"A Study of Merger and Acquisition in Indian Private Banking Sector with special reference to Kotak Mahindra Bank"

Prof. Dr Preeti Sharma, Director, Trinity Institute of Management and Research, Pune, Dist Pune

Prof. Dr Kirti Dang Longani, Professor, School of Management, Ajeenkya DY Patil University, Pune

Abstract:

For achieving larger size and for the faster growth in the market share there is the need of merger and acquisition, with the combining of different companies or similar entities an organization can grow rapidly. This research study focuses on the amalgamation and acquirement trigger in the private banking sector of India with special indication to Kotak Mahindra bank.

This study aspires to the mergers and acquisition apprehended in the Kotak Mahindra bank. The financial shape of the Kotak Mahindra bank before merger and the growth in the market share after merger with the help of financial parameters. The study scrutinizes the impact of merger and acquisition in the firm's financial ground.

For the purpose of this study to examine the performance of merger and acquisition of the bank. This research paper includes the merger, acquisition and amalgamation done in Kotak Mahindra Bank so far and will be full of the information about strategies adopted by the Kotak Mahindra Bank which will be use as the guide line for the other banks during their mergers and acquisition.

Key words: Merger, Acquisition, Bank, Kotak Mahindra Bank, Before Merger and After Merger Performance.

Introduction- The banking sector in India has undergone several changes in the areas of prudential, regulatory, disclosure and supervisory norms. The financial changes launched during the early 1990s have significantly changed the development of banks in the country. New restructuring policies were enforced and interest rates were not regulated. As a result of these reforms, new private sector banks were permissible to enter the Indian market. These new private sector banks have built a wide network of branches, set superior standards in productivity, they have focuses on the service to their customers, they introduced global best practices and more importantly they have built durable competencies by attracting the best manpower, and creating strong brand image in the financial market within a very short span of time. This forced the old private sector banks to respond to the new challenges with aggressive restructuring procedures. On the other hand, some of the old private banks have not introduced innovative services, not set the superior standards in productivity and even not shown their competencies so all of that they given indirect benefit to new private sector banks.

We can define private bank as the 'banks where greater parts of stake or equity are held by the private shareholders and not by government'. Banking in India has been conquered by public sector banks since the 1969 when all major banks were nationalized by the Indian government. However since liberalization in government banking policy in 1990s, old and new private sector banks have re-emerged. They have been growing faster and bigger over the two decades since liberalization by updating themselves with new technology and providing modern innovations and monetary benefits.

Since the beginning of the banking system Private-sector banks have been performing in India, during 1921, the private banks like bank of Bengal, bank of Bombay and bank of Madras were in service, which all together formed Imperial Bank of India. Reserve Bank of India (RBI) came in picture in 1935 and became the centre of every other bank taking away all the responsibilities and functions of Imperial bank. Between 1969 and 1980 there was rapid increase in the number of branches of the private banks.

There are two categories of the private-sector banks: "old" and "new".

Before 1991, those bank are in operation are called as Old Private banks and those banks that have commenced their business after 1991 are called as new private-sector banks.

Housing Development Finance Corporation (HDFC) Limited was the first private bank in India to receive license from RBI as a part of the RBI's liberalization policy of the banking sector, to set up a bank in the private-sector banks in India.

Following are the some private Indian Bank.

1. Axis Bank
2. Catholic Syrian Bank
3. City Union Bank
4. Development Credit Bank
5. Dhanlaxmi Bank
6. Federal Bank
7. HDFC Bank
8. ICICI Bank
9. IndusInd Bank
10. ING Vysya Bank
11. Karnataka Bank
12. Karur Vysya Bank
13. Kotak Mahindra Bank
14. Lakshmi Vilas Bank
15. Nainital Bank
16. Tamilnadu Mercantile Bank
17. South Indian Bank
18. YES Bank
19. UP Agro Corporation Bank.

It most certainly does! Culture and people issues have been cited as the most common factors for M&A failure in six major studies. The research has shown that 70% of mergers and acquisitions fail to achieve their anticipated synergies, and 50% suffer an overall drop-off in productivity in the first four to eight months. "People problems" were cited as the top integration failure factor in a Sample of 45 CFOs from Fortune 500 companies that had recently merged or acquired.

