

CHAPTER-2

LITERATURE REVIEW

This chapter includes a review of literature related to the study. It is categorized into Concept, Studies to analyze the impact of mergers and acquisition in the global context, Studies to analyze the impact of mergers and acquisition in the Indian context.

2.1 Introduction:

The policy of liberalization has exposed the Indian companies including banks to domestic as well as global competition (Agarwal, R. N, 2003; Lawrence, Peter and I. Longjam, 2003; Sen, Kunal and R. Vaidya ,1997). This policy of liberalization has compelled banks to restructure their business and portfolio (Prasad, 2007; Selvam et.al,2009) so as to survive the domestic and global competition (Pamarty, M.,2011). In India, corporate restructuring is till at the juvenile stage (Economy Watch, 2010). Globally, corporate restructuring (Donaldson, G.,1994) through mergers and acquisitions has gained momentum (Pinto, Prakash and Balakrishna C.H., 2006; Prasad,2007) and has become a key technique of corporate restructuring (B.K. Bhoi ,2000; Shirai, Sayuri, 2002), especially in the financial services industry, which has experienced merger waves (Mallikarjunappa,T and Nayak .P.,2007) leading to the emergence of very large banks and financial institutions (Bhattacharya, A., Lovell, C.A.K., and Sahay, P., 1997). (Hawawini and Swary, 1990; Khemani, 1991 cited in Kar, R. N. and Soni, A.) have identified several encouraging factors as to why institutions in financial services industry engage in mergers and acquisitions. As per(Pinto, Prakash and Balakrishna C.H., 2006), some of these are: Access to information and proprietary know-how (Yadav, A. K. and Kumar B.R., 2005,), achieve economies of scale and scope (Mantravadi,P and Reddy, A., 2007), augment market power (Shirai, Sayuri, 2001), realize diversification(Pearson,1999), attain certain tax related benefits (Srinivasan, R., Chattopadhyay, G. and Sharma, R., 2008) , persuade management's goals (Mantravadi,P. and Reddy, A., 2001). Studies by (Khan Azeem Ahmad, 2011), also confirm that from a strategic viewpoint, one of the foremost reasons for restructuring activity in the financial services industry (Kaushik, KP. and Chaudhary, T., 2010; Pamarty, M., 2010) is capturing significant

economies of scale and scope (**Wang, J.,2007**), both domestically and internationally (**Pinto, Prakash and Balakrishna C.H., 2006**).

(**Chatterjee Sayan, 2009**) argue that mergers build synergies and increase value (**Theory of Coase, 1937**). According to the study, the definition of the term *synergies* includes economies of scale, more efficient management (**Prasuna D G, 2013**), and improved production procedure (**Ghosh, A., 2001; Shanmugam, K.R., Das, A., 2004**). Due to the presence of these synergies (**Satish Kumar, Bansal Lalit K.,2008**), mergers and acquisitions are increasingly being used the world over (**Prasad,2007**), to improve competitiveness by gaining greater market share (**Ghosh, A. and Das,B. ,2003**), to broaden the portfolio so as to reduce business risk, to enter new markets and geographies (**Prabhudeasi, A.,2008**), and capitalize on economies of scale etc.(**Devos, E., Kadapakkam, P.R., and Krishnamurthy, S.,2008**). There are several reasons for the banks to merge their operations (**Pamarty.M., 2011**). The first and foremost reason often cited in literature is achievement of synergies ((**Hoang, Thuy Vu Nga Lapumnuaypon, Kamolrat, 2007**): financial (**DePamphilis,2005 ; Handa Rajan, 2007; P. M. Healy, K.G. Palepu, and R. S. Ruback,1992**) operational, (**Porter, 1985; Handa Rajan, 2007; P. M. Healy, K.G. Palepu, and R. S. Ruback,1992**) and managerial, (**Kaur Pardeep, Kaur Gian,2010**). The second reason is increased earnings and market share (**Prajapati, S., 2010**). Studies analyzing the motives for mergers in the Indian banking sector also had similar results (**Mehta Jay and Kakani Ram Kumar , 2006**) and cited that merger and acquisition is imperative for the state to create few large banks (**Prajapati, S., 2010**).

Merged banks may be in a stronger position to compete globally (**Jagdish R. Raiyani, 2010; Suchismita Mishra, Arun.J, Gordon and Manfred Peterson, 2005;**). They may be able to provide a better diversified product mix to their customers at competitive prices because of economies of scale and scope (**Kuppuswamy V., Villalonga B., 2010**). Mergers may also result in reduced operating costs, (**Kukalis S., 2007**).Merger of two weaker banks or merger of one healthy bank with one weak bank can be treated as the faster and less costly way to improve

profitability and stimulating growth, (**Franz, H. Khan cited in The Free Library by Farlex, 2010**).The main motive behind mergers and acquisitions in the banking industry is also to increase customer base apart from synergy and increased performance (**Egl Duksait and Rima Tamosiunien, 2009; Morrall, K.,1996**). From the customer's perspective, bank mergers can result in customers getting more services (**Sureshchandar, G.S., Rajendran, C. and Anantharaman, R.N., 2002**) which generally include bigger loan limits, more branches and more Automated Teller Machines, (**Shashidhar, Mishra, 2006**). The merged bank can provide improved services (**Rehana Kouser and Irum Saba, 2011**) to the end user by providing under one roof a variety of services like conventional banking, merchant banking, mutual funds, insurance products leading to innovation and emergence of new products like bank assurance (**Deolalkar, G.H. 1999; Rehana Kouser and Irum Saba, 2011**).

Mergers and acquisitions for long have been an important phenomenon in the US and UK economies (**ASSOCHAM study 2009; European Central Bank, 2000**). In India also, it is now gaining momentum (**Goyal, K. A. and Joshi, V., 2011**). In India, the key driving force for bank mergers is competition amongst banks (**Srinivasan, R. Chattopadhyay, G. and Sharma, R., 2008**) which puts focus on economies of scale, cost efficiency, and profitability (**Kumar Suresh, 2013; Mehta Jay and Kakani Ram Kumar , 2006; Prajapati, S.,2010**). In some countries, weak banks are forcefully merged to avoid the problem of financial misery (**Chong, Beng-Soon, Ming-Hua Liu and Kok-Huai Tan.,2006; Cole, R.A., and J.W. Gunther,1998; Jaffe, Dwight and Levonian, M.E, 2001**) arising out of increasing nonperforming assets and attrition of capital and reserves. This was a common feature during the pre-liberalization era in India too (**Srinivasan, R. Chattopadhyay, G. and Sharma, R., 2008**). However once commercial and business aspects for restructuring became the centre focus for banking acquisitions (**B.K. Bhoi,2000**), voluntary acquisitions started gaining impetus (**Khan Azeem Ahmad, 2011**). Synergies arising from the increased efficiency (**Dewan Astha, 2007**), cost savings (**Kaur, P. and Kaur, G., 2010**), economies of scale etc became the principal factors for voluntary amalgamations in the Indian banking sector (**Dilip Kumar Chanda,2005**). 'India is slowly but surely moving from a regime of large number of small banks to small number of large banks' (**Mohan.K.,2006; Prajapati, S., 2010**).

Several academic studies examined merger related gains in banking mergers. All these studies have adopted one of the following competing methods. The first approach relates to evaluation of the long term performance (**Gangadhar,V. and Naresh Reddy,G., 2007**), resulting from mergers by analyzing the accounting information such as return on assets, operating performance and efficiency ratios (**Suresh Kumar, 2013**). As per the accounting method a merger is expected to improve the performance of the merged entity if the change in accounting-based performance is superior to the changes in the performance of comparable banks that did not undertake merger activity (**R.Srivassan,Chattopadhyay Gaurav and Sharma Arvind, 2009**). Several studies have been conducted to simplify the meaning of performance. The word ‘Performance’ means ‘the performing of an activity, keeping, in view the achievement made by it’. In the context of the banks, it takes into account the way of their development. According to (**Satish Kumar, Bansal Lalit K., 2008**), “The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time; often with reference to past or projected costs efficiency, management responsibility or accountability or the like”. However in the context of the present study, it covers financial performance (**Sinha Neena et al, 2010**), which is the overall conclusion of financial activities of the banks. This financial performance needs performance measurement to find out as to how much the bank has achieved by its action of acquisitions. The financial appraisal is a vital unit to measure the performance of firms. Therefore, financial statements are prepared to measure the financial performance. According to (**Eccher, E. A., Ramesh K., and Thiagarajan S. R., 1996**), “The primary focus of financial reporting is information about an enterprise’s performance provided by measures of earnings and its components.”

(**Tiwari Amdhesh Kr, 2011 ; Zhu, J. L. (n.d.), 2011**) firmly supports the view that, “The measurement of business performance is more complex and complicated. This is so as it must deal with the effectiveness with which capital is employed, the efficiency and profitability of operations, and the value and safety of various claims against the business.”

