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THE IMPACT OF MERGERS AND ACQUISITIONS ON SHAREHOLDERS WEALTH OF BANKING SECTOR IN INDIA

Roop Singh Gehlot*

ABSTRACT

In today's competitive business scenario, companies keep on devising new strategies to successfully achieve their goals. To survive in this ever changing world of business, growth and expansion seems to be the only solution for most of the companies and M&A is one of the most acceptable ways to achieve that. Companies go for M&A programme for number of reasons. The major reason as stated earlier is growth and expansion. The importance created by the combination of companies may effect from more better management, improved production techniques, economies of scale, complementary resources combination, the redeployment of assets, market control exploitation or any number of value creating mechanisms that fall under the general rubric of corporate synergy." The force to succeed in a high competitive market is, thereof, most of the leading international companies to employ M&C for achieving competitive gain as M&A provide them opportunities to enhance their core competencies, gain technological advantages and increase market share through combination of resources. The main reason for companies to go for mergers is to increase shareholders value. There has been a lot of debate on the value creating nature of mergers and acquisitions.

KEYWORDS: *Mergers & Acquisitions, Banking Sector, Corporate Synergy, International Companies.*

Introduction

A merger may be distinct as an arrangement where more than tow organizations combine to form a single entity in which identity of one company or both companies ceases to exist. In a merger one of two companies loses its identity and mergers itself into the existing company by transferring assets & liabilities to the surviving company. The shareholders of merging or Transferor Company become the shareholders of merged company. The shareholders obtain substantial shareholding in the new corporation according to the divide exchange ratio as approved by the majority shareholders merger scheme. A merger may take the form of consolidation/absorption.

Generally the words 'merger' and 'amalgamation' are used interchangeably and considered as synonyms. In Indian context especially in legal terms merger is termed as "amalgamation". Halsbury's Lawexpressed, "amalgamation is the blending of two or more of existing companies into one undertaking, the shareholder of each blending company becoming the shareholder of company, which will carry on blended undertaking."

Motivations for Mergers and Acquisitions

The primary motive of companies for undertaking mergers and acquisitions is growth. "Motives are the benefits that a firm perceives from M&As and hence act as a propeller for undertaking them" (Kaur, 2004). Many companies have firm specific motives also for going into mergers. The motives for mergers could be multiple such as achieving economies of scale, internal and external growth, increasing

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* Research Scholar, Jai Narain Vyas University, Jodhpur, Rajasthan, India.

the size, diversifying areas of operation, capture lager market share, supporting a sick unit and tax advantage etc .Existing literature has also identified various motives for M&As e.g Berkovitz and Narayan (1993), hubris & agency motive on the basis of gains to acquirer and target firms around takeover announcements. Seth (1990)a and (1990)b also examined value creation hypothesis on UK takeovers. Firth (1979) also attempted to identify whether shareholders wealth maximization or management utility maximization motivated takeovers.

- **Synergy:** When two companies combine together, their value is more the mutual value of both organisation taken together before merger. Due to combination of resources the merged entity enjoy economies of scale, reduced cost, improved efficiency which further enhanced the value of firm. Symbolically we can express synergy as -Value (A+B) > Value (A) + Value (B)
- **Growth:** Inorganic growth that is growth through external resources like mergers and acquisitions is always a better option for companies as it enhances the value of the company and increase the shareholders' wealth.
- **Diversification:** Diversification is another motivating factor for companies to opt for mergers and acquisitions as it provides ample avenues for exploring new areas of operations, growing in all spheres rather than in one particular area as in case of horizontal or vertical mergers and dealing with the technological changes.
- **Risk Reduction:** Diversification reduces risk. There has been a lot of debate about diversification strategies adopted by individual investors and companies i.e. whether investors diversifying their traded stocks will gain more through diversifying their trade stocks or firms in which they have invested should diversify through M&As. It has been often observed that managers whose wealth is invested in the firms tend to diversify their portfolio through acquisitions to reduce their own risk.

  This reflects the management utility theory of wealth maximization.
- **Tax Advantage:** Many companies go in for merger in order to get concessions under tax laws. Companies acquire sick companies in order to get tax shield after setting off losses of sick units. In India Section 72A of Companies Act 1956 allow setting of losses of sick units with profits of healthy units after merger.
- **Increase Market Share:** Growth is one of the main objective of all the companies and mergers provide a way to companies to growing organically by increasing the size, enlarging operational areas and thus capturing larger market share.
- **Competitive Advantage:** By joining hands with the competitors, companies are able to achieve competitive advantage by utilizing the core competencies, and adopting each others' technologies.

Importance of the Study

The purpose of any business has always been growth and expansion. The growth may be organic (internal) or inorganic (external). A company may grow through organic growth by utilizing internal resources. An alternative way for a company to grow is through external routes like mergers and acquisitions. In today's competitive world, companies striving for growth find mergers and acquisitions an appropriate means for improving performance. banks have been choosing inorganic path for their way to growth and expansion, as it is faster way to grow than the organic path.

