HR INTEGRATION IN MERGERS AND ACQUISITIONS: IMPACT OF RELATIVE SIZE AND PERFORMANCE OF THE COMBINING ORGANIZATIONS

Hema Bajaj
Great Lakes Institute of Management

Abstract : *This paper discusses the influence of relative size and performance on the integration strategy and HR integration process of two combining banks. Semi structured interviews were conducted with employees from both acquired and acquiring banks across different echelons and functional areas. We ascertained that relative position (size and performance) all along influences the combination process: from guiding formation of integration principles, inspiring the acquisition to be treated as a' merger,' to steering various interventions made to facilitate human resource integration.*

Key words : Merger, acquisitions, integration, human resources

Over the years, resources involved in mergers and acquisitions have increased phenomenally. Not only has there been an increase in number of mergers and acquisitions but amounts involved or value locked in these transactions has also amplified. A report from Thomson Reuters (2011) says that global mergers and acquisitions activity in 2010 involved a sum of $240 trillion. With such high stakes, focus now has got equally distributed between looking for a suitable partner and closing the deal on one hand and creating value or realizing the objectives of the transaction, on the other. In this redistribution of focus, importance of integration has gained prominence. For any deal to be successful or a merger or acquisition to create value, two or more combining entities, need to be integrated in such a manner so as to optimize each other's strengths. Integration broadly encompasses combination of various functional areas, organization structure, policies, procedures and culture of two or more firms. Integration of two firms can range from complete absorption to partial assimilation or complete autonomy of the target firm. Thus, the definition is determined by level of integration and directly relates to the acquiring firm's objectives.

Firms are known to acquire for various reasons -- to increase capacity or market share and reduce competition, to achieve economies of scale and scope, to expand vertically- forward or backward, to get into new markets and geographies or introduce new products in the same segment and even to get into unrelated businesses. Based upon the rationale, mergers and acquisitions are broadly classified into four major types -- horizontal, vertical, concentric and conglomerate. The level or nature of integration largely depends upon the type of acquisition (Buono & Bowditch, 1989; Nahavandi and Malekzadeh, 1988). Combination of functions, policies and practices is expected to be the highest in case of horizontal and least in case of conglomerate acquisitions; this prospect, however does not always hold true as there are some other factors that influence the nature of integration. Some of the researched or obliquely mentioned factors are culture of the merging firms and the influence of their leaders (Kavanagh and Ashkanasy, 2006; Camara and Renjen, 2004), specific reason for acquiring and selling, and relative size of the acquirer and acquired (Dackert, Jackson, Brenner & Johansson, 2003).

LITERATURE REVIEW

Previous studies have shown that relative size of the acquired vis-à-vis that of the acquiring, impacts the integration strategy. Talking about the influence of relative size on merger and acquisition success, Kitching (1967) said that integration of merging firms requires change at different levels of the firm. If the acquired is small, all the structures of the acquirer are imposed on the acquired and change requirements are asymmetrical: 'the danger is that such action will create confusion at the subsidiary level and a lack of knowledge at the parent company level -- two factors that help to explain failure of these acquisitions' (Kitching, 1967: 92). If the acquired is relatively large, a more symmetrical change of both is likely. Prior research, however; is not so forthcoming on the effect of relative performance on the integrations strategy.

The impact of relative position on the HR side of integration in mergers and acquisitions is also documented. According to Hambrick and Cannella (1993: 733), "Some acquisitions result in extremely low relative standing for acquired executives -- they feel inferior, the acquirers see them as inferior and them-selves as superior, autonomy is removed, status is removed, and a climate of acrimony prevails". Existence of these perceptions are likely to impact the process of HR Integration in two ways -- by influencing the HR integration strategy that is mostly conceived by the leaders and senior HR management of the acquiring and by affecting the spirit in which it is received by the taken-over employees (Bajaj, 2007). The conflict can have some gratuitous repercussions as per Hambrick and Cannella, (1993: 735-736) "Acquired executives who feel inferior may quit before being fired; acquiring executives who see themselves as superior may create intolerable conditions for acquired executives, who then quit without being literally fired; or, under the strain of being made to feel inferior, acquired executives may behave belligerently or erratically or in other ways that get them fired, even though dismissals were not intended". Whatever may be the case, under circumstances like these it is easy to lose focus from the basic objectives of the transaction. This loss of concentration is substantiated by Christensen (2006) who in a study of an acquisition of a small entrepreneurial company by a large multinational company, concluded that though acquisition was made to incorporate and imbibe the culture of innovation and flexibility in structure, from the acquired company, the manner and process of integration adopted, resulted in destruction of these very values in the acquired unit as well.

On the contrary, it is witnessed that if relative position of the two firms is not skewed in favour of one, and both are similar in size or performance, and the acquisition is made to realize a competence unique to the acquired, the prevalence of positive perception will create an enabling environment for integration. Saxton and Dollinger (2004) found positive relation between target's financial, management and product quality reputation on post-transaction outcomes including employee satisfaction.

