Customers' Perception about Merger: An Empirical Study of Erstwhile Bank of Rajasthan Ltd.

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The modern era of banking industry shows that the survival of banks has become a pivotal concern. The growing competition has compelled banks to expand their size and to penetrate in market place; it indicates the rule of the survival of the fittest. Under such scenario, one of the most widely used tools is mergers and acquisition. However, the market situation is such that there is bombardment of many new and divers products from large pool of bankers. For survival, deliberate decisions are required to mitigate the diverse effects of market forces. Therefore, the aim of this research paper is to assess the perception and post merger satisfaction level of customers of the merged bank i.e. the erstwhile bank of Rajasthan ltd. This study is based on a small sample of 30 customers, which is taken from the 10 selected branches from Udaipur city, and paired t-test is applied to test the significant difference of the sample. The results revealed that there is significant relationship between the customers' perception and physical facilities, quality and appearance of services, courtesy, and responsiveness shown by bank employees after merger. The implication of the study is for policy makers, strategist, bankers, future researchers, and scholars.

Keywords: Merger, Acquisition, Bank, Customer, Perception

Introduction

In the present scenario of competitive market, business decisions are largely affected by external forces i.e. macro factors such as fluctuations in economy, changes in regulatory frameworks, technological innovation, product innovation, on the other hand, micro factors like customer preferences and competitors' offerings. Since, the world market is shrinking and consumers are becoming aware about various products and services offered by global players, it has become strategically important for them to understand the perception of customers towards offerings. The recent history of Banking Industry in India shows clear evidences that in quest of organizational growth, strategic fit, creating synergy, augmenting geographic networks, and increasing market share, banks are adopting grand strategies like Mergers and Acquisitions (M&As). The merger of the Bank of Rajasthan Ltd. (BoR) in ICICI Bank Ltd. influences this study. As we know that, a merger is a combination strategy of two or more organization in which one acquires the assets & liabilities of the other in exchange for share or cash. The objectives and benefits of this merger are clearly mentioned in the scheme of this merger by ICICI Bank Ltd. It is the customer centric strategy, which places branches as the focal points of relationship management, sales, and service in geographical micro markets. It is evident that the BoR had deep penetration with huge brand value in the State of Rajasthan where it had 294 branches with a market share of 9.3% in total deposits of scheduled commercial banks. This merger would significantly add 463 branches in branch network of

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ICICI Bank along with increase in retail deposit base in rural market and therefore, ICICI Bank would get sustainable competitive advantage over its competitors in Indian Banking. When the news about this merger came out, the employees did not accept this. All the employees were against this merger and 4300 employees agitated against this merger. This has largely affected the confidence level of customer of the erstwhile BoR.

Therefore, this study is undertaken to assess the satisfaction level of customers after merger. An attempt is made to measure the perception of erstwhile BoR customers' in order to study the impact of this merger on customers. This study would be a contribution in the strategy formulation with regard to M&As and consequences on customers.

Mergers and Acquisition: Conceptual Framework

Procedures for merger and acquisition for banking companies are clearly defined in section 44(a) of the Banking Regulation Act 1949. According to the Act, a banking company will have to place a draft before its shareholders and the draft will have to be approved by a resolution passed by a majority in number, representing two-thirds in value of the shareholders of each of the said companies, present either in person or by proxy at a meeting called for the purpose.

Notice of every such meeting as is referred to in sub-section (1) shall be given to every shareholder of each of the banking companies concerned in accordance with the relevant articles of association indicating the time, place and object of the meeting, and shall also be published atleast once a week for three consecutive weeks in not less than two newspapers which circulate in the locality or localities where the registered offices of the banking companies concerned are situated, one of such newspapers being in a language commonly understood in the locality or localities.

If, there is any shareholder, who has voted against the scheme of amalgamation at the meeting or has given notice in writing at or prior to the meeting of the company concerned or to the presiding officer of the meeting that he dissents from the scheme of amalgamation, shall be entitled, in the event of the scheme being sanctioned by the Reserve Bank, to claim from the banking company concerned, in respect of the shares held by him in that company, their value as determined by the Reserve Bank when sanctioning the scheme and such determination by the Reserve Bank as to the value of the shares (to be paid to the dissenting shareholder shall be final for all purposes). If the scheme is sanctioned by the Reserve Bank, by an order in writing, it becomes binding not only on the banking companies concerned, but also on all their shareholders to abide by the law.

