

Original Research Article

The Impact of Banks Recapitalization on Employment Generation

Muhammad Rizwan Ullah^{1*}, Safdar Husain Tahir¹, Muhammad Azam² and Sajid Mahmood³

Abstract

¹Department of Banking and Finance,
Government College University
Faisalabad, Pakistan

²Department of Business
Administration, Virtual University
Islamabad, Pakistan

³School of Management Sciences,
Quaid-i-Azam University, Islamabad,
Pakistan

*Corresponding Author's E-mail:
mrizwanullah77@gmail.com

The aim of the study was to identify the extent of impact of recapitalized banks on employment. The secondary sources of data were used. The data analysis methods used for the study were multiple bar chart, multiple line graph, linear regression, and simple percentages. The results revealed that there was a decrease in employment in the banking industry before the consolidation took place. There was appreciable increase in employment from 2010 to 2016. Six Banks: Habib Bank, United Bank, Muslim Commercial Bank, Allied Bank, Bank Al-Habib and Meezan Bank account for 59% of total staff in the banking sector. Four banks: Habib Bank, United bank, Muslim Commercial Bank and Allied Bank account for 54.54% of total number of branches in the banking sector. It was recommended that banks should try to increase their number of branches for employment generation. Number of branches was a significant variable that explains the employment level in Pakistani banks.

Keywords: Banks, Employment, Human Resources, Number of Branches, Recapitalization

INTRODUCTION

In consolidation process many chief executive officers and chairmen of boards lost their positions as a result of merger and acquisition of banks. But more upsetting has been the job losses across squads in the sector. This has been done in many banks quietly, while in other banks, workers have been encouraged to resign with benefits (Pawaskar, 2001). The features of the type of reforms induced mergers and acquisition of the banking sector creates doubts about its potentials of creating more employment of staff. While this consolidation no doubt has benefits, what is less clear is the effect of this consolidation on increase in employment staff of the banks (Elumilade, 2010; Afolabi, 2004). Within merger and acquisition environment the human resources management is problematic due to variations in the general procedures and in the practices followed by the acquired companies to carry out different responsibilities, and also due to the growing competition between the employees of the merged parties. Most employees regard merger and acquisition as a threat to their jobs, since shareholders

often demand limitations in the number of employed staff (Georgakopoulou, 2000).

A Merger or Acquisition is the most one transformative undertaken in a firm's life. Achieving growth of corporate can occur through external or internal means. Langford and Male (2001) recognized three ways of achieving corporate development and growth. Internally (organic path); a firm achieves development and growth by expanding firm's infrastructure activities and customer base and thus profits and revenues. Externally (inorganic path); inorganic way offers immediate development and growth, so Merger and Acquisition can be considered as an external mean or inorganic strategy of development and growth. Inorganic strategy has become important in the global environment for attaining economies of scale, improving performance and efficiency, entering in the new markets and constructing new abilities (Tiwari 2014). Choi and Russel (2004) strengthened the opinion that modern businesses pursue to grow so as to persist in the competitive markets using Merger and Acquisition and it

has been recognized as the most important incident in corporate finance for companies as well as the economy (Fuller et al., 2002). To a wide range companies involve in Merger and Acquisition for gains that can grow through reduction of expenses, reduced earnings volatility, increased market power and scope and scale economies. Over the last span, the banking industry in Pakistan has not only grown-up in terms of size but also consolidated, matured and diversified to contribute towards constructing a strong financial system. Banks consolidation through Merger and Acquisition is not a new phenomenon for banking system in Pakistan.

Companies choose merger and acquisition as strategy of growth for various reasons. Hopkins (2002) categorized the merger and acquisition motives proposed in the previous studies as four distinctive but interrelated motives: economic, strategic, market and personal motives. Strategic motive is linked with improving the strength of the firm's strategy, for example, utilizing a core competence of a firm, creating synergy, providing the company with complementary resources, strengths, products and increasing market power. Market motive targets at entering new markets in new countries or areas by acquiring already recognized companies as the quickest way or as a path to get access without adding more capacity. Economic motive is associated with establishing economics of scale; personal motive is concerned with the management hubris and agency problems. *Purpose of the study* is to evaluate the impact of recapitalization of banks on generation of their staff employment.

Literature Review

Many studies had been conducted across the world to examine various aspects of mergers and acquisitions by using different models of analysis just like Wilcoxon Signed-Rank Test, Data Analysis Envelopment Stochastic Frontier Analysis and ratio analysis (Koetter, 2005; Sufian and Fadzlan, 2004; Arshad, 2012 and Sinha and Kaushik, 2010).

