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Exploring Synergies in Bank Mergers : A Case Study

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Abstract

The study assesses the existence of synergy in post merger performance of private sector banks only. The study analyzes cost synergy, revenue synergy and financial synergy of the same stream of business. While assessing the existence of cost synergy and revenue synergy from analyzing prior to post performance of bank merger through paired t-test and correlation of respective banks. Based on our analysis, we found a reduction in cost and enhancement in revenue from prior to post performance of a private bank merger signifies presence of cost and revenue synergy as per respective indicator of each bank. While, keeping such variable constant it has been suggested that there is a relation between financial synergy with bank mergers. Therefore, it can be said that financial synergy is correlated with efficiency and improved performance of the merged entity.

I. Introduction : A closer look at synergy

DUE TO THE globalization of financial markets, M&A present huge investment opportunities. Synergy is the soul of merger and acquisition. It is generally accepted that merger promotes synergies, either positive or negative synergy. 'Synergies are the present value of the net additional cash flow that is generated by a combination of two Banks that could not have been generated by either bank on its own virtually it's an art and science of making merger 2+2=5 effect brought out by synergy, Bill Pursche.

It is probable promised stream of cash flow realized in the near future, as its future worth has been realized now. While, the stream of synergy varies from the banking sector to another sector, such common synergies

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advance and implement, sometime it goes overvalued or undervalued post merger. But merged bank post performance has given enough signals of its existence. This study concluded there is a significant difference between pre and post merger performance in terms of cost synergy, revenue synergy and financial synergy.

Notes

1 Hitt, King, Krishnan, Makri, Schijven, Shimizu, and Zhu, (2009)
2 Raiyani 2010

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