

# Managing Post-Acquisition Cultural Change: A case Study of Union Bank Limited (Now Standard Chartered Bank Pakistan Limited)

Rizwan Ahmad, Majed Rashid, Muhammad Zia-ur-Rehman, and NUML Islamabad

**Abstract**—The purpose of the study is to empirically test the significance of relationship in managing post acquisition cultural changes. The main purpose of the study is not only to explore the effective management of cultural differences but also to see how to manage the post acquisition integration phase from threshold to a successful organization. The target population was employees of a bank, Pakistan. The study was conducted by using five factors, including; Culture, Approach/Strategy, People and Organization. Data were collected through a questionnaire of five points Likert Scale which was designed after conducting unstructured interviews of respondents. The questionnaire was divided into five segments and the respondents included managerial and non-managerial employees of Union Bank Limited Now Standard Chartered Bank Pakistan Limited working in the geographical boundaries of Lahore. It was selected through non-probability convenience sampling method. Sample size was 100 and retrieval rate was 67%. The findings show the moderate relationship among the research variables.

**Index Terms**—post merger, organizational culture, acquisition, management strategy, managerial intervention

## I. INTRODUCTION

Post Merger and Acquisition organizational cultural change can create a traumatic experience for organizational members. It generates resistance and contributes to Mergers and Acquisition failure. Nevertheless, the literature on managing post-Merger and Acquisition cultural change is scarce and largely focused on overcoming the impact of cultural differences on communication but the argument is to focus on cultural differences. Other factors, such as how company members perceive the outcomes of cultural changes and need for Managerial intervention are also play critical role so they should be taken into account. The purpose of the study is to empirically test the significance of relationship in managing post acquisition cultural changes. The main purpose of the study is not only to explore the effective management of cultural differences but also to see how to manage the post acquisition integration phase from threshold to a successful organization.

For the last 20 years, the cultural change after the Merger and Acquisition is highly regarded as an important attribute for success (Faulkner et al, 2003). It has also been witnessed that people refuse to accept the cultural change (Cartwright and Cooper, 1993; Buonoet al, 1985). However only few

studies are within the reach regarding the post Merger and Acquisition cultural change (Schweiger and Goulet, 2005; Ellis and Lamont, 2004). There is not a uniform criterion which can assure a successful cultural penetration in post Merger and Acquisition (Head, 2001). Merger and Acquisition is a common concept that is widely discussed in literature; however the differences between mergers and acquisitions are rarely deliberated. Many definitions are proposed, Dyer, Kale, and Singh (2004) mean that they are quit similar in nature. They argue that the main difference between mergers and acquisitions is that companies in mergers forms a new organization which comprises of two or more companies on equal stature and pooling of resources, whereas in acquisitions one company is the buyer, hence possessing most of the power. An acquisition implies that a larger organization adds a smaller firm on to the existing structure in order to, for instance, adding sales, decreasing costs, or for penetration in new markets. Regardless of these differences, there are many similarities between them which can be the reason that literature mentions the two together. This has its own significance that the acquired firms by large, accepts the cultural practices of the acquirer (Hambrick and Cannella, 1993; Nahavandi and Malekzadeh, 1988), however the acquiring managers should review that why people in acquired companies do accept or reject at first sight, the cultural changes. Few studies discovered that the members of the acquired firms are seldom heard (Gertsen and Sørberget, 2000; Vaara, 2000).

It has been seen that the members of the acquired firms make their own beliefs as they see their values and procedures of the acquirers which create a pen picture in their minds about them (Cartwright and Cooper, 1993; Schein, 1985). The acquired company's culture and the acquirers cultural can be evaluated positively or can be totally rejected (Nahavandi and Malekzadeh, 1988). Further, the success of mergers and acquisition depends on a change in state of mind of the people (Sathe and Davidson, 2000; Champy, 1995).

In post Merger and Acquisition the members can evaluate the culture as good or bad as compare to others (Vega et al., 2000). Prior research addressing the Mergers & Acquisitions explains differences in cultures of the merging firms which can be seen as the main reason of disputes in post Merger and Acquisition transition. Merging firms are in different state of mind which enables misunderstanding, inaccuracy and slow Merger and Acquisition performance.

Research was conducted specifically for Union Bank Limited (Now Standard Chartered Bank Pakistan Limited taking in account the following functions: Corporate, Human Resource and Operations

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Majed Rashid , Professor of management, AIOU Islamabad (email:Majid\_rahsid@yahoo.com) .

Muhammad Zia-ur-Rehman, PhD Scholar, NUML Islamabad Pakistan (email: scholarknowledge@gmail.com).

## II. LITERATURE REVIEW

Despite the importance of mega-trends of mergers & acquisitions all over the world, relatively little research on mergers and acquisitions has appeared in the literature. Many researchers have attempted to discover evidence about a part of the whole acquisitions process. Previous research has investigated corporate acquisition issues within a one-dimensional framework, i.e., one issue at a time.

