Consolidation & Change: An Analysis of Mergers & Acquisitions In Public Sector Banking & Their Impact On Customer Satisfaction & Service Delivery

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ABSTRACT

Mergers & acquisitions (M&A) have become a prevalent strategy in the Indian banking sector, particularly among public sector banks. This study analyses the impact of M&A on customer satisfaction & service delivery in public sector banks, with a focus on the rural & urban areas of Bhopal District. A simple random sampling method was employed & data were collected from 247 respondents using a survey approach. Statistical tools such as Paired T-test & ANOVA were utilized for data analysis. The findings reveal significant improvements in satisfaction with online banking services & overall customer satisfaction post-M&A. However, the perceived quality of customer service did not show a statistically significant change. Additionally, demographic factors such as age influenced perceptions of branch service & customer service quality, while the region did not have a significant impact. The study highlights the importance of effective change management strategies to mitigate negative impacts on customer satisfaction during M&A processes.

Keywords: Mergers & acquisitions, public sector banks, customer satisfaction.

INTRODUCTION

Over the past two decades, public sector banks have participated in the banking industry's M&A trend. Ahamed & Krishnankutty (2018) found 28 Indian banking M&A transactions between 2000 & 2017, with public sector banks accounting for a large percentage. Kemal's (2011) research on bank mergers in Pakistan found that increasing market power; economies of scale & operational efficiency drive these strategic moves. Despite these potential benefits, M&A operations' effects on consumer satisfaction & service delivery remain a major worry. Lal (2015) found that branch closures, personnel changes & service delivery disruptions hurt customer satisfaction in Indian banks after mergers.

Mergers & acquisitions help companies increase market share, scale, diversify risk & improve competitiveness (Kemal, 2011; Focarelli & Panetta, 2003). Public sector banks generally pursue economic & policy goals such financial stability, efficiency & financial inclusion (Ahamed & Krishnankutty, 2018; Naidu, 2022). Merger or acquisition announcement to integration & operational synergy is difficult & its success is judged by financial indicators & customer-centric outcomes (Rebekkah & Nik, 2009; Clausen et al., 2014). Lal (2015) & Ravi (2011) found that bank mergers can lower customer satisfaction due to service disruptions, communication gaps & organisational culture changes.

Customer satisfaction & service delivery are keys to banking M&A success (Rebekkah & Nik, 2009; Clausen et al., 2014). They show how well the amalgamated firms retain clients, recruit new ones & improve banking services. Due to their economic importance & large client base, public sector banks must integrate without compromising service quality (Naidu, 2022). Any service decline can damage consumer trust & loyalty, compromising the merger or acquisition's strategic goals (Ravi, 2011; Souiden & Pons, 2009). Lal (2015) & Rebekkah & Nik (2009) found that branch closures, personnel changes & service delivery disruptions can lower consumer satisfaction after bank mergers. Transparent communication & employee training are essential for change management (Aissaoui & Mimouni, 2020).

Drivers behind Mergers & Acquisitions:

Regulatory & Policy Changes: M&A in Indian public sector banking is driven by regulatory reforms & government policy. The Indian government occasionally encourages banking mergers to increase efficiency & stability. Insolvency & Bankruptcy Code (IBC) & Financial Resolution & Deposit Insurance (FRDI) Bill amendments helped the M&A landscape by providing a clear framework for troubled asset resolution (Bhoi & Chudasama, 2018).

NPAs: High NPAs drive public sector bank M&As. NPAs can be managed & reduced by consolidating. Merging with stronger banks diversifies risk & improves asset quality (Kaur & Kaur, 2019).

Economies of Scale: Economies of scale are a major reason for M&As. Larger banks have lower unit costs, better supplier bargaining power & more effective resource use. This boosts market profitability & competitiveness (Ramanathan & Ramachandran, 2019).

Market expansion & diversification: M&A’s help the banks in extending their market presence, product offerings & geographical reach. This strategy reduces risks in constrained markets & grows customers (Narasimhan, 2019).

Capital Adequacy & Basel Norms: Basel III compliance & capital levels stimulate consolidation. Merged firms sometimes meet strict capital requirements better, ensuring financial stability & resilience (Roy, 2018).

Studies on Customer Satisfaction

Hansemark, O. C., & Albinsson, M. (2004) explains that their study explores how the employees of a company experience the concepts of customer satisfaction & retention. Customer Satisfaction was discussed from three perspectives: definition of the concept, how to recognize when a customer is satisfied, & how to enhance satisfaction. The respondents experience pertaining to these three categories varied, & a total of seven ways to define, recognize or enhance satisfaction were discovered. These were: service, feeling, chemistry, relationship & confidence, dialogue, complaints & retention. All except the first two of these categories of experience were found to enhance retention, implying that the informants have found that strategies for enhancing both satisfaction & retention are similar. The strongest connection between retention & satisfaction strategies turned out to be in terms of relationship & confidence.

