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## Employee retention during Cooperative banks' mergers and acquisitions

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**Abstract:** Although mergers and acquisitions are important for an organisation's future growth, they often result in high employee turnover. Employee retention though is an essential prerequisite for achieving the projected benefits for the newly formed organisation. The paper draws empirical evidence from a study that explored critical factors in retaining key employees, since their concerns and problems often lead to voluntary turnover and merger failure. The study utilises qualitative data, collected through in-depth semi-structured interviews and focus group discussions with 55 participants from the wider environment of the Cooperative financial services sector in Cyprus. At the time of the study, the sector was undergoing dramatic changes, eventually leading to a number of previously independent Cooperative credit institutions coming under state control and ownership. The number of these institutions was reduced from more than 90 to just 18, which were subsequently merged into the Cyprus Cooperative Central Bank, which itself was sold in 2019 to a larger banking organisation.

**Keywords:** employee retention; M&As; mergers and acquisitions; Cooperative banks; human resource management; Cyprus; employee turnover; employee empowerment; merger failure; motivation; job enrichment and training; job stability.

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## **1 Introduction**

Mergers and acquisitions (M&As) occur between organisations when one party is stronger than the other resulting in vulnerability and insecurity amongst the staff of the weaker party. Mergers are rarely on equal terms and more often they constitute a takeover of the weaker party (Dailey and Kirk, 1992; McFarlin and Sweeney, 1992; Sheridan, 1992; Sanda and Adjei-Benin, 2011). A merger is the consolidation of two or more previously separate entities (companies) into a single organisation. On the other hand, an acquisition is the purchase of one company by another, in which the buyer keeps control (Saksonova and Kantane, 2016). Empirical evidence suggests that M&As offer

opportunities for growth and enable companies to be more competitive both on a national and an international level (Schweizer, 2005; Riviezzo, 2013; Rossi et al., 2013; Tang and Metwalli, 2013; Lawlor, 2013; Hajbada and Donnelly, 2013; Alam and Ng, 2014; Wagner and de Hilal, 2014; Saksonova and Kantane, 2016). However, it is reported that more than 60% of M&As fail to achieve the financial benefits expected (Marks and Mirvis, 2001) and lead to employee turnover (Hubbard and Purcell, 2001; Cooper and Finkelstein, 2004; Lawlor, 2013; Riviezzo, 2013; Wagner and de Hilal, 2014). Employee turnover of executive staff or high performers (Hubbard, 1999; Wu and Zang, 2007) potentially results in the failure of the entire process (Appelbaum et al., 2007). Keeping high-performing employees after an M&A is not an easy task and it is often a key concern for HR managers (Erickson, 2015).

Abbasi and Hollman (2000) identified two types of employee turnover: involuntary and voluntary. The first one refers to dismissals and the second to resignations. Very often voluntary turnover is not only negative for the company because of the loss of intellectual capital but because the employees are often hired by competitors (Ferguson and Brohaugh, 2009). Krug and Nigh (2001) claimed that M&As cause instability that often lasts for many years. In fact, as a result of heightened stress experienced by company executives, about 70% tend to depart within the first five years of the M&A (Krug and Aguilera, 2005), and the acquired company usually loses around 10% of their senior level staff every year (Krug, 2009). Attracting and retaining talented employees is not only crucial for business (Bartlett and Ghoshal, 2002; Gberevbie, 2010) it is also critical for achieving and managing successfully a merger (Appelbaum et al., 2007; Devi, 2009). During a merger, the outcome of an effective employee retention strategy could significantly influence the success of the merger (Gberevbie, 2010; Ghosh et al., 2012; Bresciani et al., 2012) and it is critical for businesses to have strategies aimed at keeping talented people on board (Gberevbie, 2010). During the post-merger phase, organisations generally aim at keeping all organisational members and avoiding employee turnover (Kusstatscher and Cooper, 2005; Marks, 2006). However, in order to achieve this during an M&A there is an increased need to focus on the employees' psychological state and well-being (Saunders et al., 2009; Naz and Nasim, 2015)

The paper's *overarching aim* is to critically review extant literature regarding the key factors contributing to retaining employees during M&As, and to subsequently and empirically shed light onto those factors that are perceived as critical in retaining employees within the cooperative financial services sector in Cyprus. *Methodologically*, the study draws on qualitative data on the sector's key stakeholders, as provided by senior-level managers, middle-level managers and front-line employees of the various relevant organisations, and, specifically, through in-depth, semi-structured interviews and focus group discussions with 55 participants from the wider environment of the cooperative financial services sector in Cyprus. The stakeholders' perceptions, attitudes, beliefs and experiences ultimately led to the development of a framework that identifies and interrelates the perceived critical factors leading to retaining the key and talented employees during M&As. The research's specific objectives are:

- to review the current literature related to employee retention during M&As
- to identify the primary concerns faced by employees during M&As and which subsequently lead to employee turnover

- to describe the perceived role and strategies that the HRM department must adopt to retain key and talented employees during M&As
- to empirically develop a framework that presents, systemically integrates and interrelates those factors that are perceived as critical in retaining employees during M&As in the cooperative financial services sector.