Review of Literature

From marketing point of view exploratory and qualitative researches have been done on customer perception to measure service quality in banking sector. These kinds of studies are positive sign for future, because it empowers researchers to think from customer's point of view and not only from financial experts' point of view.

Schneider, Parkington and Buxton (1980) selected a sample of twenty-three bank branches and studied the perception of employees and customer. A strong relationship was reported between employee perceptions of branch practices and procedures in relation to service and customer perceptions of service practices and quality. Results were discussed with reference to organizational diagnosis and the potential integration of organizational and consumer behavior. Replication and extension of this study was done by Schneider and Bowen (1985) with sample size of 142 employees and 968 customers from 28 branches of a bank and significant relationships were reported between branch employees' perceptions of organizational human resources practices and branch customers' attitudes about service. Employee attitudes and customer attitudes were related to their own and one another's turnover intentions.

The exploratory research (focus group and in-depth executive interviews) of Parasuraman, Zeithaml & Berry (1985) reported several insights and propositions concerning consumers' perceptions of service quality. Specifically, the research revealed 10 dimensions that consumers use in forming expectations about and perception of services. The research also pinpointed four key gaps on the service provider's side that are likely to affect service quality as perceived by consumers.

Schneider and Bowen (1985) significant relationships were reported between branch employees' perceptions of organizational human resources practices and branch customers' attitudes about service.

Kangis & Voukelatos (1997) reported the findings of a survey among customers of private and public sector banks in Greece on service quality perceptions and expectations. They found that quality expectations and evaluation of services received were marginally higher in the private than in the public sector in most of the dimensions measured; the relative importance attached to each quality attribute was, however, of a similar profile for the two sectors.

Urban and Pratt (2000) conducted a telephone survey of 801 consumers concerning the relationship between bank mergers and service quality perceptions. They found evidence of a significant relationship between bank mergers and service quality perceptions that differ based on the demographic characteristics of the respondents. Among these demographic characteristics are gender, ethnicity, education, and income

Jun & Shaohan (2001) identified total 17 dimensions of internet banking service quality and classified, into three broad categories - customer service quality, banking service product quality & online systems quality.

Sureshchandar, Rajendran & Anantharaman (2002) have used factor analysis approach to determine customer-perceived service quality in banking industry. They have brought to light some of the critical determinants of service quality that have been overlooked in the literature & propose a comprehensive model & an instrument framework for measuring customer perceived service quality. ---- (2003) identified the factors that discriminate the three groups of banks. Customers in developing economies seem to keep the "technological factors of services such as core service & systematization of the service delivery as the yardstick in differentiating good & bad service while the human factors seem to play a lesser role in discriminating the three groups of banks. It is evident from the perceptual map of Mylonakis (2004) on two biggest Greek banks that destined to fail because of differences in their customers' perceptions, preferences and service requirements, as well as, in social contribution factors, making rather impossible a vital and successful marketing strategy for the merged bank.

Focarelli and Panetta (2003) investigated the long-run price effects of mergers. For this purpose they used a database that included detailed information on the deposit rates of individual banks in local markets for different categories of depositors. Researchers found strong evidence that, although consolidation does generate adverse price changes, these are temporary. In the long run, efficiency gains dominate over the market power effect, leading to more favourable prices for consumers.

Went (2003) analyzed a merger between two Scandinavian universal banks to determine the arguments for the merger at the time of the merger announcement. It was argued that the merger was a response to changes in legislative and competitive environment, as well as a quest for broader functional competency and improved competitive position by integrating a smaller bank. Researcher used cognitive maps for analysis and revealed that the most important causes of the merger were complementing branch networks and competencies, particularly in corporate banking. The most important predicted effects were improvements in the profitability and market position.

Al-Hawari, M. and Ward, T. (2006) devised mediated model linking service quality to banks' financial performance through customer satisfaction in the context of the automated retail banking, and tested it by structural equation modelling. It was reported that customer satisfaction was a mediator in the relationship between automated service quality and financial performance.