Objectives of the Study

The main purpose of the study is to examine shareholder value created during mergers by banking sector in India using efficient market framework as well as operating performance measurement. The study attempts to achieve the following objectives:

- To trace the impact of merger announcements on shareholder value based on existing empirical evidence.
- To estimate abnormal returns around merger announcements to the shareholders of acquirer and target firms using event research methodology.
- To find out the impact of ownership structure & banking industry relatedness of mergers on performance of banks.

Methodology of the Study

This present article is completely based on primary data. And the primary data have been collected from 32 respondents (banking shareholders of India), online questionnaire cum survey method have been adopted for data collection. Even the secondary data also been collected form books, journals, reports and internet. Descriptive statistics have been applied for data analysis and finding of the result.

Data Analysis and Interpretation

Table1: Managers have a Responsibility to Enhance Share Holder's Value (in the Banking Sector)

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	10	31.25	31.25	31.25
Agree	8	25	25	56.25
Moderate	7	21.875	21.875	78.125
Disagree	5	15.625	15.625	93.75
Strongly Disagree	2	6.25	6.25	100
Total	32	100.00	100.00	

There is a major agreement among participants that managers have a responsibility of enhancing the value of share holders in the banking sector. In essence, 31.25% and 25 of respondents agreed that mergers and acquisitions always and often have the responsibility of increasing share holder wealth respectively.

Mergers and Acquisitions can't Increase the Shareholder Value in the Banking Sector

Table 2: Mergers and Acquisitions can't Enlarge Shareholders' Value in the Banking Sector

Valid	Frequency	Percent	Valid Percent	Cumulative percent
Strongly Agree	2	6.25	6.25	6.25
Agree	8	25	25	31.25
Moderate	3	9.375	9.375	40.625
Disagree	11	34.375	34.375	75
Strongly Disagree	8	25	25	100
Total	32	100	100	

The participants do not agree that Mergers and Acquisitions do not increase the value of shareholders. The study revealed that only 6.25 % and 31.25 % agreed that Mergers and Acquisitions always and often do not increase shareholder value in banking sector respectively. However, a majority of the participants disagreed that Mergers and Acquisitions not to growth inverter (shareholder) value.

Table 3: Both Target and Acquirer Banks are Mostly Affected by the Mergers Banking Sector

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	13	40.625	40.625	40.625
Agree	7	21.875	21.875	62.5
Moderate	5	15.625	15.625	78.125
Disagree	3	9.375	9.375	87.5
Strongly Disagree	4	12.5	12.5	100
Total	32	100.00	100.00	

The acquirer and target banks' share holders' value is affected by the Mergers and Acquisitions process. Over 50% of the study respondents said that Mergers and Acquisitions affect the shareholder' value of both (target and acquirer) banks. For instance, 40.625 % and 21.875% said that method always affect financial value of investors for both acquirer target abases respectively.

Table 4: Mergers and Acquisitions Dilute Shareholder Voting Controls

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	13	40.625	40.625	40.625
Agree	6	18.75	18.75	59.375
Moderate	6	18.75	18.75	78.125
Disagree	4	12.5	12.5	90.625
Strongly Disagree	3	9.375	9.375	100
Total	32	100	100	

The voting controls of investors are diluted throughout Mergers and Acquisitions as indicated in this analysis. The results clear that over 40.625 % of the respondents said that Mergers and Acquisitions always dilute the voting controls of investors (shareholders).

Effects of Mergers and Acquisitions on Performance Mergers and Acquisitions result in performance and profitability improvement

Table 5: Mergers and Acquisitions Lead to Enhanced Performance as Well as Profitability

Valid	Frequency	Percent	Valid Percent	Cumulative percent
Strongly Agree	8	25	25	25
Agree	9	28.125	28.125	53.125
Moderate	4	12.5	12.5	65.625
Disagree	6	18.75	18.75	84.375
Strongly Disagree	5	15.625	15.625	100
Total	32	100.00	100.00	

In the Indian banking, later than Mergers and Acquisitions, the banks experience enhanced performance and financial profitability as recognized through the analysis. this analysis presents that 25.00% of merged companies always experience to improve financial performance and profitability while 28.125 % often realize improved employee's performance. In this regard, more than 50% of the mergers improved employee's performance and financial performance (profitability) after merging.

Conclusion

In today's competitive business scenario, companies keep on devising new strategies to successfully achieve their goals. To survive in this ever changing world of business, growth and expansion seems to be the only solution for most of the companies and M&A is one of the most acceptable ways to achieve that. Companies go for M&A programme for number of reasons. The major reason as stated earlier is growth and expansion. M&A have become essential banking strategies and that banks are assuming to exhaustively give out and convene bank customer wants within the dynamic environment of business. Most of the banks are in existence today because of their continued restructuring efforts, counting M&A. financial Businesses have unusual tools (grounds) for M&A, including financial market control improvement, risk less profile, and increasing banking business opportunities etc. so, M&A are utilized to substitute of management teams that are unproductive, foster products, and financial diversification, and attain economies of scale in India.

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