Existing research shows that relative position of combining partners impacts the process of HR integration. Additionally, it is seen that relative size also influences the integration strategy (the level and degree included) but the prevailing literature is less forthcoming on the impact of relative performance on the overall integration strategy. Furthermore, as any HR strategy is a subset of corporate strategy (Bratton, 2001) and is derived from it, it is possible that relative position of the firms influences and shapes the integration strategy and by doing so impacts the HR integration process. Moreover, all the studies mentioned in this section are quantitative that answer questions whether there is an impact of relative size or performance or not without analyzing the 'nature' of the bearing and 'how' and 'the manner' in which it shapes the integration strategy.

OBJECTIVES AND METHOD

Objectives

The objectives of this paper are:

1.To study the relative position (size and performance) of two merging firms,

2.To discuss the manner in which relative position shapes the integration strategy and through it, the process of HR integration.

Method

As the objective was to study a process and manner in which it is shaped, case study design was found to be the most appropriate, (Jeris, Johnson and Anthony, 2002).

Time frame: Data were collected two years after the acquisition, as it takes a minimum of two years to implement all HR related changes and make sense of the entire integration strategy.

Unit of analysis: The merger process, integration strategy and process of HR integration comprising of sub processes that are used to assimilate people and HR policies and practices form the unit of analysis.

Sampling: Purposeful sampling was used to meet and interview the leaders and employees across different levels of hierarchy of both acquiring and acquired organizations. As the study strives to research the process of HR integration, efforts were made to first meet key HR functionaries from both banks and then interview other employees. Amongst these employees, people at junior level were met to comprehend their understanding of the integration process -- both HR and non HR related. Middle level managers, on the other hand were able to explain the manner in which various integration related interventions were made. Senior management was helpful in explaining the integration strategy

Data collection methods: Data were collected primarily through semi structured interviews and study of relevant documents. While some interviews were tape recorded others were chronicled manually.

Data analysis: As an underpinning to data analysis, recorded interviews were transcribed verbatim and separate word files created for each interview (recorded on tape or manually). Data analysis took place in three steps. First, this text data were broken based on broad themes like integration strategy, HR integration process and indicators of relative position. Subsequently, each of these themes was divided into sub-themes. In the third step, linkages were discovered between relative position, integration strategy and HR integration process.

Definition of Concepts

Relative position: Indicates how the organizations had been performing vis-à-vis each other over a period of three to four years prior to acquisition. Parameters considered for performance are generally related to indicators considered even for valuation like profitability, turnover ratios, book value and market price of the share. Another parameter considered is the size of the two organizations in terms of their turnover, reach (distribution network) and number of employees.

Integration strategy: Begins with a merger and acquisition plan and encompasses major decisions regarding when and how merger or acquisition would be announced, new organization structure and detailed planning of combination of different functional areas.

HR integration process: The HR integration process is a component of overall integration and is driven by a composite integration strategy. It will contain sub-processes or interventions like communication, cultural change and staffing.

FINDINGS AND ANALYSIS

Introducing the Two Combining Organizations

Millennium Bank was one of the nine new generation private sector banks which were given the license to operate by RBI in June 1994. It was promoted by an NBFC in association with a Bank operating out of Singapore, and a few international financial institutions. The NBFC in turn was promoted by four individuals out of whom two were also on the board of Millennium Bank. The bank grew at a slow and steady pace till 1998. However, in the year 1999 owing to poor performance of the parent NBFC and to facilitate its recovery, it was merged with the bank. As a result, the bank's capital adequacy rate (CAR) fell to 8.45% as compared to 20% of the previous year, net non performing assets as a ratio of net advances rose to 3.73% as compared to 0.38% of the previous year. Financial health of Millennium Bank deteriorated thereafter. There was also a change of guard, twice, in the bank, but the bank never recovered. The bank started looking for fresh infusion of capital. In 2003-04, a private equity firm that would be referred to as Able Capital henceforth, and its associates that included a bank, invested rupees one hundred and fifty four crores in the equity capital of the bank. The representatives of Able and its associate bank joined the board of directors. There was a new chairman, a new managing director, and a few professionals who had previously worked with multinational banks, were inducted in senior management positions. The new management concurrently started making changes in structure, strategy and focusing on increasing revenue. Further capital was raised through a rights issue, a GDR (global depository receipt) issue and two subordinated debt issues in 2004 and 2005. This helped the capital adequacy ratio to rise to 21.42 %. There was also a remarkable shift in the business focus of the bank from corporate to retail as growth opportunity lay in the retail segment. To facilitate retail growth, number of branches and extension counters were increased to ninety-nine by the end of financial year 2004-05. It also had hundred and fifty four ATMs on March 31, 2005. The bank primarily focused on financing of two wheelers, commercial vehicles and construction equipment. On HR front, as retail business was growing rapidly, hiring of new employees caught impetus. Employee strength rose from 965 employees as on March 31, 2002 to 1374 on March 31, 2005. Professionals both at senior and middle management level were hired. By the end of financial year April 2004- March 2005 the bank had shown remarkable comeback under the new management. Its business was growing, its CAR had improved adequately. Now for Millennium Bank to emerge as a significant player in the Indian banking industry, it was imperative that it achieved sizeable scale and that too at a fast pace. The top management appreciated the importance of inorganic growth for providing national stature to Millennium Bank which until then was prominently present only in the south and west. Millennium Bank, thus, soon after revival started the quest for institutions that it could acquire.

