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ANALYSIS OF LITERATURE REVIEW –BANKING SECTOR MERGERS

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ABSTRACT

There has been a number of banking sector mergers of Banks across the Globe, and even this phenomena is on going. While the purpose of mergers could vary from time to time but the aim is obvious that is to make it more viable from financial point of view as well as more responsible and incorporating service orientation. The present research is to study random literature reviews and conclude the probable gaps with suggestions there off.

Key Words: Banking Mergers, Service orientation, Probable gaps

INTRODUCTION:

Modern banking has its auspicious beginnings in the early to mid Middle Ages. Primitive banking transactions existed before, but until the economic revival of the thirteenth century they were limited in scope and occurrence.

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

- Early phase from 1786 to 1969 of Indian Banks
- Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- New phase of Indian Banking System with the advent of Indian Financial & Banking

Sector Reforms after 1991.

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Banks as financial intermediaries play a significant role in economic growth, provide funds for investments, and keep the cost of capital low. During the last few decades, structure of banking sector has turned from a controlled system into liberalized one. The efficiency of banks, which reflects the ability of banks in transforming its resources to output by making its best allocation, is essential for the growth of an economy. Commercial banks form the most important part of the Indian financial landscape in terms of their role in channeling credit to the commercial sector and facilitating the process of financial inclusion. With the onset of economic reforms, the commercial banking sector, which has retained its predominantly public character, has undergone a number of changes in terms of size, efficiency of operation and financial soundness. As per the analysis by the World Bank for 2005, prior to the outbreak of the global financial crisis, the operational efficiency and financial soundness of the Indian banking sector compared favourably with its Asian peer group countries as well as developed OECD countries.

Total capital of all scheduled commercial banks by end of March, 2010 Rs.48,648 Cr with total deposits Rs.47,52,46 cr. registering 17 growth in deposits as compared to 2009.Out of the total deposits, Private sector banks alone accounts for Rs. 8,22,801 Cr.

Banks also play an important medium to implement policies of government of India.

Employee effectiveness is defined as the interaction between employee engagement and individual and organizational capability. It can further be defined in terms of the other factors like Employee Capability (ECA), Employee Commitment (ECO), Organization Values (EV), Organization Direction (ED), Leadership (EL) and Organization Systems (ES).

Unlike manufacturing, banking industry has major asset in form of human resources and financial performance of banking is directly proportional to the performance of its employees.

REVIEW OF LITERATURE:

Several studies have been conducted to examine the efficiency of banks. Berger and Humphrey (1997) in their study provide an extensive review of studies on the efficiency of banking sector. They pointed out that, majority of studies focused on the banking markets of well-developed countries with particular emphasis on the US market. Bhattacharyya et al. (1997) used DEA to measure the productive efficiency of 70 Indian commercial banks in the period 1986-1991. They found that the public sector banks are the most efficient banks as compared to foreign banks and private banks. They also found a temporal decline in the performance of public sector banks. Das

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(1997) used the cross-section data and DEA to examine the efficiency of 65 major banks for the year 1995. He found that Indian banks were more technically efficient than allocatively efficient. Mukherjee et al. (2002) examined the technical efficiency of 68 Indian commercial banks for the period 1996-1999 and found that public sector banks are more efficient than both private and foreign banks. Ram Mohan and Ray (2004) also found that public sector banks performed better than private sector banks but not differently from foreign banks. All these studies have compared the efficiency of public, private and foreign banks by using a common frontier and such comparisons are not justified on the ground that public, private and foreign banks are operated under different legal and regulatory frameworks. The pace of bank mergers and acquisitions is increasing all over the world and it has given rise to an extensive economic research. Today, there is quite an abundance literature available on the subject of bank mergers. Berger et.al (1999) provided a comprehensive review of studies evaluating mergers and acquisitions in banking industry. In literature, there has been number of studies conducted on the impact of mergers on the efficiency of banks. The studies that have been conducted to analyze the impact of mergers and acquisitions on bank performance can be classified as ex-ante studies and ex-post studies. Ex-ante studies assess the effect of merger on bank performance by analyzing the stock market reaction to merger announcement. Ex–ante studies are also called the event studies as the announcement of merger is considered as an event in the stock price history of the merging entity. Ex-post studies, on the other hand asses the effect of merger on banks' performance by comparing, pre and post merger performance of banks. This comparison can be made by using either traditional financial ratio analysis or by econometric and frontier analysis. There is voluminous literature on mergers and acquisitions in developed economies like US but there is dearth of literature in developing economies like India and other Asian countries. The literature suggests that there is mixed empirical evidence regarding the impact of mergers and acquisitions on the efficiency and performance of banks.

