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Employee Performance in Nepalese Banks: The Influence of Mergers and Acquisitions

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Abstract

Purpose: This study examines the impact of mergers and acquisitions (M&A) on employee outcomes in Nepalese commercial banks, focusing on key factors such as cultural integration, job stress, job security, and fairness in transfers and promotions. It further explores the role of operating efficiency after M&A in influencing employee performance.

Methods/Design: The research utilizes a mixed-methods approach, combining quantitative surveys and qualitative interviews to assess how these factors influence employee work outcomes during M&A transitions.

Findings: The results reveal that effective cultural integration, management of job stress, and assurances of job security positively impact employee outcomes. Perceptions of fairness in transfers and promotions are also crucial in maintaining employee satisfaction and performance.

Implications/Limitations: This study provides actionable insights for managing M&A transitions, emphasizing the importance of support systems for employee well-being. It addresses a gap in the literature by focusing on the human side of M&A in Nepalese banks, often overshadowed by financial aspects. However, the small sample size and potential employee response bias may limit the generalizability of the findings. The focus on commercial banks may also restrict the applicability to other sectors. Future research should include more industries and larger samples to better understand long-term employee outcomes post-M&A.

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Keywords: *: Mergers and Acquisitions, Employee Performance, Cultural Integration, Job Stress, and, Job Security*

Background of the Study

Mergers and acquisitions (M&A) have played a pivotal role in reshaping financial sector, driven by regulatory initiatives, market competition, and the need for operational efficiency (Moffat & Mclean, 2010). The Nepal Rastra Bank (NRB) has encouraged consolidations to create stronger financial institutions capable of withstanding economic fluctuations and enhancing financial stability. However, these mergers also bring challenges, particularly for employees, which are not yet fully explored. This research seeks to address that gap by examining how M&A affects employee performance in Nepalese commercial banks.

One of the primary challenges of M&A is cultural integration. Nepalese banks often have distinct cultural identities, and merging these can lead to conflicts, misunderstandings, and resistance from employees. Buono and Bowditch (2003) highlight that cultural integration is critical for M&A success, as cultural clashes often lead to reduced employee morale and performance. Similarly, Weber and Tarba (2012) demonstrate that successful cultural integration can improve employee job satisfaction and performance. Thus, unresolved cultural discord in Nepalese banks can lower morale and disrupt teamwork, directly affecting employee performance.

Job security is another concern. Employees often face uncertainty about their roles, potential layoffs, or changes in job responsibilities post-merger. Cartwright and Cooper (1993) found that uncertainty regarding job security during M&A leads to increased stress, negatively impacting performance. This insecurity can decrease motivation and lead to lower productivity. Goyal and Joshi (2011) observed similar patterns in the Indian banking sector, where job insecurity during M&A resulted in reduced productivity and higher turnover intentions.

Fairness in transfers and promotions also significantly affects employee performance (Goyal & Joshi 2011). During M&A, employees may perceive favoritism or bias in the reallocation of roles, which can create dissatisfaction and disrupt the work environment. Marks and Mirvis (1997) found that perceived fairness in transfers and promotions is crucial for maintaining employee trust and performance. Sudarsanam and Mahate (2003) similarly found that transparent and fair HR practices during M&A are positively correlated with higher employee engagement and performance.

Successful mergers can create more robust organizational structures, offering better career prospects, job security, and access to enhanced resources and training programs. If managed effectively, with clear communication and support systems in place, employees can benefit from significant personal and professional growth.

M&A can led to operational efficiencies, studies by Sharma and Upadhyay (2021) indicate that the associated stress and cultural shifts often negatively impact employee morale and performance in Nepalese banks. This research seeks to provide empirical evidence on the effects of M&A on employee performance in the Nepalese context.

This study explores the impact of mergers and acquisitions (M&A) on employee performance within Nepalese commercial banks, focusing on key factors such as cultural integration, job stress, job security, and perceptions of fairness in transfers and promotions. By investigating these elements, the research seeks to provide a comprehensive understanding of how M&A affects employees and to identify strategies for managing these transitions effectively. The primary objective is to assess the challenges that arise during the M&A process, particularly in relation to cultural clashes, uncertainty about job roles, and the fairness of internal promotions. Additionally, this study offers actionable insights and recommendations that can help enhance M&A transition management and support employee well-being during periods of organizational change (Buono & Bowditch, 2003; Cartwright & Cooper, 1993; Sharma & Upadhyay, 2021).

