

Employees' Perception towards the Merger and Acquisition of Bank and Financial Institutions of Nepal

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Abstract

Merger and acquisition an outcome of consolidating two or more than two companies in one institution. Merger and acquisition both are the tools of consolidating the companies. The study was conducted with the objective to identify the employees' perception towards the merger and acquisition of bank and financial institutions of Nepal. The study was conducted among the 385 respondents of financial institutions. The respondents were randomly selected for the questionnaire survey. The study was based on the quantitative design so statistical analysis was done to compare the perception between category A and B bank. The result shows that there was significant association between the employees of category A and B bank on their perception towards the contribution of merger and acquisition. majority of the respondents had positive perception towards the effectiveness of merger and acquisition to improve the service quality, organizational performance, exchange organizational culture, maximizing the profit and revenue, increase the credit rating of banks, introduce the new service and facilities, implement the new innovative ideas. So, it has encouraged financial institutions to go in process of merger and acquisition for the better performance and sustainability of institutions.

Keywords: Acquisition, Bank, Employees' perception, financial institutions, Merger

Introduction

Perception is one psychological phenomenon which is created by observing and experiencing the surrounding environment. Perception affects the practical activities of one person. Here the study is discussed the employees' perception in relation to the merger and acquisition of Bank and Financial institutions. Merger and acquisition an outcome of consolidating two or more than two companies in one institution. Merger can be defined as a method of unification of two players into single entity (Subhashree & Kannappan, 2018). A merger is a corporate strategy to combine with another company and operate as a single legal entity. The companies agreeing to mergers are typically equal in terms of size and scale of operations. Merger of two weaker banks or merger of one health Bank with one weak bank can be treated as the faster and less costly way to improve profitability then spurring internal growth (Devarajappa, 2012). Acquisition is the purchase of shares or assets on another company to achieve a managerial influence not necessary by mutual agreement (Shreelakshmi & Kumara, 2018) . Acquisition as activities by which acquiring firms can control more than 50% of the equity of target firms (Piesse, Lee, Lin, & Kuo, 2005). Acquisitions also scale bank more efficiently, not just in terms of efficiency ratio, but also in terms of operations.

Merger and Acquisition is a relatively new concept to the Nepali Banking and Financial Institutions (BFIs). Nepal Rastra Bank introduced the Merger Bylaw 2068 (B.S) grounded on the Company Act 2063(B.S) article 177, BAFIA 2063 (B.S) article 68 and 69, and encouraged all the BFIs to undergo merger as a consolidation. Laxmi Bank, Nepal Bangladesh Bank, and Narayani National Finance were among the few institutions to have undergone merger process before the announcement of the bylaws (Baniya & Adhikari, 2019). NRB has introduced the Merger by law, 2068 with the objective of reducing the number of BFIs, enhancing financial stability and promoting public confidence on the banking sector (Shrestha, Thapa, & Phuyal, 2017). The effort made by the NRB in M& A process has led to dramatic growth in merger activities. The merger and acquisition helped to achieve financial growth, formulate better policies and increase bank financing. Consolidation has been used as a way to address cost-effectiveness, scale economy, and scope of activities (Pathak, 2016; Shrestha, Thapa, & Phuyal, 2017).

The positive impact of merger was observed by the employees. A previous study that among the surveyed employees, around 66.7% of them agreed that they were satisfied with work, wages and working conditions after merger of Banks (Raju, BR, & Dhakal, 2015). Similarly, another study had reported the enhancement of service quality of bank in post-merger phase. It had reported that the number of ATM counter and branch were increased, and practice of adoption of new technology was also increased (Sharma, 2018). In this background. The study was interested to identify the employees' perception towards the merger and acquisition of Nepal. Employees are the main pillar of success of any organization so their perception determines their day-to-day activities.

Materials & Methods

The study was conducted in the Kathmandu valley covering those bank and financial institutions who were established after merger and acquisition process. The study was based on the quantitative design because the data was collected by using the structured survey questionnaire. It was descriptive and explanatory research design. There was total 385 respondents from category A and B banks. The respondents were selected by using the simple random sampling technique. The structured survey questionnaire was used to collect the data. The statistical analysis was done to present the data.

Results & Discussion

The study was conducted among the employees working in the Bank and financial institutions to know their perception towards the merger and acquisition (M & A) of BFIs. First, the respondents were asked about the effectiveness of M & A to improve the performance of BFIs in national and international market. In this context, as the data presented in Table 1 shows that higher number (43.9%) of respondents strongly agreed on the effectiveness of Merger and Acquisition of BFIs to improve their performance in the national and international market, followed by 32.2% agreed.

Table 1: M & A strategies play a crucial role in banking sector to improve their performance in the national/international market?

