

A Study on the Impact of Mergers and Acquisitions on Financial Performance in Public Sector Banks

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ABSTRACT

Mergers and acquisitions (M&A) have become important strategic instruments for strengthening the competitiveness, operational efficiency, and financial stability of banking institutions. The Government of India has undertaken several mergers among Public Sector Banks (PSBs) to create stronger institutions with improved capital adequacy, lower operating costs, better risk management, technological capabilities, and customer services. However, mergers may also create challenges related to technology integration, human-resource management, organisational culture, and temporary operational disruptions. This study examines the impact of mergers and acquisitions on the financial performance of selected public sector banks in India. It focuses on profitability, liquidity, capital adequacy, asset quality, operational efficiency, return on assets, customer service, shareholder value, and organisational growth. Primary data were collected through a structured questionnaire from 100 respondents, while secondary data were obtained from annual reports, RBI publications, Ministry of Finance reports, journals, research articles, and reliable financial sources. Percentage analysis was used to interpret the collected responses.

Keywords: Mergers and Acquisitions, Public Sector Banks, Financial Performance, Profitability, Liquidity

CHAPTER 1: INTRODUCTION

The banking industry plays a significant role in the economic development of every country. Banks mobilise savings, provide credit facilities, support industrial development, finance infrastructure projects, encourage investment, and facilitate domestic and international trade. A strong banking system promotes efficient allocation of financial resources and contributes to confidence and stability within the financial system. The Indian banking sector has undergone substantial transformation due to economic liberalisation, financial-sector reforms, technological development, globalisation, and increasing competition. One of the major structural changes in recent years has been the consolidation of Public Sector Banks through mergers and acquisitions. These initiatives were intended to create stronger banking institutions with improved financial strength, wider customer bases, modern technologies, and greater operational efficiency. A **merger** occurs when two or more organisations combine to form a single entity under common management. An **acquisition** occurs when one organisation purchases and obtains ownership and control over another organisation. In the banking sector, mergers and acquisitions are undertaken to increase market share, strengthen financial resources, improve operational capabilities, reduce duplication, enhance profitability, and create shareholder value. Major public-sector banking consolidations in India include the merger of Oriental Bank of Commerce and United Bank of India with Punjab National Bank, Syndicate Bank with Canara Bank, Andhra Bank and Corporation Bank with Union Bank of India, and Allahabad Bank with Indian Bank. Earlier consolidation initiatives also involved State Bank of India and its associate banks. These combinations were designed to improve financial stability, lending capacity, governance, asset quality, and operational efficiency. The present study therefore examines whether mergers and acquisitions have improved the financial performance, operational efficiency, customer service, risk management, and competitiveness of selected Indian public sector banks.

1.2 STATEMENT OF THE PROBLEM

The Indian banking sector has undergone substantial structural changes through mergers and acquisitions intended to improve operational efficiency and financial stability. Consolidation has created larger banks with stronger capital positions, wider branch networks, and greater financial resources. However, mergers can also create challenges related

to technology integration, management restructuring, employee adaptation, organisational culture, and customer retention. These factors may influence profitability, liquidity, asset quality, and service quality during the post-merger period. Therefore, it is necessary to determine whether mergers have actually improved the overall financial performance of public sector banks and achieved their intended objectives.

1.3 NEED FOR THE STUDY

The study is required to evaluate the financial consequences of mergers and acquisitions in Indian public sector banks. Since mergers involve significant financial investment and organisational restructuring, their effectiveness needs to be assessed through profitability, liquidity, capital adequacy, operational efficiency, and asset quality. The findings can help bank management evaluate consolidation strategies and identify areas requiring improvement. The study can also assist policymakers in assessing banking reforms and provide useful information to investors, customers, researchers, academicians, and MBA students.

1.4 SIGNIFICANCE OF THE STUDY

Mergers and acquisitions are an important strategy for strengthening the Indian public sector banking system. Analysing post-merger financial performance provides insights into the effectiveness of banking reforms and organisational restructuring. The study helps explain the effect of mergers on profitability, liquidity, capital adequacy, asset quality, and operational efficiency. It can assist management in improving resource utilisation, financial planning, and risk management. Regulators and government authorities can use the findings to assess consolidation policies, while investors and depositors can better understand the financial stability of merged banks.