For financial institutions, the decision to regarding merger and acquisition was strategic rather than financial. The start of consolidation series increased the odds for a bank to become an acquisition target. Relative size of a bank established a greater acquisition deterrent than its performance or effectiveness; a bank may decide to proceed to an acquisition only to protect itself from takeovers. The wave of merger and acquisition was thus increasing without there being any reasons of economic performance to justify such action (Schenk, 2000).

Gunu and Olabisi (2011) analyzed the impact of merger and acquisition on employment in banking industry. They used the secondary data from the supervision department of Central Bank of Nigeria and used different techniques like multiple line graph, multiple bar chart, simple

percentages and linear regression. They proved that consolidation was useful to create jobs and to increase employment. Ge and Cao (2014) analyzed the effect of consolidation on human resources. They highlighted that only the amalgamation of financial and material resources is not merger and acquisition but also the combination of human resource management. Lee and Park (2013) examined the talent retention programs and developed different practices and theories for the help of decision makers. The problems related to the human resources management were very important to manage during merger and acquisition in their study. They made productive decisions regarding human resources programs for retaining employees.

Oduro and Agyei (2013) analyzed the impact of merger and acquisition on the execution of firms during 1999-2010 in the Ghanaian stock market. They brought out that the firm should try to retain and attract the employees of consolidated company by giving more benefits. Gutknecht and Keys (1993) said that the merged companies started thinking for the success of business. Decrease in the staff size had increased the workload on the remaining staff. To describe the job changes, employee innovation was required. They said that for the success of merger, companies should make policies to retain the employees.

Alzoubi, (2014) identified the extent of using financial and non-financial measures in examining the performance of branches of commercial banks. They said that there was a use of financial and non-financial measures in evaluating the efficiency of branches of banks. Ghaleh and Zonoozii (2015) analyzed the association between the human resource management policies, organization strategies, behaviors and attitudes of organizational and employees' performance of branches of banks in Tehran. They found a significant positive association between human resource policies, human resource and organization strategies of bank branches in Tehran. They also found a significant direct association between human resource management policies, organization strategies, behavior of staff and organization performance of banks in Tehran. Furthermore, a significant direct relationship between behavior and attitude of employees was found.

Clementina and Isu (2014) evaluated the banks recapitalization in Nigeria. They said that recapitalization improved the banks performance and positively affected the whole economy. They found a negative association between living standard of people and number of bank employees. They said that recapitalization of banks was not enough to strengthen and enhance the system of banking to face the global challenges.

Kubo and Saito (2012) checked the impact of mergers on employee wages and employment in Japan. They said that number of employees was decreased after the merger even after variations in sales. Firms that experienced mergers are more likely to decrease the number of employees. They found that wages were increased by 5.46% per worker. Moreover, they suggested that the main

motivation behind mergers is not to divest employees of their wealth. Nikandrou, Papalexandris and Bourantas (2000) said that there was a negative impact of acquisition on employee behavior resulted in absenteeism, counter-productive practices, absenteeism, job dissatisfaction and low morale. Ability of top management was an important factor that affected the successful outcome of acquisitions to gain trust of employees.

METHODOLOGY

This study was designed to examine the association between employment and number of branches of banks in Pakistan. The secondary sources of data were used. The data related to the total number of branches and number of employees of all commercial banks in Pakistan as at the end of December 2015. The data on employment and number of branches is longitudinal which were for period of 2006 to 2015. The data analysis methods used for the study were multiple bar chart, multiple line graph, linear regression, and simple percentages. Multiple bar charts and multiple line graphs were used to show the rate of change. Simple percentages were used to find the changes in number of branches and employment for the study period. Regression was used to establish the association between employment which was dependent variable and number of branches of banks which was independent variable. The dependent variable (number of employees) was measured by total number of employees in a bank and independent variable (number of branches) was measured by total number of branches of a bank (Gunu and Olabisi, 2011).

Econometric Model

$$NOE = \alpha_0 + \beta_1 NOB + e$$

Where; "NOE" = number of employees, " α_0 " = intercept, " β_1 " = coefficient "NOB" = number of branches and "e" = error term.

Hypothesis

H₀: There is no significant impact of recapitalization of banks on employment.

H₁: There is a significant impact of recapitalization of banks on employment.

RESULTS AND DISCUSSION

Table 1 showed the total number of staff and total number of branches of Pakistani banks from 2006 to 2015. In 2006, number of staff was minimum (72622) which was increased up to 118654 in 2015. Similar

case was with the number of branches of banks.

In 2006 total number of branches was minimum (5550) and till 2015 there was an increasing growth in total number of branches. The recent increase in the number of branches may be rendered to the growth of Pakistani banks. The total number of branches and total number of staff for the periods of 2006 to 2015 were shown in Figure 1.

