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Human Resources after Merger and Acquisition in Prabhu Bank

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Abstract
The unnatural increment of the Nepalese Banking and Financial Industries (BFIs) has brings several financial challenges and complications in the financial market. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and at the verge of a collapse**.** Regularity body in Nepal having difficulties in regulation, with the coordination with Nepal Rastra Bank (NRB), Nepalese government lunched the Monitory Policy on 2072/73 especially focusing on capital growth of the BFIs**.** Merger and Acquisition (M&A) play a vigorous role in the after the Nepal Rastra Bank implemented the Merger Bylaws Policy, Banking and Financial Institutions (BFIs) in the Nepalese Market focus on M&A with appropriate partners. The increasing trends of M&A without proper guidance and experience gradually increase challenge on both stability and operational issues in Prabhu bank. Mostly Human resources form the Bank are persecute after the post-merger activity in the institutions. Therefore, this paper presents the issues on HRM among Prabhu Bank after M&A. This study uses a qualitative research design with 35 participants. Data is gathered through interviews, and the findings are determined by thematic analysis. The results of the study show that while mergers create chances for employees to grow professionally, collaborate across different cultures, and feel a sense of stewardship, similarly highlight difficulties like identity loss and communication gaps, Leadership Uncertainty and increase competitive behavior among peers which ultimate effect on the growth of both employee and the organization. The study concludes that mergers provide chances for staff growth and collaboration, and effective integration requires addressing identity issues and communication barriers. Post-merger human resource management issues within Prabhu Bank.

Keywords: M&A challenges, Issue on employees, Merger

Introduction

Research has shown that Merger and Acquisition (M&A) tends to be cause by a combination of economics disputes, regulatory force and technological effects. Globalization, competition and a dynamic market has brought about a significant change in the world economy and the way businesses operate. Mergers and acquisitions (M&A) have occupied a great deal of attention in a global market but the role of human resources management in M&A success is still understudied. (Selden and Colvin 2003) have stated that 70 - 80% of acquisitions fail, meaning that they create no wealth for the share owners of the acquiring company. (Schmidt 2003) has identified five major roadblocks to merger and acquisition (M& A) success, three of which are human resource (HR) issues. It has been established that there is a strong direct correlation between human resource involvement and 'success' in mergers and acquisitions.

Trillions of dollars have been spent in the acquisition of thousands of firms, (Gupta and Gerchak, 2002). In order to stay competitive, many companies around the world have merged with each other with a motive to expand into new markets, incorporate new technologies and/or enhance revenue (Haspeslagh & Jemison, 1991;Galpin&Herndon, 2000). Mergers and acquisitions (M&As) continue to play an important role in shaping business activities worldwide. They have become an important business strategy to help improve organizational performance. M&As are undertaken on the assumption that the combined company will have a greater value than the two companies alone (Mirvis and Marks, 1985) M/A were introduced to Nepal after the post liberalization period and today there are hundreds of deals happening in Nepal every year. This makes mergers and acquisitions an interesting study as today it has become one of the main strategies for expansion and growth (Bajgai & Pradhan, 2021). Organizations are merging under government pressure and also when the relaxation of government policies opens new opportunities in unexplored markets.

The Nepalese financial sector has witnessed a tremendous growth in the number of financial institutions after the 1980's by adopting an economic liberalization regulation with a mixed economic model. At 2017/18 there are 28 commercial banks, 36 development banks, 25 finance companies and 39 insurance companies are there in Nepal (Economic Survey 2018) similarly a total of 120 banks and financial institutions including 21 commercial banks, 17 development banks, 17 finance companies, 64 microfinance financial institutions and 1 infrastructure development bank are operating as of mid-March of the year 2023. However, the unnatural increment of the Banking and Financial Institutions has brings several financial challenges and complexities. The financial indicator had indicated that the Nepalese financial sector was weak, vulnerable and at the verge of a collapse (Gole, 2023). Merger and acquisition are contemporary in the Banking and Financial Institutions of Nepal and will likely remain so for the next few years since the recent moves of NRB policies seems concerned about controlling the financial institution by decreasing the available number. Monetary policy 2072/2073 that has increased the paid-up capital of Banking and Financial Institutions- 8 billion for commercial bank, 2.5 billion for development bank, and 800 million for finance companies, is a greater issue in the financial sector of Nepal. Banking and Financial Institutions employees faced an uncertain future after the merger, as new policies were implemented. This resulted in some employee's even resisting change. The management of the BFIs should be focused on human side after merger and acquisitions to minimize the risk of the failure rates of merger and acquisitions.

