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RESULTS & DISCUSSION

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RECOMMENDATIONS/SUGGESTIONS

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IMPACT OF CULTURE ON BANK: THEORETICAL FRAMEWORK OF SANGLI BANK–ICICI BANK MERGER

SUHAS SHANKARRAO JADHAV
ASST. PROFESSOR
V. P. INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
SANGLI

ABSTRACT

With the changing face of banking sector in India, the competition is at its peak. Many players of the sector due to their large scale and strategic advantage are able to face this competition but for many small scalars this was a disaster. This situation finally results in mergers and acquisitions. In this paper the study was made for the impact of merger on the culture of Sangli bank employees, how they shown resistance to change and what measures did the ICICI bank management take to manage this resistance. An interview method was adopted for collecting the primary data. The secondary data was collected through the annual reports of Sangli bank, various banking periodicals & websites.

KEYWORDS

banking sector, culture, mergers and acquisitions, resistance to change.

1. INTRODUCTION

On 6 Dec 2006, ICICI Bank got merged with the unlisted The Sangli Bank Ltd. The deal was conducted through stock transaction. As part of the deal, shareholders of Sangli Bank received 100 shares of ICICI Bank for every 925 held. Kalpana Morparia, joint managing director at ICICI Bank said and she did issue 3.45 million fresh shares for the merger." The deal was however required approval from the regulatory bodies. Which it got the approval very quickly. The proposed amalgamation has been beneficial to the shareholders of both entities." Here paper revealed that what was the history and culture of ICICI bank & Sangli bank.

The relevant questions of the study are-

1. Why the merger took place?
2. What was the organization culture before and after the merger?
3. Did the employees faced any problems?
4. What was Employee's resistance to change?
5. What was the attempts ICICI Bank made for co-opting approach?

2. OBJECTIVES

1. To analyze the reasons of Sangli bank- ICICI bank merger.
2. To study the impact of this merger on Sangli bank's culture.
3. To study the resistance shown by Sangli bank employees towards this merger.
4. To evaluate the efforts shown by ICICI bank management to manage this resistance towards the merger.

3. RESEARCH STRATEGY

The information was obtained through Internet and Newspaper. Research was done by administering a questionnaire to Union Leader of previous Sangli Bank and is now Branch Manager in ICIC bank, who was actually involved in the whole process of Merger.

4. HISTORY OF ICICI BANK

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group's universal banking strategy. The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services. The merger would enhance value for ICICI Bank shareholders through a large capital base and scale of operations, seamless access to ICICI's strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries. In October 2001, the Boards of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. Shareholders of ICICI and ICICI BANK approved the merger in January 2002, by the High Court of Gujarat at Headband in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002. Consequent to the merger, the ICICI group's financing and banking operations, both wholesale and retail, have been integrated in a single entity.

5. CULTURE OF ICICI BANK

ICICI bank has adopted the ideology of European banking sector i.e. it follows or it is trying to opt: -

1) Man less banking
2) Paper less banking
3) Mail less banking (Instead use the Electronics Messages)

This shows that the ICICI Bank is System driven banking. ICICI Bank is pioneer for some of the banking services in India like

1) Net banking
2) ATM
3) Credit cards
4) Debit cards

5) Pro customer banking

Due to these reasons, it is now number one private sector bank in India and second largest bank in India after SBL, providing services in as many as all countries in the world and having own offices in 17 countries in the Globe. Due to its facilities it has achieved the targets in 14 years, which SBL could achieve in 200 years. ICICI is having Rs.485000 Corers capital, 30840 branches all over and 4800 ATM machines in all. In ICICI bank there is no sub staff procedure. Every employee is considered as officer.

6. HISTORY OF SANGLI BANK LIMITED (SBL)

Sangli Bank Ltd., presently merged into ICICI Bank Ltd., was founded on 5th October 1916 on the occasion of Dashera. It was established by the then Highness of Sangli Province. It was established as a Scheduled Commercial A Grade Bank. Its Schedules were designed according to RBI norms. It was governed according to Banking Regulation Act. Its motive at the time of establishment was to provide Funds to Trade Merchants and render services to citizens of Sangli and nearby people. Initially it was operating in the then Province of Sangli. As it was Private Commercial Bank, it rendered services to local and regional people of Maharashtra. Sangli Bank Limited has One Lakh customers This number jumped to 198 branches in 2006.Among 198 branches, 158 branches were operating in Maharashtra and the rest in other parts of India. Some of its outside Maharashtra Branches are –

- Banglore Metro Branch
- Delhi – Metro Branch
- Ahmedabad,
- Coimbatoor
- Erode (Tamilnadu)

Above three branches were established as these cities are famous for Textile and this would help the regional people of Maharashtra. Chennai Branch was established, as there is gold refinery. Nizamabad Branch in Andhra Pradesh was established as it is famous for turmeric and it would prove beneficial for Sangli as it is also famous for turmeric trade.

