Mergers and Acquisitions (M&As) continue to be a significant force in the restructuring of the financial services industry. The Indian Commercial Banking Sector, which has played a pivotal role in the country’s economic development, is currently passing through an exciting and challenging phase. With the onset of economic reforms, the banking sector in India has embarked upon mergers and acquisitions to capture the synergistic benefits like economies of scale and scope, in the face of increasing competition from domestic as well as foreign players and rapid technological developments. Several research studies examine merger related gains in banking and these studies have adopted one of the two approaches, based on either accounting information or market prices.

The first stage of the research evaluates the impact of merger on financial performance of merging commercial banks in India by analyzing the accounting based information such as Return On Assets (ROA), operating costs and efficiency and productivity gains. A merger is expected to improve performance of the merging entities, if the resulting change in accounting based measures is superior to the change in the performance of comparable banks that were not involved in mergers. The findings (results of the t-test) indicate that while there is significant difference in a majority of business and productivity parameters before and after merger, the results also point to the fact that there is no significant difference in quite a few operational and profitability parameters (ratios). The results are at best mixed.

The second stage of the research examines the post-merger efficiencies of the select commercial banks using the non-parametric Data Envelopment Approach (DEA). In this context, Malmquist Productivity Index (MPI) and Tobit regression techniques have been employed to evaluate the impact of mergers
on the technological progress and to identify the critical factors influencing the efficiency of the Indian commercial banking sector respectively. The results indicate that the average technical and scale efficiencies (TE and SE) of the acquiring banks have improved post merger. Further, while there is no improvement in average cost efficiency post-merger, there appears to be significant improvement in the average profit efficiency of the acquiring banks post-merger. MPI analysis shows that the average productivity of commercial banking sector has increased following mergers brought about more by rapid technological progress than increased technical efficiency (TE). These two account for increased productivity post-merger. Tobit analysis identifies size as a critical variable in influencing the efficiency of the banking sector in addition to other variables like PBDITATA, Return on Net worth (RONW) and Capitalization. The findings also indicate that public sector banks are less efficient than the new generation private sector banks which they may emulate.

The third and final stage of the research evaluates whether there is any significant association between select demographic and behavioral variables and customer perception of banking service quality in the face of commercial bank mergers in India using Chi-square test. The study also employs Factor analysis to identify the major factors influencing the customer perception of the quality of service in the wake of commercial bank mergers in India. The study identifies that Brand equity, Customer Relationship Management (CRM) and Innovative ability among others as the major factors influencing the customer perception (marketing implications of commercial bank mergers) of service quality of commercial banks in India in the face of mergers. In conclusion, the study finds that the demographic and behavioral variables and the customer perception of the quality of service of the merging commercial banks in India are related and the bank managements must give due importance to the segmental differences while formulating their marketing strategies if they have to be successful in the emerging competitive commercial banking scenario of India.