

Impact of Mergers and Acquisitions in Banking Sector–

A case study of Saudi Arabian Banks—DrShabanaMaqsood ,College of Administrative and Financial sciences ,Dr Anjali Goswami ,College of Science and Theoretical sciences ,Saudi Electronic University

Abstract: With increasing competition ,globalization and liberalization in the market ,organizations are trying to collaborate with other partners to expand their total market reach .There are different strategies that organizations adopt to do so ,mergers and acquisition is one such tool for internationalization .Financial sector plays Significant role in economic development of a country ;it 's like the backbone of the system that needs to be controlled Judiciously .Commercial banks holds due importance as it impacts business transactions significantly .Apart from this Mergers and acquisitions are an important factor in building up market capitalization .Based on the three Banks of Saudi Arabia by comparing their market shares total assests and commissions .It was found that only one Bank's mergers and acquisition met with success

Introduction

This study aims to understand the need for merger and acquisition in the banking sector ,with specific focus on impact on Saudi Arabian Market. Therefore, this paper needs to evaluate the banking sector scenario in Saudi Arabian

Market as well as past trends of merger and acquisition in banking industry ,its Success and Failure rates .Saudi Arabia constitutes a large economy in MENA region ;it has strong banking sector which helps in its economic and social development .In the year 2014, Yearly growth of banking sector was 12.4 percent ,whereas credit growth was 11.6 percent(control its fiscal expenditures, high dependence on corporate loans for development of Nazar) 2015..Growth in banking sector is expected to be positive ,with Govt actions to industrial sector (Zopounidis 2012).Presently the industry is performing well with positive industrial adequacy ratio of 17.5 percent whereas the minimum benchmark requirement is of 8 Percent .Apart from this ,positive growth of stock market also contributed in banking sector success Which leads to total market capitalization worth SAR 1812.9bn in the year 2014 (www .sama .gov .sa 2015)

Banking sector also made significant profit in the year 2014; it was worth SAR 41.5 bn in comparison to 37.6bn in the year 2013. However ,there is low rate of Public rate and retail loans in the market ,which is required to be enhanced to ensure positive market growth .Though oil is a major contributing factor in sectoral growth in Saudi Arabian region .However there is diversification occurring in different non oil regions .There is declining trend in credit card loans as well by 2.8 percent (Homoud ,2015)

However, it is crucial to understand that Saudi Arabian economy has a banking-centric, financial economy. It is a highly capitalized economy with a low level of toxic loans and foreign debts (Tabassum, 2015). However, the banking sector in Saudi Arabia is expanding and growing at a fast rate which opens up new opportunities for merger and acquisitions of other banks. It is also a market entry mode for international banks in Saudi Arabian markets. There is rising demand for corporate and consumer financing. Presently, this industry is being dominated by private sectors (Kothari, 2014).

The merger and acquisition has a long history in the banking sector. From 1991 to 2000, there have been several mergers in European and Asian regions. Due to the fragmented nature of the industry, it has not encountered much opposition from the regulators. By the year 2008, the total merger value was accounting for US\$1.6 TRILLION; however, there was a tremendous fall by 36 percent in the activity due to poor economic conditions worldwide. However, since 2015, the merger activities have started taking place again. However, lack of transparency and proper space to implement such strategic actions are impacting adversely (Reuters.com, 2014). Therefore, this paper focuses on understanding the role of merger and acquisition in the banking sector in Saudi Arabia and the extent of impact.

Methodology

This paper is based exclusively on secondary data which are published mainly by www.sama.gov.sa. Tadawwal, SAMA (The Saudi Arabian Monetary Agency), the annual report is simple, analytical, and does not go beyond the comparison of data of the three banks' financial consolidated reports from the websites of the different banks. The methodology

to draw conclusions: Every company aims to be the market leader, financial organizations are tightly regulated firms by the government for public interest. These industries find it hard to expand the market as they have to fulfill a number of restrictions before doing a deal. Generally, in most of the countries, 100% foreign ownership is not allowed within financial companies, therefore, the majority of organizations look for business partners to collaborate and work in new markets. The banking industry of Saudi Arabia is at a growing stage; there are now ten commercial banks with more than two hundred branches in the region. However, in recent times, the Saudi Arabian market has encountered budget deficit and poor economic growth, which require financial strengthening strategies that will help in developing the market. Further, there is a need for new international banks to enter the Saudi Arabian market to expand financial opportunities and provide better service to people.

