Banks’ Domestic & Cross-border M&As: Where Can They Go Wrong?†
George Mountis∗
Bank of Cyprus

Abstract
The recent financial market turmoil has produced significant structural changes, and created historic opportunities for banking institutions to launch mergers with, and acquisitions of, competitors. Nevertheless, numerous institutions fail to anticipate strategic aspects that could affect the real value of such transactions. This is a well-established fact, but the reasons for it are less clear. This paper aims to assist banking professionals and institutions to improve the quality of their M&As, especially in an era where mistakes could have catastrophic effects on a bank’s balance sheet (B/S) and reputation. To address some of the strategic challenges, we shall review some practical measures that executives could put into practice to maximise and unlock synergies from M&As, and establish possible areas where mergers can go wrong. Additionally, the study explores the pre/post-merger financial performance of key M&As in the Greek banking sector, whilst reviewing prospects for the Cypriot banking sector. This paper contributes to the financial and strategic management literature by analysing key reasons whereby banks’ M&As (both cross-border and in-border) can go wrong. From the research, it has been established that such reasons include: errors in estimating real revenues and failure to account for income “dis-synergies”; income enhancement and cost-cutting incentives; the impact of “one-off” costs; timing; past experience; and organisational culture and integration strategy. This event-based study finds that from the combined view of the target and bidding Greek banks, M&A transactions are on average successful and create value. The emphasis on M&As, as an argument for the survival of Greek and Cypriot banks in the competitive European market, seems convincing, as significant economies of scale could be achieved. Nevertheless, the long-term success of the Greek and Cypriot banking sectors’ restructuring, via M&As, necessitates a more careful monitoring of the endogenous factors related to the banking operations. Banks’ strategists have to recognise that the strategic fit among merging banks is a critical element in determining the success or failure of a deal.

Keywords: mergers and acquisitions (M&A), strategy, synergies, market share, financial performance.

† The views expressed in this paper are solely those of the author.
∗Corresponding address: P.O Box 28933, 2084, Acropolis, Nicosia.
Email: gmmountis@gmail.com.
1. Introduction

An unprecedented process of financial consolidation has taken place in the European Union (EU) over the past decade (McKinsey, 2012; Credit Suisse, 2010; ECB, 2007). Bank M&As come in waves, and in recent times they have been at the top of numerous corporate strategic agendas. In Greece, the Central Bank wants to see pre-planned friendly mergers in the banking sector that could unlock significant synergies. Along the same lines, Greece’s government has also encouraged banks to pursue tie-ups, the better to cope with the crisis and help the economy turn around.

Many academics and research institutions (e.g. Bain, 2010; Leyshon, 2011; Clayes and Hainz, 2007; Capgemini, 2006) found that banks over-estimate top-line synergies. Banks do not try to anticipate common dis-synergies (e.g., loss of existing customers). Other issues include assumptions about pricing and market share, making better use of benchmarks to deliver cost savings, and forming more realistic assessments of how long it will take to capture synergies (Bain, 2010).

Exploratory research has revealed enough evidence to suggest that the average acquirer materially over-estimates the synergies a merger could potentially offer (cf. McKinsey, 2012; FT, 2010). Key synergies include economies of scale (cost-synergies), best practice strategies and sharing of capabilities, and the stimulating effect (i.e., “1+1=3”) of the combination on individual banks. However, it takes only a minor error in estimating these synergies for a merger to fail in the financial sector. Before the formal due diligence, acquiring banks must cope with a significant lack of important information (ECB, 2005). Banks usually have little data about the target bank to assess synergies; and limited access to their senior management, customers and partners/associates, etc. Even highly sophisticated and regular acquirers rarely capture data systematically enough to improve their valuation estimates for the next deal. Additionally, external advisors (e.g., investment bankers) are rarely involved in detailed (bottom-up) estimation of synergies that would be needed to develop important benchmarks, and even fewer investment banks are involved in detailed post-merger work. Strategists have long recognised that the strategic fit among merging banks is a critical element in determining the success or failure of a deal. In 1981, Levine and Aaronovitch (cited in Mylonakis, 2006) were among the first to stress the importance of studying the strategic and organisational aspects of M&A. Strategic similarities between target and bidders improve performance, thus providing general support to the view that mergers between strategically similar banks are likely to provide greater benefits than mergers involving organisations that pursue different strategies.
This paper is structured into six sections. The first section introduces the topic of M&As, and addresses why numerous banks fail to unlock the benefits of such transactions. The second section reviews how M&As can go wrong, identifying the reasons and strategic aspects which could affect the real value of such transactions. The third section explains the reasoning behind domestic and cross-border M&As whilst analysing M&As’ critical success factors. It goes on to analyse various difficulties in integrating institutions with different strategic orientations, whilst reviewing organisational culture and other integration challenges. In section four, a review of the Greek and Cypriot banking sector is made, providing a detailed analysis of the various takeover successes and failures. It also provides an analysis of the pre/post-merger financial performance of key M&As in Greece, and reviews key motivations of new M&As. The fifth section provides an analysis of the key policy implications regarding M&As. The last section of the research summarises the main conclusions and provides key recommendations for banks’ executives and institutions when performing M&As.

2. How M&As can go wrong: Key reasons

European banks are under increasing pressure to consolidate (both in-border and cross-border) and increase value for their shareholders. Meanwhile, they face greater pressure to make sure that they attain the proposed merger benefits and target synergies (ECB, 2011). However, there is enough evidence in the literature to suggest that there are numerous reasons why banks’ M&As can go wrong.

A key reason for errors in estimating revenues is the failure of most acquirers to account, explicitly, for income dis-synergies. These dis-synergies sometimes result from the disruption of a bank’s ability to execute and direct efforts to reduce costs (Straub, 2007). Banks’ important cost-based synergies are expected to come from consolidating and optimising branch networks, and especially head offices. The acquiring bank assumes that while some customers might leave, cost savings will more than make up for these losses (ECB, 2007). But when some European banks acquired competitors with a substantial geographic overlap (e.g., HSBC, Santander, Barclays), the acquirers suffered high losses among the target bank’s customers, rendering the deal unprofitable (i.e., achieving growth at a faster pace than organic expansion). Therefore, one could
argue that essentially there is no significant brand loyalty as banks could lose customers and key staff to competition.