Table 2 illustrated the percentage change in number of staff and number of branches. In 2005, more than 8641 jobs were lost in the banking industry, this was attributed to the fact that the year was the deadline given to banks to recapitalize or their operating licenses will be withdrawn. As from 2006 there was steady increase in the employment level until 2008, in 2009 there was a little decrease in 2009. Again, there was an increasing trend in total number of employees up until 2015. There was decreasing growth in number of branches of banks till 2009, increasing growth in 2010 and 2011 and so on. The rate of change of total number of branches and total number of employees were shown in Figure 2.

Table 3 expressed that Habib Bank had greatest percentage of total number of staff (12.69%) followed by United Bank (12.33%), Muslim Commercial Bank (10.19%), Allied Bank (8.63%), Bank Al-Habib (7.93%), Meezan Bank (7.23%) and Bank Alfalah (6.35%). Bank Islami, Bank of Khyber, Faysal Bank, Jehangir Siddiqui Bank, National Investment Bank, Silk Bank and Summit Bank had less than 3% of total number of staff in Pakistani banks. Samba Bank had less than 1 % of total number of staff in Pakistani banks. Table 3 also showed that Habib Bank had highest percentage of branches (17.54%) of Pakistani banks followed by United Bank (13.41%), Muslim Commercial Bank (12.85%), Allied Bank (10.74%) and Bank Alfalah (6.68%). Askari Bank, Bank Al-Habib, Bank Islami, Faysal Bank, Habib Metropolitan Bank, Jehangir Siddique Bank, Punjab Bank, and Soneri Bank had less than 5% of total number of branches of Pakistani banks. Samba Bank and Silk Bank had less than 1% of total number of branches.

Table 4 explained the descriptive statistics and correlation matrix of the research. From the table, it can be seen that the mean value of number of staff and number of branches was 96254.4 and 7555.6 respectively. The maximum value of number of staff and number of branches was 118654 and 9781 with a minimum value of 72622 and 5550 respectively.

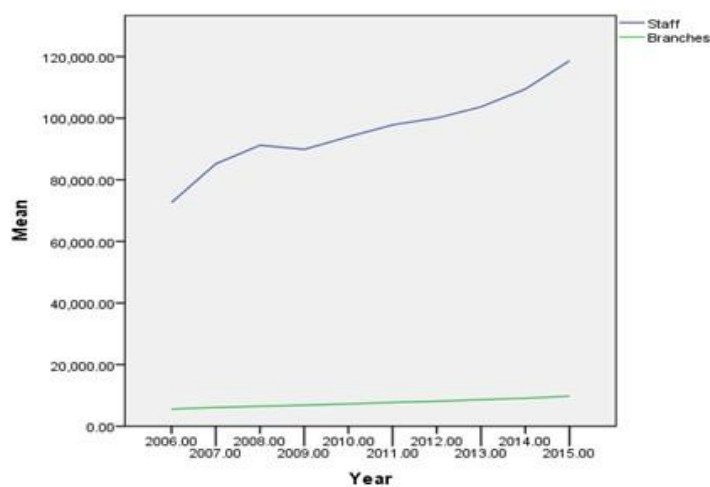
The principle objective of the study was to identify the extent of impact of recapitalized banks after the banking consolidation exercise on employment; this was achieved through regression analysis, using number of branches as a variable representing merger and acquisition as an independent variable while number of staff represents employment which was the dependent variable. Table 5 showed that the employment in Pakistani banks was forecasted by number of branches. From the table, it can be seen that F value when number of employees was

Table 1. Total number of staff and branches in Pakistani Banks from 2006-2015

Years	No. of Employees	No. of Branches
2006	72622	5550
2007	85191	6118
2008	91214	6497
2009	89881	6794
2010	93962	7269
2011	97837	7714
2012	100051	8118
2013	103689	8630
2014	109443	9085
2015	118654	9781

Table 2. Branch and Employment rate of change of Banks in Pakistan from 2006-2015

Years	No of Employees	Percentage change	No. of Branches	Percentage change
2006	72622	-	5550	-
2007	85191	17.31%	6118	10.23%
2008	91214	7.07%	6497	6.19%
2009	89881	-1.46%	6794	4.57%
2010	93962	4.54%	7269	6.99%
2011	97837	4.12%	7714	6.12%
2012	100051	2.26%	8118	5.24%
2013	103689	3.64%	8630	6.31%
2014	109443	5.55%	9085	5.27%
2015	118654	8.42%	9781	7.66%