Due to some reasons that we will discuss in detail further, ICICI Bank and Sangli Bank Limited merged willingly. At the time of merger, the capital i.e.Net worth (Capital + Reserves) was Rs. Forty-eight Crores. Initially there were 2500 employees working in Sangli Bank Limited, but at the time of merger this number reduced to 1800.This happened so due to death, retirement and resignation of the employees. Being a Private Local Commercial Bank, all the 1800 employees recruited were from the urban and rural area itself for its rural and small enterprise banking operations. At the time of merger, it was a good bank with low NPA but lack of capital as much of the amount was invested in RBI Securities. It had Advances of Rs. 380 Crores and Deposits of Rs.1500 Crores. From Rs. 1500 Crores , Rs. 1000 Crores was put into RBI Securities which yielded only 7 to 8 % of returns. This happened so due to Fear Psychosis of Management that more Advances will result into NPA. Finance was given only about 10 %. The Liquid Reserve Ratio (L.R.R) was about 13.84 %.

7. CULTURE OF SANGLI BANK LIMITED (SBL)

As Sangli Bank Limited is privately owned, non-listed local Bank; its banking practices are traditional one. As there are limited customers and those are from regional area, the bank employees know each and every customer personally. Here personal relations are maintained. There is direct approach to customers due to less number of employees was standard office time of 11.00 a.m. to 5.00 p.m. the decisions were taken by movement of SBL where as in ICICI each employee is responsibility to do his work & authority to take decisions There were no modern bank functioning / practices there is qualitative difference.

8. WHY THE MERGER?

1) Sangli Bank was working well till 2007, it was a schedule commercial A-grade bank, which was designed and referred by RBI. It was a private commercial bank for rendering services to its customers.
2) Though this is not mandatory as per Reserve Bank of India, Board of directors of Sangli Bank had fear psychosis that whether they would be able to return customers money and so they had put there money in government securities where yield was only 7 to 8 percent, they were not open to risk taking capabilities.
3) The pension issue was pending in Sangli bank since 1994 because it required an amount of 180 crore of which the Sangli Bank management was not able to produce because their net yearly profit was not more than 5 crore,so it was a huge amount.
4) As the growth of Sangli Bank was deteorating so needed help, and Merger often enables the amalgamating firm to grow at a rate faster than is possible under internal expansion route via its own capital budgeting proposals. The reason is that the acquiring company enters a new market quickly, avoids the delay associated with building a new plant and establishing the new line of product. "Internal growth is time consuming, requiring research and development, organization of product, market penetration and in general a smoothly working organization". Merger obviates all these obstacles and thus steps up the pace of corporate growth.

9. ORGANIZATION CULTURE (SBL)

BEFORE MERGER

1) The Sangli Bank was having 2500 employees formerly
2) The employees were not fluent in English.
3) They were not aware of modern work structure and style.
4) They were not updated with latest Technologies such as computers.
5) Most of the employees were unaware about net banking.

AFTER MERGER

After Merger along with ICICI Bank the following changes took place

1) ICICI took only 1800 employee from Sangli Bank after Merger.
2) To reduce the fear from employees mind they provided the different training programmers

a) Personality Training: This is for improving the confidence level of employee. They also helped to increase their moral.

b) Approach Training:

Office Attire: Formerly there were no any kind of dress codes and manner codes in the Sangli Bank.

3) **English Language Development Programme:** ICICI Bank provides English Language training.
4) **Special Training for sub staff and sweepers.**
5) ICICI is well known for man less banking, paper less banking .Instead of using emails for communicating with customers, it uses SMS as a communication tool.
6) Previously ICICI was following traditional banking and now it opted machine oriented banking system.

Apart form these the ICICI Bank solved so many pending issues as mentioned follows:

1) The pension issue was pending since 1994 because Sangli bank required an amount of Rs. 180 crores. ESBL management was unable to produce this amount as their net yearly income was only 500 crores whereas ICICI Management solved this problem within 13 minutes discussion.
2) Elaboration to sweepers
3) Promotion to sub staff
4) Insurance up to 14 lakhs to each employee (Premium of insurance paid by the ICICI Bank
5) They provided loans at very cheaper rate (i.e. @ 2 % per annum at reducing balance)

10. COMMUNICATION TECHNIQUES USED

ICICI bank is having their own website. They carry all working with the help of net. The communication mainly takes place through these networks.

1. It is fastest way of communication.
2. Reduction in expenditure

Previously it was expending 12 crores for postal as well as courier services but net banking has helped them to reduce this expenditure.