## **2 Literature review: context and foundations of mergers and acquisitions theory**

### *2.1 Historical and functional perspectives*

The topic of M&As has drawn considerable scholarly attention over the last few decades, with research interest reaching a peak in the last 10 to 20 years (Tang and Metwalli, 2013; Lawlor, 2013; Hajbada and Donnelly, 2013; Alam and Ng, 2014; Hutzschenreuter et al., 2014; Srivastava and Prakash, 2014; Wagner and de Hilal, 2014; Adhikari, 2016). M&As are perceived as one of the most important phenomena in modern economies (Kwoka, 2002) with their occurrence increasing in US, Europe and internationally (Steynberg and Veldsman, 2011; Faruk Genc and Zakaria, 2017). Their increased frequency could be the outcome of the perception held by several researchers in that it is a strategy for organisational growth even during a recession (Steynberg and Veldsman, 2011; Saksonova and Kantane, 2016; Campanella et al., 2016). Although some M&As are successful, a high percentage of them often fail (Epstein, 2004). A merger of two companies is a merger of groups, or more specifically, it is ultimately a human process (Mavrides and Hadjichristodoulou, 2009; Antila and Kakkonen, 2008; Konstantopoulos et al., 2009; Shook and Roth, 2011). Marks and Mirvis (1998) stated: “[M]ore than three-quarters of corporate combinations fail to attain projected business results. In fact, most produce higher-than-expected costs and lower-than-acceptable returns”. Often the burden of change falls on the workforce. Cartwright and Cooper (1992, p.35) stated: “M&As represent a significant and potentially emotional and stressful life event”, a view shared by others (Jayesh, 2013; Newton, 2015). Several studies emphasise the importance of human resources during M&As (Mavrides and Hadjichristodoulou, 2009; Antila and Kakkonen, 2008; Konstantopoulos et al., 2009; Shook and Roth, 2011; Jayesh, 2013; Bansal, 2015; Newton, 2015; Charoensukmongkol, 2016).

The literature reviewed revealed two models that highlight specific steps in retaining talented employees. The one was proposed by Schuler and Jackson (2001) and the other by Nikandrou and Papalexandris (2007). In general, there are a number of reasons that motivate corporations towards M&As one of which is that it is a strategy that enables firms to grow faster (Nikandrou and Papalexandris, 2008; Steynberg and Valdsman, 2011; Collett, 2015; Kyriazopoulos and Drymbetas, 2015). Other factors include globalisation, technological change, deregulation, achievement of synergies, diversification, market expansion, enhanced capabilities and knowledge (Konstantopoulos et al., 2009; Shook and Roth, 2011). Other academics, such as Gadiesh et al. (2001), stipulated additional factors: increased competitive pressure stemming from the external market environment; maintaining the company's market position; seeking a competitive advantage; achieving diversity and growth. The existent literature indicates that M&As offer the easiest and most popular way to achieve this aim is through mergers or acquisitions (Mavrides and Hadjichristodoulou, 2009; Klendauer and Deller, 2009;

Collett, 2015; Liu et al., 2018; Christofi et al., 2019; Rossi et al., 2015). Empirical studies support that more than half of M&As fail to produce results, often resulting in breaking even (Jayesh, 2013; Bansal, 2015; Chiriac and Georgescu, 2015; Newton, 2015). M&As often do not meet the stakeholders' expectations (Mavrides and Hadjichristodoulou, 2009), and despite their popularity, the strategic performance of most of them is disappointing. In general, managers focus on human resources when it is too late and after problems arise (Chiriac and Georgescu, 2015). Harding and Rouse (2007) claimed that this is because often executives tend to favour financial assets rather than human assets.

Extant works show that the success of M&As depends on the effective management of human resources (Weber and Tarba, 2012; Maimunah et al., 2016; Saksonova and Kantane, 2016; Ossorio, 2019; Taamneh et al., 2018). The inability to integrate employees into the M&A process (Risberg, 1999; Kennedy et al., 2002) and manage them effectively during the change (Kummer, 2008) are the key reasons for failure (Bansal, 2015; Newton, 2015). The success of the implementation of an organisational change depends significantly on effectively managing the internal market of employees (Vrontis et al., 2010; Wagner and de Hilal, 2014; Adhikari, 2016). However, most businesses tend to neglect this and instead emphasise the financial aspects of the process (Nikandrou and Papalexandris, 2007; Sanda and Adjei-Benin, 2011). Retensa (2012) postulated that 70% to 80% of all mergers fail due to the inability to focus on the interests and well-being of employees (Retensa, 2012; Chiriac and Georgescu, 2015; Bansal, 2015). During M&As, there is a need to implement innovative and effective HR strategies in order to manage effectively the workforce (Jayesh, 2013). It is critical to redefine the role of HR during M&As (Newton, 2015) especially in terms of increasing employee retention rates.

## *2.2 The role of human resource management*

Academics and practitioners agree that a large number of M&As are destined to fail primarily due to losing sight of and, in fact, neglecting the 'soft' elements of the process, which are related to human resource issues (Jayesh, 2013; Bansal, 2015; Newton, 2015). Degbey et al. (2020) argue that recent empirical papers on M&A have shown that turnover rates among employees and executives in the acquired firm tend to be higher during M&A whilst employee retention/turnover can be more effectively addressed by looking at psychological attributes and perceptions of M&As and thus focusing more on the psychological and 'human' side. Several researchers stipulate that the effective management of employees during M&As leads to positive outcomes (Klendauer and Deller, 2009; Steynberg and Valdsman, 2011). However, this is often difficult to achieve, and several researchers perceive it as the most difficult task to achieve (Kummer, 2008). Mavrides and Hadjichristodoulou (2009) stipulated that there is a need for empirical data to reveal the strategies and tools that need to be developed during M&A in order to retain key employees. Maimunah et al. (2016), Nemanich and Keller (2007) and Guerrero (2008) emphasised the need for research to primarily understand the impact of M&As on employees and identify those tools that are necessary to help employees cope with organisational change (Nikandrou and Papalexandris, 2007; Bansal, 2015). Nadolsak and Barkema (2014) stressed that the ineffective implementation of M&As could lead to organisational failure; however, achieving a successful merger is possibly one of the most critical challenges faced by managers in today's dynamic environment (Appelbaum et al.,

2007; Jayesh, 2013). Jayesh (2013) stipulated the need for innovative human resource management approaches. There is a need for the strategic use of HRM practices in order to implement M&As effectively (Ghosh et al., 2012; Bansal, 2015; Newton, 2015). Brueller et al. (2018) embraced the view that M&As are largely embedded in social and human practices. The authors proposed a conceptual framework that reveals why and how ability-motivation-opportunity (AMO) – enhancing human resource management practices can link M&A strategies and post-merger integration. Similarly, Khan et al. (2020) developed a conceptual model in the context of global M&As that integrates ability, motivation and opportunity (AMO) – enhancing HRM practices and transactive memory system which have not been previously used together in a global context. Anderson (2009) claimed that there is a lack of empirical evidence as to how human resource management can positively contribute towards M&As. Weber and Tarba (2012) claimed: “There is no rigorous empirical research to examine how, and to what extent, the human factors influence each other and the effectiveness of M&As”. Lee et al. (2009) pointed out that “future studies should focus on obtaining information from top managers from the acquired company in order to determine the most important factors that influence their turnover intentions”. Cooke et al. (2020), stipulate that previous studies on M&A have neglected the importance of employee resilience, a concept that plays a crucial role in the management of M&As, especially in the post-M&A integration. Oeberg et al. (2010) and Appelbaum et al. (2007) claimed that there is heightened interest in investigating how the different stakeholders behave in M&As and proposed solutions to the various problems that arise during and after the merger/acquisition (Jayesh, 2013).