This paper assesses the impact of cultural integration, job stress, and job security on employee performance during mergers and acquisitions in Nepalese commercial banks, evaluates the employee perceptions of fairness in transfers and promotions during the M&A process, and it also provides recommendations for improving transition management and employee well-being.

Application of Synergy Theory in Mergers and Acquisitions

The Synergy Theory is a key framework for understanding the motivation behind mergers and acquisitions (M&A), particularly in the financial sector. According to this theory, the combined entity formed through an M&A can achieve greater operational efficiency, increased profitability, and a competitive edge that surpasses the capabilities of the individual firms involved (Gaughan, 2017).

In the context of Nepalese commercial banks, Synergy Theory helps explain the rationale behind engaging in M&A activities. By merging, banks anticipate benefits such as economies of scale, enhanced operational efficiency, and shared resources, which, when managed effectively, can lead to positive employee outcomes (Cartwright & Cooper, 2014). These outcomes include smoother cultural integration, reduced job stress, and improved job security, all of which contribute to a stronger, more capable organization post-merger (Gaughan, 2017; Cartwright & Cooper, 2014).

The theory provides a solid foundation for analyzing how improvements in operational efficiency resulting from M&A activities can directly impact employee performance, satisfaction, and overall well-being. The effective management of these synergies is crucial in ensuring that employees benefit from the process and that the organization achieves its full potential.

In the following sections, the research will discuss how M&A impacts employee performance in terms of cultural integration and job stress, highlighting relevant studies that explore these dynamics. The analysis will then focus on the challenges related to job security and fairness in transfers and promotions, drawing on both Nepalese and international research. Finally, the study will provide recommendations for improving M&A processes in Nepalese banks, ensuring smoother transitions and better employee outcomes.

Review of Literature

The Impact of M&A on Employee Performance

Mergers and acquisitions are known to bring about significant organizational changes, which can profoundly affect employee performance. The Job Demands-Resources (JD-R) Model (Bakker & Demerouti, 2007) provides a useful framework for understanding these impacts, suggesting that increased job demands—such as workload and uncertainty—can lead to burnout and reduced performance, while job resources like support systems can help mitigate these effects. Cartwright and Cooper (1993) and Buono and Bowditch (1989) have explored how M&A-induced stress and uncertainty can negatively impact employee performance, aligning with the JD-R Model's emphasis on balancing demands and resources. Recent research by Chen et al. (2022) extends this understanding by examining both the short-term and long-term stress impacts of M&A, emphasizing the need for effective communication strategies to manage stress and maintain performance. In the context of Nepal, Sharma and Koirala (2022) found that M&A can exacerbate stress among employees due to organizational changes and job insecurity, highlighting the importance of addressing these issues to maintain employee performance.

Cultural Integration and Employee Performance

Successful cultural integration is critical to the success of M&A. The Organizational Culture Theory (Schein, 2010) posits that managing cultural differences is essential for maintaining employee morale and performance during M&A transitions. Stahl and Voigt (2008) have emphasized the importance of aligning organizational cultures to enhance performance and employee satisfaction. Smith and Johnson (2023) argue that modern M&A strategies should incorporate advanced cultural diagnostic tools and continuous integration processes, supported by the Cultural Intelligence Theory (Earley & Ang, 2003). In Nepal, Gupta and Ranjan (2023) found that cultural mismatches during M&A can lead to lower employee engagement and performance, underscoring the need for effective cultural integration strategies tailored to the local context.

Job Stress and Employee Performance

Job stress is a well-documented issue during M&A transitions. The Transactional Model of Stress (Lazarus & Folkman, 1984) provides a framework for understanding how employees perceive and cope with stresses during M&A. According to this model, stress arises from an individual's appraisal of the demands placed upon them and the resources available to meet those demands. Sutherland and Cooper (2000) have discussed the use adverse effects of stress on productivity, while Martinez et al. (2021) highlight how technological advancements and the shift to remote work can introduce new stresses and coping mechanisms. In the context of Nepalese banks, Rai and Shrestha (2023) found that M&A-related stress negatively affects employee performance, emphasizing the need for effective stress management interventions to maintain performance during these transitions.

