Service Quality Perception
In Banks Post Mergers And Acquisitions:
An Empirical Study

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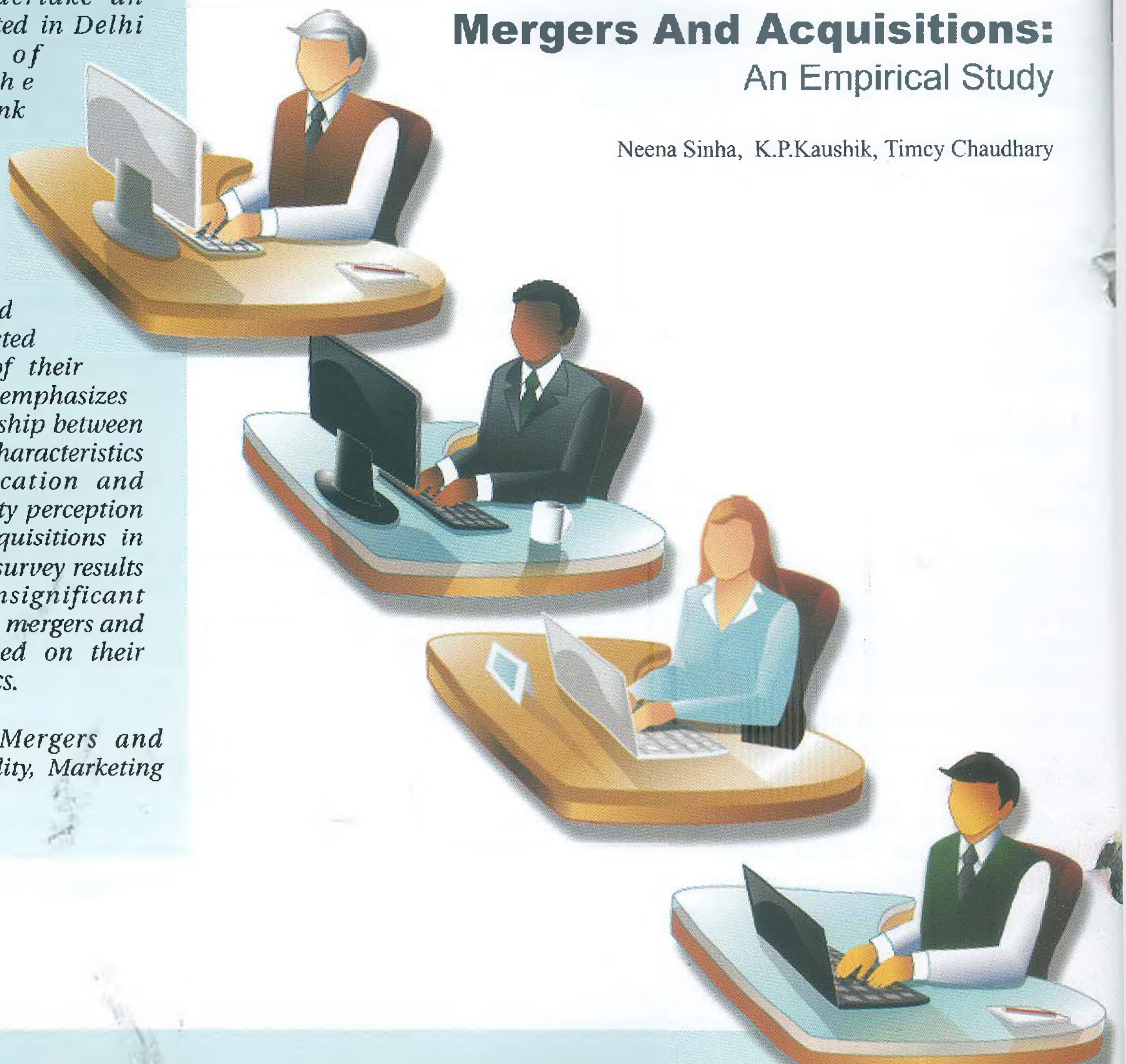
ABSTRACT

Mergers and Acquisitions in the Indian Banking Sector have become the order of the day. The ever increasing competition has forced banks to deliver quality services to the customers. The entry of private sector banks and foreign banks, which delivered better services than nationalized banks, forced nationalized banks to improve their service quality.

