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Emerging Issues in India's Banking Industry Merger

Jomon C.[1]*, Dr. Narender Singh[2]

[1] Research Scholar, Malwanchal University, Indore

[2] Associate Professor, Malwanchal University, Indore

Abstract - You have to be able to out-compete your opponents in order to win in this jungle-like competition. There are indications that major corporations have absorbed smaller rivals. The Bank of Rajasthan Ltd. and ICICI Bank Ltd. merger served as the catalyst for this analysis of banking mergers. With a focus on the Indian Banking Industry, the purpose of this research is to investigate why banks combine and acquire one another. Samples of 17 post-liberalization bank mergers are used for this purpose. The number of branches, geographic reach, and synergies from a merger are all taken into account in this analysis. Researchers and scholars in the fields of Human Resources Management and Organizational Behaviour will find this article particularly interesting. A new perspective on mergers and acquisitions may be found in this paper, which sets the stage for future research.

Keywords - Banking, merger, industry, issue

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INTRODUCTION

In the middle of the 18th century, India's modern banking system was born. Both the Bank of Hindustan and the General Bank of India were two of the earliest banks in India, founded in 1770 and dissolved in 1829–32, respectively.

The State Bank of India (SBI) is India's largest and most illustrious financial organization (SBI). Midway through June 1806 saw the official rebranding of the Bank of Calcutta under its present moniker: The Bank of Bengal. Originally known as the Bengal Bank, it changed its name to the one we know it by today in 1809. In India, the colonial government established three banks, and this was one of them. The other two were the Bank of Bombay and the Bank of Madras. Three banks merged in 1921 to become what is now known as the State Bank of India (SBI), which was renamed after India gained independence in 1955. Prior to the Reserve Bank of India Act, 1934, which established the Reserve Bank of India in 1935, the presidency banks and their successors served as quasi-central banks for many years. [1]

This law was signed into law in 1960 and handed the State Bank of India control of eight state-affiliated banks. However, on April 1st, 2017, these affiliated banks were merged into SBI. A prominent private bank, Bank of India, was one of 14 that the Indian government nationalized in 1969. Six more private banks were taken over by the government in 1980. Borrowers in India, by and large, turn to these state-run organizations for credit. Because of their vast size and extensive networks, they have a stranglehold on the banking industry.

Non-scheduled banks are distinct from scheduled banks in India's banking system. The Reserve Bank of India Act, 1934's 2nd Schedule lists the "scheduled" banks. Aside from scheduled banks, there are other nationalized banks, affiliates of the State Bank of India, regional rural banks, foreign banks, and other private sector banks in India. Since the beginning of April 2017, the State Bank of India (SBI) has consolidated all of its associate banks into a single entity, creating India's largest bank. SBI is now ranked 236th on the Fortune 500 index as a result of this transaction. As governed by the Banking Regulation Act, 1949, all scheduled and non-scheduled commercial banks are referred to as "commercial banks." [2]

Overall, banking in India has matured, but reaching rural India and the poor remains a difficulty. This is true for both supply and product selection. The National Bank for Agriculture and Rural

Development (NABARD) and the State Bank of India are expanding their branch networks to assist relieve this problem.

NEED OF MERGERS AND ACQUISITIONS

Literature shows that financial & accounting aspects, such as bank performance, make for the majority of the work done on mergers and acquisitions. It has been shown that synergies are generated through improving the allocation of resources rather than by cutting tax payments or enhancing the market power of the merged entity. (Devos, Kadapakkam & Krishnamurthy, 2008) Using accounting measures, Kemal (2011) compared the post-merger profitability of RBS and ABN AMRO following their merger. Between 1991 and 1995, DeLong investigated a sample of 54 bank merger announcements, testing various aspects of concentration and diversification. When a merger is announced, the market tends to reward it since it focuses on a certain geographic area, as well as a specific activity or revenue stream. Focusing on revenue streams is the one aspect that improves long-term performance. They found that factors such as globalization, liberalization and information technology advancements have led to the need for a more competitive, resilient and robust financial sector in Malaysia. [3]

To far, there have been few studies on the impact of M&A on the bank's workforce or its customers. Apart from this there are studies on the status of consumers during M&As. – – Acquisitions frequently have a detrimental influence on employee behavior, leading to unproductive behaviors and high absenteeism. The capacity of senior management to acquire the trust of employees appears to be a significant influence in the success of acquisitions.

