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Short Communication

Consolidation in the banking industry: HR challenges, consequences and solutions

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A B S T R A C T

Liberalization and deregulation process started in 1991 has made lot of changes in the banking system. From a totally regulated environment, banking institutions have moved into a market driven competitive system. Changes gained momentum in the last few years. Globalization would gain greater speed in coming years particularly on account of expected opening up of financial services under WTO. Four trends changed the banking industry world over, viz, consolidation of players through mergers and acquisitions, globalization of operations, development of new technology, and universalisation of banking.

1. Introduction

The consolidation in the present arena being talked about is not the merger of weak banks in the strong banks, neither it is to protect the interest of depositors of one bank by merging it into other bank. Instead it is a merger of two banks even two large banks or two strong banks to be a mega as well as strong entity, which may rank amongst the top 200 banks of the world. The idea is that a strong unit can absorb the shocks and survive in the difficult times.[1] Consequent upon consolidation, the new entity will not only have sound financial position but also a large branch network throughout the country, overseas presence, large resources, large clientele base, and big size in terms assets as well business figures. Further the sound financial position will be in terms of large capital base, increased profitability, higher capacity to tolerate the unexpected loss, better risk management, larger disclosed and undisclosed reserves, large base of real assets, better stability, etc. The consolidation will result in increased discretionary powers to the field functionaries at branch level for lending, investment, and foreign exchange business and derivatives trading, which will on the one hand increase the profitability of the banks and on the other hand will facilitate customers and other stakeholders for quick decision. The public confidence will be increased manifold. The rating of the merged entity by international agencies will be improved which will increase the confidence of depositors and international banks and financial institutions dealing with the banks.[2]

Consolidation in banking industry by mergers and acquisitions is the need of the hour and cannot be avoided. In banking industry it has further become important due to the following reasons:

1. Unhealthy competition amongst banks
2. Clusters of branches of various banks at particular centers
3. Expansion of branches
4. Regional imbalance
5. Improper deployment of staff
6. Restrictions on transfer of clerical staff
7. Uneven promotions
8. Computerization and Installation of ATMs

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2. HR Issues Involved in Consolidation Process, Its Consequences and Solutions

The consolidation process is a change initiative and as such in every stage of integration process, HR issues are quite dominant and thus, sorting out human issues arising out of the consolidation exercise. Especially in service industry like banks is more vital and challenging.[3] It has assumed importance not because human being is involved but due to its significant characteristics viz, sensitiveness, reactiveness and responsiveness towards biological actions and also due to the value attached to it. If the banks do not give required and timely attention to the people issues, the entire excise, which otherwise would have been a perfect consolidation effort will become a futile excise. In this context, some of the core HR issues involved in the consolidation exercise, its impact and some viable solutions to overcome those issues are attempted.

2.1. Deferring perspectives among the workforce on the proposed consolidation exercise

Since the consolidation process need necessarily involve mergers and acquisition in the pre-amalgamation stage itself. The people working in the organization will possess deferring perspectives on the proposed mergers and acquisition exercise. It is up to the management to employ appropriate strategies to dispel such apprehensions and make them to see reason for such merger. There will be uncertainty at the time of acquisition and the people need reassurance about what is in store for them. Since any change initiative creates unfounded apprehensions in the minds of the people such a change proposal invites stiff resistance from the people working threat, irrespective of the merits involved in such an excise.

One of the key roles of HR managers in the implementation stage is co-ordination and frank and timely communication to staff and establishing cordial relationship with the employees and their representatives are the hallmarks to minimize the expressed resistance to such amalgamation excise.[4] They should play a pivotal role in making the people aware of the new vision and mission of the post-merged bank so that they know where to focus and what to achieve to enhance the productivity and customer satisfaction. The communications should also be forthright and direct. No room for ambiguity. Besides clearing of uncertainty such a communication system would also build a strong platform for trust and goodwill that is essential to bridge the gap between the two banks. Orientation and introduction to various events, customized websites, and also by organizing social events to welcome employees are also some of the other strategies to create a feeling of oneness among the workforce of both the banks involved in the merger process.

2.2. Cross-cultural integration

Another critical areas of HR involved in the consolidation effort through the route of mergers and acquisitions is the assessment of the potential compatibility of cultures like Leadership styles, Decision-making pattern, Team building, performance management systems, customer care, etc. Public sector banks due to their long existence have own organizational cultures, ethos, and values different from each other. These organizational attributes are the guiding factors for the people working with; thereby they have imbibed certain cultures, perceptions, beliefs and values.

Driven by the bitter experiences gained in the earlier excises of bank-mergers, the banks for mergers need to be carefully chosen not only from the point of commercial viability and geographical spread of branches, but also from the angle of reduced response time in getting the cross cultural integration for mutual long-term benefit of employees and banks.[5] Hence, these cultures are to be integrated so as to gain a "blended culture" with an aim to create a new and better set of ethical values. As organizational culture is the part of employee's identity, if the culture issues are not effectively addressed, it may perhaps lead to loss of commitment among employees resulting in lost opportunities to retain qualified personnel and motivate individuals.