Income enhancement and cost-cutting are strategic issues and remain key motivations for M&As. According to a study by McKinsey (2007) of M&As in the UK banking sector, expanding business scope can potentially lead to significant income synergies (1-3%). To this end, income deserves more attention in M&As; a failure to focus on this factor could explain why many mergers are not as successful as anticipated. Many European banks lose their income momentum as they concentrate on cost synergies, or fail to focus on post-merger growth in a systematic manner. Nevertheless, there is enough post-merger research (e.g. Delloitte, 2010; Bain, 2010; Focarelli and Pozzolo, 2008; etc) to caution banks against paying for income synergies. This is one of the common mistakes that could be made in an M&A deal, since income synergies form the basis of the strategic rationales for M&As, such as those pursued to gain access to a target’s customers and geography. Moreover, many acquirers rely heavily on assumptions about pricing (and market share) that are not consistent with overall market growth and competitive realities. JP Morgan (2009) estimated that a recent acquisition could net €1 billion in mostly top-line synergies within five years and 13 percent profit growth in the first year. But limited overall market growth meant that these targets could be achieved only if the bank took significant market share from competitors, and only if competitors did not have the resources to respond successfully (cf. McKinsey, 2004). Thus, acquirers need to calibrate the market share and margin assumptions in their pro-forma analysis with the realities of the market.

Additionally, some EU banks underestimate the impact of M&As’ one-off costs. As a result, banks end up running over budget, under-delivering on target synergies, and falling short of income targets. Also, while banks’ management plan cost-synergies, 25 percent of all cases overestimate them, a miscalculation that can easily translate into a 5-10 percent valuation error (McKinsey, 2006). Many acquirers also leave huge amounts of value unutilised in every deal (Robinson, 2010). According to Robinson (2010), many banks fail to define the deal’s primary source of value and its key risks, thus they do not set clear priorities for integration. Some banks also seem to expect the target bank’s employees to integrate themselves. Others do have an integration programme strategy team, but they do not get it up and running until the deal closes, thus mismanaging the transition to line

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2 e.g. When Hellenic bank bought Barclays (Cyprus), it had problems retaining its Turkish-Cypriot clients.
management when the integration is supposedly complete. All these difficulties are likely to lead to missed targets (The Economist, 2010).

Bank valuation depends on the reliability and availability of the sellers' information. Acquirers' assumptions about valuation and pricing have been, in numerous instances, inaccurate due to gaps in (or lack of) information (Straub, 2007). In M&As, such a lack of information (especially for cross-border mergers) could be problematic, and could produce false pricing and synergy assumptions. Therefore, specific measures should be taken to avoid such issues. Even if most of the banks' financial statements in Europe are audited by qualified accountants, and overseen by government regulators, there are additional gaps in information that the acquirer needs to take into account and review (ECB, 2007). For instance, in retail banking, the information on the level of customer losses experienced by merging banks is available from a range of sources (i.e., sector associations, regulatory filings, reliable trade publications, etc). There are numerous examples to assist buyers to establish not just useful benchmarks (e.g., when an outlet closes, a percentage of retail deposits will be lost to competition, etc.); but also the underlying factors that determine whether a deal produces losses above or below their set benchmarks (e.g., the number of customers who also bank with a competitor; the presence of competitors, etc). Consequently, research of this kind might yield a few precedents and give limited information - yet even that much information can greatly improve revenue estimates in valuations. The most effective M&As focus on the critical information that drives value. They lay out a decision roadmap using the gathered data as inputs to ensure that each decision is made by the right people, at the right time, using the best possible data (Bain, 2010; McKinsey, 2006).

Another area where M&As can go wrong relates to the issue of "multiples". Earning multiples, particularly the price-to-earnings (P/E) ratio, are a common shorthand for summarising how the market values a bank (BCG, 2009). The media often use such ratios for comparisons between "peers". Investors, analysts and executives use them when talking about how they value banks. To this end, many bank executives, who worry about their low multiples, simply compare their bank with the wrong set of peers. McKinsey (2012) found that bank executives were comparing a bank's earnings multiple with those for a set of banks in a faster-growing segment of the market than their own. Since investors evaluate banks based on what they are, rather than what they aspire to be, the multiples analysis, in many instances, is flawed. The only relevant comparable banks (for the purposes of multiples analysis) are those that compete in the same markets, are subject to the same set of macro-
economic forces, and have similar growth and returns on capital (McKinsey, 2012).

Timing is another key major factor. Banks make optimistic assumptions about how long it will take to capture synergies and their sustainability (Voloudakis, 2002). Consequently, important deal metrics, such as short-term profits and cash-flow accumulation, could appear to be promising, which leads banks to overestimate the Net Present Values (NPV) of synergies substantially. Moreover, many savings are not perpetual and must be phased out. Some banks plan to reduce their operating costs by closing down 25-35 percent of the consolidated branches (Mylonakis, 2006). But if each merging bank is growing rapidly, poor incremental analysis could potentially attribute to the merger certain benefits that would be realised anyway by individual banks. In such cases, much of the money saved by closing branches in the proposed merger could not be expected to last long, since, arguably, closed branches would soon have to be re-opened. Additionally, one could argue that bad timing could prevent synergies from occurring at all. There is evidence to suggest that unless synergies are realised within the first or second full budget year after consolidation, they might be overtaken by subsequent events and wholly fail to materialise (BCG, 2009).

Moreover, banks should not overstate what can be learned from past experience, since not all deals are alike (Berger, 2007). According to FT (2010), some major European banks balanced what they discovered from their first acquisitions against the idiosyncrasies of their second and third acquisitions. One of the strategy team members at HSBC argued that the first M&A had gone badly since the bank underestimated significant integration costs. The second time around, the team leading the deal understood that they had to get the estimates for costs (and deposit losses) right. Instead of simply applying the loss data from the first merger, which involved much less geographic overlap than the second, they brought in divisional managers who had worked on, for instance, branch-closure programs. By applying benchmarks carefully and consulting these managers, the bank management avoided making the same estimation errors twice (Deloitte, 2010).

3. Cross-border vs. domestic M&As: Critical success factors

Banks’ cross-border M&A activity started in the early 1990s with strategic alliances and small acquisitions. Through this, banks established a presence in other countries whilst avoiding existing regulatory and political barriers (Campa and Hernando, 2006). For cross-border M&As, an
ECB research paper (2007) argued that banks’ differences in their loan and credit risk strategies are performance enhancing, whereas the lack of coherence in their capitalisation, technology and financial innovation strategies are counterproductive from a performance perspective. This gives support to the often-stated difficulties in integrating institutions with widely different strategic orientation (ECB, 2007). Santander successfully followed this strategic approach to take its place in the world’s top twenty banks by establishing a leading consumer banking presence in Spain, Portugal, Germany, and Italy (McKinsey, 2012; Capgemini, 2006). This bank initially approached various national players who established a solid network in a particular country. Santander expanded its market presence by merging with these foreign banks, thus quickly becoming a regional player. In subsequent sections, the rationale behind cross-border M&As is explained and issues which could obstruct cross-border M&As are analysed.

