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ROLE OF HR IN MERGERS: A STUDY OF MERGER OF
ICICI BANK & BANK OF RAJASTHAN LTD
SVETLANA TATUSKAR¹, SHWETA MAHESHWARI²

ABSTRACT

The merger of ICICI Bank, a leading private sector bank and Bank of Rajasthan, an old generation private sector bank was announced officially on 21st May 2010. The merger announcement came in the wake of mounting pressure on Bank of Rajasthan because of its unprofessional conduct, misleading share pattern, mismanagement of accounts, and irregularities in the operations. RBI also opined that the merger of Bank of Rajasthan was inevitable for the Bank’s sustainability. As Bank of Rajasthan started scouting for a suitable White Knight, ICICI Bank became the appropriate match for the marriage as it approached Bank of Rajasthan at the right time. Though the senior management of both the banks was convinced about the value enhancement however, the employees were extremely anxious about their future in the merged entity. This unfavorable reaction from the employees delayed the deal. This case focuses on the importance of Human Resources in M&A process during integration phase and the roadmap for successful integration keeping employees interests at the core.

Keywords: Mergers and Acquisitions, Human Resource, HR Integration, ICICI Bank, Bank of Rajasthan
Introduction

It was Monday, May 24, 2010, when ICICI Bank and BOR finally decided to go ahead with the merger based on an internal analysis of the strategic value it would bring to both. Ms. Chanda Kocchar, CEO of ICICI bank was particularly instrumental in framing this merger, as she was convinced of the promising prospects the merger would bring to all the stakeholders of both the banks.

The deal “is a win-win situation for the shareholders” said Kocchar. ICICI Bank management was completely convinced about this merger even though many analysts thought that it would be a costly proposition for ICICI Bank. The rationale was it would take ICICI Bank three years to build the kind of low-cost current account and savings account (CASA) relationship, it got to build upon by acquiring Bank of Rajasthan.

The merger substantially enhanced ICICI bank's branch network specially strengthening its network in northern and western India. It was a welcome proposition for BOR too as the share prices of BOR soared to its all time high creating positive feelings about the merger amongst the shareholders.

The merger saw a lot of twists and turn in the minds of both the banks stakeholders. The shareholders and customers were initially apprehensive but later accepted the merger. The most apprehensive and anxious party were the employees of BOR who felt extremely insecure about their future in the merged entity. They also felt that the merger would destroy the identity of one of the oldest private sector banks in the country. Lack of communication about the value proposition this merger would bring, also created a sense of resentment among employees. Employees negatively reacted to these developments by withdrawing their support towards the merger.

In order to protest against the merger all branches of BoR with over 4,000 employees went on a token strike on 3rd and 4th June, 2010 (Refer Exhibit-I for strike notice). Three major employee unions of BoR--All India Bank of Rajasthan Employees Federation, All India Bank of Rajasthan Officers' Association and Akhil Bhartiya Bank of Rajasthan Karmchari Sangh - supported the strike demanding immediate termination of the ICICI-BoR merger proposal.

The unions of BOR took the matter so seriously so as to write to Finance Minister, Pranab Mukherjee and Reserve Bank of India demanding their intervention in the
matter and also scheduled a meeting with Regional Labor Commissioner to discuss the matter.

**About ICICI Bank**

The second largest bank with 2044 branches and 3546 ATMs today, ICICI Bank has clearly been amongst the frontrunners of Indian banking sector. It has a bouquet of banking and financial services products to offer both retail and corporate customers through multiple delivery channels. Over the years, the bank has established a leadership position in retail credit, corporate and investment banking, international banking, insurance, asset management and private equity.

The Bank currently has subsidiaries in the United Kingdom, Russia and Canada and branches in 18 countries of the world.

It has also won various awards and accolades for its endeavors. The latest being the prestigious World Finance Awards for Excellence in NRI Services, Excellence in Remittance Business – Asia Pacific Region and Excellence in private banking business – Asia Pacific Region.

