iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 5 **Issue:** XI **Month of publication:** November 2017

DOI: http://doi.org/10.22214/ijraset.2017.11084

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor:6.887
Volume 5 Issue XI November 2017- Available at www.ijraset.com

Understanding human implications of business consolidations- a study of consolidation in banking & telecom industry in India

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Abstract: Business consolidations are often looked upon as most attractive business strategy to improve the competitive positions at global market place. These consolidations are believed to bring about synergies combined assets, cultural values and business philosophies of two separate entities. The core external forces that drive these consolidations are globalization, advanced technology, changing market dynamics, government regulations and sometimes change in political environment. Whatever the reasons and benefits could be, these consolidations have grave impact on all stakeholders and mostly on the human factor of the organization. The paper highlights the impact of present banking consolidation and changing dynamics of Telecom industry in India on human resource and overall economic employment. The paper is based on primary data considering the opinions of HR consultants and secondary data considering the media interview of business heads and Human resource consultants reflecting the possible consequences of business strategies on human capital and economic employment. The research found that the adverse impact of planned consolidation has already been observed in the telecom and banking industry and can further deteriorate the conditions for the coming 12 to 24 months. However it is also observed from the past experience that this impact can be short lived and can be improved in long run if consolidations and health of the industries handled properly.
Key words : Consolidation, strategy, Telecom, Banking, Employment, Organization

I. INTRODUCTION

Consolidation of banks have long been on agenda of the previous finance minister Chidambaram during United Progressive Alliances government, but the proposal was long awaited from the banks board as it involved the heavy cost of jobs of people involved. But with the recent regulations brought about in the financial sector of the economy, where there is strong emergency and promotions of private sector banks entering as NBFCs and small payment banks, where focus is on digitalization, the issue of mergers among the public sector banks is racked by the government. The process of consolidation of public sector banks has to be driven by the government. Advocates to bank consolidations believe that there is a need for large banks and consolidation will increase the capital efficiency, improves the banking ability to recover bad loans which are on increase continuously. There are increasing numbers of NPAs and with the consolidation it is believed that the recovery will be far more focused.

Another shake-up going on in telecom sector has set a stage for a battle between three giants Airtel, Vodafone-Idea and Reliance jio which is believed to bring about the massive impact on employment. While Airtel consolidated its market position as the No. 1 player with the acquisition of Tata Teleservices' mobile business, the bugles have been sounded by Vodafone and Idea, with the shareholders of the latter overwhelmingly approving the earlier-announced merger. As per the opinion of experts Airtel will emerge high in terms of revenue market share and spectrum holdings whereas Vodafone-Idea in combination will become the largest operators so far as subscribers are concerned.

II. REVIEW OF LITERATURE

Bjorkman (2006) in his research paper interviewed 60 HR managers and top executives in Nordea found no evidence of the HR playing a role as 50 employee champions, strategic partners or change agents as desirable. It is left with a secondary non-strategic role in these processes. This could be attributed to a perspective of the top management that HR has no/minor role to play as far as strategic decisions are concerned. Thus apart from non-involvement of HR in the planning stage, research has shown that many HR professionals either are not involved in mergers and acquisitions or left with a non-strategic role.

A study done by Dixon and Nelson (2005) found that the HR professionals were not included in the mergers and acquisitions team. The team only comprised of employees from the finance, IT and other disciplines. Organizations while deciding to merge or acquire look into the financial and legal aspects, but they somehow fail to look into the human resources aspect of the organizations. Many organizations, though now more concerned about ‘softer’ issues, still overlook HR side of integration, at least in the initial stage of the merger process. Lack of direct involvement of HR during the strategic decision making and pre-merger phase is one of the main reasons for a merger going sour.

Smoluk, Andrews, and Voyer (2003) provide a methodology for examining the “potential benefits of risk reduction for financial institutions wishing to grow primarily through a strategy of geographic expansion.” They found that “by strategically investing in different regions, a financial institution could reduce its potential earnings risk by over 58 percent while maintaining or improving potential profitability.”