3.1. The rationale behind cross-border M&As

Europe’s banking sector, consisting of more than 20,000 institutions, remains unusually fragmented, though it has been consolidating on the domestic level for some time (FT, 2010). Since 2000, Europe’s major banks have been involved in more than 60 mergers and acquisitions, each worth more than €1 billion (Bain, 2010). For the following key reasons, most analysts (e.g. McKinsey, 2012; 2007; Deloitte, 2010; Bain, 2010; ECB, 2007) now expect cross-border deals among banks will not have such links.

First, opportunities for domestic consolidation have been exhausted in several European markets. In Ireland, Spain, Sweden, and the United Kingdom, the banking market is already highly concentrated, and some leading banks have reached the maximum market share permitted by antitrust regulations. For example, in Ireland, the two largest banks manage 80 percent of all current accounts. The less concentrated markets of France, Germany, Italy, and Greece still have room for domestic consolidation, but few banks may be available, either because their shares are not quoted or their ownership structures favour continued independence (The Economist, 2010).

Second, banks are under tremendous pressure to increase profits. The share prices of Europe’s largest banks suggest that their shareholders expect profits to rise by almost 15 percent annually during the next two years. But many researchers (e.g., Robinson, 2010; JPMorgan, 2009; Focarelli and Pozzolo, 2008, etc.) estimate that the pool of profits available is likely to grow by only 5-6 percent annually, thus leaving an annual gap of 5-10 percent, or €150 billion, in all over these years (FT, 2010).
Consequently, for some banks, cost-saving, via cross-border mergers, seems a tempting way to fill this gap.

Financial markets appear to reward scale. The larger European financial institutions generally have higher relative valuations than do mid-size banks (i.e., with total assets: €50-70bn). But top banks must go on growing fast to stay in the top tier. Over the past 5-6 years, the market capitalisation of the ten biggest players has increased, on average, by 20-30 percent a year (Bain, 2010), mostly because the economic benefits of international deals are unlikely to be as high as those of their domestic counterparts. The NPV of synergies in domestic transactions might typically be worth 10-25 percent of the smaller party’s value, but research by McKinsey (2007) suggests that synergies from cross-border mergers could rarely exceed 5 percent. Partners in a domestic merger generally have overlapping branch networks, so the merged bank can close several branches without losing a significant number of customers. It can also combine headquarters and IT systems. But in cross-border transactions, such opportunities are smaller as well as harder and more expensive to realise (Clayes and Hainz, 2007). Also, some banks run their operations on layers of legacy systems that were built up chaotically over time without a clear road map, because of poor planning, disruptive events, or a lack of investment in governance and standardisation. When a bank with an un-reconstructed operating model attempts to integrate another bank, the task of matching up their systems may be so daunting that management continues to operate two virtually separate banks side by side, failing to produce the cost savings and new revenues that justified the merger (Deloitte, 2010).

Synergies from a cross-border takeover would be too small to justify a potential premium that the acquiring bank would have to pay to the shareholders of the acquired one. The only deals that make financial sense are mergers between banks of roughly equal scale, for which no premium would have to be paid (Credit Suisse, 2010). It is noteworthy that most banks in Eastern Europe are currently trading significantly below book value (SNL, 2012). For deals of this sort, the potential financial gains have so far seemed too small to persuade both sides to cope with disruptive choices such as where the head office should be located and who should serve as chief executive.

ECB research (2005) has pointed out that there are clear benefits in performance after a merger has taken place, particularly in the case of cross-border M&As. In terms of the impact of strategic relatedness on performance, this research showed that broad similarities among merging banks were conducive to improved performance, although there are important differences between domestic and cross-border M&As. The efficiency and deposits strategies of merging partners are performance
enhancing, especially for cross-border M&As. For domestic mergers, the ECB (2005) research has revealed performance dissimilarities in earnings, and loan/deposit strategies, whereas differences in their capitalisation and investment in technology and financial innovation were found to improve performance. Conversely, for cross-border M&As, differences in their loan and credit risks strategies are performance enhancing, whereas the lack of coherence in their capitalisation, technology and financial innovation strategies are counterproductive from a performance perspective. Therefore, one could argue that this gives support to the often-stated difficulties in integrating banks with widely different strategic orientations. These findings fit well with the process of financial consolidation observed in recent years in the EU (BCG, 2009).

3.2. Issues which could obstruct cross-border M&As

Research (cf. BCG, 2009; McKinsey, 2006, etc.) has identified that non-financial barriers could potentially obstruct M&As. National regulators have blocked (or complicated) several transactions for reasons other than concerns about competitive conditions (see Greece, UK, Italy). Large differences among countries in labour, management and corporate-governance practices also complicate bank mergers; governance structures in some countries, for instance, give certain minority shareholders a controlling stake, and thus the ability to block transactions (Focarelli and Pozzolo, 2008).

Banks’ cultural integration of cross-border M&A is a process to co-ordinate diverse cultures and help them mutually to exist and develop within the new banking organisation. However, it is widely acknowledged that cultural integration is not as simple as merging all the different cultures into one, but a process to form a new multi-national corporate model by selecting, absorbing and integrating cultures (Berger, 2007). Banks should not use fixed values to judge another bank’s culture, but should synthesise the bank’s strategic significance with its culture. Several examples of failures of an M&A cross-border integration are obvious in Greece, e.g., Societe Generale acquisition of Geniki, Credit Agricole acquisition of Emporiki, BCP acquisition of Millennium. Cultural differences are a major cause of problems in post-merger, or post-acquisition, integration processes. There is extensive research about culture clash; the impact of culture differences; the dynamics of the acculturation process; and the construction of various culture conceptions (ref. Birkinshaw et al., 2000). Today, the culture element is often neglected by bank executives. This was the experience of HSBC when it acquired a 23 percent of Laiki Bank in Cyprus a few years ago. The HSBC management team in Cyprus, in the 1980s, faced significant cultural integration problems by failing to
eliminate conflicts arising from cultural differences; amalgamation of values; psychological states; and the behaviour modes of the two different communities. HSBC demanded stricter control systems, something to which the Laiki bank staff were not accustomed, thus creating internal unrest and problems within its senior management. Other aspects that affected this integration included factors such as language (the formal language used was Greek), and ways of internal/external communication (demanded formal processing and control, whereas, previously, the communication was less structured).

Communicating effectively, and understanding each others’ culture, are some effective ways to eliminate such conflicts. Establishing a new culture after M&A is the amalgamation of different cultures and need not have the cultural imprint of a certain country or nationality. Bain (2010) proposed four models of cross culture management to resolve these differences between the acquirer and target bank:

- **Localisation strategy**: When each subsidiary of the bank located in other regions or nations is regarded as an independent entity so that the strategy of the subsidiary can be made according to the local conditions. The parent bank’s operating model is not imposed on the subsidiary but the strategy is made according to local conditions.