Uppal, R. K, (2008) used five-point likert-type scale and empirically analyzed the quality of e-banking services in the changing environment with different statistical tools such as weighted average method and ranking. The study reported that most of the customers of e-banks are satisfied with the different e-channels and their services, but the lack of awareness is a major obstacle in the spread of e-banking services.

Hossain & Leo (2009) conducted an analytical study to know customer perception on service quality in retail banking in Qatar and covered 18 parameters with sample size of 120, chosen on a convenient basis from four banks. They have used five-point Likert scale to conclude the results that customer's perception is hightest in the tangibles area and lowest in the competence area. Kemal (2011) has used accounting ratios to compare the post-merger profitability of two banks i.e. RBS and ABN AMRO.

Ladhari, Ladhari & Morales (2011) on bank service quality of Canadian and Tunisian customer perception, conducted a comparative study. They selected two convenience samples of bank customers (250 in Canada and 222 in Tunisia). Service quality was measured using the five SERVQUAL dimensions of tangibles, reliability, responsiveness, assurance, and empathy. Data were analyzed using confirmatory factor analysis, ANOVA and linear regression and concluded that Canadians have higher perceived service quality than Tunisians for all five SERVQUAL dimensions.

Research Methodology

Objectives of the Study

- To know the customer perception about merger of Bank of Rajasthan in ICICI Bank Ltd.
- To assess the satisfaction level of customers post merger.

Universe

Total 463 branches of BOR were operating across India before the merger and out of this total 293 Branches were operating in Rajasthan.

Sampling Distribution

There were total 72 branches of erstwhile Bank of Rajasthan Ltd. now ICICI Bank Ltd. in Udaipur division. Out of these total 31 branches are operating in Udaipur district. For our sampling purpose, we selected only 10 branches and 3 customers from each branch from Udaipur to determine our sample size. We have used simple random sampling method for sampling purpose.

Sample Size

A small sample of 30 bank customers of erstwhile BoR is selected on random basis for study purpose.

Data Type

Primary and Secondary data will be used to achieve the objectives.

Research Instrument

Schedules (structured) which contained closed ended questions for primary data collection. 10 factors of service quality were included in the schedules. Publications from company, books, journals, magazines, and various websites will be referred for secondary data collection.

Research Tools

Paired sample t-test and is used to test the hypothesis and process the data.

$$t = \frac{\bar{d}}{s/\sqrt{n-1}}$$

Where;

d = x -y

$$\bar{d} = \frac{\sum d}{n}$$

$$s = \sqrt{\frac{\sum (d-\bar{d})^2}{n}}$$

Limitations of the Study

The sample size is extremely small. Inferences drawn here are based on 30 respondents, which may or may not represent the population, as it is a part of pilot study. The respondents were contacted at the respective bank.

Hypotheses Formulated

H01: There is no significant change in physical facilities after merger of the banks.

H02: Quality and appearance of service has not improved after merger of the banks.

H03: Responsiveness of Bank employees has not improved after merger.

H04: There is no difference in satisfaction level of customers post merger.

Data Analysis

Sources for given tables and figures are survey data.

Table : 1 Age and Gender Profile Cross tabulation

		Gender Profile		**Total**
		Female	**Male**	**Female**
Age	20-30	5	4	9
	31-40	2	7	9
	40-50	4	4	8
	50-60	2	2	4
Total		13	17	30

