CHAPTER - I

1.1 INTRODUCTION

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1.1 Introduction:

The Indian economy recorded strong growth during 2006-07 thanks to economic reforms, which paved the way for robust growth of real Gross Domestic Product (GDP). The growth rate accelerated to 9.4 per cent during 2006-07 from 9.0 per cent in the previous year mainly which was contributed by the sustained expansion in industry and services. In 1990-1991 it was a mere 3.2 percent Real GDP growth during the Tenth Plan period (2002-03 and 2006-07) averaged 7.6 per cent – the highest average rate of growth during any plan period till then. Real GDP originating from agriculture and allied activities estimated by the Central Statistical Organization (CSO) registered a lower growth of 2.7 per cent during 2006-07 than that of 6.0 per cent.

In India, newly licensed private sector banks’ business has taken a lead in the banking sector in the recent years. There has been a growth of nearly twice (1.75 times) as fast as that of the banking industry as a whole. This is shown by the figures of the analysis report published in the RBI publication (Trends and Progress of Banking in India) on deposits and advances mobilized by the industry between 2001-02 and 2011-12. The growth in the banking industry’s business can be seen from Rs 18.51 lakh crore as of March 2002 to Rs 146.19 lakh crore by March 2013. The annual growth rate calculated on a compounded basis works out to roughly 20 per cent. In contrast the new private sector banks alone showed a growth of roughly 35 per cent per annum, having grown from Rs 1.64 lakh crore to Rs 7.36 crore during the same period.

The higher growth rate brought improvement in the share market, which has grown from just nine per cent in 2001-02 to 20 per cent as of March 2012-13. The improvement has come mainly at the cost of the State Bank of India and its group of associate banks. The shares of the better had declined from 28 per cent to 24 per cent during the same period. Even the other public sector banks too saw a decline of one percentage point. The loss could have been higher but due to the positive impact of two factors the loss was low. One was the conversion of IDBI into a commercial bank and its reverse merger with the erstwhile IDBI Bank, which has seen the PSU bank group numbers swell. The other factor is that during this period few distressed private sector banks merged with specific public sector banks. IDBI bagged the United Western Bank.
The older private sector banks have consequently seen their already meager share of 7 per cent of the market getting further reduced to just 5 per cent by 2010. During this period foreign banks that had opened up their branches in the country, sporting some of the biggest names in the global industry were just been able to retain their market share at 6 per cent. During this period their total number reduced from 41 in June 2002 to 29 in June 2010. But it is doubtful that it would have made any material difference to the market share as all the large banks such as Citibank, Standard Chartered and HSBC have continued to operate right through this period and have seen some expansion in their geographical footprint.

The Banking industry became one of the fastest growing sectors after the first phase economic reforms of 1991. The Banking sector has played a vital role in the overall economic development of the country right from the time of nationalization. Due to globalization the Indian Public Sector banks have been facing keen competition from the Private Sector and Foreign banks as well. As is well known, survival of the fittest is the core theme in the global market today. Sustenance and growth of public sector banking is very much essential for balanced and effective economic development. Increased competition has made this a challenging task. It is imperative that there is urgent need to strengthen the weak public sector banks. To strengthen the public sector banks, the Ministry of Finance, Government of India and Reserve Bank of India introduced various strategies. Support through Deposit Investment and Credit Guaranty Corporation of India, direct aids given by the government as per the recommendation of the various committees, turnaround strategy for weak public sector banks, direct investment on the public sector bank securities by the Central government etc., However have all been failures? It is in this situation, ‘Mergers and Acquisition’ is seen as a favoured strategy in the banking sector.

Mergers and Acquisition strategy is highly successful in the field of production, manufacturing, and marketing areas. It has also succeeded in the case of private and foreign banking. The UPA government headed by Dr. Manmohan Singh had adopted the National Common Minimum Programme and Globalization with a humanistic approach as suggested by the left parties. Therefore, instead of privatizing the public sector banks including regional rural banks the economic policy lays emphasis on the merger and acquisition of public sector banks. This is done mainly to instill confidence in the minds of
the general public and to facilitate and effectively transform the functioning public sector banking system in the globalized market.

1.1.1. Mergers and Acquisition in Banking:

The financing decision can have a significant impact on an acquirer’s ownership structure, financial leverage, and subsequent financing decisions. The financing decision can also have serious corporate control, risk bearing, tax, and cash flow implications for both the buying and selling firm and shareholders. In this study, we examine the choice of payment method and its determinants across a large sample of European merger and acquisition transactions.

Mergers and Acquisitions are not a new strategy in the Indian banking sector as well. It dates back to the beginning of banking in India. In 1921 the Bank of Bengal, the Bank of Bombay and the Bank of Madras were merged to form the Imperial Bank of India, which subsequently was converted as the State Bank of India in 1955 when the Government took over control of its operations. Today, Mergers and Acquisitions is a term which is hardly used in the banking industry as business deals, but perceived as a strong strategy which can be trusted upon for long run survival and sustenance. It is always taken in a negative sense instead of considering it as a business potential. In the past, whenever the Government felt that a commercial bank had become weak, either financially or managerially, a decision was taken to merge it with some strong bank. Some examples of such mergers include Hindustan Commercial Bank and New Bank of India with Punjab National Bank and Laksmi Commercial Bank with Canara Bank, Nedangui banks with Punjab National Bank, Bank of Muscut with Centurion bank, GTB with Oriental bank of commerce and the proposal of the associate banks with SBI. These steps are an attempt to consolidate and strengthen the financial position and to increase the market share of Indian banking.

After economic reforms, in the view of globalization, liberalization and privatization, India has opened its markets for global competition. This situation has led Mergers and Acquisitions make a desperate search for a survival strategy. This is hardly surprising as stiff competition is implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberalization has exposed the unproductive use of capital by the Indian banking industry both in public and private
sectors. Consolidation through mergers and acquisitions is considered as one of the best ways of restructuring to effectively face competitive pressures. It is a search for strength and synergy through size. Size is undoubtedly important and a number of benefits can be reaped through the size of operations. To have any significant presence in national and global markets, one does need a minimum critical mass, which only can allow sustainable cost advantage, making cross border transactions possible and leading to growth and enhancement of share holder value.