Observations on merger patterns in Indian banking from the perspective of investors and management. Indian banking market consolidation has so far been restricted mostly to restructuring failing banks and harmonizing banks and financial institutions, according to these findings There are extremely few examples of market-driven mergers that are voluntary. Her conclusion was that India's financial system required large banks to bear the numerous risks that arise from operating in both domestic and foreign markets. [4]

MERGED PUBLIC SECTOR BANKS IN INDIA

When two banks merge their assets and liabilities, they form a single entity known as a "Bank Merger." Four new Public Sector Banks were formed as a result of the merging of 10 public sector banks. IOB, Bank of Maharashtra and Punjab and Sind Bank will be merged into the National Savings and Loans Corporation (NBLC) of India, but the Central Bank of India (CBI) and UCO Bank would stay separate.

SBI's successful merger with Bharata Mahindra and five other partner banks led to the consolidation of eleven other public sector banks into four new ones. The State Bank of Bikaner and Jaipur and the State Bank of Mysore are among five associate banks that have amalgamated with the State Bank of India. India's State Bank is now one of just 50 financial institutions in the world as a result of the merger.

Most major public sector banks in India have evolved into enormous conglomerates with vast branch networks through the acquisition of three or four more institutions. [5]

Acquirer Bank	Merged Bank
Canara Bank	Syndicate Bank
Punjab National Bank	Oriental Bank of Commerce United Bank of India
Indian Bank	Allahabad Bank
Union Bank of India	Andhra Bank Corporation Bank
Bank of Baroda	Vijaya Bank Dena Bank
State Bank of India	State Bank of Travancore State Bank of Hyderabad State Bank of Bikaner and Jaipur State Bank of Patiala State Bank of Mysore Bharatiya Mahila Bank

RATIONALE BEHIND MERGERS OF BANKS

Mergers & Acquisitions are the most commonly employed strategic strategy for firms looking to grow, according to a vast number of studies. It was decided to focus on mergers that had a high probability of improving efficiency. As a result, the majority of these incidents happened in the early 1990s, when banking efficiency was receiving a great deal of attention. According to pre-merger forecasts, all nine of the mergers resulted in considerable cost savings. Four of the nine mergers were definitely effective in enhancing cost efficiency while five were not. [6]

As a result of changes in the optimal production functions of financial enterprises brought about by financial and technical innovation, industry consolidation occurred. In order for banks and other financial services to fully benefit from new production processes and technical advancements, a wave of financial deregulation was essential. This transformed back-office processing, front-office delivery systems, and payments system infrastructure.. Deregulation of the financial industry and advances in technology had a significant impact in banking sector mergers and acquisitions between 1995 and 2001. According to experts that used Multinomial logit analysis, size is an important aspect when it comes to mergers and acquisitions.

Deregulation has allowed commercial banks and other financial services businesses to grow into new geographic and product sectors through mergers and acquisitions.

When it comes to the reasons and success factors for mergers and acquisitions (M&A), Calipha, Tarba, and Brock (2011) have done an in-depth analysis of the reasons for M&A, including expanding into new markets, acquiring limited resources, attaining synergies, and more. There are 17 bank mergers in India that we studied, and we can identify the following reasons and justifications for them. [7]

- **Market Leadership**

Shareholders in the combined company will benefit from the merger since it will have access to more market resources. It is possible for a corporation to regulate prices more effectively when it has a larger portion of the market.

- **Growth and Diversification**

A merger may be a better option for companies who want to develop quickly or diversify their product line than to go through the volume-consuming process of internal expansion or diversification. In a short time, the corporation may accomplish the same goal by combining with another company. It is also less expensive than building the requisite production capacity and capabilities from scratch.

- **Synergy**

Indicative of a circumstance when the merged firm is more valuable than the sum of the separate joining businesses. It's a term used to describe advantages that aren't directly linked to scale savings. One of the synergy benefits is operating efficiency.

- **Risk**

There is a growing body of research that shows that if banks were permitted to combine and acquire in a controlled way, mergers and acquisitions would greatly lower the bank's bankruptcy risk. Banks in India, of course, would gain from these advantages as a result of bank mergers.

