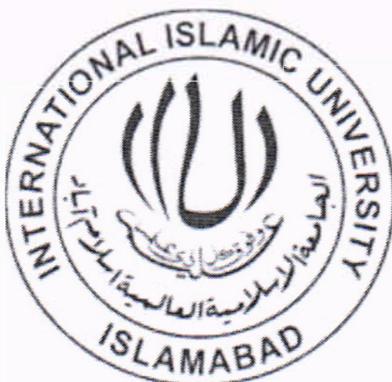


EFFECT OF MERGER AND ACQUISITION ON CORPORATE PERFORMANCE



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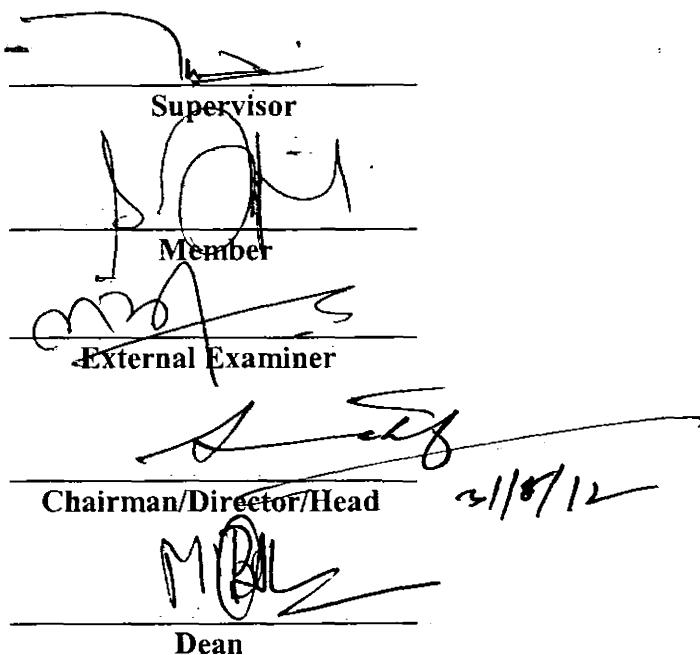
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EFFECT OF MERGER AND ACQUISITION ON CORPORATE PERFORMANCE

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A thesis submitted in partial fulfillment of the requirements for the
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FORWARDING SHEET

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لَهُ مُلْكُ الْأَرْضِ
وَهُوَ لِلْأَنْجَلِينَ
وَهُوَ أَنْجَلُ الْأَنْجَلِينَ

I DEDICATE THIS EFFORT TO

The Best Educator,

Holy Prophet

HAZRAT MUHAMMAD

(SALLALLAHU ALAIHE WAALEHI WASALLAM)

MY PARENTS and Siblings

Who always asked me to work hard with this believe, that
ALLAH will help me. INSHALLAH

Abstract

The purpose of this study is to explore the relationship of post merger and acquisition employee commitment and corporate performance of banking sector of Pakistan. This study also analyzed the critical role played by the committed employees to help the organization move forward after the change process from a threshold to a successful organization. To empirically test the relationship of post Merger/ Acquisition employee commitment and corporate performance self reported questionnaire was used. The target population comprised of all Pakistani banks which have entered in the process of merger and acquisition after the implementation of Basel-II Accord by State Bank of Pakistan. The sampling frame consists of NIB, PICIC, UNION, STANDARD CHARTERED BANK, ROYAL BANK OF SCOTLAND, ABN AMRO BANK AND FAYSAL BANK of Pakistan. Sample size (N=210) was selected through convenient sampling techniques (a form of non-probability sampling technique). Regression and Correlation analysis was applied to test the relationship of the variables. The findings of the study provide the evidence for the significant association and relationship between post merger and acquisition employee commitment and corporate performance.

Key Words: Merger, Acquisition, Corporate Performance, Employee Commitment, Affective Commitment (AC), Continuance Commitment (CC), Normative Commitment (NC), M&A and Banking Sector of Pakistan.

DECLARATION

I hereby declare that this thesis, neither as a whole nor as a part thereof, has been copied out from any source. It is further declared that I have prepared this thesis entirely on the basis of my personal effort made under the sincere guidance of my supervisor.

No portion of the work, presented in this thesis, has been submitted in support of any application for any degree or qualification of this or any other university or institute of learning.

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Chapter 1

INTRODUCTION

1.1 Background of the Study

Mergers and Acquisitions (M&A) are the dominant corporate strategies followed by organizations looking for enhanced value creation. The growing tendency towards mergers and acquisitions world-wide has been driven by intensifying competition. So, the decisions relating to merger and acquisition are very important for the success of corporations and their overall performance. Unfortunately, as the number of merger and acquisition rises, so does the rate of failure (Cartwright & Cooper, 1996). The critical factors causing high failure rate are related to operating and financial performance, business and technical capabilities, effect of stake-holder relationships, corporate culture, the low pace and focus of learning, the inability of the company to renew and enhance its strategy and the employee commitment (Marks & Mirvis, 1985 and Marks & Mirvis, 1998). Whereas a merely successful M&A looks impressive on the basis of a few early performance measures and milestones, like the corporations aggressively try to catch more resources, enhance capabilities and build new competencies to remain competitive in their core areas of business interest with high performance. They can produce goods or services more efficiently if they combine their efforts and facilities to gain competitive advantage which results in increased revenue and shareholder value (Hitt *et al.*, 1990).

Researchers have focused on three primary streams of enquiry in an effort to identify the root causes of failure of M&As (Cartwright and Schoenberg, 2006). Strategic literature suggests that mergers and acquisitions between the corporation operating in the related industries or business sectors, or technologies should outperform than those from unrelated business areas. Cultural literature suggests that parent and acquired corporations with similar values, norms and beliefs should outperform than those without such similarities. Integration process literature suggests that M&As with more efficient methods for integrating new and existing systems, procedures, and organizational structures should outperform than those without such methods.

Unfortunately, these research studies have had no measurable impact on failure rates of M&As (Cartwright and Schoenberg, 2006). Scholars continued to research the unpredictable nature of mergers and acquisitions, concluding their studies with statements such as “the most disturbing outcome is the bewildering spectrum of results, frequently even producing opposite results” (Tichy, 2001), “a huge portion of dissent remains unexplained” (Stahl & Voigt, 2004), and “results indicate that post- merger and acquisition performance is effected by variables unspecified in existing research” (King *et al.* 2004). Because mergers and acquisitions are often associated with large-scale or sudden organizational change, and to manage this change efficiently and effectively is an important consideration for M&A to be successful (Cartwright & Cooper, 1996). Organizational change researchers have identified *commitment* as one of the most important factors contributing to employee support of change initiatives (Harris *et al.*,

1999). Accordingly, a number of researchers have incorporated commitment into various theoretical models of organizational change (Herscovitch and Meyer 2002). Conner and Patterson (1982) argued that the absence of commitment was the most prevalent factor contributing to failed change process.

