

Do Bank Mergers has Forgone or Undergone Value? From the Perspective of Investor

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Abstract

Purpose: The purpose of the study is to explore banking industries investors' perceptions about merged banks synergies "economies of scale, brand scope and market power "reaction to mergers.

Design/methodology/approach: Based on the descriptive research design, a quantitative survey was adopted and administered to 117 investors through judgmental sampling techniques. Structural Equation Modeling (SEM) was then utilized to evaluate the significance of direct and indirect relationships between the various factors under study.

Findings: The results confirm that the bank products & services and prices affect positively similarly, brand strategy and sales channels affects positively to the perceived gain of investors after mergers.

Research limitations/implications: The absence of a longitudinal study measuring the post merger perception of investor is the main limitation of this study. Moreover, despite being insightful, the result of this study is generalized around small geographic area only.

Originality/value: This study is an initial attempt to fill the void in published information about the behavioral finance of bank mergers. It provides new empirical insights about the effect of post-merger performance perceived by investor's perspective.

Keywords: Investment Decisions of Investor, Post Mergers and acquisitions, Innovative Products, Post Merger Perception, and Brand Strategy

Introduction

The return to stockholders is considered a more impartial gauge of corporate performance compared to conventional profitability metrics (Rappaport, 1983). There is a growing attention on enhancing the value for stockholders. Review of literature also suggests that there is an expected positive relationship between merging companies and the value generated (Salter & Weinhold, 1978). So far, only a few studies have examined this concept (Singh & Montgomery, 1987).

Also, the literature on acquisitions indicates a relationship between increases in stockholder value and the similarity or relatedness of the merging companies. The change in stockholders value is measured by using traditional market model of financial economies and strategic management. However, there is a lack of comprehensive studies regarding the precise methods through which managers increase stockholder value.

Does merger enhance or disconfirm stockholder expectation of improvement of wealth? During the pre merger, when the high valuations banks are merging, the stockholder of both acquires and acquiring firms have the expectation of future growth or an improvement in wealth. In line with this idea, during the merger process, competitors are expected to acknowledge the distinctive resources of the impending acquisition leading to an increase in expectation of its stock price (Mandelker, 1974). Similarly, the greater the alignment in strategies between the acquiring and acquired companies which is the more their respective environments share common traits- the higher the potential for value to be generated from the merger. But in reality the expectation of the investors are met or not and has gained the benefit or not are still unexplored.

Previous studies have yielded uncertain findings regarding the post-merger price performance. (Reid & Richardson, 1960) .Discovered lower post-merger prices compared to a non-merging control group, whereas (Richard & Jen) observed better performance. Some other researchers have mostly upheld the idea that successful acquisitions benefit shareholders, although some evidence contradicts this view. Overall, there is no definitive consensus on the long-term efficiency gain for shareholders after a merger. A prevailing belief suggests that the surge in mergers is driven by market demands to reduce costs and enhance efficiency. However, critics argue that some managers may pursue mergers to expand their own influence at the expense of shareholders, without necessarily leading to improved profitability. Nevertheless, (Focarelli & Panetta, 2003) argue that mergers can enhance banks efficiency, create value through synergies, and improve asset management.

In addition, most researchers focus investor reactions and overlook on the effect of post mergers on investor returns, notwithstanding the fact that these business changes directly impact customers. Mergers not only profitable in cost reduction and profit maximization, but also to all the stakeholders involved and have positive effects on customers, such as potential cost savings reflected in lower prices (Focarelli & Panetta, 2003), and improved services (Urban & Pratt, 2000). However, the impact of consolidation on the financial sector's overall performance remains uncertain, as there is no consensus in the existing literature. The question of whether participating financial firms, their investors, or society at large benefit from mergers activity lacks consistent evidence, leaving the implications of such consolidation unclear. Researchers emphasize the need for further research to understand the broader effects of these mergers on industry performance.

Furthermore, the primary objective of this study is to ascertain the extent of increased efficiency experienced by shareholders following a merger. As far as we know, the previous research in this domain

has focused on operating efficiencies, employee productivity, profit performance, and average relative efficiency and less is known about the public benefits from gains in operating efficiencies. However, in this study we focused mainly on the post merger effectiveness gain to the shareholders in long run and the independent variables are innovative products and services, prices, sales channels and brand strategy.