In this paper we undertake an exploratory study conducted in Delhi with the objective of understanding the relationship between bank mergers and service quality perception. The study based on personal interview of 200 consumers presents their perceptions of the impact of bank mergers and acquisitions on the expected change in the quality of their banking service. The study emphasizes and examines the relationship between consumers' demographic characteristics (gender, ethnicity, education and income) and service quality perception of bank mergers and acquisitions in Indian environment. The survey results reveal that there is insignificant relationship between bank mergers and customer perception based on their demographic characteristics.

Key Words: *Banking, Mergers and Acquisitions, Service Quality, Marketing Strategy*



INTRODUCTION

The growing tendency towards mergers in banks world-wide, has been driven by intensifying competition, need to reduce costs, need for global size, take benefit of economies of scale, investment in technology for strategic gains, desire to expand business into new areas and need for improvement in shareholder value. The recent reports on banking sector indicate that India is slowly but surely moving from a regime of 'large number of small banks' to 'small number of large banks' and larger the bank, higher its competitiveness and better prospects of survival'. Due to smaller size, the Indian banks may find it very difficult to compete with international banks in various facets of banking and financial services. Hence, one of the strategies to face the intense competition could be, to consolidate through the process of mergers.

However, there is little published empirical literature on the impact of mergers in banking in India particularly on consumers and their perceptions of banking services. This study is an initial attempt to fill the void in literature about the marketing implications of bank mergers. The results in the study present the consumer survey concerning the relationship between bank mergers and service quality perceptions. Appropriately, the setting of the study is Delhi region. The results reveal the evidence of a relationship between bank mergers and service quality perceptions that differ based on the demographic characteristics of the participants.

BACKGROUND

The financial services industry, particularly the banking industry, has undergone significant transformation all over the world since the early 1980s under the impact of technological advances, deregulation and globalization. In the backdrop of growing openness of Indian financial system, there is growing interest in Mergers and Acquisitions (M&A) with focus on size of the banking organisation. In the past, the mergers were initiated by the regulator (Reserve Bank of India) to protect the interest of depositors of weak banks but the market led mergers have been gaining momentum in the present day context (Mann and Kohli, 2008) and these cannot be seen as a means of bailing out weak banks any more. Mergers between strong banks/FIs make greater economic and commercial sense and have a "force multiplier effect". The Indian financial system has been open to intense international competition with complete implementation of the provisions of WTO agreement on services (GATS). With the coming of Basel-II norms (2006-07) the banks are required to strengthen their capital position to meet stringent prudential capital adequacy.

The Report of the Committee on Banking Sector Reforms (the Second Narasimham Committee, 1998) had suggested mergers among banks. From 1961 till date, there have been as many as 77 bank amalgamations. Of these, 46 took place before bank nationalisation in 1969; the remaining 31 occurred in the post-nationalisation era. Of the 31 mergers, private banks were merged with state-run banks in 25 cases, while only in the remaining six cases; both the banks were private banks. Since the onset of reforms in 1990, there have been 22 bank amalgamations. Prior to 1999, amalgamations of banks were primarily triggered by weak financials of the bank bei merged, whereas post-1999, there have also been merge between healthy banks driven by business and commerci considerations.

However, private bank mergers continued with merger of Ba of Madura with ICICI, that of Times Bank with HDFC, Benar State Bank with Bank of Baroda in 2002, Nedungadi Bank wi Punjab National Bank in 2003, Global Trust Bank with Orient Bank of Commerce in 2004 and more recently that of the Bar of Punjab with Centurion bank and now approval for HDF with Centurion bank in 2008 (Table I). These mergers did he in strengthening the banks financially, helped to avoid t complex processes of restructuring the weaker of the units a foster financial stability and opened the possibility of active promoting universal banking. It is encouraging that the mergers were facilitated to a large extent by banking sect reforms.