Another approach is to analyze the merger gains in stock price performance of the bidder and the target around the announcement event known as event studies (**Agrawal and Jaffe, 2000; Madan Mohan Dutta and Suman Kumar Dawn., 2012**). Here a merger is assumed to create value if the combined value of the bidder and target increase on the announcement of the merger and the consequent stock prices reflect potential net present value of acquiring banks (**Franks and Harris, 1989 cited in Kar, R. N. and Soni, A.; Gangadhar,V. and Naresh Reddy,G., 2007**). It is also remarkable to note that results from academic literature usually diverge from consultant studies (**Bhide, M.G., Prasad, A. and Ghosh, S., 2001**). The consultant's study always forecast a significant cost saving resulting from the merger activity. These views on extensive cost savings is revoked by academic literature (**Berger and Humphrey, 1994**). Their study cited the following reasons for difference in opinion on mergers between academicians and consultants.

- Academic researchers and financial economists study actual costs savings, unlike consultants who focus on potential cost savings which do not always materialize,
- Researchers and financial economists study data of those banks that implement as well as those who do not execute the cost saving systems, whereas consultants recommend the cost saving techniques and processes which may not have been necessarily employed,
- Financial economists study the overall costs of the banking operations, unlike the consultants who focus only on specific operations of the banks where there may be merger benefits but ignore those where there were scale diseconomies
- Economists employ standard measures from academic literature to measure merger benefits and therefore portray these benefits as they are measured, whereas consultants portray large merger benefits whereas they may be small in relative terms to the total costs of the consolidated entity

The present literature review covers both the global and domestic scenario. The review of literature is categorized into three parts. The first part deals with concept, second with the pre-

merger and post-merger performance of banks in the global context, and the third part examines the pre-merger and post-merger performance of banks in the Indian context:

2.2 Concept:

The Indian banking sector is the highlight of the Indian economy (**Duvvuri Subbarao, 2013**). A study by (**Agarwal,J., 2000**), highlighted the need for a systematic growth of the Indian economy and stressed on the Indian banks (**Dhawal Mehta , Samanta Suni ,1997**),to meet the challenges of this economic growth (**Ram Mohan,.T.T.,2007**). The study sharply pointed out that since India is a developing country (**Lawrence, Peter and I. Longjam, 2003**), the Indian banking sector, could catapult India into the league of top three economies of the world (**Shirai, Sayuri, 2001**). The study also discussed financial issues and emphasized on mergers and acquisition in the Indian banking sector (**Paul,2002**) to encourage the financial performance (**Kumar, S. and Bansal, L. K.,2008**) and development of Indian banks (**Aggarwal A.K. ,2006; Goyal K.A. and Joshi Vijay, 2011; Panwar, S., 2011**). Under the financial services sector in India, the banking sector specifically has seen a lot of mergers and acquisitions right from the early years (**Lakshminaryanan ,P.,2005**). (**Shashidhar, Mishra, 2006**), pointed out that the current economic and banking environment was entirely different from what it was four decades ago (**Goyal K.A. and Joshi Vijay,2011**), when the merger movement was at its peak. It was then the move for consolidating the base, when the weaker banks were on the verge of extinction (**Sathye, Milind, 2003**). The present trend is where the younger generation banks are very enthusiastic to takeover smaller banks, to grow bigger instantaneously (**Akhil Bhan, P.,2009 ;Kar, R. N. and Soni, A.,2008**). Historically, mergers and acquisitions activity started way back in 1920 when the Imperial Bank of India was born when three presidency banks (Bank of Bengal, Bank of Bombay and Bank of Madras) were reorganized to form a single banking entity, which was subsequently known as State Bank of India (**Ravichandran, Nor and Said, 2010**). (**K, Mohan, 2006**), lamented that the Indian market was over banked but underserved. As a result, Indian banks clearly lacked global scale (**Deolalkar, G.H., 1999**). The existence of too many banks resulted in the paradox of low profitability for customers. The study also showed

that from the point of view of financial system, consolidation of banks was imperative (**K. Mohan, 2006**). The basic objective of consolidation would be strengthening of banks, economies of scale, global competitiveness, and cheaper financial services and retaining of employees so as to improve management efficiency (**Sharma Manoranjan, 2011**). The study also showed how consolidation would provide banks with new entry barriers; ensure immediate entry into new markets and lower operating costs through consolidation of resources (**Duvvuri Subbarao, 2013; Swain B.K., 2005**). The study said that, mergers and acquisitions in the domestic banking sector would be driven by market-related parameters such as size and scale, geographic and distribution synergies and skill and capacity (**Mehta Jay and Kakani Ram Kumar, 2006**). The view about the relative small size of the Indian banks was supported by (**Vidyakala, k., Madhuvanthi, S., 2009**) who opined that the focal point of interest is about the size of the banking firm. He felt that larger the size of the bank, higher would be its competitiveness and better its prospects of survival (**Kumar, S., and Bansal, Lalit. K., 2008**). This implied that the Indian banks were not in a position to compete for business internationally-in terms of funds mobilization, credit disbursal, investments and rendering financial services, due to their relatively small size (**Franz. H. Khan, 2007**). Similar problem was foreseen in the study by (**Prasuna D G, 2013**), who studied the Narsimhan Committee Reports from 1991 to 1998 and concluded that the emerging scenario pointed towards SBI and its Associates forming a single entity in the next couple of years (**Kaur, P. and Kaur, G., 2010**). The study also opined that nationalized banks would consolidate into not more than four to five banks in the medium term and the private sector banks would consolidate into not more than five banks in the next few years (**Prajapati,S.,2010**). (**Economy Watch, 2011**), emphasized that if achieving size to compete on a global scale, even in the domestic market was the objective, Indian banks would need an immediate series of mega –mergers (**Gangadhar,V. and Naresh Reddy,G., 2007; Meena Sharma,2005**). The study concluded that higher levels of capital backing are vital, which only mergers could achieve. Unless Indian banks merge they would lose their market share and increase their risk of mismatch between assets and liabilities, (**Ping-wen Lin, 2002**). A study by (**Ram Mohan T.T. , 2005**), observed that the Indian banking sector showed trends of consolidation and convergence, which were similar to trends in the global banking arena (**Rupa Rege Nitsure, Chief Economist, Bank of Baroda,2008**). The study pointed out that for such

trend to become apparent, it would become important for the Indian banking regulators to provide and promote an enabling framework for mergers and acquisition (**Agarwal S., 2002; Bhayani, S., 2006; Beena, 2000 ; Beena, 2004; Beena,2008; Chakrabarti, R., 2008; Bhattacharya, A., Lovell, C.A.K., and Sahay, P.,1997**) in the banking space (**Agarwal, R. N, 2003; Aggarwal A.K., 2006; Mantravadi , P. and Reddy,A., 2008**). The study also concluded that Indian regulators should encourage voluntary mergers rather than forced ones (**Sharma, P.,2012**). This view was supported by (**Leeladhar, 2008**), whose study observed that there has been considerable progress in consolidation in India in the private sector banks and mergers in India has happened not only with the weak and healthy banks , but also , of late between healthy and well-functioning banks as well (**Das, Abhiman and Ghosh,S., 2006**). The RBI has been supportive of the initiatives (**Acharya, Shankar, 2002**) of consolidation and there has been no case so far where the approval of merger of banks has been denied by RBI (**Duvvuri Subbarao, 2013**). Though the consolidation in the public sector banking segment, which accounts for 75 per cent of the assets of the Indian banking system, is still a work in progress, there are enabling legal provision for the purpose in the respective statutes of the public sector banks (**Leeladhar.V., 2005**). The RBI, as the regulator and a supervisor of the banking system, would continue to play a supportive role in the task of banking consolidation based on commercial considerations (**Srinivasan, R. Chattopadhyay, G. and Sharma, R., 2008**), with a view to further strengthen the Indian financial sector and support growth while securing the stability of the system (**Lakshminarayan,2005**). The financial regulatory authorities, especially RBI, emphasized on growth of the Indian banks to reach global scale and thereby formulated financial policies and banking regulations to encourage and promote growth objective (**Aggarwal A.K. ,2006 ; Panwar, S.,2011**).

Banks can achieve growth both internally and externally. Internal growth may be achieved if a bank expands its operation and processes or up scales its capacities by establishing new units or by entering new markets or geographies (**Das, A., 1997; Mallikarjunappa, T. and Nayak, P., 2007**). But internal growth may be faced by several challenges such as limited size of the

existing market or regulatory restrictions. Again banks may lack the expert knowledge to enter in to new geographies or new product or deal with new customers in different geographies (**Yadav and Kumar, 2005**). All this may take a longer period to establish own branch and yield positive return. In such cases, external mechanism of growth namely mergers and acquisitions, takeovers, joint ventures or strategic alliance may be utilized (**Meena Sharma,2005; Mallikarjunappa, T. and Nayak,P. ,2007; Rehana Kouser and Irum Saba , 2011**).