Literature review and hypothesis development

There exist several theories which can be used to explain the perceptions of Investors such as Resource based view, Theory of Planned Behavior and Cognitive Dissonance Theory, etc.

The following sections investigate the various theories to determine a model to rationalize our research. Resource-based theory is commonly used to determine when and why merger and acquisition decisions can be advantageous strategies when their goal is to acquire new resources. Many organizational theorists argue that firms face limitations in developing new resources internally due to intellectual and time constraints, (Nelson & Winter, 1982); (Singh & Montgomery, 1987). Therefore, many firms seek to the market to obtain new resources (Capron, Dussauge, & Mitchell, 1988). Since, complete resources are rarely available as single entities, firms must acquire entire businesses to extract value from the resources possessed by the acquired firm (Barney 1986). The authors also highlights that the resources with the potential to contribute to firms' post merger performance are the marketing resources, such as brands and sales forces and products and services innovativeness that are highly important subsets for the investors.

Moreover, The Theory of Planned Behavior is also most practiced to forecast the behavior of investor in explaining the merger and acquisitions. It is a socio-psychological behavioral theory which presumes that a customer's intent, influenced by his or her attitudes and subjective norms, is the solid indicator of his or her purchase behavior. The Planned Behavior presents a comprising framework considering one's perceived behavioral control, attitudes, and subjective norms- to explain and induce customers' purchasing intentions. Behavioral beliefs refer to an individual's perceptions of the likelihood that a specific behavior will result in positive or negative outcomes, considering the overall analysis of costs and benefits associated with that behavior. (Kaul, Sahi, & Mahajan, 2014). For instance, if someone believes that stock prices will increase after a merger, they will develop positive behavioral beliefs about stock pricing, leading to a positive attitude towards stock pricing. (Guo & Tao, 2011)

Similarly, the cognitive dissonance theory is commonly applied to address inconsistencies and cognitive conflicts among investors. This theory is a foundational framework for understanding how individuals deal with conflicting beliefs and emotions, leading to brand building. According to the cognitive dissonance theory, consumers experience a significant discrepancy in their identity when two brands appear together on a product, leading to a considerable psychological gap (Guo & Tao, 2011). This feeling becomes even more intense when the gap between the brands is larger. Brand strategies play a crucial role in influencing consumers' brand attitudes and their willingness to make a purchase.

Merger and acquisition and investor experience

Merger and acquisition are particular consequences in the relationships between companies and investors i.e. the phenomenon not only affects the relationship between the companies associated (Anderson, Havila, & Salmi, 2001, 2003). The severity and integrity of the changes that take place during the integration phase will determine whether merger has a favorable or negative effect on the connection between the company and its clients (Havila & Salmi, 2011) (Alvarez-González & Carmen).

Mergers and acquisitions present a promising prospect for investor's benefits. One significant advantage is the opportunity to reassess and enhance the overall investor experience (Miles & Rouse, 2011), through mergers, companies can potentially expand their service offerings, leading to a more diverse and improved range of services for customers. This expansion can also bolster the firm's reputation and offer added convenience to investors. Furthermore, mergers could lead to more favorable prices for consumers, as evidenced by the findings of (Focarelli & Panetta, 2003). Overall, merger holds the potential to positively impact investors by providing them with improved services, enhanced convenience, and potentially better pricing options.

Contrary to the potential benefits, research indicates that merger can lead to investor dissatisfaction and negative reactions (Alvarez-González & Carmen). When significant changes occur, clients may experience a loss of trust, loyalty, and commitment to the company, which could ultimately result in the termination of their relationship with the merged entity (Alvarez-González & Carmen). It is crucial for companies to carefully consider the potential consequences on their investor base to mitigate negative effects and ensure a successful integration process.

Understanding the impact on investor is crucial as negative reactions can hinder integration realization, potentially leading to low success rates and underperformance of firms post-mergers.