Using questionnaire & interviews from British case studies, Haspeaslagh and Jemison (2004) in their research across twenty companies have drawn together the HR issues elements from entire spectrum of merger literature. They argue that acquisition managers choose to focus on quantifiable financial issues and ignore the messy human dimension. As a result, manager over simplify key issues and fail to develop creative HR solutions. A number of authors have listed down a multitude of reasons which causes merger failure. One of the common reason which has been discussed by many researchers over a period of time is the non involvement or late involvement of HR professionals in mergers and acquisitions

Harman and Greengard (1999) in their research reported that 80% of combinations failed at the implementation stage as a result of senior HR professionals brought in too late. In a research done by Giles (2000) and it was found that that only 35% of senior HR executives were involved in M&A activities.

Calem (1994) indicates that there are economies of scale in the banking industry up to an asset size of $75 million. Economies of scale seem to run out for banks with assets between $75 and $300 million. Beyond $300 million in assets, diseconomies of scale seem to set in. Merger activity may also be a mechanism to replace inefficient management.

III. THEORIES AND MODELS

Following are the pre determined theories that reflects the magnitude of psychological impact of consolidations and also the intervention models that can help to cope up with that-

A. *Theories*

1) *Anxiety Theory:* Mergers and acquisitions cause anxiety due to uncertainty. Employee productivity reduces as they may get anxious about the future outcomes. (Buono& Bowditch, 1989) This can be reduced if leaders can address the employees about what is going to happen to the organisation and to their jobs during the communication process. It is also suggested that organisations provide accurate information at regular intervals through a formal channel.
2) *Social Identity Theory:* Those employees who strongly identify themselves with their previous organisations are more likely to feel a strong sense of loss, anger, and grief when facing M&A and therefore are less likely to accept the change initiatives post M&A. (Ashforth&Mael, 1989; Kramer, 1991) People are also likely to develop strong in-group/out-group biases, which can lead to serious inter-organisational conflicts. HR should ensure and meet these employees of the acquired organisation on a one to one basis.
3) *Acculturation Theory:* M&A also involves combining two distinctive organisational cultures or imposing one over the other. Therefore, it is likely for employees, especially from the acquired firm, to experience significant stress 70 and tension while adjusting to a new organizational culture .It predicts that when organizational members’ desire to maintain their separate culture is strong, the acculturation tensions and conflicts will be the highest. In order to reduce stress and conflicts arising out of acculturation it is suggested that companies facilitate intercultural learning. Intercultural presentations and workshops have been considered as a useful intervention. (Cartwright & Cooper, 1993).
4) *Role Conflict Theory:* Role conflict theory suggests that role ambiguity and conflict is another source of stress, which may lead to lower work motivation and higher job dissatisfaction. Researchers believe that to deal with this problem two-way communication should be encouraged in organisations, which consists of both- active listening and promptly responding to the role-related issues. Designing a formal transition structure (or parallel organizational structure), such as a steering committee and various task forces, has been also recommended as an effective intervention. (Mark &Mirvis, 1992)
5) *Job Characteristics Theory:* M&A brings changes in career paths, work relationships, status differences, geographic transfer, and job security (Newman &Krzystofiak, 1993).According to the job characteristics theory, employees’ attitudes and behaviour

changes depending on how favorably or unfavorably they perceive changes in the actual job-related elements post-merger. Employees' attitudes and behavior could be changed for the better if they expect and/or experience a better job environment after a merger. A related managerial practice is carefully redesigning jobs in the post-M&Aorganization in a way that employee's job satisfaction should sustain or increase.

