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Addressing Employee-Centric Risks in Post-Merger Integration: A Framework for Sustainable Growth in NBFCs

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Objective: This study is concerned with evaluating post-merger integration threats in NBFCs with a special consideration of the people-oriented problems that affect organizational stability, employee morale and staff retention during the integration process.

Methods: The research methodology for this study employs secondary data analysis, including a secondary case study approach, to investigate the application of theories such as Psychological Contract Theory and Cultural Fit Theory in managing employee-centric risks during Post-Merger Integration (PMI) in the NBFC sector.

Results: A model of sustainable development in NBFCs is suggested, focusing on the alignment of HR plans with organizational objectives, creating cultural compatibility and resolving employee issues pre-emptively.

Conclusion: Knowledge of and management of employee-centric risks in post-merger integration (PMI) models is crucial for mergers' success in the NBFC industry.

Plain Language Summary: This study explores the challenges that Non-Banking Financial Companies (NBFCs) face when merging, particularly focusing on the impact on employees. It emphasizes the importance of addressing employee concerns, such as job security and cultural differences to ensure a successful merger. The research proposes strategies to support employees during these transitions, which ultimately benefits the organization's stability and growth.

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Limitations: This review is based on secondary data and may be subject to the limitations inherent in those sources. The narrative review approach, while providing a broad overview, does not involve a systematic evaluation of the quality of included studies.

Abstract

In NBFCs, post-merger integration process is one of the most decisive factors for long-term success and sustainable growth of mergers and acquisitions. The function of human resource integration organizational culture and perceptions of employees play important roles in determining the fate of such transactions. This study is concerned with evaluating post-merger integration threats in NBFCs with a special consideration of the people-oriented problems that affect organizational stability, employee morale and staff retention during the integration process. Referring to the available literature, this study investigates the roles played by organizational culture, leadership communication, employees' stress levels and HR practices on the effective integration of acquired firms. A model of sustainable development in

NBFCs is suggested, focusing on the alignment of HR plans with organizational objectives, creating cultural compatibility and resolving employee issues pre-emptively. The study also examines how theory, e.g., the Psychological Contract Theory and Cultural Fit Theory, is used to control employee expectations and minimize resistance to change. By focusing on the human dimension of integration, the research offers practical recommendations for NBFC leaders and policymakers to reduce employee discontent, turnover and morale risks of the merger to ultimately realize the expected financial and strategic synergies after the merger. The findings also extend current understanding of the complex relationship between employee integration and organizational performance in the NBFC industry, with important theoretical and practical implications for M&A management.

Keywords: Post-Merger Integration, Non-Banking Financial Institutions Organizational Stability, Employee Satisfaction, Employee Behaviour, Risk Management, Risk Assessment, Due Diligence

1. INTRODUCTION

Non-Banking Financial Companies (NBFCs) are financial institutions that provide a wide range of financial services similar to traditional banks, but they do not hold a banking license (Chen, 2024). They are involved in activities such as lending, investing, trading in securities, asset management and various other financial activities. A non-banking institution that is a company and has principal business of receiving deposits under any scheme or arrangement by any mode is also a non-banking financial company (Residuary non-banking company). The NBFC business does not include business whose principal business is the following- Agricultural activity, Industrial Activity, Purchase or sale of any goods excluding securities and Sale/purchase/construction of any immovable property providing of any services (Reserve Bank of India, n.d.)

1.1 Mergers and Acquisitions

Mergers and acquisitions (M&As) are the different ways companies are combined. Entire companies or their major business assets are consolidated through financial transactions between two or more companies. The company may: (1) Purchase or and absorb another company outright (2) Merge with it to create a new company (3) Acquire some or all of its major assets (4) Make a tender offer for its stock (5) Stage a hostile takeover. Mergers and acquisitions (M&A) refer to the ways businesses or their assets, are consolidated or combined. In an acquisition, one company purchases another outright whereas a merger is the combination of two firms, which subsequently form a new legal entity under the banner of one corporate name. Mergers and acquisitions require the valuation of a company or its assets to decide how much to pay for those assets. M&A can be financed through a combination of debt, cash and stock (Hayes, 2024):

1.2 Mergers and Acquisitions in Non-Banking Financial Institutions

Mergers and Acquisitions (M&A) have become a prominent growth strategy for Non-Banking Financial Institutions (NBFCs) in India, driven by the need for market expansion, regulatory compliance, financial inclusion and operational efficiency. Over the past decade, the Indian financial landscape has witnessed significant consolidation in the NBFC sector, aimed at strengthening financial inclusion, reducing operational costs and expanding customer outreach (Schipke, Turunen, Choueiri, & Gulde, 2023). M&A in NBFCs offer several strategic advantages, including improved economies of scale, enhanced regulatory compliance and optimized risk management capabilities. However, the success of such mergers heavily relies on effective post-merger integration (PMI), which involves harmonizing operational, cultural and structural aspects between the acquiring and target companies (Bingham, Heimeriks, & Meyer-Doyle, 2024). Despite the strategic importance of M&A, challenges such as cultural clashes, employee retention, regulatory misalignments and operational inefficiencies often emerge during the post-merger phase, hindering the anticipated synergies (Cartwright & Cooper, 2024).

Post-merger integration in NBFCs requires a structured approach to strategic planning, particularly in aligning organizational culture, operational frameworks and financial objectives. Studies indicate that successful PMI processes significantly contribute to the long-term success of the merger, ensuring smooth operational transitions, improved financial performance and higher employee retention rates (Edwards, Lipponen, Kaltiainen, & Hornsey, 2024). Accordingly, the strategic planning during post-merger integration serves as a critical enabler of synergy realization in financial institutions, particularly when organizations align their strategic, financial and human capital resources. (Luukkonen, 2024). However, the complexity of M&A in NBFCs often results in prolonged integration periods, workforce redundancy and disruptions in service delivery, ultimately affecting financial performance and customer satisfaction (Oh & Johnston, 2021).

