tangible indicator and lowest in the competence indicator.

Kaynak and Harcar (2005) found that "substantial difference exists among customers of a local and national bank in the US, besides, the local banks outperformed in relation to bank service charges and overall confidence of customers in the bank". Spathis et al. (2004) used an extended version of the model using dimension namely "effectiveness and assurance, price, tangibles, service portfolio, and reliability". They studied 1260 customers of Greek Banks and examined how differences across gender affect customers' perception of service quality across the mentioned dimensions.

One of the most important motivations for consolidation, according to bankers, is to provide clients with the ease of one-time shopping (Group of Ten Report, IMF, 2001b). Communication and information about M&A are thought to assist in resolving customers' concerns and improve customer retention (Deloitte Center for Banking Solutions, 2010).

With regard to customer psychology on the merger in the financial sector, Farah (2017) studied consumer switching behaviour by employing semi-structured interviews with 30 respondents. It was found that the customers from both the merging banks were less aware about the merger decision. The majority of the customers heard about the merger from the news and not from the bank. However, they were keen to be informed about the merger proceedings from the bank. Customers preferred to be active participants in the process rather than passive observers who learned about the changes through the media. Banks, however, adopted a customer service-oriented culture which led to a strong positive view of customers on service and quality, thereby, enhancing customer loyalty. It was found in the study that the customers' views differed regarding the appearance of the bank branch, as some had modern infrastructure, while some had outdated ones. With regard to switching intentions due to the merger, the majority of customers expressed their intention to retain their banking services with the amalgamated company, even in the event of their normal branch closure, as long as an alternative branch that is both convenient and accessible is available. However, for some customers, if the merger outcome tends to degrade, they would switch to other banks for better financial advantage.

An examination of the depositors' benefits from the mergers was done by Ashton (2012) and the study revealed that "mergers have a minimal influence on instant access and notice deposit interest rates. While the level of interest-rate change does not vary substantially with the size of deposits and the time elapsed before and after the merger, smaller deposits do display greater variability in the degree of interest-rate change over time. The availability of notice deposit services for customers with very high and low levels of investment declines after mergers".

Urban and Pratt (2000) in their study concluded that "major bank acquisitions create a sense of uncertainty in the whole market, not just that segment of acquired-bank customers. Hence, a marketing strategy must be adopted by the anchor bank to capture

uncertain customers of the acquired bank, which may be beneficial to its customers also with reassurance of its position". The study also provided evidence of the difference in opinions regarding the perception about changes in service quality after merger across demographic variables like age, gender, education level, and income.

Table 2.5 Studies relating to the perception of bank customers post-merger: International context

Author (Year)	Place of the study	Variables
Tahir and Abu Bakar (2007)	Malaysia	22 attributes relating to the SERVQUAL model
Hossain and Leo (2009)	Qatar	SERVQUAL model
Kaynak and Harcar (2005)	US	Service quality variables
Spathis et al. (2004)	Greece	Effectiveness and assurance, price, tangibles, service portfolio, and reliability variables of service quality
Farah (2017)	Spain	Awareness about the merger, consumer switching behaviour post-merger, service and quality, convenient and accessible branch
Ashton (2012)	UK	Services to customers post-merger
Urban and Pratt (2000)	US	Uncertainty among customers due to the merger, perception about changes in service quality after the merger, demographic variables like age, gender, education level, and income

Indian Context:

Studies have been conducted focusing on the service quality perception among the customers of the Indian banking sector. Khare (2011) Khare (2011) added to the previously established SERVQUAL dimensions to identify service quality perception

among Indian Banking customers. It was indicated that there were variations in quality perceptions among Indian customers based on gender and age groups. Mishra et al. (2010) conducted a study on customers of two banks, a public sector bank, and a private sector bank to find a "relationship between customer satisfaction on bank services and the attributes of the perceived service quality (SERVQUAL) using two structural equation models". A sample of 387 customers was administered. It was concluded that there exists a positive relationship between the studied variables.

Ananth et al. (2011) used an extended model to evaluate customers' perception of service quality in selected Pvt. Banks in India took 200 respondents as the study sample. The findings revealed that there was a huge gap between customer expectations and perceptions of service quality in terms of empathy, accessibility, and responsiveness dimensions.

Selvakumar et al. (2018) in their study suggested that "customer-oriented physical infrastructure, such as seats, drinking water, and air conditioning, should be adequately maintained, as should service-oriented infrastructure, such as ATM services, Net banking, and mobile banking services". The study compared the level of customer satisfaction between a PSB and a Pvt. Bank using a sample of 200 customers. Four factors were identified by the researcher to study customer satisfaction. These factors were products and services, people, processes, and physical infrastructure. As per the mean scores, customers of PSBs were most satisfied as compared to private sector banks. However, on the application of the Mann-Whitney Rank Sum U-test, it was found that no significant difference exists between the two banks in terms of all four factors.

Kavishwar (2014) in their study on the experience of customers on bank mergers found that the majority of respondents were happy about the banking services provided by the merged entity. Services were faster after the merger. The credit/loan limit was also increased post-merger. Better accessibility of services and improved online banking services were the dominant characteristics post-merger. As a result, accessibility to more ATMs was experienced by the customers.

Dhamija et al. (2020) compared the pre-merger and post-merger perceptions of customers on banking services. It was observed that after the merger, the perception

regarding promptness of services after merger increased as compared to before the event. Their perception on convenience of bank location also increased post-merger.