As far as Kotak Mahindra Bank is concern this Indian private bank has established in the year 1985. The company was founded in 1985 by Uday Kotak. In 2003 the company converts to a commercial bank when it received a license from the Reserve Bank of India becoming the first

Indian finance company to do so. It was previously known as Kotak Mahindra Finance Limited. As of October 2013 it has more than 500 branches, over 1,000 ATMs. Registered office is situated at Nariman Bhavan, Nariman Point, Mumbai.

In 2005 it made a significant investment when it bought stressed assets from a number of banks, at full loan value of ₹1,000 crores.

In January 2011, the bank reported a 32% rise in net profit to ₹188 crores for the quarter ended December 2010 against ₹142 crores the corresponding quarter last year.[3] Kotak Mahindra bank also reached the top 100 most trusted brands of India in The Brand Trust Report published by Trust Research Advisory in 2011. Today Kotak Mahindra Bank has 18 branches and 71 ATMs in Pune city.

Conceptual Framework-

To grow a business, an entrepreneur always has two options either by internal expansion or external expansion. As far as internal expansion is concern a firm can grow gradually over the time through acquiring new assets, replacement of technologically out dated equipments and establishment of new lines of products.

In terms of external expansion, a firm can acquire a running business and grows quickly through the corporate combinations. External expansion can be done through the mergers, acquisition, and amalgamation and take over. They have been become an external growth of a number of leading companies the world over. In the come around of economic restructuring, Indian industries have also started restructuring their operations around their core business activities through acquisition and takeovers because of their increasing exposure to competition both nationally and internationally.

A merger is a combination of two or more businesses into one business. In Indian laws the concept 'amalgamation' use for the merger. The Income Tax Act,1961 [Section 2(1A)]defines amalgamation as ‘the merger of one or more companies with another or the merger of two or more companies to form a new company, in such a way that all assets and liabilities of the amalgamating companies become assets and liabilities of the amalgamated company and shareholders not less than nineteenths in value of the shares in the amalgamating company or companies become shareholders of the amalgamated company. One can define merger in two forms-

1) Merger through Absorption-
   An absorption is a mixture of two or more companies into an 'existing company'.
2) Merger through Consolidation- A consolidation is a mixture of two or more companies into a 'new company'.

There are three types of mergers.

Vertical, Horizontal and Conglomerate merger.

Vertical Merger- A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations.

An example of a vertical merger is a car manufacturer purchasing a tire company. Such a vertical merger would reduce the cost of tires for the automaker and potentially expand business to supply tires to competing automakers.

Horizontal Merger- Horizontal merger is a merger involving two or more firms in the same industry that are both at the same stage in the production cycle.

One excellent example of horizontal mergers over the past 30 years is in the banking industry. In 1980, The Depository Institutions Deregulation and Monetary Control Act of 1980 was passed by Congress. At the time, no one knew what wide-ranging effects this act would have but we certainly know now. This legislation allowed investment and commercial banking to share some of the same functions. It also allowed banks to branch across state lines along with expanding the powers of bank holding companies.

Conglomerate merger-

Conglomerate is a combination of firms engaged in unrelated lines of business activity.

Any merger that is not horizontal or vertical; in general, it is the combination of firms in different industries or firms operating in different geographic areas.

Phases of merger can define as follows.

PRE-DEAL DEAL POST- DEAL

(Assessing, Planning, Forecasting Value) (Agreeing Value) (Realising Value)

Review of Literature:

It was been found out by the studies of Humphrey, Willeson, Bergendahl & Lindblom (2006) that industry consolidation occurred primarily because of financial and technological innovation that misrepresented the optimal production functions of financial firms. The enabling force was a wave of financial deregulation that was necessary for banks and other financial services to take full advantage of the new production processes and technological advances revolutionized back-office processing, front-office delivery systems, and payments systems.

Sergio & Olalla (2008) finds that financial deregulation and technological progress has an important role in the process of mergers and acquisitions in the banking sector during the period 1995-2001. They used Multinomial log it analysis to conclude the characteristics of continental European financial institutions and observed that size is an important factor in mergers and acquisitions.

DeYoung, Evanoff & Molyneux (2009) have found in their study that the changes in deregulation, allowed commercial banks and other financial services firms to expand through mergers and acquisition into geographic markets and product markets. There are many variables, which have been considered as significant factor in managing Mergers and Acquisitions effectively. Communication is an unavoidable factor and effective communication can be of utmost importance for management to deal with the individual employee reactions to the merger, and the anxiety and stress levels following a merger.

