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Research Article

Assessing Customer Perspectives on Mergers and Acquisitions in the Indian Banking Landscape: A Case Study from Manipur

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ABSTRACT

In today's dynamic corporate environment, mergers and acquisitions are crucial strategies for firms striving for long-term sustainability and effectiveness. This is especially pertinent in the Indian banking sector, which caters to a large customer base where exemplary customer service is essential for business prosperity. This study investigates the repercussions of mergers and acquisitions on customers within the Indian banking sector. Employing a descriptive approach, the research utilizes both primary and secondary data sources. Primary data is gathered through a convenient sampling method from customers in Manipur yielding 56 completed questionnaires out of 60. The collected data undergoes quantitative analysis using IBM SPSS, employing techniques such as percentage analysis and factor analysis. The results highlight three significant factors – technological improvement, customer orientation, and speed of integration – that collectively account for 60.74% of the variance. While acknowledging limitations such as potential variability due to sample size, the study offers valuable insights into the impact of recent mergers and acquisitions on Indian banking customers. By focusing on this specific demographic, it enriches the existing literature with a nuanced examination of their experiences and perspectives.

Keywords: Mergers, acquisitions, Indian banking, customer impact, analysis

Introduction

The global banking landscape has undergone profound transformations in recent times, propelled by advancements in modernization, automation, and strategic reconfiguration through mergers and acquisitions (M&A) (Csikosova et al., 2016). Mergers involve the consolidation or integration of two entities into a single economic entity, while acquisitions entail the purchase of assets and stock of a target company (Koi-Akrofi, 2016). These strategic manoeuvres have dramatically altered the business terrain, offering firms a pathway to long-term viability and efficiency amidst a rapidly changing environment. In the context of the Indian banking sector, characterized by a vast customer base and the intrinsic value of quality customer service for business success, mergers and acquisitions hold particular significance. This paper delves into the impact of such strategic actions on customers within the Indian banking domain. Employing a descriptive approach, the research synthesizes primary and secondary data sources. Primary data collection, facilitated by a convenient sampling method among customers in Manipur, yielded 56 completed questionnaires out of 60. IBM SPSS is employed for quantitative analysis, utilizing techniques such as percentage analysis and factor analysis. The findings underscore three significant factors – technological improvement, customer orientation, and speed of integration – collectively elucidating 60.74% of the variance.

While recognizing the potential of mergers and acquisitions to create value greater than the sum of their parts, the study acknowledges associated challenges and risks. These include the complexities of integrating diverse organizational cultures, systems, and processes, alongside regulatory and legal intricacies, and possible market disruptions. Effective post-merger integration is paramount for realizing anticipated synergies and maximizing stakeholder value. The history of Indian banking mergers can be traced back to the formation of the Imperial Bank of India in 1921, which subsequently evolved into the State Bank of India after independence in 1955. Subsequently, mergers and acquisitions have become increasingly commonplace, with notable examples including the consolidation of State Bank of India and its associate banks in April 2017, and the amalgamation of nationalized banks such as Bank of Baroda, Vijay Bank, and Dena Bank in April 2019. The most recent large-scale merger in April 2020 amalgamated 10 public sector banks into four entities, aiming to rationalize the sector, enhance efficiency, and address issues of non-performing assets.

Despite the potential benefits of consolidation, mergers in the Indian banking sector pose challenges such as integration complexities, cultural disparities, and workforce realignment. Effective post-merger strategies and management are essential for realizing intended benefits and ensuring a smooth transition for stakeholders. Given the significant customer base of the Indian banking industry and the pivotal role of customer service in business success, this study aims to elucidate the impact of mergers and acquisitions on customer satisfaction and overall banking service quality. Key variables such as technological improvement, customer orientation, and speed of integration are examined to provide insights into post-merger dynamics. The research aims to identify best practices, areas for improvement, and strategies to address challenges, with the goal of informing stakeholders and cultivating an environment conducive to sustainable growth and customer-centric banking practices in India.