Horizontal merger is another possible avenue of inorganic growth (**Panwar, 2011**) has also been a popular option of expansion amongst many banks in the financial services sector (**R. Srivassan et al., 2009**). It basically means a merger occurring between firms producing similar goods or offering similar services. (**Egl Duksait and Rima Tamosiunien, 2009**),described the most common motives to adopt mergers and acquisition strategy. The reason being growth, synergy, access to intangible assets, diversification, horizontal and vertical integration and so on arises from the primary company's motive to grow (**S. Nirmala and Aruna,G., 2013; Weston, Mitchell and Mulherin ,2004**). Most of the mergers and acquisitions deals were undertaken to gain competitive advantage within their respective industries (**Mantravadi, P. and Vidyadhar Reddy, A., 2008**). However, the study also argued that some of the motives identified affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of mergers and acquisitions in certain sectors rather than others (**Aggarwal,S.,2003; Beena,2000**).

2.3 Studies to analyze the impact of mergers and acquisition in the global context:

The topic of mergers and acquisitions is contemporary from the view point of strategy and finance. It is considered as a significant strategy for quick growth and increased market share (**Bruner, 2004; Egl Duksait and Rima Tamosiunien, 2009; Sharma. P, 2012**) and has been extensively researched across the globe over the past few decades (**Bhagaban Das and Alok Kumar Pramanik., 2007**) especially in USA and UK markets (**Cartwright, 2005; Barr, Richard S. et al. , 2002**). The imperative question whether mergers and acquisitions have

achieved the desired objective and synergy set in the deal? Has been an interesting question that has held the attention of researchers the world over (**Grant Thornton, International Business Report 2008**). Studies conducted in USA and UK markets to evaluate whether mergers and acquisition achieve the synergies set in them, reveal that there are three approaches to the study (**Kukalis S., 2007; Kumar Raj, 2009**): i) Event based studies, which investigates the change in the value of the company at the time of the announcement ii) Accounting based approach, which looks at the change over time, usually 3 years to 5 years, in some accounting relationships like operating cash flows, earnings or assets. iii) Clinical method, which is a case based approach. These three methods have their strengths and limitations. It is advantageous to use event study as it uses an important measure of value creation as stock prices are believed to reflect the expected future cash flows (**Banker, Rajiv D., Natarajan, Ram, 2004 ; Cybo-Ottone and Murgia, 2000; Lace well, Stephen Kent; 2001; Ma, J., Pagán, J. A., and Chu, Y. (n.d.),2009; Rasidah , Fauzias, Low, and Aisyah, 2008**). However, the method suffers from the disadvantage that may consequence from inefficient and weak markets, where share prices may not adequately reflect the value of the company (**Ravichandran K., Khalid Abdullah & Residah Mohd-Said, 2009**). Further, the share prices may also react to other macro-economic factors like taxes, foreign exchange rates, interest rates and several other macro-economic variables. (**Healey, P. M., Palepu, K. G. and Rubeck, R. S., 1992**) studied the post-acquisition accounting data for the 50 largest US mergers between 1979 and mid-1984 and found that the announcement returns based on stock price changes of the merging firms are significantly associated with post-merger operating performance, which shows that the anticipated gains in the merger drive the share price on announcement.(**Ma, J., Pagán, J. A., et. al, 2009**), examined abnormal returns to shareholders of bidder firms about the day of merger and acquisition announcement for ten emerging Asian markets: China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand. Using a sample of 1,477 deals in the ten emerging Asian markets, the study found that the stock markets have predictable positive cumulative abnormal returns in three different event windows. The results confirmed that information that is revealed during the deal is significant to shareholders gain and that

shareholder of target firm gain financial benefits during the merger and acquisition deal. **(Ravenscraft, D. and Scherer, F.M., 1987)**, studied 471 acquisitions between the years 1950 and 1977. Their major finding is that profitability is 1 to 2 percent less for acquirers than for target firms. Similar study in the European banking industry by **(McKinnon, Ronald, 1991)**, that illustrated the impact of merger on the wealth of the shareholders in Europe concluded that there are significant abnormal returns to shareholders and these returns differ from bank to bank. The study also concluded that since these returns are significant, it suggest that there is capacity for exploiting economies of scale and scope within the European banking industry. **(Cybo-Ottone and Murgia, 2000; Mantravadi, P and Reddy, A., 2007)**. Studies using event study methodology also addressed the impact of merger announcement on the shareholders wealth. **(Godlewski, C., 2003)**, observed the market reaction to mergers and acquisitions in the Italian banking sector using event study methodology, on the Italian market during the period 1994-2003. This study was conducted on the underline that merger deals had a significant impact on the wealth of the shareholders in Europe, especially in Italy. The empirical research showed that the announcement returns provided significant evidence about the acquisition's consequent success. Similar study by **(Kaplan and Weisbach, 1992)**, employed market-based variables to study gains from synergy that impacted capitalization of the merged firm. The study showed that the combined acquisition announcement returns are significantly positively related to success of the deal.

The research studies using event study methodology to analyze the impact of mergers and acquisition on shareholders wealth of both the acquirer and target bank conclude positive average abnormal returns to the target bank shareholders and mixed evidence with respect to returns to the acquirer bank. **(Cybo-Ottone and Murgia's, 2000)**, investigated 54 mergers and acquisitions deals covering thirteen European banking markets of the European Union and the Swiss market for the period 1988 to 1997 find positive and significant increase in the shareholder value of acquirer bank and target banks at the time of the deal's announcement. A large number of studies find negative average abnormal returns to acquirer bank as well as to target bank shareholders. **(Houston, James and Ryngaert, 2001)**, investigated sixty four large bank

acquisitions announced during the period 1985-1996, found negative and significant cumulative abnormal return to acquirer bank in a 4-day run-up window to the day of announcement. The abnormal returns to the target banks were much higher than acquirer bank.

Few studies find no significant impact on the shareholders wealth. **(Loderer and Martin, 1992)** investigated 304 mergers and 155 acquisitions that took place from 1965-1986. The findings revealed negative but statistically insignificant abnormal return over the five subsequent years for mergers and positive but an insignificant abnormal return for acquisitions over the same period. Similar studies by **(Baradwaj, Fraser and Furtado, 1990; Hannan and Wolkan, 1989; Trifts and Scanlon, 1987)** report a positive reaction in the stock prices of target banks and a negative reaction in the stock prices of bidding banks to merger announcements. This was also established by **(Bashir, A., et al, 2011)**, that investigated the performance of forty five mergers and acquisitions that took place during 2004 to 2010 in various sectors of Pakistan. The study indicated that overall during eleven day window period neither target nor acquirer firms created or destroyed value for shareholders. Studies also found that the cumulative abnormal return to the target bank is significant whilst that of the acquirer is short-lived from the announcement date and tends to become zero at the end of the event window. **(Mehroz Nida Dilshad, 2012)** measured the reaction of the market with respect to announcements of mergers and acquisitions in Europe using an event study methodology. The study analyzed the effects of banks mergers and their announcements on the prices of stocks, in European mergers. The study found that during the study window period the shareholders of the acquiring firm gained abnormal returns for a short period, even shorter than the study window and by the end of the event window the cumulative abnormal returns were zero. At the same time, the results of cumulative abnormal returns showed that target banks, earned abnormal returns on the merger announcement day. **(Lazaridis John, et.al, 1999)**, elucidated the relationship between bank reputation after merger and acquisitions and its effects on shareholder's wealth. This study measured 285 European bank mergers and acquisition transaction announced between 1997 and 2002 and found that on an average wealth of the shareholders were not significantly affected by merger and acquisitions

Some researchers have investigated cross-border mergers and acquisitions and, again, such studies concluded mixed but predominantly negative results. Study by **(Black, Carnes and Jandik, 2001)** concluded significant negative returns to US bidders during the next three to five years following cross-border mergers. **(Gugler, Mueller, Yurtoglu and Zulehner, 2003)** also concluded that in cross-border acquisitions there is a significant decline in the market value of the acquiring firm over a five-year post-acquisition period. As against this, study by **(Conn, Cosh, Guest and Hughes, 2001)**, do not find evidence of post-acquisition negative returns for cross-border acquisitions.

The two important aspects examined by several academic studies relating to bank mergers are: first, an analysis of the impact of mergers on market value of equity of both bidder and target banks and second the impact of mergers on operating and financial performance and efficiency of banks. **(Berger et.al, 1999)**, has done extensive research covering both the aspects. This aspect covers an analysis of post-merger accounting profits, operating expenses, and efficiency ratios relative to the pre-merger performance of the banks **(Jagdish R. Raiyani , 2010)**. Any merger deal is assumed to improve performance in terms of profitability by reducing costs or by increasing revenues. Studies by **(Berger and Humphery, 1994; Berger, A.N, 1993; Kumar Raj, 2009)** concluded that most studies that examined pre-merger and post-merger financial ratios did not find a significant impact on operating expenses and profitability ratios. **(Pilloff and Santomero, 1997)**, reported through empirical studies that most research studies fail to find a positive relationship between merger and improvement in operating and financial performance or shareholders wealth; whereas studies by **(Cornett and Tehranian, 1992; Ghosh, 2001; Pawaskar, 2001)**, provided evidence of increase in post-merger operating performance. The reason for difference in results of the study is the sample of data taken for the study, time span lag between completion of merger process and realization of benefits of mergers and the methods adopted in financing the mergers.