The bank has always believed in expansion and towards achieving this has used inorganic growth methods. The present case which was the third acquisition by ICICI Bank was a testimony to the same. It had earlier acquired Bank of Madura way back in 2001 and the Maharashtra-based Sangli Bank in 2007.

**About BoR**

Based in Udaipur in 1943, Bank of Rajasthan started with an initial capital of Rs.10.00 lacs. The bank was classified as the Scheduled Bank in 1948. The bank's central office was located at Jaipur while registered office was in Udaipur. The erstwhile Bank of Rajasthan had 463 branches and an additional 58 branches network of the sponsored rural bank.

The Bank also sponsored a rural (Gramin) bank called Mewar Anchlik Gramin Bank in Udaipur District in Rajasthan on 26th January, 1983.

Some of the services provided by the erstwhile Bank of Rajasthan were deposit schemes, credit facilities, internet banking, demat services, anywhere branch banking, foreign exchange, cash management service and mobile banking.
An eminent Industrialist Late Seth Shri Govind Ram Seksaria was the founder Chairman. The ownership of the bank changed several hands over the years. It was professionally controlled by Malingka brothers for quite many years after which the Tayals took over.

"I am happy with the RBI decision. The synergies will start from tomorrow and integration will be completed this month," said Pravin Tayal, the promoter of the Bank of Rajasthan prior to the merger. – DNA, Thursday, Aug 12, 2010

The Background

“If you shut up truth and bury it under the ground, it will but grow, and gather to itself such explosive power that the day it bursts through it will blow up everything in its way.” Emile Zola

As rightly said in the quote above, it all started with revelation of Tayal Group's misusing and abusing people's money in the Bank of Rajasthan. The entire Bank was working under the dictatorship of Tayal group which bursted and ruined the Bank.

RBI fined BoR for violating various RBI guidelines in financial disclosures. The malpractices, manipulation of records and other violations forced RBI to take a decision of not letting BoR work as an independent entity in the interest of its stakeholders and the industry as such. These poor governance practices in BoR were soon covered by press and the matter became public.

ICICI Bank as an opportunist, always looking out to grow bigger in terms of market capitalization and asset base, immediately approached BoR with a proposal of amalgamation. In such trying times, the offer of ICICI came as a welcome proposal for BoR who was well aware that it would not have got a better White Knight than ICICI and immediately accepted the proposal. This was followed by shareholders vote and completion of other regulatory formalities.

The Effect of Merger Announcement on Stakeholders

All the stakeholders (Refer Exhibit II for details of various categories of stakeholders) had a different take on the merger. Some were hugely affected while others were not. Some were extremely happy while some protested. Some were very positive while other were anxious. Inspite of these varied reactions to
the merger, ICICI Bank very successfully convinced every stakeholder about the value proposition the merger offered.

**Equity Holders:** The shareholders were initially apprehensive about this arrangement but later they realized that it would be a wealth maximization proposition for both the banks and eventually voted in favour of the deal as they knew that ICICI bank was a favorable White knight who came to the rescue of Bank of Rajasthan.

**Customers & Investors:** The customers and Investors were apprehension about their future in the merged entity as depositors and borrowers had their savings and current accounts in BoR. These customers were anxious since many of them had invested their life's savings in these accounts. On the other hand customers of ICICI Bank were the only stakeholders who were not affected with this announcement since their accounts continued as they were.

**Regulatory Authorities:** The aftermath of manipulations and violations of RBI guidelines had created a lot of restlessness amongst the regulatory authorities especially the RBI and SEBI. They were most concerned about investor’s interest. The merger came as a relief as ICICI Bank had always followed ethical practices and made fair disclosures strictly adhering to governance norms.

**Government:** The merger announcement also made the government anxious as BoR had huge tax liabilities (professional tax, service tax, income tax). The government was concerned whether ICICI Bank would inbuild the tax arrears in the valuation agreements.

**Employees:** The employees were unhappy with the deal and therefore the merger was even more challenging as BoR employees were completely against the merger.

