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AN EMPIRICAL STUDY ON THE OPINION OF EMPLOYEES' IN BANK PERFORMANCE ON MERGERS AND ACQUISITIONS IN PUBLIC SECTOR BANKS TO THE CITY OF CHENNAI

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ABSTRACT

Mergers and acquisitions have become a global phenomenon in today's free market economies, where in banks need to constantly evolve to remain competitive. In India, the Second Report of the Committee on Banking Sector Reforms of Narasimham Committee 1998, suggested mergers both in public sector and private sector and even with financial institutions and Non-Banking Financial Companies (NBFCs). Mergers and acquisitions in Indian banking sectors have been initiated through the recommendations of Narasimham Committee. The Committee recommended that "merger between strong financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have "force multiplier effect". The likely effects of consolidation in the banking sector may be the rationalization of the branch network of the banks concerned. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing Non Performing Assets due to securitization, improved macro-economic conditions, diversification, interest rates, regulatory and policy changes. Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past. A consolidated banking structure would be a positive development in the long run. A large bank enjoys scale benefits leading to better diversification of risks and strong overall profitability. Mergers and acquisitions help the acquirer banks to scale up quickly and gain a large number of new customers instantly. This enhances the stability and effectiveness of operations and increase customer satisfaction. Mergers help in cutting down the competition, attaining the motive of growth and expansion and it also helps in cutting the cost of the services and provides various tax benefits. It also provides a broader geographic footprint and can achieve growth goals quicker. With this broad perspective, this study focuses on to assess the opinion of employees

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on the operational benefits of the acquirer banks and examines the major factors determining bank performance in mergers and acquisitions in public sector banks to the city of Chennai. The study is based on primary sources of information. The acquirer banks include Indian Bank, Canara Bank, Punjab National Bank and Union Bank of India. Random sampling procedure has been used in the study to select the sample respondents. The statistical tools used in the study are descriptive statistics and chi-square test analysis. The information collected from the employees' formed the basis for analysis and interpretation of data, to derive the findings and to arrive at conclusion.

Key Words: Employees, Operational Benefits, Major Factors, Public Sector Banks, Mergers and Acquisitions.

INTRODUCTION

Mergers and acquisitions have become a global phenomenon in today's free market economies, where in banks need to constantly evolve to remain competitive. Banking has become an increasingly global industry which has no geographic and territorial boundaries. Mergers and acquisitions aims towards business restructuring thereby increasing competitiveness and shareholder value via increased efficiency. The Second Report of the Committee on Banking Sector Reforms of Narasimham Committee 1998, suggested mergers among strong banks both in public sector and private sector and even with financial institutions and Non-Banking Financial Companies (NBFCs). Mergers and Acquisitions in Indian banking sectors have been initiated through the recommendations of Narasimham Committee. The Committee recommended that merger between strong financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have force multiplier effect. While sanctioning the scheme of amalgamation, the Reserve Bank takes in to account the financial health of the two banking companies to ensure that after the amalgamation, the new entity will emerge as a much stronger bank. The policy objective of the Reserve bank is to ensure that considerations like sound rationale for the amalgamation, the systematic benefits and the advantage accruing to the residual entity are evaluated in detail. The likely effects of consolidation in the banking sector may be the rationalization of the branch network of the banks concerned, resulting in the likely closure of certain branches of the merging banks, where there might be an overlap of in their catchment area. Generally, as part of consolidation process, the emerging bank would be more inclined to shift its branches and focus of operations from the rural to the urban and semi-urban areas, which are usually more remunerative. A consolidated banking structure would be a positive development in the long run. A large bank enjoys scale benefits leading to better diversification of risks and strong overall profitability. A bigger bank would also work well in achieving financial inclusion. Weak banks with poor balance sheet can merge with a better and bigger bank rather than going on for liquidation or bankruptcy. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing Non Performing Assets due to securitization, improved macro-economic conditions, diversification, interest rates, regulatory and policy changes. Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past. Mergers and acquisitions help the acquirer banks to scale up quickly and gain a large number of new customers instantly. This enhances the stability and effectiveness of operations and increase customer satisfaction. Mergers help in cutting down the competition, attaining the motive of growth and expansion and it also helps in cutting the cost of the services and provides various tax benefits. It also provides a broader geographic footprint and can achieve growth goals quicker. With this broad perspective, this study focuses on to assess the opinion of employees on the operational benefits of the acquirer banks and examines the major factors determining bank performance in mergers and acquisitions in public sector banks to the city of Chennai.. The study is based on primary sources of information. The acquirer banks include Indian Bank, Canara Bank, Punjab National Bank and Union Bank of India. Random sampling procedure has been used in the study to select the sample respondents. The statistical tools used in the study are descriptive statistics and chi-square test analysis. The information collected from the employees' formed the basis for analysis and interpretation of data, to derive the findings and to arrive at conclusion.