The aspect that deals, with impact of mergers and acquisitions, on the financial performance and efficiency of the firm includes those research studies that address the post-acquisition gains using

accounting based approach. Accounting studies use financial measures like Return on Equity, Return on Assets, Earnings per share, calculated from audited financial statements (**Kumar. B and Rajbir. P, 2007; Ramakrishnan, 2008; Vanitha and Selvan, 2007**). These are compared for a time series before and after the merger and also compared with peer group for the period in order to ascertain whether acquirers outperformed non acquirers. Studies using accounting based approach to evaluate the financial performance of the acquirer and target also have contrary results. Using the accounting based approach to study the impact of merger on the financial and operating performance of banks, (**Rehana Kouser and Irum Saba, 2011**), explored the effects of merger on profitability of banks in Pakistan by using six different financial ratio, profitability ratios, return on net worth ratios, invested capital, and debt to equity ratios. The study selected ten commercial banks that had undergone mergers and acquisition during the period from 1999 to 2010 that were listed at the Karachi Stock Exchange. The results showed that there was a decline in all the ratios post-merger. The study concluded that post-merger the operating as well as financial performance of all bank's included in the sample had declined. (**Revenscraft and Scherer, 1986**), studied mergers and acquisitions made by over 450 US companies during 1960-1970 and concluded that mergers and acquisitions did not lead to an increase in market share and profitability but rather declined the performance for most companies. The study also observed that these mergers did slightly worse than their industry peers at the time of acquisition deal, and the results seemed to be very alarming during the post-acquisition period of ten years as the performance declined to be even more poor. Looking at the rising number of mergers in Japan, similar studies examining the impact of mergers on Japanese firms, was conducted by (**Odagiri and Hase, 1989**), results of the study were similar to (**Revenscraft and Scherer, 1989**), just as firms in US, the Japanese firms too showed no evidence of significant improvement in growth or profitability. A slight different view emerged from the study by (**Kukalis, 2007**), who concluded using the accounting based approach to evaluate the performance of the merged entity, that the acquirer's pre-merger financial performance to some extent outperformed its post-merger financial performance during the initial three years post-merger and thereafter the post-merger performance outperformed the pre-merger performance after the event period window of three

years. Similar conclusions were also drawn from the study by **(Geoffrey Meeks, 1977)**, who explored 233 merger and acquisition deals that took place in UK between 1964 and 1970, using the ratio analysis approach of accounting based study. The study concluded that, immediately subsequent to the merger deal there was a sharp decline in the acquirer banks return on assets, with performance touching the lowest point in the subsequent five years. The study also found that almost two-thirds of acquirer's bank performance was below the industry standards during the initial three to five years in the post-acquisition period. **(Berger and Humphrey ,1992)** analyzed return on assets (ROA) and total costs to assets for mergers occurring during 1980s involving banks with a minimum asset size of \$1billion and concluded that there was no significant gains in ROA and cost to assets to the merging banks. However contrary results were elucidated in the study by **(Kumar and Rajib, 2007)**, that estimated the impact of the merger on the wealth of the shareholders using accounting measures like book value of asset and sales model and concluded that financial performance of both the merging firm improves post merger. This was also confirmed by a study by **(Vanitha and Selvam, 2007)**, who also critically evaluated that the financial performance of the merged entity improves post merger and acquisition. **(Cornett, McNutt and Tehranian, 2006)**, investigated the long term operating performance of commercial banks as a result of mergers. The study found that industry-adjusted operating performance of merged banks increased significantly after the merger, this significant increase was more prominent in large banks rather than small bank mergers. The study also observed that focused mergers produced greater performance gains than diversifying mergers and that geographically focusing mergers produced greater performance gains than geographically diversifying mergers. Further, the study also elucidated an improved performance in both revenue enhancements and cost reduction centers.

(Srinivasan and Wall, 1992), examined all commercial mergers that occurred during the period 1982 to 1986 using the accounting approach. The study revealed that mergers led to revenue increase for those mergers that also showed a reduction in their expenses. The study also concluded that there was no significant decline in non-interest expenses in the post-merger period.

Some studies used both the event based approach as well as the accounting based approach to study the impact of mergers and acquisition on the operating and financial performance of banks. In this context, the work done by **(Rhoades Stephen, A., 1994)** is remarkable. He used both the methods to study the impact of mergers and acquisitions on the merging banks. According to him, problems related with the event study approach with regards to the effects of bank mergers appear to be substantially more difficult than those inherent in the accounting study approach. It is therefore justified in attributing greater weight to the findings of the accounting based studies which indicate on a consistent basis, that bank mergers do not generally result in gains in efficiency or operating performance. His findings of the accounting based study for a sample of 19 bank mergers were generally consistent. Almost all of these studies found no improvement in efficiency or profitability following bank mergers. He also conducted an event study taking a sample of 21 banks. His study showed that the shareholders wealth of the merging banks did not show significant improvement because of efficiency gains or other factors. Similar studies using both the methods was taken up by **(Panayiotis Liargovas and Spyridon Repousis, 2011)**, that studied the Greek banking sector and examined the impact of mergers and acquisitions during the period 1996-2009, on the performance of the Greek banking sector using the event study methodology. The results of the study illustrated that bank mergers and acquisitions in Greece have no impact and do not create wealth. The study also examined operating performance of the Greek banking sector using the accounting based approach by studying twenty financial ratios. The study concluded that operating performance did not improve, following mergers and acquisitions **(P.M, Healy, , K. Palepu, and R. Ruback,1992)**.

Based on the accounting based approach, **(Fare et al.,1992)** developed a Data Envelopment Analysis-based Malmquist productivity index which measures the productivity change over time. This index tracks the changes in average bank productivity post-merger. **(George E Halkos and Dimitrios, 2004)**, applied this non-parametric analytic technique (Data Envelopment Analysis, DEA) in measuring the performance of the Greek banking sector. He proved that data envelopment analysis can be used as either a substitute or complement to ratio analysis for the

evaluation of an organization's post-merger performance. Several studies that examines the post-merger performance of banks have applied this index to measure the post-merger performance (**Adrian Gourlay, Geetha Ravi Shankar, Tom Weyman Jones, 2006; Banker, Rajiv D., Natarajan, Ram., 2004; Grabowski, R, et.al, 1995; Natarajan,P, and Kalaichelvan,K. , 2011; Saha, Asish, Ravisankar, T.S., 2000; Van Rooij, M.C.J., 1997).**

(Xiao Weiguo and Li Ming, 2008), made a comparative study using DEA (Data Envelopment Analysis) to illustrate the efficiency of commercial banks in America and China. The sample banks under study included top five American banks and four Chinese banks. The study found that mergers and acquisition in the Chinese banking sector had a significant impact on the banking efficiency of Chinese banks than that of American banks. **(Ping-wen Lin, 2002)**, used both event study as well as DEA to illustrate the efficiency of commercial banks. The findings of the study reveal that there is a negative correlation between cost inefficiency index and bank mergers, which demonstrate that banks engaging in mergers tend to improve cost efficiency. However the findings using DEA showed contrary results. The data envelopment analysis found that there was no significant improvement in the cost efficiency of banks.

Apart from analyzing the impact of mergers and acquisition on the operating and financial performance of the banks, there are studies illustrating the impact of mergers on acquisition on banks efficiency, market power and scale and scope of economies. **(Berger et al, 1999)**, in the study highlighted that the impact of mergers and acquisitions resulted in changes in efficiency, market power, scale and scope economies and availability of services to small customers.**(Sufian, 2004)**, examined the impact of the merger on domestically incorporated ten Malaysian commercial banks. The study observed that the mergers amongst these banks led to significant inefficiency which was largely due to inefficiency in economies of scale, which clearly showed that post-merger these banks were operating at among these banks was attributable to scale suggesting that these banks were operating at unfavorable levels. **(Sathye Milind,2001)**, computed the efficiency scores of Australian banks using DEA. The findings revealed that the overall efficiency of banks in Australia was low as against banks in European

Union and United States. This low competence was due to low technical efficiency. The study aided the Australian banks in strategy planning by evidently illustrating the basis of inefficiency. Contrary results were found in the study by **(Sufian et. al, 2009)**, that studied the impact of acquisitions during the period 1997-2003 on the technical efficiency of the Malaysian banking sector. The study found improvements in technical efficiency during the post-merger period and concluded that the merger of the Malaysian domestic commercial banks was forced due to economic reasons.

(Porter, 1987), attempted to study this relationship in a somewhat different way. He took rate of divestment of new acquisitions by companies within a few years as an indicator of success or failure. He found that about 75 percent of all disparate acquisition in the sample was divested after few years. It was also alarming to note that 60 percent of those acquisitions were divested in entirely new industry.