The BoR Unions have number of internal settlements with its management on various HR policies, which guarantees the job security and protection from the management’s victimization on common employees...which was termed as 'no-binding upon the management of ICICI Bank, Therefore most of the employee claim settlements that were pending with BoR management were declined in the deal proposal, which made the employees unhappy and therefore they revolted.
In order to protest the merger all branches of BoR with over 4,000 employees went on a token strike on 3rd and 4th June, 2010 (Refer Exhibit-I for strike notice). Three major employee unions of BoR--All India Bank of Rajasthan Employees Federation, All India Bank of Rajasthan Officers' Association and Akhil Bhartiya Bank of Rajasthan Karmchari Sangh-- supported the strike demanding immediate termination of the ICICI-BoR merger proposal.

The unions of BoR took the matter so seriously so as to write to Finance Minister, Pranab Mukherjee and Reserve Bank of India demanding their intervention in the matter and also scheduled a meeting with Regional Labor Commissioner to discuss the matter.

Current Scenario

ICICI Bank had very successfully valued and integrated into its current operations, two acquisitions in the past, but this one was different as there were rumors in the market that the proposed merger appeared to be an expensive one for ICICI Bank, taking into account the employee productivity level of BoR and the premium paid to the market price by ICICI bank.

However the Management of ICICI bank strongly disagreed on the above and propagated to the stakeholders that the rationale for the merger was that it would have taken the bank three years to build the kind of low-cost current account and savings account (CASA) relationship, it got to build upon now with this move. ICICI Bank had its sights set firmly on expanding its share of CASA deposits which was fulfilled with the completion of the deal.

The stakeholders of both the banks as well as the regulatory authorities, who finally gave the green signal to move ahead with the deal in mid August, were finally convinced of the value enhancing proposition for both. Yes the employee integration still seems to be a challenge to ICICI bank, knowing that the productivity of BoR's branch network was low compared to ICICI Bank. BoR clocked a business per branch of Rs 47 crore compared to Rs 304 crore in the case of ICICI Bank in FY09. Clearly, that's one challenge ICICI Bank would have on its hands on the HR front.

Finally, the merger between India's largest private-sector lender ICICI Bank and the much smaller Bank of Rajasthan may not be a marriage of equals but it promises goodie's for all those associated with both the banks.
Integration challenges and the role of HR

“In our two earlier acquisitions not a single employee was retrenched. We will go for rationalisation of workforce.” Chanda Kocchar

ICICI Bank has been successful in merger integration in the past with special focus on people, investments in technology and operations. However, merger of ICICI Bank with BoR poses greater challenges because of the employees resentment and opposition. Following are the major challenges which ICICI Bank would face:

* Culture Integration

Employees of ICICI Bank and BoR have completely different orientation. On one hand there is ICICI Bank with modern, aggressive and dynamic culture and on the other there is BoR with traditional, conservative and extremely complacent culture. Not only this, there is a huge difference in roles, grades, designations and salaries of employees in the two banks. Besides, ICICI Bank is known for its performance centric culture with 120% profit per employee and more than 100% business per employee in 2010 vis a vis BoR having losses per employee and only 57% business per employee in 2010. ICICI Bank generated Rs 11.54 crore of business per employee for the financial year ended March 31, 2009. (Refer Exhibit III for Employee productivity details for 10 years). BoR employees perhaps are uneasy and agitated as they also fear that ICICI Bank could push up productivity per employee to keep pace with ICICI Bank. HR plays an important role in anticipating and reducing the impact of these cultural clashes.

“The work culture of both banks is extremely different and it will be difficult for our staff, who are used to the culture of BoR for decades, to integrate with ICICI Bank. There is no guarantee that our jobs will be protected,” Rao, Senior V.P (Human Resources) Bank of Rajasthan.

* Structure Integration

Another reason for BoR employees anxiety is whether they would be integrated into the new organization seamlessly. Even though ICICI has assured that they would do a fair integration, BoR employees are concerned about loosing their positions, grades, designations, roles and may be even job. The employees had no guarantee that their jobs would be protected. The role of HR is critical to communicate and educate BoR employees about the policies and procedures of
the merged entity taking into consideration employees' interest.