REVIEW OF LITERATURE

Wolgast, (2001) studied the Merger and acquisition activity among financial firms. The author focused bank supervisors in context with success of mergers, risk management, financial system stability and market liquidity. The study concluded that large institutions are able to maintain a superior level of risk management.

Bryson (2003) reviewed the literature around managing human resource management risk in a merger. He found that poor merger results are often attributed to human resource management and organizational problems and that several factors related to maintaining workforce stability are identified as important in managing human resource risk.

Chew, L.K. H., and B. Sharma (2005) examined the effectiveness of human resource management and organizational culture on financial performance of Singapore-based companies involved in mergers and acquisitions activities. The key finding of the study suggests that organizations with elite and potential leader, when complimented by human resource effectiveness, had a better financial performance as compared to other organizations.

Suriya Narayana (2005) in his study entitled, "Sarbanes - Oxlay Act - Impact on Mergers and Acquisitions", analyzed the implications of the said Act on Merger and Acquisitions. The study concluded that the Chief Financial Officer shall have awareness towards the compliance of quality norms, impact of corporate governance, and disclosure issues.

Naresh Kumar (2007) in his study entitled "Corporate Strategy in Emerging Scenario - Acquisitions and Mergers" has discussed the recent trends in Mergers and Acquisitions. The study revealed that the Indian companies have been gearing up to restructuring and repositioning to seize the opportunities and to meet the challenges thrown globalization. The companies aimed at achieving optimum size as a means for survival and growth in the competitive economy.

Ravi Prakash and Hasneetha Matta (2007) in their study on "Tax Implications and Planning of Mergers and Acquisitions in India" have discussed the importance of tax implications and effective planning of tax in every deal of merger and acquisition.

Kumar and Bansal (2008), in their study found that in many cases of mergers and acquisitions, the acquiring firms were able to generate synergy in the long run, which might have been in the form of higher cash flow, more business, diversification, cost cuttings and more.

Ahmad Ismail and et al., (2009) concentrated on European banks and investigated post-merger operating performance and found that industry-adjusted mean cash flow return did not significantly change after merger but stayed positive. They also found that low profitability levels, conservative credit policies and good cost-efficiency status before merger are the main determinants of industry-adjusted cash flow returns and provide the source for improving these returns after merger.

Hussain. M. and S. Leo (2009) conducted an analytical study to measure customer perception on service quality in retail banking in Qatar and covered 18 parameters with sample size of 120, chosen on convenient basis from four banks. The study concluded that customers' perceptions are found to be the highest in tangibles area and the lowest in the competence area.

Panayiotis Liargovas and Spyridon Repousis (2011) examined that bank mergers and acquisitions have no impact and do not create wealth. They also examined operating performance of the Greek Banking Sector by estimating twenty financial ratios. Findings show that operating performance does not improve, following mergers and acquisitions. There are also controversial results when comparing merged to non-merged banks.

IMPORTANCE OF THE STUDY

Mergers and Acquisitions in Indian banking sectors have been initiated through the recommendations of Narasimham committee II. The committee recommended that merger between strong financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have force multiplier effect. Mergers and acquisitions can bring a drastic change in the economy; financial services can be availed at cheaper rate in each and every corner of the country. This will lead to financial inclusion and the financial world can be globally connected. But it also affects the employees of the bank in their day to day operations till the process of mergers and acquisitions are completed. This study focuses on to assess the opinion of employees on the operational benefits of the acquirer banks and examines the major factors determining bank performance in mergers and acquisitions.