1.1.2. Mergers and Acquisition of Regional Rural Banks

In a bid to optimize the efficiency of Regional Rural Banks (RRBs), the Centre is making efforts to further lower their number to 44 from the current level of 67 by amalgamating them on the basis of geographic continuity. The aim is to have just eight RRBs in the country by 2030. The department of financial services has asked RRBs operating in the same geographies to merge with a single sponsoring bank for better use of the latest technology and other resources, as well as to expedite the implementation of the financial inclusion programme, official sources told FE. The department has also asked the sponsoring banks concerned to issue no-objection certificates for this strategy.

However, discussions with states, which hold a 15% stake in these banks, are proving to be tough with states such as Tamil Nadu, Kerala and Haryana yet to give any response to the Centre on the initiative, sources said. Punjab, which had earlier given its consent, later withdrew it citing difficulties without giving a detailed explanation. While the state holds 15% each in an RRB, the Centre has a 50% stake and the bank sponsoring the RRB has a 35% holding.

The first phase of consolidation saw the number of RRBs falling from 196 in 2005 to 82 by the end of March 2012. Here, consolidation was carried out by merging different RRBs within a state with their respective sponsoring banks. In the second phase, which started this was fiscal, the strategy to amalgamate RRBs operating in geographies that are contiguous even if they are sponsored by different public sector banks. The newly amalgamated RRB would then come under the sponsorship of a major bank operating in the state/region. RRBs have around 18,000 branches across the country in rural areas and small towns, and they did total business of Rs.3.25 lakh crore in 2011-12, posting a net profit of Rs. 1, 900 crore. VK Bannigol, joint secretary, All India Regional Rural Bank
Employees Association, said the association has proposed to the finance ministry about setting up an independent RRB in each state, which would act as the local head office to a centralized National Rural Bank of India. The national body can then take decisions for the local RRBs.

1.2 Review of Literature:

The researcher has carried out a review of exhaustive literature relating to corporate restructuring and mergers and acquisition in banking both in India as well as aboard. An attempt has been made to summarise the important studies and works keeping in mind the relevance of the present study. Literature survey used, was strong based to the research on transformation of the banking sector and a study of Regional Rural Banks through mergers and acquisitions in Karnataka.

1.2.1 The researcher has attempted to review some of the commission and committee reports.

**Monopolies Enquiry Commission Report (1969)** The Commission observed that, merger and acquisition, which often provides the way to monopoly, have been comparatively few in India. Horizontal merger and acquisitions are often an essential mode to improve efficiency and to achieve economies of scale, while Vertical mergers and acquisitions may help cut costs. They are also of the opinion that the merger and acquisition is harmful to public interest.

**Sachar Committee Report (1977).** In August, 1977, the Government of India appointed a Committee under the chairmanship of Justice of Rajinder Sachar to review of Companies Act, 1956 and the Monopolies and Restrictive Trade Practices Act, 1969. The committee suggested that since amalgamation and reconstructions had become a reality of life and powers of regulating these should be given even to the District court in the case of small companies. However, in the case of the companies registered under the MRTP Act, no change was suggested in the existing procedure.

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1 Government of India, reports of monopolies Enquiry Commission 1969
2 Sachar committee reports on 1977
The working group (1976)\(^3\) report reveals that a multi-agency approach in agricultural finance is recommended so that regional rural banks are to be preferred because they are better suited to direct financing of farmers.

The solution lies in evolving a rural banking structure which would combine effectively the advantage of the local character of the RRBs and the strength and the organizational and managerial skills of commercial banks. The need is to establish a viable banking structure which could effectively meet rural credit needs. The Committee recommended that each public sector bank should set up one or more rural banking subsidiaries to take upon its all rural branches. It was left on the RRBs and their sponsor banks as to whether the RRBs.

**Committee on Restructuring of RRBs (Bhandari Committee, 1994)\(^4\)**

Apart from identifying 49 RRBs for comprehensive restructuring, the committee made wide ranging recommendations relating, inter-alia, to the appointment of Chairman / CEO, delineation of roles and responsibilities of supervising agencies of RRBs, staff matters, improving returns on SLR and non-SLR investments and improving funds management, augmentation of share capital, expansion of the scope of business avenues, deregulation of interest and rationalization of branch licensing policy.

1. Special emphasis was laid on skills of up-gradation of the staff of RRBs.
2. Professionals and not politicians to be nominated on the Boards of RRBs.
3. Greater devolution of decision making powers to the Boards of RRBs in the matters of business development and staff matters.

**Working Group on Funds Management in RRBs (Misra Committee, 1995)\(^5\)**

1. A graduated investment by RRBs in Govt. securities.
2. Introduction of special deposit scheme of 15 days' maturity period for SLR investments of RRBs with sponsor banks with interest rate on such deposits being

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\(^5\) Misra, B. (2006). The Performance of Regional Rural Banks (RRBs) in India: Has the past anything to suggest for the future? Reserve Bank of India Occasional Papers,
pegged at 0.50% less than the coupon rate on dated GOI securities as on date of such investments.

3. Widening the scope for non-SLR investments of RRBs.
4. Strengthening the Operational set up for Investment Management in RRBs.
1. to business without having to refer to apex authorities.
2. Delegation of authorities as per the size and viability status of RRBs.
3. Strengthening of Internal Inspection System and set-up in RRBs and introduction of Vigilance Cells. Realistic RRB - specific staff review and recruitment policy. Role overlap between RBI, NABARD and Sponsor Banks to be avoided.

Committee on Banking Sector Reforms (Narasimham Committee, 1998)\(^6\)

1. Banking system should be in a position to build a credit culture and discipline by equipping itself to identify the eligible clients, based on the prescribed norms, in the government sponsored schemes so that full responsibility for all aspects of credit decision remains with it. This would also help improve the client-bank relationship instead of the present system of virtually imposed clientele.

2. RRBs should reach a minimum of 8% of capital to risk weighted assets over a period of 5 years. A review of a capital structure of the RRBs should be undertaken with a view to enlarging public subscriptions and the sponsor banks be given greater ownership and responsibility in the operation of RRBs.

3. The supervisory functions over rural financial institutions to be entrusted to NABARD. While this arrangement may be continued, over the longer term the Committee suggested that all regulatory and supervisory functions over rural credit institutions should vest with the Board for Financial Regulation and Supervision.