- **People Integration**

BoR employees on an average were in the late 40s, compared to a much younger age profile at ICICI Bank, while another source of friction in the merger was the difference between the average ages of the employees of the two banks, which could decline the productivity levels that ICICI Bank had always maintained.

Roles, behaviors and attitudes of managers affect employees' adjustment to M&A. Employees of BoR had negative attitudes towards the merger on the grounds of fear of losing their identity of one of the oldest private sector banks in the country. Besides, the BoR staff had been used to its work culture for decades. Changing their mindset to adopt the new competitive culture of ICICI Bank and look at the merger positively will be a daunting task for ICICI Bank.

- **HR processes and policies integration**

ICICI Bank management termed various HR policies and related settlement issues between BoR employees and management as non-binding, negatively impacting employees' interests. The BOR Labor Unions had number of internal settlements with its management on various HR policies, which guarantees the job security and protection from the management's victimization on common employees which also they felt would be termed as 'no-binding' upon the management of ICICI Bank.

Employees would now have to get accustomed to the new HR policies of ICICI bank. BoR employees would face great difficulty in adapting the new HR policies and practices very different from the HR practices of old generation private sector bank. Aligning BoR employees to the new practices would pose a great challenge for ICICI Bank.

**The roadmap for successful integration**

1. **Culture Integration**

Culture refers to tradition, beliefs, attitudes and practices of an organization. It is observed through collective and consistent behavior. With BOR and ICICI Bank having very different culture, it becomes extremely challenging to integrate the
culture of the two.

While the culture integration is a complex and often painful process, it is extremely important for ICICI Bank to capture the synergies of the deal and do it quickly as well for a successful merger. A merger is a marriage between two companies, not only in terms of liabilities and assets, but in terms of combining corporate cultures. The shared values of the merged entity should be clearly spelled out and efforts should be made to align every employee towards the common shared value.

It is important to identify what is valuable for the merged entity and what is the desired behavior. In this context HR needs to figure out what needs to be nourished, what needs to be weeded out and what is it that needs to be planted. Once done, it is important to reinforce the values, code of conduct and rituals and align employees towards the culture of the merged entity.

2. Communication

Lack of communication leads to suspicion, demoralization, loss of key personnel and business even before the contract has been signed. Gaining emotional and intellectual buy-in from the staff is not easy, and so the employees need to know why merger is happening so that they can work out options for themselves.

It is important to identify what message should be sent out and ensure it is perceived in the right manner. The future vision, the goals of the merged entity, value proposition for the employees, challenges, concerns, new developments even as they are fluid and emerging should be communicated clearly, quickly and continuously.

The communication should be on a real time basis. This will reduce employee's inhibitions, resistance and reluctance to change as well as help employees let go off their past, embrace the new vision, move forward and realize the value of the deal sooner. It is also important to be honest and sure about communicating likely outcomes. Failure to keep up to those outcomes can make employees disgruntled and make leaders lose their credibility. HR in partnership with the business leaders of both the entities need to quickly institutionalize various channels of communication and who, how, what and when of communication.
3. **Role of the CEO**

There have been multiple reactions on employees mind by the sheer announcement of the merger. These reactions are full of fear of unknown, job insecurity, loss of benefits, loss of identity which have instigated employees to go on to serious agitations and strikes. There is an environment of confusion, anxiety, frustration and agitation. At this juncture, role of CEO and top management becomes critical. The CEO needs to be available and visible to the employees of both the entities. The top management of ICICI Bank needs to quickly involve HR in the integration process clearly spelling out their roles and responsibilities. It is important for the top management to explain HR the bigger picture in the changed scenario so that the HR processes and practices can be aligned towards a common goal. It is important to identify and prioritize the key deliverables of the integration process.

4. **Role of the leaders**

The top management along with HR needs to identify important and influential leaders from both entities and share a vision of the future. These leaders in turn should form team integration and align them towards a common shared vision of the future. This team should look after the implementation of the integration and ensure smooth transition. The leaders should continuously endeavour to make themselves visible and available for all the employees.

