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Effectiveness of Pakistani Banks after Merger and Acquisition

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Abstract

The aim of merger of banks is to increase the value of banks in one way or another. The days of globalization and liberalization are in and there is a rash of merger and acquisition which is sweeping the corporate world. Consolidation in banking industry should essentially be synergy-driven to obtain a quantum leap in the effectiveness of the merged entity. It can be attained by merging complementary strength, serving a greater number of customers in a good way with more differentiated skills and products, giving a well geographical spread, comprising the cost of combined entity, better utilization of available resources, recognizing the opportunities for cross selling, deriving economies of scale and reduced competition. Over the last span, the banking industry in Pakistan has not only grown-up in terms of size but also consolidated, matured and diversified to contribute towards constructing a strong financial system. In this study, five bank merger's cases have been taken and Null Hypothesis (there is no difference in the mean value of selected variables before and after the merger) is found rejected. Based on overall analysis, merger of My Bank Limited with Summit Bank Limited was more effective in most of the variables as compared to the merger of PICIC Commercial Bank Limited with National Investment Bank Limited, Union Bank Limited with Standard Chartered Bank Limited, JS investment Bank Limited with JS Bank Limited and Askari Leasing Limited with Askari Bank Limited.

Keywords: Merger; Acquisition; Banks

Backdrop

Merger refers to the prearrangement or procedure where the assets of two firms become vested under the control of one firm (whose name may or may not be exist), which has all or considerably all, the owners of the two firms [1]. Gaughan [2] argued that merger is a mixture of two firms or companies in which only one firm survive and the merged firm comes to an end, whereby the acquiring firm accepts the liabilities and assets of the merged firm.

A Merger or Acquisition is the most one transformative undertaken in a firm's life. Achieving growth of corporate can occur through external or internal means. Langford and Male [3] recognized three ways of achieving corporate development and growth. Internally (organic path); a firm achieves development and growth by expanding firm's infrastructure activities and customer base and thus profits and revenues. Externally (inorganic path); inorganic way offers immediate development and growth, so Merger and Acquisition can be considered as an external mean or inorganic strategy of development and growth. Inorganic strategy has become important in the global environment for attaining economies of scale, improving performance and efficiency, entering in the new markets and constructing new abilities [4]. Choi and Russel [5] strengthened the opinion that modern businesses pursue to grow so as to persist in the competitive markets using Merger and Acquisition and it has been recognized as the most important incident in corporate finance for companies as well as the economy [6]. To a wide range companies involve in Merger and Acquisition for gains that can grow through reduction of expenses, reduced earnings volatility, increased market power and scope and scale economies. Over the last span, the banking industry in Pakistan has not only grown-up in terms of size but also consolidated, matured and diversified to contribute towards constructing a strong financial system. Banks consolidation through Merger and Acquisition is not a new phenomenon for banking system in Pakistan.

Companies choose merger and acquisition as strategy of growth for various reasons. Hopkins [7] categorized the merger and acquisition motives proposed in the previous studies as four distinctive but interrelated motives: economic, strategic, market and personal motives. Strategic motive is linked with improving the strength of the firm's strategy, for example, utilizing a core competence of a firm, creating synergy, providing the company with complementary resources, strengths, products and increasing market power. Market motive targets at entering new markets in new countries or areas by acquiring already recognized companies as the quickest way or as a path to get access without adding more capacity. Economic motive is associated with establishing economics of scale; personal motive is concerned with the management hubris and agency problems.

Purpose of the case study is to evaluate the effectiveness of merger and acquisition of the sample merged banks on the basis of selected set of variables before and after merger and acquisition. The rest part of the study is categorized as follows: section two deals with the design of research and methodology; section three consists of results and discussions and; section four concludes the study.

