

# Amalgamations In Banking Industry- A Literature Review

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## ABSTRACT

Mergers and acquisitions is the activity which has gained its importance of late. In banking industry the significance of this M& A has come into force when the banks wanted to expand geographically and economically. In the banking sector the financial synergy is the major concern for the M& A activity along with operational synergy. The focus of the mergers in banking is on the expansion of the size of the firm. In this the stakeholders like customers and employees are given less importance. The present study considers the literature empirically available to know the importance given for the above said stakeholders. The study takes into consideration the literature available in the published sources. The works revealed that the importance given for the customers and employees in the M& A activities in banking sector is very less. This is the thrust area which as to be concentrated in amalgamation activities.

Key Words: Amalgamation, banks, mergers, performance.

## INTRODUCTION

Mergers and acquisitions is the activity which has gained its importance of late. In banking industry the significance of this M& A has come into force when the banks wanted to expand geographically and economically. In the banking sector the financial synergy is the major concern for the M& A activity along with operational synergy. The focus of the mergers in banking is on the expansion of the size of the firm. In this the stakeholders like customers and employees are given less importance. The present study considers the literature empirically available to know the importance given for the above said stakeholders. The study takes into consideration the literature available in the published sources. The works revealed that the importance given for the customers and employees in the M& A activities in banking sector is very less. This is the thrust area which as to be concentrated in amalgamation activities.

## OBJECTIVE OF THE STUDY

To know the importance given to customers and employees in amalgamation of Banks

## RESEARCH METHODOLOGY

The articles and works are collected from the secondary source i.e., Published sources. The number of articles taken for review are 20 published between 2011 and 2017

## LITERATURE REVIEW

Okpanachi Joshua (2011) opines in his conducted on the efficiency of Nigerian banks that the new banks have to be aggressive in their approach after M&A activities. The strategies have to be very aggressive so that the new firms will have more value creation.

J U Ahmed, G P Bhandori (2012), opine that the productivity of the RRBs specially at Meghalaya Rural Bank is affected because of customer's negligent nature as they are not repaying the loans on time.

Kanchan Jatkar (2012) opines that the Indian Banking Industry during the process of M& A and also after completion of the process have to concentrate on the synergy creation for the acquirer firm. The survival of the new firm depends on the synergy creation through the process of M&A.

Tasleema M Jorum, Sujata S Mali (2012) state in the work about impact of amalgamation on physical performance of RRBs during post amalgamation period. The performance of RRBs in India improved during the post amalgamation period, even though number of RRBs reduced, there has been increase in profitability. There has been improvement in deposit mobilization and credit deployment, recovery performance and decrease in NPAs.

Abdul Waheed dauda (2013) suggests in the article that M&A process in Banking Industry especially in Nigeria and in general across the world is undertaken with the intention of synergy creation. This synergy creation not only from top management but also from the part of retention of employees in the new firm and also tightens the rules and regulations in the new extended firm.

N M Makandar (2013) states that the pre and post amalgamation of two Banks KVGB and PGB has been showing a positive reaction at the edge of operating synergy. It is said based on the comparative study on various factors like Deposit per employee, Profit per employee etc.

Dr. Mansur Baig M (2014) suggest that the concentration after amalgamation of the banks should be more towards the employees specially in relation to adjustment and adaptability of existing employees to the new employees to go ahead with the new system.

Dr. Yellaiah, dr. G Sudhakaraiyah, Prof. M Venkateswarulu (2014) describe that the amalgamation in the RRBs have made extensively great progress as there are more deposit mobilization and lending in the rural sectors after the process of amalgamation. The paper says that the above mentioned progress can be measured with the help of the credit deposit ratio.

Aloys Ayoko, Danson Musyoki, Silveria Murungi (2015) opine in their paper that the commercial banks in Nairobi have gone for different M&As during 2001 to 2014. They further state that it is the ROA & ROE which have made to growth in M&As. Further financial analysis has to be done by taking factors of both financial and non-financial performance.

Dr. Abdul gafoor Awan, Usman Bin Mahmood (2015) described that the earlier literature and research work concentrate on the M& A activities of developed countries and less works concentrate on developing and underdeveloped countries in the context of Pakistan. The article mainly focuses on post M&A performance by the commercial banks at Pakistan. The authors suggest that banks can better utilize new IT which favours and make restructuring necessary within an International environment. The study said that managers of the firms should be motivated to take decisions.

Sohini Ghosh, dr. Sraboni Dutta (2015) opine that the study conducted by them revealed that more stress is given only on the financial aspects of the m&A process. Whereas the HR aspects are neglected during the process of M&A in Indian Banking Sector.

Piyush Thakur, Aditya gupta(2015) opine that for the development of the economy priority sector lending is necessary without which the economy cannot survive and it is the responsibility of the regional rural banks to ahead with this lending activities. This work concentrates on the duties of Regional rural Banks.

Jitendar Kumar ram (2015) describes in his paper that the impact of amalgamation of Odisha Gramya Bank has made the development in the physical amenities areas. But when it comes to the matter of lending to priority sector there is no improvement as far as the new amalgamated bank is concerned.

Dr. S Kanthimathinathan (2016) describe that the rural growth of Indian economy lies on the development of rural masses from poverty, unemployment and other socio-economic backwardness. It was envisaged that the establishment of RRBs will help in providing employment to rural youths who possess the requisite orientation to look after the needs of the rural folk.

B Rajesh Kumar, Sourabh Gera, Srijit Saha (2016) said that the M&A process in the Banking Industry is not contributing much to the acquirer bank's wealth creation. To prove this they have used cumulative Abnormal Returns (CAR) for the study and concluded that the wealth erosion for the acquirer banks because of the stock market fluctuations as there is no concentration on performance of acquirer before and after the process of amalgamation.

FICCI Research (2016) says that from a global perspective, the consolidation process among banks has been driven primarily by synergies, efficiency, cost saving, and economies of scale. It is essential to evaluate the proposed merger of banks by assessing the likely benefits such as cost rationalization, additional business etc against the likely future costs that may arise on account of harmonization of various procedures, technology and integrating human resources. It is also essential that banks work to mitigate exposures in areas related to interconnectivity, the market, regulatory compliance, credit quality etc.

Han Bao (2017) opines that the event of merger – demerger at –ABN AMRO Bank as an example has no significant influence on the bank's Net Profit Margin, Total Asset Turnover, ROE and Equity Multiplier.

Bijoy Gupta and Dr. Parimelendu Banerjee (2017) describe in their colloquium that the pre and post merger analysis showed that there is no improvement after the new firm came into existence. They recommend that the growth strategies have to be formulated in order to improve the performance of new company.

Ali Tafti say that the integration of IT services has to be done in tune with the stock market requirements by the acquirer firm and target firm as there should be proper flow of information.

Diana Bonfim, Pedro pita Barros, Moshe Kim, Nuno c Martins Said that m&A activities in the Portuguese banking System have grown to the levels where there is drastic change in the banking System after M&A. Loan lending to various sectors has been increased because of wide areas of operation.

## FINDINGS

1. The works chosen for the study reveals that the amalgamation in the banking sector across globe has the concentration on the enhancement of the business
2. The study found customers and the employees who are the main factors for the development of any bank has been given less importance in amalgamation activity.

## CONCLUSION

Banking sector which is the base for any economy is moving towards drastic developments through amalgamations both in public sector and private sector as well as national banks and Regional Rural Banks. The pillars of the banking activities customers and employees have to be given much importance in this amalgamation of banks as they have to generate the financial income and wealth for the banks.

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