5. **Collaboration**

Most often in the integration process only the top management, business heads and leaders are involved. It is important to involve HR professionals as well from the beginning in order to create synergies. HR professionals having expertise in people issues should become strategic partners of business, act as catalyst and help the leaders take right decisions.

It is also important to involve employees. Most of the employees just get an instruction to execute without knowing the impact of their execution on the overall merger goals. It is important to make each employee a partner to integration. HR should take initiative to involve and align every member of the organization towards the integration.
6. Talent Management

Today, talent is the key differentiator and therefore talent management issues lie at the core of any organization. During mergers managing talent becomes very crucial. It is important to give as much time to address people issues as given to valuations and other important matters. It is important to make sure that the key talent does not leave the organization in the process of integration. At the same time it is important to weed out the non performers. It is also important to identify skill gaps especially amongst BoR employees to develop and equip them to do new generation banking.

7. Process Integration

In order to reduce time and cost, process integration of technology, financials, regulatory and HR policies and programs should be done seamlessly. In the present scenario ICICI Bank has leverage over technology as compared to BoR. Inspite of this fact, ICICI Bank will not face huge difficulty in technology integration since BoR has been using the same technology platform as ICICI Bank within the bank. The financials and regulatory integration will also not be a major challenge knowing that ICICI Bank has successfully managed this aspect in the past. Therefore, the major challenge remains that of HR aspects.

Successful integration by keeping people at the core

The manner in which changes are made can differentiate between success and failure. People issues are the most important issues in mergers and Acquisitions and if they are handled carefully it will enable the success of the merger.

The guiding principles to be looked by Management regarding Human resource in Mergers and Acquisitions:

- Take definitive action and make decisions quickly--the secret for holding onto good people.
- Be candid with employees, and treat them with respect. Let them know that the combined entity will be a more valuable organization.
- Whenever possible, use ownership of the company as represented by stock options and stock grants to get everyone pulling in the same direction.
- Be honest about the people decisions that must be made.
- Treat those leaving with the same respect and attention as those staying.
Rather than taking a risk-averse, wait-and-see attitude that can lead quickly to irrelevance, HR executives should be made integral to all phases of due diligence, to ease the transition, and to enable employees to focus on the creation of shareholder value as soon as possible. Taking a wait-and-see attitude will lead to an irrelevant role for HR. Instead, the role must be orchestrated so that its value becomes integral to the deal. Once the HR issues are taken with care all other aspects will automatically fall in place leading to the merger synergy.

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Lists of Exhibits

Exhibit I: Strike Notice.
Exhibit II: Details of Various Categories of Stakeholders.
Exhibit III: Details of Employee productivity for 10 Years of both the banks.

Exhibit I: Strike Notice

THE BANK OF RAJASTHAN LTD.
(Rregd. Office : C.T. Udaipur)
(Corporate Office : Mumbai)
(Central Office : Jaipur)

Phone : 0141 - 3256110
FAX : 0141 - 2229691
E-mail : ps/hrd@rajbank.com

NOTICE

United Forum of Bank of Rajasthan Unions has given notice to go on strike on Friday & Saturday 4th & 5th June 2010, against the proposed merger with ICICI bank all over India in all branches/offices of The Bank of Rajasthan Ltd. Although the Bank is having talks with Unions, however, in the eventuality of strike being materialized, the normal functions and customer - services at branches/offices are likely to be affected. It is humbly requested to all customers to complete/undertake their banking-transactions, particularly depository related transaction in advance to avoid any probable inconvenience. The Bank regrets any inconvenience to its valued customers.

Managing Director &
Chief Executive Officer

(Source: www.aiboc.org)

Exhibit II: Details of Various Categories of Stakeholders.

IMT CASE JOURNAL, JULY - DEC 2010
Exhibit III: Details of Employee productivity for 10 Years of both the banks.

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(Source: aceanalyser.com)

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