Source: Primary Data

Figure 1: Age and Gender wise Details

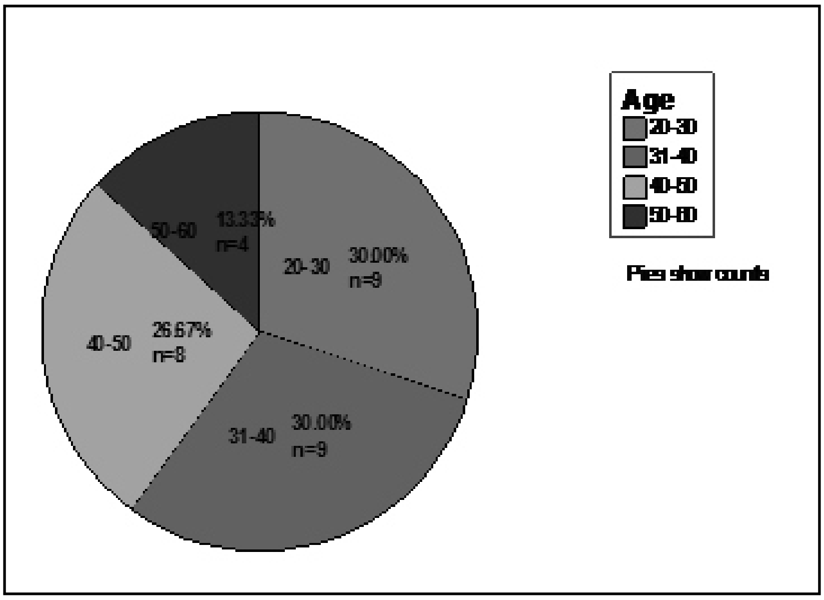
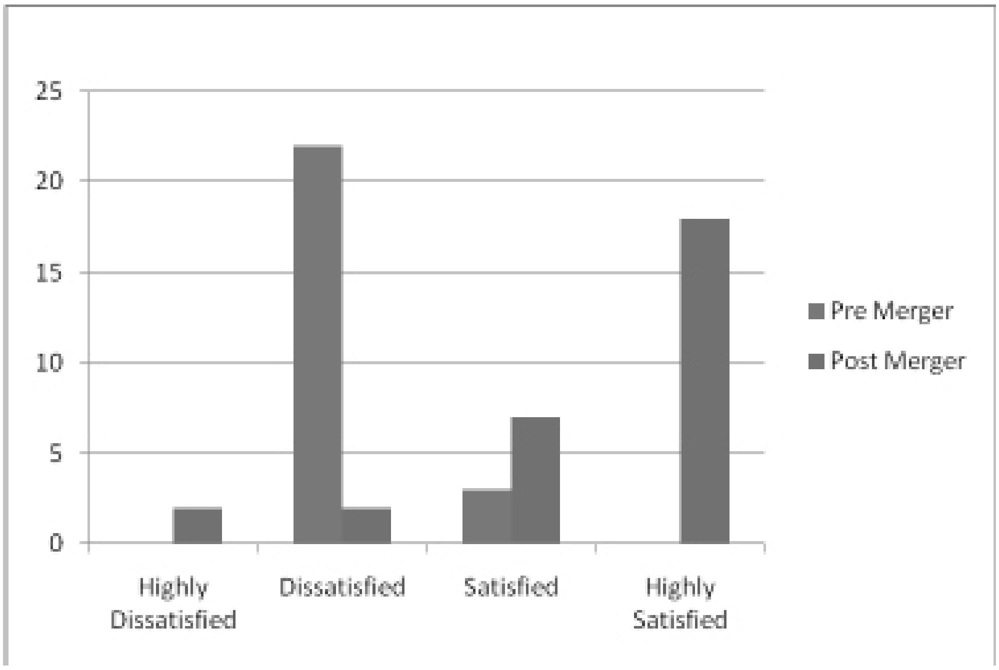