With the maturing markets, global competition and M&A banking sector has forced the bankers to explore the trade- between winning new customers and retaining old ones. T advent of private sector and foreign banks has also be instrumental in providing greater benefits and new servi options to customers (Panigrahy, 2000). Many of the leadi business magazines (Business Today and Business India) ha started ranking the banks on various criteria such operational ratios, profitability ratios, net profit, and oth financial parameters (Business India, 1995; 1996; 19 Business Today, 1998a, b; 1999). These rankings are in essen based on financial aspects rather than on service qual delivered to customers. Therefore, at this juncture it imperative to have an analysis of the merged banks in In from a service quality perspective.

Table 1: Banks Merged in India since Nationalization of Banks

S. No.	Name of Transferor Bank/Institution	Name of Transferee Bank/Institution	Date of Amalgamation
1	Bank of Bihar Ltd.	State Bank of India	November 8, 1969
2	National Bank of Lahore Ltd.	State Bank of India	February 20, 1970
3	Miraj State Bank Ltd	Union Bank of India	July 29, 1985
4	Lakshmi Commercial Bank Ltd	Canara Bank	August 24, 1985
5	Bank of Cochin Ltd.	State Bank of India	August 26, 1985
6	Hindustan Commercial Bank Ltd.	Punjab National Bank	December 19, 1988
7	Traders Bank Ltd.	Bank of Baroda	May 13, 1988
8	United Industrial Bank Ltd.	Allahabad Bank	October 31, 1989
9	Bank of Tamilnadu Ltd.	Indian Overseas Bank	February 20, 1990
10	Bank of Thanjavur Ltd.	Indian Bank	February 20, 1990
11	Parur Central Bank Ltd.	Bank of India	February 20, 1990
12	Purbanchal Bank Ltd.	Central Bank of India	August 29, 1990
13	New Bank of India	Punjab National Bank	September 4, 1993
14	Kashi Nath Seth Bank Ltd.	State Bank of India	January 1, 1996
15	Bari Doab Bank Ltd.	Oriental Bank of Commerce	April 8, 1997
16	Punjab Co-Operative Bank Ltd.	Oriental Bank of Commerce	April 8, 1997

S. No.	Name of Transferor Bank/Institution	Name of Transferee Bank/Institution	Date of Amalgamation
17	Bareily Corporation Bank Ltd.	Bank of Baroda	June 3, 1999
18	Sikkim Bank Ltd.	Union Bank of India	December 22, 1999
19	Times Bank Ltd.	HDFC Bank Ltd.	February 26, 2000
20	Bank of Madura Ltd.	ICICI Bank Ltd.	March 10, 2001
21	Icici Ltd.	Icici Bank Ltd.	May 3, 2002
22	Benares State Bank Ltd.	Bank of Baroda	June 20, 2002
23	Nedungadi Bank Ltd.	Punjab National Bank	February 1, 2003
24	South Gujarat Local Area Bank Ltd.	Bank of Baroda	June 25, 2004
25	Global Trust Bank Ltd.	Oriental Bank of Commerce	August 14, 2004
26	IDBI Bank Ltd.	IDBI Ltd.	April 2, 2005
27	Bank of Punjab Ltd.	Centurion Bank Ltd.	October 1, 2005
28	Ganesh Bank of Kurundwad Ltd.	Federal Bank Ltd.	September 2, 2006
29	United Western Bank Ltd.	IDBI Ltd.	October 3, 2006
30	Bharat Overseas Bank Ltd.	Indian Overseas Bank	March 31, 2007
31	Sangli Bank Ltd.	ICICI Bank Ltd.	April 19, 2007
32	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd	August 29, 2007
33	Centurion Bank of Punjab Ltd	HDFC Bank Ltd.	May 23, 2008

LITERATURE REVIEW

For conducting literature review this section is divided into two general categories: business operations and service quality with reference to customers. In the first category, there are several studies related to business operations of bank mergers.