Clinical studies are studies that take up the case study approach and investigate a specific merger deal completely with reference to the objectives set in the deal, the goals outlined in the deal, motives of the deal and the financial, strategic and operational synergies that the deal holds. **(Egl Duksait and Rima Tamosiunien, 2009)**, examined some significant motives for firms including banks to engage in mergers and acquisitions deals. The study concluded that the primary motive in any merger deal is growth. This growth objective gives rise to several objectives like synergy, access to intangible assets, diversification, competitive advantage, horizontal and vertical integration. All the above mentioned motives enable the banks to gain competitive advantage amongst their peers. **(Shobhana V. K. and N. Deepa, 2011)**, inquired into the fulfillment of motives as envisaged in the merger deals of nine select merged banks for a period of five pre and post-merger years each. The result indicated that there has been only partial fulfillment of the motives as envisaged in the merger deals. **(Müslümov Alövsat, 2002)**, examined the motives in a merger and identified synergy as one of the crucial motive in any merger. The study

deliberated on 56 mergers that took place in USA and concluded that merger improved the cash flows of the acquirer and achieved the desired synergies set in the deal.

In the global context, research literature that analyzes the impact of merger on the operating and financial performance of banks during the pre-merger and post-merger period have mixed results and therefore does not provide a clear indication on merger benefits in the banking industry. This is largely attributable to the fact that these studies have been conducted in different markets and during varied periods. Studies by **(Robert DeYoung,1997)** found negative results, **(Andre, P., M. Kooli and J. L'Her , 2004)** of Harvard Business School found improvements in accounting performance post-merger, **(Bhayani, S., 2006)** and **(A. Bashir et al,2011)**, found mixed results. In other words, unlike announcement results, there is no clear-cut support that acquisitions lead to accounting based or productivity based improvements.

2.4 Studies to analyze the impact of mergers and acquisition in the Indian context:

Under the financial services sector in India, the banking sector specifically **(Pinto, Prakash and Balakrishna C.H., 2006)**, has seen a lot of mergers and acquisitions **(Bhide, M.G., Prasad, A. and Ghosh, S.,2001)** right from the early years **(Chaudhuri, 2002)**. Historically, mergers and acquisitions activity started way back in 1920 when the Imperial Bank of India was born when three presidency banks (Bank of Bengal, Bank of Bombay and Bank of Madras) were reorganized to form a single banking entity, which was subsequently known as State Bank of India **(Joshi and Little, 1997; Kumbhakar and Sarkar, 2003; Rao and Rao, 1988)**. However during the pre-liberalized era, there were far reaching severe regulatory policies **(Acharya, Shankar, 2002; Ahluwalia, Montek S. , 2002)**, like the Industrial licensing policy, MRTP Act,1969, Industries development and Regulation Act and FERA Act-1973, that deterred the business expansion decision of Indian companies including banks **(Arun and Turner, 2002; Mc. Kinnon, Ronald, 1991)**. Mergers and acquisitions were therefore initiated only by regulatory authorities **(Agarwal, Manish, 2002; Joshi and Little, 1997; Rao, P.V.S. Jagan Mohan, 2001)**. The pre-liberalization period although witnessed many mergers just that these mergers were directed by RBI **(Chaudhuri, 2002)**. These were generally the mergers, where in

a weak bank was taken over by a strong bank on the directions of RBI (**Franz, H. Khan 2007; Mehta and Samantha, 1997**). However in the present era, the competitive market dynamics are driving the present day mergers. (**Beena, 2000**) studied the trends of mergers in India over a longer period spanning 1973-1995, which included both the pre liberalization as well as the post liberalization era. The study elucidated that although most mergers were among manufacturing industry, mergers in service and banking industry did show a steady rise.

The initiation of the banking sector reforms in 1991(**Chatterjee, G.,1997**), which was in line with the economic reforms of 1991 (**Bhattacharyya, A., Lovell, C., and Sahay, P., 1997; Kamesam, Vepa ,2002**), set the tone for expansion in the banking sector (**Bhide, M. G.,Prasad, A.,Ghosh, Saibal, 2001; Deolalkar, G.H.,1999;**). In the post reform period, after 1991 period, several researchers have attempted to study mergers and acquisitions in India. Some of the prominent studies are; (**Beena P.L, 1998, 2000, 2004, 2008; Das,A., 1997; Kumar Raj, 2009; Pawaskar.V, 2001; Sharma, P., 2012; Mantravadi,P and Reddy, A., 2008**).

(**Beena ,2004**) emphasized that the current environment in India is favorable for mergers and acquisitions and therefore the study finds evidences of a rising trend in the number of mergers in India since the introduction of economic reforms.(**Aggarwal R.N., 2003**) finally concluded that the financial sector reforms have aided the banking industry to enhance their profitability and productivity. Since the banking sector is critical for sound economic growth, it is essential to improve the range and quality of the banking system further to stimulate the efficiency into the performance of the several other sectors too (**Mohan,K.,2006**) . Mergers and acquisitions have assumed a significant role in facing global competition (**Shobhana V.K. and N. Deepa, 2011**). This strategy has aided banks to acquire competitive market power and competitive advantage (**Duksait, E., & Tamošiūnien, R.,2009**) both domestic and international by reducing costs significantly and augmenting its brand image (**Agarwal, Manish,2002**).

Over the past two decades the banking sector has undergone a major transformation and is now at par with the global banking sector (**Madgavkar, Anu, Puri, Leo and Sengupta, Joydeep, 2001**).

There has been a momentous revolution in the Indian banking system (**D. Subharao, 2012**). This revolution has addressed several aspects of technology, modernization in product and service mix and customer reach. With advancement in technology and sophistication the expectations of banking consumers have also increased (**Humphrey, Willeson, Bergendahl ,and Lindblom,2006**). With an increase in competition that has become intense with the arrival of foreign banks on the Indian banking platform, customers have several choices of banks available (**Schneider, B. and Bowen, D.E., 1985**). Hence survival of banks is becoming a major challenge in the arena of global competition (**Khan Azeem Ahmad, 2011**).

Although there is enough research literature on mergers and acquisitions, most of the studies have been done for the efficient markets of the developed world especially US and UK (**Cartwright, 2005; Kalra Neha, Gupta Shaveta and Bagga Rajesh,2013**). In India, very limited research has been done on this topic (**Appelbaum et al., 2007, Kumar,2009**). In India academic studies address three important aspects relating to mergers and acquisition in the Indian banking sector (**Ram Mohan, Roy, T.T. and Subash, C., 2004**). First, what are the motives for mergers and Acquisitions? (**Agarwal, Manish, 2002; Akhil Bhan,P.,2009; Jay Mehta and Ram Kumar Kakani,2006**), the second aspect being whether mergers in the Indian banking improve operating and financial performance and efficiency of banks?(**Mallick Inderajit ,2008; Ramaswamy K.P., and Waegelein, J.F. ,2003; Shashidhar, Mishra.,2006**) , however this question seems to be a little complicated especially because in India, guided by the RBI notifications (**Aggarwal, R.N.,1996**) and financial authorities, most of the acquisitions are based upon the need of restructuring of weak banks (**Das, A.,1997;Pramod, M, and Vidyadhar, A.R,2007**), and therefore in developing countries , including India, the weak banks were being merged with healthy banks in order to avoid financial distress (**Chong, Beng-Soon, Ming-Hua Liu and Kok-Huai Tan.,2006; Franz, H. Khan, 2007**) and to protect the interests of customers and depositors (**Kumar Rajesh, Suhas ,2010; Rajesh M. ,Raman Reddy N.R.V.2011; Sharma Manoranjan, 2011**). These are known as forced mergers (**Chatterjee, G., 1997**). In forced mergers the primary reason was to restructure and financially bail out the weak banks and not to increase operating performance, financial performance or efficiency (**Mukherjee, A., Nath , P and Pal , M.N.,2002**).

Forced mergers were more looked at as a strategy to restructure public sector banks. (**Kuriakose Sony and Gireesh Kumar G. S., 2010**), examined relevant financial variables of acquirer and target banks to assess the strategic and financial connect between the merging banks (**Bhide ,Prasad and Ghosh,2001**) .The study concluded that voluntary mergers are considered as a desirable route for growth only by private sector banks in India and hence private sector banks are in favor of the voluntary merger (**Tiwari Amdhesh Kr,2011**). The study also evidently brought out the fact that Indian public sector banks are reluctant toward the voluntary merger type of restructuring.(**Kaur. P and Kaur. G, 2010**),strongly advocated voluntary mergers and towards this, examined the impact of mergers on cost efficiency of Indian commercial bank merged during the period 1990-1991 to 2007-2008, using Data Envelopment Analysis Technique. The study concluded that in India the merger deals have been successful, at least in the Indian banking sector. The study also commented that the Indian policy makers should not advocate bail out mergers that is merger between strong and distressed banks (**Rai Rohan,2011; Sharma Manoranjan,2011**) as a way to promote the interest of the depositors of financially weak banks, as it could have unfavorable effect on the profitability and asset quality of the acquirer banks(**Jayadev and Sensarma, 2007**).