### *2.3 Key employee retention factors during M&As*

The literature highlights the importance of employee retention, especially in relation to minimising the employee turnover costs, which can be both monetary and psychological (Huang et al., 2006; Al-Emadi et al., 2015). The high costs of losing talented employees reinforced the need for organisations to use different tools and approaches that support employee retention (Kim, 2012; Al-Emadi et al., 2015). The literature on employee retention draws on a number of theories. For example, according to the human capital theory, the employees will resist shifting jobs if the benefits do not exceed the monetary and psychological costs (Huang et al., 2006; Al-Emadi et al., 2015). Social exchange theory holds that a person’s behaviour reinforces the behaviour of others. This theory is grounded in the idea of “helping and supporting each other”, which contributes towards a high employee retention rate (Gentry et al., 2007; Jepsen and Rodwell, 2010; Allen and Shanock, 2013; Al-Emadi et al., 2015). Furthermore, the resource-based view theory concentrates on developing those employee skills which are critical for the organisation’s competitiveness and productivity, whilst a causal model of employee turnover developed proposes a set of managerial tactics that companies can adopt in order to manage high turnover rate of employees. These tactics include mental health education, employee ethics education, improvement of working environments, rebuilding corporate culture, transforming employee management style, and enhancing employee career planning management. This literature reviewed (Al-Emadi et al., 2015; Kujawa, 2015) revealed the following factors as the most critical towards employee retention:

*Empowerment:* Empowerment is a factor which affects positively employee retention (Birt et al., 2004; Gialuisi and Coetzer, 2013; Al-Emadi et al., 2015). Employee

empowerment is associated with certain factors which are conducive to employee empowerment. The first one being corporate image. In order to enhance corporate image, organisations must pay attention to recruiting and retaining talented employees (Gberevbie, 2010; Bansal, 2015; Newton, 2015). The second is to provide employees with personal development and career opportunities in order to encourage them to stay with a firm. The employees should have clear career paths (Saunders et al., 2009) in order to progress but also to build new careers (Sanda and Adjei-Benini, 2011). The inadequate opportunities for growth and the absence of career opportunities or a clear career path often force employees to leave a firm (Gialuisi and Coetzer, 2013; Burghardt and Helm, 2015). Trust is also a critical factor in retaining employees, and its absence often leads to employee resignations (Sanda and Adjei-Benin, 2011; Erickson, 2015). Low employee morale is very often a cause for employee resignations, especially among key, talented employee. M&As often cause low employee morale, which in turn motivates employees to look for a new job elsewhere (Saunders et al., 2009; Adhikari, 2016).

*Motivation:* During M&As, employees often experience disengagement and conflict that could lead to a loss in motivation and subsequently to employee resignations (Lawlor, 2013; Riviezzo, 2013; Lupina-Wagener, 2013; Wagner and de Hilal, 2014). Organisations going through M&A should invest in employee motivation by, for example, developing packages and programmes that aim at retaining employees (Kummer, 2008; Morgan, 2008; Gialuisi and Coetzer, 2013; Newton, 2015; Kujawa, 2015). The employees' capabilities and their contribution to achieving organisational goals should be recognised and appreciated by management, and if this is achieved, then the organisation will be able to retain its employees (Wang and Walumbwa, 2007; Kujawa, 2015; Srivastava and Prakash, 2014). Employee recognition and rewards are essential for talented employees and can motivate them to stay with the organisation (Nikandrou and Papalexandris, 2007; Saunders et al., 2009; Al-Emadi et al., 2015). The literature review suggests that salary cuts and job losses following M&As could lead to lower employee retention rates (Siu et al., 1997). If employees are dissatisfied with the compensation offered, they often leave (Abbasi and Hollman, 2000; Ramlall, 2003). According to Sturman et al. (2003), Mano-Negrin and Tzafirir (2004) and Carraher et al. (2006), employees often leave a firm primarily for financial reasons, especially high performers (Griffeth et al., 2000). Companies that go through M&As should use different employee incentives, such as rewards (both monetary and non-monetary), salary rises and tailored remunerations, in order to increase the employee retention rate (Guthrie, 2000; Ramlall, 2003; Nikandrou and Papalexandris, 2007; Morgan, 2008; Gberevbie, 2010; Gialuisi and Coetzer, 2013; Govaerts et al., 2011).

*Involvement and autonomy:* If employees are involved in some level of decision-making process, they tend to feel more comfortable and thus tend to stay longer in a position (Gialuisi and Coetzer, 2013; Al-Emadi et al., 2015). During M&As, firms should involve and assign responsibilities to their employees to demonstrate a caring attitude, which in turn could increase employee performance and retention rates (Budhar, 2000; Szabla, 2007; Al-Emadi et al., 2015). It is vital to keep employees informed especially during the different stages of M&As (Saunders et al., 2009; Al-Emadi et al., 2015), and this can have a positive impact on organisational performance (Srivastava and Prakash, 2014). Moreover, when the managers of the acquired company in an M&A lose their autonomy, they experience feelings of tension, stress and discontent, which subsequently lead to employee resignations, integration problems and failure (Al-Emadi et al., 2015; Adhikari,

2016). Studies have shown that employee autonomy positively affects employee retention since it helps them retain some control during this period of uncertainty that M&As often create (Al-Emadi et al., 2015; Adhikari, 2016).