According to Ivancevich, Schweiger and Power (1987) the aspects of communication should be expected to focus on employees' concern like layoffs, changes in work rules, compensation, and pension etc.

Cartwright and Cooper (1990) studied current wave of merger activity and assessed the contribution of psychology to understand mergers and acquisitions in addressing the essence of the activity. They found the positive relationship in combination of people and the fusion of organizational cultures. Cartwright and Cooper (1993) reported on a recent study of a sample of 157 middle managers involved in the merger of two U.K. Building Societies. Post-merger measures of mental health suggested merger to be a stressful life event, even when there is a high degree of cultural compatibility between the partnering organizations.

Appelbaum, Gandell, Yortis, Proper, and Jobin (2000) examined the multiple organizational factors, which directly affect a merger as well as the merger process. They addressed the issue of communication and its importance throughout the merger and acquisition (M&A) process. Further, they analyzed the corporate culture and its effects on employees when two companies merge, organizational change and the reaction of employees (resistance) to these changes. Further, they studied the issue of stress, which is an outcome of M&A within uncertain environment and reported high level of stress. Moreover, they evolved the five major sections such as communications, corporate culture, change, stress, and managing/strategy. These were sub-divided into three sub-sections: pre-merger; during the merger and post-merger.

Calipha, Tarba & Brock (2011) have reviewed M&A motives and success factors in their article such as entering a new market, gaining new scarce resources, achieving synergies and other managerial and organizational factors that are associated with M&A i.e. relative size of M&A partner, managerial involvement, culture and organizational structural issues etc.

On the basis of studies conducted by Goyal, K. A. and Joshi, V. (2011) of 17 bank mergers in India, we can identify motives and rationale for mergers as Market Leadership, Growth and Diversification, Synergy, Risk, Economies of Scale, Economies of Scope and Strategic Integration.

Bryson, (2003) reviewed the literature around managing HRM risk in a merger. He found that poor merger results are often attributed to HRM and organizational problems, and that several factors related to maintaining workforce stability are identified as important in managing HRM risk.

Schraeder and Self (2003) found that organizational culture is one factor as a potential catalyst to M&A success.

George & Hegde (2004) reported a case for the delicate aspect of employees' attitudes, their satisfaction and motivation, which are posited as prerequisites for customer satisfaction, which is, again necessary for the competitive sustenance of the organization.

Saraswathi (2007, p. 230) studied the merger of Global Trust Bank and Oriental Bank of Commerce. It was found by the author that this merger paved the way to several things in the transition period and pre merger strategy. It visualized the need for the diverse cultures to arrive at an understanding and to work hand in hand. Apart from the integration of diverse cultures, a way to inherit the advanced processes and expertise of the staff in a phased and systematic manner should be paved. It is also equally important and challenging for the transferee bank in handling the issues relating to continuance of the services of employees of the transferor bank and their career planning.

Merger and Acquisition by Kotak Mahindra Bank-

Kotak Investment Banking has established its leadership in M&As by successfully advising on some of the largest and most complex M&A transactions of every type in India. The team has a wealth of experience and offers in-depth M&A advisory expertise and deal execution skills across a broad spectrum of products & services.

Conclusion:

Banking sector is the fastest growing sector in the developing economies like India. Merger and Acquisition is considered as the useful tool for the growth of the banking sector which as encouraged the researchers to have a research on the topic. It has been seen that there is the fast growth in banking sector from past liberalization. Merger and Acquisition is the important tool for the survival of the banks especial for the week banks. This paper discusses the various factors which are been affected by the merger and acquisition they are organization culture, organizational structure, geographical market, product market, growth, risk, people of the organization, career of the employees, changes in work rules, compensation, pension etc.

This all factors affect the organization and individual both. This all create the stress for both which can result in psychological, behavioral, health, performance, and survival problems

Future Study:

The researcher will suggest the below topics for the future study,

1. The Different emerging issues which are created due to merger and Acquisition can be identified.
2. The research on impact of merger and acquisition on acquiring banks by evaluate pre middle and post merger performance
3. Future researcher can take more banks to a larger sample for the study which will give use the better result.

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