OBJECTIVES OF THE STUDY

1. To assess the opinion of employees on operational benefits of the acquirer banks while managing mergers and acquisitions of public sector banks to the city of Chennai.

2. To examine the major factors determining bank performance in mergers and acquisitions.
3. To summarize findings and to provide suggestions for operational benefits and major factors in the acquirer banks.

HYPOTHESIS

To meet the objectives, suitable hypothesis were framed.

ASSOCIATION BETWEEN EXPERIENCE OF THE EMPLOYEES AND OPERATIONAL BENEFITS

H_{01}: There is no significant association between experience and operational benefits.

ASSOCIATION BETWEEN AGE OF THE EMPLOYEES AND MAJOR FACTORS

H_{02}: There is no significant association between age of the employees and major factors.

METHODOLOGY

The study depends mainly on primary data collected through a well-structured questionnaire designed to collect information. In addition, all relevant published information collected from books, journals, magazines, dailies and websites has been used. The study has been conducted in Chennai, the capital city of the State of Tamil Nadu. Chennai is the fourth largest city in India. There are many public sector banks, private sector banks and cooperative banks having branches are functioning in the city. The four public sector acquirer banks situated in Chennai are taken for data collection from the sample respondents. They are Indian Bank, Canara Bank, Punjab National Bank and Union Bank of India. The sample that was chosen for the study covered employees working in public sector acquirer banks in Chennai. In each bank 60 questionnaires were distributed among the employees of four public sector acquirer banks engaged in mergers and acquisitions. Out of 240 questionnaires distributed among the respondents, 216 questionnaires are found to be completed in all aspects and remaining 24 questionnaires are found to be incomplete. Therefore, the exact sample for the study consists of 216 respondents. Random sampling procedure has been used in the study to select the sample respondents. The data collected was codified, tabulated and then analyzed through computer using SPSS package (Version 20). The statistical tools used in the study are descriptive statistics and chi-square test analysis.

LIMITATIONS OF THE STUDY

The study was confined to employees working in public sector acquirer banks in Chennai engaged in mergers and acquisitions activities. So, the results cannot be generalized to the other areas of the country. Since the opinions of the respondents may change from time to time, the results of the study cannot be last long. The study results are purely based on the views of 216 respondents selected. The views of employees working in private sector banks are not considered because of time constraints.

ANALYSIS AND INTERPRETATION OF DATA

In this study, an attempt has been made to assess the opinion of employees' on operational benefits of acquirer banks and to examine major factors in bank performance. Descriptive statistics and chi-square test has been used to analyze the data. It has been analyzed and exhibited in the form of tables with suitable interpretations.

PART – I

OPERATIONAL BENEFITS

In this part, an attempt has been made to assess the opinion of employees' on operational benefits of acquirer banks while managing mergers and acquisitions. For this purpose, operational benefits of the bank such as economies of scale, asset restructuring, technical and managerial skills transfer, achieve cost savings, risk reduction, increased debt capacity, market liquidity, capacity to increase credit, credit recovery and reduction in lending cost are taken in to consideration. Descriptive statistics has been used to analyze the data and it is presented in Table – 1.

TABLE – 1 OPERATIONAL BENEFITS

OPERATIONAL BENEFITS	N	Minimum	Maximum	Mean	Std. Deviation
Economies of scale	216	1	5	2.93	1.050
Asset restructuring	216	1	5	2.86	1.174
Technical and managerial skills transfer	216	1	5	3.01	1.032
Achieve cost savings	216	1	5	2.87	1.089
Risk reduction	216	1	5	2.97	1.227
Increased debt capacity	216	1	5	2.75	**1.247**
Market liquidity	216	1	5	2.94	1.172
Capacity to increase credit	216	1	5	2.74	1.144
Credit recovery	216	1	5	**3.03**	1.032
Reduction in lending cost	216	1	5	3.01	1.063