Job Security and Employee Performance

Job security concerns during M&A can significantly impact employee motivation and performance. The Job Insecurity Theory (Greenhalgh & Rosenblatt, 1984) explains how perceived threats to job security can reduce employee motivation and performance. Research by Greenhalgh and Rosenblatt (1984) and Acker and McLachlan (2012) demonstrates that job insecurity can diminish motivation and overall job performance. Thompson et al. (2023) emphasize the importance of transparent leadership and job security assurances in alleviating employee anxiety and maintaining performance. In the context of Nepal, Joshi and Pradhan (2022) found that job security concerns during M&A were a major factor influencing employee performance, highlighting the need for clear communication and support from management to mitigate these concerns.

Transfers and Promotions Post-M&A

Fairness in transfers and promotions is crucial for maintaining employee performance during M&A. Equity Theory (Adams, 1965) provides a framework for understanding how perceptions of fairness in organizational processes can affect employee satisfaction and performance. Kroll and Wright (2011) found that fairness in transfers and promotions is vital for maintaining employee satisfaction and performance. Lee and Carter (2023) discuss the role of digital tools and data analytics in enhancing perceptions of fairness in organizational processes. In the Nepalese context, Aryal and Bhattarai (2022) found that perceptions of unfairness in transfers and promotions during M&A can lead to decreased employee morale and performance, emphasizing the importance of fair and transparent processes to maintain employee satisfaction and performance during organizational transitions.

Research Methods

Research Design

This study employs a mixed-methods research design, combining quantitative and qualitative approaches to provide a comprehensive understanding of the impact of M&A on employee performance in Nepalese banks. Quantitative data were collected through structured surveys, while qualitative data were gathered through semi-structured interviews.

In this study, the population comprised employees from Nepalese commercial banks that had undergone mergers and acquisitions (M&A) in recent years. To ensure comprehensive representation across various organizational levels and departments, a stratified random sampling technique was employed. This method helps in capturing a diverse set of perspectives from different organizational strata, which is critical in understanding the wide-ranging effects of M&A on employee performance. The total population included all employees from four major banks involved in M&A activities: Nepal Investment Mega Bank (NIMB), Nabil Bank, Himalayan Bank, and Nepal Bank Limited.

The sample size of 378 participants was determined based on several factors. First, Cochran's formula (Cochran, 1977) for calculating sample sizes in large populations was applied, which is commonly used in social sciences to ensure an adequate sample size that reflects the population's characteristics. Given the total population size of several thousand employees across these banks, a sample size of 378 was deemed sufficient to provide a 95% confidence level and a 5% margin of error, which are standard parameters for ensuring the statistical reliability of results in survey-based research (Cochran, 1977).

This sample size is also justified by previous studies in similar contexts. For instance, Goyal and Joshi (2011) conducted a study on employee perceptions of M&A in the Indian banking sector using a sample size of 200 respondents, which was considered representative of their population. Similarly, Weber and Tarba (2012) used a sample size of 350 employees in their research on cultural integration during M&A, providing evidence that sample sizes in the range of 300–400 are sufficient to draw valid conclusions about employee experiences and performance in the context of M&A. By using a slightly larger sample, this study aims to enhance the robustness and generalizability of its findings.

Selection of Banks:

The four banks were chosen through a convenient sampling method based on their significant involvement in M&A activities, their diverse organizational structures, and their importance in the current financial landscape. These banks, having undergone major mergers, represent a broad spectrum of the Nepalese banking sector, making them ideal for studying the impact of M&A on employee performance. Their selection not only allows for the examination of internal organizational dynamics but also highlights the broader economic role these banks play in employment creation, GDP contribution, and tax revenues.

By integrating stratified random sampling and focusing on banks that play a significant economic role, this study provides a comprehensive view of the challenges and opportunities faced by employees during M&A transitions. The stratified approach also facilitates a clearer understanding of how internal organizational changes and external economic contributions intersect within Nepal's banking sector. This multifaceted analysis offers critical insights into the effects of M&A on employee performance while acknowledging the broader economic significance of the banks involved.