It is not possible that this stream of research applies directly to mergers and acquisitions. Specifically, could employees' *commitment to organizational change* influence the effect that strategic, cultural, and process fit have on M&A performance? This might be one of the "unspecified variables" of M&A performance that researchers have been trying to identify. The answers to this question cannot be found in existing M&A literature and the researcher is unable to locate a single study that focused on the relationship between corporate performance and employee commitment in a post merger and acquisition phase. The aims of this study were to explore this relationship and to contribute the resulting evidence-based knowledge to existing M&A literature. However, the literature does not provide evidence that employee commitment after M&A directly influences the overall performance of the corporate.

1.2 Problem Statement

Banks frequently engaged in Mergers and Acquisitions with the objective to grow bigger and achieve higher earnings. Most merger and acquisitions have failed to live up

to the expectations. This is because, more often than not, acquisitions will bring along a negative impact on employees' behavior such as uncertainty and stress (Marks & Mirvis, 1992) to the point that it will adversely affect the organization's activities. It appears that dissatisfied employees involved in merger and acquisitions will engage in counterproductive practices, absenteeism, low morale, low commitment and job dissatisfaction (Schweiger & DeNisi, 1991; Vakola & Nikolaou, 2005; Fairfield-Sonn *et al.*, 2002). According to Bruner (2005), it is difficult to manage a group of human beings with different histories, practices and experienced joined together as a result of M&A. Therefore, current research is an attempt to offer important insights towards post merger and acquisition employee commitment and its effect on performance in banking industry of Pakistan.

1.3 Research Objectives

The present study aims to examine the effect of merger and acquisitions on corporate performance and the employees' organizational commitment after the merger and acquisitions. Specifically, the present study would like to find out whether employees commitment played the role in the performance or not. As some studies have indicated that employees from the acquired firms were less committed to the organization after merger and acquisitions as most often, they were the ones who were more severely affected by the merger and acquisitions changes compared to employees from the

acquiring firms (Buono *et al.*, 1985) as cited by Panchal & Cartwright (2001), it is the objective of the present study to find out the level of employees' organizational commitment for the performance of the corporate. However, the question arises whether and under what conditions they have really been able to achieve these objectives. In summary, the objective of the present study is:

- To investigate the role of post merger and acquisition employee commitment and its effect on corporate performance in banking industry of Pakistan.

1.4 Significance of the Present Study

There are several important reasons why this study needs to be conducted. First, there have been numerous studies conducted on merger and acquisitions. Despite the significant interest in this area, our understanding on the antecedents to merger and acquisitions success is still incomplete (Papadakis, 2005). Previous literatures have shown that employees' organizational commitment plummeted during and after merger and acquisitions (Schweiger & DeNisi, 1991; Vakola & Nikolaou, 2005; Fairfield-Sonn *et. al.*, 2002), causing the merger and acquisitions to fail. Since employee commitment is important for the organizational success, but yet some factors need to be explored in order to gain a better understanding of them. The present study would like to investigate some of the potential predictors of corporate performance after merger and acquisitions so that employees' commitment level can be at least maintained, thus helping merger and

acquisitions to be successful. To the best of the researcher's knowledge, no research has been conducted before to link employee commitment to post merger and acquisitions and corporate performance. The findings from the present study may increase our theoretical understandings on factors that influence corporate performance and employee commitment during this chaotic period of merger and acquisitions.

Second, the merger and acquisitions have been known to be a period of drastic organizational change. However, acquisitions are not the only time that an organization changes dramatically. There are also other corporate exercises that bring about significant changes to the organization which senior management needs to be prepared for. Examples of these exercises include corporate restructurings, downsizing, layoffs and so forth. The insights gained from the present study can help management team to prepare for not only merger and acquisitions but also for these other types of major organizational changes that can affect performance.

Third, the findings from the present study may also benefit companies which are planning for merger and acquisitions in the future. Merger and acquisition creates real potential for explosive growth and enhanced profitability if the transaction is done right and this right transaction includes an appreciation of the people involved (Cartwright & Cooper, 1990).

Historically, merger and acquisition success was only measured through financial or economic strategies but this study has not only considered the employees as valuable asset but a critical factor to determine the success or failure of any M&A activity (Huselid, 1995). Organization should provide opportunities for employees to learn new skills, undertake challenging tasks, meet and interact new people in a fair and competitive environment, which in turn lead towards increased corporate performance and above all, ensure merger and acquisition success. Knowing this, management can then incorporate these factors into their merger and integration plans.

1.5 Justification of the Study

In recent history, Mergers and Acquisitions (M&A) have reshaped a number of the world key industries, such as banking/insurance, telecommunication, automobile and airlines (Andrade *et al.*, 2001). In the last two decades the banking industry, worldwide, has undergone into rapid transformations in economic and regulatory environments (Pilloff & Santomero, 1998; Berger *et al.*, 1999) and as a result of these changes the number of mergers or acquisitions has increased. The five critical factors that are partly responsible for M&A activities in the banking sector are (a) deregulation (e.g., financial reforms) (b) Accumulation of excess capacity or financial distress (like efficiency problems or under-performing investments) (c) competition due to globalization of

markets (d) technology (e.g., ATMs, user friendly banking software's and on-line banking systems) and (e) improved economic and financial conditions (i.e. low service charges and interest rates) (Berger *et al.*, 1999).

M&As represent change and the expectations associated with them are often vague and based on rumors which have negative human impact such as lowered, commitment, motivation and satisfaction of the employees (Davy *et al.*, 1988), and if these expectations and attitudes are negative, it may lead towards an unproductive behavior and less favorable attitudes toward management (Covin *et al.*, 1996). This will eventually lead to a decline in the performance and profitability of the newly merged organization. In order to minimize the negative impacts that merger and acquisitions bring, organizations need to get the employees ready to commit to the missions and visions of the newly created entity as fast as possible. They need to identify the critical factors that are necessary for the employees to commit to the newly merged entity so that the success of the merger and acquisitions can be safely assured.

Chapter 2

LITERATURE REVIEW

2.1. Merger and Acquisition

Mergers and acquisitions have been dynamic part of the corporate financial sector for decades and play an imperative role in the reallocation and development of resources in an economy. There are number of reasons, why a corporation will merge with, acquire, or be acquired by another corporation. Merger or acquisition is a combination of two corporations where one corporation is completely immersed in the other is indentified as a separate entity. The merged corporation loses the identity and becomes an important component of the acquirer corporation, which retains its identity and assumes all the rights, resources, privileges, equities and liabilities of the merged corporation.