2.3. Talent assimilation and re-skilling of employees

Since, the skills, knowledge, capabilities of the people in different banks are in variance with each other having regard to the historical factors like the age profile, academic background, business strategies, training and development systems, opportunities for growth, etc, talent assimilation in the post-acquisition period is equally challenging. Providing training and development and re skilling of the people in the post-merger scenario is another vital aspect, which requires to be addressed strategically. As stated earlier, the two sets of people drawn from two different environments which are totally in variance with each other, may possess varied age profiles, academic background, skill content, knowledge levels, attitudes, and behaviors. Thus, it is necessary to undertake re-engineering exercise in order to bridge the skill gap. In the post merger scenario these people-systems require thorough realignment so as to bring resilience to meet the growing needs of the bank in the futuristic context.[6]

This apart, since there is a dire need to bring suitable changes in the organizational structure including staffing patterns, reporting relationships, job role, systems and procedures, work processes, etc, a thorough study and analysis of the existing systems prevalent in both the banks should be done and a set of viable and practical-oriented norms which invite least resistant form the interested groups, should be evolved and put into practice. Every effort should be taken to ensure that the employees get accustomed to their new roles and responsibilities with ease and comfort.

2.4. Designing a rationale plan for compensation and fringe benefits

Although, the basic compensation patterns in the banks are almost uniform, there appears certain variance in the fringe benefits/ perquisites being extended by banks to its employees. Hence, in the post-consolidation period, the rationalization of such benefits may lead to higher wage bill. Hence, this aspect, which is venerable for leading to HR problems, needs to be addressed with due diligence and care.[7]

The Maslow Theory on 'need hierarchy' envisages that while the various needs of the individuals can be summarized and arranged in definite order viz, in the order of physiological, safety, social, psychological. Ego and self-actualization: once the lower need gets fulfilled to the reasonable extent, the next higher order need would assume importance.[8] Thanks to the fair wage policy, congenial working conditions and the lifetime employment pattern being adopted by the banking industry. The bank employees needs have reasonably achieved the financial safety and social and they are presently in the quest to fulfill the 'psychological need', which encompasses status, recognition, and identity.

With this end in view, more than protection of compensation and benefits, people look forward to a respectful co-existence, challenging roles and responsibilities, meaningful leadership and a congenial work atmosphere. Hence, integration of talents and compensation in the post-merger period may not be a cause for much concern for the banks. Be it as it may, in order to curb avoidable HR problems, the merger scheme needs to have an in-built 'compensation and benefit equalization plan' with specific focus on retention of key talents.

2.5. Seniority and relocation of employees of transferor bank

In conformity with the provisions of Banking Regulation Act, in all cases of amalgamations and mergers of corresponding new banks, the Central Government will have to formulate a suitable scheme in regard to continuance and other service conditions applicable to the employees of the transferor bank consequent upon merger, however, in respect of non-workmen, the central government is given discretion to specify in the scheme, which of them will be continued in the employment of the transferor bank. The provisions of the banking companies (Acquisition and Transfer of Undertakings Act, 1970/1980) does also provide that any scheme framed for amalgamation of corresponding new banks or banking institutions shall be binding on the employees of each of them.

Nonetheless, when the New Bank of India was amalgamated into Punjab National Bank during 1993, although the merger scheme provides continuance of services of all employees including officer staff of New Bank of India in the post-amalgamation period, several cases were filed in various courts by the employees of the New Bank of India challenging the merger scheme itself on various grounds non-providing an opportunity of hearing of the employees before the amalgamation, unequal treatment meted out to employees of the transferor bank (New Bank of India) in placing them in seniority vis- a-vis of the transferee bank and their placement. However, these cases could not be sustained as the Supreme Court uphold the contentions of the Central Government that the scheme does not in any way alter the conditions of service of the transferor bank employees nor does the Act provide for any such hearing prior to the amalgamation. It is also held that since the merger scheme was evolved by the Central Government after due consultation with the Reserve Bank of India, the court cannot interfere with such a scheme. Another case of recent merger of Global Trust Bank with Oriental Bank of Commerce and the emerged legal issues on merger scheme with regard to the service conditions, seniority, etc, are also need to be thoroughly examined.

Hence, the past experiences in the similarly placed situations, need to be taken due cognizance and likely litigations that may arise on integration of seniority, placement of employees of transferor bank ought to be properly predicted well before formulation of merger scheme so as to minimize, if cannot be avoided altogether, such Legal issues.

2.6. Adoption of strategic HRM concept and revitalization of HR policies and initiatives

Aligning business strategies with people systems in the post-merger scenario is yet another important aspect in which HR plays a vital role. This can be addressed by bringing HR to the center stage of the prime activities and by making HR as a strategic business partner through re-definition of HR roles into core people role, organizational value-add role and business transformation role. As a part of this exercise, there is a dire need to revitalize the HR policies encompassing recruitment, training and development, promotion, placement/ transfer succession planning, etc, by keeping in view the existing policies prevailing in both the banks and also the present and future needs of the post-merger bank. Every merger effort in the banking sector may bring about need to standardize and in the banking sector may bring about a need to standardize and institutionalize the various HR practices of the bank for the benefit of the acquired bank.