Business Operations Literature

Sharpe (1990) examines the customer relationships that arise between banks and firms for instance in the process of lending, a bank learns more than others about its own customers. They found that this information asymmetry allows lenders to capture some of the trends generated by their older customers; competition thus drives banks to lend to new firms at interest rates which initially generate expected losses and as a result, the allocation of capital is shifted toward lower quality and inexperienced firms.

Hallowell (1996) presents the findings of a study performed on the basis of the data from a large bank's retail-banking operations. It illustrates the relationship of customer satisfaction to customer loyalty, and customer loyalty to profitability, using multiple measures of satisfaction, loyalty, and profitability. An estimate of the effects of increased customer satisfaction on profitability (assuming hypothesized causality) suggests that attainable increases in satisfaction could dramatically improve profitability.

Houston et. al. (2001) analyzed a sample of the largest bank mergers between 1985 and 1996 and obtained management estimates of projected cost savings and revenue enhancements. They found that recent mergers appear to result in positive revaluations of the combined value of bidder and target stocks.

Panetta and Focarelli (2003) investigated for the first time the long-run pricing effects of M&As. They found strong evidence that, although in the short run consolidation generates adverse price changes, these are only a temporary phenomenon. In the long run efficiency gains dominate over the market power effect of mergers, leading to more favorable prices for consumers.

According to Coyne et. al. (2004), banks must differentiate themselves by understanding the needs of their customers and giving those customers a distinctive experience, like retailers. According to them banks should boost their performance the old-fashioned way, by improving productivity—something that will become vital as their payments businesses, representing a substantial share of industry profits and operating expenses, shrink with the falling use of checks.

Kakani and Mehta (2006) investigate the various motivations for mergers and acquisitions in the Indian Banking sector. The study looks at the significant role of the state and the central bank in protecting customer's interests vis-à-vis creating players of international size.

More recently, Dick (2008) estimated a structural demand model for commercial bank deposit services in order to measure the effects on consumers given dramatic changes in bank services throughout US branching deregulation in the 1990s. The study shows that consumers respond to deposit rates, and to a lesser extent, to account fees, in choosing a depository institution. Moreover, consumers respond favorably to the branch staffing and geographic density, as well as to the bank's age, size, and geographic diversification. Consumers in most markets experience a slight increase in welfare throughout the period.

Although lot of literature is available on bank mergers but most of the published articles and studies are related to general issues/ financial services marketing of bank merger. It indicates that consumer decisions are based on prices and bank characteristics. However, there is still a need for empirical research into consumer perceptions of banks post merger. The second category demonstrates this type of research.

Service Quality Literature

Service quality plays an important role in customer selection of the service provider (Anderson et. al., 1976). Gronroos (1984) defined service quality as being a perceived judgment developed by customers when they evaluate and compare their expectations with the services they actually receive (perceptions). Several studies have identified a significant relationship between service quality and performance. Findings demonstrate that firms offering superior service attained higher than normal market share (Buzzell and Gale, 1987), that service quality impacts on profits via enhanced market share as well as premium prices (Gummesson, 1993) and that, compared to competitors organisations in the top quintile of relative service quality on average achieve an 8 per cent higher price premium (Buzzell and Gale, 1987). Other consequences of superior service have been found including word of mouth recommendation (Parasuraman et al., 1991). Consequently service quality is accepted as a winning competitive strategy, good for service providers – and their customers.

Zeithaml, Berry, Parasuraman, 1996 proposed the behavioral and financial consequences of service quality in the form of a model. The left portion of the model is at the level of the individual customer and proposes that service quality and behavioral intentions are related and, thus, that the service quality is a determinant of whether a customer ultimately remains with or defects from a company.