Bank Products and Services Innovativeness

During the merger and acquisition integration phase, there is a possibility of expanding or diversifying the product/service portfolio (Urban & Pratt, 2000); (Anderson, Havila, & Salmi, 2001, 2003). In the case of two banks merging, their combined entity can offer a more comprehensive range of products/services, enhancing their reputation and simplifying the purchasing process for clients who previously dealt with both banks (Anderson, Havila, & Salmi); (Focarelli & Panetta, 2003). This integration of products/services may lead to an improved overall product line quality, positively affecting investors, loyalty, and ultimately increasing the firm's revenue (Capron & Hulland, 1999).

Indeed, the consolidation of firms can have drawbacks, such as reduced product/service availability (Waddock & Graves, 2006). This limitation of choices may make the company less appealing to clients, leading to negative reactions from customers limiting the client's choices, rendering the company less attractive and eliciting a negative reaction from investors (Anderson, Havila, & Salmi, 2001, 2003). The above statements led to the formulation of below research question;

H1- *The bank products and services has significant and positive relationship with the investors gain.*

Changes in Prices

Following a merger, firms often integrate by adjusting the prices or rates of their products/services to achieve harmonization (Focarelli & Panetta, 2003). In the banking sector, such price changes may reflect the effects of improved efficiency (Prager & Hannan, 2003). The reduction in costs can then be passed on to customers through lower prices for the offered products and services, leading to enhanced perceived value and attracting a larger customer base (Fee and Thomas, 2004; Kim and Finkelstein, 2009). Research indicates that the anticompetitive effects of mergers may diminish after three years due to significant cost savings, resulting in lower consumer prices (Ashenfelter & Hosken, The effect of mergers on consumer prices; evidence from five selected case studies, 2008).

The literature indicates that after merger, the prices of products/services often tend to increase (Anderson, Havila, & Salmi, 2001, 2003) (Dalziei, 2007); (Focarelli & Panetta, 2003) (Havila & Salmi, 2011) (Prager & Hannan, 2003) (Urban & Pratt, 2000). In this regard, (Ashenfelter & Hosken, 2008) found that four out of five analyzed mergers led to consumer price increases ranging from 3 to 7 per cent. This perception of price hikes has been identified as a potential source of dissatisfaction that could result in customer defection in the banking sector (Vazifedoost, Ansar, & Yekezare, 2013). The above ideas led to the specification of second research question;

H2- The prices of financial products/services has significant and positive relationship with the investors gain.

Brand strategy (Positioning)

Brands play a pivotal role in attracting new customers and retaining existing ones. They are powerful manifestations that ensure future cash flows by establishing a strong connection with customer perceptions and recognition of a product, service, or company (Mahajan, Rao, & Srivastava, 1994).). In the banking sector, the management of corporate brand name and logo design characteristics significantly influences investor preferences during brand mergers. (Machado, Carvalho, Costa, & Lencastre, 2012)

An effective brand strategy should emphasize continuity, establishing a strong connection with the external environment and maintaining an emotional link between the company and its clients. It should foster positive feelings and a sense of identification, ensuring a meaningful and lasting relationship with investors.

Investors of the target firm can experience advantages when the brand strategy after merger maintains a link with the familiar while introducing a new symbol. This approach creates a sense of new beginnings and heightened expectations, representing a combination of the best elements from both merged companies. (Gonzalez & Neira, 2019). Such brand strategies can instill a positive perception of something innovative and unique, enhancing the overall customer experience and fostering a sense of trust and excitement among investors. The ideas give the formation of third research question;

H3- The rebranding strategy has significant and positive relationship with the investors gain.

Sales Channels

Mergers provide companies with the chance to assess tactical, operational, and strategic decisions concerning the management of sales channels (Palmatier, Miao, & Fang, 2007).). However, altering the sales channel of clients may have negative implications, as the proximity of a bank to home and/or work is a key factor influencing bank choice and service quality perception. On the other hand, it can enhance investor value by expanding market coverage, thus providing broader access to services (Capron & Hulland, 1999). Summarizing the above statements into the final research question;

H4- The sales channels have significant and positive relationship with the investors gain.