B. Models

1) *Human Capital Model :*Nalbantian et al. (2005) proposed an integration model called the 'Human Capital Model' focusing on the degree and speed of integration. The core of this model contained three degrees of integration: (a) complete assimilation of the acquired company, (b) partial absorption of the acquired company, or (c) a portfolio arrangement referring to little or no integration of the acquired company such as a wholly-owned subsidiary, the model has two elements, the barriers and the forces, which take place during integration. Barriers included factors like demographics, cultural dissimilarities, degree of autonomy, employee selection and training processes, compensation incompatibilities etc. Forces include strategic intent, human capital requirements, core business process requirements, or a combination of the three. Barrier and force dimensions when mapped into a two-by-two matrix with four cells provide different combinations of integration process. The barriers high and forces low cell resulted in a portfolio type of integration. The barriers low and forces high cell demanded a full and rapid integration approach. In the cell with integration barriers and forces rated low, the outcome ranged from a portfolio to a partial integration approach. In the cell with integration barriers and forces rated high, the combination required a full but slow integration approach. The model provides a valuable insight on integration approaches from a human capital point of view.
2) *Pathfinder Model:* Ashkenas, DeMonaco and Francis (1998) in their paper 'Making the Deal Real: How GE Capital Integrates Acquisitions' have discussed the GE model which is commonly called the Path finder model. The model divides the process into four "action stages," starting with the work that goes on before the acquisition is completed that is, before the deal closes, and continuing all the way through assimilation. There are two or three sub processes in each action stage, such as due diligence during the pre-acquisition stage and strategy formulation during the foundation-building stage. Finally, each action stage includes several best practices – specific and practical steps managers can take to support the process. The model's neat and systematic appearance underlines the fact that acquisition integration is as much an art as a science. The Pathfinder Model recommends a particular sequence of leveraged actions, but there are aspects of each acquisition-integration process that are new or unique. Each stage includes best practices and practical steps to be taken by managers. Acquisition integration begins with due-diligence. Integration management includes recognizing different functions like finance, operations etc. A successful integration includes implementation of management decisions like reporting structures, layoffs etc., i.e. technical aspects and also the cultural aspects. Rapid integration phase also includes designing process maps to accelerate the integration as well as audits and feedbacks if required.

C. Research Objective

The present research is focused on understanding the post consolidation impact on Human resource and to suggest the proactive measures to minimize the adverse impact of mergers on employees and economic employment.

D. Research Methodology

Research will specifically take into consideration the present bank consolidation and mergers and closures which are going on and in process in Telecom sector for the period 2016 and 2017 and so on. Since Banks have not actually started the process and Telecom industry has began and is driving to the stage of consolidations wherein the whole industry will be left with 3 to 4 major players in country. The research considers the primary and secondary data collected from various Human resource consultants and present employees of the affected companies.

IV. FINDINGS AND DISCUSSIONS

A. Issues & Challenges in Business Consolidation and Closures

The reasons of bank consolidation are having benefits of access to more capital, recovery of NPAs and cost rationalization. The consolidation would result in reducing the number of branches in urban areas where there are too many branches and having necessary number of branches where we had less or no branches. The process includes the banks from different geographies should be chosen say for example a south based bank shall be merged with north based one. Like a case of recent acquisition by KotakMahindra Bank of ING Vysya Bank is a case in point, which primarily driven by the geographical synergies. Before the

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merger, 15 per cent of the Kotak branches were in south India, which improved to 38 per cent – post merger. However if the merger between different banks brings problems in retail deposits, mergers between banks of similar geographies will be followed. It is also believed that the integration of human resources and their culture will also be easier if banks are merged from same geographies.The other area is which should be the criteria for identifying banks for merger is the technology platform. Different banks have different technology platform which are developed by IT majors like Infosys and Tata Consultancy Services, to name a few. To merge two banks having different platform, could be a challenging task, bankers said. Further the idea was opposed by the bankers on ground that the health of their respective banks does not allow to takeover other banks. Many banks, including the likes of Bank of Baroda, IDBI Bank, Bank of India reported record losses. Further bankers believe that if they focus on consolidation then the focus on bad loans and recovery will get reduced. One of the toughest challenges that the government will face while merging banks is from the employee unions and the employees who may fear identity loss. The unions have already started opposing the proposed privatization of IDBI Bank, in which the government said it would consider lowering stake below 50 per cent.