Moreover, the research emphasizes that M&A activities in NBFCs significantly influence financial inclusion, particularly in rural and underserved areas. The authors highlight that mergers in microfinance and non-banking sectors improve access to credit, enhance financial literacy and expand microfinance operations, aligning with broader economic growth objectives. (Kandpal, Chandra, Dalei and Handoo, 2023) However, the integration process in such mergers poses critical challenges, including regulatory compliance, data standardization and operational realignment, which, if not managed effectively, could undermine merger benefits. Refer Table 1 for the structures, implementation and classifications in the NBFCs pre & post- merger.

1.3 Post-Merger Integration in Non-Banking Financial Institutions

Post-Merger Integration (PMI) is a key success driver of mergers in Non-Banking Financial Institutions (NBFCs) whereby the integration of operational, financial and human capital assets directly impacts long-term performance. PMI describes the integration of two separate organizational units into a unified operating organization to ensure hassle-free functioning, cultural congruence and strategic alignment (Birkinshaw, Bresman, & Hakanson, 2000). In the case of NBFCs, successful post-merger integration can increase financial inclusion, increase market penetration and improve regulatory compliance. Poorly executed integrations tend to lead to operational disruption, cultural clashes and higher employee turnover, thereby reducing the hoped-for gains of the merger (Weber & Tarba, 2012).

One of the key issues encountered during PMI in NBFCs is cultural and organizational misfit between the merging organizations. This issue is more significant in NBFCs, where human capital is important in maintaining customer relationships and providing financial services. A key driver of PMI success in NBFCs is the regulatory standardization and operational standardization. As the regulatory environment in the financial sector is very strict, the combined entities have to quickly harmonize their operational systems with industry-specific regulatory requirements so that there is seamless financial service and minimal regulatory fines (Angwin & Meadows, 2015). In addition, the standardization process of operations, such as the merging of customer databases, financial systems and credit risk models, greatly affects post-merger performance. Inability to standardize usually results in operational inefficiencies, customer service disruptions and lower financial inclusion, especially in underserved areas (Zollo & Singh, 2004). Hence, a strong PMI approach in NBFCs has to focus on speedy operational integration, regulatory harmonization and hassle-free service delivery to achieve the complete financial and social potential of the merger. Table 1 presents a framework outlining the structure and regulation of Non-Banking Financial Companies (NBFCs) and their implications for Mergers and Acquisitions (M&A), highlighting key aspects from regulatory compliance to growth strategies.

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Table 1 Framework of NBFCs: Structure, Regulation and M&A Implications

Aspect	Core Insight	Regulatory Oversight	Strategic Relevance
NBFC Structure	Offer financial services like lending, credit and asset financing without a banking license. Types include deposit-taking, microfinance and housing finance NBFCs.	Regulated by RBI norms (capital adequacy, KYC, AML).	Enables flexible operations across diverse financial segments.
M&A Process	Involves due diligence, negotiation, approvals and post-merger integration to leverage synergies.	Requires RBI, CCI and Companies Act compliance.	Enhances market positioning and competitive strength (Zollo & Singh, 2024).
Compliance Landscape	Adheres to RBI's capital, risk, KYC, AML and disclosure requirements (Larsson & Finkelstein, 1999).	Ensures statutory alignment and transparency.	Drives leadership evolution and customer retention (Hoogervorst, 2017).
M&A Compliance	Ensures no anti-competitive effects and aligns with CCI and RBI norms.	Includes legal scrutiny and impact assessment.	Secures institutional stability and consumer protection post-merger.
M&A Initiation	Begins with strategic planning, target assessment and due diligence.	Early compliance checks to align with sector norms.	Targets growth, diversification or market entry.
M&A Growth Drivers	Driven by competition, tech and inclusion goals. PMI helps adapt resources to changing needs (Bodner & Capron, 2018).	Post-merger compliance ensures sustainability.	Enables scale, speed and market leadership.
Strategic Summary	M&As consolidate assets, enhance services and streamline operations.	Guided by RBI & CCI for seamless integration.	Supports long-term growth with an employee-focused approach (Lyngnes, 2024).

Note. NBFC = Non-Banking Financial Company; RBI = Reserve Bank of India; KYC = Know Your Customer; AML = Anti-Money Laundering; CCI = Competition Commission of India; PMI = Post-Merger Integration.

Source. www.rbi.org.in; Reserve Bank of India (RBI). (2020). Regulation of Non-Banking Financial Institutions.

2. LITERATURE REVIEW

Post-merger integration (PMI) is an essential stage of mergers and acquisitions (M&A) that plays a significant role in organizational performance, employee retention and long-term operational stability. Abravanel, Biron and Brueller (2024) investigate how organizations make their post-merger integration routines more effective in subsequent acquisitions. Similarly, Angwin and Meadows (2015) broaden the topic of integration strategy by promoting flexible and responsive post-acquisition management approaches contending that companies are required to adjust their resources and capabilities constantly to evolving business landscapes after acquisition. As a result, the overall inclusion of financial information in the pro-rata environment of adaptability is the most essential feature of this study. This focus on the alignment of strategic objectives with the employee personal goals and the management integration leads to an excellent understanding of the NBFC organizations in general. This is in conjunction with the household communities and the cooperative organizations. Their study also suggests that various integration approaches should be used depending on the particular merger situation, including type of industry, culture and strategic goals.

The research indicates that organizations with previous M&A experience will be likely to have streamlined integration routines, leading to increased efficiency in handling cultural and operating synergies. Their study conforms to the Routine-Based View and Organizational Learning Theory, with the essence that knowledge developed from past acquisitions has a positive impact on future M&A success. In like manner, Bingham, Heimeriks and Meyer-Doyle (2024) take this discussion a step further by exploring how companies enhance cooperation in technology acquisitions. Their study based on the Dynamic Capabilities Theory highlights that integration of technology-led companies is contingent on building cooperation between the acquirer and the target firm.