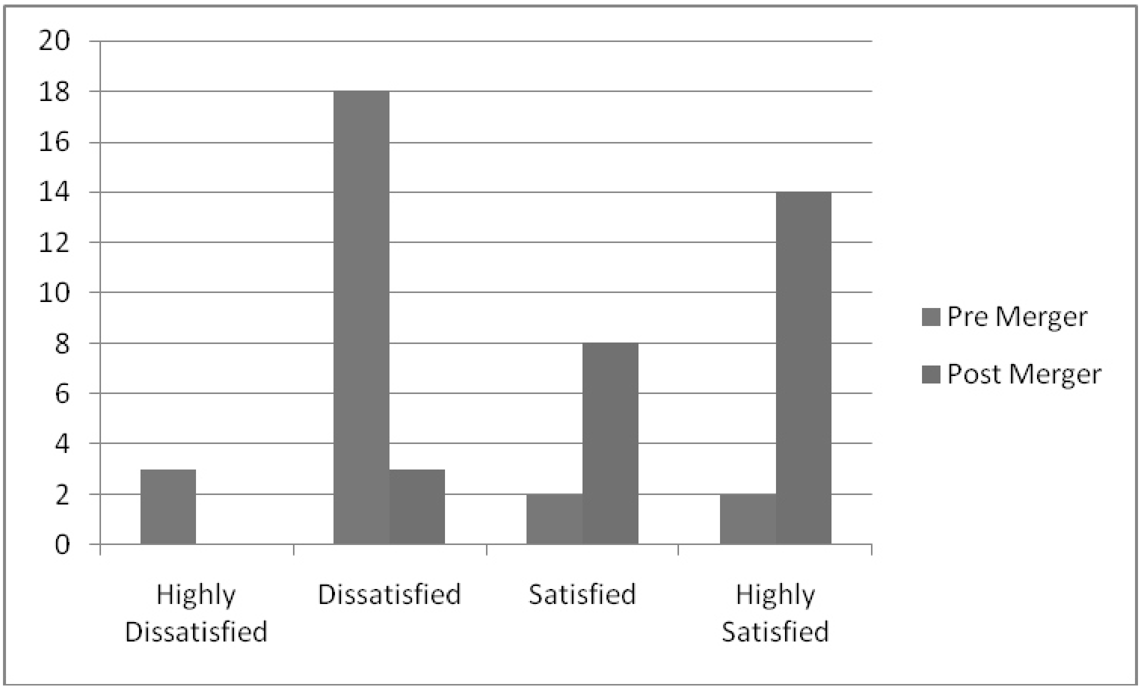
Fig. 2 Customers' Comfort Level Regarding Financial Safety



As per the above figure 1, we can see that before merger 22 (88%) customers were dissatisfied and merely 12% of them were satisfied whereas post merger 28% customers are satisfied and 72% of them are highly satisfied. We can say that post merger perception of of employees has improved that they feel that they are comfortable with ICICI bank.

Inquiries were made regarding knowledge and skill of the operational support personnel.

Fig. 3 Customer's Response about Operational Support



As per the figure 2, we can say that customer's perception about operational staff was not good before merger because majority of them were not satisfied with employees but after merger customers are highly satisfied with operational staff.

Apart from this, customers were asked about convenient hours of service, detailed explanation of service and tools and equipment used to provide service and it was observed that majority of customers are satisfied with services of ICICI bank whereas they were not satisfied and comfortable with the services of Bank of Rajasthan Ltd.

Therefore, there is clear evidence that customers are pleased to be associated with ICICI bank ltd. and size of the bank boost the confidence of customers.

Hypothesis Testing

In analysis, following scale (Table 2) is used to interpret the mean values.

Table : 2 Scale Developed

Results	**Interpretation**
1.0-1.75	Highly Dissatisfied
1.76-2.50	Dissatisfied
2.51-3.25	Satisfied
3.26-4.0	Highly Satisfied

Source: Likert Scale

H01: There is no significant change in physical facilities after merger of the banks.

Table : 3 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Physical Facility Pre-merger	1.83	30	.592	.108
	Physical Facility Post-merger	3.77	30	.430	.079

Source: Computed

The mean scores of physical facilities shows (Table 3) that before merger customers were dissatisfied (1.83) from the physical facilities of the erstwhile BoR while they are highly satisfied (3.77) with the physical facilities of ICICI Bank Ltd.

Table : 4 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Physical Facility Pre-merger - Physical Facility Post-merger	-1.933	.785	.143	-2.226	-1.640	-13.49	29	.000

Source: Computed

Tabulated value of t-test at 5% level of significance is 2.06. Calculated value is greater than tabulated value so null hypothesis is rejected and it can be interpreted that physical facilities were improved after merger of banks.

H02: Quality and appearance of service has not improved after merger of the banks.

Table : 5 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Quality & Appearance Pre-merger	1.93	30	.583	.106
	Quality & Appearance Post-merger	3.83	30	.379	.069

Source: Computed

The mean scores of Quality and appearance of service shows (Table 5) that before merger customers were dissatisfied (1.93) from the Quality and appearance of service of the erstwhile BoR while they are highly satisfied (3.83) with the Quality and appearance of service of ICICI Bank Ltd.