(**Lakshminarayan,P. 2005**) explained that the phenomenon of mergers and acquisition among Indian banks is not restricted to post liberalization era of banking system (**Chatterjee, G., 1997**). The study illustrated that between 1960-2004, there have been seventy one mergers among banks in India. Of these fifty five mergers occurred during 1960-1990. The study also found that in the pre reform period government instituted many mergers with the basic underline to restructure weak banks (**Kamesam, Vepa, 2002**). Market driven mergers initiated for business and commercial reasons were on a gradual rise and are a result of the post-reform period (**Kuriakose Sony, Raju M.S. Senam and Narasimham N V.,2009**), which was influenced by the changes in the competitive landscape of the Indian banking system (**Anand Rajan, Kumar Anil, Kumar Gautam and Padhi Asutosh,1998**). This competition forced many of the incumbent banks to

restructure themselves through acquisitions and mergers (**Mallick Inderajit, 2013**) so as to enhance their efficiency in an attempt to improve long term profitability (**ASSOCHAM Report, 2012; Ramakrishnan, K., 2008**).

The third issue emerging from the academic literature is the analysis of abnormal returns of bidder and target banks upon merger announcement (**Padmavathy, S., and Ashok, J., 2012**), by examining the stock price movement data called event study approach (**Anand, M., and Singh, J., 2008; Gorlay, Ravishankar and Weyman-Jones, Tom, 2005; Pandey, 2001**). In the case of forced mergers since target banks are given an inducement to accept an acquisition they are expected to earn abnormal returns during the announcement, regardless that the reason of the acquisition was a forced one (**Mehroz Nida Dilshad, 2012; Padmavathy, S., and Ashok, J., 2012**). Hence the target bank shareholders benefit with abnormal gains in a forced merger. However in voluntary mergers where the motive for merger (**Jay Mehta and Ram Kumar Kakani, 2006**) are synergies, economies of size and scale (**Shobhana V. K. and N. Deepa, 2011**), increased market power (**Akhil Bhan, 2010**), merger announcements are expected to yield abnormal returns to the shareholders of both acquirer bank as well as the target bank (**Anand, M., and Singh, J., 2008; P. Natarajan and K. Kalaichelvan, 2011**).

Whilst getting into voluntary mergers and acquisition in the Indian banking sector (**Kuriakose Sony, Raju M.S. Senam and Narasimham N V., 2009**), management think of various synergies which could be both financial and operating in different aspects (**Chakrabarti, R., 2008; Kumar and Bansal, 2008; Kumar, R., 2009**). But are they essentially able to generate any such potential synergy inbuilt in the merger deal or not, is the important subject (**Jay Mehta and Ram Kumar Kakani, 2006**). In spite of this mergers and acquisition has been gaining momentum and is being considered as an inevitable strategy to gain competitive advantage (**Hoang, Thuy Vu Nga Lapumnuaypon, Kamolrat, 2007**). In the area of mergers and acquisitions, studies in India are comparatively few and rather a few of them are clinical based that adopt a case based approach. All these case studies support the view that mergers and acquisitions have become an

important strategy to expand product portfolios (**Anand Rajan, Kumar Anil, Kumar Gautam and Padhi Asutosh, 1998; Mohan S. Madhu and Suganthi L,2001**), enter new markets, acquire new technology, gain access to research and development, and gain access to resources which would enable the company to compete on a global scale (**Yadav, A. K. and B.R. Kumar,2005**).Even though Indian banks have diverse reasons to enter into voluntary acquisitions and mergers the key focus is to create shareholder's value (**Prakash and Balakrishna, 2006; Sudarsanam, 2005**). This view was supported by (**Pawan Sharma, 2012**) whose study stated that merger is the primary strategy for growth and expansion in the present corporate world. (**Sharma Meena, 2005**) opines that the Indian banking industry is likely to see many more mergers as the competition intensifies. These mergers are more likely between the private banks and foreign banks (**ASSOCHAM Report, 2012; Beena P.L., 2000; Paul, 2002**). As the public sector banks are still sheltered (**Bhide, M.G., Prasad, A. and Ghosh, S.,2001**) by their large branch network which provides a protection cover against competition to the public sector banks (**Prasad, A. and Ghosh, S., 2007; Reddy, Y.V., 2006**). The present banking sector competition has opened up severe challenges to the private and foreign banks (**Mohan, Rakesh ,2006; Ram Mohan T.T and Ray , S., 2004**), which are left with no option but to merger with other banks so as to achieve market power and economies of scale (**Murthy B. S., 2005**).(**Aggarwal,2003**) also emphasized the need for Indian banks to merge. The study concluded that looking at the global trends of consolidation (**K.Mohan, 2006**); it is need of the hour to restructure the banking sector in India through the strategy of mergers and acquisitions (**Ghosh and Das, 2003**). The study commented that if acquisition in the banking sector has to be accelerated then all obstacle must be immediately resolved (**ASSOCHAM Report, 2012; Srinivasan, R. Chattopadhyay, G. and Sharma, R., 2008**). This strategy make them more automated and technology oriented so as to provide improvised and more competitive services (**Sureshchandar, G.S., Rajendran, C. and Anantharaman, R.N, 2002**) to the customers. (**Swain B.K. ,2005**) emphasized the importance of consolidation (**Reserve Bank of India,2010; Working Group Report, Indian Bank Association (IBA),2004**) also found that the issue of bank consolidation (**B.K.Bhoi,2000**) assumes significance from the view point of making Indian banking robust and sound (**Lakshminarayan,2005**), apart from its growth and development to

become sustainable (**Yadav and Kumar,2005**). The study strongly recommended mergers in the Indian banking and propagated that in Indian banking the process of merger should be started immediately (**Panwar.S, 2011**). Sooner the process starts, greater the benefits to the economy as a whole. (**Kumar Rajan, Chairperson, NABARAD, 2004**) emphasized the need for consolidation in the financial service industry with special reference to the banking industry and concluded that the process of consolidation is a time consuming process and hence would need the support of the regulators to speed up the process so that the economy can benefit . (**Lakshminarayan P., 2003**) also highlighted the importance of consolidation in Indian banking. According to the study it was high time that the Indian banks thought in terms of expanding globally by proper restructuring exercise at the earliest.

(**Goyal K.A. and Joshi Vijay,2011**) presented an overview of the Indian banking industry with special focus on the transformation that occurred in the banking industry due to the economic reforms in terms of financial, human resources and legal aspects. This study examined seventeen banking mergers during the post-liberalization period. The study analyze with special reference to ICICI banks penetration in rural India through acquisition route, the need and benefits of mergers and acquisition in Indian banking and described this strategy as a significant tool for increasing the banks business. (**Mehta Jay and Kakani RamKumar,2006**) stated that Indian mergers and acquisitions in the post liberalized period (**Shanmugam, K.R., Das, A,2004**) continued to hold the attention of researchers, as there was a momentous rise in merger deals in the Indian banking industry after liberalization of banking reforms (**Bhattacharyya, A., Lovell, C., and Sahay, P.,1997; Chatterjee, G.,1997**). The study found that there were multiple reasons for merger and acquisition deals to take place in the Indian banking sector. The study concluded that the Indian banking industry is fragmented which is beneficial to the customers because of competition in banks (**Das, A.K., Misra, A.K., 2005**), however this fragmented industry cannot match up to the global banking industry due to its individual banks size and scale of operations, which implied that merger and acquisition is an imperative (**Kumar Rajesh and Suhas,2010**) for the state to create few large banks (**Prajapati,2010; Shirai, Sayuri,2002**).

Whilst inquiring into the reason as to why banks merger, (**Akhil Bhan, 2009**) provided an insight into the motives and benefits of the mergers in Indian banking sector (**Sharma Manoranjan, 2011**). The study analyzed select merger deals in the Indian banking sector during the period 1999-2006, which was the post reform period. There were eight bank merger deals during the period of study. The study concluded on the basis of Economic Value Added (EVA) analysis, that the Economic Value Added post-merger for the banks under study outperformed the pre-merger EVA values for the merged banks. However, there have been instances where mergers and acquisitions deals failed to create value and just added to the banks profile and prestige (**Malatesta, P. H., 1983; Roll, R.,1986**). A similar study by (**Khan Azeem Ahmad, 2011**) that investigated the motives in the Indian banking merger deals concluded that the banks have been positively affected by the event of merger and acquisitions. These results suggest that merged banks can obtain efficiency and gains through merger and acquisitions and passes these gains to the stakeholders (**Ghosh, A. 2001; Gorlay, Ravishankar and Weyman-Jones, Tom, 2005; Prabhudesai, 2008**).