The significance of strategic integration is further supported by Luukkonen (2024), who examines strategic planning during post-merger integration (PMI). The research indicates that successful strategic planning minimizes uncertainty, cultural misfit and promotes cooperation, eventually improving the chances of post-merger success. The research is corroborated by the Strategic Planning Theory, supporting pre-specified integration plans in order to reduce unforeseen organizational conflicts.

The greatest challenge at PMI is holding on to talent and employee morale. Cartwright and Cooper (2024) examine the psychological effects of mergers on workers and their job performance. In their analysis drawing from Stress Theory and Organizational Behavior Theory, they expose the fact that a lack of post-merger integration often translates into increased anxiety, job uncertainty and lowered employee performance. The research focuses on the importance of resolving psychological stress through clear communication and alignment of cultures as a way to significantly enhance employee retention in post-mergers.

Following this, Edwards, Lipponen, Kaltiainen and Hornsey (2024) further explore the contribution of pre-merger loyalties and their influence on post-merger retention. In their longitudinal research, they conclude that employees with high pre-merger loyalties struggle with organizational commitment following integration, impacting overall retention. Social Identity Theory and Organizational Commitment Theory frame their research, which implies that promoting a common organizational culture after a merger can counteract retention issues.

Hoogervorst (2017) extends further on this area by presenting the Employee-Centric Design Theory. The author strongly argues that employee-centric organizational frameworks must be prioritized in post-merger integration to enable smooth working transitions. The theory promotes the development of workplaces in which employee experience, role clarity and organizational culture are major focal points within post-merger transitions. Their research shows that employee-centric integration strategies drastically minimize attrition levels and boost overall performance.

The application of strategic planning in post-merger integration is broadly acknowledged as a pre-requisite to merger success. Luukkonen (2024) stresses the need for systematic and goal-driven planning in PMI, especially in large-scale mergers. The research points out that strategic planning allows resources to be aligned, processes to become efficient and swift knowledge transfer among merging companies. This is consistent with the Integration Management Theory, which supports planned and quantifiable post-merger procedures to avoid or at least minimize operational disruption.

Oh and Johnston (2021) offer additional insights by investigating the impact of post-merger integration time on overall merger performance. They find that brief PMI lengths enhance organizational efficiency and minimize integration fatigue, while long integrations have adverse effects on employee retention and organizational productivity. The evidence supports the Time-Based Integration Theory, highlighting the importance of firms simplifying PMI processes for maximizing merger performance.

One of the significant changes in contemporary PMI studies is the increasing focus on employee-oriented

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integration strategies. Lyngnes (2024) examines how promoting employee commitment and organizational allegiance greatly contributes to the success of mergers. The research points out that offering effective communication, open role definitions and alleviating employee fears after a merger can lead to long-term retention and greater organizational performance. They based their findings on Employee Engagement Theory, which believes that organizational performance after a merger heavily relies on how employees understand their roles, stability and organizational culture.

Equally, Wilson (2022) advances in this area by investigating cultural and structural congruence relationships in mergers of the technology industry. Based on their study, companies that have increased levels of cultural similarity after merger realize improved staff retention and job satisfaction, but increased structural misalignments cause the employees to feel dissatisfied as well as raise the level of turnover. Their Organizational Congruence Theory outlines how eliminating post-merger cultural differences considerably enhances the performance of organizations. Weber and Tarba (2012) examine the integration approaches in high-tech mergers, emphasizing the balance between autonomy and synergy. They identify different PMI strategies and underscore the importance of cultural integration in ensuring successful mergers.

The functions of microfinance institutions (MFIs) and non-banking financial companies (NBFCs) in enhancing financial inclusion and sustainable development are gaining prominence in merger and acquisition literature. Kandpal, Chandra, Dalei and Handoo (2023) highlight the roles of MFIs and NBFCs in financial inclusion and the circular economy. Their research details that effective post-merger integrations in the microfinance industry tend to result in increased access to credit, better financial literacy and more social inclusion. This research heavily borrows from the Circular Economy Theory, with a focus on the fact that sustainable mergers in the financial inclusion arena can directly result in poverty alleviation and economic sustainability.

Kandpal et al.'s (2023) findings are also supported by the research work of Schipke, Turunen, Choueiri and Gulde (2023), which investigates macroeconomic effects of financial system unifications in India. The analysis by the scholars finds that the NBFCs involved in post-merger consolidations typically realize greater financial stability and enhanced regulatory compliance. This result aligns with the Financial Inclusion Theory, which supports extending banking services to downtrodden and rural populations with strategic organizational consolidations.

One of the emerging domains of post-merger research focuses on knowing how non-banking financial companies (NBFCs) drive financial inclusion and market growth. Kandpal et al. (2023) highlight that NBFCs' financial inclusion effects significantly enhance post-merger performance if businesses adopt circular economy models. According to their research, microfinance sector mergers not only provide better credit access but also cut down the costs of doing business through a common infrastructure and resource sharing.

Likewise, Schipke et al. (2023) highlight that enhancing financial inclusion after a merger needs regulatory compliance, minimized operational duplications and increased rural outreach. Their research highlights the need for regulatory integration, wherein post-merger NBFCs need to reorient their operations to conform to new regulatory requirements. This is corroborated by the Financial Inclusion Theory, which posits that mergers in microfinance and NBFC industries can greatly improve financial access for poor communities.

The collective findings from these studies demonstrate that effective post-merger integration is directly dependent on strategic planning, staff retention strategies and operational restructuring. Abravanel et al. (2024) and Luukkonen (2024) illustrate that systematic strategic planning facilitates seamless post-merger transitions while reducing operational disturbance. Cartwright and Cooper (2024) and Edwards et al. (2024), on the other hand, highlight the need for dealing with the psychological issues of

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employees after mergers, with a call for employee-focused integration strategies to enhance staff retention rates.