Patiala Bank, like Millennium Bank, belonged to that group of nine new private sector banks that were granted license under the new economic policy. In this case, license was granted to an erstwhile chairman of a public sector bank. The bank was given RBI license in 1995 and opened its first branch in April of same year. The bank had an authorized capital of rupees one hundred and five crores (or Rupees one thousand and fifty million). The principal promoter was the chairperson of the bank and there were atleast two people representing the family on the board of directors. Most of the senior management at Patiala Bank came from SPB and the remaining from other public sector banks. People hired at junior level, though, were freshers hired directly after graduation or M.B.A. The bank laid great emphasis on continuous learning and had an in-house training center where training to fresh recruits and laterals was provided on banking products and software. Recognizing that retail banking held the key to future business, Patiala Bank focused upon it right from inception. The bank emphasized on growth in retail liabilities, SME (small and medium enterprises) and forex (foreign exchange). Forex was especially a lucrative business for Patiala Bank as it was concentrated in Punjab, a state that has always boasted of one of the highest contribution to the NRI population of India. As per business strategy, markets in northern and western region of the country were to be focused upon before venturing out strongly in the south and east. The bank grew steadily from 1995-1999. In financial year 1999-2000 its capital adequacy ratio fell to 9.81%. From financial year April 2002- March 2003 to April 2004- March 2005, fall in total income, operating and net profit was witnessed. The bank actually made a net loss in financial year April 2004- March 2005 and its capital adequacy ratio lingered around 9.23% which was quite close to RBI's minimum prescribed rate of 9%.Towards the end of 2004 two members of the promoter family resigned from the board of directors -- these included the chairperson of the bank. From the beginning of 2005, promoters of Pataila Bank started looking for banks/ other organizations which could acquire or invest in the bank.

After a few rounds of meetings, Millennium Bank decided to acquire Patiala Bank. Swap ratio of 4:9 was fixed, that is, nine shares of Millennium Bank were offered for every four shares of Patiala Bank.

RELATIVE SIZE AND PERFORMANCE

MILLENNIUM BANK: PERFORMANCE OVER A PERIOD OF THREE YEARS BEFORE THE ACQUISITION:

A glance at the critical ratios of Millennium Bank shows that the bank was in a perilous position in March 2003 (table 1 and 2). Capital adequacy ratio at 1.95% was well below the regulatory requirement of 9%. The gross and net NPA (non performing assets) had touched astronomical levels and the net non performing assets to net advances ratio was very high at 7.9%. Earning per share and price earning ratio had turned negative. As expected in a situation like this, the organization did not pay any dividends and the market price of the share was a humble Rs.7.33. Total income which is a sum of advances and deposits stood at approximately rupees four thousand and five hundred million eight years after the bank came into existence. Employee related ratios, though, looked stable. The bank started reviving after late 2003 when Able Capital infused money and the new management took over. This is evident in improvement of capital adequacy ratios, and decline in non-performing assets and the ratio of non-performing assets to net advances. Profit after tax and profitability ratios showed a decrease because of provisioning and write offs. Substantial recovery, though, was witnessed only in financial year 2004-05, that is the first full financial year after Able's investment. Due to capital infusion, capital adequacy ratio improved and stood at 21.42%. Earning per share and price earning ratio turned positive and share price also improved by more than hundred percent over the March 2003 figure. The bank turned profitable once again and there was a visible growth in number of branches and people employed. Share of commission, exchange and brokerage in the total income also showed an increase, pointing towards enhanced focus on

Table 1: Key Performance Indicators of Millennium Bank

Key Performance Indicators	Millennium Bank		
	31-Mar-01	31-Mar-02	31-Mar-03
Capital Adequacy Ratio (%)	1.95	4.41	21.42
Capital Adequacy Ratio –Tier One Capital (%)	1.07	3.08	17.8
Capital Adequacy Ratio – Tier Two Capital (%)	0.88	1.33	3.62
Gross Non Performing Assets (Rs millions)	2284.3	2214.1	1564.1
Net Non Performing Assets (Rs. Million)	104.09	68.9	55.05
Non Performing Assets as a percentage of Net Advances (%)	7.92	4.43	2.51
Earning per share (EPS (in Rs.) (for financial year i.e April 1 of the previous year- March 31 of the following year)	-1.66	-3.43	0.37
Dividend declared (DPS in %) (for financial year i.e April 1 of the previous year- March 31 of the following year)	NA	NA	NA
Market Price of the share on NSE (closing price) (in Rs.)	7.33	8.25	14.85
Price Earning (PE) Ratio &	-4.42	-2.41	40.14

& PE Ratio will vary slightly for NSE and BSE.