According to (Hogan & Overmyer-Day, 1994) merger occurs when two or more corporations combine their assets to form a new venture. It implies equality between two organizations, irrespective of their size whether large or small. Sometimes merger is also termed as a consolidation where existing corporations are dissolved and a new corporation is established to amalgamate the assets and the stocks of the new venture which are distributed amongst the shareholders of both the corporations. An acquisition

implies a takeover, friendly or unfriendly where there is no concept of equality involved in the joining venture (Galpin & Herndon, 2000; Bower, 2001; and Gaughan, 2002). But, the “friendliness” of acquisition depends upon the view point of the participants involved in this process. The economic process for merger or acquisition is almost similar except in some instances where an acquisition is considered as hostile (Gaughan, 2002). Mergers and acquisitions are legally different transactions, but in literature, they are used interchangeably (Cartwright & Cooper, 1996) because these are considered as two forms of the same corporate strategy effecting the employee commitment.

2.1.1. Types of Mergers and Acquisitions

Mergers and acquisitions occur in varied forms; like horizontal, vertical, conglomerate and concentric. Horizontal M&A is the combination of two or more similar organizations (or competitors) in the same industry (Meyer *et al.*, 2001). Vertical type mergers occur when a company chooses to acquire or merge with a company possessing same field of business, but operating at different stages of production. (Brealey *et al.*, 2006). Conglomerate M&A is the amalgamation of two firms engaged in unrelated businesses to enhance the overall stability of the acquiring company by improving its business and/or product portfolio (Brealey *et al.*, 2006). Whereas concentric mergers and

acquisitions are organizations in unfamiliar but related business fields into which the acquirer wishes to expand.

2.1.2. Merger and Acquisition Motives

The most important motive in M&A is, that the purchasing firm considers the merger or acquisition to be a profitable investment which can be used to create synergies, operational, financial, technological, marketing, managerial (Chatterjee, 1990; Aswath, 2005; and Kaplan, 2006), Enhance capacity, efficiency gains, growth, economies of scale or scope (Healy *et al.*, 1990; and Hunt, 1990), managerial hubris (Roll, 1986), (Berkovitch *et al.*, 1993), diversification (Amihud & Lev, 1981; Morck *et al.*, 1990; and Stulz, 2003), increased managerial compensation (Jensen & Murphy, 1990), market share, new knowledge or skill, entering into new markets/ regions to expand operations and ownership boundaries, cut costs and for power (Black *et al.*, 2001) shareholder value (Berger & Ofek, 1995).

2.1.3. Merger and Acquisition Failure

There could be many reasons which lead mergers and acquisitions towards failure. It could be result of poor management decisions regarding overpayments

(DePamphilis, 2005), personal reasons of executives, overconfidence in selecting the target firm (Lubatkin, 1983) and over expectation of strategic benefits (Schuler *et al.*, 2004).

Galpin and Herndon (2000) investigated the factors that could lead to the failure of M&As and found that issues relating to human resources were neglected during the process which lead to the failure of the event. Davy *et al.* (1988) also studied the causes of failures and stated that the expectations associated with M&As were often vague and based on rumors which might engage the employees in unproductive behavior. (Cartwright & Cooper, 1993a) cited two reasons of M&A failure with respect to human-resource issues/ problems. First, the macro level issues regarding culture compatibility between the merging organizations and Second, a micro level, is the role of individuals or employees in the merger process where the employees are often forgotten or disregarded.

2.1.4. Previous Empirical Literature on M&A.

Many researchers have studied mergers and acquisitions process by using different methods, e.g. they interviewed the executives, conducted event studies, accounting studies and clinical studies, all these methods have been popular among different types of research groups based upon the need for research. Each method has its own advantages and disadvantages.

2.1.4.1. Event Studies.

Event study method is popular among researchers because it obviates the need to analyze accounting-based measures of profit, which have been criticized because they are often not very good indicators of the true performance of firms. MacKinlay's (1997) work is used by many researchers as a standard reference for understanding and conducting event studies. These studies are based on the assumption that capital markets are efficient; such as to estimate the impact of new information on anticipated future profits of the firms. The core assumption of this methodology is that if information communicated to the market contains any useful and surprising content an abnormal return will occur. In a capital market with semi-strong efficiency one can assess the impact of the event in question on the market value of the company by calculating the abnormal return - the difference between the actual post-event return and the return expected in the absence of the event.

2.1.4.2. Accounting Studies

Accounting studies deal with the pre- merger and post- merger performance of the target and the acquiring companies. These studies use financial accounting data of acquirers before, and after, to determine whether, on average, mergers are followed by changes in profitability, net income, return on equity or assets, EPS, leverage and

liquidity of the firm. Kumar and Rajib (2007a) estimate the impact on the shareholder value after merger has been completed using accounting measures.

2.1.4.3. Clinical Studies

This is an inductive form of research whereby researchers often induce new insights (Bruner, 2004). Small sample is studied in great depth and insights are derived from field interviews with executives and knowledgeable observers. The purpose of these clinical studies is to fill in the gaps left by the study of the stock returns and accounting performances (Jensen, 1986).

2.1.4.4. Survey of Executive

This survey simply asks the executives whether the merger or acquisition creates value for the firm or not. A standardized questionnaire is presented to them for deriving the insights and factual background of the deal. This is an inductive research.

Larsson and Finkelstein (1999) explained the mergers and acquisitions as the most complex events in organizational life and developed a conceptual framework which

was integrated theoretical perspectives from finance, strategy, economics, human resource management and organization theory to offer process-oriented integrative model. They proposed that (1) merger or acquisition success is measured by the level of synergy realization; (2) the similarities between production and marketing activities within and across firms, and (3) the data was collected by using case survey approach. The study investigated a sample of 61 mergers and acquisitions. The results of the study revealed that (1) mergers and acquisitions that were dependent on returns from production and marketing activities were combined and experienced more resistance from employees than normal. (2) Irrespective of similarities amongst the merged firms, the combined operations of production and marketing have increased the probability for merger and acquisition success to foster synergy realization, and (3) synergy realization. Overall, the findings provided strong support for an integrity theory of mergers and acquisitions.