Feedback: In Sangli bank there was face to face feedback system and now in ICICI Bank the feedback system is face to face as well as through internet also

11. RESISTANCE TO CHANGE

For the merger of Sangli bank with ICICI Bank there was a resistance from three different levels i.e.

1) Resistance from employees of Sangli bank
2) Resistance from shareholders of the Sangli Bank.
3) Resistance from Local Public

It is elaborated as below:

1) RESISTANCE FROM EMPLOYEES OF SANGLI BANK

- As there was a condition of fluent English language communication for the I CICI Bank employees but Sangli bank employees are not that much fluent in English so there was a resistance to change.
- The Sangli Bank employees were completely unaware about the modern work structure and work style of ICICI bank. So due to fear about these conditions Sangli bank employees were showing resistance to change.
- One of the main reasons for the resistance was that the Sangli bank employees were not custom to computer adopted working procedure.
- Before merger there were face-to-face transactions and communication between the employees and the customers, but in ICICI bank, there is E-banking system, Debit card system and ATM and because of this the employee thinks " The number of the customers before the merger was limited which ensures smooth transactions but due to e-banking there will be large number of the customer resulting in complicated transactions, so work and work stress will be more"
- These are the main reasons for the resistance from Sangli Bank employees.

2) RESISTANCE FROM SHAREHOLDERS OF THE SANGLI BANK

The Sangli bank shareholders were enjoying the local benefits offered by the Sangli bank. But due to merges in the ICICI bank there was a chance of losing such benefits. Due to such fear the shareholder of the Sangli bank showed the resistance.

3) RESISTANCE FROM LOCAL PUBLIC

As the Sangli bank was having most of the branches in rural sector, the rural public was thinking as they were loosing the priority provided by the Sangli Bank before the merger. Moreover as the ICICI bank is a totally commercial bank, it is not having the policies regarding the rural sector. So the most of the local public was unhappy about the merger and showing the resistance.

12. ATTEMPTS MADE FOR CO-OPTING APPROACH

Large and positive attempts were made by ICICI bank to co-opt the employees, shareholders and customer needs of Sangli branch Ltd.

For Employees - Pension issue of SBL was pending since the year 1994 because it required an amount of Rs.180 crore, the SBL management was unable to produce. It happened so because there Net yearly profit was not more than Rs. 5 crore So as compared the amount of pension money was huge than the net profit.

Whereas in ICICI, as it is Multi National Bank, ICICI management had discussions with the Union representatives of SBL and solved this problem / issue of pension within 13 minutes of discussion. They sanctioned Rs.180 crore for this for this backlog for SBL.

According to RBI norms –

- It is mandatory to retain earlier benefits of employees and not to curtail those benefits.
- Do not retrench the employees.
- Retirement age of ICICI Bank employees is of 58 years and Sangli Bank employees is of 60 years. 60 years of retirement age is retained. Earlier benefits are retained after the merger. Employees have not been retrenched.
- All other pending issues of Sangli Bank Limited employees were cleared out such as Promotion to sub-staff, Insurance of Rs. 14 lakhs to each employee and those Premiums were paid by ICICI Bank, Staff loans were given at very mere rates at 2.5% on reducing balance method. Shareholders were happy as they were getting higher returns. Customers were benefited as they were provided with modern banking facilities.

13. COMMUNICATION STYLE

Sangli Bank was using vernacular language with its customers and most of the transactions were carried out by verbal communication on personnel level and personnel attention, whereas in ICICI bank it is totally Internet oriented. ICICI bank encourages foot palling i.e. to reduce the customer coming to the bank, Infact the philosophy of ICICI bank "Do not wait customers to come in bank, better you go his doors". That's the reason in 14 years ICICI bank had scaled such heights which SBL took 200 years to attain. ICICI was the first bank to introduce pro-customer banking.

Sangli bank used postal and courier services with in the branches and the customers. Having huge network of 198 sangli bank branches it was time consuming and costly affair. Earlier ICICI bank was also spending 12 crores for postal services, so they thought to reduce this expenditure by making their organization paperless organization and encouraged used of Internet, and now expense had come down from 12 crores e to 5 crores. Now every account of ICICI is connected to Internet, and they spend 900 Rs per account to avail the net services, hence the communication become fast.

14. CONCLUSION

The Merger between Sangli Bank Ltd. and ICICI bank proved that the merger was beneficial for both the banks. The more benefit are enjoyed by Sangli bank as ICICI cleared its all pending issues, maintain 75 % of their employees as it is and also provided them training. The ICICI bank also enjoyed various important benefits like; they got the ready infrastructure of Sangli bank, also they greeted with powerful rural network of Sangli bank, experienced work force with adequate regional knowledge was also the benefit for ICICI bank. Now due to the Globalization and the GAT agreement there are many chances of such mergers in financial sectors especially in banking to survive in the Global competition.

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