

# Impacting Factors on the Employees' Performance during Acquisitions: A Study on KASB Bank into Bank Islami Pakistan Ltd

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## Abstract

Employee performance has a huge effect on success of modern organization. Employees are considered as backbone for any organization that cannot be emulated from the competition, therefore employee performance should be considered major valuable resource. This study has focused on the banking sector where employees' performance having huge impact on organization. For this purpose, we chose two banks from Pakistan for acquisition, one is Bank Islami Pakistan Ltd and second KASB Bank were chosen, their acquisition took place on 8<sup>th</sup> of May 2015. In this study, the employees' performance was examined on the bases of few factors like an organizational cultural change, communication between the acquirer and target bank, organizational change managed by the acquirer firm, and job satisfaction of both the acquirer and the target banks' employees. We collected the Primary data by using the questionnaire methodology where we collected data from 200 respondents of both banks representing the overall population of the acquirer bank and target bank. The findings of this study were interpreted with the help of Confirmatory Factor Analysis (CFA), and Structural Equation Modeling (SEM), which were used to find the impact of independent variables; cultural change, communication gap, organizational change and job satisfaction on dependent variable(s) which is employees' performance. The outcome of our questionnaires data shows that proper management of independent variables can decrease the level of anxiety amongst employees, which affect the industry making a successful acquisition.

**Keywords:** organizational culture, banking, organizational change, job satisfaction

## 1. Introduction

Merger is largely defined as an amalgamation of two companies where, all the stock, assets and liabilities are transferred from one company to the other via payment either through cash or shares or in many cases both (Mariappan, 2003). Takeover or acquisition is mainly the purchasing of a controlling interest in the capital share of other company. Acquisition is also affected by the individual who hold the major interest in the management of the company (Mariappan, 2003). Both merger and acquisition are strategically important for the organization's achievement of growth, cost reduction, asset acquisition, expansion and market expanding which results in the profitability of any sector (Martynova & Renneboog, 2006). In contemporary era we have witnessed many practical examples of acquisition in the industry of banking. In addition, with financial issues certain other issues are kept in view during this phase. Whenever a merger strategy is applied, one of the company dilutes itself into the other firm, nevertheless it's just not the transformation of liabilities and assets but it also affects and influence lives and future of employees attached with it (Kahr, 2011). Although the merger has multipronged motives – psychological, practical or opportunist – the main aim behind acquisition and merger is to get synergy or usually defined “two plus two equals five” effect. Nevertheless, many organizations have experienced at a substantial expense that the potential synergism does not guarantee that the amalgamation would lead to that potential. Empirical researches in their studies have illustrated that only half of the acquisitions and merger could practically meet up the expected financial initials (Fairburn & Geroski, 1989). Employees' performance has significant impact on the success of any organization. It is considered as the most important factor which gives

the direct contact between employees and the customers. As an asset that cannot be imitated by the competition, companies put great emphasis into achieving high level of employee performance to gain a resource advantage (Anitha, 2014). The recent growing trend has witnessed that the amalgamation is carried out to achieve benefits, thus enhancing profitability and competency. This strategy is also being practiced and adopted in Pakistan. Since 1998, a large number of acquisitions have reportedly taken place in Pakistan, where more than 50% have been carried out only in financial domain (Tauseef & Nishat, 2014).

This study has been focused on the variables which are the major cause for decreasing the employees' performance during the acquisitions phase leading towards reduced organizational performance, includes the culture of acquired and target firm, change management process, communication gap leading towards 'us and them syndrome', and job satisfaction associated with number of sub variables such as ambiguity of job role, job security, reward and appraisal system, and empowerment. Factors with respect to human resources in mergers and acquisitions acknowledged that there are some common mergers famous include uncertainty, fears related to job stress, job insecurity, job role changes, remuneration changes, changes in job empowerment. Researchers recommend that these stressors must be given extreme care before, during, and after the acquisition phase (Schweiger & Ivancevich, 1985). Failure of cultures of merged companies locally as well as internationally may make consolidation of culture strategy difficult. As the process of acquisition of two companies starts, teams need to be built from both acquirer firm and target firms to bridge communication among the acquired and acquired firms. Teams need to set repeated meetings with the middle managers and junior level staff so that it can make an ease to complete the acquisition phase (Mariappan, 2003).

