Financial Synergy On Mergers And Acquisition Of Commercial Banks

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Abstract: The study focused on the financial synergy on mergers and acquisition of commercial banks in CALABARZON, Philippines. Descriptive method using questionnaire was treated with frequency and percentage, weighted mean, t – test and Pearson's r correlation. Based on the study, commercial banks were above 21 years, 100–199 employees, more than Php10, 001, 000.00 capital, engaged in horizontal merger, and acquired financing decision. Respondents assessed that profitability, leverage, and liquidity were financially synergized to a moderate extent. Moreover, respondents have fairly serious problems and a characteristic of commercial banks is not significantly different to the factors of financial synergy. Thus, lessen risk, maximization of shareholders' return, increase dynamic buyouts, invest and maintain advances in technology, focus on affiliate companies and analysis of inflation and foreign exchange were proposed strategies on financial synergy. In connection, commercial banks should promote quality of services and innovation, avail the ability of maximizing their assets, and valuate/assess plan comprehensively.

Keywords: commercial banks, financial stability, profitability, synergy

1. Introduction

The concept wherein the value and performance of two-joint companies will be larger than the entirety of the distinct individual parts and this idea was synergy in itself and possible financial advantage attained through this is often a driving force for merger and acquisition [1]. Financial synergy in this sense, through the merger and acquisition can be ascribed to bigger revenues, technology, mutual talent, and even cost-reduction. Consequently, to improve the company's financial performance for the shareholders is the main goal of merger and acquisition. The companies will be capable of producing higher revenues, create streamlined company to eliminate redundant processes, and improves cost-reduction. Because of this, the latent financial synergy is examined and scrutinized during the merger and acquisition process. Banks merged as they tried to secure economies of scale advantages and placed themselves in contrast to a more intense risk of domestic competition and across borders [2]. Likewise, financial economies of scale have lower flotation and transaction costs and larger company can lower the cost of capital to the firm due to better access to financial markets and commercial banks were view to mark its importance especially for saving, investing and borrowing [3]. In connection, commercial banks accepts deposits, makes business loans and offers related services for businesses, organizations, and individuals. These institutions can either be sole proprietor, partnership or corporations that are members of the Banko Sentral ng Pilipinas which were given the responsibility to manage the bank. Accordingly, financial institutions particularly commercial banks, ensure a positive cash flow for financial stability by maintaining a regular and adequate supply of funds to the clientele, guarantee returns to the shareholders based earning capacity, ensure optimum funds utilization, and safeguard safety on investment [4]. Commercial banks are compose of financial management which plans, organize, direct and control the financial activities such as procurement and utilization of funds of the enterprise and the financial institutions. Thus, financial management entails planning for the future of a person or a business enterprise to ensure a positive cash flow which administer and maintain financial assets. Commercial banks that go through the process of mergers and acquisitions have the goal of refining performance, increasing efficiency, and gaining business synergy [5]. As mergers and acquisition of banks became a common phenomenon in the banking industry it also entails that the new organization structure appears from the two companies combined. Based from the abovementioned facts, the authors decided to study the financial synergy on mergers and acquisition of commercial banks for a mindset of knowing institutions' financial stability and using this approach to attain economic growth.

2. Objectives

Financial synergy on mergers and acquisition of commercial banks in CALABARZON was described on this study. The number of years in operation, number of employees, capitalization, type of strategic long-term financing decision, and type of merger of commercial banks. The study also assesses profitability, leverage, and liquidity as factors of financial synergy. Likewise, problems encountered by the respondents were identified and the significant difference between the characteristics of commercial banks to the factors of financial synergy was analyzed.

3. Methodology

Descriptive method using Slovin's formula at five percent margin of error was utilized for the sample size and employed simple random sampling with fish bowl technique.

A survey questionnaire was used and the subjects of the study were branch manager, teller, loan officer, and new account teller. Lastly, frequency, percentage, mean, composite mean, and t-test of independent variables was used in the study.

4. Results and Discussions

4.1 Characteristics Commercial Banks

In terms of the length of business existence, 94.7 percent have the length of 21 years and above period of business existence. Another has 5.56 percent which has 16 up to 20 years of business existence. It appears that most of the respondents had been effectively running their respective business for a very long period. For business capital, there were 89.47 percent have P10, 101, 000 and above capital for their respective banks, one of the respondents or 5.26 percent has P5,000, 000 and below and the other one or 5.26 percent has P9,001, 000 up to P10, 000, 000 million of capitalization for their respective banks. In terms of the number of employees, 61.11 percent have 100-199 up to 20 employees, 36.80 percent have 1-99 employees and 2.09 percent for 41 and above 200 employees. It came into view that most of the respondents are slot in 11 up to 20 employees that comprises their commercial banks. For the type of strategic long-term financing decision, 57.9 percent had adapted acquisition as their strategic long-term financing decision and 42.10 percent had adapted merger as their strategic long-term financing decision. The respondents noted that it was their long-term plan to merged and acquire and to stabilize their financial capability. Lastly, 36.8 percent had adapted horizontal merger, 31.6 percent for con-generic merger, 26.3 percent conglomerate merger and 5.3 percent on vertical merger.

