

# BANK MERGER BENEFITS: A STUDY FROM STAKEHOLDERS' PERSPECTIVE

*-Mrs. Sovan Mishra, Ph D Scholar, Ravenshaw University, Cuttack*

*-Dr. Bhagbat Behera, Assistant Professor of Commerce, Ravenshaw University, Cuttack*

*-Ms. Smitisikha Guru, Ph D Scholar, Gangadhar Meher University, Sambalpur*

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## ABSTRACT

The study aims to assess the benefits of bank mergers from the point of view of bankers and researchers. As merger of banks has been taking place in India in regular intervals, extensive research is conducted in the study to analyse the benefits of merger. Primary and categorical data has been used for the study. A scheduled questionnaire is prepared for data collection. A total of 217 responses are processed for the study purpose. Six factors are extracted from exploratory factor analysis. It is found that bank merger has financial benefit and market benefit. The present study will help bankers to design a comprehensive merger strategy.

**Keywords:** Bank merger, Merger benefit, Social benefit, Economic benefit

JEL Classification: G21, E58, L60, M14

## INTRODUCTION

Banking sector is an integral part of Indian economy (Pallissery, 2015). The Government of India is planning to merge weak bank with a few well performing and strong bank to compete global risk. Merger has been used as a

strategy to revive the sick banking industries in India. Study shows that merger has significant impact on financial performance on the merging bank (Singh and Das, 2018). Specially, Asset quality and management efficiency has increased after merger (Mehandiratta, 2018). Merger improves the service delivery time and loan limit to customer (Kavishwar, 2014). Merger and Acquisition not only affects the operation of banking sector but also on foreign market and customer services (Mistry, 2017). But some research studies have different opinion that merger has no significant impact on post-merger financial performance. Post-merger profitability of some bank is not satisfactory (Prasad, 2011; Khushwah, 2016). Variety of studies are conducted to trace benefits of merger for the resulted firm but a little effort has been devoted to trace the socio-economic impact of merger and acquisition in Indian banking sector. This study will help to analyse the benefits from different aspects, and not just a comparison of pre-merger and post-merger data as already done in previous researches. The problem statement of the study is formed on these notions.

## REVIEW OF LITERATURES

Petkar (2014) found that merger led to an increase in the market value of shares which benefitted the shareholders by increasing their wealth and improved their dividend earnings. But as a change in the customer management policy, the merged bank started charging more fees which led to a significant erosion of customers (Kavishwar, 2014). The accumulation of bad loans in the statements, increasing trend of losses, operational inefficiency, management inefficiency, financial inefficiency has forced certain banks to merge in the past years (Bhiwandikar, 2011). Pombarla (2020) and Gupta (2020) rightly said that the consolidation should not be there to bail out weak banks as it would adversely affect stronger banks. It can negatively affect the stock price (Campa and Hernando, 2006), increase operational inefficiency and credit problems. This raises a question, whether to merge or not to merge? As per the research of Glassman and Aaron (1975) in Pennsylvania banks, mergers led to improvement in banking services and satisfaction among large number of customers. It also accelerated the service delivery time and the loan limit to customers.

Several other researchers found that no change has occurred in the financial performance of the banks after the merger and acquisition (Fatemi et al., (2017); Kalaichelvan (2011); Prasad (2011). Thus, it is still unclear whether mergers and acquisitions in banking sector is beneficial or not. Also, most of the studies are based upon average differences in parameters and therefore lack in scientific inferences. Few authors even applied t-test but they have not conducted the normality test of samples. By

nature, t-statistics cannot give a vivid result when data is not normal. Less attention has been put on socio-economic point of view of merger and acquisition. Kalaichelvan (2011) used questionnaire method for analysing the perception of bank employees but ignored the perception of customers. Tatuskar (2016) applied CAMEL model for pre-merger and post-merger analysis. In addition, opinion of researchers, academicians in the concerned field have not been also emphasized which is also explored in the present research work.

## OBJECTIVES

- i. To analyse the socio-economic benefits of bank merger.
- ii. To assess the influence of socio-economic benefits of merger-on-merger benefits.
- iii. To study the impact of private and public bank merger on merger benefits.

## DATA AND METHODOLOGY

The present study is explorative and empirical in nature. Data collected from primary sources. Factors are generated and multiple linear regression has been applied by using these factors. The methodology adopted by Panda et al., (2021) and regression assumptions suggested by Chan (2004) are referred for methodology development and assumption testing.

### Nature and Source of Data

A scheduled questionnaire is prepared for collection of primary data. The opinions of researchers, bank customers, academicians in the field of commerce and management of Odisha are observed. Probability sampling method is applied for data collection.