Service Quality Model

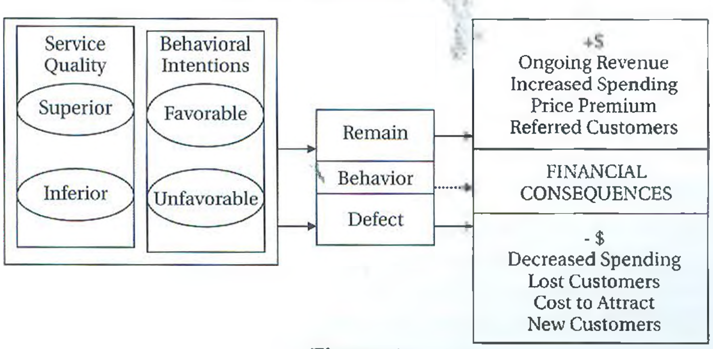


Figure 1

Kangis and Passa (1997) examine the extent to which pri awareness affects expectations and perceptions of quality b bank customers. Their conclusion is that price awareness h some influence on quality perception, but does not have significant influence on expectations.

Dick (2007) studied the banking markets which depi enormous variation in population size. Markets remai similarly concentrated regardless of size. Secondly, the numbe of dominant banks is roughly constant across markets d different size; it is the number of fringe banks that increase with market size. Further, service quality increases in large markets and is higher for dominant banks. The finding suggest that banks use fixed-cost quality investments t capture the additional demand when market size grow thereby raising barriers to entry.

Mittal et. al. (2007) examines the perception of stakeholders quality service in Indian banks. Their study highlights on th fact that nationalized banks are not deficient in service quali rather they are better on some dimensions of service quali than their counterparts.

The service quality literature provides evidence that there is relationship between service quality and the perceptions bank services. There is a need for additional research determine the relationship between various demograph characteristics and its extent of service perceptions in the fa of bank merger activity. For academicians who are interested researching consumer perceptions of service quality as a resu of mergers and acquisitions, this empirical research wou offer an important benchmark for future studies. Th accumulated results of these studies may ultimately lead to working model of consumer response to bank mergers th would have both theoretical and managerial appeal. Therefor this research follows logically from the research gaps reporte in the Indian environment by academic and practition literature reviews and will be an important first step in fillir the demonstrated research needs.

OBJECTIVES OF THE STUDY

- To understand the demographi characteristics of the respondents an perception of bank service in face of ban merger activity.
- To understand the relationship between bank mergers an service quality perception.
- To highlight the various managerial implications including a need for complementarity of marketin strategies for both acquired and non-acquired banks.

METHODOLOGY

In India, Mergers and Acquisitions (M&A) an corporate restructuring in banking sector are big part of the corporate finance world Recently RBI approved mergers of two banks, nationalized bank merger with foreign ban i.e. Bank of Punjab with Centurion Bank and Centurion Bank of Punjab with HDFC Bank. Therefore, these mergers make it an appropriate setting for investigation of consumer perceptions about the impact of bank mergers on service quality. The personal interview of the residents was conducted for which a questionnaire was prepared to inquire about their perceptions of the impact of bank mergers on the expected change in the quality of their banking services.

A total of 200 respondents participated in the study conducted in Delhi. The study population consisted of adult residents of Delhi region. In this paper we focus specifically on participants' who are customers of involved banks. The study is based on Judgment sampling. The respondents were asked whether they had heard anything about bank mergers involving Bank of Punjab and Centurion Bank; HDFC Bank and Centurion Bank of Punjab. Then respondents were asked whether or not they were customers of any of these banks involved in merger. The respondents were also asked if they expected their own banking services to get better, remain about the same, get worse or don't know as a result of merger. Also, respondents provided a variety of demographic data during the survey, including information about their gender, age, income, and education level.

FINDINGS

The data of demographic profile was weighted on gender, age, education and family income. Service quality perceptions of 200 respondents are subject to a sampling error at the 95 percent level of confidence.

Table 2 depicts a summary of the characteristics of the respondents. A majority of respondents (56 percent) said that they had knowledge of merger i.e. they had heard or read about the announcement of merger. 33 percent said that they had bank accounts or obtained other financial services from these banks. A total of 20 percent of surveyed respondents said that quality of services provided by their bank would get better, 47 percent said that they would remain about the same, 17 percent thought the service would get worse and 15 percent said they did not know how the merger would affect the quality of service delivered by their bank.