In addition, studies by Kandpal et al. (2023) and Schipke et al. (2023) identify that post-merger integration in microfinance institutions and NBFCs greatly enhances financial inclusion and economic growth in emerging markets. According to their studies, regulatory conformity, operational synchrony and environmentally friendly business practices can enhance the positive effects of post-merger mergers.

There is also Zollo and Singh (2004) take a process-oriented view of PMI, highlighting how companies c onsciously learn and build integration capabilities through the passage of time. Their research is based on Organizational Learning Theory,
which postulates that companies can improve their integration processes by formally learning from past M&A experience. Table 2 summarizes key literature reviewed for this study, outlining the authors, publication details, studied variables/topics and relevant theoretical frameworks.

Table 2 Literature Review: Key Studies, Theories and Variables

Author(s)	**Journal Name/Book Title**	**Variables Studied/Topics Provided**	**Theories Used**	**Year of Publication**
Abravanel, I., Biron, M., & Brueller, N. N.	European Management Review	Post-Merger Integration Routines, Consecutive Acquisitions	Routine-Based View organizational Learning Theory	2024
Angwin, D. N., & Meadows, M.	Long Range Planning	New Strategies for integration, Post-Acquisition Management	Knowledge Transfer Theory & Contingency Theory	2015
Bodner, J., & Capron, L.	Journal of Organization Design	Post-Merger Integration, Structural Integration, Cultural Integration	Organizational Design Theory	2018
Bingham, C. B., Heimeriks, K. H., & Meyer-Doyle, P.	Strategy Science	Collaboration, Knowledge Transfer, Integration Success	Dynamic Capabilities Theory, Resource-Based View	2024
Cartwright, S., & Cooper, C. L.	Managerial, Occupational and Organizational Stress Research (Routledge)	Psychological Impact, Employee Adjustment organizational Change	Stress Theory organizational Behavior Theory	2024
Edwards, M. R., Lipponen, J., Kaltiainen, J., & Hornsey, M.	British Journal of Management	Pre-Merger Loyalties, Post-Merger Retention, Employee Retention	Social Identity Theory organizational Commitment Theory	2024
Hoogervorst, J.	Organizational Design and Enterprise Engineering	Employee-Centric Design organizational Culture, Enterprise Engineering	Employee-Centric Design Theory	2017
Kandpal, V., Chandra, D., Dalei, N. N., & Handoo, J.	Financial Inclusion in Circular Economy: A Bumpy Road	Microfinance Institutions (MFIs), NBFCs, Financial Inclusion	Circular Economy Theory	2023

	Towards Sustainable Development			
Lyngnes, A. M.	N/A (Book/Report not mentioned)	Employee Engagement organizational Loyalty	Employee Engagement Theory	2024
Luukkonen, A.	Strategic Planning in Post-Merger Integration in M&A	Strategic Planning, Post-Merger Integration, M&A Outcomes	Strategic Planning Theory, Integration Management Theory	2024
Oh, J. H., & Johnston, W. J.	Journal of Business & Industrial Marketing	Post-Merger Integration Duration, Merger Outcomes	Time-Based Integration Theory	2021
Schipke, M. A., Turunen, M. J., Choueiri, M. N., & Gulde, M. A. M.	India's Financial System: Building the Foundation for Strong and Sustainable Growth	Financial System, NBFC Growth, Regulatory Compliance	Financial Inclusion Theory	2023
Wilson, B. C.	Grand Canyon University (Dissertation)	Cultural Congruence, Structural Congruence, Employee Retention	Organizational Congruence Theory	2022
Weber, Y., & Tarba, S.	International Journal of Organizational Analysis	Exploring integration approach in related mergers: Post-merger integration in the high-tech industry	Cultural Integration Theory & Absorptive Capacity Theory	2012
Zollo, M., & Singh, H.	Strategic Management Journal	Deliberate learning in corporate acquisitions: post-acquisition strategies and integration capability in US bank mergers	Organizational Learning Theory & Knowledge Based View (KBV)	2004

Note. Table compiled by authors based on published academic literature.

2.1 Research Gaps

There is insufficient Exploration of Psychological and Cultural Integration in NBFC-specific PMIs in which mergers in the NBFC sector typically involve companies with diverse work culture, policies and leadership, leading to disengagement and turnover of employees. With the central role of psychological safety and cultural congruence in retaining employees, little empirical research is done on the influence of these dimensions on PMI success in the NBFC sector. Studies are primarily focused on financial and strategic performance, ignoring the delicate cultural and psychological risks employees endure during mergers.

2.2 Research Objective

The main objective of this research is to conceptualize an employee-focused Post-Merger Integration (PMI) model for Non-Banking Financial Companies (NBFCs). The model would attempt to identify, evaluate and mitigate employee-related risks like cultural incompatibility, job insecurity and psychological disengagement, which have a significant bearing on integration success. The research would stimulate employee contentment and retention during mergers by offering targeted strategies for cultural compatibility and workplace stability

3. RESEARCH DESIGN AND METHODOLOGY

The research methodology for this study employs a case study-based empirical approach to investigate the application of theories on such as Psychological Contract Theory and Cultural Fit Theory, in managing employee-centric risks during Post-Merger Integration (PMI) in the NBFC sector that explores how both these theories are applicable and built on a case study. There is a alignment of these theories with the case study thereby creating a theoretical framework and to identify how these variables impacted the post-merger integration process

3.1 Application of Theories

3.1.1 What is the Psychological Contract Theory?

Psychological Contract Theory refers to the unwritten set of expectations, obligations and mutual beliefs that exist between an employer and an employee. It goes beyond formal written contracts and focuses on the informal, implicit agreements regarding the roles, responsibilities and treatment of employees within the organization. The theory was first introduced by organizational psychologist Edgar Schein in the 1960s and has since become a foundational concept in the study of employee-employer relationships.[1]

In the case of Non-Banking Financial Companies (NBFCs), where workforce stability is the key to customer-centric service delivery, a psychological contract breach during PMI can have a drastic impact on operational performance, customer satisfaction and long-term financial health (Cartwright & Cooper, 2014). Utilizing the Psychological Contract Theory (PCT) in managing employee-centric risks in NBFC mergers can provide valuable insights into creating sustainable post-merger growth. Using strategies such as open communication, leadership realignment and employee retention mechanisms can maintain the perceived psychological contract, promoting organizational commitment and alleviating post-merger turnover.