*Communication:* Communication problems during the M&A process could contribute to its failure (Schweiger and DeNisi, 1991; Newton, 2015). The development and implementation of effective communication strategies during M&As contributes positively towards employee retention (Gutknecht and Keys, 1993; Labov, 1997; Cartwright and Cooper, 2000; Arnold, 2005; Nikandrou and Papalexandris, 2007; Chew and Chan, 2008; Adhikari, 2016). Implementing an effective communication process is especially important during the transition phase of the M&A (Appelbaum et al., 2000; Appelbaum et al., 2007; Morgan, 2008; Saunders et al., 2009). However, there is a need for empirical evidence in relation to how communication contributes to employee retention (Gutknecht and Keys, 1993; Appelbaum et al., 2000; Appelbaum et al., 2007; Reus and Lamont, 2009; Saunders et al., 2009; Gialuisi and Coetzer, 2013; Erickson, 2015). In fact, the best employees are the first to leave a newly created organisation if communication is ineffective or non-existent (Bertoncelj and Kovac, 2007; Al-Emadi et al., 2015). Communication plays a vital role in implementing organisational change and achieving effective integration (Schuler and Jackson, 2001; Chebbi et al., 2015).

*Job enrichment and training:* Several authors argued that it is critical for the success of organisations to design jobs that are challenging and meaningful to satisfy employees as a prerequisite for motivating and retaining them (Gialuisi and Coetzer, 2013; Al-Emadi et al., 2015; Vui-Yee, 2018). Job enrichment can be achieved through new technology, as well as other incentives such as empowerment, rewards, and employee training and development (Firth et al., 2004; Van Dick et al., 2006; Al-Emadi et al., 2015; Lee, 2000; Beecham et al., 2008). Furthermore, employee training and development are interrelated with employee retention (Nikandrou and Papalexandris, 2007; Kongpichayanond, 2009; Gialuisi and Coetzer, 2013). The existent literature supports that, by implementing internal training programs, giving personal development opportunities, launching education programs and providing equal education opportunities to their employees, firms can positively contribute towards employee retention (Al-Emadi et al., 2015).

*Job stability:* The existence of stability at work enables talented individuals to stay on board after M&As. Stability is an important employee retention factor (Guthrie, 2000; Schuler and Jackson, 2001; Ramlall, 2003; Gberevbie, 2010). During M&As, employees worry that they will lose their jobs due to the uncertainty that characterises the transition phase, which in turn creates feelings of insecurity (Van Dick et al., 2006; McClure, 2012; Weber and Tarba, 2012). Researchers found that job security greatly influences an employee's decision to stay in an organisation (Riviezzo, 2013; Lupina-Wagener, 2013; Wagner and de Hilal, 2014). Achieving work-life balance and job security enables organisations to achieve employee retention (Anderson et al., 2002; Allen et al., 2003; Horwitz et al., 2003; Wang and Walumbwa, 2007; Morgan, 2008; Devi, 2009; Gberevbie, 2010). Unfortunately, most firms fail to realise that M&As lead to job uncertainty and high levels of employee discontent, subsequently resulting in high employee turnover (Lawlor, 2013; Riviezzo, 2013; Lupina-Wagener, 2013; Wagner and de Hilal, 2014). The high levels of job uncertainty, employee insecurity and salary cuts that often occur with M&As contribute to failure (Terry et al., 2001; Van Leeuwen et al., 2003; Giessner et al., 2006; Bansal, 2015).

*Relationships and perceived fairness:* The relationships that employees might have formed with other stakeholders such as their colleagues and supervisors contribute to employee retention (Heather, 2003; Gialuisi and Coetzer, 2013; Al-Emadi et al., 2015). Abbasi and Hollman (2000) stipulated that often a toxic workplace environment could lead to employee turnover. The work environment has been characterised as a retention trigger (Zuber, 2001), and the nourishment of positive relationships among colleagues leads to employee retention (Bhatnagar, 2007; Xing and Liu, 2015; Adhikari, 2016). Adding to and in the context of the above, fair employee treatment contributes positively towards employee retention (Sanda and Adjei-Benin, 2011; Erickson, 2015). Treating employees fairly and equally, with honesty, integrity and respect enables organisations to contribute towards employee retention (Birt et al., 2004; Chun, 2005). Employees expect to be treated with integrity, understanding, empathy and respect especially during difficult times such as an organisational change, which is the result of M&As (Chun, 2005, 2009). Subsequently, the employees' perception as to whether the management is treating them fairly during an M&A directly impacts their intentions to leave the newly formed organisation (Sanda and Adjei-Benin, 2011; Erickson, 2015; Adhikari, 2016).

*Managerial support:* Employee turnover is often the result of a lack of support by one's colleagues or management (Newton, 2015; Al-Emadi et al., 2015). Employees need encouragement, support and reassurance during M&As, which in turn can lead to employee retention (Kujawa, 2015; Al-Emadi et al., 2015). According to Reus and Lamont (2009), during M&As the management must play an active role in supporting employees to adapt to the new realities and demonstrate concern, respect and integrity in order to gain the employees' trust. Furthermore, an issue that significantly affects employees' intention to remain in their company is their level of commitment (Gialuisi and Coetzer, 2013; Newton, 2015). Previous studies have shown that employees characterised by strong commitment towards the organisation are less likely to leave (Elangovan, 2001; Schraeder, 2001; Fairfield-Sonn and Ogilvie, 2002). Committed employees tend to perform better (Devi, 2009) and are less likely to leave than those who are not (Joo, 2010). Failure of management to demonstrate concern, respect and integrity towards their employees during M&As significantly increases employees' decision to leave (Newton, 2015; Adhikari, 2016).