4. Banking policy should facilitate the evolution and growth of micro-credit institutions including LABs which focus on agriculture, tiny and small scale industries, including such specialist institutions as may be promoted by NGOs for meeting the banking needs of the poor.

5. NABARD to prepare a checklist of various recommendations of the Committees set up in the past on RRBs that remain unimplemented and positive steps be taken to bring the RRBs on the right path of efficiency, solvency, productivity and profitability without undermining the ultimate objectives of rural development.

6. RRBs must rationalize and amend their loan policies and procedures so as to function as a development banker for the rural poor.

7. RRBs must work in close coordination with the cooperative banks and rural branches of commercial banks to fill the credit gap in rural areas without any clash of mutual interests. While discharging their functions as purveyors of rural credit and mobilizes of rural savings, RRBs should not ignore the importance of financial viability and operational efficiency. The productivity, profitability and solvency of the RRBs must be maintained and sustained to enable them to function as an effective and efficient institution of rural credit.

Committee on Manpower Norms in RRBs (Agrawal Committee, 2000)\(^7\)

Norms for staffing in RRBs to be pegged at 4.20 per unit (HO/Area Office/Branch being treated as one unit each), with relaxation for RRBs in the North-Eastern Region and hilly and desert areas. Additional manpower to be available only for RRBs with CD Ratio exceeding 60% ratio and NPAs lower than the industry average by 5% Points.

1. Staffing set-up of head office of RRBs was suggested in four categories separately for RRBs with branches upto 50, those upto 100 branches, those with upto 150 branches and those having more than 150 branches.

2. Area Offices for every 25 branches with its location in the field.

3. One scale up-gradation of the posts of Chairman, General Manager and Area Managers/Senior Managers.

4. Manpower surplus/shortages to be managed by deputation of staff from surplus RRBs to deficit RRBs, by opening new branches/closure of unviable branches, computerization, outsourcing, redeployment of staff etc.

\(^7\) Report of Manpower Committee norms in RRBs (2) (2000), Daya Publications, New Delhi.
5. RRB-staff with due experience to be considered for the post of General Manager.
6. Abolition of clerical cadre over a period of time by converting the staff into multi-purpose workers.
7. RRBs to achieve computerization in Head Office, Area Office and at least 50% of its branches in 5 year period.

**Expert Committee on Rural Credit (ECRC, 2001)**

This committee suggested to find out some other willing party (sponsor banks, RRB employees themselves or some non-banking financial companies) to take over the share of defaulting State Governments (along-with the right of nomination to the Board) at a fair price determined independently by a professional.

1. The GOI was asked to review its system of nominating non-official directors and nominate non-official directors from a panel of professionals recommended by NABARD, sponsor bank or even the RRB itself.

2. Sponsor banks were suggested to review their own systems of support and monitoring of RRBs’ performance and ensure that necessary autonomy in innovation of credit products as also credit and other portfolio management systems are ensured for RRBs.

3. GOI had to recognize RRBs which do not carry forward any accumulated losses as Local Area Banks (LABs), convert them into banking companies and incorporate them as such in the Companies Act. They need strong, regionally oriented management and larger capital flow. For this purpose, strategic local partners in the private sector may be needed to employee of banks concerned may also be considered as a strategic partners. Such banks may also be allowed to access capital markets for initial public offerings of their shares particularly to meet capital adequacy requirements.

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8 The Expert Committee on Rural Credit, 2001 (Vyas Committee I). RBI Publication.
1.2.2 Review of Doctoral Thesis

A number of scholars have carried out the research work on corporate restructuring through mergers and acquisition, in banking. However, the research works carried out in India are very few as compared to that of the U.S and The U.K.

A review of some of the important research thesis carried in India has been presented as below.

The valuation of international mergers and acquisitions of financial firms, abnormal returns acquiring to share holders of the financial firms participating in International mergers and acquisitions are hypothesizing to be statically different from those arising out of domestic acquisition. According to the thesis work of Rita Biswas, (1990)9 “International mergers and acquisitions of financial firms”

Panchali Jinesh Natverial (1994)10 worked on an enquiry into selected corporate takeover, as the buying of one company (the ‘target’) by another. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer.

Rajbir Singh. (1996)11 in his research, says that mergers and acquisition refers to the aspect of corporate strategy, corporate finance and management, its dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Parvathi N. (1998)12 feels that the process with the amendment of the Act supports mergers and acquisition in the Indian economy and proper guidelines and supervision the process is a much needed in the area.

11 Rajbir Singh 1996, Department of commerce, Kurukshetra University, Kurukshetra.
12 Parvathi N. 1998, Department of commerce, Osmania University Hyderabad.
Kotaru Ravi Shankar (1998) reveals that Indian companies can increase their strengths to face the global competitions by takeover strategy.

Beena P.L. (2000) in an analysis of the changing structure of Indian oligopoly”, the researcher found out that, mergers and amalgamations process in the Indian companies effectively manage the competition and organize them selves in the monopoly market environment.

Paturkar Ashutosh Arvindrao (2002) stressed companies should gear themselves up to a find place in the global pharmaceutical industry through mergers and acquisition process and strengthen their financial base.

The researcher was brought out the synergic benefits availed of in horizontal mergers in India in the research work undertaken by Choudhary Sachin (2003) stresses on the synergic effects mainly through use of financial parameters period (1900-2000.)

Khaisa Amarjeet Singh (2003) is the researcher who has made a comparative study of mergers and acquisition between private and public sector undertakings in India during 1992-2001 suggesting, the companies selected had good experience in the process and increased their performance.

Gopalakrishna K.S. (2005) has studied the impact of corporate restructuring on the shareholders of acquiring and acquired companies in India which are slightly decreasing the shareholder’s value in the beginning and gains movement.

A review of some of the important research thesis carried outside India has been is presented as below:

Goldberg, Lawrence G. (1972), studied changes in concentration of the acquiring company due to conglomerations. He has proved that conglomerate mergers do not

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13 22 Kotaru ravi Shankar 1998 department of commerce, in the Nagarjuna University Nagarjuna Nagar
14 23 Beena P.L.2000, Jawaharlal Nehru University New Delhi.
15 Patukar ashutosh arvindrao 2002, Nagarjuna University, Nagarjuna Nagar.
16 Choudhary Sachin 2003, Devi Ahilya Vishwavidyalaya, Indore
17 Khaisa Amarjeet Singh 20003, Barkatollah Vishwavidyalaya, Bhopal.
18 Gopalakrishana K.S 2005, Canara Bank School of management, Bangalore University, Bangalore.
19 Goldberg, Lawrence G, 1972, Chicago University, Chicago, USA.
significantly affect competition, as measured by the degree of concentration in the industry by the acquiring company.