Source: Annual Reports + Data from the National Stock Exchange (NSE) + CMIE Prowess

Table 2: Income, Profitability and Employees Performance of Millennium Bank

Performance Indicators	Millennium Bank		
	Fy 2002-03	Fy 2003-04	Fy 2004-05
Total Income (Rs. Million)	4495.7	3967.7	4105.5
Commission, exchange and brokerage (Rs. Million)	328.4	373.4	582.7
Total Expenditure (Rs. Million)	4278.8	3846.4	3873.9
Profit after tax (Rs. Million)	-253.6	-1129.5	251.1
Business per employee (for financial year i.e April 1 of the previous year- March 31 of the following year) (Rs. Lakh)	403.28	392.84	383.49
Profit After Tax per employee (Rs. Lakh)	-2.68	-10.16	1.83
Employee costs (payment to and provision for employees) (Rs. Lakh)	2482	3129	4270
Cost per employee (Rs. Lakh)	2.63	2.81	3.1
Number of employees	945	1112	1374
Number of branches	60	61	99

Source: Annual Reports + Data from the National Stock Exchange (NSE) + CMIE Prowess

PATIALA BANK: PERFORMANCE OVER A PERIOD OF THREE YEARS BEFORE THE ACQUISITION (Tables 3 and 4):

The bank's performance in terms of critical capital adequacy ratio was satisfactory at 13.59% in 2003. But net non-performing assets and ratio of net non-performing assets to net advances were very high. EPS at Rs 3.03 was nominal and a dividend of 6.5% had been declared. Its total income, PAT and employee related ratios were average and stable. By March 2004, capital adequacy had improved slightly, gross and net NPAs were lower as compared to those of previous year. EPS, PE ratio and market price of the share had also improved. There was, however, a fall in the total income because of fall in earnings from treasury operations. Employee performance had fallen -- there was a decrease in business per employee whereas per employee cost remained the same. There was an adequate increase in number of branches and people employed, reflecting normalcy in day to day operations. By 2005 there was a remarkable decrease in the capital adequacy ratio and it came very close to the minimum requirement of 9%. Gross Non Performing Assets increased by sixty two percent over the previous year. Total income fell for the second successive year. For the first time, the bank made a loss. Business per employee also fell, whereas, cost per employee increased a little. The market price rose during this period, probably because of two reasons. First, results for financial year 2004-05 were publicly announced after the merger announcement and thus absolute impact of losses or NPAs did not get reflected in the market price. Second, for a long time, that is through 2004 and early 2005 there were rumours regarding investments by strategic partners or acquisition of the bank, which probably led to an increase in share price in

Table 3: Key Performance Indicators of Patiala Bank

Key Performance Indicators	Patiala Bank		
	31-Mar-03	31-Mar -04	31-Mar-05
Capital Adequacy Ratio (%)	13.59	12.64	9.23
Capital Adequacy Ratio -Tier One Capital (%)	8.47	7.74	3.83
Capital Adequacy Ratio – Tier Two Capital (%)	5.12	4.9	5.4
Gross Non Performing Assets (Rs millions)	1696	1483	2398.7
Net Non Performing Assets (Rs. Million)	1288.7	1104.5	1121.5
Non Performing Assets as a percentage of Net Advances (%)	7.17	4.69	4.64
Earning per share (EPS (in Rs.) (for financial year i.e April 1 of the previous year- March 31 of the following year)	3.03	3.52	-5.83
Dividend declared (DPS in %) (for financial year i.e April 1 of the previous year- March 31 of the following year)	6.5	5	NA
Market Price of the share on NSE (closing price) (in Rs.)	14.35	23.55	31.95
Price Earning (PE) Ratio &	4.74	6.69	-5.48

&PE Ratio will vary slightly for NSE and BSE.
Source: Annual Reports + Data from the National Stock Exchange (NSE) + CMIE Prowess

Table 4: Income, Profitability and Employees Performance of Patiala Bank

Performance Indicators	Patiala Bank		
	Fy 2002-03	Fy 2003-04	Fy 2004-05
Total Income (Rs. Million)	4882.31	4723.59	3976.57
Commission, exchange and brokerage (in Rs. Million)	164.56	237.09	454.88
Total expenditure (Rs. Million)	4563.91	4353,57	4589.02
Profit after tax (Rs. Million)	309.4	370	-612.4
Business per employee (for financial year i.e April 1 of the previous year- March 31 of the following year) (Rs. Lakh)	465.18	444.54	355.93
Profit after tax per employee (Rs. Lakh)	2.67	2.53	-3.24
Employee costs (payment to and provision for employees) (Rs. Lakh)	1659.44	2081.22	2885.99
Cost per employee (Rs. Lakh)	1.43	1.43	1.53
Number of employees*	1158	1460	1889
Number of branches	107	123	136

* This number was calculated using annual report figures
Source: Annual Reports + Data from the National Stock Exchange (NSE) + CMIE Prowess