*Emotional strain on employees:* Demonstrating concern and understanding for employees and their feelings during M&As contributes positively to employee retention (Al-Emadi et al., 2015). M&As put considerable emotional strain on employees, often evoking several psychological reactions (Lawlor, 2013; Riviezzo, 2013; Lupina-Wagener, 2013; Wagner and de Hilal, 2014; Bansal, 2015; Adhikari, 2016). Moreover, organisational restructuring often follows M&As, involving job and salary cuts and heightened levels of stress (Panchal and Cartwright, 2001), which results in employee turnover. The heightened levels of stress, which are often caused by M&As, frequently result in work-family conflict and employee turnover. Managing high levels of stress among employees will significantly enhance the outcome of the M&A process (Cartwright and Cooper, 2000). The level of stress experienced by employees in the workplace influences employees' decisions to leave their jobs (Firth et al., 2004; Amiot et al., 2006; Saunders et al., 2009; Calisir et al., 2011). It can also have a negative impact on the company's operations (Naz and Nasim, 2015; Adhikari, 2016). Similarly, the tension created can lead to failures (Weber, 1996) and internal conflicts (Newton, 2015). Furthermore,

M&As can create anxiety, tension, frustration and anger among employees with managerial positions and result in turnover (Erickson, 2015; Bansal, 2015; Adhikari, 2016). The high levels of anxiety, frustration, anger and conflict caused during M&As (Firth et al., 2004; Gialuisi and Coetzer, 2013) can cause traumatic experiences for employees and managers of the acquired firm (Nahavandi and Malekzadah, 1993; Schweiger and Denisi, 1991). Thus, the big challenge faced by management during the post-merger phase is to avoid the creation of a 'we-they' situation, which can lead to tension, power struggles, employee absenteeism, turnover and low employee morale (Kusstatscher and Cooper, 2005; Marks, 2006; Nikandrou and Papalexandris, 2007).

*Turnover intention among managers:* Organisational changes are often a major cause of turnover among organisational members holding managerial positions (Saunders et al., 2009; Gialuisi and Coetzer, 2013; Trichterborn et al., 2016). The loss of organisational competitiveness following M&As can result in resignations especially among senior-level organisational members (Steynberg and Veldsman, 2011; Gialuisi and Coetzer, 2013; Krug et al., 2014). The loss of talented employees inevitably leads to the loss of skills and knowledge, which are often hard to replace (Harding and Rouse, 2007; Ferguson and Brohaugh, 2009; Govaerts et al., 2011). There is also a significant loss of the company's intellectual capital, resulting in increased costs that are often difficult to recover (Ghosh et al., 2012; Nadolsak and Barkema, 2014).

*Organisational culture, identity and employee turnover:* M&As often lead to job losses that have negative implications for a firm's corporate culture (Joslin et al., 2010; Weber and Tarba, 2012; McClure, 2012; Maimunah et al., 2016; Adhikari, 2016). M&As are often followed by cultural changes which are often the main cause of a drop in organisational performance and the resignation of key executives (Appelbaum et al., 2007). Beaudan and Smith (2000) argued that a change in organisational practices such as access to top management, flexible work schedules and a relaxed dress code is likely to lead to organisational failures (Reus and Lamont, 2009; McClure, 2012). Although corporate culture has a strong impact on employee retention in M&As, it is often neglected by management (Weber and Tarba, 2011; Weber et al., 2011). Any cultural differences between the firms that merge could potentially harm the effectiveness of the integration process. Unfortunately, managers often neglect the important role organisational culture plays on employee morale. They often fail to recognise the importance of managing different aspects of organisational culture during the M&A process (Weber et al., 2009; Stahl et al., 2013; Maimunah et al., 2016; Adhikari, 2016). Culture is a factor that influences the effectiveness of the integration process during M&As. Van Marrewijk (2016) supported that the coexistence of organisational cultures of the two businesses merging has a direct impact on the effectiveness of M&As. Cultural differences can have a positive or negative influence on the effectiveness of M&As (Sarala, 2010; Vaara et al., 2011; Weber et al., 2011). Some researchers stipulate that most M&As have a negative impact on organisational culture and only a few have a positive one (Dasborough et al., 2003). M&As result in organisational change, which is often met with employee resistance (Angwin, 2001; Van Dam et al., 2008; Raukko, 2009). They also result in corporate identity changes (Morrell et al., 2004; Naz and Nasim, 2015). In fact, they may result in the loss of an organisation's corporate identity, thus generating negative employee attitudes and low retention rates (Vaara, 2003; Van Dick et al., 2006; Ullrich et al., 2005; Maimunah et al., 2016). The loss of identification with the new organisation has a negative impact on employees (Giessner et

al., 2006; Naz and Nasim, 2015). When employees experience a change in organisational identity they tend to experience high levels of uncertainty (Schweiger and Denisi, 1991; Marks and Mirvis, 2001; Jetten et al., 2002). Appelbaum et al. (2000) stipulated that the employees may experience dissatisfaction when they are asked to work with people who were previously either their supplier, customer or even competitor. Often managers fail to involve their employees in the process, which contributes to heightened levels of uncertainty and employee turnover (McClure, 2012; Weber and Tarba, 2012). Furthermore, employees need to be aware of the vision and corporate strategy of the new entity in order to feel secure, otherwise they will quit and leave the organisation (Harding and Rouse, 2007; Adhikari, 2016). Anderson (2009) suggested that the HRM department should be responsible for strategically merging organisational cultures during M&As.

### 3 Research methodology

The philosophical stance that guided the study is the *critical realism paradigm*. For the critical realist, the world is changing constantly and this highlights the need for continuous investigation in order to understand how business and management evolve. The study combines deductive and inductive research approaches. The purpose of the deductive method is to study the existent literature in the field of M&As, whilst the inductive method aims at collecting and analysing empirical data in order to create 'new' theory. The deductive approach followed the stages proposed in Wallace's Wheel (in Vignali and Zundel, 2003, p.208) resulting in the specific research objectives that guided the study. The inductive method used to collect primary data relied on triangulation, which combined personal semi-structured interviews and focus group discussions. The qualitative case study was carried out within the Cyprus Cooperative financial services sector. Yin (2003) suggested that a case study uses an empirical investigation of a particular phenomenon within a real life situation by using multiple sources to gather data. Robson (2002, p.178) describes case study research as "an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence". The study used a purposive, convenience-based sample of 55 organisational members employed within Cypriot Cooperative financial services institutions. The researchers carried out 33 semi-structured personal interviews and focus group discussions with 22 with members from various positions within the organisations studied. The semi-structured interviews were conducted with senior-level managers of internal and external direct stakeholders of the Co-op banks, as well as with academics with knowledge and expertise in the specific industry sector. Conversely, the focus group discussions were carried out with lower-level management and floor-level employees. For the data analysis, the researchers used content analysis. The first step, initial coding, involved the identification of keywords in the text that related to key concepts. The second step, the reflection phase, enabled the researchers to make notes in the text that express first impressions and initial thoughts. In the third step, the researcher combined the emergent codes into categories, which were subsequently linked in order to develop a meaningful story about the phenomenon studied in the specific organisational context (Patton, 2002).