Instrumentation of Data

Data were collected using a structured questionnaire that included Likert-scale items and open-ended questions designed to measure work culture, job stress, job security, perceptions of transfers and promotions, and employee performance. The questionnaire was validated through a pilot study, which helped refine the questions to ensure clarity and relevance.

Data Collection Procedures

Data were collected through online surveys distributed via email, with follow-up reminders to encourage participation. Semi-structured interviews were conducted with a subset of participants to gain deeper insights into their experiences during M&A transitions. Secondary data were also reviewed to complement the primary data collected.

Reliability and Validity

The reliability of the survey instrument was assessed using Cronbach's Alpha, with values exceeding 0.7 indicating high internal consistency. The validity of the study was ensured through a comprehensive literature review, expert feedback, and pilot testing of the questionnaire. The mixed-methods approach also contributed to the study's validity by allowing for the triangulation of quantitative and qualitative data.

Data Management and Analysis Tools

Data were managed and analyzed using Microsoft Excel and SPSS software. Descriptive statistics were used to summarize the survey data, while correlation and regression analyses were conducted to explore the relationships between the key variables. The qualitative data were analyzed thematically, allowing for the identification of common themes and patterns in the participants' responses.

Descriptive Statistics

Table 1 summarizes the central tendencies and variability of the key variables, including cultural integration, job stress, job security, fairness in transfers/promotions, and employee performance. The data reveal that while cultural integration and fairness in transfers/promotions are relatively high, job stress remains a significant concern.

Table 1

Descriptive Statistics of Key Variables

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Cultural Integration	3.75	3.80	0.55	2.50	4.90
Job Stress	2.85	2.90	0.60	1.80	4.30
Job Security	3.50	3.55	0.65	2.00	5.00
Fairness in Transfers/Promotions	3.65	3.70	0.50	2.50	4.80
Employee Performance	3.80	3.85	0.45	2.90	4.90

Source: field survey 2023

The descriptive statistics provide crucial insights into the variables influencing employee performance in Nepalese banks following mergers and acquisitions. Cultural Integration exhibits a mean score of 3.75 and a median of 3.80, indicating a generally positive perception among employees regarding how well different corporate cultures have been integrated post-merger. However, the standard deviation of 0.55 suggests some variability, highlighting that not all employees experience cultural integration uniformly. Job Stress presents a moderate mean of 2.85 and a median of 2.90, suggesting that while stress is present, it is not excessively high. However, the standard deviation of 0.60 points to variability, with some employees experiencing higher levels of stress, which could negatively impact their performance. Job Security scores a mean of 3.50 and a median of 3.55, reflecting a general sense of security among employees, although the standard deviation of 0.65 indicates that feelings of security vary, with some employees feeling less secure in their positions. The perception of Fairness in Transfers and Promotions is also relatively positive, with a mean of 3.65 and a median of 3.70, and a lower standard deviation of 0.50, showing that most employees share similar views on the fairness of these processes. Finally, Employee Performance shows the highest mean and median scores, 3.80 and 3.85 respectively, with the lowest standard deviation of 0.45, indicating that despite the challenges of a merger, employee performance has remained strong and consistent across the organization.

Influence of Cultural Integration

A positive correlation between cultural integration and employee performance was observed, indicating that higher cultural integration scores are associated with better employee performance. This aligns with global research, which suggests that successful cultural integration is a key determinant of M&A success.

Impact of Job Stress on Performance

Job stress was found to negatively impact employee performance, with higher job stress levels correlating with lower performance. This finding is consistent with the literature, which highlights job stress as a significant barrier to productivity and well-being during organizational change.

Job Security Concerns

The correlation between job security and employee performance was statistically significant, as shown in Table 2 Employees who felt more secure in their jobs performed better. In the context of Nepal, where economic stability is closely tied to employment, job security is a critical factor in maintaining high performance during M&A transitions.

Table 2

Correlation Between Job Security and Employee Performance

Variable	Employee Performance (Correlation Coefficient)
Job Security	0.58 ($p < 0.01$)

Source : field survey 2023

The table 2 illustrates the correlation between Job Security and Employee Performance, revealing a correlation coefficient of 0.58, which is statistically significant at the $p < 0.01$ level. This positive correlation indicates a moderately strong relationship, suggesting that as employees' perceptions of job security increase, their performance tends to improve. The statistical significance ($p < 0.01$) confirms that this relationship is not due to random chance but is a meaningful association. This finding underscores the importance of job security in maintaining high levels of employee performance, especially in the context of mergers and acquisitions, where uncertainty about job stability can be prevalent.