Design of Research and Methodology

Data sample and study period

The present research consists of the merger and acquisition of commercial banks. The merger and acquisition cases selection has been made on the basis of data uniformity and availability. These cases are shown in Table 1. The mergers of the sample banks have taken place on various dates during post reform period. In order to make performance comparison of selected merged banks, four years data before the merger and four years data after the merger have been evaluated. Thus, a nine

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Sr. No.	Name of Merged Bank	Merged With	Merger Date
1	My Bank Ltd.	Summit Bank Ltd	06.07.2011
2	Askari Leasing Ltd.	Askari Bank Ltd.	10.03.2010
3	PICIC Commercial Bank Ltd	National Investment Bank Ltd.	01.01.2008
4	Union Bank Ltd.	Standard Chartered Bank Ltd.	29.12.2006
5	JS Investment Bank Ltd.	JS Bank Ltd.	30.12.2006

Note: PICIC is pakistan industrial credit and investment corporation; JS is Jahangir Siddiqui; NIB (National Investment Bank) and SCB (Standard Chartered Bank).

Table 1: Merged banks.

years period data has been evaluated. The present study data consist of published annual financial statements.

Variables description

To analyze the effectiveness of Merger and Acquisition (M&A) of sample banks following eleven variables have been recognized, discussed below:

Capital: Capital indicates the resources of a firm contributed by the shareholders (owners). The capital comprises of share capital, reserves and unappropriated profits. Capital growth indicates the banks capacity to attract deposits, to borrow from the general public and lend to the business units. One of the objectives of the merger is to raise the bank's capital base. After banks merger the sufficient capital base is expected.

Deposits: To accept the deposits from the customers is an important function of conventional banking business. Deposits are the one of the major source of lending money. Banks cannot offer loans in various sectors without deposits. For the study purpose, deposits indicate the bank balances in various bank accounts.

Advances: Advances are the other key element of the conventional banking system. In this research advances include short term advances, term advances, advances to priority sectors, advances in public sectors and advances to sponsored firms etc.

Investments: Investment refer to the investing money or funds in the various areas like mutual funds, government securities, subsidiary companies and others which are presented on the assets side of the statement of financial position of banks. The main aim of this investment is either to control another firm and/or to earn profit. The investment helps to raise the profit and revenue of the banking sector.

Total assets: Assets are the economic resources which generate earnings and are valuable ownership held by a company. Total assets indicate current assets and net fixed assets. One purpose of the merger and acquisition strategy is to maximize the total assets of bank merged, i.e., ability of a firm to generate a greater volume of sales revenue. The expectation is that after merger the merged bank would function expeditiously.

Fixed assets: Fixed assets refer to the economic resources that are utilized to produce future earnings and represent the net fixed assets. It is not possible to run the banking business without fixed assets. It is supposed that the effect of fixed assets after the merger would be positive.

Interest earned: Amount earned by banks on loans and advances to the customers and financial institutions, on investments (available for sale securities and held to maturity securities), on deposits with financial institutions and on securities purchased under resale agreements. The amount is reported as mark-up, return or interest earned in the period of accounting in which the mark-up is earned. Interest income is one of the important sources of banking sector.

Interest expenditure: Interest or markup offered to the customers in various fixed deposit and saving accounts and debt capital interest is known as interest expenditure. In order to minimize the interest expenditure the operating efficiency must be increased and the operating performance can be improved by merger and acquisition.

Total income: Total income is the amount of revenue earned from various sources. In case of banking business the main income is the interest income. However, for the study purpose, total income indicates the dividend received, exchange transactions, interest received, commission and brokerage and security transactions etc. The expectation is that the total income will be maximized after the merger and acquisition.

Total expenditure: Total Expenditure refers to the expense beard to operate the banking business. In order to increase the bank profitability the total expenditure must be controlled. Total expenditure can be controlled by increasing the operating efficiency and the operating efficiency of banks can be improved by merger and acquisition.

Net profit: The profit is an efficiency indicator with which the operations of business are carried out by corporate sector. The poor performance of operations may leads to poor sales which results in poor profits. The merger and acquisition intends to increase profits through elimination of overlapping activities and to ensure savings through economic of scale. The profit amount may be enhanced through business expansion, optimal facilities utilization, reduction in overhead and increasing funds at low cost.

Data analysis

The analysis of data has been made on the basis of Standard Deviation, "t" Test, Mean and Growth Rate of selected set of variables after and before the merger. The "t" test has been used at the significance level of 5% and 3 degrees of freedom to analyze the significance of change in the value of mean before and after merger.