## 4 Results

The in-depth qualitative data was collected through semi-structured interviews and focus group discussions with professionals holding managerial and lower-level positions within various cooperative financial organisations operating in Cyprus. The researchers utilised two rounds of semi-structured interviews in order to validate and verify the emergent themes. One of the study's most interesting findings highlights the role of the HRM department in managing the restructuring process resulting from M&As and its impact on organisational members. The majority of the interviewees share the general view that the HRM department plays a vital role in employee retention. This is primarily due to the department's knowledge regarding the value and contribution of each member to the organisation. This knowledge directly influences the efforts towards retaining those employees who are significant to the success of the organisation by utilising the right HRM tools. The in-depth data analysis resulted in the following core concepts. Each of these concepts draws on various sub-themes, which stem from theory, and is tested, refined and interrelated through primary research.

*Empowerment:* Employee empowerment positively contributes to employee retention. Engaging employees and giving them the opportunity to participate in the decision-making process makes people feel valued and trusted. Trust in turn gives them a sense of security and loyalty towards their employer. A middle-level manager pointed out: *"Trust is a fundamental issue, without it there is no future for us in the organisation!"* There is also a strong emphasis on monetary rewards, seen as a prerequisite for the retention of personnel affected by M&As. The salary cuts resulting from M&As negatively affect people's quality of life: *"We were used to a high standard of life, and now we have to change it as a result of the salary cuts that followed the organisation's merger. It is very demotivating...especially since we are asked to undertake more duties due to staff shortages created by employee redundancies"*. There is a shared view that the monetary rewards help employees feel valued and appreciated, and this, in turn, gives them an incentive to stay with the new organisation. When M&As occur, employees tend to evaluate the situation and focus on their salary and monetary rewards. The latter are seen as incentives for creating motivated, dedicated and inspired employees. The general feeling is that before the bail-in in 2013, cooperative bank employees enjoyed more career opportunities, more rewards and better salaries, which is not currently the case. During M&As, employees experience heightened uncertainty, rumours, internal conflicts, favouritism and unfairness: *"The last merger we experienced was nothing but ethical. ...Everyone was trying to keep and 'protect' their own people... at any cost! People did not have equal opportunities. When this happens, trust is lost and with it employee loyalty"*. Although M&As affect all employees, the older employees are often affected more than the younger ones. The reason is that today younger employees have both the experience and education required by the employer and since they are at the beginning of their career they are able to find employment elsewhere. The data analysis suggests that Cypriot Cooperative financial services institutions have a poor reputation, which is not conducive for employee retention. The bad reputation has resulted from claims of employees' irregular actions that favoured individuals/companies. According to some of the participants, the Cyprus Central Cooperative Bank is perceived to be "incompetent" and unable to maintain the "cooperative institutions' opus operandi". Local Cooperative financial institutions face serious problems resulting from non-performing loans, which

aggravate people's mistrust in and suspicions that the Co-ops engage in unethical behaviour and lack honesty.

*Employee motivation:* The data analysis showed that employee motivation following a merger or an acquisition contributes to employee retention: "Every organisation must find out what motivates their employees. Those employees who are recognised for their efforts tend to be productive and loyal to the company". The study showed that in order for an organisation to retain its employees it needs to give them incentives. Employee motivation stems from a combination of monetary rewards, recognition and appreciation. Corporate reputation is also critical in creating motivated employees and building employee loyalty. A strong corporate reputation enhances employee motivation and leads to higher employee retention. There is also a need for employees to have clear knowledge and understanding of their duties within the organisation: "A few years ago, we went through a merger.... We were not given any incentives.... We felt betrayed and if we did not need the money to take care of our families we would have left". Having open two-way communication is also critical in retaining key talented employees in situations of M&As: "There was a lack of communication during the last merger, which created confusion and uncertainty among personnel.... We deserve to be properly informed in all the stages of the transition process following a merger. There is an increased need for transparency and openness".

*Employee involvement in decision-making:* Employee involvement in decision-making is an important employee retention factor: "I want to be involved in decision-making.... This makes you feel part of what the organisation is trying to achieve. It enables you to 'believe' in the company's mission and goals". It seems, though, that employee involvement should be encouraged with caution since there is always the risk of people abusing their power. Participants shared the view that for effective employee involvement to take place following M&As there is a need to have clear guidelines, continuous information, openness and transparency.

*Internal communication:* There is emphasis on the importance of internal communication in retaining employees during M&As. "There was this time when the bank went through a merger where we had to deal with a lot of misinformation and rumours. This created uncertainty among employees... people were afraid of losing their jobs... they started panicking!" Organisational members expect that upper-level management needs to be honest, truthful, driven by integrity and ethics, avoids secrecy and is people oriented. Failure to achieve these often leads to rumours, uncertainty, misinformation, misunderstandings and uncertainty: "*The worst thing is when the management gives false promises.... People feel betrayed.... They lose trust in the management, ... in the organisation really. Why should people stay? ... They don't; they leave. Of course they leave!*" Effective internal communication is critical in the success of M&As since it contributes to transparency, eliminates rumours and uncertainty: "*They (top management) believed that hiding the truth from us (lower level employees) would make the merger a 'pleasant process'.... The transition was painful, there were a lot of stories... rumours.... The uncertainty killed employee morale. Some people left the company*".