With increasing competition, globalization and liberalization in the market, organizations are trying to collaborate with other partners to expand their total market reach. There are different strategies that organizations adopt to do so; merger and acquisition is one such tool for internationalization. The financial sector plays a significant role in the economic development of a country; it's like the backbone of the system that needs to be controlled judiciously. Commercial banks hold due importance as they impact business transactions significantly. The banking sector impacts money supply, saving ratios in a nation. Apart from the banking sector, it also has strong control over monetary policies and regulatory actions.

This paper aims to analyze the above-stated different elements in detail. This is written with the objective of understanding the role of merger and acquisition in the banking sector in Saudi Arabia. The central idea of this paper is to evaluate the concept and its applicability in the banking sector first. It will

include analysis on merger and acquisition, reason for doing so. This paper will present a comparative study on adoption of this strategy in banking sector specifically.

The Findings of this paper will be useful for companies in Saudi Arabian market to understand the concept and its applicability with specific focus on Saudi Arabian market. Therefore, This study aims to understand the need for merger and acquisition in banking sector, with banking sector scenario in Saudi Arabian market as well as past trends of merger and acquisition in banking industry globally, whether this tool is being implemented by other companies or not, its success and failure rates etc. Saudi Arabia constitutes a large economy in MENA region; it has strong banking sector which helps in its economic and social development. In the year 2014, yearly growth of banking sector was 12.4 percent, whereas credit growth was 11.6 percent (Nazar, 2015). Growth in banking sector is expected to be positive, with government actions to control its fiscal expenditures, high dependence on corporate loans for development of industrial sector (Zopounidis, 2012). Presently the industry is performing well with positive industrial adequacy ratio of 17.5 percent whereas the minimum benchmark requirement is of 8 percent. Apart from this, positive growth of stock market also contributed in banking sector success, which leads to total market capitalization worth SAR 1812.9bn in the year 2014 (www.sama.gov.sa, 2015).

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Though oil is a major contributing factor in sectorial growth in Saudi Arabian region, however there is diversification occurring in different non-oil regions. There is declining trend in credit card loans as well by 2.8 percent (Homoud, 2015).

However, it is crucial to understand that Saudi Arabian economy has a banking sector centric financial economy. It is a highly capitalized economy with low level of toxic loans and foreign debts (Tabassum, 2015). However, the banking sector in Saudi Arabia is expanding and growing at fast rate which opens up new opportunities for merger and acquisition of other banks; it is also a market entry mode for international banks in Saudi Arabian market. There is rising demand for corporate and consumer financing, presently this industry is being dominated by private sector firms (Kothari, 2014).

The Merger and acquisition has a long history in banking sector, year 1991 to 2000 has seen several mergers in European and Asian regions. Due to fragmented nature of industry, it hasn't encountered much opposition from its regulators. By the year 2008, total merger value was accounting for US\$1.6 trillion; however since then there was tremendous fall by 36 percent in the activity due to poor economic conditions worldwide. However, since 2015, the merger activities have started taking place again, however lack of transparency and proper space to implement such strategic actions are impacting the industry potential growth adversely (reuters.com, 2014). Therefore, this paper focuses on understanding role of merger and acquisition in banking sector in Saudi Arabia.

Problemstatement

Every company aims to be the market leader, financial organizations are tightly regulated firms by the government for public interest. These industries find it hard to expand market as they have to fulfill number of restrictions before doing a deal. Generally in most of countries, organizations look for business partners to collaborate and work in new markets. Banking 100% Foreign ownership is not allowed within financial companies, therefore majority of Industry of Saudi Arabia is at growing stage, there are new ten commercial banks with more than two hundred branches in the region. However, in recent times, Saudi Arabian market has

encountered budget deficit and poor economic growth, which require financial strengthening strategies that will help in developing the market. Further, there is need for new international banks to enter Saudi Arabian market to expand financial opportunities and provide better service to people.

Analysis shows there is growing banking sector, however there is need for new companies to enter the market, this can be done through merger and acquisition as international banks can collaborate with national or regional banks to provide benefit to the market. Further, objective is also to address the problem associated with past merger and acquisition cases, strategies to improve the same. Primary problem addressed in this paper is expansion of banking sector in Saudi Arabia through merger and acquisition.

- To what extent merger and acquisition strategy is being adopted in banking industry in Saudi Arabian market?
- What are the factors which leads to mergers and acquisitions

Significance of the Study

As the financial sector in Saudi Arabian market is at growing phase, it is new and still lot of strategic implementations are left to be done for its further development. However, all strategies are not suitable for all market; there are external and internal market scenarios that impact management selection of corporate strategy. Selection of wrong strategic action will cause both financial and non-financial loss organization. Therefore, it is crucial to understand a strategy clearly before implementing it. Further, this study will also help readers in understanding the financial sector of Saudi Arabia, its opportunity and future growth.

