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वित्तविना शूद्र खचले, इतके अनर्थ एका अविद्येने केले

-महात्मा ज्योतीराव फुले

❖ विद्यावार्ता या आंतरविद्याशाखीय बहुभाषिक त्रैमासिकात व्यक्त झालेल्या मतांशी मालक, प्रकाशक, मुद्रक, संपादक सहमत असतीलच असे नाही. न्यायक्षेत्र:बीड

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Banking Mergers in India: A systematic review study to unravel complexities

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Abstract

The society of competitive pressure is like a bush where beasts devour weaker groups, and thus one must be proficient enough to come out on top the feud. All through the decades, the Indian economy has undergone radical transformation. It is regarded for the tenacity it has, where it faced constant variations over the years, global bouts of depression, and present government reforms. The Indian banking sector possesses its own worldwide recognition. In India, with the long list of public banks, mergers are an ideal strategy. It will aid the banking sector to enhance its effectiveness and client-customer relations through branch networking, lesser deposits and affiliates.The recent mergers in the banking sector sparked this review article on bank mergers. The purpose of the research paper is to delve into motivators of banking institutions for mergersalongwith a focus on the Indian banking industry. Extensive research on bank mergers (post-liberalization) is being conducted for this purpose. In addition to the financial aspects, this article raises some questions for scholars and researchers regarding Human Resources. This article paves the way for future research on mergers and acquisitions from a different point of view.

Introduction

Mergers and acquisitions have become a popular trend in the India where a large number of public, private and other banks are involved. The primary motivation for the same is to receive the advantage of economies of scale. Mergers have played a crucial role in the evolution of industrial sector in India since the Second World War. The external environment conditions during the Second World War give rise to efficacious mergers and acquisitions. It can be a strongsource of expansion for the economy especially in one that is stagnant & fraught with uncertainty.It can primarily be used to widen an organisation, improve profitability, and safeguard a company from going bankrupt. These mergers and acquisitions are company-saving techniques. Mergers and acquisitions are the pinnacle of business transformation. There is no other event that is as complex and complicated as a merger and acquisition. It has become a routine part of life, and mostly strategists are accustomed to it and became the means of survival in the competitive environment. A merger necessitates exceptional organizational survey and abilities. Employee-related issues are exacerbated many times over by the interruption, strain, anxiety, and compromise caused by merging two corporations. According to studies, most mergers in the history have evidenced to be a net achievement for the weaker one, though nocementatious specifications are there to confirm it. Henceforth, based on the history, mergers are proved to be beneficial for India. With the announcement of the mega merger in 2019, 10 public banks were consolidated into four.

Overview of Indian Banking Industry

Indian banking history reveals that the seedlings of bank facilities and services in In-

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dia were planted in the 80's, with setting up of the General Bank of India (1786) and the Bank of Hindustan (1790). Subsequently, many more banks were established under the British East India Company, including the Bank of Bengal, Bombay, and Madras. In 1921, they merged to form the Imperial Bank of India which later became the State Bank of India (SBI). Other banks such as Bank of India, Bank of Baroda, Canara Bank, Corporation Bank, Indian Bank, and Central Bank of India were formed between 1906 and 1911 which are still surviving.Pre-liberalization and Post-liberalization are the two era's that Indian Banking Industry witnessed. The Government nationalized 14 large commercial banks in 1969, during pre-liberalization. In 1980, six more commercial banks were nationalized in a second round. The stated purpose of nationalization was to give the federal government better control over consumer lending. The government later merged New Bank of India with Punjab National Bank in 1993, whichlowered the number of nationalized banks to 19.Along with India's economy expanding quickly, the government bank, private bank, and foreign banks made significant contributions to that growth. The effects of globalization on Indian banking have resulted in numerous structural and regulatory changes. This industry has used a wide range of strategies to remain effective and dominate the global scene in response to the changing environment. Merger and acquisition is one such consolidation-related strategy.

Due to their increased exposure to domestic and international competition alongwith recent reforms, Indian banks have begun to restructure themselves around the primary business through merger.

Literature Review

According to Lahoti (2016), mergers are crucial strategic decisions that help any company grow externally and give it a competitive advantage. In today's global scenario, mergers are used more frequently to boosting competitiveness by increasing market share of a company, diversifying its portfolio for eliminating risk, market and product expansions, taking advantage of economies of scale, etc.