Source: Computed Value

From the analysis of the above descriptive statistics of operational benefits in bank performance, the value of mean is found to be the highest in credit recovery with 3.03 followed by both technical and managerial skills transfer and reduction in lending cost with 3.01, risk reduction is 2.97, market liquidity is 2.94, economies of scale is 2.93, achieve cost savings is 2.87, asset restructuring is 2.86, increased debt capacity is 2.75 and capacity to increase credit is 2.74. The standard deviation is highest with the value of 1.247 in increased debt capacity followed by risk reduction with 1.227, asset restructuring with 1.174, market liquidity with 1.172, capacity to increase credit with 1.144, achieve cost saving with 1.089, reduction in lending cost with 1.063, economies of scale with 1.050 and the both technical and managerial skill transfer and credit recovery with 1.032. It can be concluded that operational benefits of the bank are found to be the highest in credit recovery with 3.03 and it is found to be the lowest in capacity to increase credit with 2.74. The standard deviation is found to be the highest with the value of 1.247 in increased debt capacity and it is found to be the lowest in both technical and managerial skill transfer and credit recovery with 1.032.

TEST OF HYPHOTHESIS

Chi-Square test has been used to test the association between experience of the employees and operational benefits of the acquirer banks. The computed values of results are discussed below.

ASSOCIATION BETWEEN EXPERIENCE OF THE EMPLOYEES AND OPERATIONAL BENEFITS

H_0: There is no significant association between experience and operational benefits.

H_1: There is significant association between experience and operational benefits.

TABLE – 2 EXPERIENCE

EXPERIENCE	NO. OF RESPONDENTS	PERCENT
Below 5 years	48	22.2
5 to 10 years	32	14.8
11 to 15 years	64	29.6
16 to 20 years	32	14.8
Above 20 years	40	18.5
TOTAL	**216**	**100.0**

Source: Primary Data

TABLE – 3 ASSOCIATION BETWEEN EXPERIENCE AND OPERATIONAL BENEFITS

Operational benefits	Calculated value	Table value	Significant or Not
Economies of scale	0.000	0.005	Significant
Asset restructuring	0.000	0.005	Significant
Technical and managerial skills	0.000	0.005	Significant
Achieve cost savings	0.000	0.005	Significant
Risk reduction	0.000	0.005	Significant
Increased debt capacity	0.000	0.005	Significant
Market liquidity	0.000	0.005	Significant

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Capacity to increase credit	0.000	0.005	Significant
Credit recovery	0.000	0.005	Significant
Reduction in lending cost	0.000	0.005	Significant

Source: Computed Value.

The result projects that all the operational benefits of the bank such as economies of scale, asset restructuring, technical and managerial skills transfer, achieve cost savings, risk reduction, increased debt capacity, market liquidity, capacity to increase credit, credit recovery and reduction in lending cost has the significant 'p value' of 0.000 which is less than the table value of 0.005. So that the null hypothesis is rejected and the alternative hypothesis is accepted. Hence it is concluded that there is a significant association found between experience of the employees and the operational benefits of the bank while undertaking mergers and acquisitions.

PART – IIMAJOR FACTORS IN BANK PERFORMANCE

In this part, an attempt has been made to examine major factors which determine the activity of mergers and acquisitions in bank performance. For this purpose, major factors such as government policies, comply with new legislation, entry to new geographical area, to increase service quality, to increase market share, acquire state of art technology, increase growth of business, reduce competition, to attain the infrastructure and reducing bankruptcy are taken in to consideration. Descriptive statistics has been used to analyse the data and presented in the form of Table.

TABLE – 4 MAJOR FACTORS

Factors	N	Minimum	Maximum	Mean	Std. Deviation
Government policies	216	1	5	3.58	1.284
Comply with new legislation	216	1	5	3.54	1.297
Entry to new geographical area	216	1	5	3.33	**1.469**
To increase service quality	216	1	5	2.71	1.259
To increase market share	216	1	5	3.59	1.287
Acquire the state of art technology	216	1	5	3.43	1.365
Increase the growth of business	216	1	5	3.54	1.293
To reduce competitions of the bank	216	1	5	**4.04**	1.022
To attain the infrastructure	216	1	5	2.60	1.253
Reducing the probability of bankruptcy	216	1	5	3.67	1.280

Source: Computed Value.