4.2 Factors of Financial Synergy on Merger and Acquisition

Table 1 presents financial synergy in terms of profitability. Commercial banks were financially synergized to a moderate extent when customers/clients increased since the bank created and strengthened the product and service formulated after merger and acquisition with 4.58 mean. On the other hand, the mean of 4.16 suggests that from the perspective of the acquiring entity, the synergistic value gain exceeds the acquisition (takeover) premium were to a moderate extent.

Table 1: *Assessment of Financial Synergy on Merger and Acquisition of Commercial Banks in terms of Profitability*

Items	Mean	Verbal Interpretation
1. Economy of scope or the ability of a firm to utilize one set of input to provide a broader range of products and services is made possible.	4.36	Financially Synergized to a Moderate Extent
2. More investors for immediate or long-terms economic growth are feasible for the bank.	4.32	Financially Synergized to a Moderate Extent
3. Bank's profit/income increases due to revenue enhancement and costs reductions.	4.32	Financially Synergized to a Moderate Extent
4. Customers/clients increased since the bank created and strengthened the product and service formulated after merger and acquisition.	4.58	Financially Synergized to a Great Extent
5. From the perspective of the acquiring entity, the synergistic value gain exceeds the acquisition (takeover) premium.	4.16	Financially Synergized to a Moderate Extent
Composite Mean	4.33	Financially Synergized to a Moderate Extent

The composite mean of 4.33 revealed that mergers and acquisition of commercial banks in terms of profitability is financially synergized to a moderate extent. This suggests that the profitability also gain efficiencies when they become large enough to fully utilize dedicated resources for tasks such as materials handling [7]. Through profitability it is possible that the firm has the ability to utilize one set of input to offer a broader array of products and services [6]. Based on table 2, commercial banks were financially synergized to a moderate extent on all the items about leverages just like tangible and non-tangible assets increase by holding debt in a less risky firm which has a mean of 4.11. With mean 4.00, commercial banks lowers the volatility of cash flows were financially synergized to a moderate extent and ranked as lowest mean. The composite mean of 4.04 suggests that merger and acquisition in terms of leverage was financially synergized to a moderate extent.

Table 2: *Assessment of Financial Synergy on Merger and Acquisition of Commercial Banks in terms of Leverage*

Items	Mean	Verbal Interpretation
1. Tangible and non-tangible assets increase by holding debt in a less risky firm.	4.11	Financially Synergized to a Moderate Extent
2. Better access to financial markets due to strong brand name or a strong distribution network.	4.05	Financially Synergized to a Moderate Extent
3. Financial competitiveness because of a quantifiable and well-built valuation models.	4.00	Financially Synergized to a Moderate Extent
4. The debt coinsurance offset earnings of the firm to prevent the combined firm from falling into bankruptcy and causing creditors to suffer losses.	4.05	Financially Synergized to a Moderate Extent
5. Merger and acquisition lowers the volatility of the cash flows.	4.00	Financially Synergized to a Moderate Extent
Composite Mean	4.04	Financially Synergized to a Moderate Extent

All of these are due to the larger, broader and wider properties, systems and operations available on banks due merger and acquisition as noted by the respondents [8]. Financial synergy on merger and acquisition of commercial banks in terms of liquidity can be gleaned on table 3. It can be gleaned from the table that the liquidity of receivables was assessed as financially synergized to a moderate extent by the top management with mean of 4.05. This is due to the valued customers and debtors who are loyal with the merged and acquired banks as noted by the respondents. Inventory liquidity was assessed also as financially synergized to a moderate extent by the respondents with mean of 4.11 which is due to the well utilization management of inventories. On the other hand, difficulty in paying short term debts was assessed to have financially synergized to a less extent with mean of 2.95. The respondents noted that commercial banks don't experience difficulty in paying short-term debts because of larger assets and properties due to mergers and acquisition. In this sense, the capability to meet short-term obligations and the degree is always associated with profitability [9].