B. Impact of Consolidation on Human Resource

Recruitment for bank jobs will be hit badly due to the proposed consolidation of public sector banks (PSBs), and a few banks have already put their fresh hiring plans on hold. As per the experts' report the probationary officer/management trainee recruitment for vacancies to be filled in 2018-19 has already been impacted going by the data of the Institute of Banking Personnel Selection (IBPS), which is a common recruiting agency for officers in the 20 participating banks. In the recruitment to be conducted for the current year, seven banks have indicated zero hiring. Four others have not reported any intention to recruit yet. These include Punjab National Bank, Oriental Bank of Commerce, Punjab and Sind Bank, United Bank of India, Indian Overseas Bank, Syndicate Bank, Indian Bank, IDBI Bank, UCO Bank and Vijaya Bank. It is further expected that the recruitment can come down or be delayed considerably because of the consolidation move, the impact of which is already being observed. (Source: Businessline, CSVepa, Director, National School of Banking)

A senior executive of PNB said on condition of anonymity that the next two years could see up to a 50 per cent fall in fresh recruitment as banks will undertake reconciliation of headcount and rationalization of branches.In the last two years, 68,000 to 70,000 vacancies have been filled up in PSBs, including in SBI.According to CH Venkatachalam, General Secretary, All India Bank Employees Association, the developments after consolidation of State Bank of India are a case in point. "There are 7,000 branches that are being closed after SBI's consolidation. This will be more in the case of other nationalised banks as they have a thicker presence in many areas than SBI. Their consolidation will surely hit recruitment of clerks and officers in a big way," he said.According to the first quarter numbers of SBI, total branches of itself and its associate banks were 24,017 as on March 31, 2017. The number has come down to 23,423 by June 30. And, the bank has indicated that 30 per cent of staff will be redeployed.

On the other side in the Telecom industry experts says that for telecom companies the SIB (Salary, Incentives and Benefits) cost is about about 40-43 per cent and this will come under pressure with the merger of two big telecom giants Vodafone and Idea. Companies will either have to lay off or retain and re-train their talent at the top level. However, the major impact will be at the mid and lower level (which is mostly the call centres, BPOs, and other support functions that employ about 1.5 lakh people), with about 30 per cent of the employees getting pink slips."Lower management will face the maximum heat as there will be a lot of overlap in the last-mile service delivery, customer interaction and point of sales. (Source: thehindubusinessline.com. by SumitSabharwal, Managing Director, Excelity Global)

Telecom operators are not big recruiters directly. The country's largest operator manages over 250 million users with just 19,000 employees. But the industry creates a lot of indirect jobs as it outsources functions like customer care and network management. MaanendraSingh , Managing Partner at Antal International, a recruitment company, said the consolidation will lead to 10-15 per cent job cuts in the lower level that forms about 60 per cent of the total employees in the industry.The last time the telecom sector witnesses such massive lay-off was when the Supreme Court cancelled licences of all mobile operators which got 2G licences in 2008. As the fresh round of consolidation happens, operators are expected to streamline operations and functions.

SudeepSen, Assintant VP, Teamlease Services, said that the silver lining is that telecom penetration is still low which means that going forward telecom operators will need staff for the next phase of growth. "In my opinion, the consolidation will not have a major impact from the employability aspect in the long term, but yes the volume of hiring will come down by 12-15 per cent. Not so long ago, the telecom sector was the posterboy of India Inc and the generator of millions of white-collar jobs. Low levels of tele density meant a large opportunity for mobile telephony companies back in 1995, when the industry was opened up to the private sector. But with a subscriber base crossing one billion and the high-stakes data game forcing players to come together, the sector is expected to shed as many as one million jobs (direct and indirect put together).According to a GSMA report, India's telecom sector directly employs 2.2 million people and 1.8 million indirectly. Consolidation in the sector could cause nearly a third of these jobs to be shed.