Jayadev and Sensarma (2007) focused on managers and shareholders when analyzing some crucial issues surrounding banking consolidation in India. According to the study, neither of the two parties in merger gets benefitted from forced mergers.

Researcher Rhoades (1998) compiled in his study nine case studies from 9 authors on the efficiency effects of bank merger. The mergers appeared to have a competent option of improving the efficiency. In other words, they typically involved fairly sizable banks with significant market overlap, and the majority of them took place in the early 90s, when efficiency in banking firms was attaining a lot of momentum. In line with the projections, all the mergers produced sizable cost reductions. Five out of the nine mergers failed to increase cost efficiency, compared to four that did. According to Humphrey et.al (2006) studies, consolidation happens primarily because of innovationsin the area of finance and technology which changed the banking firms' functions.In order for banking and other financial institutions to fully benefit from the evolved processes and advancements, financial deregulation was required at large. According to Sergio et. al. (2008), between 1995 and 2001, the banking institutions underwent a lot of mergers as a result of deregulation and technical advancement. They used multinomial analysis to draw conclusions about the traits of financial institutions in continental Europe and found that the main consideration in mergers is the size of the firm. In their study, DeYoung (2009) reviewed that the de-regulation changes had made it possible for banking and financial companies to develop through mergers into new horizons.In their article, Calipha et al (2010) analyzed the motivations behind mergers as well as success factors, including break-

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ing into new markets, acquiring scarce resources, synergies, and other managerial and organizational aspects of it such as the relative size, managerial involvement, culture, and organizational structure of the partnering firm among others.

In their 2004 article, George & Hegde presented a case of employee attitudes, satisfaction, and motivators which are elementary for achieving customer satisfaction, which is often essential for the long term sustainability of the organisation. Researchers Schneider (1980) studied some real-world situations and discussed the presumptions that underlie the application of perception-based diagnoses.The findings showed some significant correlations between employee perceptions of practices and procedures at branch and customer perceptions of services offered at branch. Schneider&Bowen (1985) discovered a strong correlation between customers' attitudes toward service and employee perception of human resources practices in the bank branch. In his article, Mylonakis (2006) examined how employees view bank mergers and anticipate its due impact on their work life balance. The findings demonstrated that employee view mergers as legitimate and essential entrepreneurial activities supporting improved, high-quality banking services as a personal threat.The type of the merger also affects employee perception, as discovered in a study of 109 people and employees are less satisfied in the collaborative merger than in the extension merger, according to Wickramasinghe (2009) in a survey of two banks of Sri Lanka. Further research revealed that age, followed by gender and then marital status are the factors that have the greatest influence on respondents' perception.

It can be observed fromthe literature that the major work done on mergers is based on accounting and financial elements.Devos (2008) investigated merger as a value creation strategy and efficiency gains as an explanation for synergies. The study evidently suggests that mergers leads to gains by improving allocation of resources and boosting the combined market share. Kemal (2011) compared the profitability of two banks post-merger using ratio analysis. DeLong (2003) revealed various facets of focus using 54 mergers of the banks that were announced from 1991-95. The study revealed that after the merger of partners with focused activities, geography, and revenue streams is announced, the market rewards it. Focusing on earning streams is the one that improves performance of the firm in long run. In the study on bank mergers in Malaysia, Nair (2004) noted that variables like globalization, privatization, liberalization, and technology innovations have contributed for more competitive, resilient, and robust financial system. Limited attempts have been tested and trialled to enquire on how bank mergershas affected staff and employees. In addition to this, some efforts have been made to research how customers are affected by mergers. It frequently has an opposite collision on behavior of the employee, leading to reduced productivity, increased absenteeism, low morale and un-satisfaction at workplace. It appears that top management's capacity to win over staff members is a critical element influencing the success of acquisitions.Panwar (2011) examined recent merger trends in banking institutions from India, from the point of view of two parties: stock-holders & managers. The conclusion demonstrates that mergers in banks are restricted to harmonization and weak party restructuring. There are very few voluntary mergers that show market dynamics. She came to the conclusion that the financial system of India needs giant banks to takeover risks associated with continuing operations in both local & international markets.