COMPARATIVE ANALYSIS OF PERFORMANCE AND SIZE OF MILLENNIUM BANK AND BANK OF PATIALA:

A comparison of key indicators (table 5) of both the banks shows that in 2004-05, whereas, Millennium Bank was on the path to recovery, Patiala Bank's performance was sliding. Millennium Bank, suffused with funds from Able Capital, had a comfortable capital adequacy ratio of 21.42% as compared to 9.33% of Patiala Bank. Owing to writing off of NPAs in previous few years, its Non Performing Assets at fifty five million dollars were almost 5% of that of Patiala Bank's. Its net Non Performing Assets to Net advances ratio at 2.5% was comparatively better as compared to 4.64% of Patiala Bank. EarningPer Share for Millennium Bank had just turned from a negative to a moderate positive of Rs 0.37, whereas that of Patiala Bank had turned to a negative of Rs. 5.83. Neither of the two banks paid any dividend for the financial year; Millennium Bank, as it had barely recovered nor Patiala Bank because it had made a loss. This also was the first time after inception that Patiala Bank did not pay any dividend to its shareholders.

Above mentioned ratios signify that Millennium Bank had started stabilizing and emerging stronger as far as financials were concerned after years of struggling with high NPAs and low capital adequacy. Patiala Bank, though, owing to write offs and low capital adequacy needed support in form of more capital.

In terms of total income, number of branches and employees, both the banks were approximately of the same size. Business per employee was also similar, though, cost per employee was higher in Millennium Bank. This can be attributed to new employees of Millennium who were being hired at higher compensation from competitors. Expenditure was high and profit of Patiala Bank much lower as compared to Millennium Bank due to high provisioning in financial year 2004-05.

Thus, we see that financially Millennium in 2005 was in a much better position than Patiala Bank, but, in terms of size and operational performance both the banks were quite similar.

Table 5: Relative Performance and Size of Millennium Bank and Patiala Bank for Year 2004-05

Indicators	Millennium Bank	Patiala Bank
	31-Mar-05	31-Mar-05
Capital Adequacy Ratio (%)	21.42	9.23
Capital Adequacy Ratio –Tier One Capital (%)	17.8	3.83
Capital Adequacy Ratio – Tier Two Capital (%)	3.62	5.4
Gross Non Performing Assets (Rs Million)	1564.1	2398.7
Net Non Performing Assets (Rs. Million)	55.05	1121.5
Non Performing Assets as a percentage of Net Advances (%)	2.51	4.64
Earning per share (EPS (in Rs.) (for financial year i.e April 1 of the previous year- March 31)	0.37	-5.83
Dividend declared (DPS in %) (for financial year i.e April 1 of the previous year- March 31 of the following year)	NA	NA
Market Price of the share on NSE (closing price) (in Rs.)	14.85	31.95
Price Earning (PE) Ratio [&]	40.14	-5.48
	Fy 2004-05	Fy 2004-05
Total Income (Rs. Million)	4105.5	3976.57
Commission, exchange and brokerage (Rs. Million)	582.7	454.88
Total Expenditure (Rs. Million)	3873.9	4589.02
Profit after tax (Rs million)	251.1	-612.4
Business per employee (for financial year 1999-2000) (Rs. Lakh)	383.49	355.93
Profit after tax per employee (Rs. Lakh)	1.83	-3.24
Employee costs (payment to and provision for employees) (Rs. Lakh)	4270	2885.99
Cost per employee (Rs. Lakh)	3.1	1.53
Number of employees (as on 31, March 2005)	1374	1889
Number of branches	99	136

MERGER AND THE INTEGRATION STRATEGY

Announcement and treatment of the acquisition: Employees of the both the banks were informed about the shareholders' approval by the MD of the combined entity (who was also the MD of Millennium Bank before the merger). In an email sent to the employees, the MD, informed that the combined entity would be known by a new name that would be a combination of the names of individual banks before the merger (we will refer to it as MBP). One finds insights into the treatment of merger/acquisition and broad integration strategy in these words of the MD, 'Today, as we stand at the threshold of this transformational merger, I would like to reiterate that retaining and rewarding talent is a top priority for us. Going forward, we will aim to create a customer centric business that is growing, profitable and sustainable. We will create a powerful full service bank that reflects a spirit of excellence, creates values for our customers and stakeholders and gives enormous growth opportunities to our employees'. The Board of Directors was reconstituted and the new board had two members from the board of Patiala Bank.

According to a vertical head:

The process looked the way it did as at senior level the chairman was very clear in his vision. As in Sanskrit there is a saying that 'yatho raja, tatho praja'. He had seen many mergers and was clear in his vision that we had to work together. This is demonstrated even in the way we changed our name. Millennium Bank of Patiala is not what we wanted but they said that in Punjab it is important. So we put in their logos and in Punjab we wrote the full name in bold letters. In west and south we wrote Millennium Bank in bold and Bank of Patiala was a subset.