As per expert analysis, the telecom sector is likely to shed 30% of jobs in near future if the sector does not grow in an orderly manner and considering the exit of companies from industry like that of Telenor, MTS, Videocon in the past. The trend is visible from Bharti Airtel's employee base, which has shown a decline both sequentially and annually in the December quarter. In the third quarter, the country's largest telecom operator had an employee base of 19,048, down from 19,462 in the September quarter. The company's employee cost, too, is down both sequentially and year-on-year. Per employee cost was Rs 1,00,338 in the December quarter, down 5.3 percent sequentially and 2.5 percent YoY (2016-17).For long, the industry has complained about competitive intensity and a large number of players. With some players coming together to build scale and others exiting the sector altogether, the total number of operators is expected to come down from 13 to merely 4 in the next one year. This will have an impact on job creation by the sector, which has been among the top three sectors in generating white-collar employment.Telecom companies also create thousands of jobs indirectly by way of their franchisee partnerships, call centres, distributors, retail stores, tower and network maintenance staff. For instance, each operator has nearly 25,000 distributors and franchise partners. Once the smaller companies merge with bigger companies, the need for contact centre agents and distributors will decline. Vodafone alone creates employment for 250,000 people both directly and indirectly. The three large telecom operators --Bharti, Idea and Vodafone – provide direct employment to 49,000 people with an average salary of Rs 1,00,000.As the number of players sharply comes down to three or four, the sector will also shed jobs. The merger of Vodafone and Idea will lead to duplication of manpower across all levels and analysts expect the merged entity to shed at least 30-40 percent of workforce in the coming 12-18 months. After the merger of Aircel and Reliance Communication, nearly 5,000 jobs are likely to be lost. Airtel's acquisition of Telenor's India business will also possibly result in some job losses, in case there is duplication. Vodafone and Idea are already mapping skill sets and overlaps to exactly figure out the redundancies.(Source: Moneycontrol.com, 24th Feb 2017)

V. CONCLUSIONS & RECOMMENDATIONS

Even though the banks will be in process of consolidation in near future but the steam of the strategy is felt in the reducing employment which will indirectly affect the business of classes and agencies that help recruitment through guidance and examinations. Non directive impact on employment will also be equally grave. However some human resource experts believe that the financial sector that includes NBFCs will open various opportunities for human resource and will employ the huge lot with the emergence of new NBFCs, granting banking license to more NBFCs and also increase in private sector banking by way of small finance and payment banks. So far as banking sector is concerned, people will face changed scenarios so far as jobs are concerned. Employments may not be greatly impacted over a period of time because eventually financial sector will grow with all the new regulations and opportunities but the public sector banking employment structure will surely change so far as security, stability and like matters are concerned. Criteria and eligibility of similar kind of jobs will change and employs will have to equip themselves with new skills from time to time. So far as telecom sector is concerned, jobs can be impacted but again the problem can be grave for initial period till the structure of opportunities change. However it is expected that with changing global, economic and political scenario nothing is fixed, things will change and people will have to attune themselves to adapt to the changing opportunities available. In near future almost in every sector the nature of jobs handled by people will keep changing and will no more remain the same and rigid as they once had in public sector as people have to accept the opportunities available instead of waiting for the suitable kind of employment.

Considering the above pathfinder model, it becomes imperative on part of the employers and the authorities to keep informing their people well in advance about the possible structural changes to avoid aftershocks so employees can prepare themselves from the upcoming adverse consequences. At the macro level the impact will be grave as the small shops and units affiliated to telecom industry will face the heat. So government has to undertake the measures to support people with alternate self-employment and can facilitate the entrepreneurship by supporting through subsidies various community initiatives encouraging entrepreneurship.