### Questionnaire and Scale Development

There are four segments of the questionnaire. The first part includes the demographic information of the respondents and the rest part contains parameters measuring merger benefits. The variables taken in the questionnaire have been selected after referencing prior articles. The merger benefits construct has been developed after taking into consideration the variables taken by Tatuskar (2016), Petkar (2014), Mistry (2017) and Kalaichelvan (2011).

### Sampling Design and Selection of Sample Unit

Probability method of sampling is adopted for collection of primary data. Questionnaire is distributed to the target population. The population is unknown so sample units are selected on the basis of multiplication of 10 to 20 with the number of variables based on the findings of (Kline, 1998). Questionnaires were distributed to 232 respondents. However, 217 responses were processed after checking unengaged responses.

**Table 1: Demographic Profile**

Variables	Frequency	Percentage
<b>Gender</b>		
Male	126	58.1
Female	91	41.6
<b>Age</b>		
20-30	235	62.5
30-40	33	15.2
40-50	47	21.7
50-60	2	9
<b>Banking Experience</b>		
Less than 1 Year	13	6
1 to 5 Years	77	35.5
5 to 10 Years	78	35.9
More than 10 Years	49	22.6
<b>More Benefits of Merger for</b>		
Public Bank Mergers	109	50.2
Private Bank Merger	108	49.8
<b>Total</b>	<b>217</b>	<b>100%</b>

Source: Authors' own tabulation

It is observed that a greater number of male respondents have been participated in the survey. Majority of respondents are youth but are having more banking experience. Benefits of merger is same whether it is a private bank merger or public bank merger. Similarly, banking benefits are same for both merged bank or not merged bank.

### Reliability Analysis

Reliability is an essential ingredient of research when primary data applied. Cronbach (1951) parameter, popularly known as alpha have been widely used for measuring reliability of the data set. Nunnally (1988) suggested a value more than .7 is preferred. Such value in this study is .78 which is even more than the recommended criteria.

### Exploratory Factor Analysis

Exploratory Factor Analysis (EFA) is applied for generating factors. Principal Component Analysis (PCA) is used for factor extraction. Sehgal et al., (2014) advocated that PCA can yield better output as compare to other methods of factor extraction. Kaiser Meyer Olkin (KMO) test (Kaiser, 1970) of Sampling Adequacy and Bartlett's Test of Sphericity (Bartlett, 1950) are two essential parameters in EFA. Sampling parameter can be correctly measured by applying KMO test (Ayuni & Sari, 2018). Such value must be more than 0.5. On the other side, Bartlett's Test of Sphericity (Bartlett, 1950) examines the closeness among variables. Such test statistics must be statistically significant (Knapp and Swoyer, 1967). In the present study, both parameters are satisfied. Moreover, all the communalities are more than .5 as per the recommended criterion of Osborne (2014). The eigen values and the total variance explained are fitting the recommended criterion. In the process, six factors are extracted which are portrayed in the table below.

**Table 2: Factors, Variables and Factors Loadings**

Variables	Loadings	Factors
Credit Worthiness	.745	Merger Benefit
Capital Adequacy Norms	.610	
Cost Advantage	.587	
Curbing Competition	.475	
Rural Bank Connectivity	.786	Social Benefit
Improving Governance	.604	
e Platform	.572	
Foreign Investment	.798	Foreign Benefit
Exploring Foreign Market	.713	
Helping Economic Growth	.827	Economic Benefit
Financial Inclusion	.642	
Attracting New Customer	.483	
Product Differentiation	.747	Market Benefit
Synergy Benefit	.486	
Market Share	.477	
Share Price	.800	Financial Benefit
Profitability	.698	

Source: Authors' own tabulation

Six factors are named as merger benefit, social benefit, foreign benefit, economic benefit, market benefit and financial benefit. All these components are processed for regression models. Dependent variables, independent variables and dummy variables are decided in accordance with the research objectives.

**Table 3: Regression Parameters**

Parameters	Model 1	Model 2	Model 3
R Square	.14	.21	.17
Adj. R Square	.13	.19	.14
D-W Stat.	1.72	2.12	.177
F Stat. (P Value)	6.82 (.00)	9.13 (.00)	6.97
Residual Mean	.00	.00	.00
Residual Std. Dev.	.993	.995	.986

Source: Authors' own tabulation

R square and adjusted R square check the level of explanation made by dependent variables in the model. These values are too low in the three models. But research process can be proceeded even with these low R square or adjusted R square values. Filho et al., (2011) substantiated that R square is a biased estimate. Further high R square value cannot justify a fitted model and low R square value cannot reject a proposed model (blog.minitab.com). Durbin-Watson (1950) statistics examine serial autocorrelation in the residuals at lag 1. Such test statistics should lie between 1.5 to 2.5 (Maxwell & David, 1995). F statistics should be significant to produce a fit model. Residual mean and standard deviation should be 0 and 1 to satisfy normality of residuals assumption. Thus, it is inferred that all regression parameters are satisfied.