Studies in India have taken up an analysis of evaluating the pre-merger and post-merger financial performance of banks in India. These studies have adopted both accounting based approach (**K.V.S.N Jawahar Babu, 2012; Lakhtaria Nilesh J,2013; Ramchandram and Siva Shanmugam, 2012; Salija R, Sharma S., Lal R, 2012**) as well as the event study approach (**Cheng and Shavin, 2008; Sinha Neena, Kaushik K.P. and Chaudhary Timcy, 2010**). The event study measured the abnormal returns to the shareholders during the period of announcement of mergers (**Mor Surender, Kiran, Sudesh, 2012; Padmavathy, S., and Ashok, J., 2012**). Studies that have adopted the event study basis to study the pre-merger and post-merger performance in the context of Indian banks have mixed results. In this context the study by (**Anand, M., and Singh, J., 2008**) is remarkable. The study examined the impact of merger announcements of five banks in Indian banking sector on the shareholder's wealth. These mergers were the merger of Times Bank and HDFC Bank, Bank of Madurai and ICICI Bank, ICICI Ltd. and ICICI Bank, Global Trust Bank and Oriental Bank of Commerce and Bank of

Punjab with Centurion bank. The results showed that announcement of merger of banks had positive and significant effect on the shareholder's wealth and results were at par with results of European bank mergers and United State bank mergers and acquisitions. Few studies that used event study basis for analysis had contrary results. Studies by **(Vanitha,S and Selvam,M, 2007)**, analyzed the implications of mergers and acquisitions on stock price movement in the banking industry with special reference to private and public sector banks had contrary results. The study concluded that most of the bank mergers were for commercial reasons **(Ravichandran K., Khalid Abdullah and Residah Mohd-said, 2009)** like branch expansion, which led to decline in profitability due to increasing competition. This decline in profitability has had an adverse effect on the share prices which are market sensitive. Thus merger announcements had negative influence on the share prices **(LeRoy D. Brooks, et.al., 2000)**. **(Pautler, 2001)** analyzed on the basis of event study that mergers and acquisitions are significantly beneficial to the shareholders of the target firm and not much beneficial to the shareholders of the acquiring firm. Studies have also been taken up to examine the impact of mergers and acquisitions in cross border acquisitions on the acquiring firm's stock price using event study approach. **(Cheng, Z. P. and Shavin, M, 2008)**, analyzed the impact of 114 cross border acquisitions of firms in the United States on the Indian acquiring firms stock prices during the period from 1999 to 2005 using event study method to test for abnormal returns around announcement dates. The study concluded that the acquisitions of U.S firms by the Indian firms have positive impact on the Indian firm value in the initial days and become negative in next few days in the announcement period **(Jayadev and Sensarma, 2007)**.

Studies that looked at the accounting based approach to evaluate the pre-merger and post-merger performance, to conclude the results, undertook the ratio analysis approach **(K. Srinvas, 2010; Neena Sinha et al, 2010; Surjit Kaur, 2002; Tambi, 2005)** or the Data Envelopment Analysis (DEA) approach **(Charles, 2011; Das,A., 1997; Meenakshi Rajeev and H.P Mahesh, 2009; Saha and Ravishankar, 2000)**. **(Vidya Sekhri, 2011)**, examined the efficiency by comparing seventeen private, twenty public and twenty five foreign banks. The accounting based Data

Envelopment Analysis was used for analysis. The results showed that private sector banks and foreign banks showed lower performance index (**Bhattacharya et.al, 1997; Saha and Ravishankar, 2000**). In order to raise the efficiency of private and foreign banks in India over that of the public sector banks, these banks will have to enhance its technology and operation efficiency (**Gupta et. al, 2008; Sathye, 2003**). Studies by (**Sinha Ram, 2011**) had similar results. The study examined twenty eight public sector banks and twelve private sector banks for their temporal difference using DEA, during the 2001-2002 to 2005-2006. The two output indicators for DEA used were total asset and off balance sheet. The results showed that mean efficiency scores of private sector commercial banks showed a declining trend in the analysis period (**Meenakshi Rajeev and H.P Mahesh, 2009**). (**Galagedera and Edirisuriya, 2005**) observed the efficiency and productivity for a sample of Indian commercial banks over the period 1995-2002 by using the technique of DEA. The results reveal that there has been no significant growth in productivity during the study period. When analyzed separately, the public sector banks reveal a modest growth in productivity that appears to have been brought about by technological change. The private sector banks indicate no growth. Contrary results were found by (**Mohamad Akbar Noor Nor Hayati Bt Ahamad, 2012**) who studied the technical efficiency of the bank during the period 1992-2009, using DEA to know about the profitability factor of the bank and found that there is a positive relationship between technical efficiency and bank profitability. (**Dutta and Dawn, 2012**), examined the performance of merged banks in terms of its growth of total assets, returns, revenue, deposits, and number of employees. The study compared the performance of merged banks for a period of four years of pre-merger and four years of post-merger. The results of the study indicated that the post-merger periods were successful and saw a significant increase in total assets, returns, revenue, deposits, and in the number of employees of the acquiring banks in the Indian banking sector. However, one of the major limitations of using the Data Envelopment Analysis (DEA) is that the focus is on one aspect of performance measurement which is 'efficiency'. Few studies conducted in India to evaluate the pre-merger and post-merger financial performance of the firm undertook the ratio analysis method of Accounting based Approach (**Sinha Pankaj and Gupta Sushant, 2011; Mantravadi, P and Reddy, A., 2007, 2008; Ravichandran, Nor and Said, 2010**). Using the

ratio analysis approach (**Mantravadi, P and Reddy, A., 2007**), observed the impact of merger on the operating and financial performance of acquiring firms in different industries during the period 1991 to 2003. The study examined the pre-merger and post-merger financial ratios to illustrate the impact. The study found that there was no significant variation in the performance of the firms in the post-merger period (**Kumar.S. and Bansal, L.K., 2008**), illustrated the claims made by the Indian firms including Indian banks about synergy generation in mergers and acquisitions (**Kumar Rajesh, Suhas, 2010**). These claims were whether synergies in merger are being achieved or not (**Mallikarjunappa, T. and Nayak, P., 2007**). The study evaluated the financial performance of the deal in the long run and compared the findings of the merger deals with acquisition deals. The study adopted the ratio analysis and correlation tools for analysis. The study concluded that synergy is achieved by the acquirer in the long run (**Rajesh M., Reddy Raman, N.R.V.,2011**). These synergies were reflected in cost reduction, increased cash flows and larger market share (**Sinha Pankaj and Gupta Sushant,2011**). However the study also commented that management cannot take it for granted that synergy can be generated and profits can be increased simply by going for mergers and acquisitions (**Müslümov Alövsat, 2002**). Similar results were seen by (**Ghosh, 2001**) who found that mergers and acquisitions showed significant positive effect in operating performance (**Das, A., 1997**). The study by (**Vanitha,S and Selvam,M., 2007**) found that financial performance of the acquired firms improves than the target firms in the post-merger period. (**Natarajan, P. and Kalaichelvan, K., 2011**) studied the financial statements and share price movement data of eight select public and private sector banks, during the period between 1995 and 2004, in order to analyze mergers and acquisitions as a business strategy to enhance business performance, gain competitive advantage and increase shareholders wealth (**Anand, M., and Singh, J., 2008**). The study concluded that mergers and acquisition is an apt strategy (**Shashidhar, Mishra, 2006**) to enhance the wealth of shareholders (**Ghosh, A., 2001**) and increase the market share (**Srinivasan, R. Chattopadhyay, G. and Sharma, R., 2008**). The study finally commented that the Indian banking environment was marked with frequent mergers and acquisitions which contributed positively to shareholders wealth (**Bhattacharyya Surajit and Chatri Ankit,2012**).

(**Jagdish R. Raiyani , 2010**) analyzed that the process of globalization and liberalization has strongly influenced the Indian banking sector (**Bhattacharya, A., Lovell, C.A.K., and Sahay, P. 1997; Sen, Kunal and R. Vaidya, 1997; Shanmugam, K.R., Das, A., 2004**). The study found that the public sector merged banks are dominating the private sector merged banks in Non-Performing Assets and Capital Adequacy but in case of profitability and liquidity, the results are contrary. The study concluded using the CAMEL Methodology (**Devarajappa S., 2012; Redddy K Sriharsha 2012**) that the private sector merged banks performed well, as compared to the public sector merged banks. Similar results by (**K. Srinvas, 2010**), that studied the pre-merger and post-merger financial performance of public sector and private sector Indian Commercial banks using the accounting based approach. The banks in the study were Bank of Baroda, Punjab National Bank, Oriental Bank of Commerce, HDFC Bank, ICICI Bank and Centurions Bank of Punjab. The study concluded that found that private sector merged banks outperformed the public sector merged banks. (**Sinha Neena et al, 2010**) in the study depicted the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions (**Kumbhakar, S.C. and Sarkar, S., 2005**) in India during the period 2000 to 2008. This analysis was conducted in two phases. In the first phase the ratio analysis tool was applied to calculate the change in the position of the companies in the post-merger period. Secondly, the study examined changes in the efficiency of the companies during the pre-merger and post-merger periods. The results revealed that whilst there were no significant changes in liquidity position of company, the results for earnings to shareholders seemed to show a significant change (**Akhil Antony K., 2011**). The study concluded mergers and acquisitions in India, in the long run have shown a significant correlation between financial performance and the mergers and acquisition deals to acquirers (**Pawaskar, V., 2001; Sinha, Kaushik and Chaudhary, 2010**). (**Mital Menapara et al and Pithadia Vijay, 2011**) studied the profitability and liquidity position and Return on Investment of select Indian companies to analyze the impact of mergers and acquisitions on financial performance of Indian corporate. The study concluded that if firms are merged or acquired and the acquirer has sound management skills, the target firms will definitely turnaround in the post-merger period. Such deals are beneficial to both the merging entities (**Galagedera, D.U.A. and Edirisuriya, P., 2005**).