Hypothesis development

The present research is on the basis of secondary data, so hypothesis are being tested by using published materials. For the study purpose, following hypothesis is developed:

H_0: There is no difference in the mean value of selected variables before and after the merger.

H_1: There is a difference in the mean value of selected variables before and after the merger.

Empirical Results and Discussion

Changes in growth of capital of merged banks

Table 2 represents the mean value of capital before merger and after merger and its variation, "t" values and rate of growth of average capital before and after mergers. The results showed in the table exhibits that all the banks have upward growth of capital after mergers; however, the capital growth rate of JS Bank is higher than all other banks. The "t" test result revealed that Askari Bank, Standard Chartered Bank and JS investment bank have shown significant change in the average value of capital after the mergers. The growth rate of mean clearly exhibits that the JS Bank achieved greatest growth (330%) followed by National Investment Bank (183%), Standard Chartered Bank (56%), Askari Bank (51%) and Summit Bank (23%).

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	4591186	5634122	1132241	3758548	0.44*	23%
2	Askari Bank Ltd.	11742290	17698516	1502883	1354223	12.47	51%
3	Standard Chartered Bank Ltd.	624355	972186	230617	3420017	16.02	56%
4	National Investment Bank Ltd.	3413525	9659265	2025567	17564781	2.41*	183%
5	JS Bank Ltd.	1067891	4592510	413536	312962	36.96	330%

Note: *Insignificant

Table 2: Changes in mean value of capital and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	28628462	79314921	1479913	47089250	2.11*	177%
2	Askari Bank Ltd.	162073551	330284344	32801957	42234409	2.33*	104%
3	Standard Chartered Bank Ltd.	3095901	10937242	402713	16081054	3.95	253%
4	National Investment Bank Ltd.	56391719	95305240	4846656	7945411	6.65	69%
5	JS Bank Ltd.	1413989	1914103	919311	5780855	7.25	35%

Note: *Insignificant

Table 3: Changes in mean value of deposits and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	14989950	57302972	8709861	6261671	11.32	282%
2	Askari Bank Ltd.	115954419	157125586	18631459	12123624	10.5	36%
3	Standard Chartered Bank Ltd.	3596229	13512067	2727055	7451317	42.54	276%
4	National Investment Bank Ltd.	33725738	74952674	2439690	10165422	6.77	122%
5	JS Bank Ltd.	4171159	10460732	2958472	3180175	2.31*	151%

Note: *Insignificant

Table 4: Changes in mean value of advances and its variation in merged bank.

Changes in growth of deposits of merged banks

Table 3 shows the changes in average deposits growth and its variability of selected banks before and after mergers. From the table, it can be seen that Summit Bank and Askari Bank have shown insignificant change in the deposits after mergers, all other banks have shown significant change in the average value of deposits. The growth rate of average deposits clearly displays that Standard Chartered Bank attained highest growth (253%) followed by Summit Bank (177%), Askari Bank (104%), National Investment Bank (69%) and JS Bank (35%).

Changes in growth of advances of merged banks

Table 4 shows the changes in average advances growth and its variability of selected merged banks before and after mergers. It is cleared that all the sample banks have shown up growth in the value of advances after mergers. The "t" test revealed that all the banks except JS Bank have shown significant change in the average value of total advances after the merger. The growth rate analysis clearly presented that Summit Bank attained higher growth rate (282%) after merger followed by Standard Chartered Bank (276%), JS Bank (151%), National Investment Bank (122%) and Askari Bank (36%).

Changes in growth of investments of merged banks

Table 5 displays changes in the mean value of investment and its variability of selected merged banks. It is very important to note that all the bank merged have displayed a positive growth in investment during the period of post-merger compared to the investment made during the period of pre-merger. The "t" test application revealed that all the sample merged banks have presented a significant change in the average investment during the period of post-merger. It is very cleared from the growth rate of mean that the JS Bank achieved a higher growth rate (385%) compared to all other sample merged banks. The National Investment Bank got a lowest growth rate (246%) among the selected banks.