Fairness in Transfers and Promotions

Fairness in transfers and promotions also played a significant role in employee performance. Table 3 presents the correlation between fairness perceptions and employee performance. Fairness is particularly important in the Nepalese context, where organizational hierarchies and social networks influence perceptions of justice and equity.

Table 3

Fairness in Transfers/Promotions and Its Impact on Employee Performance

Perception of Fairness	Employee Performance (Correlation Coefficient)
Fair Transfers/Promotions	0.61 ($p < 0.01$)

Source : field survey 2023

The table No. 3 detailing the correlation between Perception of Fairness and Employee Performance provides valuable insights into how employees' views on fairness in transfers and promotions affect their performance. The correlation coefficient for Fair Transfers/Promotions is 0.61 ($p < 0.01$), indicating a strong and statistically significant positive relationship. This suggests that when employees perceive the transfer and promotion processes as fair, their performance tends to improve substantially. The high correlation coefficient highlights those perceptions of fairness are a major factor influencing employee morale and effectiveness, reinforcing the importance of equitable practices in organizational decision-making. This finding emphasizes the need for banks undergoing mergers and acquisitions to prioritize fairness in their HR policies to enhance employee performance during transitions.

Regression and Correlation Analysis of M&A Impact on Employee Performance

A regression analysis was conducted to understand the influence of cultural integration, job stress, job security, and fairness in transfers/promotions on employee performance. The results are summarized in Table No. 4. The analysis reveals that cultural integration is the most significant predictor of employee performance, followed by job stress and job security.

Table 4

Regression Analysis of Factors Affecting Employee Performance

Predictor Variable	Standardized Coefficient (β)	p-value
Cultural Integration	0.45	< 0.01
Job Stress	-0.39	< 0.01
Job Security	0.32	< 0.01
Fairness in Transfers/Promotions	0.28	< 0.01
R^2	0.64	

Source : field survey 2023

The regression analysis table provides crucial insights into the factors affecting Employee Performance during mergers and acquisitions (M&A) in the Nepalese banking sector. The Standardized Coefficient (β) values indicate the strength and direction of each predictor variable's impact on employee performance. Cultural Integration has a positive and significant effect, with a β value of 0.45 ($p < 0.01$), indicating that effective cultural integration is a strong predictor of improved employee performance. Conversely, Job Stress exhibits a negative impact, with a β value of -0.39 ($p < 0.01$), underscoring how increased job stress significantly hinders employee performance. Job Security also plays a critical role, with a positive β value of 0.32 ($p < 0.01$), suggesting that employees who feel secure in their jobs are more likely to perform well. Finally, the perception of Fairness in Transfers/Promotions contributes positively, with a β value of 0.28 ($p < 0.01$), indicating that fairness in these processes enhances employee performance. The R^2 value of 0.64 signifies that 64% of the variance in employee performance can be explained by these four predictors combined, highlighting the importance of these factors in the context of M&A. This analysis underscores the critical issues of cultural integration, job stress, job security, and fairness in transfers/promotions as key determinants of employee performance during organizational transitions.

These statistical insights reinforce the need for a strategic focus on cultural integration, stress management, job security, and fairness during M&A activities to maintain and enhance employee performance in Nepalese banks.

Discussion

Cultural Integration

The findings highlight the crucial role of cultural integration in enhancing employee performance during M&A activities. Conflicts often arise when merging entities lack cultural alignment, necessitating a proactive approach to integration. In the context of Nepal, Gupta and Ranjan (2023) stress the importance of culturally sensitive strategies. Banks should implement early training programs to help employees acclimate to shared values and norms, which can foster collaboration and reduce friction in diverse work environments.

Managing Job Stress

Job stress significantly impacts employee performance during M&A transitions. The study suggests that targeted interventions are essential. Nepalese banks should focus on establishing mental health support programs, clear communication channels, and workload management strategies to alleviate stress. For instance, regular check-ins with employees and access to counseling services can enhance well-being and productivity during these transitions, ensuring smoother integration processes.

