

Post-Merger Changes in Public Sector Banks : A Case of National Bank Ltd. and Bank of Gujarat Ltd.

*Girish Mainrai*¹
*Sarvesh Mohania*²

Abstract

Organizations adopt a number of strategies for ensuring their growth and even survival according to changes in the business environment. Mergers and acquisitions are very common in any sector, the underlying motives for which may vary depending upon the situations confronted by the entities involved. The strategic decisions mentioned above have a profound impact on the HR (human resource) of the organization. Mergers may lead to loss of identity for one or more entities, impacting not only working, but emotions and feelings of their employees also. The present case relates to the merger of Bank of Gujarat into National Bank as per the government's directive. The employees of Bank of Gujarat faced new challenges in terms of learning new policies and procedures and unlearning their old ones at the same time. The other hurdle, which they never imagined that they will face, was of stepmotherly treatment by the management of the merged entity. The employees were facing hardships in transfers, placement, promotion, and other HR decisions. This led to widespread dissatisfaction among the employees of Bank of Gujarat, impacting the morale of the employees.

Keywords : merger, acquisition, human resource, organization culture

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Mohit Sharma was reading his transfer order for the fifth time as barely after 1 year of his stint at his hometown in Vadodara, he was transferred to Malda in West Bengal. Mohit had come to Vadodara after completing 3 years of his tenure at Lucknow as per the HR policy of the bank. Mohit was not alone in facing such hardship as a number of employees of Bank of Gujarat were transferred to remote centres across India. Mohit preferred Bank of Gujarat over other public sector banks as it had presence predominantly in Western India. Hailing from Gujarat, he thought by joining this bank, he would not be too far away from his home town. He got offers from a number of banks after qualifying the common entrance examination conducted jointly for all public sector banks. Bank of Gujarat was considered an employee friendly bank as its HR (human resource) policies were considerate of genuine needs and aspirations of its employees. Things started to change when Bank of Gujarat was acquired by National Bank as per government's directives. National Bank was in the 76th year of its existence. Starting from one branch in Pune, it made rapid expansion over the years, and now, it has over 5500

¹ *Chief Manager & Area Manager*, Bank of India, Area Manager Office, Nikhil Kunj, In front of Forest Nursery, Near Menaxi Square, Hoshangabad - 461 001, Madhya Pradesh. (E-mail : mainraigary@gmail.com) ; ORCID iD : <https://orcid.org/0000-0002-8427-8426>

² *Assistant Professor*, JLU School of Commerce & Economics, Jagran Lakecity University, Bhopal, Madhya Pradesh. (E-mail : sarveshmohania@yahoo.com) ; ORCID iD : <https://orcid.org/0000-0002-4769-5087>

branches across pan India. National Bank, though a public sector bank, has carved an image of an aggressive player in the market, known for its distinctive strategies for customer acquisition and retention. It has the distinction of being the first PSU bank to set up a dedicated marketing department way back in 1995. Right from inception, the management was clear about its clientele. The bank established itself as the bank of choice of corporate clients, on account of its aggressive marketing, competitive pricing, and tailor-made products. For serving this niche, the bank always focused on capacity building of its staff, for which the employees were groomed not only in in-house training centres, but reputed management institutes. The bank believed in holistic approach towards training as employees are trained in all aspects like soft skills, marketing, negotiation, appraisal, etc. The employees of National Bank are considered to be thorough professionals and well equipped for handling corporate clients. The decision making related to loan sanctioning are largely handled at respective branches. Cases which are beyond the capacity of sanctioning are only referred to the regional office for further approval. Due to this, TAT (turn around time) is less, and a detail scrutiny ensures less NPAs (non-performing assets) in the balance sheet of the bank. The employees are made to feel special with a belief of having the right skills and attitude for serving the corporate clients. To quote an example, Mr. Rajesh Gupta, relationship manager at Lucknow main branch in the town hall meeting of the bank, boastingly said, "My visiting card is not a normal card, but a privilege card giving me access to any office at times when RMs of other banks are turned away by the same client." Corporate loans constituted nearly 70% of total credit of National Bank. The bank, on account of its consistent good performance, was chosen as acquiring bank by the government. Bank of Gujarat having regional presence was merged into National Bank, having national presence.