Significance of the Study

A detailed insight to the top managers involved in the M&A process to arrive at a conclusion as to which are the most appropriate HR strategies which can be applied in order to overcome the difficulties related to M&A in order to achieve sustainable organizational performance and employee satisfaction.

Objectives

To find out the major issues faced by employees of the acquired bank.

Review of literature

Now a days, Mergers and acquisitions are tools for companies to improve their competitive position in a global market place. Mergers and acquisitions constitute one of the most attractive business strategies that are increasingly adopted and utilized among organizations today. (Hitt, M.A. & Pisano, V. 2004) defined mergers as a process of combination of the assets, cultural values, and management practices of two separate organizations to form a new entity. In contrast, acquisition, which is widely known as a business takeover, is the process of buying out another business (Daniel & Metcalf, 2001). The core external factors driving the phenomenon of the mergers and acquisitions are global economy, advanced technology, specific market forces and government regulations (Schmidt, 2002).

Merger

A merger is a process in which two or more autonomous companies of different origin unite to form a single entity. The term merger is also known by the word "amalgamation". The companies which unite together lose their previous identity forming a new company for a common purpose Merger is defined as a circumstance in which the assets and liabilities of a merging company are vested in another merged company. The merging entity loses its identity and its shareholders become shareholders of the merged company. (Desai, 2010) Merger is referred to as a combination of two or more companies, which may involve absorption or consolidation.

Acquisition

An acquisition is defined as buying or takeover small or big company for the enhancement of business or coverage. This combination of "unequal" can produce the same benefits as a merger, but it does not necessarily have to be a mutual decision. A larger company can initiate a hostile takeover of a smaller firm, which essentially amounts to buying the company in the face of resistance from the smaller company's management. Unlike in a merger, in an acquisition, the acquiring firmusually offers a cash price per share to the target firm's shareholders or the acquiring firm's shares to the shareholders of the target firm according to a specified conversion ratio corporate action in which a company buys most, if not all, of the

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target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions may be friendly or hostile depending on a company's willingness to be acquired (Desai, 2010). In the context of the business combination, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company. The acquiring company will remain in business and the acquired company will be integrated into the acquiring company and thus the acquired company ceases to exist after the merger. Some prominent examples of acquisition of Finanacial institution in Nepal included Nabil Bank acquiring Nepal Bangladesh Bank,Prabhu Bank Acquiring Century Commercial Bank, Global IME bank Acquiring Jyoti Bikash Bank , Nabil Bank merger with Megha Bank , Global bank merge with IME finance Limited.

Merger and Acquisition

In short, a merger is when one company is combined with and totally absorbs another. An acquisition is the process used to transfer assets from company to the other. Acquisition refers to the corporate buy- out of a controlling interest in another organization or business takeover. Generally, acquisitions can occur in both friendly and hostile environments.

The social identity theory has had a profound impact on many organizational behavior researches conducted in the recent decades. Ashford, Lee and Bobko, (1989) define social identification as the perception of belongingness to an organization by an employee, and organizational identification as a specific form of social identification in which an individual defines himself in terms of his membership in an organization. Ajjarapu, N. (2004). state that in such situations, employees believe that they should possess the same characteristics as they consider their organization to possess and make conscious effort to incorporate those characteristics into themselves.

Several researches have pointed out the benefits associated with the organizational identification. (Ravenscraft, David J. & Pascoe Jr, George A. 1989) indicate that it enhances the self-esteem of the employees and helps in reducing the uncertainty, consequently resulting in employees contributing their utmost efforts to fulfill the organizational interest. (Cianni, M. 2002), in their empirical study, illustrate a negative relation of organizational identification with turnover intention. Employee identification is an important issue for the successful performance of the firm after the merger process, thus it is crucial to find out the factors that affect the post-merger organizational identification among employees.

Organizational researches in the past have offered various experience that influence the post-merger organizational identification of the employees such as pre-merger organizational identification; (Bartels, J., Pruyn, A & De Jong, M. 2009) procedural justice and trust in merger (Bartels et al., 2006), Newman and Krzystofiak (1993) examine the information related to job characteristics, employee job satisfaction and organizational commitment in before and after study of the acquisition of a small bank in the United States by a larger regional bank. A sample of 108 bank employees before the merger and 49 employees after the merger were collected within a time gap of 6 months comprising of a longitudinal data. Correlation Analysis and

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ANOVA show that perceived job characteristics, employee job satisfaction and organizational commitment declined after the actual acquisition. (Clarke, C.J. 1987) investigated the impact of merger and acquisition on the emotional responses of the Employees. Semi- structured interviews were conducted to gather data 10 months following the merger. The findings of the study prove that the emotional responses of the employees were negatively influenced leading to job dissatisfaction and uncertainty among the employees. Hence it is indicative enough that mergers and acquisitions affect the attitude and behavior of the employees.