2.2. CORPORATE PERFORMANCE

Post merger and acquisition performances have largely been centre of interest among the researchers from strategy, finance, economics and organizational behavior. Lubatkin (1983) investigated the industrial, strategic management and finance literature to review that the mergers and acquisitions provide potential benefits to the acquiring

firms or not. The results reveals that industrial organization and finance literature used merger and acquisitions as homogenous phenomenon and all the benefits are because of technical, financial, and diversification synergies, while the strategic management literature suggests that mergers and acquisitions are not homogeneous phenomenon because they can lead to various other possible outcomes reliant on the strategic fit between acquired and acquiring firms.

Previous financial studies of post-merger performance commonly pursue two general approaches: (1) the share-price analysis approach and (2) the analysis of operating performance to ensure the merger-related growth and profitability. Each method has its own advantage and limitation. In share-price analysis approach, market-based measures were used to detain synergistic returns for the value creation of M&A. These studies show mixed results, mostly reporting insignificant merger-induced gains; while short term studies suggest that the target firms gains positively (Singh & Montgomery, 1987; and Ismail *et al.*, 2011). Whereas, operating performance studies used only the accounting data to evaluate pre and post M&A performance (Ravenscraft & Scherer, 1987).

The economic theory offers two competing thoughts regarding mergers, acquisitions and corporate performance strategies. First is managerial theory or non-value maximizing theory, which views mergers as the extension of manager's personal

transaction is done right and includes an appreciation of the people involved in it will enhance the rate of corporate growth and profitability, because employees play an important role in the success or failure of the venture (Daniel & Metcalf 2001).

2.3. EMPLOYEE COMMITMENT

Employee commitment is important to a firm that is rebuilding itself after a M&A because committed and loyal employees provide many benefits for their organizations (Niehoff *et al.*, 2001). Employees put forth extra effort in their work, serve as positive public-relations representatives outside the organization, and go above and beyond the norm in doing the little things that help the organization function effectively (Niehoff *et al.*, 2001; O'Reilly & Chatman, 1986; Organ, 1988). The organization, therefore, would have a competitive advantage with employees who want to maintain involvement with the organization and are willing to work extra hard on behalf of the organization (Mowday *et al.*, 1982). A better understanding of this construct is perhaps more important in today's era of M&As. The concept of employee commitment seems to hold the interest of so many researchers due to the powerful implications it has on the organization and its members (Becker, 1992), and the perceived relationship to many organizational outcomes. From an organizational perspective, for example, lower

turnover and absenteeism, and higher productivity/performance are manifestations of strong employee commitment.

In commitment research, there are two common perspectives: the behavioral perspective and the attitudinal perspective. Behavioral commitment is a process by which individuals become locked into a certain organization, and how the individuals or employees deal with the problem. Attitudinal commitment refers to the process by which individuals come to think about their relationship with the organization (Meyer & Allen, 1997). The focus of the behavioral commitment approach was that individuals were committed to a particular course of action rather than to an entity, in this case their organization. The goal, therefore, has been to identify the conditions under which an act, once taken, would be likely to continue (Meyer & Allen, 1997). The attitudinal commitment approach focuses on the process by which employees come to regard their relationship with the organization. The attitudinal approach is the most studied type of organizational commitment. One of the problems with this approach is that different researchers defined this composite view of commitment in very different ways. This indicated that commitment was more complex than originally thought.

Multiple definitions of employee commitment are found in the literature. Bateman and Strasser (1984) defined commitment as “multidimensional in nature, involving an employee’s loyalty to the organization, willingness to exert effort on behalf of the

organization, degree of goal and value congruency with the organization, and desire to maintain membership". According to Buchanan (1974) most scholars define commitment as being a bond between an individual (the employee) and the organization (the employer), Newstrom and Davies (2002) define employee commitment as the degree to which an employee identifies with the organization and wants to continue actively participating in it. Meyer and Allen (1991) and Dunham *et al.*, (1994) identified three types of commitment; affective commitment, continuance commitment, and normative commitment. Meyer, Allen, & Smith (1993) state that the three types of commitment are a psychological state "that either characterizes the employee's relationship with the organization or has the implications to affect whether the employee will continue with the organization". Commitment is usually stronger among longer-term employees, those who have experienced personal success in the organization, and those working with a committed employee group.

Affective commitment is defined as the emotional attachment, identification, and involvement that an employee has with its organization and goals (Mowday *et al.*, 1979; Meyer & Allen, 1993). Porter *et al.* (1974) characterizes affective commitment by three factors (1) "belief in and acceptance of the organization's goals and values, (2) a willingness to focus effort on helping the organization achieve its goals, and (3) a desire to maintain organizational membership". Meyer and Allen (1997) stated that employees retain membership out of choice and this is their commitment to the organization.

Continuance commitment refers to commitment based on the employee's recognition of the costs associated with leaving the organization. Employees with strong continuance commitment, then, remain with the organization because they have to do so (Allen and Meyer, 1996). Meyer and Allen (1997) further explain that employees who share continuance commitment with their employer often make it very difficult for an employee to leave the organization.

Normative commitment is a relatively new aspect of employee commitment having been defined by Bolon in 1993. According to him, the commitment is that a person believes that they have to the organization or their feeling of obligation to their workplace. In 1982, Weiner discusses normative commitment as being a "generalized value of loyalty and duty". Meyer and Allen (1991) supported this type of commitment prior to Bolon's definition, with their definition of normative commitment being "a feeling of obligation". It is argued that normative commitment is only natural due to the way we are raised in society. Normative commitment can be explained by other commitments such as marriage, family, religion, etc. therefore when it comes to one's commitment to their place of employment they often feel like they have a moral obligation to the organization (Wiener, 1982).

Although employee commitment has been one of the most popular research topics of industrial psychology and organizational behavior over the past 30 years, researchers have struggled to show consistent evidence that commitment and corporate performance go hand in hand (Benkhoff, 1997). In a meta-analysis of 124 published studies on commitment within organizations, the authors summed up their findings by stating: “Although higher levels of commitment may relate to improved job performance in some situations, the present findings suggest that commitment has very little direct influence on [organizational] performance in most instances” (Mathieu and Zajac, 1990). Other researchers have suggested that the final judgment on the existence or nonexistence of a commitment to performance causal relationship should wait until after additional research has been completed (Randall 1990; Benkhoff 1997). The literature does not provide evidence that employee commitment after M&A directly influences the overall performance of the corporate. Thus the aims of this study were to explore this relationship and to contribute the resulting evidence-based knowledge to existing M&A literature.

H1: There is a positive relationship between Affective Commitment and Corporate Performance after the merger and acquisition.

H2: There is a positive relationship between Continuance Commitment and Corporate Performance after the merger and acquisition.

