

## **MERGERS AND ACQUISITIONS: A STRATEGY FOR SURVIVAL AND SUSTENANCE FOR INDIAN PUBLIC SECTOR BANKS**

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**Banking sector has played a vital role in the overall economic development of the country right from the time of nationalization. Due to globalization the Indian Public sector banks have been facing keen competition from the Private Sector and Foreign banks. As is well known survival of the fittest is the core theme in the global market today. Mergers and Acquisition strategy is highly successful in the field of production, manufacturing, and marketing areas. It has also succeeded in the case of private and foreign banking. After economic reforms in the name of globalization, liberalization and privatization, India has opened its markets for global competition. This situation has made Mergers and Acquisitions a desperate search for a survival strategy. Every bank no matter whether public sector or private sector has its own strengths and weaknesses. The banks with strength need to consolidate these and move towards achieving excellence in the global market. But banks which confront problems such as perennial loss, increase of NPAs, and dwindling deposit base need not be disillusioned. Mergers and acquisition will offer the so many benefits to strengthening the ongoing Core Banking operations. Mergers and acquisition will create a big platform to bring a single window system of banking and survival of banking industry in the global village.**

### **INTRODUCTION**

Banking industry became one of the fastest growing sectors after the first phase economic reforms of 1991. Banking sector has played a vital role in the overall economic development of the country right from the time of nationalization. Due to globalization the Indian Public sector banks have been facing keen competition from the Private Sector and Foreign banks. As is well known survival of the fittest is the core theme in the global market today. Sustenance and growth of public sector banking is very much essential for balanced and effective economic development. Increased competition has made this a challenging task. It is imperative that there is urgent need to strengthen

the weak public sector banks. To strengthen the public sector banks, the Ministry of Finance, Government of India and Reserve Bank of India have tested various strategies such as support through Deposit Investment and Credit Guaranty Corporation of India, direct aids given by the government as per the recommendation of the various committees, turnaround strategy for weak public sector banks, direct investment on the public sector bank securities by the Central government etc. But they have all been failures. It is this situation that brought in “Mergers and Acquisition” as a favored strategy in the banking sector.

Mergers and Acquisition strategy is highly successful in the field of production, manufacturing, and marketing areas. It has also succeeded in the case of private and foreign banking. The UPA government headed by Dr. Manmohan Singh had adopted the National Common Minimum Program and Globalization with a humanistic approach as suggested by the left parties. Therefore, instead of privatizing the public sector banks the economic policy lays emphasis on the merger and acquisition of public sector banks. This is done mainly to instill confidence in the minds of the general public and to facilitate an effectively functioning public sector banking system in the globalized market.

### **MERGERS AND ACQUISITION IN BANKING**

Mergers and Acquisitions are not a new strategy in the Indian banking sector. It dates back to the beginning of banking in India. In 1921 the Bank of Bengal, the Bank of Bombay and the Bank of Madras were merged to form the Imperial Bank of India, which subsequently was converted as the State Bank of India in 1955 when the Government took over control of its operations. Today Mergers and Acquisitions are the terms which are hardly used in the banking industry as business deals, but are perceived as a strong strategy which can be trusted upon for long run survival and sustenance. It is always taken in a negative sense instead of considering it as business potential. In the past, whenever the Government felt that a commercial bank has become weak, either financially or managerially, a decision was taken to merge it with some strong bank. Some examples of such mergers include Hindustan Commercial Bank and New Bank of India with Punjab National Bank and Lakshmi Commercial Bank with Canara Bank. These steps are an attempt to consolidate and strengthen the financial position and to increase the market share of Indian banking.

After economic reforms in the name of globalization, liberalization and privatization, India has opened its markets for global competition. This situation has made Mergers and Acquisitions a desperate search for a survival strategy. This is hardly surprising as stiff competition is, implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberalization has exposed the unproductive use of capital by the Indian banking industry both in public and private sectors. Consolidation through mergers and acquisitions is considered as one of the best ways of restructuring to effectively face the competitive pressures. It is a search for strength and synergy through size. Size is undoubtedly important and a number of benefits can be reaped through the size of operations. To have any significant presence in national and global markets, one does need a minimum critical mass, which only can allow sustainable cost advantage, making cross border transactions possible and leading to growth and enhancement of share holder value.