Literature Review

This review thoroughly examines a variety of studies exploring the effects of mergers and acquisitions (M&A) on both the involved parties and the impacted customers. ÖBERG (2008) delved into the perspectives of both M&A parties and customers, highlighting the significant influence of customer reactions on M&A activities and integration strategies. Notably, customer perceptions of M&A announcements play a crucial role in shaping their behaviour and influencing the realization of integration goals. Prompitak (2009) conducted a study on the effects of mergers on bank loan pricing behaviour, credit availability, and lending objectives in large European commercial banks. The study revealed that mergers often lead to reduced interest margins, loan supply, and lending rates, as merged banks pass operational efficiency gains to customers in the form of lower rates. Fashola (2014) compared customer satisfaction levels post-acquisition between customers of the acquiring bank and the merged bank, finding higher satisfaction levels among customers of the acquiring bank compared to those of the merged bank. Similarly, Joash and John (2015) emphasized the positive impact of mergers and acquisitions on organizational efficiency and customer satisfaction, highlighting how mergers expand capital bases, improve operational effectiveness, and enhance customer satisfaction through increased resources and improved service quality.

Meanwhile, Ojha and Walsh (2016) argued that mergers enhance competitiveness and increase capital for financial institutions, underscoring the importance of protecting consumer rights and maintaining financial stability post-merger. Sharma (2018) evaluated the impact of bank mergers and acquisitions on customer satisfaction in Nepal, revealing positive outcomes such as economies of scale, expanded service areas, and technological advancements, contributing to enhanced customer satisfaction. Furthermore, Alvarez-González and Otero-Neira (2019) explored the effects of M&A on marketing-related aspects in the banking sector in Spain. While negative impacts were observed on prices and branch proximity, positive effects were noted on product and service offerings post-M&A. B & M Rashinkar (2022) conducted an evaluation of how mergers and acquisitions impact customer satisfaction within public-sector banks in India, finding that M&A activities generally create synergies for Indian banks. Some recent studies have also significantly contributed to this discourse. For instance, Smith et al. (2017) conducted a longitudinal study analysing the effects of mergers and acquisitions on customer satisfaction and loyalty in the U.S. banking sector, suggesting that well-executed M&A strategies can lead to improved customer experiences and long-term loyalty. Similarly, Patel and Gupta (2020) investigated the impact of mergers on service quality and customer satisfaction in the Indian banking sector, highlighting the importance of effective communication and integration strategies in mitigating negative customer perceptions during mergers. These studies collectively provide comprehensive insights into the multifaceted impacts of mergers and acquisitions on customers and underscore the significance of effective integration strategies and customer-centric approaches in navigating the challenges and opportunities arising from M&A activities in the banking sector.

Objectives

The present investigation aims to explore the impact of mergers and acquisitions on customers and inform stakeholders for fostering sustainable growth and customer-centric banking practices in India specifically in Manipur. Precisely it is: i) to investigate the impact of mergers and acquisitions (M&A) on customer satisfaction and overall banking service quality within the banking sector; ii) to conduct an analysis of key variables such as technological improvement, customer orientation, and speed of integration to gain insights into post-merger dynamics; iii) to identify best practices, areas for improvement, and strategies tailored to address challenges associated with mergers and acquisitions in the banking sector; and iv) to disseminate information to stakeholders about the implications of M&A activities and foster an environment conducive to sustainable growth and customer-centric banking practices in Manipur.

Materials and Methods

This empirical study investigates the impact of M&As on customers using a blend of primary and secondary data. Primary data is gathered via convenient sampling through questionnaires distributed among Manipur customers, while secondary data is sourced from research papers, journals, and company databases. An online survey questionnaire, created with Google Forms, is disseminated to customers via email, messengers, and WhatsApp to capture their perspectives. The researcher specifically targets customers who were banking with a pre-merged entity, seeking first hand insights into the merger's effects on satisfaction and service quality. With a robust response rate of 93.33%, 56 out of 60 collected questionnaires are considered usable, underscoring the relevance of the study to Manipur's banking clientele. IBM-SPSS is employed for quantitative analysis, employing percentage and factor analysis, with a reliability test ensuring scale validity and principal component analysis extracting variance for deeper investigation.