The purpose of this research is to understand how management and employees of organization deals with the fears related with the organizational change due to the acquisitions of two different organizations, how cross cultures are managed, how to cope with communication gap to avoid ambiguity, and finally what role an organization play to satisfy the employees. The key objective of this research is presented in bullets form below.

- To find the relation between organizational changes caused due to acquisitions on employees' performance.
- To find the association between cross culture and employees' performance.
- To find the impact of communication on employees' performance.
- To find the influence of job satisfaction on employees' performance.

Complexity theory has been emerged in the field of natural sciences, particularly in the field of the evolutionary biology, supporting the evolution theory of Darwin. Further, the complexity theory has also raised interest in the other fields as well such as, strategic management, computational sciences and in the studies of organizations. In organizational studies, it views organization as the "complex adaptive systems" (CAS), which is adapted by the environment. This CAS have several important characteristics including factors related to cultural change, changes in the environment/organization, adoptability to effectively communicate and employees' job satisfaction (Anderson, 1999; Mitleton-Kelly, 2003). In this regard, the synergy of the firm's resources and the organizational and individual knowledge promotes a research orientation on the issues related to the human factors in terms of employees' performance and their post-acquisition performance.

## 2. Research Background

There are various classifications of terms like Merger, takeover, amalgamation and acquisition provided by different authors. Most of the time these terminologies are used synonymously but few writers make differentiation among them (Weston, Chung, & Hoag, 1990). The factions supporting the merger strategy and its practical application term it to be ethical as it widely benefits the society. Such an argument try to contend that merger activity is efficient and beneficial for shareholders of both the target firm and the acquiring (Chase, Burns, & Claypool, 1997). Both Acquisition and Merger are used by the various organizations to meet the dynamic issues of the business environment. Such an approach is argued to be highly identical form of the corporate development (Abbas, Hunjra, Azam, Ijaz, & Zahid, 2014). Acquisition and merger are considered to a form to corporate finance and corporate strategy which deals with the amalgamation of various companies and entities, which helps in the rapid growth of any enterprise in its sector and origin location or in a novel sector or location without formation of subsidiary or usage of Joint Venture (Gaughan, 2010).

Orre and Malmstrom in their paper – "How a merger in the operational combination stage affects employee motivation" – They examined and observed the behavior of employee's motivational level taking the case of two private firms from Sweden which was in the phase of merger leading towards the merger of combination of operations. Also, with the help of quantitative study they found the relation between employees' motivation and

satisfaction with respect to the approaches of merger variables including, work role conflict, cross culture issues and social obligations. In the contemporary era, the firms and companies utilize the surplus funds to acquire other firms and companies. Such firms can have identical business lines to enhance product range or for the increment of their shares. Acquisition is a sort of situation, where a company buys any other company to enhance the efficiency through any central proficiency of the acquired company (Orre & Malmström, 2010). The financial implications of merger are highly essential and at the other hand the people associated with the issue of merger are also equally important. The employees of the obtained firm become very much careful and also are aggravated by the unsteadiness and hesitation caused by the commencement of the merger (Lin & Wei, 2006).

Tensions, stress and resistances arises in employees when they are forced to leave their previous organizational culture and are forced to adopt culture of the acquirer firm which has acquired the target firm after the phase of acquisition (Elsass & Veiga, 1994). If Employees dislike and resist to culture change may result in employees become mismatch and hectic to the management and other organization members creating an inter-group clash between the employees and management of both the acquirer and target firm. This type of culture can lead towards a major obstacle to successful merger because of this inter-group clash. Employees resistant to culture change could affect their working approach and their commitment toward management and thus generating a crash culture. Therefore, such a culture of crash could become a major hurdle in the way if effective merger through impairing of inter-group clash (Buono & Bowditch, 1989).

The prevailing definitions of culture mainly deals and focus on the shared belief of the members of an organization. Though most of the time it is believed that the organizations have a monolithic culture but in many case the firms has many patterns which affect behavioral pattern among the workforce in organization (Sathe, 1985). The multiple subcultures are divided as functional, occupational, geographical or product line and such subculture might be orthogonal, enhancing or can even counter one another (Sathe, 1985). According to many authors culture of an organization can be taken as independent variable during acquisitions phase to differentiate culture between organizational practices and managerial style (Bhagat & McQuaid, 1982). Although peter and waterman in their research suggest that fit between culture and strategy is an important element in organizational effectiveness. Culture is also been utilized to illustrate organizational success stories. Even many researchers suggest in their researches that fit between strategy and culture is an important component in the effective functionality of the organization. For the study of merger, the culture has been used as a variable which is presumed to affect the application of the strategic decision or as an element of the strategy. Many of the researches and studies have tried to locate the elements that influence the accomplishment of mergers as the strategy for alternative to notify essentiality for many elusive problems (Marks, 1982).