Levesque, T. & McDougall, G.H.G. (1996) Study & reflect that customer satisfaction & retention are critical for retaining customers of retail banks, & also list out the major determinants of customer satisfaction & future intentions in the retail bank sector. The determinants include service quality dimensions (e.g. getting it right the first time), service features (e.g. competitive interest rates), service problems, service recovery & products used. It also concludes that service problems & the bank’s service recovery ability have a major impact on customer satisfaction & intentions to switch.

Hokanson, S. (1995) explains in his own study that there are many factors that affect customer satisfaction; these include factors like helpful & knowledgeable employers, service quality, competitive pricing etc.

REVIEW OF LITERATURE

Patel Brijesh & Gohil Satyajitsinh (2023) in their study understand the impact of M&A for Bank of Baroda, Dena Bank & Vijaya Bank & conclude that several challenges exist in realizing the objectives of M&A but, it sure leads to noteworthy value creation for stakeholders.

A recent study by Jain & Sharma (2023) examined the impact of the merger between Punjab & Sind Bank with Punjab National Bank on corporate & retail customers. Their research revealed that corporate customers were more sensitive to changes in relationship management & service disruptions, while retail customers were primarily concerned with branch accessibility & convenience.

Furthermore, a comprehensive analysis by Singh et al. (2023) explored the role of organizational culture compatibility in shaping customer satisfaction during bank mergers. Their findings emphasized the importance of cultural integration & alignment between the merging entities, as cultural clashes can lead to customer dissatisfaction & increased attrition rates. However, Saxena & Gupta (2022) observed a contrasting trend in their study of the merger between Syndicate Bank & Canara Bank. Their findings suggested that effective change management strategies, including employee training & transparent communication, helped mitigate customer concerns & maintain satisfactory service levels during the post-merger phase.

Similarly, Rani & Kumari (2021) investigated the effect of the merger between Oriental Bank of Commerce & United Bank of India with Punjab National Bank on customer satisfaction. Their research highlighted issues such as changes in banking policies, procedural delays & a lack of effective communication, which contributed to increased customer dissatisfaction.

A study by Dixit & Ghosh (2020) analyzed the impact of the merger between Vijaya Bank & Dena Bank with Bank of Baroda on customer satisfaction. Their findings revealed a significant decline in customer satisfaction levels due to factors such as branch closures, staff redeployment & disruptions in service quality during the integration process.

OBJECTIVES OF THE STUDY

- To analyse the impact of Mergers & Acquisitions on Customer Satisfaction in Public Sector Banks
- To assess changes in Service Delivery Practices Post-Mergers & Acquisitions
- To examine the Drivers behind Mergers & Acquisitions in Public Sector Banking

METHODOLOGY

The purpose of this research is to compare consumer satisfaction with offline & online services before & after a merger. The study employs a simple random sampling method to ensure that every individual in the target population has an equal chance of being selected. A total of 247 respondents make up the sample.

The survey approach is utilized for data collection. Statistical tools used for this study are Paired T-test & ANOVA. The study area encompasses both the rural & urban areas of Bhopal District. The research is descriptive in nature. Data is derived from primary sources. To collect first-hand information, a survey is devised & statistical approaches are employed for the analysis.

LIMITATIONS OF THE STUDY

- It is not possible to generalise the results to a larger population because the study only had 247 participants.
- Due to its narrow scope, this study does not include data from many locations.

DATA ANALYSIS & INTERPRETATION

Table-1: Demographic profile of the respondents

Demographic Information	**Count**	**%**
Age Group:		
18-30	58	23.5
31-45	75	30.4
46-60	83	33.6
Above 60	31	12.6
Total	**247**	**100.0**
Gender:		
Male	138	55.9
Female	109	44.1
Total	**247**	**100.0**
Occupation:		
Student	37	15.0
Employed	87	35.2
Self-Employed	43	17.4
Retired	21	8.5
Other (please specify)	59	23.9
Total	**247**	**100.0**
Region:		
Urban	89	36.0
Suburban	73	29.6
Rural	85	34.4
Total	**247**	**100.0**

Source: Primary data

The table-1 presents the demographic distribution of 247 respondents.

- **Age Group:** Most respondents are in the 46-60 age group (33.6%), followed by 31-45 (30.4%), 18-30 (23.5%) & above 60 (12.6%).
- **Gender**: There is a higher representation of male respondents (55.9%) compared to female respondents (44.1%).
- **Occupation:** Employed individuals make up the largest occupation group (35.2%), with students being the least represented (15.0%). A significant portion of respondents fall into the 'Other' category (23.9%), which may include a variety of occupations not listed.
- **Region:** Respondents are fairly evenly distributed across urban (36%), rural (34.4%) & suburban (29.6%) areas.