Jiang, Bin (1998)\textsuperscript{20} the author, observes that the acquirer is more likely to choose a contingent fee contract if the deal is larger, and if the deal is a tender offer. However, the acquirer is less likely to use contingent fee if the payment of consideration is cash rather than stock, or if the acquirer is a financial investor, or if the acquirer has previous acquisition experience and such experience was successful.

Hayward, Mathew Lisle Alister (1999)\textsuperscript{21} catalogues the acquisition experience of 20 acquirers from 6 industries taken from 1985 to 1995 to study this proposition. The researcher concluded that result acquires experience for a better acquisition performance when: 1) they are managed by the CEO with a longer tenure at the firm, 2) there are moderate temporal intervals since their prior acquisitions. 3) They have previously undertaken acquisitions of different sizes, 4) they make small, prior acquisition mistakes and 5) They do not have investment banking advisors.

“The global bank mergers wave: Implications for developing countries”, a project work undertaken by Gary A. Dymski,(2002)\textsuperscript{22} mentions that mergers and acquisition have become the primary means of bank expansion especially for the banking firms seeking commanding heights in global markets.

1.2.3 Review of articles:

A number of research articles relating to mergers and acquisitions in banking have been published in several journals and magazines at national and international levels. A few of these have been reviewed as under.

National level:

Adrain Gourlay, Geetha Ravishankar and Tom Weymen-Jones\textsuperscript{23} Here, authors the interpreted the banking system by examining the efficiency benefits of mergers among

\textsuperscript{20} Jiang, Bin 1998, University of Maryland College park.

\textsuperscript{21} Hayward, Mathew Lisle Alister, 1999, Columbia University, Hayward.

\textsuperscript{22} Gary A. Dymski, “The Global Bank Merger Wave: Implications for Developing Countries” Department of Economics, University of California, Riverside, Riverside CA 92521 USA, April 8, 2002.

\textsuperscript{23} Adrain Gourlay, Geetha Ravishankar and Tom weymen-Jones, “Non-parametric analysis of efficiency gains from banks mergers in India” dept Economies, Loughborough, LE11 3TU United Kingdom.
Scheduled Commercial Banks (SCBs) in India over the post-reform period 1991-92 to 2004-05. Using the Bogetoft and Wang (2005), model, the potential for merger gains is calculated and decomposed into technical, harmony and size efficiency components. This application is carried to evaluate post sample realizations of the potential gains. Post-merger technical efficiency is used to gauge the degree to which the potential technical efficiency gains have been realized following the completion of the merger, for up to a decade. It provides a metric for judging the success or failure of a merger. India is a relatively late entrant to the arena of economic liberalization as the era of significant market reforms commenced only in 1990. Hence the current merger wave in India that justifiably be termed the first merger wave triggered by market reforms.

**John S.R. Shad (1969)**\(^{24}\) points out that because of the keen competition market and the high price currently being paid, there are greater downstream pitfalls and risks in corporate mergers and acquisition at present than at any time in the past. Further the author strongly believes that when they are well conceived and well executed, Mergers and acquisition remain one of the most expeditious means of corporate growth and enhancement.

**Steiner O. Peter (1975)**\(^{25}\) said this might be due to economics of larger scale production and creation of monopoly power. External determents such as the transaction cost of effecting a merges or impediments caused by the MRTP Act/the company Act, play an opposite role of synergy. Insider benefits and determents may exist to the selling company as well as the shareholders of the buying company. Ratio of benefits to deterrents is viewed as insiders’ benefit-cost ratio. Lastly, premium paid by buyers to sellers to induce them to accept the merger offer is also another determinant factor.

**Gary A. Dymski (2002)**\(^{26}\) reconsiders the causes and implications of the global bank merger wave, especially for developing economies. Mergers and acquisitions have become the primary means of bank expansion, especially for banking firms seeking the commanding heights in global financial markets.

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\(^{26}\) Gary A. Dymski, “The Bank Merger Wave: Implications for Developing Countries” Department of Economics, University of California, Riverside, Riverside CA 92521 USA.
Anup Aqrawal et.al. (1992) examine the issue of post-merged performances of the acquiring firms, using exhaustive samples of mergers and acquired targets. The author found that the stockholder of acquiring firms suffer a statistically significant loss of about 10% over the five year post-merger period. Evidence of the study suggests that neither the effect of firm size effect nor data estimation problems are the cause of the negative post-merger returns. The authors also examines whether this result is caused by a slow adjustment of the market to the mergers event. However, the results do not seem consistent with this hypothesis.

Robert Hargrove (2004) found that the art of mergers lies in being able to integrate the strategic focus and basic steps in building powerful partnership with the necessary collaborative attitudes and skills. It was also found that the skill and attitudes which are crucial for success in alliances, mergers and joint ventures are lateral leadership, breakthrough thinking, authenticity, dialogue, attitude of collaboration, coaching and facilitation. The article has also explained the five-step process for strategic alliances and Mergers and joint ventures. These are: Clarifying the strategy, creating organization glue, creating a merger transition structure, seeking synergies in innovation and costs that multiple and not just add value and focus on collective work products.

Sudha Swaminathan observes that most of the mergers have succeeded in achieving their financial objectives, but not all mergers and acquisitions improve shareholders returns. However, there is a higher probability of shareholders benefiting from the mergers if the synergies are actually realized post merger. Therefore, she opines that, pre-merger due diligence assumes greater significance from the perspective of accurately assessing the synergy possible. Otherwise, it could end up eroding rather than adding to shareholder wealth.