3.1.2 What is the Cultural Fit Theory?

Cultural Fit Theory is a concept that focuses on the alignment of values, beliefs, behaviours and practices between individuals and organizations or between merging organizations. The theory asserts that when there is a strong cultural fit between an individual and the organization or between two organizations undergoing a merger, both parties tend to experience higher levels of satisfaction, performance and overall success. On the other hand, cultural misfit can lead to friction, dissatisfaction and inefficiencies.[2]

The theory argues that if two organizations have similar cultural values, leadership practices and operating procedures, the integration process is easier, leading to greater employee retention organizational commitment and operating efficiency (Cartwright & Cooper, 2024). But when there are cultural mismatches — as in the case of Non-Banking Financial Institutions (NBFCs) after mergers — the employees feel role ambiguity, their job satisfaction level goes down and they become disengaged, resulting in high turnover and poor organizational performance (Wilson, 2022). Under the realm of NBFCs, whose customer services rest largely upon managing relationships and committed employee association, unheeded cultural discord within post-merger integration may critically endanger the sustainability of a business along with service levels (Edwards et al., 2024).

Adding the Cultural Fit Theory (CFT) at times of post-merger integration in NBFCs makes possible the handling of cultural mismatches in anticipation since it enables creating unified organizational values, harmonized leadership, as well as engagement programs in workers (Luukkonen, 2024). Studies point out that mergers between financial institutions with different organizational cultures tend to result in integration fatigue, communication failure and operational inconsistencies (Oh & Johnston, 2021). Nevertheless, building cultural compatibility through open communication, leadership alignment and

[1] Schein, E. H. (1965). *Organizational Psychology*. Prentice-Hall. This information or excerpt is taken from the article of the similar nature that is based on the book.

[2] Person-organization fit: An integrative review of its conceptualizations, measurement and implications.

cultural integration training can minimize post-merger resistance, facilitating smoother operational transitions and employee retention.

3.1.3 Case Study: Capital First and IDFC Bank Merger - Cultural and Psychological Determinants

In 2018, V Vaidyanathan-led NBFC Capital First merged with Indian private sector bank IDFC Bank. The merged entity wanted to take advantage of the banking prowess of IDFC Bank and the retail lending capability including microfinance of Capital First. Capital First's robust presence in the retail space, especially in the underpenetrated market, was slated to benefit IDFC Bank's corporate banking business. The merger was seen as a means of enhancing the bank's retail customers and the product and service portfolio, for instance, loans and asset management.

As in any merger, financial and operational were not the only considerations. Capital First and IDFC Bank operated with distinctly different cultures. The IDFC Bank was traditionally focused on corporate financing and infrastructure sectors, whereas Capital First operated through a flexible, customer-driven mode, particularly within the retail lending space. This cultural disparity caused problems as both sides' employees got used to a common organizational culture. IDFC Bank employees had to adopt a more flexible, customer-centric culture, whereas Capital First employees needed to get accustomed to the more formal, regulation-driven culture of a bank.

Viewed from the prism of Cultural Fit Theory, it is evident that the success of this merger hinged on how well the two cultures were capable of being merged. This theory says that when values and behaviours are shared between individuals or organizations, they are likely to be more satisfied and have better overall performance. This specifies that the culture of the acquired organization often represents the counterculture of the acquiring firm which may lead to resistances to change and hence there must be the aligning of the employee and organizational goals. (Weber Y & Tarba S, 2012) In the situation of this merger, staff had to devise a way to integrate IDFC Bank's conservative corporate banking culture with Capital First's rapid-fire, customer-centric model. The greatest challenge was how to make the cultures work together and complement each other in order to have a single organizational climate in which employees would feel at ease and in line. Not aligning these cultural values might have resulted in employee discontent, reduced productivity and even increased turnover.

From the viewpoint of Psychological Contract Theory, the merger also produced potential threats involving employee expectations. Every group of employees approached the merger with its own expectations regarding job security, career development and organizational culture. Capital First employees, for instance, would have hoped for sustained attention to innovation and development opportunities, while IDFC Bank employees were hoping for stability and advantages from a bigger and better-resourced company. A focus on the structural congruence and employee retention in the Post-Merger Integration is done for a effective understanding of the process. (Wilson B C, 2022). Theory is that if these expectations are not fulfilled—because of restructuring, role alteration or vagueness on future expansion—workers may assume their psychological contract has been broken. This may result in disengagement, dissatisfaction and even resignation.