- **Transplanting the culture of the parent bank**: The acquirer appoints its people to manage the target bank in order to guarantee communication between the acquirer and the target, and the buyer supervises and controls the target. As a result, the acquirer can transplant its culture into the target bank and gradually get the local staff to accept its culture (there are significant failures in this regard in Greece).

- **Cultural innovation by integration**: The cultures of acquirer and target bank co-exist; a new culture and management pattern are formed through the integration.

- **Evasion tactics**: HSBC has used this model several times. In this model, when there is a tremendous cultural gap between the acquirer and the target, it is necessary for the manager appointed by the acquirer to avoid the key cultural differences (FT, 2010). The third party is asked to bridge the gap between cultures. In this model acquirers can use a combination of strategies, taking into account the cultural character of themselves and their targets, to culturally integrate.
Legal and governmental issues are other obstacles that could potentially prevent cross-border M&A activity. To assess the legal barriers facing such transactions, McKinsey (2007) studied 15 cross-border bank deals (10 of which were completed). A previous McKinsey (2006) study identified a significant gap between the announced synergies of deals and the amount of value that was theoretically available in them. They argued that obstacles to value creation from M&As could be grouped into two main categories:

- **Transaction barriers:** EU law does not permit discrimination between domestic acquirers and acquirers from other member countries. Obtaining information about a bank’s loan book, cross-shareholdings, or restricted voting rights, can admittedly be difficult. The obligation to treat foreign and domestic acquirers in the same way also applies to the prudence test, a standard that national banking regulators use to verify that an acquirer would be a suitable owner of a bank.

- **Efficiency barriers:** Different national laws and regulations could impede the harmonisation of retail products across European countries. But the extent to which these factors prevent acquiring banks from extracting cost efficiencies is likely to be small, given the domestic nature of retail banking. Although bank secrecy, data protection, and outsourcing laws may be more complex when institutions operate across borders, there is evidence that these obstacles are not insuperable.

If the transaction and efficiency barriers specific to cross-border deals cannot explain the value gap, what does? The answer lies in the actions of national regulatory authorities, unions, and incumbent management (JP Morgan, 2009). These measures represent serious impediments to improved performance in all types of deals. Typical steps by national stakeholders include implicit threats (real or perceived) against foreign acquirers in order to frustrate any subsequent restructuring, or to limit access to local opportunities (Campa and Hernando, 2006). The acquirer’s management, in an effort to maintain good relations with local stakeholders, often enter into complex negotiations that ultimately guarantee the status quo at the target bank. This severely curtails the acquirer’s freedom to integrate it and generate stand-alone performance improvements. Such agreements cover issues such as future head counts, the composition and size of local management teams, the continuation of bank sub-brands, and a rigid commitment to the structure of the regional headquarters.

Some banks have not provided similar guarantees to banks in Central and Eastern Europe, where cross-border takeovers have been much more
successful (JP Morgan, 2009). In general, such guarantees are uncommon there because these countries have generally welcomed foreign capital and recognised the importance of banking skills to the development of their markets. ABN Amro did not back down when the Bank of Italy opposed the bank’s original bid for Banca Antonveneta (FT, 2011). Such tactics clearly caught the attention of the Brussels authorities, the international media, and the European financial community in general. Elsewhere, the terms of UniCredit’s pending offer for Germany’s Hypo Vereinsbank, set out in 2006-07, do not seem unduly restrictive. An acquiring bank could choose to take a tougher approach by informing a target’s management that voluntary guarantees of the kind that marked previous deals are unacceptable. Moreover, when management is reluctant to provide general information about market and operational risks - or about the loan book, in particular - the acquirer could mobilise other stakeholders or sympathetic regulators (Deloitte, 2010, ref. Table 1). The following table presents a summary of the critical success factors before and during/after an M&A transaction. Several matters, which might arise before the transaction, are listed in Column A. The remedies and strategies which must be adopted by the acquirer during, and after, the transaction are listed in Column B. Note that Table 1 does not provide an exhaustive list but provides the key success factors as identified from the literature.

**TABLE 1**

*Summary of key critical success factors for M &As*

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<tr>
<th>Before the transaction</th>
<th>During &amp; after the transaction</th>
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<tr>
<td>Seller is under-performing</td>
<td>Having the right (non)-financial measures</td>
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<tr>
<td>Buyer gets a good price</td>
<td>Optimising value creation opportunities</td>
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<tr>
<td>Holding a minority stake in the target</td>
<td>Strategic integration</td>
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<tr>
<td>Time is right</td>
<td>- Expertise in integration</td>
</tr>
<tr>
<td>Expansion of core competence</td>
<td>- Rapid acceleration capability</td>
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<tr>
<td>Long-term commitment</td>
<td>Making the tough decisions</td>
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<tr>
<td>- Capital infusion</td>
<td>Local management expertise</td>
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<tr>
<td>- Prolonged break-even tolerance</td>
<td>- Benefit from market experience</td>
</tr>
<tr>
<td>Financial hurdles</td>
<td>Consistent management</td>
</tr>
<tr>
<td>Strong brand</td>
<td>- Execution and adherence to vision</td>
</tr>
<tr>
<td>Vision (clear value creation)</td>
<td>Delivering promises</td>
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*Source:* Adapted from JP Morgan (2009), SNL (2012).
One of the biggest challenges of nearly every acquisition or merger is determining what to do about organisational culture (Mylonakis, 2006). Usually the acquirer wants to maintain its culture. In rare instances, it makes the acquisition in the hope of moulding the target bank’s culture into its own. Whatever the situation, banks need to commit to the culture they want to see emerge from the integration and put it into practice. Executives from the CEO downwards then need actively to manage the culture. Possibly design compensation and benefits systems to reward the behaviour you are trying to encourage and create an organisational structure, and decision-making principles, which are consistent with the desired culture.

Loss of key people is another key area of M&A concern. Many banks wait too long to put their new organisational structures and leadership in place (McKinsey, 2004a, b). There are numerous examples to suggest that banks also fail to address the “soft” aspects that often determine how people feel about the new environment (see below). Also, in some instances, integration absorbs too much energy and attention, or simply goes on too long, distracting managers from the core business. Uncoordinated actions, or poorly managed systems migrations, lead to active interference with the base business. Competitors take advantage of such confusion. Every bank has its own culture, the set of norms, values and assumptions that govern how people act and interact every day (i.e., “the way we do things around here”).

In an era of financial predicament, it appears that governments seem eager to encourage local banks to engage in a round of mergers (The Economist, 2010). This has been the case for the Greek and Cypriot banks. In this kind of recessionary environment, the weaknesses of systemic banks have become more evident, with liquidity and capital appearing to be the most serious factors. In these circumstances, and with the economy projected to shrink even further in the coming quarters (FT, 2012), banks have seemed to have no option but to take a proactive stance, and pursue strategic mergers. In subsequent sections, a review of the Greek and Cypriot banking sector is provided, including a detailed analysis of the various takeover successes and failures. Section 4 also provides an analysis of the pre/post-merger financial performance of key M&As in Greece, and reviews key motivations of new M&As.