However, few of earlier studies have suggested that the managements should not communicate with the employees realistically during the mergers and acquisitions. Such recommendations have been suggested owing to effect of such communication which can instigate inter-competition or may force employees to leave the organization than adopting the new planned changes (Ivancevich, Schweiger, & Power, 1987). Somehow, an identical research in different area has generated empirical support that communication is a vital part of acquisitions and mergers and it also provided theoretical justification for the benefits of communication. It's necessary that the company's vision is plainly communicated to the newly formed organization and also the future prospects and plans must be clearly communicated. Adoption of change is essential as it has a reasonable benefit over their competition (Want, 2003).

In recent past, the merger process has developed to be a key strategic option for organizations. Even the business leaders perceive that mergers have capability to stimulate the profitability of organizations and contribute in business reinstatement (Budhwar, Varma, & Katou, 2009). It has been an established fact that merger helps the organization and equips it with capable tools to accomplish and achieve competitive advantage. This can be only true if the merger process is in accordance with the plan (Tanure, Cançado, Duarte, & Mujder, 2009 ). Job satisfaction and organizational assurance are widely known forecasters of income goals and absenteeism of the employees (Mor Barak, Nissly, & Levin, 2001). The Job satisfaction learning endures to come out and the result are frequently valued for financial and humanistic benefits (Worrell, 2004). Uncertainty and ambiguity in any organization can be defined as the appropriateness of information accessible to the members of organization the situation of unambiguous are considered by understanding and having knowledge of the causal relation between the action and their possible outcomes. There are four categories of ambiguities which surface during mergers. The external conditions instigate Environmental ambiguity, the uncertainties about official linkage and prearranged relationships, Cultural ambiguity is related to the informal relationship and the undefined patterns of interaction and role ambiguity relating to concerns about the effect of merger on individuals with respect to their work relations and roles. Uncertainty holds a fundamental place in the decision making as assumptions are

needed to be sketched for the future which remains uncertain.

The outcome of this research will be helpful for the HR department of Bank Islami to tackle with the difficulties which are facing after the merger phase. Due to limited time period and lack of resources this research has been specified to only one merger between KASB Bank and Bank Islami as well as this research has been limited to only HR factor it can be diversified to wealth effects and market expansion also. Research can be prolonged by selecting more organizations as well as selecting any other sector.

The research can be useful for the organization which are in process of merger phase and data will be helpful to them to find out strategies that can be helpful to avoid complication of culture difference issues, communication gap issues, how change can be managed, and what type of techniques should be used to satisfy the employees of bidder and acquirer firm. It can also be helpful for the HR personals, policy makers and students who want to carry out further research on this topic.

### 3. Research Methodology

This study was quantitative, and survey based. Population for the study was employees of the target Bank (KASB) and acquirer bank (Bank Islami). Different branches in Karachi of both banks (KASB & Bank Islami) were selected to complete the research work in which survey approach was used by the researcher to obtain data from the employees of both the Banks. This study was based on the organizational study, so convenience sampling was selected to collect data from participants in whom 200 employees were selected out of which 165 respondents completed the survey. Mohammad and fellows (Mohammad, Quoquab Habib, & Zakaria, 2010) in their paper explains that convenience sampling is best alternative rather than statistically-based probability in organizational based study as it helps for the hypothetical based generalization of the data. Collected data was analyzed with help of Structural equation model and conformity factor analysis to find the impact of independent variable on the dependent variables with help of AMOS in SPSS.

### 4. Results and Discussions

#### 4.1 Reliability

The internal reliability / consistency between different variables were computed through the Cronach's alpha (see Table 1). Nunnally (1967) suggested that minimum alpha of 0.6 meets your requirements for research. As Cronach's alpha in this data which has been gathered with the help of questionnaire is .850 for 18 items of 5 variables, which is acceptable as well as reliable for further findings. Here valid population is 165 as few respondents missed some questions which they do not want to respond, or it may be involuntarily left blank by them while attempting questionnaire.