Analysis and Results

The study embarked on its analysis by first delving into the profiles of the respondents. This involved a thorough examination of various variables such as gender, age, duration of their relationship with the bank, and details regarding the banks involved in mergers and acquisitions. Remarkably, out of the 60 meticulously filled questionnaires collected, an overwhelming 56 responses (99.33%) were found to be usable, indicating an exceptionally high standard of data quality and reliability. Delving deeper into the demographic makeup of the respondents, the study discovered a well-balanced distribution in terms of gender, with an equal representation of males and females. Furthermore, a significant proportion of respondents fell within the 31-40 age brackets, suggesting a predominant presence of individuals in their middle adulthood stage. Additionally, a substantial 75% of the respondents had maintained a relationship with the bank for over four years, indicative of strong customer loyalty and enduring associations. The investigation also pinpointed specific banks involved in mergers and acquisitions (M&A), notably highlighting the United Bank of India as the acquired entity and Punjab National Bank as the acquiring institution. This concentration of respondents associated with these banks underscores the profound impact of M&A activities on Manipur customers, particularly those linked with the United Bank of India.

Moving on to the reliability assessment, the study utilized Cronbach's Alpha coefficient, yielding a value of 0.721, which surpassed the acceptable threshold of 0.70, indicating commendable internal consistency. Moreover, with a high utilization rate of collected data standing at 93.3%, coupled with robust reliability testing, the credibility and rigor of the study's methodology are further underscored. In terms of construct validity, exploratory factor analysis (EFA) was conducted, resulting in the extraction of three factors with Eigenvalues greater than 1.0. Collectively, these factors explained 60.740% of the variance within the dataset. This rigorous analysis emphasises significance of the extracted factors in unraveling underlying structures within the data, thereby enhancing the validity and reliability of the study's findings.

Discussion

The merger and acquisition (M&A) process in the banking sector is a pivotal strategy that serves multiple purposes, including consolidating services, bolstering industry strength, modernizing services, competing with multinational banks, and expanding operations. In today's business landscape, where customer satisfaction reigns supreme for organizational success, providing exceptional customer service has become a fundamental element across all industries. The study's findings underscore the significance of customer satisfaction and loyalty within the context of M&A activities in the banking sector. The majority of respondents, indicating long-term relationships with their banks of over four years, signify the importance of sustaining customer relationships amid strategic transformations like mergers and acquisitions. Notably, the study highlights the prevalence of mergers involving specific banks, particularly the United Bank of India as the acquired entity and Punjab National Bank as the acquiring institution.

This concentration emphasises the substantial impact of M&A activities, particularly on customers associated with these banks in the Manipur region. The role of customer perceptions in shaping behaviour and influencing the outcomes of M&A activities is emphasized through various studies cited in the literature review. Managing customer expectations throughout the M&A process emerges as a critical factor in mitigating negative reactions and facilitating post-merger integration effectively. Methodologically, the study employed principal component analysis with Varimax rotation and Kaiser Normalization to extract three significant factors explaining a considerable portion of the dataset's variance. However, it acknowledges limitations such as a factor loading below 0.50 for one item, affecting the accuracy of describing variables under the Customer Orientation factor. Insights from the literature review further enrich the understanding of the study's findings. Mergers are shown to often lead to operational efficiency gains, translating into benefits for customers, such as reduced interest margins and improved service quality. Marketing-related impacts of M&A activities highlight both challenges and opportunities for banks, impacting various aspects like prices, branch proximity, and product/service offerings. Longitudinal studies emphasize the importance of well-executed M&A strategies in fostering long-term customer loyalty and satisfaction. Effective communication and integration strategies are identified as crucial for mitigating negative customer perceptions during mergers and ensuring a seamless transition for all stakeholders.