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29 Sudha Swaminathan 20 has undertaken a sample study of several mega-mergers in the Indian scenario entitled “Indian Mergers and acquisitions: Why they have worked so far” Business standard, July 2, 2004
Dr. M. Selvam, S. Vanitha and M. Babu (2005) opine that the banking industry is an impotent area in which mergers and acquisitions do make enormous financial gains. The traditional cooperative customers of a banker turn away increasingly from traditional loan. They are in favor of alternative sources of financial instruments like commercial papers. As a result of changes in the expectation of the corporate customers, banks are now constrained to rethink their business and devise new strategies. On the other hand, competitors both from India and abroad are encouraging every area of business in the prevailing policy of LGG. Therefore, Indian banks have struggled to survive in the competitive environment. The only way to manage competition is cost reduction through mergers and acquisitions, which enables the banker to spread overhead cost over a large customer base. From the current trends, one can safely predict that consolidation will also be one of the effective strategies widely adopted by the bankers.

Hetal Machhni, (2005) comes to the conclusion that, one of the most established business expansion techniques is acquisition of related corporate or industries. These expansions can be planned on horizontal level to provide for quick expansion of existing enterprises through the process of mergers. Most often such acquisitions are termed as Merger(s). Indian Industry has witnessed such Mergers over the decades. Forced by the necessities of the LPG Era, restructuring of existing corporate ventures through Merger and Acquisition has been inevitable.

C. R. L. Narasimhan (2006) points out that Merger is not just about adding two balance sheets or even the number of respective branches. It is about transforming the disparate human resources into a homogeneous entity. The RBI intended for all parties, that announcement of merger is the easier part. Much of the pain will be felt long after the take-over is completed in a legal sense. Both the acquirer and the acquired will be affected. The employees are been promised a fair deal that includes protection of existing emoluments and status. However, over the medium term, the heterogeneity factor — involving existing members of the two banks — will become apparent. A merger will

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work only after full cultural assimilation of the two parties. That is one issue often overlooked by those advocating mergers as a means of consolidating Indian banks.

1.2.4 Review of books

A number of books have been published concerning mergers, acquisitions, takeovers and turnaround strategies. However, only a few of the books reviewed by the researcher have been listed below.

Simon Richardson Reid (1968)\(^{33}\) observes that there are some homogeneous facets of mergers, whereas there are others which are heterogeneous. Reid argues that in a free capitalist market, it is very easy for some companies to acquire control of other companies just by buying out shares in the stock exchanges. Further, the acquisitions of various types through stock exchanges operations have been reported in the literature on economic growth in the west.

Charles A. Schart (1971)\(^{34}\) describes how to acquire, sell, merge and takeover business. The book develops specific approaches to planning by buying/selling. Choosing a buyer/seller, determining a price, developing the strategy for takeover both tender offer and registered exchange offers, developing the strategy to defend against takeover, negotiating the acquisition or sale and drafting the detailed acquisition contract, closing the transaction and generally avoiding or solving the numerous problems business, legal, tax or accounting etc.

Salter and Weinhold(1979)\(^{35}\) advocate that the risk of antitrust attack is to be restricted in order to ensure diversification through acquisition. The authors have given their observations in the book that the operational, marketing and managerial linkages among the divisions of the diversified companies become more apparent. It is predictable that both antitrust authorities and the courts will grow increasingly skeptical of arguments that the benefits of corporate diversification do not give rise to anti-competitive behaviour.

\(^{33}\) Simon Richardson Reid “ Mergers and managers and the economy” New York, Mc-Graw-Hill Book Company, 1968.PP.121-130

\(^{34}\) Charles A Scharf, “Acquisitio, mergers, sales and takeover” Prentice Hall inc.1971

Rakesh Khurana (1980)\(^{36}\) in the impact of monopolies Legislation”, made a study on the impact of the MRTP Act, 1969 till the year 1977. In this study the author observed that MRTP Act and MRTP Commission set up under the Act has been unsuccessful in checking the tide of amalgamation in the Indian industry.

Saharaya H K (1984)\(^{37}\), explores the procedure and the valuation of shares in amalgamation bids. The author also examined the reasons, corporate framework, advantages, disadvantages and the strategy to resist the activities of the corporate raiders. He also expanded theory on the accounting for valuation of shares.

Brojendranath Banerjee(1984)\(^{38}\) attempts his work during the period when non-resident Indians started corporate raids on established Indian companies. The author in his book observes that in India the company take over scenario is quite different on account of express or quasi control of the state.

Shivaramu S (1998)\(^{39}\) provides the economic rationale inherent in the concept of synergy expected with such mergers and acquisitions. The alternative modes of international expansion such as Greenfield investments, joint ventures and acquisitions are considered. And cultural dimensions and its expected impact on synergy are also covered. The author has analysed industry-wise mergers and acquisitions with some prominent case studies.

Shivaramu S. (1998)\(^{40}\) reveals that the major factor for the success or failure of mergers and acquisitions is the personnel turnover in the target company, particulararly in the top and middle-level management. Lesser the turnover, the greater is the success of the merger or acquisition. Finally the author feels that merger is considered to be the cheapest and shortest route to achieve the objective of growth.

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\(^{36}\) Rakesh Khurana “growth of Large Business Houses In India- the Impact on Monopolies Legislation” Willey Estern Ltd., New Delhi,1980.


Ramanujam S. (2000) brings out various provisions of the Indian Companies Act, 1956, relating to mergers, takeovers, demergers, buyouts and hive off etc. The author also has given corresponding provisions of the English Companies Act which was the initial source of our legislation, relevant commentaries of well known authors, interpretations by our courts and his own comments.

Frank C. Evans et.all provides the tools to answer the questions like What is the company’s worth?’ ‘How much more would a strategic buyer pay to acquire it?’ What factors most affect the company’s stock value? What is the owner’s real return on investment and rate of return? etc. The author also provides a detailed guide for sellers and buyers to prepare for the sale and acquisition of a firm, spelling out how to identity, qualify and quantify the synergies that increase value to strategic buyers.

Annette Risberg in her book on “Mergers and Acquisitions in Banking” emphasizes that Mergers and acquisitions remain one of the most common forms of growth, while presenting considerable challenges for the banks and management involved. Mergers, acquisitions and joint ventures raise important issues for the stakeholders in those firms such as customers, managers and employees. Moreover, they have wider implications for the economy, including the level of competition and employment. The author divides the book into two main sections covering pre-Merger and acquisition issues and post Mergers and acquisition issues. These parts are each divided into a number of sections covering such issues as motives, planning, integration, communication and employees' experiences.