Bank of Gujarat was founded in the year 1974 with an initial capital of ₹ 5 crores by Mr. Hemant Parekh, an eminent businessman from Gujarat. Mr. Parekh took care of employees as he believed that only when the employees are looked after, they will satisfy customers well in terms of service. This was reflected in the HR policies of the bank, which laid emphasis on the well-being of its employees. Mr. Parekh treaded with caution with regard to expansion and during the first 5 years of its operation, the bank expanded only in the state of Gujarat, covering all major districts of the state. Later on, the bank opened branches in other states like, Maharashtra, Madhya Pradesh, Rajasthan, Haryana, and some regions of Punjab and western Uttar Pradesh. The bank was later nationalized in the year 1990. Bank of Gujarat primarily focused on retail credit, which constituted nearly 60% of its total advances. Decision making in Bank of Gujarat, which started as a family - owned bank, was centralized. This culture continued in the bank even after the nationalization of the bank by the government. The bank branches were delegated to sanction only retail loans and corporate loans were sanctioned at regional office or head office, depending on the quantum. This led to longer TAT (turn around time) with respect to corporate advances. There was no marketing set up in the bank and branches primarily depended on walk-in customers for their business growth. Of late, the bank was facing the problem of mounting NPAs (non-performing assets) and its gross NPA (GNPA) ratio was around 18%. The bank was also under loss for the preceding three quarters, when the news of its merger with National Bank was announced.

Mohit was not alone in facing such hardship as numerous employees of erstwhile Bank of Gujarat were transferred to different branches and offices of the new merged entity. The transfer policy of Bank of Gujarat avoided mid - academic year transfer of its employees and the employee was transferred out of his/her home state only after completion of 10-years of tenure there. The employees had the option of returning to the home state after completing the tenure in another state. Mohit had returned to Vadodara after completing his 3 - year stint at Lucknow. Similarly, a large number of erstwhile Bank of Gujarat employees were transferred to far away centres across pan India. Post-merger, the employees who were branch managers in the same bank were shifted to general operations in other branches of the merged entity. They, in turn, were replaced by officers from National Bank. This type of treatment was not only restricted to transfer and placement only, but to promotion also. Deepak Sharma, who recently appeared for promotion from junior to middle management, recounted his experience about

the same. The chairman of the interview board, after going through his bio - data, asked, “Are you an ex-employee of Bank of Gujarat?” To which Mr. Sharma replied in affirmative. The chairman continued further, “Do you think you can match the level of a mid-executive officer of a Nationalite (referring to employees of National Bank).”

Mr. Sharma replied :

I think I possess the necessary skills and experience to shoulder responsibilities which the promotion demands. On account of my abilities and experience, I am confident that I can not only match the level of a mid-executive officer of National Bank, but even surpass it.

After listening to his answer, the chairman said further :

I agree that you have the necessary skills, experience, and qualifications for the post, but attitude also matters a lot. We, at National Bank, have developed this through respecting and following common values of professionalism. This culture was developed by emulating our seniors and we passed on this legacy religiously to our juniors. Since you have spent your formative years of your career in Bank of Gujarat, it is very difficult to adapt at a later stage.

After listening to the views of the chairman, Deepak was apprehensive of his success in the interview, which proved to be right later. On declaration of the result, he searched for his name in the list, which he could not figure out. The employees of Bank of Gujarat were looked upon as rustic and narrow - minded by the employees of National Bank. They considered themselves to be superior on account of the culture prevalent in their bank.

The employees of Bank of Gujarat faced hardship not only in learning new products and processes, but in unlearning also, as their bank's products and procedures were gradually phased out after the merger. The norms, processes, and products of the two banks were quite different, requiring painstaking efforts on the part of the employees for learning and adoption. Employees of Bank of Gujarat particularly, who were at the fog end of their jobs, were facing extreme hardship in coping up with the new processes and procedures. Mr. Harsh Verma, who recently retired from the bank, said in his farewell speech :

It is very painful to get a letter of appointment from one bank and retire from another bank. The name under which we feel proud to work, suddenly disappears and color of your identity suddenly changes from green to blue (referring to signage of Bank of Gujarat and National Bank). I still feel lucky in retiring after 2 years of the merger as things are changing very fast, causing adaptability challenges. The name once cherished by is looked upon with disdain. I am very thankful to my mother organization for giving me everything in my life.

While reading his transfer order, Mohit remembered the address of the Finance Minister, Mr. Rakesh Joshi, who explained the rationale behind the decision of merging the two banks. Mr. Joshi, in his address, said :

The government has taken a bold step towards consolidation of public sector banks in order to give a fillip to the economy. This merger will create a new entity with size, scale, and reach to foster economic development. The combined balance sheet of the two banks will propel the new entity into a new orbit, making it the second largest bank in the country. The merger will engender operational efficiency and enhance lending capacity. This step will lead to synergy in terms of augmenting strengths and reducing weaknesses. The merger will particularly help in risk diversification as both the banks are prone to risk concentration on account of exposure in a

particular sector, that is, corporate and retail, which would get balanced in case of the merged entity. It would entail operational efficiency on account of branch rationalization and better lending capacity. Rationalization of branch network offers potential for cost reduction. I have already mentioned that the new bank will become the second largest bank after Bharat Bank, enabling it to fuel infrastructure development. I also assure that there will be no adverse impact on employees of both the banks and there will be no retrenchment on account of the merger. The merged entity will have better risk appetite, which is necessary for growth of the economy. For the sake of repetition, I once again reiterate that there will be no negative impact even on a single employee and no benefits will be curtailed. This is a landmark decision by the government which will create a new history in banking and economy of the country.