Table 2: Characteristics of Respondents

Study Variables	% of Sample (N=200)
Gender	
Male	49
Female	51
Age	
18-29	35
30-44	32
45-64	23
65 and older	10
Education	
Secondary	20
Senior Secondary	17
Graduation	42
Post Graduation	21
Family Income	
Under 100000	11
100000-199999	28
200000-299999	35
300000 and above	26
Knowledge of Merger	
Yes	56
No	44
Customer of Involved Banks	
Yes	33
No	64
Will Bank Service be Affected?	
Get better	20
Remain about the same	47
Get worse	17
Don't know	15

Note: where percentages do not add to 100 - "no answer".

The results in Table 3 indicate the respondents who were customers of banks that were to be merged were more likely to know about the announcement. Based on chi-square test (p=0.000) it was found that the relationship between customer status and knowledge of mergers at affected banks is highly significant. Individuals thought that the merger would be more likely to have cognitive response to information about the bank. Thus, it can be concluded that both the acquiring bank and the non-acquired bank follow the same marketing strategy. The marketing strategy adopted by non-acquired banks is to capture uncertain customers of the acquired bank. It is also beneficial in providing its existing customers a sense of reassurance of its position. With a strategy of reassurance, the newly acquired bank makes an effort to maintain its customer base and tries to attract new customers.

Table 3: Relationship between Customer Status and Knowledge of Merger at Affected Banks

Statement		Do you have any bank accounts or obtain any services at these banks?		
		Yes	Yes	Yes
Have you heard anything about bank mergers involving Bank of Punjab, Centurion Bank,	Yes	46 [73.00]	57 [43.3]	103 [52.8]
	No	17 [27.0]	75 [56.9]	92 [47.2]
	Total	63 [32.3]	132 [67.7]	195 [100]

Notes: Value of Chi-Square=15.17, at 1 df, p=0.000, Percentages in parentheses

As shown in Table 4, the relationship between respondent's gender and opinion of the effect of mergers on banking services is statistically insignificant as p= 0.765. Male respondents are more optimistic about the services provided by the bank. 43 percent of males of the view that the services provided by their bank would remain about the same; 22.6 percent said that it will get better and 34.4 percent of males are either uncertain or believe that the quality of service will get worse. Female respondents are pessimistic in their views as compared to males.

Table 4: Relationship between Respondent's Gender and Opinion of the Effect of Mergers on Banking Services

Statement		Respondent's Gender		
		Male	Female	Total
How will these bank mergers affect the quality of services you receive from your bank?	Get Better	21 [22.6]	20 [20.6]	41 [21.6]
	Remain the same	40 [43.0]	49 [50.5]	89 [46.8]
	Get Worse	17 [18.3]	15 [15.5]	32 [16.8]
	Don't Know	15 [16.1]	13 [13.4]	28 [14.8]
	Total	93 [48.9]	97 [51.1]	190 [100]

Notes: Value of Chi-Square= 1.15, at 3 df, p=0.765, Percentages in parentheses

Based on the results of chi-square test (p=0.145), as detailed in Table-5 reveal that there is no significant relationship between respondent's age and opinion of the effect of mergers on banking services.

Table 5: Relationship between Respondent's Age and Opinion of the Effect of Mergers on Banking Services

Statement		Respondent's Age				
		18-29	30-44	45-64	65 and above	Total
How will these How will these bank mergers affect the quality of services you receive from your bank?	Get Better	19 [29.7]	11 [18.6]	9 [21.4]	1 [5.3]	40 [21.8]
	Remain Same	33 [51.5]	29 [49.2]	16 [38.1]	8 [42.1]	86 [46.7]
	Get Worse	7 [10.9]	9 [15.2]	10 [23.8]	5 [26.3]	31 [16.8]
	Don't Know	5 [7.9]	10 [17.0]	7 [16.7]	5 [26.3]	27 [14.7]
	Total	64 [34.8]	59 [32.1]	42 [22.8]	19 [10.3]	184 [100.00