"M&A in Indian Banking System– An Executive Handbook"

Mergers and Acquisitions in the Indian Banking Sector has been matter of the day. India is slowly but surely moving from a regime of `large number of small banks' to `small number of large banks'. Banknet India’s Executive Handbook on M&A in Indian Banking System has called for mega mergers the in Indian banking sector to retain its market share.

42 Frank C.Evans et.al “Valuation for mergers and Acquisition building value in private companies” John willel and sons, inc 2001
43 Annette Risberg “Mergers and Acquisitions” Routledge publisher, edition.1, 2006
44 “M&A in Indian Banking System– An Executive Handbook Banknet India Publication 25th November 2005, Mumbai. 35
J.Fred Weston and Samuel C. Weaver (2006) in their book “Mergers and Acquisitions” focus on how Mergers and acquisitions provide knowledge pertinent to legal and regularity environment and keep the minor issue from becoming a major deal-killer. Structure effectiveness deals from all standpoints- financial, tax and accounting. In addition, the author ensures that all mergers and acquisition polices and decisions originate and remain within the general framework of the firms strategic plans, the company focus on the cash flow, dividend and repurchase polices that benefits the company and enhance the value for its stake holders.

G S Batra and Nrinnder Kaur’s (2000) “Privatization of Public Sector Banks emerging Dimensions” is where the authors brought out their book to show that the public sector banks are facing competition from new private and foreign banks. After financial reforms more number of public sector banks has been identified as weak in their over all banking operation, they focus on the privatization of the weak public sector banks to retain in the banking sector. Privatization is one of the impotent strategies in the hands of the government concerned.

Manoj Anand and Jagandeep Singh (2008), analyzed five mergers (all private sector banks) in the Indian banking sector to understand the nature of the returns to shareholders following merger announcements employing the event study methodology. They observed that the merger announcements in the Indian banking industry had positive and significant shareholder wealth effect both for the bidder and the target banks. In summary, most studies failed to observe a positive association between merger activity and gains in either operating performance or stockholder wealth across a wide variety of methodologies and samples.

46 G S Batra and Nrinnder Kaur “Privatization of Public sector banks emerging Dimensions” new economic polices in developing courtiers series, Anmol publication private limited, New Delhi.
Professor Dilip Khankhoje and Dr. Milind Sathye (2008) have measured the variation in the performance in terms of productive efficiency of RRBs in India and assessed whether the efficiency of these institutions increased post-restructuring in 1993-94 or not.

Egl Duksait and Rima Tamosiunien (2009), described the most common motives for companies decision to participate in mergers and acquisitions transaction. The reason is growth, synergy, access to intangible assets, diversification, horizontal and vertical integration and so on arises from the primary company’s motive to grow. Most of the motivations for mergers and acquisition features serve as means of reshaping competitive advantage within their respective industries. However, it may be that some of the motives identified, affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of mergers and acquisitions in certain sectors rather than others.

Frank C. Evans et.al  provided the tools to answer questions like “What is the company’s worth?” “How much more would a strategic buyer pay to acquire it?” “What factors most affect the company’s stock value?” “What is the owner’s real return on investment and rate of return?” etc. The authors also provided detailed guide for sellers and buyers to prepare for the sale and acquisition of a firm, spelling out how to identity, qualify and quality of the synergies that increase value to strategic buyers.

Annette Risberg in her book on “Mergers and Acquisitions in Banking” remarks that Mergers and acquisitions remain one of the most common forms of growth, while presenting considerable challenges for the banks and management involved. Mergers, acquisitions and joint ventures raise important issues for the stakeholders in those firms such as customers, managers and employees. Moreover, they have wider implications for the economy, including the level of competition and employment. The author book divides the book into two main sections covering pre-mergers and acquisition and post

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49 Egl Duksait and Rima Tamosiunien motives of mergers and acquisition 2009

50 Frank C.Evans et.al “Valuation for mergers and Acquisition building value in private companoies” John willel and sons, inc 2001

51 Annette Risberg “Mergers and Acquisitions” Routledge pulisher, edition.1, 2006
mergers and acquisition issues. These parts are each divided into a number of sections covering such issues as motives, planning, integration, communication and employees' experiences.

Aharon David Y et al., (2010)^52, analyzed the stock market bubble effect on Merger and Acquisitions followed by the reduction of pre bubble and subsequent bursting of the bubble seems to have led to further consciousness by the investors and provides evidence which suggests that during the euphoric bubble period investors take more risk. Merger of banks through consolidation is the significant force of change took place in the Indian Banking sector.

Goyal K. A. and Joshi Vijay (2011)^53, in their paper, gave an overview on the Indian banking industry and highlighted the changes that occurred in the banking sector after post liberalization and defined the Merger and Acquisitions (M & As) as per Accounting Standard-14. The need of Merger and Acquisition in India has been examined under this study. It also gave the idea of changes that occurred after M&As in the banking sector in terms of financial, human resource and legal aspects. It also described the benefits to emerge out through M&As and examined that M&As is a strategic tool for expanding their horizon and companies like the ICICI Bank has used merger as their expansion strategy in the rural market to improve customers base and market share. The sample of 17 Mergers of post liberalization communication in M&As, are discussed. The study also enlightened the role of the media in M&As.

1.2.5 Review of project reports, working papers

Sunitha G. (2007)^54 comes out with a report that the mergers and acquisition strategy is a useful one to consolidate the public sector banks both in size and quality to face the competition in the global market. Her study explains how the Punjab National Banks benefitted from the market share, size of the banking operation, and diversification of banking services from the process with Nedungadi banks.

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^52 Aharon David Y et al., to to analyse the stock market effect on mergers and acquisition 2010
^53 Goyal K. A. and Joshi Vijay (2011) highlighted the changes that occurred in the banking sector after post liberalization and defined the Merger and Acquisitions
^54 Mergers and acquisition project report on Punjab national bank and Nedungadi banks
Indus view special reports (2006)\textsuperscript{55} on Indian mergers and acquisition where in Indian companies are now shopping abroad more than the foreign companies and buying stake in Indian companies are. The number of outbound cross border deals has been 147 with a value of $15.72 billion during January-October 2006, compared to 62 inbound cross border deals worth $4.67 billion. Of course, the deal value was tilted in favors of outbound deals because of the acquisition by India’s Tata Steel Ltd of The U.K.’s top steel maker Corus Group Plc, a company more than three times its size for $8 billion. The total value of all M&A deals including domestic and cross border deals has reached $24.41 billion in the first ten months of 2006, compared to $16.3 billion in the whole year of 2005. With two months still left, India is set to cross the mark of $25 billion M&A deals. Even if the remaining months add $2 billion more to the final tally for 2006, the total annual deal size would be in the range of $26 billion-$27 billion.