Also, right from the beginning it was clarified that this transaction was a merger and not an acquisition. To reinforce this, employees of Millennium were asked to be careful about the terminology they used.

Integration structure: To realize the goals of acquisition, an integration structure was established. An executive steering committee was constituted that comprised of people at the senior most level like the managing directors of both the banks, executive director of Patiala Bank, few functional heads and senior representatives of the main consultant. Out of seven members in the team, three were from erstwhile Patiala Bank. Key roles of the steering committee were to provide senior-level leadership and support, set overall strategic direction for the merger, establishing merger guidelines, approve decisions/actions, prioritize events, resolve conflicts and issues and assure uninterrupted and on-going business. Separate work-streams were created in each functional area like human resources, finance and accounts, operations, information technology, treasury, retail banking, transaction banking, corporate and SME, audit and compliance, marketing, branding and public relations, legal, infrastructure and administration, corporate governance and risk to facilitate integration. Each work stream was headed by respective functional heads and comprised atleast one member from each bank. Its responsibilities included devising an integration plan and charter for the work-stream, identifying synergies and differences, decide upon functional projects and their deliverables and prioritize the projects.

Organization structure: Senior management team was announced in the first week of the merger becoming effective. Out of ten people who reported directly to the retail bank head, one was from Patiala Bank and remaining from Millennium Bank. Out of five people reporting to the corporate bank head, one was from Patiala Bank and the rest from Millennium. In HR, the erstwhile head of HR and operations (combined) of Patiala Bank, reported to the HR head of Millennium Bank. Subsequently, a year after the merger, he was appointed as head-operations in MBP. Thus, after the merger, first two layers of senior management in MBP comprised of people predominantly from erstwhile Millennium Bank. The third layer in hierarchy though had an adequate representation of employees from both the erstwhile banks.

Changes in the branches: Continuity was maintained when it came to integrating physical infrastructure like branches of the two banks. Few of the existing branches of Millennium Bank and Bank of Patiala were in proximity to each other. Many of these branches continued to function at their original places and only a few were relocated. The top management showed no undue exigency in changing outer bill boards, layout and colour scheme of branches.

Process of HR Integration

HR department was not involved in the due diligence process. The HR head learned about the merger only a few days before the public announcement when the managing director convened a small meeting of functional heads and broke the news. So HR did not play any role in arriving at the decision to acquire or choice of partner. Clarity over treatment of the transaction as a merger from top management's side guided the way HR drafted various interventions and planned the integration process.

Pre- merger promotions: Millennium Bank promoted all its employees to a level higher after the merger announcement and before RBI's formal approval came. This was considered only a re-designation exercise and was not accompanied by any raise in compensation. The rationale for this as suggested by a HR resource was:

When we studied the vintage of Millennium Bank's employees and their qualifications and when we mapped it to that of Patiala Bank, we found that they were atleast a step ahead. People with same kind of experience and qualification were managers here and senior managers there. So it was time to look at job grading. So in Millennium we decided that everyone would up by one career level.

Patiala Bank also promoted and gave nominal hike to a few employees who were due for and expecting promotion that year.

Communication: As per the HR head communication with employees was the biggest challenge and was planned meticulously. Objective of communication was to reach the employees at the earliest, to get a buy in on the integration process, gaining employee confidence and keeping them consistently informed to involve them and build confidence in the process. Communication channels used were regular emails, contests and surveys, townhalls, and regular visits to branches. To involve the employees, a contest was launched for them to suggest an 'apt and professional' title for the integration exercise. HR department was able to create interest in the contest and received good response from people. Title selected for the integration process was, 'One Team, One Dream'. Townhalls formed an important channel to reach people. They were addressed by the top management. The first townhall was presided over by the chairman who set the tone of future such gatherings:

I was excited when the merger was decided, but after meeting the Patiala Bank senior people, twice as excited, there are unbelievable synergies…

It will be a culture driven by meritocracy, professional management, following corporate governance in letter and spirit…

There will be change -- my urge to you is embrace it, be the leader of this change, and help the two institutions we separately loved and respected to grow and build...

Another way to facilitate communication was through meetings that were held between top management of Millennium Bank and seniors of Patiala Bank to understand their profiles and expectations for the purpose of grading and fitment. Meetings were also organized by various functional and department heads where employees from both sides met to facilitate integration or sort out any department or function level problems or challenges. Employees from both the sides got an opportunity to meet and interact with each other during such meetings

Staffing: In Patiala Bank branches looked after sales and operations of both assets and liabilities, credit etc. Employees in branches focused on customer service and operations and branch manager was responsible for sales and operations. In Millennium on the other hand operations were centralized (regional processing centres), branches focused primarily on liabilities and selling wealth management products like mutual funds, life and general insurance. Thus, there were two tasks in structuring -- first was to fit people in various verticals -- SME, agriculture, corporate, retail and second to shift them to either sales, operations or credit. It was clarified that branch manager's job would be a high pressure, target driven sales job. Other roles were also specified and job descriptions outlined. People chose roles based upon their disposition and liking, and communicated it to the management and HR. Another input that was considered while making decisions was the advise given by Patiala Bank management, especially for people at top and senior level.

