Original Research Paper Commerce

A STUDY ON PERCEPTION OF CUSTOMERS TOWARDS THE PERFORMANCES OF LENDING PROCEDURES OF BANKS DUE TO MERGER AND ACQUISITION

Manish Phalke Research Scholar, Devi Ahilya University, Indore (MP) India

Dr. Avinash Desai Group Director, LNCT Group of Colleges, Indore (MP) India

ABSTRACT Due to deregulation in the financial market, liberalization and economic reforms there seems a tremendous change in banking industry. Thus, it became necessary to find the significant changes taken place in baking lending procedures before and after the adoption of merger. The present study is descriptive in nature based on primary as well as secondary data. The data was collected by developing structured questionnaires, which were administered to 200 customers of merged banks of Indore and Dewas. Paired t-test was used for data analysis. The purpose of the study is to examine the differences of lending processes of banks. Based on the objective of the study two null hypotheses were formulated. It was concluded that null hypotheses were rejected.

KEYWORDS : Banking, Lending, Merger & Acquisition

Introduction

The banking sector plays a vital role in overall development of economy. Economic development of the country is marked through the soundness of the banking system.. Liberalization brought out the best in the industry; inducing competitive spirit among various banks. During this period, the banks put in place effective risk management mechanisms and added fresh capital, which is very important to the banking industry. By concentrating on the top line and bottom line, banks across the board have improved their profit while reducing their operational costs and more number of banks has improved their financial performance by using the concept of Mergers and Acquisition**.** Due to deregulation in the financial market, liberalization and economic reforms there seems an astounding change in banking industry, which leads to incredible competitiveness and technological sophistication. In order to become financially strong, every bank put its herculean efforts in their operational activities. Banking in India has its origin as early as the Vedic period. It is believed that the transition from money lending to banking must have occurred even before Manu, the great Hindu Jurist, who has devoted a section of his work to deposits and advances and laid down rules relating to rates of interest. During the Mogul period, the indigenous bankers played a very important role in lending money and financing foreign trade and commerce. In the wake of the Swadeshi Movement, a number of banks with Indian management were established in the country namely, Punjab National Bank Ltd, Bank of India Ltd, Canara Bank Ltd, Indian Bank Ltd, the Bank of Baroda Ltd, the Central Bank of India Ltd. On July 19, 1969, 14 major banks of the country were nationalized and in 15th April 1980 six more commercial private sector banks were also taken over by the government.

Indian banks are the leading financial intermediaries and making continuous progress during the global financial crisis. This could be evident from its annual credit growth, profitability and trends in NPAs. Companies' growth is possible in two ways, organic or inorganic. Organic growth is also referred as internal growth, occurs when the company grows from its own business activity using funds from one year to expand the company the following year. Such growth is a gradual process spread over a few years but firms want to grow faster. Inorganic growth refers to external growth and considered as a faster way to grow which is most preferred. Inorganic growth occurs when the company grows by merger or acquisition of another business. However, mergers (inorganic) are considered a quicker and a better means of achieving growth as compared to internal expansions (organic). Along with additional capacity, mergers bring with them additional consumer demand as well (Sloman, 2006). Mergers also bring with them access to facilities, brands, trademarks, technology and employees. Although mergers sound relatively easier and convenient compared to internal growth, there are risks in actually realizing the intended benefits. The convenience associated with growth needs to be seen along with risks of running a larger corporation as well 9cameron, Green, 2004).

Banks usually choose the growth through Mergers and Acquisition rather than going in for an organic growth strategy due to a lot of added advantages. The inclination towards globalization and expanding through Mergers and Acquisition is a rising phenomenon nowadays. Mergers in banking sector are a form of horizontal merger because the merging entities are involved in the same kind of activity. The purpose of the study is to examine the differences of lending process before and after the merger.

Review of Literature

Adrian Gourlay, Geetha Ravishankar, Tom Weyman-Jones (2006) in their study focused on efficiency gains from bank mergers in India. In this study, post merger efficiency analysis of the merged bank with a control group of non-merging banks reveals an initial merger related efficiency advantage for the former that, while persistent, did not show a sustained increase thus failing to provide the merging banks with a competitive advantage vis-à-vis their non-merging counterparts.