Hence, there is a felt need to put in an effective knowledge management systems into practice. Further, it is not uncommon that when two new groups of people come together, there is a possibility of getting embroiled in avoidable politics, which may divert the attention of the people from the business goals, besides generating low morale.

2.7. Organizational restructuring and rationalization of manpower

Traditionally, the public sector banks have characterized with the tall and multi-layered organizational structures co-existing with narrow span of control, the concept of which is found to be out-lived its utility especially in the context of large scale technology absorption and with emergence of new-breed customers and their ever-increasing expectations and preferences. Under the ages of Information Technology explosion and a host of initiatives on inter-connectivity and net-working of operational and administrative functions of the banks, the span of control needs to be made more wider thereby causing increased redundancy of the tall and multi-layered organizational structures thus heralding flat, lien and meaningful structures which foster continuous and speedy communication processes paving way for qualitative and faster decisions. Banks should therefore, hasten the process of organizational restructuring through elimination of unwarranted intermediary administrative/ hierarchical tiers, redefining reporting relationships and by properly empowering employees at various levels.

The initiative of organizational restructuring in the post-amalgamation period has a direct bearing on people systems as it would have adverse effect on their career development, thus may crate de-motivation among the rank and file, Hence, this aspect, which is of very sensitive nature, needs to be addressed carefully. Although, the earlier VRS had reduced the staff strength in the banks to some extent, in order to ensure that the post-amalgamated banks should have the required sustenance in terms of productivity and turnout of business in the long run, as a prelude to the exercise of Mergers, there is need to further rationalize the workforce in the public sector banks even by offering another spell of VRS with a human face.[9] This effort would also ensure to get retained only the workforce which is willing to function in the volatile future in the post-integration period.

Nonetheless, if the rationalization of workforce as a prelude to the merger process, has not been attempted, there is a likelihood of certain manpower found excess in the post-amalgamation period on account of organizational restructuring as stated above, thus necessitates cutting the extra flab through various means so as to maximize the synergies obtained through consolidation exercise. Thus, it is necessary to formulate suitable exit policies, which are employee-friendly and give enough freedom to weed out non-performers.

2.8. Technology-related issues

Technology absorption in the banks has of late reached its peak for its competitive business advantage and while most of the banks have already made impressive inroads into Core Banking Solutions (CBS) by investing huge capital, others are in the initial stages of its process. Hence, in the post-merger scenario, integration of technology initiatives in a cost effective manner especially in the wake of varied business strategies, is quite challenging. Another issue, which is closely connected to the issue of technology, is reorientation of their technical skills that is relatively const-intensive. A cautious and practical oriented approach in enhancing the basic competencies of the merged bank like meaningful integration of technology with cost-effectiveness and quality and improving the skills of the workforce would only yield desired result.

The objective of consolidation is to make the banking industry stronger and internationally competitive. Against this background, if the merger is attempted in a way that the strong bank with relatively weak bank, then it may be possible that the poor fundamentals of weak may pull down the performance of strong bank. This apart, such an exercise may be deemed as bailing out the weak bank through take over route by stronger banks, which certainly is not the true spirit of consolidation. Hence, the merger initiatives need to be attempted in a way that strong bank with another strong bank and weak bank with another similarly placed bank and simultaneously endeavoring to make the post-merger bank stronger by devising a comprehensive restructuring package in the area of operations, administration and HR systems.

3. Conclusion

Consolidation through mergers and acquisitions may be requirement of future. In contrast to the objective to protect the interest of depositors in a few mergers that took place in the recent past, the merger processes that are likely to embark in future as a part of the consolidation exercise, should aim at helping the merged entity to become strong and develop ability to withstand the market shocks. Obviously enough mergers and acquisitions in the domestic banking sector should be driven by market-related parameters such as size and scale, geographical and distribution synergies and skills and capabilities. The emerging market dynamics like falling interest-rate regime which makes the spreads thinner, increasing focus on retail banking, enhanced quest for rural credit, felt need for augmenting more profits especially from operations, reduction of NPAs in absolute terms, need for more capital to augment the technology needs, etc, are the major drivers for mergers and acquisitions in the banking sector.

While the merger process is obviously a change initiative, the human element a viable plan for change in collective behaviors is more vital for its success as without the positive mindset of the human being, no change initiative can be a successful venture. As organizations are the congregations of people-systems aiming at to achieve some objective which is of value mutually to both; in order to achieve the desired results of the merger exercise especially in banks, on need to recognize the complexities and continuous learning involved in understanding HR perspective of mergers and acquisitions and to draw and implement, attitudes and mindset of the workforce which translates such merger plans into workable solutions. Then only the gains of the consolidation exercise in the banking industry would be meaningfully achieved for its sustainable competitive advantage.

4. Source of Funding

None.

5. Conflict of Interest

None.

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