*Job enrichment:* Following M&As there is a need for management to design jobs that are fulfilling, rewarding and challenging in order to retain their employees: "*Employees need to feel that their jobs are challenging, meaningful, rewarding.... They need to be able to*

*see their personal contribution to what the organisation is trying to achieve. It is fundamental for me to have a meaningful job...and for others to see that my job is important...and this encourages people to stay”.*

*Training:* It seems that there is a lack of effective employee training within Cooperative financial service institutions operating in Cyprus. M&As often reveal that employees lack the necessary knowledge and understanding regarding, for example, organisational procedures, processes and policies. Organisational members expect to have the opportunity to attend not only internal training and development programmes but also external programmes such as workshops, seminars and conferences. Training helps employees deal effectively with changes especially with the dramatic ones characterising the post-acquisition period: *“The financial services legislation is constantly changing as a result of the guidelines provided by the European Union.... New instructions are given to us all the time.... We need continuous training in all aspects of our jobs. It’s not just our jobs; it’s the organisation.... The training helps people understand how things should be done now.... It helps the merged organisation to successfully integrate”.*

*Job stability:* Employees experience uncertainty surrounding M&As because primarily they do not know the implications that the merger has on their employment and salary. Post-acquisition uncertainty leads to job strain, decreased employee satisfaction and turnover. During the post-merger phase, senior-level managers often fail to inform the employees of how the merger will impact their jobs, leading to confusion and uncertainty. This uncertainty has a negative impact on employees since it results in high stress levels and feelings of anxiety and powerlessness. Traditionally, bank employees considered that they had a “job for life”, which is no longer the case with the volatility and the dramatic changes that characterise the sector: *“The merger has created a new ‘reality’ for us.... Nothing is guaranteed.... The job insecurity makes people stressed and uncomfortable;... it pushes them to look for employment elsewhere”.* In the post-merger phase, employees expect that the human resource management department will play a key role in instilling confidence regarding job security.

*Autonomy:* The data analysis revealed that giving employees a certain level of autonomy in decision-making is a major retention factor. There is a perceived need for managers to give clear guidelines and instructions in order to help employees avoid making mistakes: *“We are career-oriented people.... We want to have clear guidelines in terms of goals, policies,... but we also need some autonomy at work. Autonomy gives people an incentive to achieve things. It affects productivity and motivation”.*

*Internal relationships:* The data analysis showed that quality working environment and internal relations decreases employee turnover. The existence of positive internal relationships with one’s colleagues and superiors has a positive impact on employee morale. It creates a sense of belonging and camaraderie that lead to the creation of a strong team spirit and employee satisfaction: *“Good relationships among employees and among employees and managers create strong teams and teamwork is essential in this organisation, in any organisation really. Of course, after a merger people are divided into different camps, but it is crucial that people bridge their differences and all work towards achieving the organisation’s goals”.* There is also emphasis on the importance of instilling a spirit of cooperation and teamwork between employees and their managers as well as among managers. The lack of management support towards employees leads to employee dissatisfaction, disappointment and turnover:

*“During the last merger and right after it, there was neither support nor proper communication from the management, and as a result employees had to face the consequences, which were not pleasant at all! There was conflict and power struggles resulting in a negative working atmosphere. Several employees left. ... Those who stayed because they needed the money”.*

Management support and the creation of a strong team spirit reduce internal conflicts and enhance employee morale: *“Strong teams eliminate the existence of ‘cliques’, reduce conflicts and internal competition. The management needs to be supportive. ...Employees will feel happy and motivated to achieve their personal targets. We all need to learn how to coexist and work as a team in order to be able to succeed with the merger”.*

*Support:* Providing employees with support is a strong retention factor. Instilling a strong team spirit among employees helps people cooperate to achieve common goals:

*“Working together with colleagues towards a common goal brings colleagues closer to each other and prevents competition among team members and helps build a friendly working environment. Management support helps create strong teams and, in turn, team members support each other. During the last merger, we all had to support each other to get through the difficult days! We were dealing with new issues, challenges and new procedures, several of which we couldn’t understand due to lack of knowledge and/or expertise”.*

The data analysis shows that teamwork and cooperation contribute towards employee retention: *“It’s nice to know that you are not alone and your ‘back’ is covered by other colleagues if needed”.* *“Especially on stressful days, you need to have the support of a co-worker or your superior in order to feel confidence. During the last merger, there was a lot of psychological pressure and many colleagues left. They could not handle the pressure and stress! The uncertainty was too much. Some colleagues were unable to manage the pressure, some were depressed and others left”.*

*Employee treatment:* Treating employees with fairness, respect, honesty and equality contributes towards employee happiness, loyalty and retention:

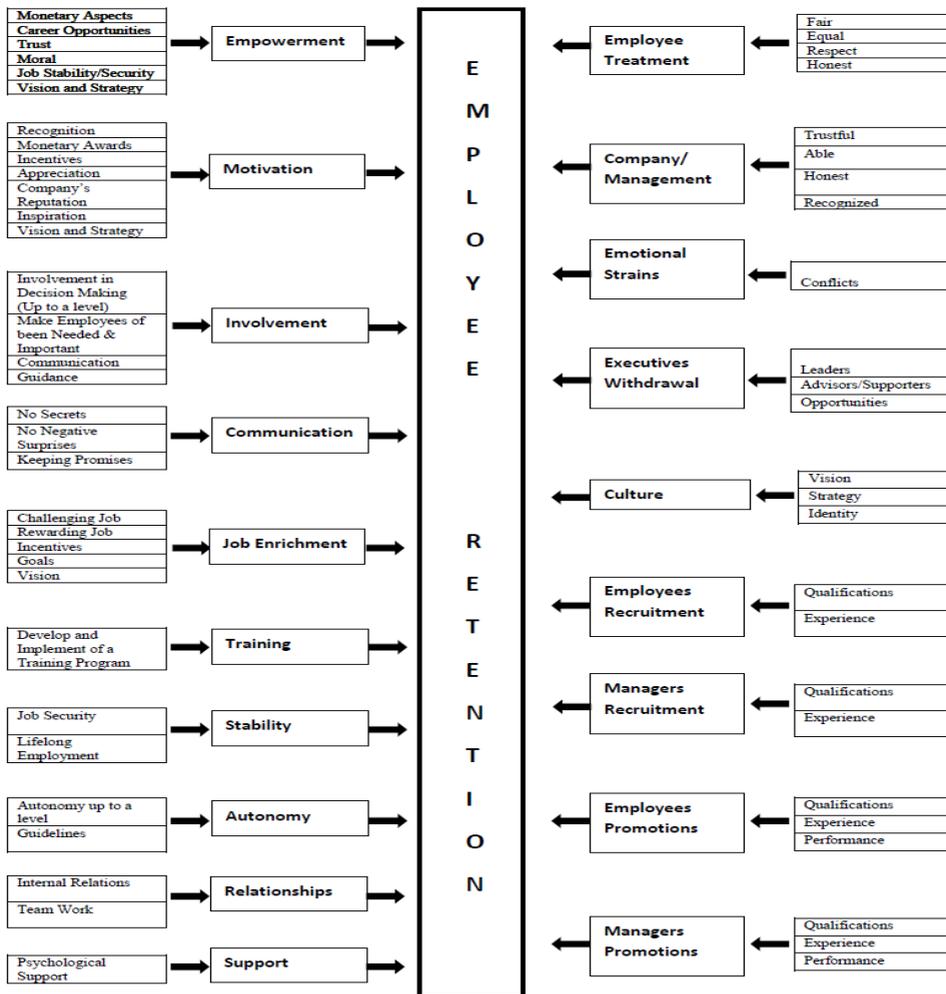
*“The fair treatment of employees always pays off, ...either in terms of employee motivation, productivity or loyalty. When you are treated fairly and with respect, you are not afraid to express your concerns...during a crisis...or a merger....Respect and fairness are critical for retaining key personnel and establishing long-term relationships, commitment and loyalty”.*