1.5 SCOPE OF THE STUDY

The study focuses on the impact of mergers and acquisitions on selected Indian public sector banks. It covers profitability, liquidity, capital adequacy, asset quality, operational efficiency, and overall financial stability. The study compares financial performance before and after mergers and also considers organisational growth, risk management, customer service, and business expansion. Primary responses and secondary financial information form the basis of the study. The findings are limited to the selected public sector banks and the specified study period.

1.6 OBJECTIVES OF THE STUDY

1. To study mergers and acquisitions in public sector banks and understand their significance.
2. To examine the effect of mergers and acquisitions on the financial performance of selected public sector banks.
3. To assess the effect of acquisitions on operational efficiency, capital adequacy, profitability, and liquidity.
4. To investigate the impact of mergers on financial stability, customer service, and organisational growth.
5. To provide suitable recommendations for strengthening public sector banks and improving post-merger financial performance.

CHAPTER 2: REVIEW OF LITERATURE

Mergers and acquisitions have become important strategic mechanisms for improving banking competitiveness, operational efficiency, financial strength, and stability. Previous research has examined profitability, liquidity, capital adequacy, asset quality, operational efficiency, technology integration, customer satisfaction, and risk management in the context of banking consolidation.

1. **Nair and Joseph (2020)**-Nair and Joseph examined technology integration following bank mergers. Their research found that digital banking systems, automated financial services, and integrated IT infrastructure could improve operational efficiency. The study emphasised technology modernisation as an important element of successful post-merger integration.
2. **Chandra and Arora (2021)**-Chandra and Arora examined customer satisfaction after bank mergers. Their findings associated increased customer satisfaction with branch expansion, improved digital services, diversified banking products, and stronger customer relationship management.
3. **Gupta and Ramesh (2022)**-Gupta and Ramesh studied operational efficiency following public sector bank mergers. Their findings indicated improved cost control, reduced duplication of resources, and increased employee productivity. The study established a positive relationship between operational efficiency and financial performance.

4. **Prasad and Kiran (2023)**-Prasad and Kiran evaluated post-merger financial performance using Return on Equity, Return on Assets, and Net Profit. Their analysis showed gradual improvement in financial performance after organisational restructuring. They recommended continuous post-merger evaluation to maintain financial stability.
5. **Malhotra and Jain (2024)**-Malhotra and Jain examined contemporary developments in banking mergers and acquisitions. Their findings highlighted the contribution of artificial intelligence, cloud computing, digital banking, business analytics, and advanced risk-management systems to post-merger financial and operational performance.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology provides a systematic framework for collecting, organising, analysing, and interpreting information. This study uses an appropriate methodology to examine the financial effects of mergers and acquisitions on public sector banks and to achieve the stated research objectives.

3.2 Research Design

The study adopts a **descriptive research design**. This design is suitable for examining the financial position of public sector banks following mergers and acquisitions without influencing their banking activities.

3.3 Research Type

The research is descriptive in nature. It examines changes in financial performance following banking mergers by considering financial indicators and the opinions of respondents.

3.4 Sources of Data

Primary Data: Primary information was collected through a structured questionnaire from bank managers, finance officials, employees, customers, and financial experts.

Secondary Data: Secondary information was obtained from public sector bank annual reports, RBI publications, Ministry of Finance reports, banking journals, research articles, financial-management books, government publications, newspapers, and reliable financial websites.

3.5 Population of the Study

The population consists of bank managers, officers, finance executives, employees, customers, financial analysts, and professionals associated with public sector banks.

3.6 Sampling Method

The study uses **convenience sampling**. Respondents were selected according to their availability and willingness to participate.

3.7 Sample Size

The sample consists of **100 respondents** representing different areas of banking operations, finance, administration, and customer service.

3.8 Research Instrument

A structured questionnaire was used as the primary research instrument. Questions covered mergers and acquisitions, profitability, liquidity, operational efficiency, capital adequacy, customer service, and financial performance.

3.9 Data Collection Method

Questionnaires were directly distributed to selected respondents. Secondary information was collected from annual reports, financial statements, banking publications, government reports, books, journals, and official financial records.

3.10 Data Analysis Tool

The study uses **percentage analysis**. Tables are prepared to present the responses, and each table is interpreted independently in relation to the objectives.

3.12 Hypotheses

Null Hypothesis (H_0): The financial performance of public sector banks is not significantly impacted by mergers and acquisitions.

Alternative Hypothesis (H_1): The financial performance of public sector banks is significantly correlated with mergers and acquisitions.