4. The Greek & Cypriot banking sector: Consolidate or not?

Greece has approximately 15 Athens Stock Exchange listed banks, but the Greek banking sector is dominated by four major banks, National Bank of
Greece, Eurobank, Alpha and Piraeus. The Greek economy was growing rapidly between 2004 and 2007. The banks’ liquidity and risk appetite was strong until 2007. Yet, initial problems appeared in early 2008 when analysts started downgrading Greek banks on concerns that the global credit crisis would damage Eastern Europe countries, where Greek banks had significant exposure (some Greek banks have up to 35% of their loan portfolio in Eastern Europe) (Capital, 2011). Greek banks had a small amount of toxic assets on their portfolios, and funded most of their loans from their deposit base. Although they over-expanded their loan books rapidly from 2000-2010, their loan-to-GDP ratio was about 85 percent, much smaller than the eurozone average of approximately 115 percent and Loans to Deposit ratio reaching 132 percent (ECB, 2011).

In 2010, with the economy in recession, Greek banks’ loan volume growth ceased and became negative by mid-2010. Also, Greek banks’ cost of funding has been rising as competition of deposits intensified at the same time that deposits were moving abroad and international wholesale markets remain closed. To this end, it seems that further consolidation in stressed areas of European banking, such as the Greek private sector banks, is most likely to occur within 2012-14. Increased disposal of bank branch networks and non-core activities, such as asset management by banks that need to satisfy European Commission state aid conditions, are also on the table (FT, 2012; ECB, 2011).

Moreover, non-performing loans increased in 2011, forcing Greek banks to set aside more record-high provisions. All Greek banks are grappling with the need to raise provisions against bad debts. Analysts argue that this situation is not expected to ease until 2012 (FT, 2011a). There are also key concerns that some of the country’s small banks could face financial difficulties through the recession. They seem to be the weakest link in the Greek banking sector because they lack a robust funding base or capital (despite some of them obtain funding from their strong European parents). George Provopoulos, Governor of the Greek Central Bank argued that “the Bank of Greece considers that significant economies of scale could be achieved if there was a consolidation in the banking system. But it is not up to us, it is up to the market”. To this end, issues such as overlapping domestic geographies, branches, services and market concentration in certain segments has largely discouraged Greek banks from merging to date. Also, synergies from the reduction in staff will attract significant political and union resistance (FT, 2011b).

It is widely acknowledged that a bank of a larger size is likely to access international wholesale and inter-bank markets more effectively in the future, especially if the sovereign country makes progress on the fiscal front, and be regarded as a better credit by the rating agencies (Credit
Suisse, 2010). In addition, national M&As will also ease competition among Greek banks for deposits and thus help boost their margins; the logic of economies of scale; exploiting synergies; with better pro-active preparation to absorb bad loans.

On the other hand, analysts such as Credit Suisse (2010) believe that any major Greek M&A is very unlikely in the short term since none of the big banks are willing buyers at present. Their main reasons for this are as follows:

- Analysts are expecting 2013 to be the sixth consecutive year in Greek recession. GDP growth for 2012 is now looking much worse than 2011 and 2010.
- The ECB still remains supportive of the Greek banks (despite junk rating of GGBs) and they forecast credit growth close to zero.
- The banks remain cautiously optimistic on Eastern Europe.
- Negative stance on the Greek banks due to the difficult macro-environment and the significant Greek Government Bonds (GGB) impairment (70-75% of nominal value).

4.1. Takeover successes and failures: Recent developments

In 2007, Piraeus Bank and Marfin competed for the Bank of Cyprus with no results. The same year, Merrill Lynch anticipated that Alpha Bank and Piraeus Bank had a high probability of being the object of an M&A deal. The infiltration of Centaurus Capital in the share capital of Alpha Bank and in the share capital of Marfin Investment Group stirred expectations of M&A activity, the former being at the forefront of possible M&A development (FT, 2011a). These are just a few examples that indicate that even if discussions were made, M&A deals did not occur in the Greek banking sector.

In 2012, the picture is, however, very different. The Greek government has warned repeatedly that domestic banks must consolidate in order to weather the economic crisis (Capital, 2012). Piraeus Bank, the smallest of Greece’s big four lenders, initiated the process in 2010. Rather than seek a merger with another big bank, it made a €700m cash bid for the state’s controlling stakes in Agricultural Bank of Greece and Hellenic PostBank (FT, 2011b). In Greece, the third-largest lender, Alpha Bank, has turned down an all-share offer by market leader National Bank of Greece, despite government calls for consolidation (FM, 2011). The NBG proposal was to
form a national champion with a market value of €9.7bn that would rank among the 30 largest banks in Europe (FT, 2011a). Alpha cited concerns over NBG’s relatively bigger exposure to government debt and argued the offer was not a fair reflection of its real value in a depressed market.

The European Commission and the International Monetary Fund (IMF) have urged the country’s banks to team up in order to boost investor confidence and to reduce dependence on funding by ECB. To this end, George Provopoulos, the Central Bank Governor, expected consolidation within 2011-12 as Greek banks prepare to wean themselves off European Central Bank funding, the only source of liquidity for most banks since the country’s debt crisis erupted a year ago (FT, 2011a). Consequently, the Greek government has strongly encouraged banks to pursue tie-ups the better to cope with the sovereign crisis and help the economy turn around.

However, several scenarios could be played out in the near future, one of which could be the two Cypriot banks embarking on possible merger/disposals plans. Currently, most Cypriot banks face significant capital problems, mainly due to the significant impairment from Greek Government Bonds (GGBs). Partially to resolve such capital issues, banks started disposing of assets and/or subsidiaries. Marfin Popular Bank (MPB) has recently sold its banking assets in Australia to Bank of Beirut for nearly €104mn, and BOC has sold BOC Australia to Bendico & Adelaide for a consideration at around €100mn; both sales had a small impact on their capital structures.

Both MPB and BOC have announced their ambitious capital strengthening plans to comply with targets set by the European Banking Authority in December 2011. BOC had the first capital issue in the banking sector (2012) in which it showed the challenges that the banks will face until they achieve their targets set by the European Banking Authority (EBA). The combination of losses of €1billion announced in February 2012 and its double downgrade by Moody’s discouraged many of its shareholders from exercising their rights of total value €400 million (40% of the rights were exercised). However, there is still a gap of about €220 million in the capital plans. The second part of the issue had a greater degree of participation since it concerned the exchange of coco bonds with shares. The coco bonds converted were €434 million against the initial target of €600 million, and €900 million that of the total cocos. With the conversion, the bank seeks to improve the quality of its capital since, unlike the cocos, the shares count as core Tier 1 for Central Bank purposes.