1.3 Research Gap

The literature survey revealed major work has been done on mergers and acquisitions in the Indian Banking Sector, Merger and Acquisition in Public Sector Banks and merger experience of Foreign banks have been investigated, whereas transforming of Regional Rural Banks through Mergers and Acquisition has not been given due importance. The present study would go on to investigate the detail of transformations of Indian banking sector through Merger and Acquisitions in Regional Rural banks with greater focus on the Indian banking sector in the post liberalization regime. The study will also discuss the pre and the post merger performance of banks. An attempt is made to predict the future of the ongoing Merger and Acquisitions on the basis of financial performance and focusing mainly on Regional Rural Banks in Karnataka.

1.4 Statement of the Problem

Industries, no-matter manufacturing or services have been contributing heavily to the growth of the economy of the country. The growth is easily measured with the help of GDP. But globalized industries are facing problems including the competition not only from indigenous but also overseas countries. To strengthen financial systems has been one

\textsuperscript{55} Indus views special report 2006
of the central issues facing emerging markets and developing economies. This is because sound financial systems serve as an important channel for achieving economic growth through the mobilization of financial savings, putting them to productive use and transforming various risks. In the era of competition it is the prime duty of all the banks to have sustenance growth and development. It so happened that most of the Regional Rural Banks could not cope with the needs of the challenges. This in turn causes serious concern in the balanced economic development of the rural economy. As a result sustenance and growth becomes the major problems for the Regional Rural Banks which were and are reeling under perpetuating losses due to their scale of operation. Since disinvestment policy was transformed with a humanistic approach, the Ministry of Finance started dwelling upon restructure of the Indian banking system through mergers and acquisition, as the restructuring strategy would enable the weak regional rural banks to be taken over by the strong banks and transform the rural banking operation, Regional Rural Banks plays a very big role for rural economic development, to enable a stronger and bigger part to retain the Indian banking system where in mergers and acquisition will be very essential.

Some of the questions through which the present research will pursue a way to answer them, are:

1. Is the mergers and acquisition strategy viable at a large scale in the Regional Rural Banks in Karnataka? If yes, what are the advantages for large scale mergers and acquisition to RRBs?

2. Are there any changes in performance of RRBs in Karnataka, after mergers and acquisitions?

3. Has merger and acquisition strategy transformed the Indian banking sector? If yes, what are the major changes that have taken place?

4. Does the merger and acquisition transform the quality of regional rural banking services?

5. How has mergers and acquisition in RRBs impacted social banking?

6. What are the legal hurdles for large scale mergers and acquisition in the Indian banking sector? How can those hurdles be over come?

7. Has the transformation been achieved in diversification of regional banking rural banking services? If yes, what are those modern services?
8. What is the level of changes taken place in the financial health of regional rural banks after mergers and acquisition?

9. Can we accept the statement made former Finance Mister of India for large mergers and acquisition in Indian banking?
   a) What are the challenges for large scale mergers and acquisition in public sector banks?

10. Does the mergers and acquisition strategy increase the competitive strength in RRBs at global level? If yes, what are the areas getting the competitive advantages?

11. Will the mergers and acquisition strategy influence creative marketing of RRB at the services?
   a) What are the new products offered by RRBs by adopting customization strategy.

12. To identify the general problems for large scale mergers and acquisition in RRBs and what are the strategies evaluated by the different agencies to overcome it?

**1.5 Scope of the Study**

Rural sector is an important segment of the Indian economy. It influences speedy development in the rest of the economy. Among the various factors responsible for economic development and poverty alleviation, the role of financial institutions in general and RRBs in particular is considered very significant. The objectives of reforms were to strengthen the Indian banks, make them internationally competitive and encourage them to play an effective role in accelerating the process of growth. The banking transformation process also initiated measures for improving productivity, efficiency and profitability of the banking system. Productivity is a vital indicator of economic performance. In simple words, it is output-input ratio. It is a relationship between given output and the means used to produce it. Banking is primarily a service industry. There are number of indicators to measure the productivity of the banking sector. Measures of productivity at bank or industry level may differ from the indicators of productivity at branch level. Productivity is generally defined in terms of efficiency, improvement and technical change with which inputs are transformed into outputs in the production process.

Mergers and acquisitions is a strategy, which helps the banking sector to transform not only to expand the size of the operations but also to ensure efficiency in different
spheres of activities. Mergers and acquisitions has been injected in to the Regional Rural Banks as well, the same which contributes a buoyant share to the GDP of the country. The Regional Rural Banks have geared up to building up their strengths in so far as, reduction of cost, efficiency, the economy of scale, increasing customer base and marketing advantages. Needless to state it covers the banks owned by Government of India and sponsored banks. The study further focuses upon traditional and non-traditional services, technology, infrastructure, customer care, governance, impact of GATS and the recent changes in regional rural banking operation system.

1.6 Need for the Study

Mergers and acquisition is a viable strategy which has been adopted and experienced the transformation by the industries in the global competitive area. National Assessment Economic Research Council recommended GDP rate at 9%, the service sector in turn contributed about 41.1% of the total GDP of the country. Nevertheless, the banking sector, an important industry in the services sector, the contribution from the banking sector to total GDP is not satisfactory, owing to the problems of solvency, liquidity and turnover. To retain the regional rural banks in the competitive market, to face the challenges, to establish the balance among all the banks, to overall economic development of India and make them financial sound, in an over to make Regional Rural Banks very viable banks, the RBI and Government of India has recommended transforming the rural banks through mergers and acquisition in a big way. Mergers and acquisition as a potential would enable change of the Regional Rural Banks to be stronger and competitive in the Indian banking system. The study also focuses on the transformation of the Regional Rural Banks in Karnataka.