- **Economies of Scale**

In the banking industry, mergers and acquisitions may enable banks expand their operations significantly while also reducing their costs significantly. Mergers in the banking business lessen competition, which is a significant benefit of this type of arrangement as well.

- **Economies of Scope**

Cross-selling opportunities and the capacity to expand product lines would increase income. Additionally, this might lead to a greater geographic expansion.

- **Strategic Integration**

The combined company may be able to operate at the lowest possible cost due to the complimentary nature of the involved companies' commercial capabilities, geographic profiles, and site integration. With the merger, numerous infrastructure assets, such as utilities, may be utilized to their fullest potential.

BENEFITS OF MERGER TO INDIAN BANKS

We investigated the mergers of 17 Indian banks after gaining a thorough grasp of the driving forces behind them. According to our findings, mergers benefit all parties involved. [8]

- Sick banks survived after merger.
- Enhanced branch network geographically.
- Larger customer base (rural reach).
- Increased market share.
- Attainment of infrastructure.

EMERGING ISSUES

Growth is a dynamic process that takes into account a wide range of factors related to a company's numerous facets. Mergers in any business are necessary for growth, but the impact on consumers, employees, shareholders, and all other stakeholders is undeniable. Mergers and the elements of a firm are linked in major ways, according to research. To ensure that a merger goes well, researchers should focus on the following new difficulties, which we discovered throughout our research[9]

1. Employees' Perception

ICICI Bank's merger with the Bank of Rajasthan Ltd. resulted in a staff walkout and unrest. After bank mergers, empirical studies are undertaken to determine how customers see banking services. When it comes to customer satisfaction and competitiveness, George and Hegde (2004) made a case for the importance of employees' feelings of satisfaction and motivation as requirements for customer satisfaction and the organization's competitiveness.

Theory that crosses boundaries as well as a look at the reality on the ground Perception-based diagnostic assumptions were also discussed. Customer opinions of branch practices and procedures in regard to service were shown to be strongly correlated with employee perceptions of the same practices and procedures. In a 1985 study, Schneider and Bowen discovered a substantial correlation between branch employees' evaluations of corporate human resources procedures and branch consumers' attitudes about service.

In his article, Mylonakis (2006b) looked at how bank workers see bank mergers and acquisitions, and how it would effect their personal and professional lives. Mergers and acquisitions, which are not deemed to be legitimate and required business activity, have been shown to put bank workers at risk, according to the study.

When two banks in Sri Lanka merged, Wickramasinghe and Chandana found that staff were more dissatisfied with the collaboration than they were with the extension. Further research found that respondents' impressions are influenced by their age, gender, and marital status, with age being the most significant.

2. Branch Size

The size of a branch is an essential factor in the link between branch numbers and employment. For the examination of staff efficiency in the banking industry, he has utilized the most well-known measures such as operational income per employee, personnel costs per employee, and pre-tax profits to personnel expenses. Every bank he looked at saw a rise in administrative costs per employee, while the ratio of pre-tax earnings to personnel expenses revealed how much money the bank made for every euro it spent on employee payroll.

3. Customer Perception

There are several crucial factors that have been missed in the literature and a comprehensive model and an instrument framework for assessing customer perceived service quality have been suggested by them.

Retail banking customers in Qatar were asked to rate the quality of service they received from four banks on a scale of 0 to 100, with a total sample size of 120. Customer perception is highest in tangibles, and lowest in competence, according to a five-point Likert scale employed by the researchers.

4. Communication

Managerial trustworthiness depends on a number of factors, including frequent communication before to and following acquisition, as well as existing employee interactions. Consequently, it appears that a successful outcome in employee relations in the face of mergers and acquisitions is based on a properly designed, employee-centered communication program and a high degree of employee relations. Mergers are more likely to be successful if the parties involved can effectively communicate with one another. According to Appelbaum, Gandell, Yortis, Proper & Jobin (2000), effective communication is critical to the success of an M&A transaction. Employees will be able to work more effectively if they are given clear, consistent, factual, empathetic, and up-to-date information in a variety of methods. By realizing the predicted strategic fit and synergies, this enhanced productivity will have a favorable impact on the firm's performance and generate a long-term competitive advantage.