For making this change, people were asked to choose the area they were comfortable in. Employees across various levels were met by their seniors.

Compensation: Soon after the merger announcement, huge expectation regarding hike in salaries was witnessed amongst Patiala Bank employees. Millennium Bank salaries, especially for employees that had joined under new management, were higher than Patiala Bank's. An across the board increase of about ten percent was given to all employees from the level of junior officer to that of managers. Above it, that is for senior manager and upwards, increments were given on a case to case basis. Retention bonus or comparatively larger amounts were also paid to employees identified as 'critical talent'. Patiala Bank was founded with a capital of rupees hundred and five crores. Out of this, rupees five crores worth of shares were held by Patiala Bank employees benefit trust. The bank had given an interest free loan of rupees five crores to the trust to purchase fifty lakh shares at rupees ten each. Over a period of time, the dividend received on these shares was used to pay the debt. By 2005, entire loan had been repaid .After the merger, twenty five lakh shares out of fifty lakhs were distributed as ESOPs to Patiala Bank employees. This was primarily supposed to be a memento or parting gift from the promoters to employees who had worked there for a minimum of three years, but, was also used as a retention tool for employees by MBP management. Except for a few seniors, ESOPs given to others came with a vesting period of two years.

Cultural integration: By retaining the name of the bank and its logo, one of the basic identities of the bank had been preserved. As the bank was identified with the community it primarily catered to, all kind of religious affiliations were continued. As per the head of one of the verticals:

Initially they thought that we are city bred people from IIMs and so we would not know how to go to a temple or pay obeisance. But actually we did a lot more kirtan darbars after the acquisition than they did before the merger. We are human beings and we realize that community efforts are necessary.

Along with preservation, there were components of the acquired's culture that called for a change. One of the prominent ways, was to move the people towards a performance linked culture. Morning huddles and sales training facilitated this change. During these huddles employees got together every morning in a branch and deliberated over the achievements of previous day. Person from the branch who had performed the best would be lauded and clapped for. The meeting would culminate with discussions about targets for the day and plans of achieving them. Sales training was also imparted to inculcate soft skills like selling. Training workshops were conducted by outside vendors as well as branch managers, circle and regional heads.

DISCUSSION

Impact of Relative Position on Integration Strategy and Process of HR Integration

Impact of relative size on integration strategy: The banks were not very different in size. There was, therefore, no threat of a smaller bank getting totally absorbed into a much larger one. Actually Patiala Bank was slightly larger of the two in terms of both number of branches and people employed. The acquisition was therefore treated as a merger.

Impact of relative performance on integration strategy: In terms of performance also, Millennium Bank was just about recovering from a phase of high NPAs, low capital adequacy, slow growth and business losses. Patiala Bank, other than capital requirement did not have any other weaknesses. Top management, who after turning around Millennium Bank was confident about repeating its success in Patiala Bank, treaded with restraint and ensured that it or bank's other employees, did not display any kind of dominating behaviour. The acquisition was treated as a merger and integration of entire organization, that is different functional areas, was carried with care to prevent loss of firm specific capabilities of either of the two organizations. The integration structure had an equitable representation from acquired bank, giving its employees a sense of justice and impartiality. Owing to satisfactory performance, lucrative customer and high brand recognition in its area of operation, Millennium Bank's management wanted to retain it as a separate SBU. According to a member of the top management team:

I wrote to RBI saying that we wanted a holding company called Millennium under which there would be two brands -- Millennium and Patiala Bank. RBI said that approval will take longer. They asked 'what do you want -- bank approval or name approval?' So I said 'give me the bank approval'. Actually we wanted only the front end, that is the branches that interface with clients, to exist as a SBU. But then (as RBI did not permit) Millennium became prominent in south and west and Bank of Patiala was prominent in Punjab and Delhi.

Patiala Bank's promoters knew that their bank was an attractive takeover candidate and were therefore able to bargain for various subsidies like retaining name of the bank. Its ED also continued as ED of the combined entity.

Importantly comparable performance (employee productivity and customer relationship) had three important influences on the integration strategy: the name of Patiala bank was retained, their leaders found representation on the board of directors and critical employees were adjusted at the senior management level and relatively few changes were made at the branch level.

Impact of relative size on the process of HR integration: As the size was similar, and Patiala Bank was stronger of the two in north, its employees were not worried about loss of job. Had the acquiring bank been bigger with larger number of employees, there was scope for Millennium Bank to post its extra manpower in Patiala Bank. Similar size, on the contrary, forced the acquiring management to devise retention strategy for the taken-over employees. The bonus offered to the Patiala Bank employees was meant to act as a tool of retention.

It was a parting gift from their promoters. Fifty percent of the shares were given from the trust. It had a retention clause of two years for all but very senior people. Millennium Bank also had a trust. We created a kitty for future bonuses for which fifty percent came from Millennium Bank and fifty percent came from Patiala Bank. This was used to pay bonuses later on.