Pakistan's banking industry has experienced merger and acquisition trends in the past decade, and SBP aims to encourage these consolidations and privatizations by introducing new reforms for sustaining the performance and profitability of banks in a fair and competitive environment. These reforms have completely restructured the entire banking system as this industry became globalized irrespective of territories and boundaries. Subsequently, this deregulation process witnessed more than 15 mergers and acquisitions in Pakistan's banking industry, e.g. the acquisition of Union bank by standard Chartered Bank, PICIC was merged in NIB bank, Royal Bank of Scotland (RBS) acquired ABN AMRO bank and then RBS acquired by Faysal Bank Ltd etc.

Standard Chartered Bank Pakistan Limited (SCBPL) is one of the oldest and largest growing foreign banks of Pakistan operating since 1863 and ranked best foreign bank in 2009 and received many excellence awards. Standard Chartered bank is running with over 40,000 personnel, having domestically 176 commercial and Islamic banking branch network in 41 cities. The major income of the banks comes from the consumer and wholesale banking. SCBPL acquired Union Bank on 30th December 2006 and became the fifth largest bank of Pakistan. SCBPL provides nonstop 24 hours and 365 days banking services nationwide to all its customers through multiple electronic channels like ATMs, internet, mobile phone banking, Pos, Call centers and IVRs.

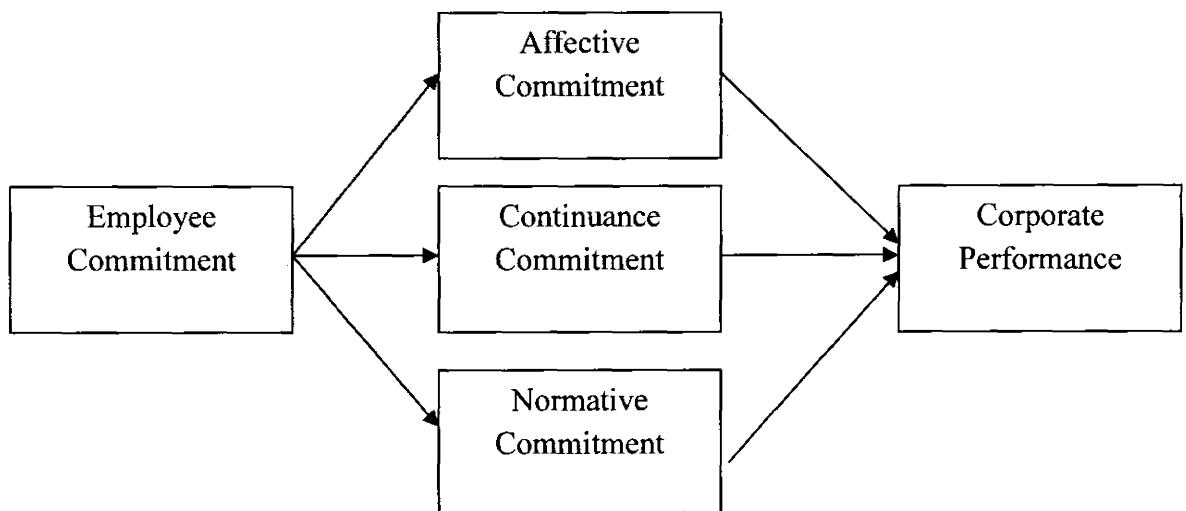
NIB bank is another fastest growing bank in Pakistan having more than 686,160 customers and employing above 2900 people in 179 branches nationwide to provide 24 hours online banking services through different electronic mediums to their consumers, retailers, corporations and other institutions. NIB Bank acquired PICIC commercial bank in December 2007.

Faysal Bank Limited (FBL) was incorporated in Pakistan on October 3, 1994, as a public limited company under the Companies Ordinance, 1984. Currently, the Bank shares are listed on the Karachi, Lahore and Islamabad Stock Exchanges. Faysal Bank is engaged in Corporate, Commercial, Retail and Islamic Banking activities. Following the acquisition of RBS Pakistan, FBL's footprint has expanded to over 260 branches in more than 70 cities, with combined business assets of over PKR 290 billion, further strengthening its balance sheet and placing it amongst the top ten banks in Pakistan. FBL's ambition is to provide par excellence service to its customers while meeting their financial needs. Previously the Royal bank of Scotland acquired ABN AMRO bank Ltd.

2.5. Theoretical Framework

Theoretical framework used in this study is based on the relationship of three forms of employee commitment with the corporate performance after the merger and acquisition. In literature, there is no conclusive research that has focused on this relationship. This research is an attempt to provide an evidence for this relationship.

2.6. Model of the Study



Chapter 3

MATERIAL AND METHOD

This chapter presents the methodology used to investigate the relationship of employee commitment with corporate performance. It was based on sample and procedure, description of the instruments, data analysis and finally ethical concerns of participants.

Pakistan banking industry has experienced merger and acquisition wave after the implementation of Basal Accord II. Seven competitors' banks underwent merger and acquisition process and incorporated as three separate entities. These organizations were chosen because the amalgamation occurred immediately after the implementation of Basel-II Accord in Pakistan.

3.1. Sample and Procedure

Data for this study was collected from the merged and acquired banks and the target population comprised of all those Pakistani Banks which have entered into the process of merger and acquisition after the implementation of Basel-II Accord by State Bank of Pakistan. The sampling frame consists of NIB, PICIC, Standard Chartered, UNION Bank, ABN AMRO Bank, Royal Bank of Scotland and Faysal bank LTD. Self-

reported questionnaires were used to collect the primary data (Qureshi *et al.*, 2010) and 240 employees were selected as study participants and the questionnaires were handed them personally. The data was collected in the year 2011-2012 from of the Merged and Acquirer Banks located in Islamabad, Rawalpindi, Faisalabad, Multan, Jhelum and Lahore. The duration for data collection was about six to eight weeks. The questionnaires (Appendix A) were distributed in various departments viz. Operations, Credit, Loaning, Accounting and Finance; Service quality, Corporate, Human Resource and Customer Services. Convenience Sampling Technique (a form of non probability sampling technique) has been used to obtain the study sample (Qureshi *et al.*, 2007 & 2010; and Mohammad *et al.*, 2010). Total 217 completed questionnaires were retrieved, out of these 7 questionnaires were discarded for incomplete responses. 210 questionnaires with 87% acceptable response rate were eligible for this study.

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3.2. Description of Instruments

The instrumentation of this study, which was self reported questionnaire, consisted of four sections (i) The biographical / Demographic information (ii) The Employee Commitment (Affective, Continuance and Normative Commitment) (iii) The Corporate performance.

3.2.1. Demographic data

Demographic questions were used to collect data. The participants were asked to respond to self-descriptors viz. age, gender, previous and current organization.