5. Change Management Strategies

Three huge, multi-site public-sector enterprises have agreed to merge. Both qualitative and quantitative techniques of analysis were utilized to investigate the impact of leadership and change management tactics on the acceptance of cultural change by those who were affected by the merger. According to research, mergers often force organizational change on the executives themselves. In this regard, the success of a merger depends on the perceptions of individuals regarding the way the process is managed and the direction in which the culture is shifted.

6. Human Resource Management

Human resource management difficulties are also brought up by certain researchers in their work. Research on HRM risk management in mergers has been evaluated by Bryson, 2003. When it comes to HR risk management, he discovered that many of the issues that have been blamed for bad merger outcomes can be traced back to issues with HR and the business in general. An M&A deal's success is influenced by a number of factors, including the company's culture.

Singapore-based enterprises participating in mergers and acquisitions and the impact of HRM and organizational culture on financial success. In order to gather data on cultural values and HRM effectiveness, they employed Kabanoff's content analysis. Organizations in the sample were then given a culture profile based on the findings of the cluster analysis. Several financial parameters were employed to gauge the efficiency of the company. In order to examine multiple hypotheses, regression analysis was carried out in the last stage of the study. Human resource effectiveness was found to improve financial performance in firms with top and potential leaders, according to the study's major finding. After everything was said and done, it was determined that in order to reap the benefits of mergers and acquisitions, companies needed to have a high-value or leadership profile. [10]

7. Other Issues

Many studies have shown that the media has a significant impact on the social setting in which mergers and acquisitions take place. Employees are more concerned about the merger's uncertainties than the actual changes it would bring. An open and honest approach to change management is essential. Leaders need to be well-versed in the process of changing firms in order to guarantee that employees are on board with the merger.

MERITS OF BANK MERGER

The following are the merits of a Bank Merger in India.

- Reduction in operational costs.
- Increase in financial inclusion.
- In terms of financial operations, the country's reach will widen as the network expands, making it possible for services to be delivered to every corner.
- There will be a reduction in the extent of inefficiency that has been occurring in minor branches for a long time.
- Wage disparity will be eliminated.
- The amount of money the government will need to invest in PSUs' capital in order to increase their efficiency and profitability will decrease.
- Administrative costs can be reduced by eliminating or redesignating unused positions.
- The product range will improve and will give the customers a wider choice.

DEMERITS OF BANK MERGER IN INDIA

A Bank Merger, while its many advantages, does not come without its drawbacks. In India, bank mergers have the following drawbacks.

- There is a risk that mergers will undermine the goal of decentralization, as most banks are located in the same region.
- The global economic crisis has a significant influence on the larger banks, while the smaller banks are able to avoid it.
- As a result of the pooling of NPA from smaller banks, the larger banks would face more pressure on performance.
- By virtue of mergers, major banks cannot escape from poor lending and weak governance, which are intrinsic difficulties.
- Face staff issues due to changes in the mode of working and the internal guidelines.

CONCLUSION

In emerging countries like India, the banking industry is one of the fastest-growing sectors. One of the most important tools for expansion has been M&A, which has attracted the attention of academics and researchers. Post-liberalization, the Indian economy has grown at a rapid speed, and banking is one of the sectors that has benefited the most. By combining with larger banks, M&A in the banking sector has shown to be a crucial survival measure for weak institutions. Findings from our analysis show small and local banks are having trouble with global economy pressures, and this is a major factor in mergers.

In certain cases, private banks utilized mergers as a strategic tactic for extending their business interests. The main banks in India haven't even scratched the surface of rural markets' immense potential. This is why ICICI Bank Ltd. is expanding in rural markets by merging with other banks. They have been able to establish themselves in rural India. It expands their consumer base and market share, strengthening their networks across regional boundaries. When the merger of the Bank of the Rajasthan and ICICI Bank Ltd. was announced, the workers of BOR became angry, and that is exactly what happened when the merger was announced. As a result, a number of new concerns have been identified that require the attention of academics and researchers.

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Corresponding Author

Jomon C.*

Research Scholar, Malwanchal University, Indore

Email- jomonchacko2018@gmail.com