## **BENEFITS**

Mergers and acquisition offer the following benefits:

- By strengthening the ongoing Core Banking operations, mergers and acquisition will create a big platform to bring a single window system of banking in the global village.
- Public sector banks have to function in a global environment. The banks have to train their personnel keeping in view the economic, political, legal, socio-cultural and technological environment. Further the public sector banks shall transform themselves from an ethno centric approach to a geo centric approach, through polycentric and re-geocentric approach. This transformation will be necessary.
- Public sector banks may gear up to orient the employees on the role of banks in the competitive market. Obviously the banks have to impart knowledge from a broader prospective which operationally includes the impact of GATS on the banking industry.
- Mergers and acquisition promote market share. Global Trust Bank over taken by Indian Overseas Banks could witness euphoria share in the market. The proposed mergers of state bank groups with the state banks of India will push the market share by 7%. Similarly the proposed mergers and acquisition in Centurion bank and HSBC will also drive market share significantly.

Mergers and acquisition pave way for unhealthy competition among banks. This undoubtedly motivates the banks to come out with palatable strategies which may eliminate the operation of the weak banks. Elimination of the competition will not bring back the problem of monopoly. Expenditures of mergers and acquisition of unhealthy completion will undoubtedly sow the seeds of confidence among weak banks.

- The successful experience of Private and International banks in terms of deposit mobilization, expansion and diversification of After economic reforms in the name of globalization, liberalization and privatization, India has opened its markets for global competition. This situation has made Mergers and Acquisitions a desperate search for a survival strategy services and growth of market share in the global market can be replicated by public sector banks too.
- Quality of banking services can be upgraded on par with other private and foreign banks by adapting new and costly technology as per the expectation level of global consumers.
- Human Resources can be utilized to the optimum level and banking services can be diversified to non banking services by utilizing the surplus human resources at affordable cost.
- Retaining the Indian Public sector banks in the global banking system and create a healthy competition in banking sector.

- Public sector banking can also increase the effectiveness of retail banking services (ATMs) along with the network of merged banks and make use of the existing infrastructure and ATM counters to the optimum extent.
- Real Time Gross Settlement (RTGS) services can be extended for both domestic and foreign currency transaction in the global village i.e. any where, any time and any place banking services from customer to customer, bank to bank, bank to customer.
- It is observed that mergers and acquisition in public sector banks could identify the surplus in human resources. The surplus has been utilized or redeployed on various new products offered by the public sector banks in marketing their new products /services effectively.

### **MERGERS AND ACQUISITION: PRESENT SCENARIO**

Every bank no matter whether public sector or private sector has its own strengths and weaknesses. The banks with strength need to consolidate these and move towards achieving excellence in the global market. But banks which confront problems such as perennial loss, increase of NPAs, and dwindling deposit base need not be disillusioned. In fact these banks too will have some hidden capabilities which needs be properly organized and exploited. It is necessary here that banks having strong base extend their supporting hands to the other banks through Merger and acquisition. Today Indian banks function with a wide network of branches all over the country. It could offer services to the needy at very competitive terms and conditions. The services offered by the ICICI bank and HDFC banks are being followed by every public sector bank and many private banks also. ATMs, tele- banking, net banking, e-banking, core banking, retail banking, real time gross settlement services, customer relation management etc. have become the hallmark of big banks. Mergers and acquisitions help Indian banking industry in delivering the above services across board.

Both ICICI and HDFC banks are the beneficiaries of acquisitions and mergers. They have grown in size by acquiring small private sector commercial banks. As of now, ICICI and HDFC banks are enjoying an overall market share of 14% and 12% respectively. This has become possible due to their size and technological up-gradation, which is in fact, the result of mergers and acquisitions.

Needless to state, Mergers and acquisition is an ongoing process. Hindustan commercial bank merged with Punjab national bank, Lakhsmi commercial bank with canara bank, Global trust bank merged with Oriental bank of commerce, Bank of Muscat with Centurion bank, Viysa bank with ING bank and the merger process is on for the State Bank group. They are already providing common ATMs services and are looking to provide more common service platforms with the onset of Core Banking. Even in case of Regional Rural Banks Mergers and acquisition is going on a large scale. Syndicate bank sponsored Malaprabha gramina bank, Sahyadri gramina bank, Varadha gramina bank and Nethavathi gramina bank were merged together to evolve a new big bank called Karnataka Vikasa gramina bank, Canara bank sponsored Thungabhadra gramina bank, Chitradurga gramina bank, Kolar gramina bank and Bijapur gramina bank have merged to start a new bank called Pragathi gramena bank. The Caverry gramina bank has merged with Kalpatharu gramina bank.