Enhancing Job Security

Uncertainty about job security is a major concern during M&A, directly affecting employee morale and performance. Banks should develop clear communication strategies that provide reassurances about job stability and outline transparent restructuring processes. This proactive approach can help mitigate anxiety, reduce turnover intentions, and maintain motivation among employees throughout the M&A process. Furthermore, addressing local socio-cultural factors, such as workplace hierarchies and economic uncertainties, is critical in shaping employee perceptions and responses.

Fairness in Transfers and Promotions

Fairness in transfers and promotions is vital for maintaining employee trust during organizational changes. To enhance equity, banks should use objective criteria for role reallocation, ensuring transparency in the promotion process. Implementing merit-based HR practices and offering clear guidelines on transfers can improve employee morale and performance, reducing the risk of dissatisfaction during M&A transitions.

Implications for Nepalese Banks

The study's findings have significant implications for Nepalese banks involved in M&A. Banks must prioritize cultural integration, stress management, job security, and fairness in HR practices to optimize employee performance. Structured transition plans that include transparent communication, robust employee support systems, and equitable HR practices will help address the challenges of M&A.

To further enhance these practices, banks could adopt specific strategies such as regular internal updates regarding changes, mentorship programs for employees affected by restructuring, and forums for employees to voice concerns. By addressing these areas effectively, banks can improve employee well-being and organizational performance during mergers.

Addressing the Research Gap

This research contributes to the limited understanding of M&A impacts on employee performance in Nepal's banking sector. Future studies should explore long-term effects, particularly through longitudinal designs that track employee performance over time. Investigating the effectiveness of digital tools for managing M&A transitions could also yield valuable insights. Additionally, focusing on specific socio-cultural variables, such as employee perceptions influenced by local hierarchies and economic conditions, may deepen our understanding of M&A dynamics in developing economies like Nepal.

Conclusion

This study cabins the effects of M&A on employee performance within the Nepalese banking sector, providing insights that extend beyond general themes. Specifically, it highlights that cultural integration, when handled effectively, can serve as a key driver for improved collaboration and organizational cohesion, reducing the likelihood of conflict and enhancing performance. To mitigate job stress, banks must adopt specific stress management strategies, such as open communication and mental health support, tailored to the needs of employees during transitional periods.

Moreover, job security was identified as a major concern, with findings suggesting that clear, consistent communication about roles and future job stability can significantly alleviate anxiety and enhance performance. Fairness in transfers and promotions emerged as another critical factor, with a transparent, merit-based approach proving essential to maintaining employee morale during M&A.

For practitioners, these findings suggest several actionable strategies. HR managers and bank executives should prioritize cultural alignment by developing integration workshops and training. Stress reduction initiatives, including offering employee assistance programs, can help employees navigate the uncertainty inherent in mergers. Clear communication regarding job security and transparent HR policies around role reallocation are crucial to maintaining trust and motivation.

While this study provides essential insights, it also opens avenues for future research. Further exploration into the long-term effects of M&A on employee performance, particularly with the incorporation of digital tools for integration and management, is needed. Researchers should also investigate how leadership roles evolve during M&A transitions and their impact on employee outcomes over time.

Limitations and Future Research

Limitations

This study has several limitations that should be considered when interpreting the findings. Although the sample size of 378 participants is representative of Nepalese banks, it may not fully capture the diversity of experiences across various institutions and sectors, potentially introducing bias in the results. For instance, employee perceptions and experiences regarding M&A can vary significantly between large and small banks or across different types of financial institutions, which may not be adequately reflected in the sample. Furthermore, the focus on short-term impacts of M&A on employee performance leaves the long-term effects largely unexplored. This oversight limits the ability to generalize the findings over time and may overlook critical factors that emerge as organizational cultures evolve post-merger. Thus, the context-specific nature of the findings emphasizes the need for caution when extrapolating results to other regions or banking contexts, as local socio-economic factors and cultural dynamics may further influence employee experiences during M&A transitions.

Directions for Future Research

Future research should delve into the long-term impacts of M&A on employee performance, especially in the context of developing economies like Nepal. It is crucial to examine how specific technological advancements can facilitate the management of M&A transitions and how these technologies vary across different sectors. Additionally, researchers should consider conducting longitudinal studies to explore the sustained effects of M&A on employee performance over the time.

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