Union Bank was established in 1991 and had its headquarter in Karachi, Pakistan. Prior to follow the strategic acquisition happened in 2006. It was Pakistan's eighth largest bank with 65 branches in 22 cities, about US\$ 2 billion in assets, and about 400,000 customers. The acquisition led to the establishment of Standard Chartered Bank (Pakistan) Limited (SCBP), the first international bank in Pakistan to be locally incorporated.

In 2000, Union Bank acquired Bank of America's operations in Pakistan. Thereafter in July 2001, Union Bank signed an Independent Operator agreement for American Express Cards in Pakistan. As a result, Union Bank now issues, operates and markets American Express cards in Pakistan. The Bank is also in the business of acquiring merchants accepting VISA, MasterCard, American Express and JCB cards.

In 2002, Union Bank acquired the operations in Pakistan of Emirates Bank International. This purchase helped Union Bank become one of the larger private banks in the country. In 2006, Standard Chartered Bank acquired 81% of Union Bank's shares for US\$413 million. Under the existing law prevailing in the country, it had to delist Union Bank and make an offer for the outstanding shares; the offer raised the total purchase price to about US\$511. On 30 December 2006, Standard Chartered merged Union Bank with its own subsidiary in Pakistan, which had 46 branches in 10 cities. The merged bank was named Standard Chartered Bank (Pakistan) and is now Pakistan's sixth largest bank. The acquisition had further cemented SCBP's position as the largest and fastest growing international bank in Pakistan; they are now the 5<sup>th</sup> largest bank in terms of revenue. The acquisition served as a platform for growth. At the time of Acquisition, in January 2007, the combined bank had 115 branches in 22 cities. The bank is expected to have 174 branches in 39 cities, which is a testament to the bank's seamless execution of its ambitious growth plans. The bank serves more than 800,000 customers and employs more than 3,500 employees nationwide. The selection of subject topic is purely based on Mergers and Acquisitions in banking industry of Pakistan for the last few years. Being a part of the banking sector for the last five years the researchers have witnessed a number of Acquisitions in banking sector. Research work conducted at Union bank would provide new thoughts for managing the post-acquisition cultural change.

We have explored the post acquisition integration literature that how acquiring companies kept hold of, redistributed, redesigned, and pulled their resources during the integration phase of post-acquisition and how the nature of the previous acquisition experience affected current acquisition management.

Several benefits can be perceived including; perceptions regarding the similarity of the culture, collaboration,

appreciation of each other's culture, reviewing of the pre Merger and Acquisition hopes, creating a mutually accepted cultural discourse, minimizing the perception that the acquirers culture will dominate, re-establishment of cultural meanings, norms and perceptions, explaining the authority of acquired company's culture, patience and understanding (Dackert et al., 2003).

Effective transition regarding minimizing the cultural conflicts is regarded as a key factor for success of many mergers and acquisition. Those organizations which manage successfully the differences, are able to achieve what actually is desired by the management for achieving strategic objective. Empirically, Schweiger and Goulet (2005) explained that the insight into the learning of the cultures helps in understanding, extracting the cultural similarity, collaboration and communication Larsson and Lubatkin (2001). Adding up, it is a matter of the great importance that what actually the managers do but it matters most that how they actually do it because the way will place a path on which organizations decide to take journey. Larsson and Lubatkin (2001) explained that social controls works are informal in nature and therefore it acts as a natural socialization device.

### A. Methodology

The research was designed for the collection of data on certain variables of managing post Acquisition cultural changes which were thoroughly investigated. These variables were culture, Approach/Strategy, People, Organization. A self administered questionnaire was used as a survey instrument. The instrument was divided into five segments. In order to measure each of these variables, certain questions were developed on the basis of the extensive literature review and were included in the questionnaire to collect feedback of the respondents in this respect.

Target population consists of managerial and non managerial employees of Habib Bank Limited Lahore region, different level of employee considered in the data collection phase mostly experienced managers and other executive staff considered in the research to get proper results. Participation in the research was voluntary and employees were assured of confidentiality. To ensure this process, person to person meetings were arranged with respondents in different departments in Habib Bank Limited Lahore Region and got the questionnaires filled. The "Non Probability Convenient Sampling" method of sampling was used. Sample selected in this case was n= 100 out of total population (N=150) of HBL employees stationed at Lahore Region. Collecting data from the entire population was a limitation in the research. Overall 100 questionnaires were distributed and researchers were able to retrieve 67 questionnaires with success rate of 67 percent.