1.7 Objectives of the Study

The objectives of this study are framed on the extensive literature survey on mergers and acquisitions, before and after merger and acquisition, and need and benefits from mergers and acquisition in the banking sector both in India and outside India. The main objectives are as follows:

1. To study the trends in Mergers and Acquisition activity in the banking sector in India with special reference to Regional Rural Banking Sector.
2. To identify the policy initiative or achieving effectiveness of mergers and acquisition in the Regional Rural Banking Sector.

3. To explore the scope of transforming the Regional Rural Banks to improve their financial health through Mergers and Acquisition.

4. To compare the performance of Regional Rural Banks during pre-and-post merger period.

5. To study the legal and operational hurdles impending Mergers and Acquisition activity in the Regional Rural Banking sector.

6. To analyze the opinions of employees about pre and post mergers and acquisition in the Regional Rural Banking Sector.

1.8 Hypotheses of the Study

The following hypotheses are formulated and put to test based on the extensive literature survey:

1. \( H_0 \) - “The Provisions of advances made by Regional Rural Banks to the priority sector is adequate.”
   \( H_1 \). “The Provisions of advances made by Regional Rural Banks to the priority sector is inadequate.”

2. \( H_0 \) - “Mergers and Acquisitions does not enhance the competitive strength of Regional Rural Banks in the Indian Banking System.”
   \( H_2 \). “Mergers and Acquisitions enhance the competitive strength of Regional Rural Banks in the Indian Banking System.”

3. \( H_0 \) - “Focus on social banking does not adversely impact profitability of Regional Rural Banks.”
   \( H_3 \). “Focus on social banking adversely impact profitability of Regional Rural Banks.”

4. \( H_0 \) - “Diversification of Services does not positively influence the performance of Regional Rural Banks.”
   \( H_4 \). “Diversification of Services positively influence the performance of Regional Rural Banks.”

5. \( H_0 \) - “There does not exist a positive relationship between Mergers and Acquisitions and efficiency of Regional Rural Banks.”
H5. “There exists a positive relationship between Mergers and Acquisitions and efficiency of Regional Rural Banks.”

1.9 Research Methodology:

The research work is constructed on the basis of primary and secondary data. The secondary data was collected from balance sheets, journals, Magazines, and dailies. An effort was made to collect actual data about the “Mergers and Acquisition Strategy in banking sector”, A Study of Regional Rural Banks in Karnataka. For this purpose a structured questionnaire was administered to the samples of respondents from managerial staff, non managerial staff all Regional Rural Banks in Karnataka. The sample size was selected based on STRATIFIED RANDOM SAMPLING method. The Research Hypothesis has been tested by using one sample T-test. Besides, required data is also collected through interaction with the top managers and prime customers in Regional Rural Banks in Karnataka.

The Sample chosen for the study consists of respondents who include employees of the Regional Rural banks branches in rural, semi-urban, urban and metropolitan city.

Sample Size: 700 the break-up of the sample size is as follows:

1. Kaveri Grameena Bank 150
2. Karnataka Vikas Grameena banks 250
3. Pragathi Krishan Grameena Bank 300

Break-up of respondent sample size is as follows:

1. Managerial Cadre 350
2. Non- Managerial Cadre 250
3. Sub staff 100

Data Collection Instruments:

The data collection instrument used for obtaining the desired information is the structured questionnaire. The questionnaires were administered and the responses sought on the various Parameters such as working condition, quality of service, lending policy, service delivery system, and employees’ benefits mergers and acquisition, human
resources management, and perception, feeling, attitude, experience etc, before and after
mergers and acquisition and customers’ responses by meeting the respondents personally.

1.10 Limitations of the Study:

Like any other research work in the field of social sciences, the present research on
“Transforming the Indian banking sector through Mergers and Acquisitions”: A
Study with Special Reference to Regional Rural Banks in Karnataka is also not free
from limitations. The main limitations are-

1. Mergers and acquisition strategy is generic but the research is confined to Regional
Rural Banks in Karnataka.

2. The analysis and interpretation based on the sample of the responses in Karnataka
State, India will not reflect the responses of the universe as a whole.

3. The statistical figures from various sources collected for the purpose of research work
may vary resulting in slight variation in the responses, analysis and interpretation.

1.11 Chapter Layout:

The research work is presented in five chapters:

This research work on the topic entitled “Transforming of the Indian banking sector
through Mergers and Acquisition Strategy” A Study of Regional Rural Banks in
Karnataka” is presented in five chapters:

The first chapter deals with the mergers and acquisition strategy as a working in
the field of both industrial and service sector as a reconstruction strategy. An extensive
survey of literature available at national and international level is brought out. Research
Gap, statement of the problem, research questions, scope of the study, need for the study,
objectives of the research work, limitations involved therein, and methodology of study,
hypotheses and scheme are formed.

The Mergers and Acquisition Strategy in Indian Banking is covered in second
chapter to have a meaningful base to the research work. This chapter deals with the
Mergers and Acquisition Conceptual Frame, Evolution of Mergers and Acquisition,
Mergers and Acquisitions as a holistic process, Mergers and Acquisition at Global Level, Mergers and Acquisition in Indian Economy, Mergers and Acquisition in Indian Banking Sector, Mergers and acquisition in Regional Rural Banks, Government approaches towards Mergers and Acquisition Strategy, and the Legal Frame on mergers and Acquisition in India.

The third chapter contains the study of regional rural banks and its history of Indian Banking System, Growth of Banking System in India, Evolution of Regional Rural Banks, Contribution of Regional Rural Bank in Rural Development, Present Status of Regional Rural Banks in Karnataka- Profile of the Kaveri Grameena Bank, Pragathi Krishna Grameena Bank, Karnataka Vikas Grameena Bank, Services Offered- Regional Rural Banks, Quality of services before and after Mergers and Acquisition in RRBs, Sample study in Kaveri Grameena Bank-Financial Status of Regional Rural Banks before and after Merger and Acquisition in RRBs -Sample study in Kaveri Grameena Bank.

The fourth chapter has a clear account of survey-modalities adopted, actual collection of data, data analysis; data interpretation. The statistical tools such as measures of dispersions, chi square, one-way ANOVA tests are extensively used in this chapter. Further the testing of hypotheses is highlighted in this chapter.

The fifth chapter has summary of findings, suggestions, areas for further research and conclusion.

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