However contrary results were also found in several studies which illustrated that 70% of all mergers and acquisitions failed to create value to the firm (**Harvard Business Review, 2011**). Similar study (**Kaur Surjit, 2002**) analyzed the impact of mergers in India. The study adopted the accounting based ratio analysis approach by evaluating twenty merger deals. The study concluded that Return on Capital Employed, EBITDA/Sales, and Asset turnover had shown a sharp decline in the post-merger period, though the decline was not statistically significant. Similar results were illustrated in (**Tambi, 2005**) that endeavored to evaluate the impact of mergers on the performance of the merged entity. The study was based on the theoretical assumption that mergers improve the financial and operating performance (**Arora, S and Kaur, S., 2008**), of the merged entity due to increased market power and synergy impacts (**Kumar.S. and Bansal, L.K., 2008**). The study tested three parameters – Profits after taxes, Return on Capital Employed and Profits before Interest, Depreciation and Taxes. These three parameters were evaluated for any change in their pre and post-merger values by comparison of means. The study had results contrary to the theoretical assumptions and concluded that mergers have failed to improve the performance (**Mohan and Suganthi, 2001**) of the merged entity in the post-merger period. (**Joshi Nisarg, A. and Desai Jay, M., 2012**) measured the operating performance and shareholder value of acquiring companies so as to compare their performance before and after the merger. The study examined Gross Operating Margin, Operating Profit Margin, Return on Capital Employed, Net Profit Margin, Return on Net Worth, Debt-Equity Ratio, Earnings per Share and Price Earnings Ratio for measuring the impact. The study had similar conclusions as few of previous research (**Agrawal Anup and Jaffe Jeffrey F., 1999; Mantravadi, P and Reddy, A., 2008; Saple V., 2000;**) that mergers do not improve performance at least in the immediate short term (**Ravichandran, Nor and Said, 2010; Sinha Ram, 2011**).

(**Kumar Raj ,2009**) concluded on the basis of accounting based approach that on an average, the post-merger and acquisition profitability and solvency of the acquirer shows negative results when compared with the pre-merger and acquisition values. The study pointed out that the

fundamental reason was overvaluation of the target firm. The study concluded that acquirer must very diligently calculate the appropriate valuation exercise and pay the right price to the target firm, so that its own valuations are not diluted in the long run post-merger period. **(Beena P.L., 2004)** analyzed one hundred and fifteen domestic and foreign Indian private corporate sector mergers over the period 1995-2000 and used accounting ratios to assess pre and post-merger performance. The study found that both domestic and foreign owned acquiring firms exhibited diminishing rates of returns. **(Bhaskar A Udayetal., 2009)** emphasized that the Indian banking sector's experience of merger activities in India was characterized by the problem of banks losing out on old customers and unable to pull new customers **(Kumar, L., Malathy, D. and Ganesh, L. S., 2010)**. It cited lack of proper integration roadmap as a prime reason for this issue **(Mohan, S.M. and Suganthi, L., 2001)**. The study looked at Bank of Punjab's acquisition of Lord Krishna Bank and Centurion Bank of Punjab's acquisition of HDFC Bank, where in both the deals the acquiring bank concentrated on economies of scale, gaining competencies, communication and human resource integration. In both the deals the integration process was handled by professional and joint integration committee. The study concluded that if the acquiring bank focuses on integration planning, communication, HR integration **(Yadav, A.K. and Kumar, B. R., 2005)** and management action. The post-merger results for the merging entity would be positive **(Mamdani, M. and Noah, D., 2004)**. Thus the study concentrated on integration planning and commented that proactive communication, human resource integration and management involvement in the merger deal **(Dutta and Dawn, 2012)** would smoothen the journey towards successful integration **(Mallikarjunappa, T. and Nayak,P., 2007)**.

Few research studies that evaluated the post-merger financial performance found mixed results such that the pre-merger and post-merger financial performance was statistically insignificant. This was confirmed by **(Kumar Raj, 2009)**, who observed that the changes in the operating performance of the merged entity during the pre-merger and post-merger period as reflected in their profitability; asset efficiency and solvency position were statistically insignificant. **(Mantravadi, P and Reddy, A., 2007)** analyzed Indian companies for the period 1991 to 2003, to study the impact of mergers on their operating performance. The findings of study show that

there is no significant variation in the operating performance of the companies in India during the pre-merger and post-merger period. **(Pawaskar V., 2001)**, analyzed the pre-merger and post-merger financial performance during the period 1992-1995, using accounting based approach and regression analysis, by analyzing five significant ratio's on growth, returns, leverage and liquidity and found that the acquiring firms performed better than industry standards in terms of returns and profitability. The results of regression analysis had contrary results and showed that there was no increase in the post-merger profits compared to the acquirer's peers. A similar study taken up by **(Ravichandran, Nor and Said, 2010)**, tried to evaluate the pre-merger and post-merger efficiency and performance for chosen public and private banks for voluntary mergers that were initiated for business and commercial reasons. The results of the study were achieved using a factor analysis. Parameter that were evaluated were Current Ratio, Profit Margin, Ratio of Advances to Total Assets, Cost to Total Assets and Interest Cover and thereafter a regression was run to identify the relationship between these factors and return on shareholders' funds. The study found that returns to shareholders funds were negatively correlated to cost efficiency and interest cover but were positively related to ratio of advance to total assets. **(Akhil Antony, K., 2011)**, examined the impact of the eighteen bank merger in the India banking industry from 1999 to 2011. The study samples were six acquirer banks selected, three of them were public sector banks and three were private sector banks. The study had mixed conclusions that there is a significant impact of mergers and acquisitions on some of the profitability ratios of the merging firms and no significant impact on few other profitability ratios.. This significant difference is seen in the total assets ratio, return on assets ratio, net profit ratio, and return on equity ratio in the post-merger period.

Clinical studies are basically case studies that look into a precise merger deal **(Paul, J., 2003)** and observe them with references to the goals of the deal **(Saraswathi,2007)** and whether they were achieved from a strategic, financial and organizational perspective. From the above literature study, it can be inferred that amongst the two well accepted approaches to evaluate the financial performance in the pre-merger and post-merger period, it can be seen that event studies**(Anand, M., and Singh, J.,2008; Khan,A. and Ikram,S., 2012; Padmavathy, S., and**

Ashok, J.,2012; Sinha Neena, Kaushik K.P. and Chaudhary Timcy,2010) have shown mixed findings with prejudice towards gains to target bank, whereas most of the accounting based studies have shown that in the post-merger period, the acquirer bank has not gained significantly **(Mantravadi,P. and Reddy, A.,2008; V. Pawaskar, 2001; Rajkumar, 2009; Ravichandran, Nor and Said, 2010)**. The findings of clinical studies cannot be universally applied to all deals. Besides event based study largely depend upon stock price movements that are prejudiced with investors sentiments and hence, we conclude that accounting study approach **(Suresh Kumar,2013; Lakhtaria Nilesh J, 2013; Ramchandram and Siva Shanmugam,2012;Salija R, Sharma S and Lal R,2012;Sinha Neena et.al., 2010;Srinvas, K.,2010;Surjit Kaur, 2002; Tambi,2005;)**using ratio analysis based CAMEL model **(Chaudhary,Sahila and Singh, Sultan, 2012; Chowdhury Subroto,2011;Maheshwara Reddy D. and Prasad K.V.N,2011; Manoj P.K,2010; Said and Saucier ,2003; Sharma Gaurav,2009)** is superior and give better results**(Barker and Holdsworth,1993; Bodla and Verma, 2006;Cole and Gunther,1998; Derviz et al., 2004;DeYoung, et al., 1998; Eccher et al., 1996;Elliot et al.,1991; Gilbert et al., 2000; Gilbert R., Meyer A., and Vaughan M.,2003; Godlewski, 2003; Gupta and Kaur, 2008; Hirtle and Lopez ,1999;Kaur, 2010; Lacewell, 2001; Lane et al.,1986; Looney et al.,1989; Prasad K.V.N.G. Ravinder and D. Maheshwari Reddy, 2011; Singh, D., and Kohli, G.,2006; Sangmi Mohi-id-din & Nazir Tabassum, 2010).**

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