Classification of this transaction as a merger raised their expectations from the new organization. They expected increase in compensation, something, that was granted by the new management. Their ED's presence was a further reassurance to them. HR department also treaded carefully and considered the wishes and choices of employees before allocating roles to them.

Impact of relative performance on the process of HR integration: The annual report of Patiala Bank for financial year 2004-05 was made public only after acquisition was announced, therefore the travesty of normalcy was maintained. Furthermore, employee related ratios were actually good, even in the year of takeover, therefore; the employees got absorbed in Millennium Bank from a position of strength. Many employees, especially those due for promotion were also escalated in hierarchy. Good employee performance and customer service induced the bank to come out with retention plans and consider employees' choice while distributing portfolios. Support from customers, who the top management needed to sell their third party products, also guided Millennium Bank to make people friendly interventions like well-planned communication and introduce minimum changes at the branch level. The HR head conceded the following:

Essentially they were willing to adjust and so were we. So there was no reason to even want to retrench…. It was critical to retain talent because Patiala Bank had a very good current and savings account base. They had a very strong business in north and Punjab. So we did not want flight of talent. Considering this we did not want people to move out only because there was a merger.

Other employees had the following to share:

Personalized approach was followed with the customers also. Relationships were based upon emotions. Customers gave business because of emotional connect.

There were lots of questions that the customers were raising like why the merger took place? Whether Millennium Bank had taken over Patiala Bank or Patiala Bank had taken over Millennium Bank?

Even now during my quarterly HNI (high networth individuals) meetings we are asked about our standing in the bank.

CONCLUSION

This paper uses a single case study to analyse how relative position in terms of size and performance influences the integration strategy. The thinking, threats and opportunities that shape the integration strategy, which in itself is possibly derived from the corporate strategy, also draw the HR integration process.

Existing studies indicated that relative size impacts the integration strategy and relative position influences the process of HR integration, but the spectrum of this impact was not understood. In this paper we see, in the arguments and statements of leaders and employees of both banks, all across the combination they were influenced by the knowledge of almost same size of the banks, satisfactory performance and customer service orientation of Patiala Bank's human resources. Actually once the decision to treat the acquisition as a merger and fairly deal with the employees was taken, the guiding philosophy behind all other interventions was also automatically congealed. Therefore, we see common thread of this basic tenet across all interventions.

LIMITATION

By virtue of being qualitative in nature, this study does not assess the degree of influence of relative position. Moreover, there are other factors, as mentioned before like culture of merging organizations, rationale for the transaction, which also shape the integration strategy; I have not filtered out their effects. Future research can probably look at individual influences of these factors as well as their combined: accentuating and diminishing effects on integration.

REFERENCES

Bajaj, H. (2007). *The Process of HR Integration in Mergers and Acquisitions.* Unpublished M.Phil. Dissertation. Mumbai: Tata Institute of Social Sciences.

Bratton, J., & Jeffrey, G. (2001). *Human resource management: theory and practice.* New York: Palgrave Macmillan.

Buono, A. F., & Bowditch. J.L. (1989). *The human side of mergers and acquisitions.* San Francisco: Jossey-Bass.

Camara, D. D., & Renjen, P. (2004). *The secret of successful mergers: dispatches from the front line. Journal of Business Strategy,* 25(3), 10-14.

Christensen, K.S. (2006). *Losing innovativeness:* the challenge of being acquired. Management Decision, 44(9), 1161-1182.

Dackert, I., Jackson, P.R., Brenner, S., & Johansson,C.R. (2003). Eliciting and analyzing employees' expectations of a merger. *Human Relations*, 56(6), 705-725.

Hambrick, D.C., & Cannella, A.A. (1993). Relative standing: a framework for understanding departures of acquired executives. *Academy of Management Journal*, 36(4), 733-762.

Jeris, L.S., Johnson, J.R., & Anthony, C.C. (2002). HRD involvement in merger and acquisition decisions and strategy development: four organizational portraits. *International Journal of Training and Development,* 6(1), 2 – 12.

Kavanagh, M.H., & Ashkanasy, N.M (2006). The impact of leadership and change management strategy on organizational culture and individual acceptance of change during a merger. *British Journal of Management,* 17 (S1), 81–103.

Kitching, J. (1967). Why do mergers miscarry. *Harvard Business Review,* 45(6), 84-101.

Nahavandi, A., & Malekzadeh, A.R. (1988). Acculturation in mergers and acquisitions. *Academy of Management Review,* 13(1), 79–90.

Thomson Reuters. (2011). M&A back to 2008 levels. global investment banking review for mergers and acquisitions and capital markets activity. Downloaded from http://thomsonreuters.com/content/news_ideas/articles/financial/379492 on October 20th, 2011.

Saxton, T., & Dollinger, M. (2004). Target reputation and appropriability: picking and deploying resources in acquisitions. *Journal of Management,* 30(1), 123–147.