Table-2: Customer Experience

Customer Experience	Pre-M&A		Post -M&A	
	Count	**%**	**Count**	**%**
Duration of your relationship with the bank:				
Less than 2 Year	77	31.2	81	32.8
2-4 years	96	38.9	87	35.2
More than 4 years	74	30.0	79	32.0
Total	**247**	**100.0**	**247**	**100.0**
Frequency of branch visits before the merger/acquisition:				
Weekly	60	24.3	68	27.5
Monthly	69	27.9	67	27.1
Quarterly	60	24.3	59	23.9
Rarely	58	23.5	53	21.5
	247	**100.0**	**247**	**100.0**
Rating of customer service quality				
Very Poor	8	3.2	6	2.4
Poor	13	5.3	11	4.5
Fair	92	37.2	74	30.0
Good	65	26.3	78	31.6
Excellent	69	27.9	78	31.6
Total	**247**	**100.0**	**247**	**100.0**
Satisfaction with online banking services				
Very Dissatisfied	19	7.7	7	2.8
Dissatisfied	37	15.0	9	3.6
Neutral	76	30.8	69	27.9
Satisfied	55	22.3	75	30.4
Very Satisfied	60	24.3	87	35.2
Total	**247**	**100.0**	**247**	**100.0**

Overall satisfaction with the bank				
Very Dissatisfied	20	8.1	8	3.2
Dissatisfied	38	15.4	6	2.4
Neutral	68	27.5	74	30.0
Satisfied	55	22.3	84	34.0
Very Satisfied	66	26.7	75	30.4
Total	**247**	**100.0**	**247**	**100.0**

Source: Primary data

Table-2: shows Customer Experience during Pre-Merger & Post-merger. Here are some interpretations:

- **Duration of Relationship with Bank**: There's a slight increase in customers who have been with the bank for less than 2 years post-M&A, suggesting that the bank may be attracting new customers or that newer customers are more likely to stay post-M&A.
- **Frequency of Branch Visits**: Post-M&A, there's a small increase in weekly visits & a decrease in rarely visiting customers. This could indicate improved customer engagement or satisfaction with branch services after the M&A.
- **Customer Service Quality**: The percentage of customers rating service as 'Excellent' remains consistent, but there's a noticeable decrease in 'Fair' ratings post-M&A. This could suggest an improvement in perceived service quality.
- **Online Banking Services**: There's a significant decrease in customers who are 'Very Dissatisfied' & an increase in those who are 'Very Satisfied' post-M&A, indicating enhanced satisfaction with online services.
- **Overall Satisfaction**: Similar to online banking services, there's a decrease in 'Very Dissatisfied' customers & an increase in 'Satisfied' & 'Very Satisfied' customers post-M&A.

These trends suggest that overall customer satisfaction may have improved following the M&A event, particularly in terms of service quality & online banking services. However, it would be beneficial to analyse this data alongside demographic information to understand if these trends hold true across different customer segments.

HYPOTHESIS TESTING & FINDINGS

HYPOTHESIS-1:

H0: There is no improvement in the customer service quality, Satisfaction with online banking services & Overall satisfaction with the bank post-merger.

H1: There is an improvement in the customer service quality, Satisfaction with online banking services & Overall satisfaction with the bank post-merger.

Table-3: Paired Samples Statistics, Correlation & t-test

	Rating of customer service quality		**Satisfaction with online banking services**		**Overall satisfaction with the bank**	
	Pre-Merger	**Post Merger**	**Pre-Merger**	**Post Merger**	**Pre-Merger**	**Post Merger**
Mean	3.70	3.85	3.40	3.91	3.44	3.86
N	247	247	247	247	247	247
Std. Deviation	1.035	0.997	1.222	1.015	1.257	0.988
Std. Error Mean	0.066	0.063	0.078	0.065	0.080	0.063
Correlation	0.163		0.002		-0.084	
Sig.	0.010		0.979		0.190	
Mean	-0.150		-0.510		-0.417	
Std. Deviation	1.315		1.587		1.663	
t	-1.790		-5.051		-3.942	
df	246.000		246.000		246.000	
Sig. (2-tailed)	0.075		0.000		0.000	

Source: Authors computations

The table you've provided shows the results of a paired samples t-test, which is used to compare the means of two related groups. Here's a brief interpretation of the results:

- **Rating of customer service quality**: The mean rating has slightly increased from pre-merger (3.70) to post-merger (3.85). However, the correlation between pre & post-merger ratings is weak (0.163) & the increase is not statistically significant ($p=0.075$), meaning we cannot confidently say the merger had an effect on customer service quality ratings.
- **Satisfaction with online banking services**: There is a noticeable increase in satisfaction from pre-merger (3.40) to post-merger (3.91). The correlation is very weak (0.002), suggesting little relationship between pre & post-merger satisfaction ratings. The change is statistically significant ($p<0.001$), indicating that the merger likely had a positive impact on satisfaction with online banking services.
- **Overall satisfaction with the bank**: Similar to online banking services, overall satisfaction increased from pre-merger (3.44) to post-merger (3.86). The negative correlation (-0.084) is not significant ($p=0.190$) & the increase in satisfaction is statistically significant ($p<0.001$), suggesting the merger had a positive effect on overall satisfaction.