3.2.2. Corporate Performance Scale

Corporate Performance being a dependent variable was measured through Qureshi *et al.* (2007) organization performance scale. It was consists of 10 items, and responses to these items were made on a seven points Likert scale ranging from 7 to 1, Where 7= strongly agree, 6=agreed the, 5= somewhat agree, 4=neutral, 3= somewhat disagree, 2= disagree and 1= strongly disagree. Cronbach's alpha of all the items were 0.82.

3.2.4. Employee Commitment Scale

The factor structure of Allen and Meyer's (1997) commitment scale has been examined in several studies. Some of these studies include measures from all the three components (affective, continuance, and normative). Previous studies have provided empirical support to demonstrate that the components are indeed distinguishable from

one another (Dunham *et al.*, 1994; McGee & Ford, 1987 and Reilly & Orsak, 1991). For this study all the three measures for affective, continuance and normative commitment were incorporated for testing and validation purposes. Altogether seventeen (10) items comprising the measures for affective(items number 1, 2 and 3), continuance (items number 4,5 and 6) and normative commitment (items number 7,8,9 and 10) were incorporated in the questionnaire. All items are measured on a 7 point scale ranging from (1) strongly disagree to (7) strongly agree. The seventeen (10) items are reproduced in Appendix A of this paper. The Cronbach's reliability coefficients ranged from 0.7 to 0.82.

Each instrument has provided distinctive information about Corporate Performance and three forms of employee commitment.

3.3. Data Analysis

Statistical Package for Social Sciences (SPSS) 19 trial version was used as statistical tools in which Mean and Standard deviation was calculated through the Descriptive statistics. For finding the contribution of independent and dependent variables. Pearson Correlation was applied (Qureshi *et al.*, 2007). Whereas, Linear regression analysis were used (Singh, 2004) to evaluate the association of affective,

continuance, normative commitment and corporate performance after the merger and acquisition.

3.4. Ethics Approval

To conduct the study, acquiescence was taken from the Faculty of Management Sciences of International Islamic University. Enclosed the cover letter with questionnaire (Appendix A) assured the Participant's confidentiality and anonymity.

Chapter 4

RESULT ANALYSIS

The results are explained in the context of research objectives, hypotheses and literature review. Therefore the description of the sample, internal consistencies of the scales and applications of various statistical tests are presented below.

4.1. Description of Sample

The research has been conduct on 210 volunteered employees, with 87% response rate. Out of 210 respondents, 117 were from acquirers and 93 participants were having the working experience in merged banks; with gender ratio of 152 male and 58 females respectively. The results of demographic studies are given in (Table.1). The respondent's mean age was 26.5 (S.D =13.33) years (Table. 2).

Table. 1. Demographic Characteristics of Participants

Characteristics	Frequency (n=210)
Gender	
Male	152
Female	058
Age	
20-25	43
26-30	59
31-35	53
36-40	32
40+	20
Organization	
MERGED BANKS	93
ACQUIRER BANKS	117

Table.2 Demographic Descriptive Statistics

	Descriptive Statistics		
	Gender	Age	Organization
Mean	0.28	2.65	1.56
Std. Deviation	0.44	1.23	0.49
Minimum	0	1	1
Maximum	1	5	2
N	210	210	210

4.2. Reliability Analysis

Cronbach's alpha is used to measure the reliability and internal consistency of the scales. Nunnaly and Bernstein (1994) had described that 0.70 alpha value or more is the standard alpha value for the reliability of scales. According to the results the Corporate Performance scale reliability is 0.77, whereas Affective Commitment was 0.7, Continuance Commitment 0.69 and Normative Commitment as 0.71.

4.3. Statistical Tools

4.3.1 Descriptive Statistics

This analysis has showed the mean and standard deviation for all variables. The contribution of mean for affective, continuance, normative commitment and corporate performance is 3.12, 3.18, 3.35 and 3.44 respectively, whereas the standard deviation is 11.1, 10.8, 0.95 and 0.78 respectively (Table 3).

Table 3. Descriptive Statistics for Independent and dependent variables

Descriptive Statistics				
	AC	CC	NC	CP
Mean	3.12	3.18	3.35	3.44
Std. Deviation	1.11	1.08	0.95	0.78
Minimum	1	1	1	2
Maximum	6	6	6	5
N	210	210	210	210

4.3.2. Bi-Variate Correlation Analysis

Post merger and acquisition employee affective commitment has been found to be positively correlated with corporate performance ($r= 0.41$, $p< 0.01$). The results revealed that a well managed merger and acquisition helps the organizations for not only increasing the corporate performance but also to enhance the commitment of the employees.

Continuance commitment after M&A also indicated positive correlation with corporate performance ($r= 0.38$, $p< 0.01$). According to the results, corporate performance was increased after the merger and acquisition, however the employees were considered as critical success factor.

Employee post merger and acquisition normative commitment has been found to be significantly correlated with merger and corporate performance ($r= 0.4$, $p< 0.01$). The results show that the committed employees always help the organization for its growth and business expansion (merger or acquisition). Therefore they also play a positive role in enhancing the performance of the organization. Table 4, 5 & 6 includes the correlation between different constructs employee commitment and corporate performance in post merger and acquisition phase.

Table. 4. Correlation of Affective Commitment and Corporate Performance after M&A

Variables	AC	CP
Affective Commitment (AC)	1	
Corporate Performance (CP)	0.41	1

Table. 5. Correlation of Continuance Commitment and Corporate Performance after M&A

Variables	CC	CP
Continuance Commitment (CC)	1	
Corporate Performance (CP)	0.38	1

Table 6. Correlation of Normative Commitment and Corporate Performance after M&A

Variables	NC	CP
Normative Commitment (NC)	1	
Corporate Performance (CP)	0.40	1

Regression Analysis

In first regression of post merger and acquisition, employee affective commitment was entered as predictor and corporate performance entered as dependent variable. The statistical results of regression in model summary table shows the prediction value as $\Delta R^2 = .230$ which shows 23% of variance, $F (1, 208) = 32$, $p < .001$ and $\beta = 0.41$.

Table 7. Corporate Performance by Affective Commitment after M&A

Affective Commitment	Adjusted R2	Standardized beta	t-value
	0.230	0.410	5.58
Individual Regression Analysis			

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.776	1	16.776	32.191	.000 ^a
	Residual	111.869	208	.538		
	Total	128.645	209			

a. Predictors: (Constant), Affective Commitment

b. Dependent Variable: Corporate Performance

In this prediction value of coefficient of $\beta = .410$ showed that affective commitment significantly contributed to corporate performance variable. This shows the relationship of these two variables in positive direction, it means that if affective commitment will increase then corporate performance will also increase and vice versa. As hypothesis 1 stated that affective commitment is positively related to corporate performance after the merger and acquisition, the result of first regression proved the hypothesis 1.