It is observed from the above table, the mean value for major factors in bank performance is found to be the highest in reduce competitions of the bank with 4.04 followed by reducing the

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probability of bankruptcy with 3.67, increase market share 3.59, government policies 3.58, comply with new legislation and increase the growth of the business both with 3.54, acquire the state of art technology is 3.43, entry to new geographical area 3.33 and increase service quality 2.71 and to attain infrastructure with 2.60. The standard deviation of the descriptive statistics is found to be the highest in entry to new geographical area with the value of 1.469 followed by acquire the state of art technology with 1.365, comply with new legislation with 1.297, increase the growth of the business with 1.293, to increase market share with 1.287, government policies with 1.284, reducing the probability of bankruptcy with 1.280, to increase service quality with 1.259, to attain infrastructure with 1.253 and to reduce competitions of the bank with 1.022. It can concluded that the major factors in bank performance is found to be the highest in reduce competitions of the bank and it is found to be the lowest in to attain infrastructure. The standard deviation with respect to major factors in bank performance is found to be the highest in entry to new geographical area and it is found to be the lowest in to reduce competitions of the bank.

TEST OF HYPHOTHESIS

Chi-Square test has been used to test the association between age of the employees and major factors determining mergers and acquisitions. The computed values of results are discussed below.

ASSOCIATION BETWEEN AGE AND MAJOR FACTORS DETERMINING MERGERS AND ACQUISITIONS ACTIVITY

H_0: There is no significant association between age of the employees and major factors.

H_1: There is significant association between age of the employees and major factors.

TABLE – 5 AGE

AGE	NO. OF RESPONDENTS	PERCENT
21 - 30 years	48	22.2
31 - 40 years	56	25.9
41 - 50 years	72	33.3
51 - 60 years	40	18.5
Total	**216**	**100.0**

Source: Primary Data

TABLE – 6 ASSOCIATION BETWEEN AGE AND MAJOR FACTORS

MAJOR FACTORS	Calculated value	Table value	Significant or Not
Government policies	0.000	0.005	Significant

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Comply with new legislation	0.000	0.005	Significant
Entry to new geographical area	0.000	0.005	Significant
To increase service quality	0.000	0.005	Significant
To increase market share	0.000	0.005	Significant
Acquire state of art technology	0.000	0.005	Significant
Increase growth of business	0.000	0.005	Significant
Reduce competition	0.000	0.005	Significant
To attain the infrastructure	0.000	0.005	Significant
Reducing bankruptcy	0.000	0.005	Significant

Source: Computed Value.

It is inferred from the above table, that all the major factors such as government policies, comply with new legislation, entry to new geographical area, to increase service quality, to increase market share, acquire state of art technology, increase growth of business, reduce competition, to attain the infrastructure and reducing bankruptcy which determines the mergers and acquisitions activity in the bank has significant 'p value' which is less than 0.005. So that the null hypothesis is rejected and the alternative hypothesis is accepted. Hence, it is concluded that there is a significant association found between the age of the employees and the major factors determining the mergers and acquisitions activity.

FINDINGS OF THE STUDY

The following are the findings of the study:

- Operational benefits in bank performance the value mean is found to be the highest in credit recovery with 3.03 followed by both technical and managerial skills transfer and reduction in lending cost with 3.01, risk reduction is 2.97, market liquidity is 2.94, economies of scale is 2.93, achieve cost savings is 2.87, asset restructuring is 2.86, increased debt capacity is 2.75 and capacity to increase credit is 2.74.
- The standard deviation is highest with the value of 1.247 in increased debt capacity followed by risk reduction with 1.227, asset restructuring with 1.174, market liquidity with 1.172, capacity to increase credit with 1.144, achieve cost saving with 1.089, reduction in lending cost with 1.063, economies of scale with 1.050 and the both technical and managerial skills transfer and credit recovery with 1.032.
- Operational benefits of the bank are found to be the highest in credit recovery with 3.03 and it is found to be the lowest in capacity to increase credit with 2.74.
- The standard deviation is found to be the highest with the value of 1.247 in increased debt capacity and it is found to be the lowest in both technical and managerial skills transfer and credit recovery with 1.032.
- There is a significant association found between experience of the employees and the operational benefits of the bank such as economies of scale, asset restructuring, technical and managerial skills transfer, achieve cost savings, risk reduction, increased

debt capacity, market liquidity, capacity to increase credit, credit recovery and reduction in lending cost while undertaking mergers and acquisitions.