With this, he concluded his address which was telecast by all news channels.

Mohit pondered over the situation and tried to convince his father for shifting his father to Malda, who refused by saying :

I understand that you have no option other than shifting to the new place. I moved along with you to Lucknow, as there was certainty of returning to Vadodara, which is not the case this time. I suffer from a number of diseases and I am at an age (Mohit's father turned 78 last month only) at which anything can happen any time. So, I don't want to leave my ancestral home, where I have spent most of my life. I also don't want to part from my dearest belongings, my cherished memories of this place and city. I know that I am putting a hardship on you, but you have to find a solution for it.

After listening to his father, Mohit went into deep thought as he could not find a solution for the situation he was facing.

Managerial Implications

Mergers and acquisitions (M&A) as a strategy have become common in any industry, the reasons for which may vary depending on the situation and environment in which the organization is operating.

The motive of it may be achieving growth as it gives access to market of the other entity. Enhancing reach might be a compelling reason for M&A as it can achieve presence in a desired geographical region through this move. The other objective might be to increase market share as one company brings the share of the other under its fold. M&A may offer competitive advantage as the company being merged or acquired may have its own forte in a particular field, which accrues to the acquiring company. M&A might be perused for reducing competition as it reduces the number of players in the market. One of the most important factors underlining M&As is that it leads to synergy effect, that is, leveraging strengths of each organization for common benefit.

Whatever may be the reason for M&A, it impacts the most vital asset of an organization, that is, its human resources. Though M&A is a strategic decision, it has immense impact on the employees. Each organization has its own culture, which is difficult to change as it takes years to evolve. Similarly, each organization has its own policies, procedures, and norms governing the functioning of that organization. M&As influence these issues and interplay of multiple factors has a direct bearing on human resources of all the organizations involved. The entities under this strategic decision may vary in culture, leading to adaptability issues for the workforce. Similarly, changes in policies and procedures requires learning and unlearning for employees. While things can be learnt through training, it is unlearning, which poses a great challenge for the organizations in general and HR in

particular. M&A involves emotional aspects also, as it entails loss of identity for one or more entity. The work force of one suddenly comes under the fold of another entity, which impacts their emotions and feelings. This has a bearing on their morale ; hence, M&As should be thoroughly planned and executed. The impact of this strategic measure on human resources of all the entities involved should be evaluated in order to achieve the desired objectives. Ignoring these aspects may defeat the very purpose, which this strategy seeks to attain. The synergy aimed under M&As can be achieved only through meticulous planning and effective implementation.

Teaching Notes

(1) Synopsis : Organizations adopt a number of strategies for ensuring growth and even survival, according to changes in the business environment. Mergers and acquisitions are very common in any sector, the underlying motives for which may vary depending upon the situations confronted by the entities involved. The strategic decisions mentioned above have a profound impact on the HR (human resources) of the organization. Mergers may lead to loss of identity for one or more entities, impacting not only the working environment, but employees' emotions and feelings also. The present case relates to the merger of Bank of Gujarat into National Bank as per the government's directives. The employees of Bank of Gujarat faced new challenges in terms of learning new policies and procedures and unlearning their old ones at the same time. The other hurdle, which they never imagined that they will face, was of stepmotherly treatment by the management of the merged entity. The employees were facing hardships in transfers, placement, promotion, and other HR decisions. This led to widespread dissatisfaction among the employees of Bank of Gujarat impacting the morale of the employees.

(2) Teaching Objectives : This case study may seem to focus on planning and implementation of a strategic decision ; however, it covers many aspects like organization culture, change management, human resources to name a few. At the end of this exercise, participants should have an understanding of the following issues :

- (i) Importance of organization culture.
- (ii) Impact of merger and acquisition on human resources.
- (iii) Impact of merger and acquisition on organization culture.
- (iv) Change management.
- (v) Strategy formulation and its implementation.

(3) Potential Audience : Graduate and post graduate students, mid-level executives, and anyone interested in impact of merger and acquisition on public sector banks are the potential audience.

✍ **Relevant Programmes :** Graduates and post graduates of management, commerce, banking, and finance.

✍ **Number of Teaching Sessions Needed :** 3 Lectures of 50 minutes.