3.2 Methodology Details

This research used a secondary data analysis method, analyzing available data to research employee focused risks in post merger integration in the NBFC industry. Secondary sources used were industry reports from consulting firms and financial associations, scholarly articles from JSTOR and Google Scholar databases, case studies of individual NBFC mergers (for example, Capital First and IDFC Bank) from scholarly research and industry journals and official documents from the Reserve Bank of India. The sources were selected based on their credible nature and ability to supply both theoretical and practical knowledge. Analysis was conducted on data using a narrative review method, which entails summarizing, synthesizing and interpreting information from such

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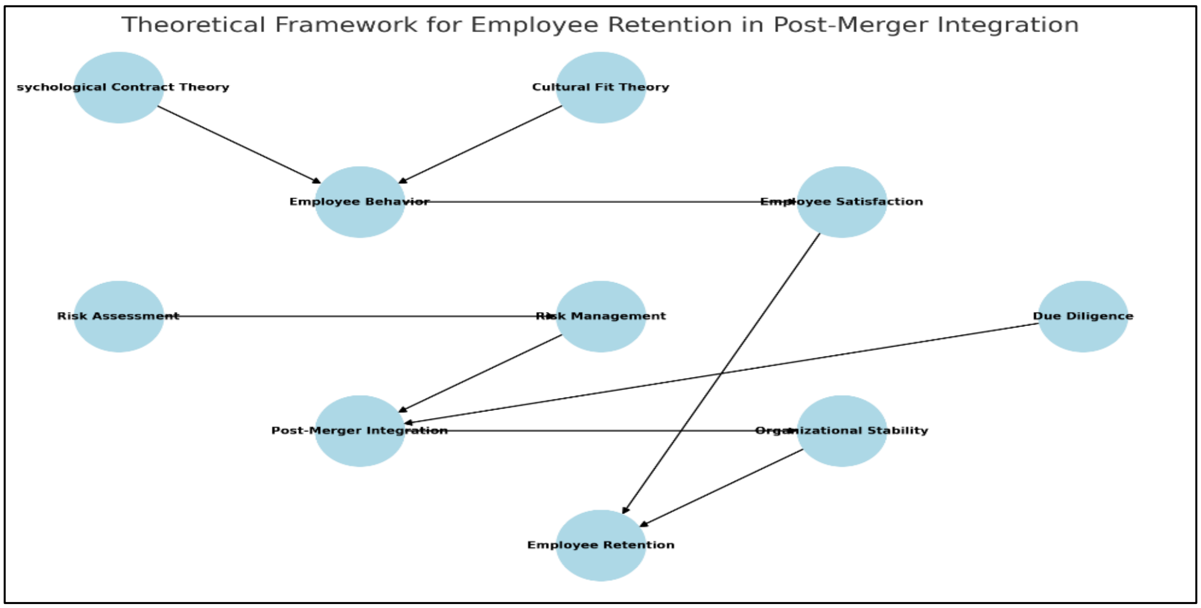
sources to determine the appropriate themes and gain a comprehensive understanding of the subject. Although the method facilitates integration of different types of information, limitations must be recognized. These include limited control in secondary data usage, the risk of bias in primary data collection and the restricted generalizability of case study results. To reduce these, data were collected from multiple reliable sources for triangulation and the case study was utilized for illustrative use instead of broad generalization.

4. THEORETICAL FRAMEWORK

A theoretical framework is an organized concept that outlines the primary theories, models and variables of a research study. It forms the basis of comprehending relationships among concepts and directs the research by bridging available knowledge with the purpose of the study. The theoretical framework is established on the basis of the theories implemented i.e. the psychological contract theory and the cultural fit theory and the discernment on the variables. These variables are the influential factors of post-merger integration for the purpose of employee retention in Non-Banking Financial Companies. Figure 1 illustrates the theoretical framework for analyzing post-merger integration in Non-Banking Financial Companies, while Table 3 outlines the key variables and their relevance to this framework.

Figure 1*Theoretical framework in the post-merger process or the Non-Banking Financial Companies*



Source: Compiled by the author

Table 3*Key variables and their relevance to the M & A framework*

Variable / Theory	**Theoretical Lens**	**Focus Area**	**Implication for M&A**
Psychological Contract	Psychological Contract Theory	How unmet employee expectations post-merger affect trust and morale	Drives dissatisfaction and potential turnover
Cultural Fit	Cultural Fit Theory	How differences in company cultures impact teamwork and collaboration	Affects employee integration and retention
Employee Behavior	Organizational Behavior	How employees respond to change—adaptation, resistance, or engagement	Shapes success of integration

Employee Satisfaction	Job Satisfaction Framework	How work environment, leadership, and job security affect employee morale	Influences post-merger retention
Risk Assessment	Risk Management	Identifying employee-related risks like resistance or dissatisfaction	Enables proactive strategies to manage issues
Risk Management	Strategic HRM	Using leadership and communication to manage workforce transitions	Minimizes attrition and stabilizes workforce
Due Diligence	Pre-Merger Assessment	Evaluating HR policies and culture before the merger	Reduces risk of post-merger misalignment
Post-Merger Integration	Integration Management Theory	Combining teams, aligning roles, and maintaining operational stability	Directly affects retention and productivity
Organizational Stability	Change Management	Ensuring clarity, reducing uncertainty, and building employee trust	Supports long-term engagement and retention

Note. Table compiled by authors based on published academic literature.

The theoretical framework of this study is based on Psychological Contract Theory (Rousseau, 2011) and Cultural Fit Theory (Ayar, 2014) to develop a comprehensive understanding of employee-focused risks in post-merger integration in NBFCs. Psychological Contract Theory, refers to the unwritten assumptions and reciprocal commitments between employers and employees that have a strong influence on employee perceptions of fairness, trust and commitment. In the NBFC case, where relationships between customers and employees are intimate, it is important to keep such psychological contracts intact during mergers so that quality of service and customer satisfaction do not get affected. The theory describes how the expectations of employees are affected by changes arising from mergers, highlights the importance of open communication and establishing trust and provides a framework for developing successful retention strategies. Previous research has established the usefulness of Psychological Contract Theory in M&A, with perceived breach of contracts being linked to negative outcomes like decreased job satisfaction and increased turnover intentions.