Changes in growth of total assets of merged banks

Table 6 illustrates changes in the average value of total assets and its variability of selected banks. It is understood clearly that all the sample banks displayed a positive and upward growth in average total assets after mergers. As stated before, "t" test was conducted to check the significance of change in the mean value of total assets after merger. The "t" test application indicated that all the sample merged banks have exhibited a significant change during the period of post-merger. The growth rate analysis of merged banks visibly showed that JS Bank got a highest growth rate (324%) followed by Summit Bank (240%), National Investment Bank (158%), Askari Bank (90%) and Standard Chartered Bank (29%).

Changes in growth of fixed assets of merged banks

Table 7 explains the changes in the average value of fixed assets and its variability of selected merged banks. The "t" test application disclosed that all the sample merged banks except Askari Bank have shown a significant change in the average growth of fixed assets. It is disclosed in the table that all the sample banks have shown positive and upward growth in the average value of fixed assets after merger. The Standard Chartered Bank attained a highest growth (282%) followed by National Investment Bank (227%), Summit Bank (183%), JS Bank (106%) and Askari Bank (30%).

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	10336236	42683091	921403	6073042	9.7	313%
2	Askari Bank Ltd.	42601877	165530258	16793028	36943098	11.31	289%
3	Standard Chartered Bank Ltd.	929867	3213396	530214	3166390	4.54	246%
4	National Investment Bank Ltd.	14235159	47156933	2345719	11813415	6.13	231%
5	JS Bank Ltd.	1787108	8666687	209563	3840213	3.78	385%

Table 5: Changes in mean value of investments and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	38843674	131875164	2284526	12648601	14.84	240%
2	Askari Bank Ltd.	202171575	384946364	38490419	47345222	35.93	90%
3	Standard Chartered Bank Ltd.	30966566	39916694	897452	3982113	16.62	29%
4	National Investment Bank Ltd.	68031220	175740993	5016188	22608714	8.14	158%
5	JS Bank Ltd.	4142443	17558530	1011247	9160934	5.97	324%

Table 6: Changes in mean value of total assets and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	2249169	6372647	148366	899404	8.36	183%
2	Askari Bank Ltd.	6800251	8831703	2818768	470125	1.24*	30%
3	Standard Chartered Bank Ltd.	1043271	3986960	58674	1411007	8.13	282%
4	National Investment Bank Ltd.	941150	3079509	13988	459112	9.59	227%
5	JS Bank Ltd.	1258588	2593628	241610	482734	10.72	106%

Note: *Insignificant

Table 7: Changes in mean value of fixed assets and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	3200804	9703864	368002	459065	26.68	203%
2	Askari Bank Ltd.	17200288	31939049	4348077	2823549	6.08	86%
3	Standard Chartered Bank Ltd.	1346911	2807614	162852	378284	14.19	108%
4	National Investment Bank Ltd.	5052781	16064540	1141743	1735727	8.79	218%
5	JS Bank Ltd.	1717810	2933162	65550	914116	4.81	71%

Table 8: Changes in mean value of interest earned and its variation in merged bank.

Changes in growth of interest earned of merged banks

Table 8 reports the changes in average interest earned and its variability of merged sample banks. It can be seen from the table that all the sample banks have exhibited positive growth after merger. The results of "t" test reported that there is a significant change in all the sample merged banks during the post-merger period. The mean growth rate analysis of interest income clearly disclosed that the National Investment Bank have shown higher growth (218%) of interest income followed by Summit Bank (203%), Standard Chartered Bank (108%), Askari Bank (86%) and JS Bank (71%).

Changes in growth of interest expenditure of merged banks

Table 9 discloses the changes in average interest expenditure and its variability of merged sample banks. It is clear from the table that all the sample merged banks have shown significant change and increasing growth in the mean value of interest expenditure after merger. The growth rate analysis of interest expenditure said that National Investment Bank achieved a higher growth rate (336%) while JS Bank got a lowest rate of growth (72%) during the period of post-merger.

Changes in growth of total income of merged banks

Table 10 represents the changes in the mean value of total income and its variability of selected merged banks. It is very clear that all the sample banks have shown positive growth in average total income except JS Bank (-41%). As stated before, "t" test was conducted to observe the significance of change in the average value of total income. The "t" test application showed that only two banks (Standard Chartered Bank and National Investment Bank) have disclosed a significant change in the mean value of total income after merger. The Summit Bank achieved highest rate of growth (170%) after merger.