In summary, there is a crucial need of marketing perspective into mergers processes for research and have both negative and positive outcomes on marketing-related issues such as products and services, prices, sales channel.

Conceptual Framework

The conceptual framework consists of independent variables, namely Bank products and services, Price of products and services, Brand strategy, and Sales channels placed on the left side. On the right side of the framework, it depicts the dependent variable, which is Perceived gain of investors. The research aims to examine how the independent variables influence Perceived gain of investors.

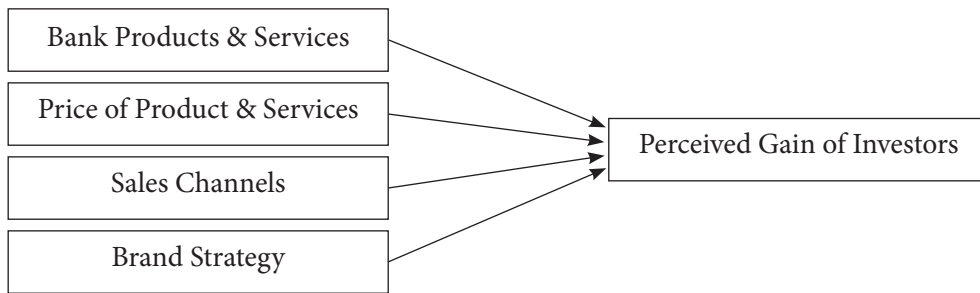


Figure 1: Conceptual Framework of Investors Perception Model

Data source and collection

Research Methodology analyses the approaches in which research problems are solved thoroughly through systematic process. The authors adopted descriptive research design which aims to provide a concise and precise investigation of selected variables, generating quantitative information.. The populations for the study are the investors of banks in the pre- merger and post merger situation in Nepalese banking sector in Kathmandu In this study, structured questionnaire adopted from previously standardized scale were used to collect the relevant data. The model was tested on a sample of 117 investors using judgmental sampling techniques, who have been continuously purchasing the stock of banks in the pre- merger and post merger situation in Nepalese banking sector. Exploratory factor analysis (EFA) and Confirmatory factor analysis (CFA) was conducted to assess the reliability, model fitness and validity issues. Similarly, Structural equation modeling (SEM) was used to evaluate the effect of post merger factors on investor’s continuous trading behavior.

Data Analysis and Discussion

Validity and Reliability

All the factors displayed satisfactory discriminant validity, as evidenced by the correlation matrix. Furthermore, there were no issues with cross-loading, ensuring the distinctiveness of each factor.

Reliability

Table 1: Reliability Test using Cronbach’s Alpha

Factor	Cronbachs Alpha	Specification
Bank Product and Services	0.815	Reflective
Price of Services	0.815	Reflective
Sales Channels	0.756	Reflective
Brand Strategy	0.840	Reflective
Perceived Gain	0.74	Reflective

Cronbach's Alpha test yielding values higher than 0.70, indicates good internal consistency. In above table 11, all factors were reflective as their indicators showed high correlations and were largely interchangeable (Jarvis, Mackenzie, & Podsakoff, 2003) .

To ensure the validity and reliability of latent factors, it is crucial to address convergent validity concerns. As per the guidelines by (Hair JR, Black, Babin, & Anderson, 2010), the following thresholds should be met for the parameters Composite Reliability (CR), Average Variance Expected (AVE), Maximum Shared Variance (MSV), and Average Shared Variance (ASV):

1. **Reliability:** CR should be greater than 0.70.
2. **Convergent Reliability:** CR should be greater than AVE, and AVE should be greater than 0.50.
3. **Discriminant Validity:** MSV should be less than AVE, and ASV should be less than AVE.

Meeting these criteria ensures that the latent factors are well-explained by their observed variables and that validity and reliability are achieved in the analysis.