Cultural Fit Theory builds on this by putting focus on values, beliefs and practices convergence among coming together organizations, in the assumption that congruence in high fit will enhance easier integration, morale and performance, but that difference will cause problems. In NBFC mergers, where heterogeneous organizational cultures prevail, Cultural Fit Theory plays an important role in the analysis of integration problems, in describing the role of cultural variables in influencing employees' attitudes and behavior and in directing measures for establishing cultural compatibility. Empirical evidence has always shown that cultural fit influences communication, cooperation and knowledge sharing among organizations (insert proper citations here). Variables in this study (employee behavior, employee satisfaction, risk assessment, risk management, due diligence, post-merger integration and organizational stability) are also based on these theories. Psychological Contract Theory demonstrates how satisfied or violated expectations affect employee behavior and satisfaction, while Cultural Fit Theory emphasizes cultural fit's impact on these variables. Both theories both place equal emphasis on the necessity of risk assessment and management, cultural due diligence, successful post-merger integration and how both influence organizational stability.

5. DISCUSSION AND INTERPRETATIONS

Theoretical framework offers an organized method of understanding employee retention during post-merger integration (PMI) through the identification of main variables like psychological contracts, cultural fit, risk management and organizational stability. These variables are used to explain how employees respond to mergers and what determines their stay or departure. The IDFC Bank & Capital First Bank merger case study is an empirical test of this framework, providing

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real-world understanding of how these variables relate to each other in practice. The case study validates and polishes the theoretical model by understanding employee sentiments, HR policies and organizational changes, making it applicable to real merger situations. Synthesizing theory and case study results fortifies the study by interlinking theoretical knowledge with reality. For instance, the violation of psychological contracts resulting from muddled communication generated discontent among staff, affirming the necessity of openness in PMI strategies. In the same vein, misalignment of culture among the two merging banks influenced collaboration, attesting to the need for advance cultural integration

For instance, Capital First staff must have expected ongoing innovation and development possibilities, whereas IDFC Bank employees anticipated stability and formal career path development. This is a testament to the complexities of the post-merger routine process and the associations it provides with the positive and the negative connotations of the financial institutions that have implemented it as a core strategy of their framework. (Abravanel, I., Biron, M., & Brueller, N. N. 2024). Violations of these psychological contracts—through restructuring or perceived disregard of worker interests—may have resulted in demotivation and disengagement. Clear communication and expectation alignment were essential to maintaining trust and minimizing resistance to change. Refer Table 3

Both theories reinforce that resolving human and cultural dynamics must go hand-in-hand with operational objectives. While Cultural Fit Theory concentrates on fitting organizational values, Psychological Contract Theory emphasizes that individual employee expectations and perceptions need to be managed. Therefore, there is the configuration and organization design aspects and the choices to integrate after the M&A process that is essential for success (Bodner J & Capron L, 2018). For Capital First and IDFC Bank, how well these issues were directly resolved impacted the success of the merger and that efficient employee integration is just as important as financial and strategic synergies.

6. RECOMMENDATIONS

6.1 Creating an Employee-Centric Integration Framework: One of the key issues in mergers is making the employees feel important and taken care of during integration. Through the application of principles from Cultural Fit Theory and Psychological Contract Theory organizations can create an integration framework that takes these issues into consideration. Pre-merger cultural audits are key to determining areas of potential friction between the companies to be merged. This assists in creating customized strategies to harmonize values, beliefs and practices. Keeping communication lines open is essential. Workers must be told about future changes, their roles and the larger organizational vision. This aids in keeping employees' implicit psychological contracts intact to build trust and minimize uncertainty.

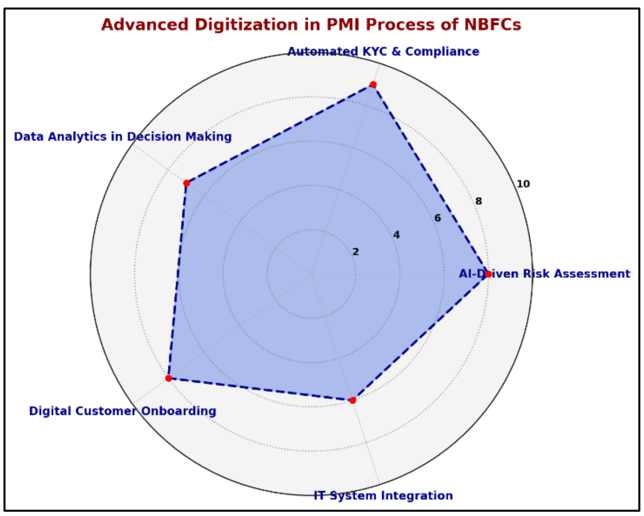
6.2 Investment in Change Management Programs: Change management programs are a valuable investment in reducing resistance to change and ensuring smooth integration of employees from merging organizations. Leaders must be trained to manage cultural integration and respond to employee concerns effectively. Such training may involve conflict resolution, cross-cultural sensitivity and trust-building strategies through organizing interactive sessions for employees to air their views and learn about the organizational practices of one another may create a feeling of shared identity. Giving a voice to the employees through giving them platforms to express their grievances and actively listening to their inputs may improve morale and engagement while integrating.

6.3 Integrating Human Capital Metrics in Merger Evaluations: While financial and operational metrics often dominate post-merger evaluations, it is equally important to focus on human capital indicators. Monitoring turnover rates during and after the merger can provide insights into employee satisfaction and the effectiveness of the integration. Ongoing surveys can be used to measure how employees are coping with the changes and where attention is needed and monitoring team and individual performance after the merger can provide insightful information on the progress of the integration and where improvements are needed.

6.4 The Importance of Digitization in the Post-Merger Integration Procedure in NBFC

The visualization on how the different aspects of digitization is integrated in the post-merger integration (PMI) process of NBFCs, there is a requirement of insights into the advanced digitization process that is utilized for multiple prospective activities from lending, borrowing, credit decisioning and risk assessment which are some of the baseline services in the framework of the financial institutions and particularly for NBFCs in regard to intermediate financing and microfinancing in respect to urban, rural and household sectors and communities. Singh & Kumar (2025) emphasizes the role of IT and analytics in driving sustainable architectures, a key factor in the successful technological integration of merged NBFCs. Figure 2 illustrates the avenues of advanced digitization processes within the Post-Merger Integration (PMI) of Non-Banking Financial Companies (NBFCs), showcasing the potential impact across areas such as automated KYC and compliance, AI-driven risk assessment, IT system integration, digital customer onboarding and data analytics in decision-making. The radial graph indicates the level or scope of advanced digitization across these key areas.