In second regression continuance commitment was entered as predictor and corporate performance entered as dependent variable. The statistical results of regression in model summary table shows the prediction value as $\Delta R^2 = 0.14$ which shows 14% of variance, $F (1,208) = 14$, $p < .005$ and $\beta = 0.38$

Table. 8. Corporate Performance by Continuance Commitment after M&A

Continuance Commitment	Adjusted R2	Standardized beta	t-value
	0.147	0.384	3.78

Individual Regression Analysis

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.307	1	8.307	14.358	.000 ^a
	Residual	120.338	208	.579		
	Total	128.645	209			

a. Predictors: (Constant), Continuance Commitment

b. Dependent Variable: Corporate Performance

In this prediction value of coefficient of $\beta = 0.38$ showed that continuance commitment significantly contributed to corporate performance variable in positive direction. The positive sign shows the association of the variables in similar direction means that if continuance commitment will increase then corporate performance will also increase and vice a versa. As hypothesis 2 stated that continuance commitment is positively related to corporate performance after the merger and acquisition, the result of second regression proved the hypothesis 2:

In third regression normative commitment was entered as predictor and corporate performance entered as dependent variable. The statistical results of regression in model summary table shows the prediction value as $\Delta R^2 = 0.16$ which shows 16% of variance, $F(1,208) = 16$, $p < .005$ and $\beta = 0.40$

Table. 9. Corporate Performance by Normative Commitment after M&A.

Normative Commitment	Adjusted R2	Standardized beta	t-value
Individual Regression Analysis	0.167	0.400	5.99

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.940	1	18.940	35.911	.000 ^a
	Residual	109.705	208	.527		
	Total	128.645	209			

a. Predictors: (Constant), Normative Commitment

b. Dependent Variable: Corporate Performance

In this prediction value of coefficient of $\beta = 0.40$ showed that normative commitment significantly contributed to corporate performance variable in positive direction. The positive sign shows the association of the variables in similar direction means that if normative commitment will increase then corporate performance will also increase and vice a versa. As hypothesis 3 stated that normative commitment is positively

related to corporate performance after the merger and acquisition, the result of third regression proved the hypothesis 3.

Chapter 5

DISCUSSION

The purpose of this study is to assess the post merger & acquisition employee commitment on corporate performance. For this purpose employees from merged and acquirer banks were surveyed to find out this relationship of independent and dependent variables. The results from correlation and regression analyses revealed the positive relationship among all these variables. The results suggest that post merger and acquisition employee commitment are positively correlated with the corporate performance. Evidence of this relationship is set forth in this study and suggests that merger and acquisition was taken place between the seven banks for the sake of value enhancement and to move forward from the large number of small banks to small number of large banks.

Prior literature linking post merger and acquisition employee commitment and its effect on corporate performance has been limited. However, researchers such as Buono and Bowditch (1989), Cartwright and Cooper (1992 & 2000), Covin *et al.* (1996), Marks and Mirvis (1992), and Allen and Meyer (1991), posit that M&A have an effect on employee commitment. Today, it is well recognized that an employee's commitment to his or her organization can take different forms that lead towards the increased or

decreased corporate performance. A more comprehensive understanding of this relationship is achieved by recognizing that the employee might experience all three forms of employee commitment to varying degrees and, therefore, they must be assessed together. Furthermore, changes in the work place, such as a merger or acquisition, have the potential to influence the three forms of commitment (Meyer *et al.*, 1998).

Hypothesis 1 proposed that there is a significant positive relationship between affective commitment and corporate performance. The results predicted that satisfaction with a merger or acquisition did predict a significant positive relationship between affective commitment and corporate performance ($t = 5.5$, $p < .001$). This indicates that employees who reported a high satisfaction with the M&A reported high affective commitment score and ultimately work for the betterment of the organization that resulted in the increased corporate performance. On the other hand if the employees were dissatisfied with the M&A reported low affective commitment and decreased corporate performance. Past literature explains the finding that employees' affective commitment enhanced the organizational performance when their personal needs are fulfilled (Meyer & Allen, 1997). Meyer *et al.* (1993) and Meyer *et al.* (1998) argue that affective commitment appears to be strengthened by work experiences. Furthermore, employees who believed in the value and the importance of the change (Topolnytsky & Meyer, 2002), (for example, the employees may believe that the new organization provides them with a conducive environment to achieve their goals), identified that the organization

cared and valued them, became more involved in the organization. Consequently, Hypothesis 1 was supported.

Hypothesis 2 stated that continuance commitment have a significant positive relationship with the corporate performance after the merger and acquisition ($t = 3.7, p < .001$). Previous research suggests that attempts to relate continuance commitment to performance can be complicated by the fact that the perceived importance of alternatives is situational, and more importantly, specific to the ways in which each person expresses continuance commitment (Meyer & Allen, 1997). For instance, one employee will realize that his or her skills are organization-specific and non-transferable after a recent job search; another will consider it an asset to remain with the current organization. Therefore in this study, the employees in the organization may have expressed continuance commitment in different ways according to their desires, needs, and situation in which they are confronted so worked for the success of the corporate. Another plausible explanation may be that the employees are the primary stakeholder in the post-merger and acquisition process, and when they perceive that the merger or acquisition is a financial success they show more commitment and helped the corporate to improve its performance. They believe that it is built on a sound corporate strategy which have offer them personal benefits, financial incentives and career development opportunities.

Hypothesis 3 proposed that normative commitment was positively correlated with the corporate performance ($t = 5.9, p < .05$). Here the implication is that the more satisfied employees are, the higher their level of obligation to remain with the organization and that will lead towards high corporate performance. Normative commitment is effected after a merger or acquisition when the employees experience either negative or positive socialization processes. Through a process of conditioning, where behaviors are rewarded by management, or modeling, through observation and imitation of upper management (e.g., the CEO), the employees internalize and learn what is expected of them by their new organization. Employees who are satisfied with the M&A may believe it is appropriate to be loyal and work for the success of the new organization. Hence the hypothesis 1, 2 and 3 strongly predicts critical role played the committed employees in post merger and acquisition performance of the corporate.

Finally, the results of the study have provided strong evidence that when a merger and acquisition transaction is done correctly it really improves the corporate performance. Previously the human resource issues were the most neglected ones. Present study has shown that employees are the most important asset of the organization and they play a crucial role in the success of merger and acquisition. Employees' satisfaction with a merger and acquisition enhanced their commitment and the corporate performance of Pakistani banks.