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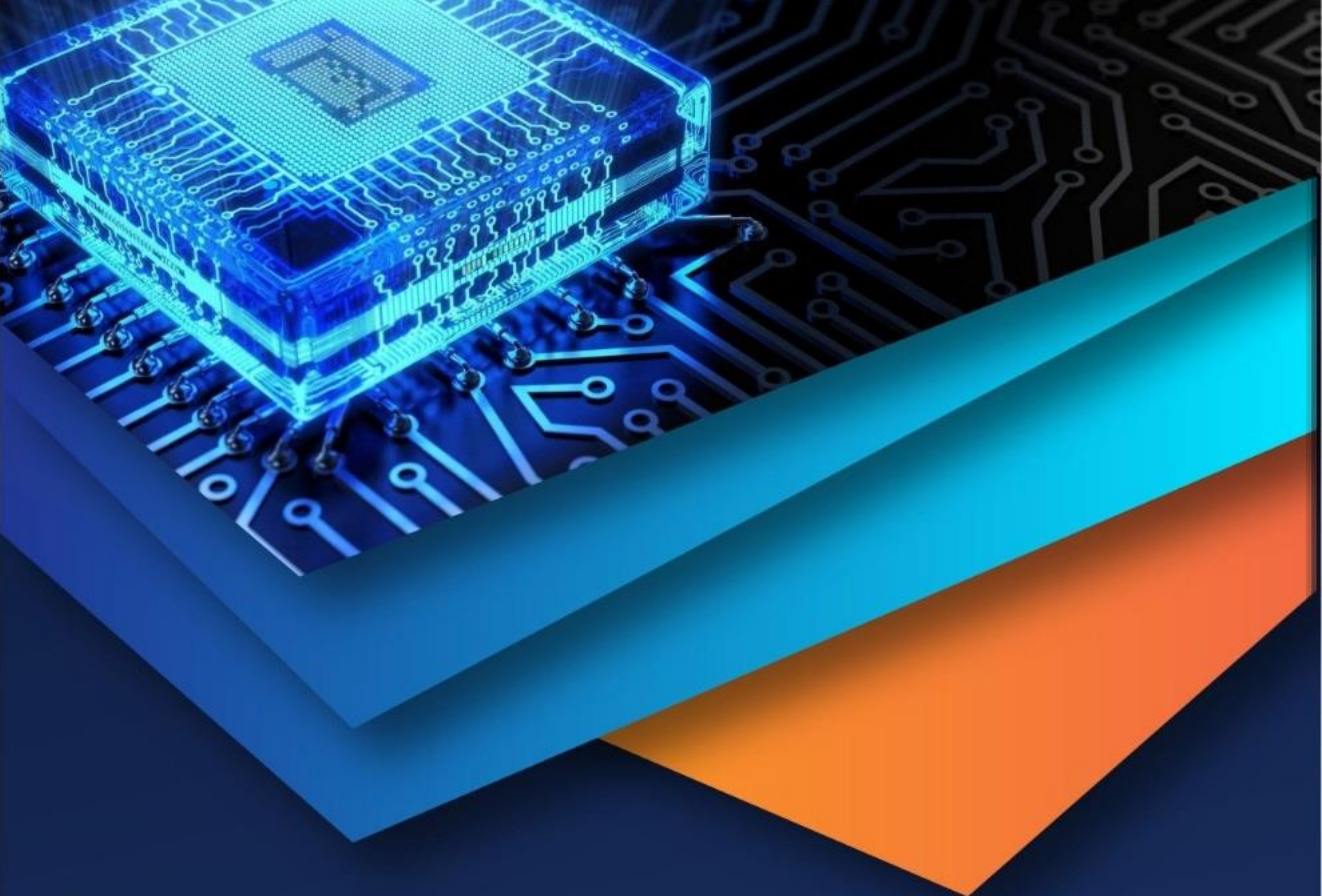

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