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IMPACT OF BANK MERGER ON EFFICIENCY OF BANKS IN INDIA

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ABSTRACT

Changes are always welcome, but to stay pace with these changes is the most challenging aspect. The banking system is one such sector that has been browsing various tremendous changes over the age. From the standard brick and mortar system to the current online transactions, the banking system has grown much beyond words. The Indian industry too encompasses a long history to narrate. Beginning from the Presidency banks of the 1800s, the banking system has witnessed comprehensive changes. Bank merger is an occasion in which two entities which were entirely independent earlier and accustomed perform their tasks individually are combined into one entity. Mergers needn't be between two banks but among many. Mergers are nothing new the globe. Then again they need acquired such a lot importance in the present decade with the rise in the intensity of competition. With the increasing competition in the globalised economy, mergers and acquisitions are expected to occur at a way larger scale than any time in the past and have played a significant role in achieving the competitive draw near the dynamic market environment. Many studies are disbursed to look at the profitability and efficiency ratios of the firms involved in the Mergers especially abroad. Literature proves that deep studies haven't been dispensed in the Indian scenario which too with the small or negligible target the human factor. Hence, in the light of the above discussion, the study has been made on the subject "The Impact of Bank Mergers on efficiency of banks in India.

Keywords: *Mergers, Efficiency, Competition, Synergy Benefit, Employees Satisfaction*.

Introduction

The important landmarks that may be put into the credit of the Indian industry are the nationalisation, meted out in two phases and also the 1991 economic reforms, together with all the transformations that occurred with this liberalisation. Merger is undoubtedly one among such major changes in the scenario. The Banks has undergone with varied Mergers & Acquisitions. It's estimated that an oversized number of advantages are often derived by the acquiring firm through mergers and acquisitions if meted out efficiently. A merger should be among equals. Synergies, expansion of scale, economies of scale, operational efficiencies, diversification, market expansion, are some benefits to say, that accrue from Mergers. A merger is far asked for in today's world as a far better means of growth. The Mergers are viewed as a method of synergy and growth. All the sectors in the world are influenced by Mergers, and hence, banking sector too. In India, many times, Mergers are considered as a method of protecting weak firms by forcing the higher performing ones to require over these weak ones. Moreover, Mergers are considered an instrument for enduring global competition. Many researches during this direction are disbursed at the world level mainly to assess the financial performance of acquiring firms before and after the Mergers. But in most of the studies, the human factor side is usually ignored, which forms the foremost vital facet for the success and way forward for any industry. Mergers can pose threats further as opportunities to the staff in both the acquiring and target firm.

What is Merger

A merger may be a combination of two companies wherever one company is completely absorbed by another corporation. A merger extinguishes the merged company and therefore the surviving corporation assumes all the rights, privileges, and liabilities of the merged corporation. A merger isn't the identical as a consolidation in what two corporations lose their separate identities and unite to create a totally new corporation. In brief Mergers mean the evolution of a completely new entity when two businesses/firms dissolve and mix their assets and liabilities into the newly formed one. Mergers are meant to require place

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between equals but most of the time this doesn't happen. Mergers can also be termed as amalgamations or absorption or consolidation. The corporate which acquires another company is termed the Acquirer and therefore the company that's acquired is named the Acquired or the Targeted. If the Acquirer takes over an organization and establishes a brand new management under itself, then it may be called as a Takeover or Change of Management. When the Acquirer company mergers the Acquired company within it, it's termed as Merger. Hence, it are often stated that merger is the marriage between two firms, in which one (the acquired) loses its identity to require thereon of the opposite (the acquirer's). In India, mergers also are called Amalgamations. The assets and liabilities of the takeover target are acquired by the acquiring company. Not only that, the shareholders of the takeover target will get the shares of the acquiring company in exchange for his or her existing shares in the company. There are some important factors to think about while merging two entities:

- It may be a risky process, and so, the businesses involved must be able to take risks.
- Multiple bets must be made so on reduce and diversify risks.
- The acquiring firm must twiddling my thumbs, resilient and ready to suits the changes that occur within the industry.

Why We Need Mergers

Mergers are a awfully important market entry strategy yet as expansion strategy. This present era is understood as competition era. In this era companies to avoid the competition select merger and revel in sometimes monopoly. Corporate India is rousing to the new millennium imperative of Mergers in a very desperate seek for a panacea for facing the worldwide competition. This is often hardly surprising as stiff competition is, in a sense, underlying any bid to integrate the economic system with the worldwide economy. The continued process of liberalization has exposed the unproductive use of capital by the Indian corporate both publically and personal sectors. Consolidation through Mergers are considered one in all the most effective ways of restructuring of corporate units.

Though the Narasimham Committee for banking sector reforms in India recommended mergers among equals, most of the time it had been a takeover of weaker ones by the big and stronger banks. With reference to the mergers in the banking sector, the subsequent reasons are found more relevant:

- **Liberalisation and also the Need for Megabanks:** Ever since the economic reforms in 1991 and also the resultant increase in global competition, there has arisen a necessity for megabanks. Since it'll take time to grow internally, the stronger banks began the explore for target banks which they might acquire. This could enable them to grow in respect of market share and thus become more powerful.
- **Most Innovative ideas and service using Technology:** the old generation banks which are technologically backward, find it beneficial to merge with the high-tech new generation banks. These new generation banks have initiated many value-added services with modern technology which has simplified banking activities for the purchasers. Moreover, variety and innovative products and services are often given upgraded technology.
- **Increased Customer Base:** Merger is in a different way for the new generation private sector banks to make an enormous customer base.
- **Increased Customer Interest:** Though the second Narasimham Committee discouraged merger of strong banks with weak ones, this was what actually happened in bank mergers. This, however, saved the interests of the shoppers of the weak banks.
- **Better management of Risk:** could be a matter of concern in the banking sector of any country, as they need to balance between the credit and deposit portfolios. Mergers can diversity these risks to a good extent.
- **Economies of Scale**: Furthermore, mergers can generate economies of scale and thus cut the service costs and thereby fight competition. Increasing the economies of scale is crucial for a firm as they'll fully cash in of their suppliers.
- **Transfer of Skills:** Mergers also make feasible transfer of skills between the merging institutions, thus ensuring higher efficiency in delivering services

Impact OPF Mergers

Impact of mergers on Various Entities The mergers and acquisitions will have a major impact not only on the owners but on the shareholders, customers, society likewise. The method will have a sway on the roles of employees still as their security, customers" satisfaction, etc.

- **Impact on Shareholders**: the most objectives of the mergers are to extend shareholders value, either by cutting the prices or by enhancing revenue. Studies reveal that mergers have benefitted the target company's shareholders and not the acquirer's. As per a study, only 15% of mergers are successful. Among the 82% respondents who believed the merger would embark successfully, 75% of their projects were found to possess failed in delivering shareholder value. During the 1980s, the newly merger banks found a rise in their cost structure. The 1990s saw a slower growth level, indicating that a restructuring was required to realize the results from mergers.
- **Impact on Employees**: Mergers will bring around a drastic lowering in the number of staff and personnel, because the company shuts down or lay-off employees. Those that are retained may experience a change in their positions or location. This will create a sense of insecurity and difficulty to regulate to the changing situations. There may also be a rise in the workload because the nature and quality of job changes. Most of the evidence show that the Merger's have a negative impact on the staff, because it is followed by redeployment of employees, their forced movement from one place to a different, maybe even from one state to a different, affecting their morale and resulting in frustration.
- **Impact on Customers:** Customers are another category who is full of bank mergers in both positive and negative ways. On its positive part, mergers provide customers with new products and services likewise flexibility in time. Banking has become easier and out of the brick and mortar system. But there are some who are negatively affected. The closing down of the many branches affected customers in those regions badly. Moreover, people who wish to go to banks personally are now left with fewer options.
- **Impact on Government:** Many of the time, the mergers going down in countries like India are driven by the government with the intention of rescuing weak firms. Except for mergers to achieve success, it should be administered among banks of equal size and will be market driven. Hence, the Governments and other Supervising authorities should act only as a supporting force, by providing an environment for the sleek conduct of the merger process through appropriate fiscal and monetary policies.
- **Impact on Public:** As is the case of the impact of Merger on the purchasers, so does it have a sway on the general public furthermore. Closing down of branches or its relocation can result in protests from the general public. This can be adore sacrificing the goodwill and identity earned by the firm, which it dare not attempt.

The Broader Side of Impact of Merger and Acquisition

Mergers and acquisitions can sway be a large risk to the human resources of both companies. Employees of the merging or acquiring company, however, have a position over those working for the acquired company as they will be rewarded with a rise in remuneration and better job position. It gives them a way of getting an upper-hand, yet, the fears of mergers can't be neglected. Mergers and Acquisitions is especially challenging to employees, ultimately impacting their performance. Capable and experienced employees are the inspiration of any workforce. During times of uncertainty, employees are presumably to become unproductive or leave. Beyond the direct costs of ratio, companies can lose thousands of rupees in productivity and reduced levels of customer service, with broader implication to the underside line business results. Further, when employees leave with years of information and knowledge, they simply cannot be easily replaced overnight. It's well accepted that mergers and acquisitions often create significant trauma for workers and managers of both the acquiring and bought firms that end in attitudinal and productivity problems still as turnover of valued personnel.

Conclusion

Mergers are aspect of strategic management, finance and management handling addressing the buying and selling, dividing and mixing of various organizations and similar entities which will assist an enterprise to grow rapidly in its sector or location of origin, or a replacement, or new location without developing creating a subsidiary or other child entity. Mergers have now become important features of corporate restructuring, they need been playing a very important role in the external growth of variety of leading companies the globe over. They need become popular due to the improved competition, breaking of trade barriers, free flow of capital across countries and globalization of business. In general, merging company segments involve a high level of coordination, communication amongst all involved parties, and making tough choices like reduction of staff. The problem of cultural compatibility between merging firms has long been proposed as a crucial determinant of the realisation of potential synergies.

The study also found that the merger setting affects the sense of ownership and belonging among the staff in the Bank. Employee contributions, employee composition, shareholder wealth, merger satisfaction and communication affect employee performance within the Bank.

Recommendations

- Efficient M&A management plays a major role in successful consolidation. Following conclusions are put by the researcher. At company level several actions should be taken for achieving the prime goals of Merger and Acquisitions.
- Consolidation policies and methods should be clearly made.
- Decision making should be quick to stop confusion in the least levels.
- Realistic performance goals should be determined considering market conditions, capital investment requirement etc.
- Capital expenditures, development etc. should be decided with participation deciding.
- Market dynamics, customers, other stakeholders should be understood properly before entering new markets.
- The workforce should be motivated, management team of the merged company should be accessed and involved, organisational structure should be analysed,
- HR policies of both companies should be compared and new policies must be evolved.
- Best people in the companies should be entrusted with the responsibilities for implementing the Merger.
- Adequate employee communication, retention of key human capital and cultural assimilation are the foremost important activities of the Merger.

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