Finding 1: In summary, while customer service quality ratings did not significantly change, there were significant improvements in satisfaction with online banking services & overall satisfaction with the bank after the merger.

HYPOTHESIS-2:

H0: There is no significant difference between the customer's level of satisfaction & respondent Age group, Region.

H1: There is a significant difference between the customer's level of satisfaction & respondent Age group, Region.

Table-4: Impact on Customer Satisfaction Post-M&A & ANOVA test

Impact on Customer Satisfaction Post-M&A	Count	%	Age Group		Region	
			F	Sig.	F	Sig.
Change in branch service satisfaction after the merger/acquisition:			3.583	p = 0.016 Significant	0.939	p = 0.425 Insignificant
Significantly Improved	56	22.7				
Improved	69	27.9				
No Change	82	33.2				
Declined	31	12.6				
Significantly Declined	9	3.6				
Total	**247**	**100.0**				
Rating of customer service quality after the merger/acquisition:			4.841	p = 0.003 Significant	2.243	p = 0.087 Insignificant
Excellent	51	20.6				
Good	75	30.4				
Fair	84	34.0				
Poor	23	9.3				
Very Poor	14	5.7				
Total	**247**	**100.0**				
Change in online banking service satisfaction after the merger/acquisition:			0.253	p = 0.859 Insignificant	0.672	p = 0.571 Insignificant
Significantly Improved	68	27.5				
Improved	71	28.7				
No Change	69	27.9				
Declined	21	8.5				
Significantly Declined	18	7.3				
Total	**247**	**100.0**				
Change in overall satisfaction with the bank after the merger/acquisition:			0.168	p = 0.918 Insignificant	1.169	p = 0.325 Insignificant
Significantly Improved	61	24.7				
Improved	76	30.8				
No Change	85	34.4				
Declined	17	6.9				
Significantly Declined	8	3.2				
Total	**247**	**100.0**				

Table-4 shows customer perceptions of service quality post-merger & acquisition across different areas.

Branch Service Satisfaction: A total of 50.6% of customers felt an improvement (22.7% significantly), while 16.2% felt a decline in satisfaction.

Customer Service Quality: 51% rated the service as excellent or good, while 14.8% rated it poor or very poor.

Online Banking Service Satisfaction: 56.2% experienced an improvement (27.5% significantly) & 15.8% saw a decline.

Overall Bank Satisfaction: 55.5% of customers reported improved satisfaction (24.7% significantly), with only 10.1% reporting a decline. The majority of customers did not report a negative impact on satisfaction post-M&A, with 'No Change' being the most common response for branch service & overall bank satisfaction, indicating stability in customer perception in these areas.

Based on the F-values & p-values provided:

Branch Service Satisfaction: There is a statistically significant difference in branch service satisfaction post-M&A based on the age group of respondents ($p = 0.016$), but not based on their region ($p = 0.425$).

Customer Service Quality: Customer service quality ratings post-M&A also show a significant difference based on age group ($p = 0.003$), but not region ($p = 0.087$).

Online Banking Service Satisfaction: No significant difference is observed in online banking service satisfaction post-M&A, neither by age group ($p = 0.859$) nor region ($p = 0.571$).

Overall Bank Satisfaction: Similarly, there is no significant difference in overall bank satisfaction post-M&A by age group ($p = 0.918$) or region ($p = 0.325$).

Finding 2: In summary, age appears to be a factor in how customers perceive branch service & customer service quality post-M&A, while the region does not seem to influence satisfaction levels significantly.

CONCLUSION

This study sheds light on how mergers & acquisitions affect customer satisfaction & service quality in Indian public sector banks. The survey found that post-merger customer satisfaction & satisfaction with online banking services have increased.

Contrastingly the attribute of customer service quality has not. The data also shows that age affects consumer impressions of branch service & quality post-M&A, whereas region does not.

Effective change management measures, such as transparent communication & comprehensive employee training, can mitigate the negative consequences of M&A on customer satisfaction. Public sector banks must maintain service quality & easy transitions to keep client trust & loyalty after mergers.

Future research might involve a larger & more varied sample & examine M&A's long-term effects on customer satisfaction & service performance. This study improves understanding of banking M&A dynamics & offers practical advice for managing customer happiness & service performance during consolidation.

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