Table 3: *Assessment of Financial Synergy on Merger and Acquisition of Commercial Banks in terms of Liquidity*

Items	Mean	Verbal Interpretation
1. More suppliers of capital will be available for the firm since the bank increases specialization or labor and management and more efficient use of capital equipment.	4.16	Financially Synergized to a Moderate Extent
2. The sharing of marketing opportunities by cross-marketing each merger partner's products is obtained.	4.05	Financially Synergized to a Moderate Extent
3. Total returns that can be provided by a combined firm are assumed to be constant.	4.11	Financially Synergized to a Moderate Extent
4. Financial economies of scale are also possible in the form of lower flotation and transaction costs.	2.95	Financially Synergized to a Less Extent
5. Costs of borrowing or raising equity are perfectly correlated with a sound cash flow stream.	3.00	Financially Synergized to a Less Extent
Composite Mean	3.65	Financially Synergized to a Moderate Extent

Lastly, the composite mean of 3.65 suggests that commercial banks were financially synergized to a moderate extent. This findings conforms that in terms of liquidity, commercial banks have focus on a sound cash management [10].

4.3 Problems Encountered

Table 4 presents that top management treats difficulty in handling the accounts of clients with existing loans brought by mergers and acquisition as fairly serious with a weighted mean of 2.32 as well as the duplication and over capacity on banks that might require retrenchments which has a weighted mean of 2.32. The top management also took the incompatibility of people or systems thereby leading to under capacity and management overloading in the acquired and merged banks as fairly serious with a weighted mean of 2.26. The diversifying and liquidity problems were also treated as fairly serious by the top management having the weighted mean of 2.11. Growing pains that came from the merged or acquired bank/s was also treated by the top management as fairly serious with a weighted mean of 2.32.

Table 4: *Problems Encountered by the Respondents on Merger and Acquisition*

Items	Mean	Verbal Interpretation
1. Difficulty in handling the accounts of clients with existing loans brought by mergers and acquisition.	2.32	Fairly Serious
2. Duplication and over capacity on banks that might require retrenchments.	2.32	Fairly Serious
3. Incompatibility of people or systems in the acquired and merged banks.	2.26	Fairly Serious
4. Diversifying and liquidity problems.	2.11	Fairly Serious
5. Growing pains that came from the merged or acquired bank/s.	2.32	Fairly Serious
6. System differentiation	2.53	Serious
7. Operating risks	2.37	Fairly Serious
8. Manpower risk due to different skills orientation and training.	2.37	Fairly Serious
9. Credit risks.	2.47	Fairly Serious
10. Reputation risks.	2.16	Fairly Serious
Composite Mean	2.32	Fairly Serious

Among all the problems encountered by the respondents in financial synergy of mergers and acquisition system differentiation was the only serious one that they had experienced which has a weighted mean of 2.53. Operating risks with a weighted mean of 2.37, manpower risk due to different skills orientation and training with a weighted mean of 2.37, credit risks with weighted mean of 2.47 and reputation risks with a weighted mean of 2.16 were all treated as fairly serious by the top management.

4.4 Characteristics of Commercial Banks to the Factors of Financial Synergy on Mergers and Acquisition

It can be gleaned from table 5 that profitability has an f-value of 0.244 and sig. (2-tailed) of 0.628 and for leverage has an f-value of 0.953 and sig (2-tailed) of 0.343 both greater than the .05 level of significance.

Table 5: *Difference Between Number of Years in Operation to the Factors of Financial Synergy of Merger and Acquisition*

Variables	F-value	Sig. (2-tailed)	Decision H_o	Interpretation
Profitability	0.244	0.628	Failed to Reject	Not Significant
Leverage	0.953	0.343	Failed to Reject	Not Significant
Liquidity	3.027	0.004	Reject	Significant

On the other hand, f-value of 3.027 and sig. (2-tailed) of 0.004 of liquidity rejects null hypothesis. In this sense, as commercial banks operate lengthier the more liquid. It becomes and it is common that holding securities that can be sold rapidly with minimal loss means creditworthy securities with government bills, which have short-term maturities [11].

Table 6: *Difference Between Number of Employees to the Factors of Financial Synergy of Merger and Acquisition*

Variables	F-value	Sig. (2-tailed)	Decision H_o	Interpretation
Profitability	0.744	0.491	Failed to Reject	Not Significant
Leverage	0.473	0.613	Failed to Reject	Not Significant
Liquidity	2.483	0.025	Reject	Significant

Table 6 presents that profitability has an f-value of 0.744 and sig. (2-tailed) of 0.491 and for leverage has an f-value of 0.473 and sig (2-tailed) of 0.613 both greater than the .05 level of significance, thus accepts the null hypothesis. On the other hand, liquidity has an f-value of 2.483 and sig. (2-tailed) of 0.025 is less than .05 level of significance, thus the null hypothesis is rejected. A more and liquefied workforce can be an asset to organizations, adding agility in a competitive marketplace making best practices and better incorporating liquid talent for organizational leverage [12]. The difference between capitalization to the factors of financial synergy of mergers and acquisition was presented in table 7.