## **5 Conclusions and conceptualisation: an integrative framework of key employee retention factors during M&As**

The in-depth data analysis, which resulted in the conceptual framework that follows below (Figure 1), shows that the success of M&As is heavily dependent on the effective management and motivation of organisational members. In particular, the study revealed the crucial role played by the HRM department in the planning, development, implementation and management of processes, tools and strategies aimed at the internal market of employees to ensure the success of M&As. It is clear that management should emphasise the importance of instilling and nourishing key organisational values such as transparency, trust, integrity, fair treatment and openness during the implementation of internal change and in the period that follows it. The quality of the working environment

and the organisational culture should also cultivate a strong people-orientation aimed at identifying and addressing employees' concerns for job security, stability, autonomy, support and recognition. There should also be an emphasis on open communication to ensure that there is a continuous flow of information not only from the top-down but also from the front line throughout the organisation's hierarchy. Also, one of the main objectives of any communication system in an organisation should be to facilitate feedback from all organisational members in order to identify and address any concerns before they escalate into a crisis. An effective internal communication programme enables the organisation to deal with rumours, speculation, fear and uncertainty, conflict and disagreement, which result in heightened levels of stress, frustration, dissatisfaction and mistrust.

**Figure 1** An integrative framework of key employee retention factors during M&As



Because change has implications at all levels of the organisation, it is essential that businesses recognise the contribution of human resource management in the process of

change management. The study revealed that human resource strategies such as empowerment, autonomy, training, recruitment, monetary and non-monetary rewards are particularly important during M&As, as they contribute towards the retention of key and talented employees that are important for the success of the organisation. Although an organisation's human resources are only one aspect of its resource base, placing emphasis on the well-being of employees suggests that recognising and developing these resources will not only help an organisation to prepare them for changes in the environment such as mergers and acquisitions but it can also create "distinctive capabilities" in seeking competitive advantages such as employee loyalty and retention. Thus, having a clear corporate vision and supportive leadership are crucial for the formulation and implementation of change. The use of strategic planning and the adoption of a coherent approach to the design and management of personnel systems need to underpin and drive any organisational change process, including M&As, in order to alleviate its impact on those directly and indirectly affected.

### *5.1 Contribution, implications, limitations and future research*

The present study revealed all the factors that:

- lead to employee turnover
- contribute to employee retention in M&As based on an extensive review of the existent literature.

The in-depth exploration of the current literature uncovered primarily employees' concerns about M&As and secondly the role of the HRM department in implementing change and managing human resources. The study's theoretical contribution lies in providing a holistic perspective of the current knowledge and understanding in this area. The study's contribution to practice is highlighted by the integrative framework proposed which interrelates all the key organisational factors, such as culture, and human resource factors, such as motivation, that need to be managed effectively during M&As to retain key employees. The true value of the study is that this framework emerged from the experiences, feelings, perceptions and attitudes of key stakeholders that were exposed to dramatic changes resulting from M&As within the specific Cooperative financial services sector. The study's findings suggest a general misconception regarding the effort and time required for organisational change. The impact of change on organisational members is often dramatic and its careful implementation can in essence alleviate its impact on those that are directly or indirectly affected. Undoubtedly, the completion of any transformation is likely to take place over a lengthy period. During this period, the role of the HRM department is pivotal in ensuring the launch of human resource strategies, tools and initiatives that can contribute to implementing change and retaining organisational members. There are also implications about the need for appropriately designing human resource strategies both cultural and structural to help foster a climate for change. For example an emphasis on employee involvement, autonomy and empowerment is a key HR strategy in this situation. There is also a need to develop an environment that is conducive to continuous employee learning and development, support, encouragement and motivation.

The study's main limitation is that it focuses on collecting data from a single sector, and although the primary data stemmed from multiple businesses operating within the

sector, the findings cannot be generalised. The qualitative research approach used poses additional limitations in relation to the sample and data collection methods used. However, the researchers utilised alternative data collection methods to achieve triangulation, and although the sample was small, it produced detailed data that enabled the researchers to explore in greater depth the feelings, experiences and attitudes of the participants. The integrative framework of key employee retention factors during M&As was developed based on the study's empirical evidence, focused on the cooperative financial services sector. Future research could explore its implementation within other service organisations such as hospitals, universities and hotels, as well as within manufacturing firms. Since the study utilised the qualitative research methodology, a future research study could use a quantitative research methodology in order to collect data from a larger sample either within the same industry or across different sectors. A quantitative research study could support the generalisation of research findings.

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