Table 2: Composite Reliability, Convergent and Discriminant Validity results of the CFA

	CR	AVE	MSV	MaxR(H)
BP	0.857	0.602	0.096	0.865
P	0.762	0.525	0.096	0.845
S	0.809	0.603	0.028	1.082
BS	0.788	0.556	0.031	0.819
PG	0.797	0.605	0.031	1.371

To establish discriminant validity, we compared the square roots of AVE on the diagonal of the correlation matrix with the inter-factor correlations. Adequate discriminant validity was observed for all factors since the diagonal values were greater than the correlations. As a result, all retained factors achieved discriminant validity.

Model Fit

Table 3: Model Fit results of the Confirmatory Factor Analysis

Metric	Observed Value	Recommended Value
cmin/DF	1.559	between 1 and 3
CFI	0.923	>0.950
RMSEA	0.024	>0.950
PCLOSE	1	>0.050

The model demonstrated a good fit to the data, with all factors displaying high loading values the chi-square of the model fit having 1.559, CFI 0.923, RMSEA 0.024 and PCLOSE 1 meeting the required standard.

Regression

Table 4: Regression Table

		Estimate	S.E.	C.R.	P	Label
PG <---	BP	-.022	.007	-2.937	.003	
PG <---	P	.646	.029	22.238	***	
PG <---	S	1.055	.074	14.261	***	
PG <---	BS	.136	.006	20.980	***	

The model's outcomes revealed that there was enough evidence to support the bank products and services, price of products and services, brand strategy and sales channels on perceived gain of investors.

Results

After analyzing the entire model, each relationship within it was assessed separately. As each variable in the model represented a distinct hypothesis, the research hypotheses were collectively evaluated by examining the significance of each variable. For a variable to be considered significant, its p-value had to be less than 0.05, indicating that the relationship between the variables was statistically meaningful and not likely due to chance. In each case, the p-values were below the threshold of 0.05, confirming the statistical significance of these relationships.

1. Bank Products and Services (H1): Bank products and services have a significant and positive influence on perceived gain of investors.
2. Price of products and services (H2): Price of products and services has a significant and positive impact on perceived gain of investors
3. Brand strategy (H3): Brand strategy have a significant and positive impact on perceived gain of investors
4. Sales channels (H4): Sales channels have a significant and positive impact on perceived gain of investors.

In each case, the p-values were below the threshold of 0.05, confirming the statistical significance of these relationships.

Discussion

The primary aim of this research was to fulfill the void about the public benefits from gains in operating efficiencies. This study provides valuable insights and knowledge regarding the post mergers integration process and investors reactions through the analysis of different marketing variables. Notably, the study emphasizes the value of advanced products and services in influencing investors' decisions significantly. This emphasizes how crucial it is for banks after mergers to concentrate on creating and integrating innovative offerings in order to attract in potential investors.

In conclusion, this research offers valuable perspectives on the factors that have significant effects on investor choices in M&A situations. Banks may more effectively coordinate their proposed course to entice potential investors by acknowledging the positive relations between innovative products and

services, pricing strategies, brand positioning, and sales channels. Finally, by enabling banks to make competent decisions, this understanding may ultimately result in successful outcomes and enhanced market positions. These factors are crucial in determining how investors perceive a company and their preferences, thus banks looking for successful M&A outcomes are encouraged to pay special attention to these factors during the integration process. Overall, the research offers practical recommendations for improving efficacy.

Conclusion

The findings suggest that this merger could have generated greater non financial profits than were realized in terms of capital market investor's perception about the banking synergy and long-term brand strategic achievement. While this study only analyzed using the capital market investors' of banks merged recently, making it difficult to generalize from these results. Mergers that can enhance the success of a business combination have been identified. Nevertheless, the substantial improvements in profitability and service quality achieved in these banks through this consolidation process have started to realize in the recent years. This foregone opportunity results in real excess investor's positive perception and trust in the merged banking sectors.

Limitation and scope for Future Research

This study also has its limitations. The key limitations of the approach is only cross sectional data is used for the study. Despite these limitations, it is expected that the findings and interpretations offered in this study provide meaningful insights on those variables that affect investor's decision after the M&A.

Future research should focus more on using panel data or longitudinal data which could provide more multi perspective view .Also the expectation confirmation theory should be use to derive the investors perception on post merger deriving the multi stage linear regression model which could provide more theoretically and methodologically sound research.

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