Table 7: *Difference Between Capitalization to the Factors of Financial Synergy of Merger and Acquisition*

Variables	F-value	Sig. (2-tailed)	Decision H_o	Interpretation
Profitability	1.380	0.060	Failed to Reject	Not Significant
Leverage	1.474	0.274	Failed to Reject	Not Significant
Liquidity	3.060	0.019	Reject	Significant

The f-value of 1.380 and sig. (2-tailed) of 0.060 for profitability and f-value of 1.474 and sig (2-tailed) of 0.274 for leverage is greater than the .05 level of significance, thus the null hypothesis is accepted. On the other hand, liquidity has an f-value of 3.060 and sig. (2-tailed) of 0.019 is less than .05 level of significance, thus the null hypothesis is rejected. The liquidity glut progresses when there are too much capital looking for too few investments and leads to inflation. As cheap money pursuits lesser profitable investments the prices of those assets increases [13]. The difference between type of merger to the factors of financial synergy of merger and acquisition can be seen from table 8. In terms of the type of merger, the f-value of 2.114 and 1.343 and sig. (2-tailed) of 0.172 and 0.304 for profitability and leverage, respectively, suggests acceptance of null hypothesis. In terms of liquidity, the null hypothesis is rejected since f-value of 4.056 and significance of 0.049.

Table 8: *Difference Between Type of Merger to the Factors of Financial Synergy of Merger and Acquisition*

Variables	F-value	Sig. (2-tailed)	Decision H_o	Interpretation
Profitability	2.114	0.172	Failed to Reject	Not Significant
Leverage	1.343	0.304	Failed to Reject	Not Significant
Liquidity	4.056	0.049	Reject	Significant

Liquidity may empower firms to commence acquisitions that can be used openly as a measure of payment or can be used to meet debt finance’s interest. Consequently, an increase in corporate liquidity should boost firms' acquisition [14]. Lastly, table 9 presents the difference between type of long-term financing to the factors of financial synergy of merger and acquisition.

Table 9: *Difference Between Type of Strategic Long-term Financing Decision to the Factors of Financial Synergy of Merger and Acquisition*

Variables	F-value	Sig. (2-tailed)	Decision H_o	Interpretation
Profitability	0.415	0.528	Failed to Reject	Not Significant
Leverage	2.115	0.164	Failed to Reject	Not Significant
Liquidity	1.001	0.041	Reject	Significant

It can be gleaned from the table that profitability has 0.415 and 0.528 and leverage with 2.115 for f-value and sig. (2-tailed), respectively. These values were greater than .05 level of significance, thus accepts null hypothesis. On the other hand, liquidity has 1.001 (f-value) and 0.041 (sig. 2-tailed), which is less than .05 level of significance, thus reject the null hypothesis. The results suggest that dedicated and skillful employees were the most vital assets for the company [15]. Loyal employees maintain the status quo of the business. In this sense, the amount that banks invest in merger and acquisition will likewise signify the amount of success or failure in their return on investment [16]. Further, the higher the risk and rate of return depends on the management choice for investment [17].

4.5 Strategies for Financial Synergy of Commercial Banks

- Lessen risk using new financial techniques to create a more efficient commercial bank.
- Prioritize maximization of shareholders’ return to maintain shares and capital.
- Increase dynamic buyouts to the new financial group for investors.
- Maintain or increase the margin of the interest rates of deposits and loans in the retail banking market.
- Invest and maintain advanced technology to increase the economies of scale of financial services.
- Focus on affiliate companies which can offer alternative financial products.
- Finance other firms for broader and bigger transactions, products, and services offering for customers.
- Make merger and acquisition as a development strategy for the banks and employees.
- Observe and analyse inflation, foreign exchange, and other factor that affects the operation of banks.

5. Conclusions

1. Commercial banks were 21 years and above, with 11 – 20 employees, Php1, 001, 000.00 capital, in horizontal merger, and acquired financing decision.
2. The profitability, leverage, and liquidity were financially synergized to a moderate extent.
3. There were fairly serious problems encountered by respondents on merger and acquisition.
4. The characteristics of commercial banks are not significantly different to profitability and leverage while liquidity is significantly different
5. The proposed strategies on financial synergy of commercial banks includes lessen risk, maximization of shareholders’ return, increase dynamic buyouts, invest and maintain advances in technology, focus on affiliate companies and analysis of inflation and foreign exchange.

6. Recommendations

1. Commercial banks may avail the capability of maximizing their assets and productivity.
2. Evaluation and assessment may be performed for all factors related to operation, finances, and management.
3. Improvement of competent management may be included.

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