**Figure 1.** Total Number of staff and Branches of Banks in Pakistan: 2006-2015

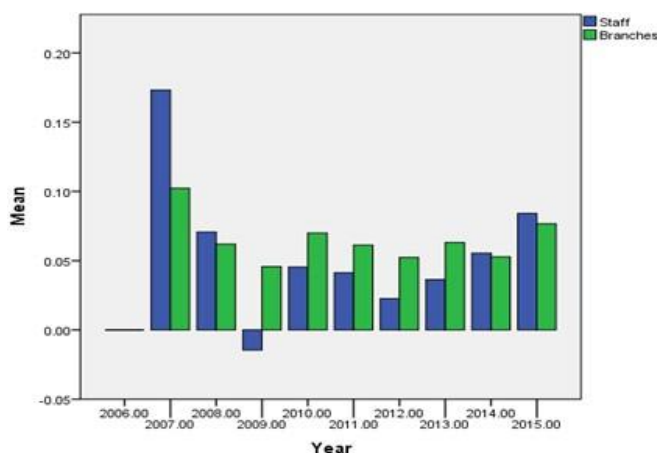


Figure 2. Annual change in Total Number of staff and Branches of Banks in Pakistan: 2006-2015

Table 3. Total number of staff and total number of branches of Pakistani banks as at December 2015

Bank Name	Number of Employees	Percentage of total no. of staff	Number of Branches	Percentage of total no. of branches
Allied Bank	10244	8.63%	1050	10.74%
Askari Bank	6781	5.71%	424	4.33%
Bank Al Habib	9415	7.93%	423	4.32%
Bank Alfalah	7538	6.35%	653	6.68%
Bank Islami	2300	1.94%	317	3.24%
Bank of Khyber	2448	2.06%	130	1.33%
Fysal Bank	3141	2.65%	280	2.86%
Habib Bank	15060	12.69%	1716	17.54%
Habib Metropolitan	4277	3.60%	276	2.82%
Jehangir Siddiqui	2946	2.48%	277	2.83%
Muslim Commercial	12092	10.19%	1257	12.85%
Meezan Bank	8581	7.23%	551	5.63%
National Investment	2678	2.26%	171	1.75%
Punjab Bank	6183	5.21%	364	3.72%
Samba Bank	657	0.55%	34	0.35%
Silk Bank	3153	2.66%	88	0.90%
Soneri Bank	3676	3.10%	266	2.72%
Summit Bank	2852	2.40%	192	1.96%
United Bank	14632	12.33%	1312	13.41%
Total	118654	100.00%	9781	100.00%

Table 4. Descriptive Statistics and Correlation Matrix

Variable	Mean	Maximum	Minimum	S.D	NOS	NOB
NOS	96254.4	118654	72622	12910.13	1	
NOB	7555.6	9781	5550	1360.52	0.97761	1

Table 5. Regression Analysis

Variable	Coefficient	t-value	p-value
Constant	26163.685	4.835	0.001***
NOB	0.978	13.141	0.000***
F-value	172.675		0.000***
R	0.956		
Adj. R	0.95		

Dependent Variable: NOS

*** Significant at 1%

regressed with number of branches was 172.6 ($p=0.00$). The coefficient of determination was 95.60% as shown in table 5. Other variables other than number branches were responsible for the remaining 4.40% in employment. Furthermore, Table 5 showed that there was a significant and positive impact of number of branches on number of staff at the significance level of 0.01 because number of branches predicts number of staff. The results of the study were consistent with Zonoozii (2015), Oduro and Agyei (2013) and Gunu and Olabisi (2011) and inconsistent with Kubo and Saito (2012) and Nikandrou, Papalexandris and Bourantas (2000).

CONCLUSION

It was accepted that through recapitalization, banks manage to better utilize their total operational and human resources, aimed at expanding and maintaining their market value, achieving better services of customer, promoting new products efficiently, improving their operations of staff and achieving formation of capital. Banks can also easier use new information technology which favors and make restructuring, integration and networking necessary within an international environment. By growing their size, banks can benefit from utilizing synergies that are necessary to develop within modern institutions (Mylonakis, 2006).

Consolidation resulted in Pakistani banking industry had been positive in terms of employment, as new jobs were created during the period of 2006-2015. Changes in the structure and nature of employment internationally observed also apply slightly but steadily in banking industry. The transfer of duties to external parties was already a fact and was further motivated by the practice of making cost of production more elastic.

The study exposed that there was a decrease in employment in the banking industry before the consolidation took place. There was appreciable increase in employment from 2010 to 2016. Six Banks: Habib Bank, United Bank, Muslim Commercial Bank, Allied Bank, Bank Al-Habib and Meezan Bank account for 59% of total staff in the banking sector. Four banks: Habib Bank, United bank, Muslim Commercial Bank and Allied Bank account for 54.54% of total number of branches in the banking sector. It was concluded that banks should try to increase their number of branches for employment generation. Number of branches was a significant variable that explains the employment level in Pakistani banks.

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