5.2. Conclusion

This research is an attempt to examine the critical factors that may affect the post merger and acquisition performance and the employee commitment is one of them. Historically, merger and acquisition success was only measured by financial or economic strategies but this study has considered the employees not only as valuable asset but a critical factor to determine the success or failure of any M&A activity (Huselid, 1995). Many researchers have stated that there have been few studies, which have examined employee commitment in the workplace after a merger and acquisition (Meyer & Allen, 1997; and Meyer *et al.*, 2001). The literature suggests that a merger or acquisition creates real potential for explosive growth and enhanced profitability if the transaction is done right and this right transaction includes an appreciation of the people involved and the part they play in the success or failure of the venture (Cartwright & Cooper, 1990; and Daniel & Metcalf, 2001). Another reason for the success of a merger and acquisition is that personal likings or disliking of employees to the M&A which did not make them think of quitting the organization, but rather being satisfied with their job (Clugston, 2000). Previous studies show that mergers and acquisitions do not contribute to increase the performance due to the ignorance of employees related issues and most of the M&As fail to bring out the desired outcomes due to these issues (Covin *et al.*, 1996; and King *et al.*, 2004). Most of the employee's foresee merger and acquisition activity as a major threat to their jobs and the results reveal that these fears are justified because, during mergers or acquisitions, the numbers of employees working in the targeted corporations

are actually fewer than before (Archontakis *et al.*, 1998, and Georgeakopoulos, 2000). This research constitutes first attempt to introduce the construct of employee commitment in post merger and acquisition performance. The results of this study have revealed that the merger and acquisition has a positive effect on corporate performance and the employee commitment is the most critical factor that helped in the success of merger and acquisition.

5.3. Implication of the Research

This century has revealed incredible changes in the field of research. This is an era of change and restructuring of corporate sector performance. Huge numbers of mergers & acquisitions have taken places which have attracted the attention of the researchers. The extant of the research ranges from micro to macro level. This research makes theoretical contributions by accumulating our knowledge about the effect of merger & acquisition on corporate performance and specifically the role of employee commitment.

This research provides valuable contributions in theorizing about these variables and empirical evidence is also provided that merger & acquisition affected the corporate performance in many ways and employee commitment has played an important role in enhancing the performance of the corporate. This study will become a significant part of

finance, HRM and strategic management studies and will play a great role for literature review.

5.4. Implication for Managers

The research findings include some practical implications for the managers or the management involved in the process of merger and acquisition. This research suggests that employee commitment after the merger or acquisition is strongly associated with corporate performance. The generalization of these findings is limited, as only seven banks were studied. Consequently, the results of this research help the managers in understanding the importance of employee commitment during or after the merger and acquisition process. They can take various remedial actions for employees during or after the change process and provide opportunities to learn new skills, undertake challenging tasks, meet and interact new people in a fair and competitive environment, learn new skills, which in turn lead towards increased corporate performance and above all, ensure merger or acquisition success. Finally, the results have significantly supported the objectives of the research and enhanced the confidence of the researcher in conducting further research on this relationship with wider perspective.

5.5. Limitations of the Research

The following conditions may have exerted certain limitation to the research, and they should be considered while interpreting the results. Amongst all, the scope of the study was limited to the selected variables i.e. post merger and acquisition, corporate performance and employee commitment. The data was collected from seven banks only through convenient sampling. Therefore, it is not assured that the findings of this research will be generalizable to all the corporate, employees, size and culture of the corporate sector.

Another limitation is that, this research was conducted during the post merger and acquisition phase and the consequences or the behavior of employees are not always consistent across time as of pre merger or acquisition phase. Another important area that contemplates a merger or acquisition is to recognize the employee's contribution to the new organization's values, goals and objectives. This research is also limited by its scope that the corporate performance can be measured by using other types of data and sources.

5.6. Future Research Direction

This study has only scratched the surface in understanding the relationship of selected variables of corporate performance and employee commitment in the post merger or acquisition phase. A longitudinal analysis for the same construct may be

conduct, including pre and post merger and acquisition phase, measuring corporate performance by different methods and techniques and studying employee commitment from different perspective, involving employees in decision making process, policies and procedure build in a way that assesses the need of employees and customizes their incentives. It helps in developing association and commitment among employees resulting in enhanced corporate performance in the succession of merger and acquisition.

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Appendix A

Questionnaire:

“EFFECT OF MERGER AND ACQUISITION ON CORPORATE PERFORMANCE”

Dear Respondents:

I am M.Phil (MGT) student at International Islamic University, Islamabad, conducting research on ‘Effect of Merger and Acquisition on Corporate Performance’ and have designed the questionnaire to collect data from the professionals who are working or worked in the merged and acquired banks. The data collected will be used and reported in aggregate form: no individual response will be referred or quoted. The information you furnish will be treated as confidential.

You are requested to take 10-15 minutes out of your busy schedule to fill this questionnaire that comprises four parts. Please fill all the parts completely. Your cooperation is highly appreciated. If you need finding of this research please send a request to sababashir@gmail.com.

Part A:

Note: Please provide the following information.

Gender: -----

Age: -----

Name of the organization: -----

Merged / acquired organization: -----

Total professional experience: -----

Part B:
Questionnaire Items Retained for Analysis

Note: Please encircle the appropriate number against each statement, according to the scale given below.

Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

Corporate Performance

How would you compare the current corporate performance after the merger and acquisition?

1. Quality of the product/services has been improved.

1 2 3 4 5 6 7

Development of new products or services is major activity in the corporate.

1 2 3 4 5 6 7

2. Satisfaction of customers / clients is a preferred concern.

1 2 3 4 5 6 7

3. Corporate ability to attract employees has improved.

1 2 3 4 5 6 7

4. Ability to retain employees has improved..

1 2 3 4 5 6 7

5. Satisfaction of customers/ clients is a preferred concern.

1 2 3 4 5 6 7

4. Right now, staying with my organization is a matter of necessity as much as desire.

1 2 3 4 5 6 7

5. One of the few negative consequences of leaving this organization would be the scarcity of available alternatives.

1 2 3 4 5 6 7

6. If I had not already put so much of myself into this organization, I might consider working elsewhere.

1 2 3 4 5 6 7

7. Even if it were to my advantage, I do not feel it would be right to leave my organization now.

1 2 3 4 5 6 7

8. I would not leave my organization right now because I have a sense of obligation to the people in it.

1 2 3 4 5 6 7

9. I owe a great deal to my organization.

1 2 3 4 5 6 7

10. This organization deserves my loyalty.

1 2 3 4 5 6 7