- The mean value for major factors in bank performance is found to be the highest in reduce competitions of the bank with 4.04 followed by reducing the probability of bankruptcy with 3.67, increase market share 3.59, government policies 3.58, comply with new legislation and increase the growth of the business both with 3.54, acquire the state of art technology is 3.43, entry to new geographical area 3.33 and increase service quality 2.71 and to attain infrastructure with 2.60.
- The standard deviation of the descriptive statistics is found to be the highest in entry to new geographical area with the value of 1.469 followed by acquire the state of art technology with 1.365, comply with new legislation with 1.297, increase the growth of the business with 1.293,to increase market share with 1.287, government policies with 1.284, reducing the probability of bankruptcy with 1.280, to increase service quality with 1.259, to attain infrastructure with 1.253 and to reduce competitions of the bank with 1.022.
- The major factors in bank performance is found to be the highest in reduce competitions of the bank and it is found to be the lowest in to attain infrastructure.
- The standard deviation with respect to major factors in bank performance is found to be the highest in entry to new geographical area and it is found to be the lowest in to reduce competitions of the bank.
- There is significant association found between the age of the employees and the major factors in bank performance determining the mergers and acquisitions activity such as government policies, comply with new legislation, entry to new geographical area, to increase service quality, to increase market share, acquire state of art technology, increase growth of business, reduce competition, to attain the infrastructure and reducing bankruptcy.

CONCLUSION

Mergers and acquisitions in Indian banking sectors have been initiated through the recommendations of Narasimham committee II. The Committee recommended that merger between strong financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have force multiplier effect. Mergers and acquisitions help the acquirer banks to scale up quickly and gain a large number of new customers instantly. This enhances the stability and effectiveness of operations and increase customer satisfaction. Mergers help in cutting down the competition, attaining the motive of growth and expansion and it also helps in cutting the cost of the services and provides various tax benefits. It also provides a broader geographic footprint and can achieve growth goals quicker. Mergers and acquisitions can bring a drastic change in the economy; financial services can be availed at cheaper rate in each and every corner of the country. This will lead to financial inclusion and the financial world can be globally connected. This study focuses on to assess the opinion of employees on the operational benefits of the acquirer banks and examines the major factors determining bank performance in mergers and acquisitions in public sector banks to the city of Chennai.. The study is based on primary sources of information. The acquirer banks include Indian Bank, Canara Bank, Punjab National Bank and Union Bank of India. Random sampling procedure has been used in the study to select the sample respondents. The statistical tools used in the study are descriptive statistics and chi-square test analysis. The results of the study indicates that operational benefits of the bank are found to be the highest mean in credit recovery and it is found to be the lowest in capacity to increase credit. The standard deviation is found to be the highest in increased debt capacity and it is found to be the lowest in both technical and managerial skills transfer and credit recovery. There is a significant association found between experience of the employees and the operational benefits of the bank such as economies of scale, asset restructuring, technical and managerial skills transfer, achieve cost savings, risk reduction, increased debt capacity, market liquidity, capacity to increase credit, credit recovery and reduction in lending cost while undertaking mergers and acquisitions. The major factors in bank performance is found to be the highest mean in reduce competitions of the bank and it is found to be the lowest in to attain infrastructure. The standard deviation with respect to major factors in bank performance is found to be the highest in entry to new geographical area and it is found to be the lowest in to reduce competitions of the bank. There is significant association found between the age of the employees and the major factors in bank performance determining the mergers and acquisitions activity such as government policies, comply with new legislation, entry to new geographical area, to increase service quality, to increase market share, acquire state of art technology, increase growth of business, reduce competition, to attain the infrastructure and reducing bankruptcy. To conclude based on the opinion of employees that the operational benefits such as technical and managerial skills transfer and credit recovery should be encouraged to reap more benefits. The major factors in determining mergers and acquisitions activity such as infrastructure and quality of service should be provided in an effective way in order to attract more customers.

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