Notes: Value of Chi-Square= 13.4, at 9 df, p=0.145, Percentages in parentheses

Table 6 depicts the relationship between respondent's education level and opinion of the effects of mergers on banking services. As per the results of chi-square (p=0.171) there is no significance relationship between education level and effects of mergers on banking services. While 26.9 perce of the graduates said that the services delivered by their ba post merger either get worse or they don't know; 55.2 perce said the situation will remain same and 17.29 percent said will improve.

Table 6: Relationship between Respondent's Education Le and Opinion of the Effects of Mergers on Banking Service

Statement		Respondent's Education Level				
		Secondary	Senior Secondary	Graduation	Post Graduation	Total
How will these bank mergers affect the quality of services you receive from your bank?	Get Better	10 [27.0]	7 [21.9]	14 [17.9]	6 [15.3]	37 [19.9]
	Remain Same	12 [32.4]	14 [43.7]	43 [55.2]	18 [46.1]	78 [46.9]
	Get Worse	7 [18.9]	5 [15.6]	9 [11.5]	13 [33.3]	37 [18.2]
	Don't Know	8 [21.7]	6 [18.8]	12 [15.4]	5 [0.05]	28 [15]
	Total	37 [19.9]	32 [17.2]	78 [41.9]	39 [21]	186 [100.0

Notes: Value of Chi-Square=12.81, at 9 df, p=0.171, Percentages in parentheses

MANAGERIAL IMPLICATIONS OF THE STUD

In India among the reasons for the rece increase in bank mergers are the allure reduced operating costs, increase profitability and greater market share. Merg banks may also be in a stronger position to de with competition from other banks and financial-servic companies. Bank mergers benefit customers through larg loan limits, more branches, more ATM machines and great opportunities for internet banking. However, mergers ma also result in higher prices for bank services. In recent years India it has been seen a particularly large number of ba mergers taking place or being announced. Both merging bank and banks that have not gone for merger face a simil marketing strategy. A marketing strategy adopted by the non merged bank to capture uncertain customers of the acquir bank also help to provide its own customers with reassuranc about its position. Moreover, a newly-acquired bank make efforts to hold on to its existing customers and it may also be i position to attract new customers with a strategy gea towards reassurance.

A marketing approach that assures a bank's existing custom of maintained or enhanced quality of services will help t maintain market share. It may also help to expand mark share by attracting customers affected by the turbulence in th banking environment. Bank marketers should place le emphasis on selling transaction accounts and more o relationship marketing. This will necessitate tactics such a changes in corporate culture, stressing personal servic incentive programmes to reward employees for providing excellent service; greater use of customer databases to discover new opportunities for differential promotion; cross-selling and increased volume; and reward programmes for customers who are loyal to the bank.

CONCLUSION

Overall, the results of the statistical tests indicate there is no significant relationship between demographic characteristics and consumer perceptions of bank service quality post merger. The results of this study are inconsistent with the study conducted by Urban, J. D and Pratt, D. M (2000). It is found in the study that males are more optimistic about the service quality delivered to them by merged banks than females. In the light of this observation it is pertinent to reassess the need for adopting promotional messages, policy statements as part of corporate campaign, and other forms of marketing communications about the merger to attune to perception of the customers in terms of demographic variables.

LIMITATIONS AND SCOPE OF FUTURE STUDY

Although, the study offers some interesting insights about the relationship between consumer demographics and service quality perception involving mergers of banks in Indian environment, the sample is limited to bank customers in a single state i.e. Delhi region. Secondly, the time constraints of personal interviewing necessitated the use of relatively simple measurement scale.

In order to reach conclusive results, further study can be undertaken covering a larger sample of residents to challenge, confirm or add to the reasons and other variables developed by this research. The statistically insignificant relationships between service quality perceptions and both education and gender should be explained in more depth in order to understand why they do not exist.

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