## DATA ANALYSIS

**Table 4: Regression Coefficients of Model 1**

Variables	B	Std. Error	t	Sig.	Tolerance	VIF
(Constant)	1.12	.227	4.946	.000		
Foreign Benefit	.100	.054	1.836	.068	.928	1.077
Market Benefit	.138	.069	1.987	.048	.923	1.083
Financial Benefit	.286	.071	4.032	.000	.936	1.068
Public Bank Merger	.015	.155	.094	.925	.318	3.148

Source: Authors' own calculation

Note: Dependent Variable: - Merger Benefit

The table above measures regression coefficients. It is found that market benefit and financial benefit along with the constant has significant impact on merger benefit at 5% level and 1% level. The regression results are enumerated below.

Merger Benefit = 1.12 + .286 \* Financial Benefit + .138 \* Market Benefit + .1 \* Foreign Benefit.

**Table 5: Regression Coefficients of Model 2**

Variables	B	Std. Error	t	Sig.	Tolerance	VIF
(Constant)	.766	.240	4.946	3.190	.002	
Social Benefit	.234	.066	1.836	3.519	.001	.870
Foreign Benefit	.181	.055	1.987	3.298	.001	.893
Market Benefit	.131	.070	4.032	1.880	.062	.891
Financial Benefit	.151	.071	.094	2.130	.034	.928
Public Bank Merger	-.216	.154	-1.39	.164	.315	3.171

Source: Authors' own calculation

Note: Dependent Variable: -Economic Benefit

In the above table, except public bank and merged bank, all other variables are significant at different levels. Constant, social benefit and foreign benefit has significant impact on economic benefit at 1% level of significant as sig. value is less than .01. Financial benefit is significant at 5% level and market benefit is significant at 10% level..The regression results are summarised as below.

Economic Benefit = .766 + .151 \* Financial Benefit + .234 \* Social Benefit + .181 \* Foreign Benefit.

The dummy variable cannot influence the economic benefit of merger.

**Table 6: Regression Coefficients of Model 3**

Variables	B	Std. Error	t	Sig.	Tolerance	VIF
(Constant)	.998	.243	4.102	.000		
Foreign Benefit	.142	.057	2.505	.013	.906	1.104
Market Benefit	.193	.071	2.720	.007	.900	1.111
Financial Benefit	.076	.075	1.010	.313	.877	1.140
Merger Benefit	.188	.066	2.835	.005	.851	1.174
Public Bank Merger	-.160	.161	-0.995	.321	.311	3.213

Source: Authors' own calculation

Note: Dependent Variable: - Social Benefit

The table explains regression coefficients. All the variables have significant impact except financial benefit. Market benefit and merger benefit has significant impact on social benefit at 1% level and as foreign benefit is significant at 5% level.

## POLICY IMPLICATIONS

Kavishwar (2014) had an opinion that services of bank have been improved in the post-merger period. However, merger acts a protective strategy for the sick firm. Some implications, based on findings, are enumerated below. Customers always expect better service at door step with no charge or extra charge. The study found that majority of customers welcomed a bank merger. They believe that merger will bring many new services at cheaper cost. Whatever may be the cause of merger, customer should be king in getting better services out of the process. The study reveals that all bank merger benefits have significant impact on economic benefit of merger. Respondents emphasized that merger can penetrate more bank services in rural areas which in return can foster financial inclusion process. The study found that there is a significant impact of merger on society. Society gets bank services in cheaper cost at door step. Glassman and Aaron (1975) also substantiated that unmerged bank contributes less for public benefit.

## CONCLUSION

Bankers may go for merger to enlarge its geographical reach or expand its customer intake. Merger helps a bank for expansion of its existing network. A bank can merger with another bank in a win-win situation but not under compulsion. However, a bank with financially sound can acquire a sick firm and successfully promote the resulted firm to a profit making one. In the digitalised society with the abundance use of internet and technology, the banker should rethink the physical expansion than virtual expansion because of merger. Reserve Bank of India and central government play a major role in bank mergers. Government of India takes the decision of mergers which is undertaken under the supervision of RBI. It is witnessed from the study that merger has been used as a surviving strategy to revive the under performer or the sick firm. Rather, merger strategy can be used as a developmental tool in expansion and growth of existing business operation by optimising the existing scale of production and technology.

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