Conclusion

The present findings confirmed into the multifaceted implications of mergers and acquisitions (M&A) within the banking sector, particularly focusing on customer satisfaction and loyalty amidst strategic transformations. Through meticulous analysis and robust methodology, we have gleaned valuable insights into the dynamics of M&A activities and their impact on customer relationships. Firstly, our examination of respondent profiles revealed a gender-balanced pool with a significant presence of middle-aged individuals, indicating strong customer loyalty among respondents, many of whom have been associated with their banks for over four years. This underscores the enduring nature of customer relationships in the banking sector, even amid strategic changes such as mergers and acquisitions. These findings also shed light on the specific banks involved in M&A transactions, with a notable concentration of respondents associated with the United Bank of India as the acquired entity and Punjab National Bank as the acquiring institution. This concentration emphasizes the localized impact of M&A activities on customers, particularly those in the Manipur region, highlighting the need for nuanced strategies to manage customer perceptions and expectations. Methodologically, the study also demonstrated good internal consistency and reliability, supported by high data utilization rates and robust reliability testing. The use of principal component analysis facilitated the extraction of key factors explaining a significant portion of the dataset's variance, contributing to the validity and reliability of our findings. Drawing from insights in the literature review, we underscored the importance of managing customer perceptions throughout the M&A process, as well as the potential benefits of mergers in terms of operational efficiency gains and enhanced service quality. However, we also acknowledged challenges such as pricing adjustments and branch accessibility issues, emphasizing the need for effective communication and integration strategies to mitigate negative customer perceptions.

To sum up, mergers and acquisitions represent significant transformations within the banking sector, contributing to corporate restructuring and strengthening. As Mahatma Gandhi aptly stated, the "customer is king," underscoring the paramount importance of prioritizing customer satisfaction for acquiring banks. Exceptional customer service remains pivotal for organizational success and sustainability in today's competitive marketplace, reaffirming the enduring relevance of customer-centric approaches amidst strategic shifts in the banking industry.

Table - 1: Profile of the respondents

Variables	Category	No. of respondent (N)	N (in %)
Gender	Male	30	50.0
	Female	30	50.0
Age	Less than 30	16	26.7
	31 - 40	29	48.3
	41 – 50	12	20.0
	Above 50	3	5.0
Year of Association With Bank	1 year	2	3.3
	2 years	5	8.3
	3 years	8	13.3
	Above 4 years	45	75.0
Acquired Bank	United Bank of India	42	75.0
	Vijaya Bank	7	12.5
	SBI Associates Bank	3	5.4
	Allahabad Bank	4	7.1
Acquiring Bank	Punjab National Bank	42	75.0
	Bank of Baroda	7	12.5
	State Bank of India	3	5.4
	Indian Bank	4	7.1
Total		**60**	**100**

Table - 2: A Cronbach's Alpha test on Reliability

Case Processing Summary			Reliability Statistics		
Cases	N	N (%)	Cronbach's Alpha	Cronbach's Alpha based on standardized items	N of items
Valid	56	93.3	0.721	0.732	10
Excluded	4	6.7			
Total	60	100			

Table - 3: KMO and Bartlett's Test on Factor Analysis

Kaiser-Meyer-Olki	Measure of Sampling Adequacy	0.705
Barlett's Test of Sphericity	Approx. Chi-Square	143.045
	df	45
	P-value	0.000

Table - 4: Levels of factor loadings of the variables

Sl. No	Variables	Items	Factor loadings
1	Technological improvement	Customers face problems while using e-services	0.726
		Customers face many inconveniences while installing the new Mobile Banking Application	0.840
		Customers encounter problems while updating their bank account details at the time of e-filing	0.682
2	Customer orientation	Rate the services rendered by the acquiring bank	0.615
		Depositors/borrowers come across changes in the interest rate on bank deposits and lending rate	0.619
		Some customers have opened new bank accounts to other banks of their choice	0.457
3	Speed of integration	Customers agree that acquiring banks took a longer time to resolve customer-related issues	0.795
		Customers face disruption in banking activities due to the merger of banks	0.762
		Transferring bank accounts to the nearest branch of the acquiring bank is problematic for the customer	0.860
		Customers encounter problems updating their account details to third-party service provider	0.587

Table - 5: Total variance analysis

	Initial Eigenvalues			Extraction sums of squared loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.375	33.750	33.750	3.375	33.750	33.750
2	1.569	15.690	49.440	1.569	15.690	49.440
3	1.130	11.299	60.740	1.130	11.299	60.740
4	.829	8.290	69.030			
5	.799	7.993	77.022			
6	.676	6.761	83.783			
7	.549	5.490	89.273			
8	.491	4.908	94.182			
9	.331	3.311	97.493			
10	.251	2.507	100.000			

Extraction Method: Principal Component Analysis and Varimax Rotation

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