1.1. Terms

There are few frequently used terms in the paper, therefore definition for the same has been provided below;

1.1.1. Merger

According to investopedia, merger can be defined as combination of two or more companies, it generally take place when stockholder of one company surrender their stock to other acquiring company (investopedia.com, 2015).

Acquisition

Acquisition is another type of corporate action in which forceful collaboration takes place when one company buys majority of the stake in other company (investopedia.com, 2015).

1.1.2. Internationalization

It is a process of planning, implementing and adapting products and services in such a manner that it can be easily adapted by local people of a region (techtargget.com/, 2015). This is a process that helps companies in getting involved in international market and customers.

1.1.3. Merger and acquisition

It can be defined as a process of consolidation of two or more organization, however it can be through merger or acquisition approach (investopedia.com, 2015)

Review of Literature

This chapter aims to understanding the concept of merger and acquisition in detail. It will include theoretical background on the basis of past analysis conducted on the topic. It will include information from different research paper, books and articles to understand the meaning and implementation of this strategy in banking sector and its benefits based on secondary Data. This section will include information on various factors that impact merger and acquisition decision, success and failure in an organization. Here focus will be on evaluating the past findings on the research and help in understanding the requirements for the future research

Presently merger and acquisition is rising in the market, in the year 2014, there was 47 percent rise in mergers in global market after downfall since 2008; there were more than 95 percent deals which were of higher value than dollar five billion. Further, rise in merger deals was more than six percent. In the global market, European market is performing well with 55 percent rise in merger and acquisitions, in the year 2014 total value of merger in European market was around US\$869.8billion. If separate industry analysis is to be conducted then media, healthcare and energy sector is highly benefited sectors. Further, there has been rise in cross border merger activities, therefore companies are opting for mergers for industry expansion, and internationalization etc. in total merger activities, 31 percent contribution was made by cross border merger activities(Thomson Reuters, 2014). This analysis shows that, this strategic action has again got its rhythm back; it is being widely adopted in different developed and developing markets to fulfill their strategic goals. at the same pace in banking sector also or not. Merger and acquisition is also widely adopted .Apart from this, it is also crucial to evaluate whether merger and acquisition is occurring .MENA region, in the year 2013 total value of merger and acquisition in the region increased by 100 percent in comparison to year 2012, however in the year 2014 it decrease by 3 percent. According to analyst, rising percentage of merger and acquisition in the region is a sign of rising investor confidence in the market, better access to credits by companies, improving macro environment conditions in the region. There is large percentage of merger and acquisitions in UAE and Qatar regions, UAE top the MENA region in international mergers by 54 percent total share. Further, Saudi Arabian region is also performing well as domestic deals value rose by 170 percent; there is rise in merger and acquisition by 76 percent in the year 2013, as the value went up to dollar 17.3 percent(ey.com, 2013). Saudi Arabia leads the market for domestic mergers and acquisition in MENA regions with 13 deals, followed by UAE with 12 deals(themiddleeastmagazine.com, 2015). Major industries that opts this strategic decision include telecommunication, oil and gas sector etc. Major deal that took place in Saudi Arabian region was National commercial bank raised dollar six billion through its IPO and recorded largest IPO income of all time(Gazette, 2014).

On analyzing the appetite of strategic decision makers in Saudi Arabian region, it is clear that being a fastest growing and developing region the risk and strategic appetite for organizations in this region is high. Decision makers in this region are looking for opportunities that will help in economic growth of region, increase in revenue, enhancement in product lines, product diversification etc. Presently, organizations in Saudi regions are focusing on horizontal merger opportunities that will help them in integrating with suppliers and other stakeholders that will help in increasing their revenue, productivity and market reach(Connor, 2014).

Factors Impacting Mergers and Acquisitions

This section aims to understand reason behind opting for merger and acquisition strategies by companies. A merger brings huge change in organization structure and management, it impact its identity, internal structure and operations significantly. There is need for giving a thoughtful consideration to this decision before implementing it, as it not only impact top management,

rather employees at all level are influenced by this decision in some way or the other. So what are major reasons behind opting for this strategy by companies are discussed below;

1) Inefficient management

According to DeYoung, (1997) management has direct strong impact on company significantly. Inefficient management in the company impacts its share price, operations and scenario and development; they can impact the goodwill and growth of an organization customer services. The difference in share price can be used to understand the impact which can be laid through better management system. In such scenarios, takeovers are done by companies which show better potential to manage the organization more effectively. Apart from this, sometimes managers find it difficult to establish operational synergy in organization, therefore conglomeration with other organizations help in achieving so.