Kambar (2019) states that a merger between two financial institutions is a great way to rapidly expand into new markets and attract a large number of new clients. The number of bank branches where customers can make deposits and withdrawals increases with increased accessibility to ATMs. Reduced fees for using cross-bank ATMs are another perk for consumers. Contrarily, integrating technology is a significant obstacle. While simple in concept, executing it successfully often necessitates significant effort, even if it's just something as basic as obtaining a new account number for each customer and making that information widely known. There has been customer confusion over the replacement of cheque book, RTGS, NEFT, and the online banking interface post-merger. Mergers often have unintended consequences, and one of the biggest ones is the closure of local bank branches. This usually causes a lot of uncertainty and chaos. The client may experience a feeling of loss regarding the bank and its amiable staff.

Mankani (2018) examined the merger case of Sangli Bank with ICICI Bank. According to the author, the merger between Sangli Bank and ICICI Bank allowed the former's customers to gain access to the latter's multi-channeled network and wider selection of goods and services. It has been argued that mergers typically take place when one or both of the merged institutions are in trouble and close to collapse. Bank management tends to procrastinate too long before pursuing mergers and/or amalgamations, which may have an unfavourable effect on the economy and, in turn, on bank customers and shareholders. According to the research, this can be avoided if the sick bank's management seeks a merger at a slightly earlier level, putting their interests to one side to focus on the bank's customers and shareholders.

Jasrotia et al. (2022) in their case study stated that customers' experiences with service and loyalty suffer as a result of the bank's acquisition of the smaller firms, and the number of scarcely offered or intentionally created moments of truth. Mergers have never succeeded in highlighting the reason for the merging. Despite well-intentioned legislation Bank mergers fail due to slow and inefficient government processes.

Sangisetti (2022) surveyed 150 customers post-merger and found that “based on age and education, there were significant differences in the awareness level about bank mergers”.

The study revealed that the consumers were aware of bank M&A. It demonstrated their familiarity with the financial industry's most recent developments. The majority of the customers had positive perceptions regarding the merger and were satisfied with the banking services. However, it was recommended that banks should strive to enhance their operational excellence, enhance the quality of customer service, reduce costs for the consumer, listen to customers' feedback, optimize the efficiency of ATM services, and make sure services are delivered on time.

Academicians and researchers worldwide have conducted numerous studies to evaluate the perception of service quality of customers in banking sectors using the SERVQUAL model or SERVPERF model. However, very few research has been found evaluating the effect on customer perception regarding service quality after structural changes (mergers) in the banking sector in India using the said model, and thus, needs to be explored.

Table 2.6 Studies relating to bank customers: National context

Author (Year)	Variables
Khare (2011)	Extended SERVQUAL variables
Mishra et al. (2010)	Variables of SERVQUAL Model
Selvakumar et al. (2018)	Net banking, mobile banking services, ATM services
Kavishwar (2014)	Services faster, accessibility of services, improved online banking, accessibility to more ATMs
Dhamija et al. (2020)	Promptness in service, convenience of location post-merger
Kambar (2019)	Bank branches, accessibility to ATMs, uncertainty, sense of loss of staff
Mankani (2018)	Access to a wider selection of goods and services, increase in customer base
Jasrotia et al. (2022)	Customers' experiences, service quality, customers' loyalty
Sangisetti (2022)	Age, education, customer service, customer feedback ATM services, services delivered on time, satisfaction

2.4 Research Gap

Based on the literature review, the research gaps identified are as follows:

- ***Financial Aspect Yielded Diverse Findings:*** Existing literature has yielded diverse findings with regard to financial aspect as some studies reported improved financial performance post-merger (Anderibom and Obute, 2015; Sahni and Gambhir, 2018), while others indicate no change or a decline (Sorongan, 2013; Abdulwahab and Ganguly, 2017). India has witnessed several bank mergers, however; Merger 2020 is certainly a big phenomenon since the onset of 1991 reform, consisting of four big consolidations involving ten PSBs at the same time. A study thus is warranted to see the effect of the merger in 2020 on banks' performance.
- ***Exploring Group Differences in Employee Perception and Experience Following Mergers:*** Few studies were found that addressed the issue of group differences, i.e., the response between acquired and acquiring employees' perception and experience after a merger (Panchal and Cartwright, 2001, Buono et al., 1985). However, researchers could find very few studies addressing this aspect in India.
- ***Understanding Customer Perspectives on Banking Mergers:*** It's essential to gather the perspective of customers on banking mergers, especially as today's market is centered around the needs of customers. Additionally, there is scarcity of studies that compared the differences in the perception and experience of acquired and acquiring bank customers, especially in India with respect to Banking sector.
- ***Integrating financial analysis with both internal and external stakeholders' perceptions and experience:*** Previous studies have taken into consideration a single merger event or done a time series analysis. 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). The researcher could not find a study that took all three dimensions into consideration, i.e., financial performance analysis, perception and experience of internal stakeholders (Employees) and external stakeholders

(Customers) regarding banking mergers from the literature review done. The three dimensions would provide a holistic view of banking mergers.

2.5 Chapter Summary

This chapter gives a review of the literature concerning this study. The first part of the literature focuses on the financial aspect of mergers. Financial factor is one of the most important determining factors of the success or failure of a merger. The financial performance analysis of banks in the M&A scenario has been checked in both national and international contexts. The second part deals with the human resource aspect in mergers. Employees are one of the stakeholders that are heavily impacted, whenever changes in the entity take place. Thus, for a sustainable comparative advantage post-merger, it is critical to prioritize behavioural factors alongside the economic aspect. The various forms of emotions that the employees undergo during such consolidations, both in the national and international context, have been explored in this part of the chapter. The third part of the chapter presents the studies on bank customers. Limited studies were found concerning customers on M&A, especially in the banking sector. Based on the review of literature, research gaps were identified that served as the foundation for this study as mentioned in the fourth section of the chapter.