Changes in growth of total expenditure of merged banks

Table 11 represents changes in average value of total expenditure and its variability of selected merged banks. It is very clear from the table that all the merged sample banks have shown increasing growth in total expenditure during the period of post-mergers. As stated before, "t" test was conducted to analyze the significance of change in the mean value of total expenditure of sample banks after merger. The "t" test application revealed that all the sample merged banks have shown significant change in the mean value of total expenditure after mergers.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	2562978	8716454	342487	1155322	11.47	240%
2	Askari Bank Ltd.	9981861	21936963	2849925	1720600	6.69	120%
3	Standard Chartered Bank Ltd.	1291031	2917897	202128	2136918	9.39	126%
4	National Investment Bank Ltd.	2818568	12288252	1109802	1154659	17.21	336%
5	JS Bank Ltd.	913997	1571940	518425	596279	5.37	72%

Table 9: Changes in mean value of interest expenditure and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	661585	1787742	306477	1030744	1.76*	170%
2	Askari Bank Ltd.	3053765	4158632	1053324	1056217	1.69*	36%
3	Standard Chartered Bank Ltd.	4466121	7485980	213795	358287	46.38	68%
4	National Investment Bank Ltd.	904191	1863432	79052	110369	10.15	106%
5	JS Bank Ltd.	670647	395782	329065	75165	1.44*	-41%

Note: *Insignificant

Table 10: Changes in mean value of total income and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	965516	4460058	173990	557427	17.22	362%
2	Askari Bank Ltd.	5322917	9797075	1666085	1051867	10.88	84%
3	Standard Chartered Bank Ltd.	158852	704257	142286	69128	21.05	343%
4	National Investment Bank Ltd.	1282993	5552704	254751	1619199	5.89	333%
5	JS Bank Ltd.	263376	1030060	202753	554317	5.47	291%

Table 11: Changes in mean value of total expenditure and its variation in merged bank.

Sr. No.	Bank Name	Mean		Standard Deviation		t-value	Rate of Growth
		Before	After	Before	After		
1	Summit Bank Ltd	-673304	-1367976	856916	1244213	0.86*	103%
2	Askari Bank Ltd.	1606298	427709	1043436	4062478	0.65*	-73%
3	Standard Chartered Bank Ltd.	131488	270333	63018	236348	2.12*	106%
4	National Investment Bank Ltd.	1775336	-4864963	375697	5486845	2.23*	-374%
5	JS Bank Ltd.	397015	-228054	150275	324659	3.11	-157%

Note: *Insignificant

Table 12: Changes in mean value of net profit and its variation in merged bank.

The growth rate (mean value) analysis of total expenditure displayed that Summit Bank attained higher growth rate (362%) followed by Standard Chartered Bank (343%), National Investment Bank (333%), JS Bank (291%) and Askari Bank (84%).

Changes in growth of net profit of merged banks

Table 12 shows changes in average value of net profit and its variability of sample merged banks. The application of "t" analysis showed that only JS Bank has shown significant change in the average value of net profit during the period of post-merger. The Standard Chartered Bank earned a higher net profit (106%) than all other merged banks while the National Investment Bank earned lowest net profit (-374%) during the period of post-merger.

Conclusion

A merger of banks is just like as the merger of two firms except it involves only banks. The important fact in the merger of banks is that banking activities of the members will always be regulated. Consolidation is one of the ways adopted by commercial banks. Merger and acquisition has been used to increase the revenues and to minimize the costs. Null Hypothesis (there is no difference in the mean value of selected variables before and after the merger) is rejected in all the cases and in all the variables except net profit and Alternate Hypothesis (there is a difference in the mean value of selected variables before and after the merger) is accepted in all the cases and in all the variables except net profit.

Based on overall analysis, merger of My Bank Limited with Summit Bank Limited was more effective in most of the variables as compared to the merger of PICIC Commercial Bank Limited with National Investment Bank Limited, Union Bank Limited with Standard Chartered Bank Limited, JS investment Bank Limited with JS Bank Limited and Askari Leasing Limited with Askari Bank Limited.

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