Figure 2Avenues of advanced digitization processes of PMI for NBFCs



Note. Compiled by the Authors

The radar chart shows how well digitization is embedded in the Post-Merger Integration (PMI) process of Non-Banking Financial Companies (NBFCs) in five important dimensions. The scores from 6 to 9 show that there is extensive use of digital technologies, although some of these are more mature than others.

1. AI-Driven Risk Assessment (Score: 8) NBFCs are increasingly utilizing Artificial Intelligence (AI) to assess risks during mergers. AI-driven models enable them to analyse financial, operational and regulatory risks and make informed decisions. Despite high AI adoption, areas for improvement in the use of AI include data privacy, algorithmic bias and interpretability of models.

2. Automated KYC & Compliance (Score: 9) Highest integration score is seen in KYC and compliance automation, which is a testament to NBFCs' high dependence on digital solutions for regulatory compliance. AI-based KYC authentication, fraud detection and automated compliance tracking have minimized manual intervention, boosting efficiency

and precision. The high score signifies that NBFCs have made major strides in digitizing these processes, but ongoing adaptation is necessary to address changing regulatory frameworks.

3. Data Analytics in Decision-Making (Score: 7) Big Data Analytics has a big role to play in merger decision-making, ranging from customer segmentation to portfolio risk evaluation. The marginally lower score indicates that data-driven insights are being leveraged but can be further integrated, particularly in predictive analytics and automation of real-time decisions.

4. Digital Customer Onboarding (Score: 8) Post-merger, the most important thing is to merge customer bases in a way that provides a smooth onboarding experience. The score of 8 indicates high adoption of digital KYC, e-signatures and AI-based customer engagement tools. Even with these developments, customer retention and personalization efforts can be improved further through Natural Language Processing (NLP) and AI-based chatbots.

5. IT System Integration (Score: 6) IT infrastructure integration continues to be a priority issue in PMI. The comparatively lower score of 6 indicates that NBFCs continue to encounter issues in integrating legacy systems, maintaining cybersecurity and harmonizing digital platforms after the merger. Seamless IT integration can only be achieved through cloud adoption, API-based architecture and strong cybersecurity protocols.

The chart points out that NBFCs have gone a long way in digitalizing the PMI process, especially in compliance, customer acquisition and AI-based risk assessment. IT system integration and adoption of deeper analytics, however, require further improvements to realize a completely seamless post-merger integration. Improving these areas will lead to improved operational efficiency, regulatory compliance and customer satisfaction in the long term. See Figure 2 which references the aspectual nature of the study. Table 4 presents a strategic integration scorecard for the IDFC Bank and Capital First merger, detailing pre-merger, immediate post-merger and post-integration scores across key dimensions, along with the cultural impact and psychological contract implications.

Table 4 Strategic Integration Scorecard – IDFC Bank & Capital First Merger

Integration Dimension	**Pre-Merger Score(IDFC / Capital First)**	**Immediate Post-Merger Score (0–12 Months)**	**Post-Integration Score (12+ Months)**	**Cultural Impact**	**Psychological Contract Implication**
AI-Driven Risk Assessment	6/10	8/10	8/10	Required mindset shift from traditional risk models to AI-led scoring; IDFC teams adjusted to data-intensive practices.	Capital First teams found alignment; IDFC employees faced pressure for tech adaptation but appreciated automation.
Automated KYC & Compliance	4/10	9/10	9/10	Capital First's agile compliance system clashed with IDFC's regulatory-heavy model initially.	Restructuring reduced ambiguity; employee training helped mitigate resistance related to stricter controls.
Data Analytics in Decision-Making	6/10	7/10	7/10	Reporting hierarchies differed, requiring standardization of	Initial anxiety over performance tracking; clarity over analytics use

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				data interpretation and KPIs.	improved transparency and morale.
Digital Customer Onboarding	5/10	8/10	8/10	Joint workflows integrated mobile-first onboarding with legacy banking procedures.	Innovation-focused employees retained autonomy; traditional teams appreciated efficiency over time.
IT System Integration	5/10	5/10	6/10	Integration delayed by legacy systems; digital culture alignment was slow and required system overhauls.	Technological changes challenged older employees; clear roadmaps and retraining supported contract fulfilment.

Note. Compiled by the Authors

7. CONCLUSION

Knowledge of and management of employee-centric risks in post-merger integration (PMI) models is crucial for mergers' success in the NBFC industry. Employees are the backbone of any organization and neglecting their expectations, cultural fit and overall happiness can result in discontent, high attrition and missed opportunities for growth. Through reference to Psychological Contract Theory, the organizations can more effectively navigate the usually implicit agreements between employers and employees to achieve trust and understanding in times of change. In a similar vein, Cultural Fit Theory underlines bridging cultural gaps between combining entities to promote harmony and cooperation.

The Capital First-IDFC Bank merger is a prime example of the opportunities and pitfalls in employee integration during mergers. It demonstrates how paying attention to cultural differences and people management through transparency and respectful leadership can lay the ground for an easy transition. The addition of change management disciplines and human capital metrics like employee engagement and retention to the merger strengthens the integration.

For NBFCs, the secret to long-term growth following a merger is in achieving balance between business objectives and people orientation. The employees should be made to feel appreciated and committed to the organization's vision. Organizations that put strategic priorities as well as the welfare of their employees first achieve not only financial prosperity but also develop a cohesive and robust culture that guarantees long-term prosperity. By promoting this harmony, NBFCs can convert mergers into opportunities for development and innovation.

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