Similarly, MPB had devised a capital enhancement plan as per related regulatory requirements of the Central Bank of Cyprus and the recent EBA directive. The EBA had said in December that MPB would require
additional capital of €1.8 billion to reach a core Tier 1 ratio of 9 percent. In May 2012, Cyprus Popular Bank (CPB) obtained state guarantees to raise fresh capital after being severely hit by the Greek debt write-down. CPB (re-branded from Marfin Popular Bank) needs an additional €1.8 billion cash injection by a 30th June deadline to increase its regulatory capital to meet EBA requirements. The bank would try to raise the amount via an equity issue, either through a rights issue to existing shareholders or via a private placement. The Republic of Cyprus will be underwriting the capital issue, offering incentives for existing and new investors to participate. Analysts argued that such a move could potentially achieve the maximum possible participation of the private sector and the smallest possible use of state funds.

Lower capitalised banks are closer to the point of becoming insolvent and are thus more likely to become acquisition targets (McKinsey, 2012). Regulators and governments are now pressing under-capitalised banks to consolidate with institutions that have a stronger capital base. In this way, banks will require less capital support from local governments and Europe. A recent example in Greece was the Eurobank – Alpha bank proposed merger plan. On the announcement of the merger, the banks proposed a capital strengthening plan, as part of the transaction, of about €4 billion. Even if the merger were to be cancelled, due to the impact of the recent GGBs’ impairment, such capital enhancement could improve the earnings profile of the enlarged bank, and could accelerate the rate at which the new merged entity organically enhanced its capital base over the medium term (Leyshon, 2011). Moreover, institutions with inadequate regulatory capital wishing to engage in an acquisition, could be deterred from doing so by local regulators, because the merger might cause the combined entity to violate minimum capital adequacy standards. Banks with excess regulatory capital may free some of that capital and boost returns to shareholders. This may, in turn, increase bank valuations, which could facilitate acquisition activity. Mergers involving high-capital targets create more shareholder’s value, and targets that are acquired by better-capitalised acquirers seem to have a higher value effect than targets acquired by less well-capitalised acquirers (Leyshon, 2011).

Analysts say it is unlikely that a foreign bank will get involved in an M&A deal in Greece and Cyprus as long as the shadow of Greek debt restructuring persists, and the uncertainty as to whether Greece will stay within the Euro area after the recent June 2012 second election. Markets fear that, despite Greek fiscal efforts, some sort of additional debt relief will be needed in the future, with significant haircuts for Greek bonds of more than 70% of their nominal value (Capital, 2012; FT, 2011a, b). It would be hard for a foreign player to convince its shareholders of the
merits of spending billions on a Greek bank. In-market consolidation with paper deals is widely seen as the more likely path. Even if the deals collapse, analysts argue the bid has begun the process for consolidation. The second-largest lender, EFG Eurobank, has sold its stake in a Polish unit and could be considering a move, possibly with state-owned Hellenic Post Bank (TT), of which it owns about 10%. Piraeus Bank, which has already made an offer for ATEBank and TT, but later withdrew it, is expected to seek partnerships (already Russian investors have acquired almost 10 percent of the bank). Piraeus bank is currently trying to dispose of its Egyptian operations. Meanwhile, Cypriot lenders MPB and Bank of Cyprus may not stay on the sidelines if others make a move.

Greece’s central bank favoured bank mergers in the debt-laden country provided they were well planned and not hostile. George Provopoulos, an ECB governing council member, also stated that the European Central Bank is in the process of gradually winding down extraordinary liquidity measures, stating that: “as conditions in the euro zone normalise the tendency to exit extraordinary liquidity measures increases”. Greek banks are heavily reliant on European Central Bank funding for liquidity, as access to wholesale funding remains shut because of wider sovereign debt concerns. This makes another key reason for Greek banking consolidation.

4.2. Long-term M&A effects: The Greek sector

Numerous studies have been identified which explore the overall financial performance and value implications of M&As in the Greek banking sector (cf. Mylonidis and Kelnikola, 2006). Research on M&As as dynamic events has been carried out using two basic methodologies: “event-based studies” and “comparisons of pre-merger and post-merger performance”. The examination of pre/post-merger bank performance could potentially take various formats. A number of studies (e.g. Athanasoglou et al., 2009; Halkos and Salamouris, 2004) utilise accounting data, while others investigate the impact of M&As on cost and profit efficiency (for instance ROE, ROA, etc.) from a stage prior to a deal to a period thereafter.

Table 2 shows the M&A activity in the Greek banking sector as identified from recent literature. The banks involved are: Alpha Bank, Ionian Bank, Eurobank, Ergasias Bank, Piraeus Bank, Macedonian & Thrace Bank, Chios Bank, Egnatia Bank and Bank of Central Greece (BCG).

Table 3 has been adapted from Athanasoglou et al. (2009), Mylonidis and Kelnikola (2006) and Athanasoglou and Brissimis (2004) and demonstrates the pre/post-merger key profitability and liquidity ratios for both the merged and non-merging Greek banks. The pre/post-merger average
figures correspond to an 8-year period. As Table 3 demonstrates, in the pre-merger period, acquirers seem to be more profitable than target banks (and non-merging banks) as evidenced by ROA and ROE. In the post-merger period, the profitability of the combined entities seems to worsen in relation to that of pre-merger acquirer banks, but it still remains above the pre-merger target (cf. Athanasoglou et al., 2009; Halkos and Salamouris, 2004). The second part of the table reports the banks’ liquidity ratios. These ratios, as expected, seem to have worsened in the post-merger period. Liquidity measures worsen in the post-merger era as well, possibly indicating a shift in output from securities to loans, a higher-valued but riskier product (cf. Mylonidis and Kelnikola, 2006).

TABLE 2
Key M&As in the Greek banking sector (1997-2012)

<table>
<thead>
<tr>
<th>Alpha-Eurobank¹</th>
<th>EFG Eurobank Ergasias</th>
<th>Merger-Acquisition (2011-12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha Bank</td>
<td>Ionian Bank, Popular Bank</td>
<td>Merger-Acquisition (1999)</td>
</tr>
<tr>
<td>Ergobank</td>
<td>Merger (2000)</td>
<td></td>
</tr>
<tr>
<td>Interbank</td>
<td>Absorption (1996)</td>
<td></td>
</tr>
<tr>
<td>EFG Group</td>
<td>Athinon Bank</td>
<td>Absorption (1998)</td>
</tr>
<tr>
<td>Cretabank</td>
<td>Absorption (1998)</td>
<td></td>
</tr>
<tr>
<td>Interbank</td>
<td>Absorption (1996)</td>
<td></td>
</tr>
<tr>
<td>Credit-Lyonais</td>
<td>Absorption (1997)</td>
<td></td>
</tr>
<tr>
<td>Macedonia-Trace Thrace</td>
<td>Absorption (1998)</td>
<td></td>
</tr>
<tr>
<td>Xios Bank</td>
<td>Absorption (1997)</td>
<td></td>
</tr>
<tr>
<td>Piraeus Bank</td>
<td>Chase Manhattan</td>
<td>Absorption (1998)</td>
</tr>
</tbody>
</table>


Notes: ¹ Alpha Bank is to propose cancelling the planned merger with Eurobank Ergasias due to the impact of the recent bond swap deal on the country’s banks (15/03/2012).