		Category of Bank		Total
		A	B	
	Strongly Disagree	0.6%		0.3%
	Disagree		4.8%	2.9%
	Neutral	3.9%	32.2%	20.8%
	Agree	29.0%	34.3%	32.2%
	Strongly Agree	66.5%	28.7%	43.9%
Total		100.0%	100.0%	100.0%

Source: Field Survey, 2020

The statistical data presented in above Table 1 indicates that as the experience of respondents in banking sectors after its merger and acquisition, there was a positive role of merger and acquisition in improvement in financial and non-financial performance of banking sectors. It has encouraged the like-minded organization to go in the process of merger and acquisition to improve their organizational performance.

Similarly, the study was also discussed on the role of merger and acquisition to exchange the organizational culture within the banking sectors. Every organization has their own value system, cultural norms and organizational relation within the organization. Organizational culture is the collection of values, expectations, and practices that guide and inform the actions

of all team members of organization. The best organizational culture of one organization can be learning for another so, merger and acquisition can exchange such best practices between the organization.

Table 2: M & A are an effective strategy to exchange organizational cultural within the banking sector of Nepal?

		Category of Bank		Total
		A	B	
	Disagree	3.9%	12.6%	9.1%
	Neutral	6.5%	3.5%	4.7%
	Agree	36.1%	55.7%	47.8%
	Strongly Agree	53.5%	28.3%	38.4%
Total		100.0%	100.0%	100.0%
Chi-Square Tests				
		Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square		32.316 ^a	3	.000
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 7.25.				

Source: Field Survey, 2020

The statistical data presented in above Table 2 shows that in total, higher number (47.8%) of respondents reported that M & A are an effective strategy to exchange organizational cultural within the banking sector of Nepal, followed by 38.4% strongly agreed the same statement. In general, it was indicated that the merger and acquisition was effective strategy to exchange the organizational culture between the two and more organizations. So, if one organization has no adequate resources and infrastructure then it will be good to go in the process of merger and acquisition with another like-minded organization for the effective implementation and sustainability of organizational activities.

The statistical calculation of Chi-square test shows that there was significant association between the respondents of category A and B bank in their response on effectiveness of M & A to exchange organizational cultural within the banking sector of Nepal because p value = .000 which is less than .05 significant levels.

The study was also discussed on the role of merger and acquisition to maximizing the profit and revenue of BFIs. Profit earning and collection of revenue is one main objective of any financial institution so if they will have problem in this process then they will search the link-minded another institution for the merger and acquisition to maximizing the profit. The data presented in Table 3 shows that the 54.8% respondents agreed that merger and acquisition can be effective to maximizing the profit and revenue followed by 33.8% respondents strongly agreed the same. It was found that out of hundred persons, only six persons disagreed on the role of merger and acquisition to maximizing the profit and revenue of BFIs.

Table 3: M & A help the banking sector to maximizing the profit and revenue of BFIs?

		Category of Bank		Total
		A	B	
	Disagree	1.3%	9.1%	6.0%
	Neutral	4.5%	6.1%	5.5%
	Agree	47.7%	59.6%	54.8%
	Strongly Agree	46.5%	25.2%	33.8%
Total		100.0%	100.0%	100.0%
Chi-Square Tests				
		Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square		24.673 ^a	3	.000
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 8.45.				

Source: Field Survey, 2020

The statistical analysis of Chi-square test shows that there was no significant association between the category A and B bank in their response on role of merger and acquisition to maximizing the profit and revenue of BFIs, because the p value = .000 which is less than .05 significant levels.

Similarly, the study had also discussed with the respondents about the role of merger and acquisition to increase the credit rating of banks and their size that help to influence the potential investors which in turn decrease the cost of capital of banks. The data presented in Table 4 shows that in total, comparatively higher number (41%) agreed that M & A increase the credit rating of banks and their size that help to influence the potential investors which in turn decrease the cost of capital of banks which is followed by 30.4% strongly agreed on the same.

Table 4: M & A increase the credit rating of banks and their size that help to influence the potential investors which in turn decrease the cost of capital of banks?

		Category of Bank		Total
		A	B	
	Strongly Disagree		0.9%	0.5%
	Disagree	1.3%	10.0%	6.5%
	Neutral	3.2%	33.9%	21.6%
	Agree	49.0%	35.7%	41.0%
	Strongly Agree	46.5%	19.6%	30.4%
Total		100.0%	100.0%	100.0%

Source: Field Survey, 2020

Out of hundred respondents, twenty-two had given neutral response on the effectiveness of merger and acquisition to increase the credit rating of banks and their size and 7% had response on 'disagree' on the above question (Table 4).

Another objective of this study was to explore the effectiveness of merger and acquisition to introduce the new service and facilities for the customers in the local and global market. There is a good chance to exchange the human resource, knowledge management practices, tools and techniques, knowledge and skill, available infrastructure and technology because of the merger and acquisition. The issue was discussed with the respondents and collected their response. The data presented in Table 5 shows the distribution of response. The data shows that in total, majority (56.6%) respondents agreed that M & A have a significant impact on introduction of new service and facilities for the customers in the local and global market. The statement was strongly agreed by 28.6% respondents whereas 9.1% had neutral response and 5.7% stated disagree on the same.