Sanda and Adjei-Benin (2011) worked to understand the influence of Merger & Acquisition on employee satisfaction and employee satisfaction's impact on the performance of the merged firm. Questionnaire Method was used to collect primary data from the employees working in a Ghanian mining firm. The results of the statistical analysis indicate that there were prominent changes in the work roles of the employees, leading to job dissatisfaction towards their work (Dahal, Bhattarai, & Budhathoki, 2023). There is high amount of discontentment among employees due to work-pressure and work-load making them quit their jobs. It is evident from the results that merging two different firms is a complex task as it may lead to critical HR issues. Future research should work on evaluating these HR issues.

(Piero, Morosini., Scott, Shane. &Harbir Singh. 1998) in this research work tries to examine the effects of M&A on the mood of the employees at State Bank of Indore. This research shows that a pre-merger task force should be set up to take the response from the employees and make them understand the effects and the benefits of M&A. Employees are generally worried about loss of job or new practices adopted by one company merging with another company (Khadka & Khadka, 2024). Employee opposition in M&A delays the process. Little attention is paid to emotional and psychological aspects of the employees. This paper reflects that HR should maintain transparency through right form of communication during M&A.

Research Methods

The study focused on qualitative data, exploring the details of employee behavior. The sample consisted of 35 employees from various departments within Prabhu Bank. Participants were selected based on their willingness to participate and their diverse roles within the organization, aiming for a comprehensive representation of experiences. Interviews were conducted by applying convenience sampling methods at the bank's head office and branch office. The interview guide was designed to produce detailed narratives about participants' experiences, challenges, and perceptions related to their roles and the organizational culture of Prabhu Bank. Interviews were audio-recorded with participants' consent and transcribed exact for analysis. Thematic analysis was employed to analyze the interview transcripts. The process involved familiarization with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the final report.

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Major findings

Positive Aspect

Opportunity for Learning and Development

Combining workers with different backgrounds and skill sets through mergers often results in chances for professional development, knowledge exchange, and cross-training.

Collaboration across Cultures

Employees from various locations and backgrounds come together as a result of mergers. Employees are able to share ideas, methods, and viewpoints, which promotes cross-cultural collaboration, innovation, and learning. Employees' experiences are enhanced and their viewpoints are expanded when they collaborate with coworkers from different backgrounds.

Stewardship

Employees see themselves as protectors of the bank's history and values, ensuring a customer-focused approach and maintaining trust and reputation within the community.

Excited

Employees are excited about the combined organization's prospects for the future. Employee optimism and excitement are boosted by the prospect of growth, expansion, and achievement, which inspires them to put in their best efforts in support of the fulfilment of group goals.

Negative Aspect

Communication Gaps

Employee worries and anxiety during the merger process were increased by poor communication. When changes in job positions, organizational structure, or future objectives are not communicated clearly,

Identity Loss

Employees have a sense of identity loss or detachment from the original company's identity and ideals. Morale and engagement are affected by this, especially if the acquired company has a strong corporate culture or distinctive brand.

Leadership Uncertainty

Because of an M&A, employees experience instability and uncertainty due to changes in reporting structures and leadership. Employee morale is hampered and management credibility is damaged by unclear leadership and decision-making processes inside the combined company.

Increase in Competitive Behavior

Internal rivalry and a lack of collaboration result from merging companies' employees viewing one another as rivals rather than friends.

Effect on output

Due to the lack of proper pre-merger assessment, irregular placement of appropriate employee within appropriate job skill, hamper the staff output as well as organizational output.

Discrimination

Discrimination among employee of merging and merged company also play a crucial role on the adoption of the employee in the process of M&A, lack of clear instruction from the top level management to the ground lever staff and lack of motivation to employee of merged company always feel in-secureness on job, which ultimate effect on output of the employee.

Conclusion

This study highlights both the positive and negative elements of post-merger employee experiences, providing information on the issues surrounding mergers and acquisitions (M&A) in Prabhu Bank in Nepal. Even while M&A brings chances for education, teamwork, stability and stewardship, successful integration requires addressing issues including reduced leadership clarity, identity loss, communication gaps, and increased rivalry. The results highlight how crucial effective HRM is to overcoming obstacles that arise after a merger and optimizing the possible advantages of M&A for business success.

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