Goel and V. Joshi (2011) gave an overall view of the Indian banking industry and threw light on the various changes that took place in the Indian banking sector after liberalization. Under this study, they have examined the need for Mergers and Acquisition in India. It also highlighted the changes that took place in the Indian banking sector with respect to financial, human resource and legal aspects. They have also described the benefits which came out through the process of Mergers and Acquisition.

Dutta and Dawn (2012), in a paper investigates the performance of merged banks in terms of its growth of total assets, profits, revenue, deposits, and number of employees. The performance of merged banks is compared taking four years of prior-merger and four years of post-merger. The study findings indicate that the post-merger periods were successful and saw a significant increase in total assets, profits, revenue, deposits, and in the number of employees of the acquiring firms of the banking industry in India.

Radha Naga Sai and Dr. Syed Tabassum Sultan (2013) in their study have made an attempt to evaluate financial performance of the selected two banks based on the financial ratios from the perspective of pre and post merger. To analyze the impact of merger paired t-test was applied to the various financial ratios for before and after merger data relating to Indian overseas bank and HDFC bank. An Indian banking sector plays a significance role in the Mergers and Acquisition (M&A).

Objective of the Study

- To study the lending process of banks pre and post mergers

Hypotheses

H_{a01}-There is significant difference in the customers' perception between pre-merger and post-merger period with respect to the lending process.

H_{01}- There is no significant difference in the customers' perception between pre-merger and post-merger period with respect to the lending process.

Research Methodology

Research Design

The study is based on both primary and secondary data. Questionnaire technique based on five point likert scale was used to collect primary data from the targeted respondents. Numbers of factors were identified from the available literatures and prepare questions on them. These questions were sent to the experts to review and for their remarks. Many questions were dropped out due to irrelevancy. While secondary data was collected from the Banks' Annual Reports, websites, journals etc.

Sample Size and Techniques

A sample size of 200 customers of merged banks of Indore and Dewas was taken for this study. Questionnaire was administered to the targeted customers who visit to banks for their operational activities. The questionnaire was divided in two parts. The first part of the questionnaire included questions about demographic profile of the respondents. Second part of the questionnaire included questions/variables related with the lending processes of banks. Convenience sampling technique was used to gather data from the respondents.

Tools Used

The collected data was punched in SPSS 20. To analyze the impact of merger, pre and post merger Paired t-test is applied to find whether there is significant difference in ratios before and after merger of the selected banks.

Results and Discussions

H_{a01}-There is significant difference in the customers' perception between pre-merger and post-merger period with respect to the lending process.

H_{02}- There is no significant difference in the customers' perception between pre-merger and post-merger period with respect to the lending process.

Paired Samples Statistics on lending process

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre-Merger	35.3819	200	11.57518	.82054
	Post-Merger	38.2814	200	6.79358	.48158

Paired Samples Correlations on lending process

		N	Correlation	Sig.
Pair 1	Pre-Merger & Post-Merger	200	.003	.967

Paired Samples Test on lending process

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Pre-Merger - Post-Merger	-2.89950	13.40435	.95021	-4.77333	-1.02567	3.051	199	.003

The results indicate that null hypothesis there is no significant difference in the customers' perception between pre-merger and post-merger period with respect to lending process is rejected and hence it can be said that p-value (.003) is less than at 5% significant level and the value of t-test is 3.051which is more than the tabulated value.

Conclusion

In the recent years, banking industry has been undergone through major Mergers and Acquisition with a number of global players emerging through successive mergers in all sectors including banking. Mergers have proven to be a significant and increasingly popular means for achieving corporate diversity and growth. Today customers are also aware about merger, acquisition, and its positive and negative effects. Therefore, keeping this in mind the banks should be fair while dealing in transactions and lending process system and by adopting proper planning. The successful merger involves not only thorough financial and strategic analysis and planning, but also requires planning regarding congruence between the two companies' preferences about the implementation strategy for the merger.

Limitations of the Study

1. The sample size is a limitation to the research as the results may vary with difference in the number of sample.
2. The personal biasness of the respondents is inseparable.
3. The study is restricted only to Indore division.

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