Table 5: M & A have a significant impact on introduction of new service and facilities for the customers in the local and global market?

		Category of Bank		Total
		A	B	
	Disagree	1.9%	8.3%	5.7%
	Neutral	3.9%	12.6%	9.1%
	Agree	51.0%	60.4%	56.6%
	Strongly Agree	43.2%	18.7%	28.6%
Total		100.0%	100.0%	100.0%
Chi-Square Tests				
		Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square		35.227 ^a	3	.000
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 8.86.				

Source: Field Survey, 2020

The statistical analysis of Chi-square test shows that there was significant association between the category A and B bank in their response as asked 'M & A have a significant impact on introduction of new service and facilities for the customers in the local and global market' because the p value = .000 which is less than .05 significant levels.

The study had asked the respondents about the effectiveness of merger and acquisition to implement innovative ideas and resources to improve their service for the customers and to establish strong positioning in the market. One institution can improve their performance by implementing some innovative ideas which can compete with the global market. Innovative ideas can be developed from the experience, interaction, sharing, research or in-depth study. Merger and acquisition can be one strategy to develop the innovative ideas. The data presented

in Table 6 shows the distribution of response of respondents. The data shows that majority (56.4%) respondent agreed that merger and acquisition strategy could help the banking organizations to implement innovative ideas and resources to improve their service for the customers and to establish strong positioning in the market, followed by 30.4% agreed whereas 7.8% had given neutral response and 5.5% were disagree on it.

Table 6: M & A strategy help the banking organizations to implement innovative ideas and resources to improve their service for the customers and to establish strong positioning in the market?

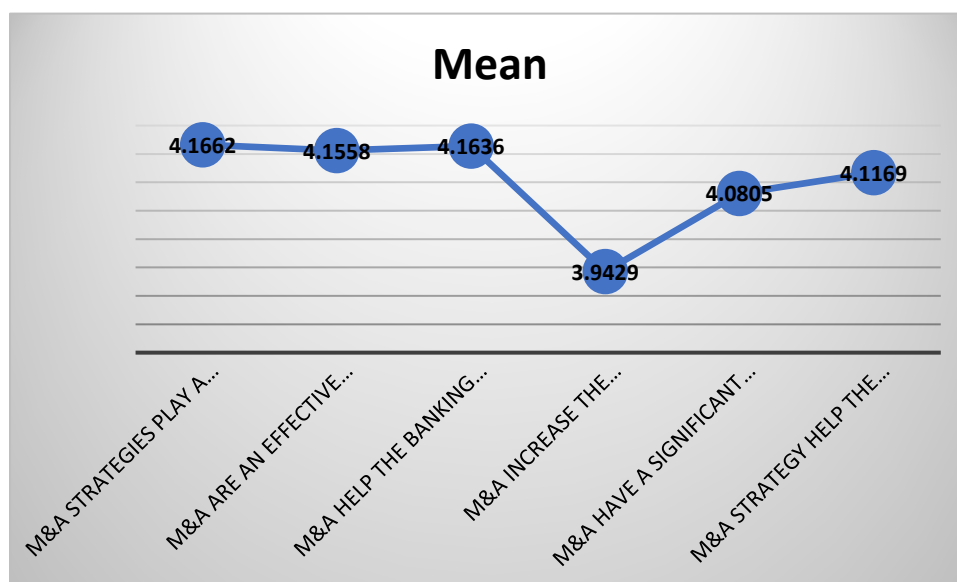
		Category of Bank		Total
		A	B	
	Disagree	1.9%	7.8%	5.5%
	Neutral	6.5%	8.7%	7.8%
	Agree	47.1%	62.6%	56.4%
	Strongly Agree	44.5%	20.9%	30.4%
Total		100.0%	100.0%	100.0%
Chi-Square Tests				
		Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square		27.480 ^a	3	.000
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 8.45.				

Source: Field Survey, 2020

In general, majority of respondents agreed that M & A could help the banking organizations to implement innovative ideas and resources to improve their service for the customers and to establish strong positioning in the market. The statistical analysis of Chi-square test shows that there was significant association between the respondents regarding the effectiveness of merger and acquisition to implement the innovative ideas and resource mobilization to improve their services because the p value = .000 which is less than .05 significant levels.

Conclusion

The study had conducted this study with the objective to explore the employees' perception towards the merger and acquisition of bank and financial institutions of Nepal. The study found that majority of the respondents had positive perception towards the effectiveness of merger and acquisition to improve the service quality, organizational performance, exchange organizational culture, maximizing the profit and revenue, increase the credit rating of banks, introduce the new service and facilities, implement the new innovative ideas.



The calculation of mean value shows that the mean value of five indicators were almost similar whereas the mean (3.9429) value of increment of credit rating of bank after merger and acquisition was comparatively lower than other indicators. In single line conclusion, there was significant impact of merger and acquisition to improve the overall performance of bank and financial institutions of Nepal. So, it has encouraged financial institutions to go in process of merger and acquisition for the better performance and sustainability of institutions.

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