Methodology

The research is descriptive in nature. It is based on data from various secondary sources. For this study, various articles and research pa-

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pers on the relevant topics were comprehensively analyzed and studied.

Rationale behind Banking Mergers

Calipha, Tarba& Brock (2011) identified the following elements as the main contributors for mergers decisions-

1. **Market Leadership** - By giving the combined entity access to more market resources, it can maximize shareholders'wealth for the two. A business can afford to control prices more effectively as its market share grows, which boosts profitability.

2. **Diversified growth**- A merger can be used to grow quickly (size, share, product wise) rather than going through the time- and resource-intensive procedure of internal development or diversification. Through a merger, the company could quickly accomplish the same goal. Additionally, it is cost friendly than the other options of building the capacity and capabilities.

3. **Synergistic Effect:** This is a situation where a merged entity is more impactful than the total of its component parts. It alludes to advantages besides those brought about by economies of scale. One kind of synergy benefit is operating economies.

4. Recent studies have shown that merger and acquisition activity in the banking industry, if permitted in a closed controlled environment, would significantly lower the risk of bankruptcy for the new entity.

5. **Economies of Scale**- Through mergers, the banking firms are able to significantly expand their operations while significantly cutting costs.This type of merger also has the important benefit of reducing competition in the banking sector because it eradicates competitors from the market.

6. **Economies of Scale**- The option to expand both product and market ways along with cross-selling, would enhance income and profits which may lead to more geographic expansion.

7. **Strategic Integration**- The new entity can operate in the cost-effective manner by taking into account the complementary nature of the businesses of both the companies, in terms of their individual strengths, geographies, and clients. The merger also allows for the optimum usage of manufacturing setup, infrastructure assets, including utility services and other on-site amenities.

Mega Bank Mergers

An anchor bank and a merging bank or banks are involved in a merger, where the latter merges with the former.

1. After the State Bank of India, Punjab National Bank after acquiringOriental Bank of Commerce and United Bank of India, will become India's 2nd largest lender (in business terms).

2. Canara Bank will absorb Syndicate Bank,

3. Andhra Bank and Corporation Bank combined with Union Bank of India, and

4. Allahabad Bank joined Indian Bank.

5. Bank of Baroda merged with Vijaya Bank and Dena Bank.

With this, there are only be 12 public sector banks in India.

List of Merged and Independent Public Banks

Six Merged Banks

Six Independent Banks

1. SBI (State Bank of India),

Indian Overseas Bank,

2. Bank of Baroda

UCO Bank

3. Canara Bank

Bank of Maharashtra

4. Union Bank of India

Punjab and Sind Bank

5. Indian Bank

Bank of India

6. Punjab National Bank (PNB)

Central Bank of India

Benefits of Merger for Banks

• Lower operating costs: By lowering deposit rates, a merger with a larger bank will aid in boosting banks' margins. A bigger organisation

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can better manage its liquidity positions. Less overnight borrowing is required from the call money market, RBI, and other facilities.

• Extending the geographic reach: By merging major public sector banks, the geographic reach of financial services can be extended. The geographically dispersed regionally existing banks will be able to broaden their clientele by effectively utilizing their combined expertise as a result of the merger.

• Improved risk management and a decrease in non-performing assets (NPAs): The financial strain on the government to refinance public banks can be reduced subsequently with a larger capitalization and solvency position. Large banks would be able to offer large loans on their own without joining a consortium because they would have a broader capital base.

• Access to sizeable existing customers: A bank merger enables it to quickly scale up and instantly attract a sizable number of new clients. The number of branches and ATMs available to customers will increase. Another benefit for customers is a significant decrease in fees for using ATMs at other banks.

• Remove technology gaps: Mergers will assist the banking institutions in closing product or technological gaps. A larger bank's acquisition of a smaller bank may enable it to significantly upgrade its technological infrastructure.

• RBI will have better control over the system and the way that policies are implemented. Monitoring and controlling fewer banks will be simpler because RBI finds it convenient to regulate just a few of them.

• Minimize inefficiency on a larger scale: With widespread expertise in every aspect of banking operations, inefficiency on a larger scale, which is more prevalent in small banks, will be reduced. If the banks were to be combined into fewer, healthier institutions, the system might be better off.