## III. DATA COLLECTION

Data was collected at five responses based on Likert Scale i.e. different characteristics (variables) of managing post acquisition cultural changes as perceived by the respondents from the survey instrument (questionnaire). The questionnaires were distributed among the respondents

personally and they were given a few days time to send them back, duly filled in. Overall, 100 questionnaires were distributed and the researcher was able to retrieve 67 questionnaires. Before delivering the questionnaire, the researcher explained the purpose of the research and the valuable input that could be helpful from the respondents. The researchers believe that anonymity is the prerequisite of objectivity in an the objectivity and precision of results. Questionnaire consists of two pages having 20 questions based on Likert scale comprised of dependent and independent variables. The four variables analyzed were culture, approach/strategy, people and organization and the questionnaire was developed on these aspects. Each set of questions has a particular purpose, as outlined briefly here:

#### *B. Culture (Q1.....Q5)*

This is a section in which respondents were asked about how effectively the integration of two different cultural systems with respect to post acquisition can be managed. The section is assessed with five choices ranging from “strongly disagree” to “strongly agree”.

#### *C. Approach / Strategy (Q1.....Q5)*

Respondents were asked about what approach / strategy for effective post acquisition transition can be implemented. The assessment includes the acquisition strategy, new management people, effective communication strategy and formal integration plan.

#### *D. People (Q1.....Q5)*

In this section respondents point of view regarding the effective management of human component in acquisition was assessed i.e. how effectively this important aspect should be handled.

#### *E. Organization (Q1.....Q5)*

In this section the respondents’ assessment was designed regarding to build a new and much stronger organization after the acquisition phase which is off course an ultimate goal for combining firms.

### IV. DATA ANALYSIS AND INTERPRETATION

Mean or average is the most commonly used and readily understood measure of central tendency along with the standard deviation which is the most widely used measure as a variation. we saw a different mean values in response to various questions that the mean values ranging from 2.9 to 4.00 and we found that where the mean value is near to 2 and above it depicts the disagreement level of respondents as 2.50 is the mid point and where the mean value is greater than 3, it shows the level of agreement towards questions. And standard deviation of our data is greater then 1 in all questions which shows that respondents’ opinion is very discreet and varied in nature.

According to the data analyzed in, the demographic information shows that the majority of the employees of this study were male (70.15%). The majority of employees ages were between 31 and 40 years (44.77%), and most participants had a Masters degree (74.62%), the most got the experience of 05-10 years (38.81%) and the majority of the staff was on managerial position (59.70%). Post Merger and Acquisition organizational cultural change is a

traumatic experience for organizational members. It generates resistance and contributes to Mergers and Acquisition failure. Nevertheless, the literature on managing post-Merger and Acquisition cultural change is scarce and largely focused on overcoming the impact of cultural differences on communication but the argument is to focus on cultural differences is important but not sufficient for a successful management strategy. Other factors, such as how company members perceive the outcomes of cultural changes, a need for Managerial intervention, should be taken into account.

### V. FINDINGS

In order to achieve the actual realization in terms of benefits, the same or a more extensive efforts than that spent in the pre-acquisition process should be planned and executed. Ignorance of the importance of integration may be the source of the deteriorated performance experienced by a certain number of acquirers.

- 1) In managing post acquisition cultural changes the research variables show a fair relationship overall. However the variable culture for a decision on effective integration of two cultural systems could not established a strong relationship instead an inconsistent association was found. The respondents did not regard the factors of acquirer’s cultural systems, attitude to adopt cultures and the factor of addressing the negative consequences of cultural change.
- 2) Variable approach/strategy has developed a modest relationship for a decision on development of effective post acquisition transition. However, no meaningful relationship was found on immediate replacement of people in management and administration in targets firm. This was in support of the view that in post integration phase, employees’ general perception is to retain or no change.
- 3) Similarly on a decision for an effective management of human component the respondents reveal that they intend to have no relationship on the factor of establishing new performance appraisal system.
- 4) An efficient resource allocation system, building of common tools and practices, internal mechanism for transferring competencies, an integration of information system and development of sense of unity between two firms has established a very strong relationship.

### VI. CONCLUSION

The most significant key success factor in the post-acquisition integration stage is to plan and establish a post-acquisition strategy as early as possible, even before the deal is done. Development of an effective post-acquisition transition strategy immediately after the deal is closed was the most crucial dimension in the post-acquisition integration phase. It is concluded that acceptance or rejection of specific post acquisition cultural changes among organizational members can only be influenced by how post acquisition integration process was managed and largely depends on the perceptions of future organizational

success and self determination for the benefits they expect can be gained through integration.

## VII. RECOMMENDATIONS

The researcher has focused on post integration phase of acquisition however importance of pre acquisition management phase cannot be ignored. Therefore the more exploration in this area is recommended. There is a need to create awareness to senior management level regarding organized and systematic management of post acquisition transition including both pre and post acquisition phases. The management team should be selected early in the process if possible, already in the pre-deal phase. Acquiring companies increasingly use various assessment methods to select talents critical for synergy realization in the post merger integration. Ad hoc or political appointments should be avoided for well known reasons the process of appointing new executives or retaining incumbent management teams should be fair and transparent. Bank executives should give more priority to post acquisition integration process than to the pre-acquisition management strategy.

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