Table 1. Reliability Statistics

Cronbach's Alpha	No of Items
.850	18

#### 4.2 Confirmatory Factor Analysis

Confirmatory Factor Analysis in AMOS in SPSS has been applied to interpret the significance of model here data interprets that CMIN/DF is 1.329 which is between 1 to 3 and GFI is 0.900 and according to AMOS model .90 or above it is acceptable while CFI is .927 and statistically above 0.90 is significant while RMSE should be less than 0.08 and here data interprets that it is 0.45 which means that model is significant and it can interpret the data (see Table 2).

Table 2. CFA statistics

Model	Term	Values
Default Model	CMIN/DF	1.329
Default Model	GFI	.900
Default Model	CFI	.927
Default Model	RMSEA	.045

#### 4.3 Structural Equation Model

Structural equation model in AMOS interprets the impact of independent variable on dependent variable and that can be interpreted with the results of P value in Table 3.

Table 3. Regression Weights: (Group number 1 - Default model)

	Estimate	S.E	C.R.	P
MEQ--- CLQ	-.182	.920	-.198	
MEQ--- COMQ	-.613	.905	-.677	.498
MEQ--- CMQ	.730	.681	1.072	.284
MEQ--- SFQ	1.135	.783	1.450	.147

*Hypothesis 1:*

H1a: There is a relationship between cross Culture and employees' performance.

H1o: There is no relationship between cross Culture and employees' performance.

The Table 3 shows the P value for organizational culture and employees' performance is 0.843 which is greater than 0.05 so it means that researcher has failed to reject null hypothesis so there is no impact of organization culture on employees' performance.

*Hypothesis 2:*

H2a: There is an association between organization change process and employees' performance.

H2o: There is no association between organization change process and employees' performance.

P value for organizational change process and employees' performance is 0.284 which is greater than 0.05 so it means that researcher has failed to reject null hypothesis so there is no impact of organization change process on employees' performance.

*Hypothesis 3:*

H3a: There is an impact of job satisfaction on employees' performance.

H3o: There is no impact of job satisfaction on employees' performance.

In Table 3, P value for job satisfaction and employees' performance is 0.284 which is greater than 0.05 so it means that researcher has failed to reject null hypothesis so there is no impact of organization culture on employees' performance.

*Hypothesis 4:*

H4a: There is a relation between communication gap and employees' performance.

H4o: There is no relation between communication gap and employees' performance.

P value for organizational change process and employees' performance in SEM is 0.284 which is greater than 0.05 so it means that researcher has failed to reject null hypothesis so there is no impact of organization change process on employees' performance.

**5. Conclusion**

Pakistani banking industry have experienced many mergers and acquisitions in past ten years and most of these mergers have caused due to capital requirements, extension in network, and closing of the foreign banks operations in Pakistan. This study selected for two such banks in which KASB bank was imposed moratorium by state bank of Pakistan on cause of not able to meet capital requirements while second was the Bank Islami Pakistan Ltd, a growing Islamic Bank. This study focused 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 acquirer as well as targeted firm. The results justify that in process of acquisition if the acquirer firm does not pay attention to these variables than it cannot lead towards a successful merger and also can lead towards failure and closure of the business. Acquisition between the KASB bank and Bank Islami has succeeded as the acquirer firm gave proper attention to these variables to overcome the employees' stress and ultimately their performance. Although the main cause can be the rumors in the market regarding the closure of KASB bank leading towards employees' job insecurity, ultimately announcement regarding acquisitions was a relief for the employees of KASB bank that acquirer will acquire assets as well as their employees while only top management will be changed.

*5.1 Recommendations*

The process of bank to merge or acquire with other banks involves huge amount of capital, careful analysis of assets as well as the employees' perceptive of own and target banks to make the merger or acquisition a smooth and successful process. Findings of this study recommend that management must pay attention to the following

areas while making merger and acquisitions decision.

- Acquirer bank need to have proper communication by setting up committees to ensure the effective execution of employee's grievances and rumors during and after the phase of acquisition.
- Management need to start trainings and orientation programs to handle change which will also be helpful to reduce the cross-culture differences.
- Human Resources Managers need to pay attention towards the job satisfaction of employees with respect to job role ambiguity, empowerment issues and reward and compensation system.

This study in conclusion recommends that future studies in acquisitions and mergers should expand towards other industries like telecommunication. Manufacturing and other development finance institutions such as insurance companies which have experienced mergers and acquisitions in Pakistan. Meanwhile a comparative analysis can also be done by taking a merger and acquisition in Banking sector of Pakistan by comparing the results of a merger and acquisitions.

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