Theory suggests that a key factor behind banks’ M&As is the maximisation of their stock performance. Any announcement of an intended M&A arouses considerable interest on the part of the banks’ shareholders as it gives to banks an opportunity to check the validity of the two following hypotheses (cf. Maditinos et al., 2009):

1. The information hypothesis: The bank management announces an intention to go ahead with the acquisition of a target bank, and may be
aware that the book value or stock market value, of the target bank is underestimated;

2. **The inefficient management hypothesis**: Following the M&A announcement, the management of the target bank may be obliged to improve the operation of the bank in order to make it more efficient and thereby possibly prevent the takeover.

**TABLE 3**

*Banks (1997-2005)*

<table>
<thead>
<tr>
<th>Profitability Ratios</th>
<th>Liquidity ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROA (%)</strong></td>
<td><strong>ROE (%)</strong></td>
</tr>
<tr>
<td>Pre-merger</td>
<td>Post-merger</td>
</tr>
<tr>
<td>Alpha bank(^1)</td>
<td>2.22</td>
</tr>
<tr>
<td>Ioanian Bank(^2)</td>
<td>0.28</td>
</tr>
<tr>
<td>EFG Eurobank(^1)</td>
<td>1.08</td>
</tr>
<tr>
<td>Ergasias bank(^2)</td>
<td>3.9</td>
</tr>
<tr>
<td>Egnatia bank(^1)</td>
<td>1.13</td>
</tr>
<tr>
<td>Central Bank of Greece(^2)</td>
<td>-0.03</td>
</tr>
<tr>
<td>Piraeus bank(^1)</td>
<td>2.41</td>
</tr>
<tr>
<td>Chios bank(^2)</td>
<td>1.8</td>
</tr>
<tr>
<td>Macedonia-Thrace(^2)</td>
<td>-0.2</td>
</tr>
<tr>
<td>Avg. acquirers</td>
<td>1.71</td>
</tr>
<tr>
<td>Avg. targets</td>
<td>1.15</td>
</tr>
</tbody>
</table>

*Source:* Adapted from Mylonidis & Kelnikola (2006); ICAP; Banks’ B/S.

*Notes:* \(^1\)Acquiring banks, \(^2\)Target banks.

However, evidence from the literature suggests that M&As do not necessarily lead to the maximisation of the value of the new bank which will come into existence. If the utility function of the management of the acquiring bank is increasing proportionately to the scale of the bank, it is possible that the management in question will proceed with the M&A simply to derive the greatest possible benefit without taking into account the total cost involved in acquiring the target bank. This cost may be far higher than the value of the target bank itself (Liargovas and Repousis, 2010). A similar case arises when the management of the acquiring bank overestimates its own ability to identify undervalued target banks, thus
ultimately paying a relatively high price (“hubris hypothesis” – see Roll, 1986).

In Greece, two recent studies draw upon the previous findings. Athanasoglou et al. (2009) and Mylonidis and Kelnikola (2006) used an event study methodology which directly allows the assessment of the impact of merging activity on value creation for shareholders. The standard empirical framework used is described in Dodd and Warner (1983) and involves the stock price analysis of the acquirer and the target bank in a period surrounding the announcement of the merger (the event window period). The announcement day \( t=0 \) is defined as the first day on which the information reaches the market. The necessary financial data (stock returns and the banking index) and announcement days are drawn from the Naftemporiki and Capital.gr.

Abnormal returns of a stock in the event window are computed by subtracting the expected return from the observed stock return in the event window. The measure of abnormal performance of security during the event window period is given by the Cumulative Abnormal Return (CAR) (Mylonidis and Kelnikola, 2006). In the literature, the calculation period of the cumulative abnormal returns is usually between 10 and 50 days before and after the announcement date (cf. Liargovas and Repousis, 2010).

### TABLE 4

<table>
<thead>
<tr>
<th>Number of mergers = 4</th>
<th>Event window (days)</th>
<th>Cumulative Abnormal Return (CARs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquirers</td>
<td>[-20;+20]</td>
<td>0.049**</td>
</tr>
<tr>
<td>Targets</td>
<td>[-20;+20]</td>
<td>0.143**</td>
</tr>
<tr>
<td>Combined</td>
<td>[-20;+20]</td>
<td>0.091***</td>
</tr>
</tbody>
</table>


Notes: * significant at the 10%; **: significant at the 5%; ***: significant at the 1% level.

The above results must be viewed with caution. The findings of these studies are consistent with those reported in the majority of international studies. The shareholders of targets gain significant positive returns (14.3%). Merger deals of Greek banks were thus a clear success for the targets’ shareholders. There is also evidence for smaller, but significantly positive, abnormal returns (4.9%) accruing to the shareholders of the bidders. Liargovas and Repousis (2010) and Beitel and Schiereck (2001) report similar findings for nationally bidding European banks. Finally,
results for the combined entity of the bidder and the target show significant cumulated abnormal returns (9.1%), suggesting that the analysed transactions create value on a net aggregate basis. Therefore, M&As of Greek banks in the period 1997-2005 may be considered, on average, as being clearly successful from an overall economic viewpoint.

Given this argument it seems that synergistic gains seem to be shared between the owners of the bidding and the target bank, with the latter receiving a larger proportion. CARs tend to follow a steadily increasing path prior to the announcement. CARs reach their maximum shortly after the announcement date, and subsequently settle down at a lower level (Mylonidis & Kelnikola, 2006). Overall, it seems that the Greek banking sector overreacts to the arrival of new information (i.e., the announcement of the merger).

4.3. New M&As: What are today’s reasons?

Greece’s second and third largest banks, Eurobank and Alpha Bank, announced, in August 2011, a 3-phase merger integration plan the better to cope with a severe sovereign debt crisis. This merger was to create the biggest bank in southeast Europe by assets (Reuters, 2011), and would help the two lenders avoid turning to a state liquidity support mechanism. An important motivation for this merger was the achievement of significant funding cost synergies both in Greece and SEE. According to the two banks, the total fully phased synergies will reach €650 million per annum within three years, with €350 million coming from operating cost synergies, €210 million from funding cost synergies and €90 million from revenue synergies. On a NPV basis, this represents over €3.4 billion of value creation for shareholders.