Table : 6 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	Quality & Appearance Pre-merger - Quality & Appearance Post-merger	-1.900	.803	.147	-2.200	-1.600	-12.96	29	.000

Source: Computed

Tabulated value of t-test at 5% level of significance is 2.06. Calculated value is greater than tabulated value so null hypothesis is rejected and it can be interpreted that Quality and appearance of service has been improved after merger of the banks.

H03: Responsiveness of Bank employees has not improved after merger.

Table : 7 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Presponsiveness Pre-merger	1.90	30	.662	.121
	Presponsiveness Post-merger	3.60	30	.621	.113

Source: Computed

The mean scores of Responsiveness of Bank employees shows (Table 7) that before merger customers were dissatisfied (1.90) from the Responsiveness of Bank employees of the erstwhile BoR while they are satisfied (3.60) with the Responsiveness of Bank employees of ICICI Bank Ltd.

Table : 8 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	Upper			
Pair 1	Presponsiveness Pre-merger - Presponsiveness Post-merger	-1.700	1.022	.187	-2.082	-1.318	-9.109	29	.000

Source: Computed

Tabulated value of t-test at 5% level of significance is 2.06. Calculated value is greater than tabulated value so null hypothesis is rejected and it can be interpreted that Responsiveness of Bank employees has been improved after merger of the banks.

H04: There is no difference in satisfaction level of customers post merger.

Table : 9 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Customer Satisfaction Pre-merger	2.03	30	.183	.033
	Customer Satisfaction Post-merger	3.77	30	.430	.079

Source: Computed

The mean scores shows (Table 9) that before merger customers were dissatisfied (2.03) by the bank services while they are highly satisfied (3.77) by the bank services.

Fig.:4 - Customer Satisfaction (Pre & Post Merger)

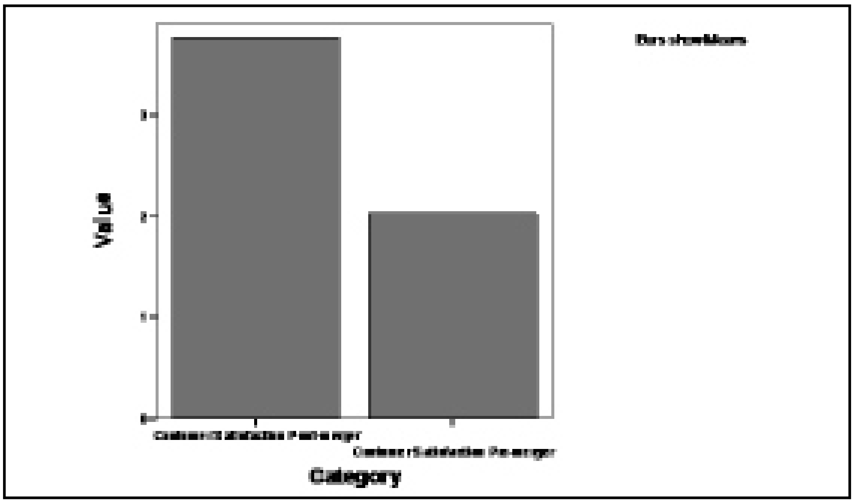


Table : 9 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Customer Satisfaction Pre-merger - Customer Satisfaction Post-merger	-1.733	.521	.095	-1.928	-1.539	-18.228	29	.000

Source: Computed

In Table 10, tabulated value of t-test at 5% level of significance is 2.06. Calculated value is greater than tabulated value so null hypothesis is rejected and it can be interpreted that the level of satisfaction among customers has been improved after merger.

Conclusion

As per the above discussion, we can conclude that the performance of the merger is appreciable from customer's point of view. They are happy to have good infrastructure, and importantly they feel that their money is secure and safe. The perception of customer shows that they are proud to be a customer of number one private sector bank in India. Our results have shown that there is significant change in physical facilities provided to customers. Quality of services has improved after merger and it very well supported by customers. Responsiveness and courtesy shown by bank employees have impacted the perception of customers in positive way and the amount of personal attention they received by bank employees has also significantly affected the perception of the bank customers.

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