3.13 Study Period

The study is based on the recent financial performance of selected public sector banks following mergers and considers post-merger operational performance and recent banking reforms.

3.14 Limitations

The study is restricted to selected Indian public sector banks. The findings are based on published financial information and questionnaire responses. Time limitations and restricted access to private banking records may affect the scope of the study.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

Introduction: This chapter analyses responses collected from customers, banking experts, and employees regarding the effect of mergers and acquisitions on the financial performance of public sector banks. The report presents 12 tables, each connected to the study objectives.

Table 4.1: Public Sector Banks' Knowledge of Mergers and Acquisitions

Response	Respondents	Percentage
Highly Aware	36	36%
Aware	40	40%
Neutral	12	12%
Unaware	8	8%
Highly Unaware	4	4%
Total	100	100%

Description: The table measures respondents' awareness of mergers and acquisitions in public sector banking.

Analysis: 76% of respondents are either highly aware or aware of banking mergers.

Interpretation: The majority of respondents possess good knowledge of recent banking consolidation initiatives.

Table 4.2: Banking Mergers' Primary Goal

Factor	Respondents	Percentage
Profitability	42	42%
Efficiency	22	22%
Market Share	16	16%
NPA Reduction	12	12%
Others	8	8%
Total	100	100%

Description: The table identifies respondents' perceptions regarding the primary objective of bank mergers.

Analysis: Profitability received the highest response at 42%, followed by efficiency at 22%.

Interpretation: Increasing profitability is perceived as the principal objective of banking consolidation.

Table 4.3: Effect of Merger on Profitability

Response	Respondents	Percentage
Strongly Agree	34	34%
Agree	42	42%
Neutral	12	12%
Disagree	8	8%
Strongly Disagree	4	4%
Total	100	100%

Description: The table evaluates whether mergers have improved the profitability of public sector banks.

Analysis: 76% of respondents either agree or strongly agree that profitability has increased.

Interpretation: The majority of respondents believe that mergers have positively influenced profitability.

CHAPTER 5: FINDINGS OF THE STUDY

1. The majority of respondents are aware of mergers and acquisitions in public sector banking.
2. Profitability is perceived as the primary objective of banking consolidation.
3. Mergers have positively influenced the profitability of public sector banks.
4. Operational efficiency has improved following organisational consolidation.
5. The liquidity position of merged banks has strengthened.
6. Mergers have contributed to improved capital adequacy.
7. Respondents perceive improvements in post-merger asset quality.
8. Customer service has improved following banking consolidation.
9. Technology integration has contributed to improved digital banking and operational performance.
10. Risk-management practices have strengthened after mergers.
11. Employees have generally adapted successfully to post-merger organisational changes.
12. Overall financial performance has improved following mergers and acquisitions.
13. The report concludes that successful post-merger integration has contributed to profitability, financial stability, operational efficiency, customer service, and long-term organisational growth.

CHAPTER 6: SUGGESTIONS OF THE STUDY

1. Bank management should continue strengthening post-merger integration between employees, technology platforms, and operational systems.
2. Regular evaluation of profitability, liquidity, capital adequacy, and asset quality should be conducted.
3. Greater emphasis should be placed on reducing NPAs through effective credit appraisal, continuous monitoring, and recovery mechanisms.
4. Banks should increase investment in artificial intelligence, cybersecurity, and advanced digital banking technologies.
5. Regular employee training and skill-development programmes should be organised to support adaptation to new systems.
6. Customer relationship management should be strengthened by providing faster, transparent, and high-quality banking services.
7. Corporate governance mechanisms should be continuously improved.
8. Internal control systems should be strengthened to ensure accountability and regulatory compliance.
9. Banks should maintain continuous financial monitoring to identify operational and financial weaknesses.
10. Effective implementation of these measures can improve profitability, customer confidence, financial stability, and sustainable growth.

CHAPTER 7: CONCLUSION

Mergers and acquisitions have become an important strategic mechanism for strengthening India's public sector banking industry. The study demonstrates that banking consolidation has positively influenced profitability, liquidity, capital adequacy, operational efficiency, asset quality, and financial stability. Successful integration of financial resources, technology, and management practices has also contributed to better customer service and organisational performance. Although mergers may create short-term operational and administrative challenges, the study indicates that their long-term benefits have been greater. Overall, mergers and acquisitions have contributed to the sustainability, competitiveness, and financial stability of Indian public sector banks.

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