• Integrated banking sector growth: As the merged banks grow in size, they will be able to offer more services and products. Smaller banks have consistently failed to maintain capital adequacy. Small banks that merge into larger ones with the ability to appraise initiatives and corporate entities can grow with less risk.

• Improved human resource management: Human capital in banks will be managed effectively, with better workforce integration, a centralized transfer system, pay scale uniformity, and employment policy uniformity, among other things. Consolidation will boost capital efficiency while also improving banks' ability to recover rising bad loans.

• Greater international recognition of Indian banking: Indian banks will be rated more highly and receive greater international recognition. An internationally acclaimed competitive bank having economies of scale can be developed as a result of the consolidation, which will also make it possible to realize numerous synergies.

• Infrastructure consolidation: By eliminating ineffective competition and reducing paperwork and delegation, a centralized management system will eliminate transaction time wastage. This has a compounding effect, allowing the system to operate as smoothly as possible with few obstacles to day-to-day operation.

Prominent Issues In Merger

Growth is a continuous process that reflects distinct problems relating to the business. In order to grow, mergers are necessary, but they have an impact on everyone involved, including the shareholders, employees, and customers. There are studies that show important connections between business constituents and mergers. The research community needs to pay more attention to the following emerging issues in order to successfully execute mergers, according to our study.

1. Employees' Perception
2. Managing Cultural Differences
3. Managing Manpower Requirements
4. Branch Office Rationalization
5. Technological Integration

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6. Geographical Compatibility

Effect of Bank Merger in India

I. POSITIVE EFFECTS

- The strength of the system in particular is anticipated to increase as a result of the merger due to the size of each business entity.
- Many organizational positions will be eliminated, saving the cost for the new entity.
- New entity will be infused with new energy and ideas. To improve employee comfort and enjoyment at work, better systems may also be implemented.
- Following mergers, the bargaining power of bank employees will increase and be more apparent. Future bank employees may anticipate better pay and working conditions.
- Fewer banks will be available to customers, but those banks will offer them a greater variety of products at lower prices.

II. NEGATIVE EFFECTS

- Because different institutions have different priorities, goals, and business strategies, their merger would cause confusion regarding their primary goal.
- The vulnerabilities of the smaller banks might be carried over to the larger banks, which would reduce their effectiveness.
- Organizational cultures will clash as a result of mergers. There will also be conflicts in decision making.
- People working in the larger bank will attempt to dominate those of the smaller bank. Therefore, in the new, combined entity, the employees of smaller bank are ill-treated.
- Customers have no input into choosing the name of the bank that will merge with their current bank.

Suggestions

Following suggestions were made based on the findings of the study.

- The central government should take its time when it comes to the process of merging banks because it calls for a thorough examination of those institutions' financial standing.
- The choice of distressed bank to merge with larger and stronger bank must be made after due diligence and effective grouping of banks is of utmost importance, for the same.
- An acquiring bank is not allowed to try to control or take over the acquired bank. It is important to combine the positive aspects of the two banks before they merge so as to instill belief among the parties and create better outcomes.
- Employees will need to go through sporadic training programmes to become comfortable with the technology, processes involved, and ideologies of the new surroundings.
- The management must have a strong strategy in place for this and set aside a sizeable budgetary allocation for it.
- For the mergers to produce the desired results, there must be deliberate and organized efforts to combine the various organizational cultures.

Conclusion

In terms of combining the accounts, infrastructure, management, marketing strategies, etc. of merging banks, it is a grueling and complicated process. To accomplish the merging process, a lot of resilience will be required. Even though this is a good idea for effective governance in light of the aforementioned facts, consolidating banks won't be successful until structural and institutional governance-related issues are addressed. Our study revealed that small and local banks struggle to deal with the effects of the world economy; as a result, they require assistance, which is one of the possible reasons for merger. Private banks often uses merger as a strategical tool to widen their prospects.There aretonne of untapped prospects in rural India that has not been tapped by the dominant banks yet. It improves their customer base, market share, and networks across geographic boundaries. When the information about the merger is made public, any action by the object results in reactions on the other hand. As a result, a number of new issues have been outlined for further study by academics and researchers.

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