However, in March 2012, Alpha Bank proposed cancelling the planned merger with Eurobank due to the impact of the recent GGBs impairment. Analysts argued that Alpha’s move to pull out of the merger was anticipated as the bank had signalled it was not happy with the agreed terms. The debt write-down under which Greece’s private creditors agreed to write off more than 70 percent of the nominal value of their Greek bond holdings would lead to significant real losses.

Such deals could potentially help the newly formed entities to open up access to wholesale funding markets once the political instability in the country is resolved. Greek banks have been shut out from the interbank market and are dependent on the ECB for liquidity, borrowing from its money market operations by putting up Greek government bonds and other assets as collateral. According to the Bank of Greece (BoG), Greek banks’ ECB funding rose by €3 billion or 3.7% m-o-m to €76 billion in
December 2011, after a decline of €30bn in total in the previous five months. It is noteworthy that ECB funding had peaked to almost €98bn in December 2010, slipping back thereafter by €11 billion in the first half of 2011 to €87 billion, yet it had resumed its upward trend, reaching a new historic high of €103 billion by the end of the year.

At the same time, BoG liquidity provided to Greek banks through the ELA mechanism (at a higher cost compared to the ECB) eased by €4.8 billion m-o-m in December 2011, implying total ELA funding of €38 billion. Overall, Greek banks’ Eurosystem funding (i.e., ECB plus ELA) slipped by €2.1 billion or 1.8% m-o-m to €114.2 billion in December 2011, from €116.3 billion in November 2011.

5. Key policy implications of M&As

The announcement of an M&A is often linked with the announcement of job losses (Leyshon, 2011; Mylonakis, 2006). However, it is not always clear to what extent pre- or post-merger announcements form an accurate reflection of what will occur in reality. Recent years have also brought about a change in the nature and quality of employment in the sector. The standardisation of products has allowed functions to emerge that can deal with a high volume of customers without requiring training in traditional banking skills. Another significant trend, which has affected employment in an M&A transaction, is the increasing practice of outsourcing key functions (e.g., IT, maintenance, etc.). Mergers often lead to higher workloads being placed on remaining staff, with banks requiring greater flexibility, in terms of working hours, mobility and skills. Such requirements by banks are rarely matched by a commitment to greater flexibility for personnel, and/or increased training provision (Vander Vennet, 2002).

The most widespread way in which banks in Europe have sought to effect reductions in employment is via early retirement schemes (cf. Liargovas and Repousis, 2010; McKinsey, 2007). However, as these schemes are increasingly costly to banks, alternatives, such as working time reductions, might need to be considered. M&As provide management with the opportunity to renegotiate terms and conditions with their trade unions, which could potentially lead to a destabilisation of the working climate within the organisation. A review of the Greek and Cypriot legislation in this area is therefore strongly urged, and it is argued that much could be learned from disseminating good practice from institutions which have experience in dealing with such situations (cf. Weber, 2011).
It is difficult to assess the impact of M&As on consumers, not only because this aspect is not usually considered in trade or scientific analysis, but also because it is often difficult to unravel the direct impact of M&As from the impact of other factors, such as increasing competition, or technological change. Looking at the impact of M&As on product provision, choice, and the cost of products, one could argue that in general, the number of offered products has increased significantly in recent years, offering more choice with improved prices. The merged entity is able to do this because new information and communication technology allows them to save costs by operating with fewer branches (Weber, 2011).

From a competition policy point of view, unproductive mergers should be challenged by governments and regulators. Present policies in Greece and Cyprus seem ill-equipped to handle those forms of anti-competitive behaviour in pricing core products, such as loans and deposits. This means that if a merged bank raises prices and/or interest rates because operating costs have increased, competition authorities, or regulators, should intervene and provide clear and strict guidelines (Leyshon, 2011).

Antimonopoly policies of the regulators should be re-designed to prohibit mergers with substantially anti-competitive effects. To the extent that a local market can be exploited by a merger that results in substantial market power, the potential transaction should be carefully examined. Merged banks should seek to capitalise on newly established synergies and strive to reach the cost savings targets set in merger plans for the benefit of their shareholders and employees.

6. Conclusions and recommendations

Bank mergers are on the rise where a fragmented landscape of national banks is spurring in-border and cross-border consolidation. However, it seems that there are numerous reasons why banks’ M&As can go strategically wrong. In summary, key reasons include:

- Errors in estimating revenues, and failure of most acquirers to account explicitly for income dis-synergies;
- Income enhancement and cost-cutting are strategic issues and remain key incentives for M&As;
- Banks underestimate the impact of M&As one-off costs. As a result, they end up running over budget, under-delivering on target synergies, and falling short of income targets;
Some fail to define the deal’s primary source of value and its key risks;

Many banks do have an integration programme strategy;

Timing is another key major factor. Banks make optimistic assumptions about how long it will take to capture synergies and their sustainability;

Banks should not overstate what can be learned from past experience, since not all deals are alike (Berger, 2007);

Organisational culture, and focus and alignment with merged entity;

Loss of key people is another key area of M&A concern. Banks wait too long to put their new organisational structures and leadership in place;

Cross-border vs. in-border aspects (ref. Section 3).

Banks’ strategists have to recognise that the strategic fit among merging banks is a critical element in determining the success or failure of a deal. The research has pointed out that the strategic similarities between target and bidders can improve performance, providing general support for the view that mergers between strategically similar banks are likely to provide greater benefits than mergers involving organisations that pursue different strategies.

Banks’ senior management may have numerous years of M&A experience, but they need new disciplines and processes in this environment of unprecedented market volatility, consolidation, and capital flow. They must guard against surprises on the balance sheets of the banks being acquired, and must take the necessary steps to assure customers, and employees, that stability and reliability will be maintained. Importantly, they must have a detailed strategic plan to make sure that the early stages of integration are so carefully plotted, and closely watched, that the odds of the acquisition being a sustainable success increase significantly.

This study finds that from the combined view of the target and bidding Greek banks, M&A transactions are on average successful and create value on a net basis. On balance, one can conclude that the emphasis on M&As, as an argument for the survival of Greek banks in the competitive European market, seems convincing. Nevertheless, the long-run success of the Greek banking sector restructuring, via M&As, necessitates a more careful monitoring of the endogenous factors related to banking operations (e.g., capital adequacy restrictions, liquidity, etc).
Note

Papers, articles and additional sources of information which were derived from newspapers, trade publications or online financial websites, were written by reporters whose validity was not verified. The author tried to limit the use of such publications. These were clearly cited in the paper.

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