Mergers and acquisitions are being increasingly employed by firms to protect and fortify their market position. Many organizations see them as a relatively fast and efficient way to further strategic purposes and achieve a global presence. Success in the first area, meeting a strategic objective, depends on mutual synergy- the buyer and seller have to transfer technology and know-how across company lines. This means carefully knitting operations together and keeping talented people loyal and motivated. In spite of Mergers and acquisitions (M&A) being

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extensive, their rate of failure varies between 50% and 80% (Lubatkin, 1983; Marks & Mirvis, 1985; Officer, 2003; Pekar & Allio, 1994). There have been various studies citing reasons for this - paying the wrong price, buying for the wrong reason, selecting the wrong partner, or not integrating technology in time (e.g. Armenakis & Bedeian, 1999; Haleblian &Finkelstein, 1999). However, other researchers insist that the underestimation of the pervasiveness and depth of the problems related to human factors condemns these mergers and acquisitions to failure. The most common and adverse negative consequence of such ventures is employee intention to leave the organization (Cartwright & Cooper, 1989; Fabrizio, 1999; Iverson & Pullman, 2000; Mishra & Spreitzer, 1998; De Meuse & Tornow, 1990). Among the other negative consequences recognized are decreased job satisfaction, organizational commitment, loyalty and productivity and increased number of defective products, mistakes and withdrawal behaviors (Grossman, 1999; Latack, 1986; McHugh, 1997). Consequently, more attention should be given to employees' needs (Bijlsma-Frankema, 2001; De Cock & Rickards, 1996; Seibert, 1995) and wants. This requires companies to manage their employment relationships or psychological contracts with their employees well. Psychological contracts are a sum of mutual expectations between the employee and the employer (Levison et al., 1962). It is defined as „a series of mutual expectations of which the parties to a relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other. Especially in merger scenarios the wants of key employees from the acquired organization (beyond their requirements) take on increased importance. It is therefore imperative for the management of the acquiring organization to determine these wants or expectations. These could include characteristics that are of value to the employee but not of corresponding value to the employer - except in attracting and retaining desired employees (Roehling et al., 2000). In order to be able to fulfill these wants or expectations according to the perception of the acquired employees, the management of the acquiring organization would need to manage them.

Many mergers are driven by the desire to develop new products and to enter into new product markets. In human capital intensive industries, mergers might have a negative effect on employee incentives to innovate new products as well as firm incentives to invest in innovation. On one hand, mergers reduce the external product market competition and increase expected payoffs from employee innovations. On the other hand, by reducing the number of firms in the product market, mergers limit employee ability to go from one firm to another with a negative

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effect on incentives. Moreover, mergers create internal competition between the employees of the post-merger firm, with an additional negative effect on incentives to innovate. When the negative effects of the merger on incentives are sufficiently large, firms are better off competing in the product market and competing for employee human capital rather than merging and eliminating competition. In other words, firms prefer not to merge and bear competition in the product market to maintain stronger employee incentives. Mr. Paolo Fulghieri Merih Sevilir University of North Carolina University of North Carolina observes in his study "Mergers, Spin off and Employee Incentives that firms can improve employee mobility through their location choices and use of no-compete agreements. The paper shows that firms will choose to locate closer to similar firms in order to enhance employee incentives, although doing so exposes them to greater competition in the product market and greater competition for employee human capital.

CONCLUSION

Most of the studies have analyzed mergers from financial point of view whereas financial performance can be ensured only through active involvement of employees. Researcher will analyze the effect of merger in banking industry from employees perspective.

A great deal of research related to effectiveness of merger and acquisition in banking industry has been done both in developing and developed countries of the world. But there is no specific comparative study conducted on employee effectiveness Pre and Post merger. The managerial effectiveness of bank managers depends on so many variables. Personality, situational factors, leadership factors, job satisfaction, morale, attitude towards job and creativity etc. are some of the variables, which have some relationship with managerial effectiveness. Therefore, the investigator feels to undertake the present research to serve this purpose.It has been recognized that society provides suitable situations for the development of its citizens. Bank managers also have a need of favorable situation; skill and motivation perform their responsibilities effectively in their banking institutions. If the situational conditions as well as other factors are adverse, the unsatisfied bank managers will not be capable to perform their responsibilities properly. Unsatisfactory conditions in a banking institute surely will create tensions in the mind of managers. If it happens with bank managers, it is likely to be a great tragedy for the frustrated individual and the society alike.

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Similarly, it is equally to develop the morale of bank managers so they may enable to perform their responsibilities for the benefit of their customers. From time to time, criticism has been leveled against the decreasing tendency of responsibilities of baking professionals and degrading morale. Seen in this light, the present study is likely to have a great significance from both personal and social point of view. The literature available on employee effectiveness reveals that the relationship between employee effectiveness, job satisfaction and morale of employees happens to be the subject, which thought out to be of great importance theoretically but have largely remained unexplored at hands of researchers. Therefore, this type of paucity makes the significance of the present study much more and it is the need of the hour.

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