Effectiveness of Pakistani Banks after Merger and Acquisition

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Abstract

The aim of mergers 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 opportunity 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
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 before and after 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:

\[ H_0: \text{There is no difference in the mean value of selected variables before and after the merger.} \]
\[ H_1: \text{There is a difference in the mean value of selected variables before and after the merger.} \]

**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%).
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 (282%) followed by JS Bank (276%), Askari Bank (282%), National Investment Bank (227%), Summit Bank (183%), JS Bank (151%), National Investment Bank (122%) and Askari Bank (36%).

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. It is very clear from the table 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%).
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%) followed by Summit Bank (203%), Standard Chartered Bank (108%), Askari Bank (86%) and JS Bank (71%).

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Bank Name</th>
<th>Mean Before</th>
<th>Mean After</th>
<th>Standard Deviation Before</th>
<th>Standard Deviation After</th>
<th>t-value</th>
<th>Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Summit Bank Ltd</td>
<td>10336236</td>
<td>42683091</td>
<td>921403</td>
<td>6073042</td>
<td>9.7</td>
<td>313%</td>
</tr>
<tr>
<td>2</td>
<td>Askari Bank Ltd.</td>
<td>42601877</td>
<td>16553025</td>
<td>16793028</td>
<td>36943098</td>
<td>11.31</td>
<td>289%</td>
</tr>
<tr>
<td>3</td>
<td>Standard Chartered Bank Ltd</td>
<td>929867</td>
<td>3213396</td>
<td>530214</td>
<td>3166390</td>
<td>4.54</td>
<td>246%</td>
</tr>
<tr>
<td>4</td>
<td>National Investment Bank Ltd</td>
<td>14235159</td>
<td>47156933</td>
<td>2345719</td>
<td>11813415</td>
<td>6.13</td>
<td>231%</td>
</tr>
<tr>
<td>5</td>
<td>JS Bank Ltd.</td>
<td>1787108</td>
<td>8666687</td>
<td>209563</td>
<td>3840213</td>
<td>3.78</td>
<td>385%</td>
</tr>
</tbody>
</table>

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

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 total income except JS Bank (-41%). As stated before, "t" test was conducted to observe the significance of change in the mean 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.

<table>
<thead>
<tr>
<th>Sr. No.</th>
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<th>Mean Before</th>
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<th>Standard Deviation Before</th>
<th>Standard Deviation After</th>
<th>t-value</th>
<th>Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Summit Bank Ltd</td>
<td>2249169</td>
<td>6372647</td>
<td>148366</td>
<td>89404</td>
<td>8.36</td>
<td>183%</td>
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<tr>
<td>2</td>
<td>Askari Bank Ltd.</td>
<td>6800251</td>
<td>8831703</td>
<td>2818768</td>
<td>470125</td>
<td>1.24</td>
<td>30%</td>
</tr>
<tr>
<td>3</td>
<td>Standard Chartered Bank Ltd</td>
<td>1043271</td>
<td>3996960</td>
<td>58674</td>
<td>1411007</td>
<td>8.13</td>
<td>282%</td>
</tr>
<tr>
<td>4</td>
<td>National Investment Bank Ltd</td>
<td>941150</td>
<td>3079509</td>
<td>13988</td>
<td>459112</td>
<td>9.59</td>
<td>227%</td>
</tr>
<tr>
<td>5</td>
<td>JS Bank Ltd.</td>
<td>1258588</td>
<td>2593628</td>
<td>241610</td>
<td>482734</td>
<td>10.72</td>
<td>106%</td>
</tr>
</tbody>
</table>

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

Note: *Insignificant

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.

<table>
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<tr>
<th>Sr. No.</th>
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<th>t-value</th>
<th>Rate of Growth</th>
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<tbody>
<tr>
<td>1</td>
<td>Summit Bank Ltd</td>
<td>3200804</td>
<td>9703864</td>
<td>368002</td>
<td>459065</td>
<td>26.68</td>
<td>203%</td>
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<tr>
<td>2</td>
<td>Askari Bank Ltd.</td>
<td>17200288</td>
<td>31939049</td>
<td>4348077</td>
<td>2823549</td>
<td>6.08</td>
<td>86%</td>
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<tr>
<td>3</td>
<td>Standard Chartered Bank Ltd</td>
<td>13469111</td>
<td>2807614</td>
<td>162852</td>
<td>378284</td>
<td>14.19</td>
<td>108%</td>
</tr>
<tr>
<td>4</td>
<td>National Investment Bank Ltd</td>
<td>5052781</td>
<td>16064540</td>
<td>1141743</td>
<td>1735727</td>
<td>8.79</td>
<td>218%</td>
</tr>
<tr>
<td>5</td>
<td>JS Bank Ltd.</td>
<td>1717810</td>
<td>2933162</td>
<td>65550</td>
<td>914116</td>
<td>4.81</td>
<td>71%</td>
</tr>
</tbody>
</table>

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

Changes in growth of interest earned of merged banks

Changes in growth of total income of merged banks

Changes in growth of total expenditure of merged banks
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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<th>Standard Deviation After</th>
<th>t-value</th>
<th>Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Summit Bank Ltd</td>
<td>2562976</td>
<td>8717454</td>
<td>342487</td>
<td>1155322</td>
<td>11.47</td>
<td>240%</td>
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<td>2</td>
<td>Askari Bank Ltd.</td>
<td>9981861</td>
<td>21398963</td>
<td>2849925</td>
<td>1720600</td>
<td>6.69</td>
<td>120%</td>
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<tr>
<td>3</td>
<td>Standard Chartered Bank Ltd.</td>
<td>1291031</td>
<td>2917897</td>
<td>202128</td>
<td>2136918</td>
<td>9.39</td>
<td>126%</td>
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<tr>
<td>4</td>
<td>National Investment Bank Ltd.</td>
<td>2818568</td>
<td>12288252</td>
<td>1109802</td>
<td>1154659</td>
<td>17.21</td>
<td>336%</td>
</tr>
<tr>
<td>5</td>
<td>JS Bank Ltd.</td>
<td>913997</td>
<td>1571940</td>
<td>518425</td>
<td>596279</td>
<td>5.37</td>
<td>72%</td>
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