## CHALLENGES

Once the mergers and acquisition process is completed, the Reserve Bank of India and the Government of India seriously consider the following challenges:

- To Ensure the quality of banking services after the merger and acquisition of a small or weak bank with another small or weak banks.
- To Ensure that after merger and acquisition process is completed, the customer groups of both the banks will not lose confidence on the new bank.
- To ensure that the slow move towards privatization should not affect the concept of social banking in the country.
- There will be a possibility that the strong bank emerging through the process of merger and acquisition may ignore priority sector support. Avoiding this possibility is also a great challenge.
- Mergers and acquisition will create surplus infrastructure. Initiating steps to effectively manage and diversify the banking business by utilizing this infrastructure to its full potential.
- Ensuring that the new entity will get more autonomy from Apex Bank and Government of India in respect of SLR, CRR, Rate of Interest and lending policy.
- Ensuring that the new accounting standards and prudential norms are carefully followed in the new entity.
- The major challenge for banks in India in current times is to mobilize enough resources to meet the demands of a growing economy. The Report on Trend and Progress of Banking in India 2006-07 said that most of the business of banks in India is still concentrated in a few urban centres. To mitigate this problem since 2006, opening of new branches for any bank is approved by the Reserve Bank only on condition that at least half of such new branches are opened in under-banked areas as notified by the Reserve Bank.
- Indian banking has to compete with foreign financial institution from 1st April, 2009. As a result a part of the customer's savings would go to foreign banks who in turn will deploy the same as per their priority. This proposed situation will not only cause shortage in the public sector but also cripple the activities of the service sector.
- State Bank of India is going ahead with the mergers of associate banks despite uncertain political climate delays, the process hanging as parliament could not approve part of salaries, allowances, seniority and pension.
- Banking services are governed by GATS of WTO. The employees of the banks instead of being complacent with what they are, shall acquire required skills, knowledge and abilities both on the job and off the job to render effective services.
- Mergers and acquisition under homogeneous groups, that is a Public Sector Bank with another Public Sector bank, will continue to nourish priority sectors such as agriculture, small scale industry, export and housing. Government of India may evaluate policies from time to time to ensure

growth in economic activities. Public Sector Banks are one of the drivers of economic development and are under obligation to implement policies of the government which in turn enable agriculture, small scale industry, export and housing to get proper focus for its sustenance and development. Mergers and acquisitions between the heterogeneous units will accord thrust on profitability and productivity hence they ignore priority sector. At a time when America extends supports to agriculture sector by ignoring the Doha declaration, the attitude of the homogeneous banks towards agriculture and other priority sector needs to be changed. Proper and viable lending policy would address this problem.

- It is observed that public sector banks are facing challenges in raising resources for meeting the demands of a growing economy. Public sector banks need to meet newer and tighter standards of capital adequacy for which they have to mobilize resources.
- The administrative machinery of the RBI and central government should avoid delay in the process of giving effect to the arrangement of mergers and acquisition. This is a time bound process and presently the government, especially the cabinet committee on financial affairs takes two years to accord clearance. This inordinate delay creates a lethargic attitude among the customers and in the banking sector. It is suggested to clear such proposals within a maximum period of three months as against 2 years at present so that the expected results of the mergers and acquisition can be realized by the customers without delay.
- Trade unions need to understand the importance of mergers and acquisition. They may note that mergers and acquisition in public sector banks is for the benefit of society at large which obviously includes the employees. Mergers and acquisition is the buzz word in all spheres of activities at the global level. Hence the union may consider dropping resistance to the process. Further the tripartite agreements consist of employees, employer and government and this will help reduce the ambiguity of the employee's works, strengthening the hands to go ahead with the process.

## **CONCLUSION**

At present Indian banking system is not fully competent in respect of systemic transparency and efficiency as expected for the projected foreign direct investment. To consolidate the position of weak banks and make them strong Mergers and acquisition is the viable strategy. The size and the scale of banking operation in its present status, will not ensure the effectiveness of India banking system. Before going to privatization in the name of disinvestment and rationalization, the government should evolve an appropriate merger and acquisition policy and facilitate the India banking system to become strong and big. This could pave the way for the public sector banks to survive, compete and work for the betterment of the common masses of the country.

The banks that were born in Karnataka may also come out with their own formula to go for mergers and acquisition. This is very essential not only for their survival but

also for robust growth at a global level. Mergers and Acquisition is the need of the hour, as such every bank may ponder whether it will opt for the mega event.

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