(4) Authors' Analysis of Each Question Raised :

Q-1) Identify the main issues in the case.

The following are the main issues in the case :

(i) Work Culture Differences : Both the banks have different work cultures due to their history and background. The Bank of Gujarat, since its inception, focused more on its employees and the same is reflected in its HR policies ; whereas, National Bank is more professionally managed and an aggressive player with strategies for customer acquisition and retention.

(ii) Lack of Awareness about the Products and Services of National Bank : The employees of the Bank of Gujarat don't have the full information about the products and services offered by the National Bank. The lack of awareness causes discomfort among the employees.

(iii) Decision Making : The Bank of Gujarat bank branches were delegated to sanction only retail loans and corporate loans were sanctioned at the regional office or head office ; whereas, the National Bank, due to its aggressive approach in dealing, sanctioned most of the cases of retail or corporate loans at branch level only.

(iv) HR Policies : When National Bank acquired the Bank of Gujarat, the authorities were unable to draft and implement common HR policies for both the employees of the banks. This could have avoided situations like no promotion, unplanned transfers, and placements of the employees of the Bank of Gujarat.

(v) Impact of Merger on the Employees of the Bank : The employees of the Bank of Gujarat not only suffered professionally, but on personal grounds also. The unwanted transfers to remote areas far away from the core region of the Bank of Gujarat put the employees in great stress. Employees who were branch managers in the Bank of Gujarat, post-merger they were placed in other general branch banking operations.

(vi) Consolidation of Resources : Post-merger, it is expected that the National Bank will be benefited well and it will be the second largest bank of India.

Q-2) What could be done to overcome the post-merger impact ?

(i) Reducing Employee Dissatisfaction : Employee dissatisfaction can be reduced if they are taken into confidence or they are made to feel a part of the acquiring bank, that is, National Bank. A proper communication channel can be created through which different policies are floated among the employees. The feedback mechanism can be set up for having feedback from the existing employees.

(ii) Common HR Policies Post - Merger : The National Bank can set up a committee which can draft the common human resource policies for the employees of both the banks. The committee members can have general managers or national heads from both the banks.

(iii) Limited Transfers, Placement, and Promotion of the Employees : The employees who were a part of the Bank of Gujarat should be transferred and placed in the limited regional area of the bank. While considering them for promotion, they should be trained and well equipped with the working culture of National Bank.

(iv) Orientation and Training : The Bank of Gujarat employees should be given thorough orientation and training about the different products and services of National Bank. This will reduce the discomfort among the employees for lack of awareness.

Q-3) What could be the implications of non - resolution of the post-merger issues on the two banks?

(i) Poor Performance of National Bank : If the issues related to work culture, common HR policies, transfer, placement, and promotion of the employees, and employee dissatisfaction are not taken care of, then the National Bank's performance will be affected adversely, which will lead to a loss in the performance of the bank. The situation may worsen if not controlled properly as it may lead to employees' layoff.

(ii) Fall in Size of the Customers' Database : Bank of Gujarat employees may not be able to pitch the products and services properly to the customers in the post-merger situation as they are not well aware of the products and services of the National Bank. This may lead to a fall in the size of the customers' database.

(iii) Increase in NPAs : If the borrowers don't get assessed properly, then it may increase the NPAs in the National Bank. Both the banks had different loan sanctioning processes, which needs to be first taken care of.

(iv) Underutilization of the Resources : If the merger and acquisition process is not properly planned and executed, then it may lead to underutilization of the resources of the National Bank. It may lead to over-staffing or under-staffing of the employees in the branches and assets such as cash and other liquid assets will be underutilized etc.

(5) Suggestions for Further Reading

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Authors' Contribution

Girish Mainrai conceived the idea and wrote the case study. Dr. Sarvesh Mohania wrote the teaching notes considering different aspects of the case. Both authors reviewed the final manuscript.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this manuscript.

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Disclaimer

This case was prepared by the authors for the sole purpose of aiding classroom discussion. Cases are not intended to serve as endorsements, or sources of data, or illustrations of effective or ineffective management.

About the Authors

Girish Mainrai is currently working as Chief Manger & Area Manager with Bank of India. He is B. Pharma and MBA from Dr. Harisingh Gour University, Sagar, Madhya Pradesh and NET qualified. He holds diploma in international banking and finance and diploma in treasury investment & risk management from IIBF. His areas of interest include marketing, organizational behavior, retail banking, and digital banking. Mr. Mainrai has published several papers in reputed journals indexed in Scopus and UGC approved journals.

Dr. Sarvesh Mohania has 12 years of teaching and industry experience. Dr. Mohania qualified UGC – NET examination in the management subject in 2012. Dr. Mohania has published 19 research papers in different international journals.