2). Operation synergy

According to Andrade, Mitchell, & Stafford (2001), merger and acquisition decision is also taken to achieve higher synergy and growth; it aims to ensure that value gained from the merger of two firms must be higher than their individual potentials. This synergy can be achieved through various modes; it can be through financial gain, operational effectiveness, human resource management, knowledge sharing, better access to resource etc. Apart from this, cost reduction is also motive behind such collaboration, for example a multinational organization from US market might merge with a company in Asian market like China or India to outsource their manufacturing for cheaper rates of labor, and such decisions are taken by several organizations (Larsson & Finkelstein, 1999).

3) Market expansion Further, it also help other company to foster cross selling, excess to other international market which help in increasing its total share in the market. Market expansion can be done through this strategy as both companies get access to larger markets; for example, Tesco plc. used this strategy to expand in the global market (Galpin & Herndon, 2007). This strategy help in reducing cost of entering a new market by integrating firm with other local operator. Many times, such decisions are taken due to regulatory requirements, for example, in UAE market a foreign company can't enter directly, they need partnership of a local partner to enter in the market (Cartwright & Cooper, 2005).

4). Revenue expansion

Apart from this, companies also get opportunity to enhance their source of revenue through increasing in total market they cater, there can also be increase in total customer base; improvement in distribution network etc. Further, companies also get opportunity to diversify their business through this strategy. It helps in better allocation of funds and increase in total income (Houston & Ryngaert, 1994). 5 5). Financial advantages

Many organizations also merge to gain financial advantage such as tax management; avoidance or reduction, there can be better access to capital and resources that leads to merger. Therefore, here objective is to enhance overall capability of the organization by integrating it with other organization in the market (Depamphilis, 2010). For example, big companies acquire sick firms to gain income tax advantage, government support and other facilities as the profit of a healthy company can be used to set off the losses of sick company.

6). Agency

This is not a recommended motive for merger but it does happen in industry. According to this theory, many times managers aim to spread cash flow and capital gains by investing it in other projects, instead of giving it back to shareholders. Here motive is to earn more; shareholder

interest is given less importance (Malik & Anuar, 2014). Apart from this, many time merger also take place due to managerial overconfidence when managers believe that they have the capability to manage firms better due to overconfidence, self-biasness etc.

7) Destroy competition

Many times horizontal mergers and acquisitions took place due to intense competition, to reduce market power and establish stability. Opting such strategy help companies in enhancing their bargaining power, they able to reduce cost of production, offer products at lower rate and increase total profit (Dario Focarelli & Salleo, 2002). For example, HP merged with Compaq in India due to intense competition faced by IBM.

8) Internal growth

Apart from above stated theories, a successful merger also brings internal strength to an organization, it helps in enhancing efficiency by sharing better knowledge and learning between firms, technologies are shared that help in better data management and effectiveness. Apart from this, it also enhances overall competitiveness of the firm, its strengths and overcoming its weaknesses, increases its assets etc.

2.3. Factors Impacting merger and acquisition

Decision to integrate one firm with other require a lot of changes, it is also impacted by number of factors, which can be internal or external to the organization. Macroeconomic factors such as social, political and economic also influence merger decision in firms. Factors that significantly shape the decision of merger and acquisition are discussed below.

2.3.1. Environmental factors

There are social elements that impact merger decisions and results, different countries have different cultures, belief and languages which impact the way employee's relationships and conflict within organization. Huge difference in culture sometime causes failure in integration process (Devos, Kadapakkam, & Krishnamurthy, 2009). Too much of physical distance can also cause increase in cost of merger of two firms. Another key factor is regulatory element, merger decisions are also shaped by government regulations and practices in a nation, for example, countries with strict FDI restrictions do not promote such actions, whereas liberal markets are good for such investment decision. Further, corporate governance regulation can also impact such decision as many times mergers help in increasing protection to minority shareholders, companies from strong corporate governance environment acquire firms with lower level governance system to enhance it (Frankel, 2005). Social factors such as population growth, market opportunities also impact firm decision. For example, many companies from western regions have increased their investment in Asian market due to availability of larger customer groups.

2.3.2. Internal factors

Apart from this, several microeconomic factors also impact firm decision for market expansion and development. First among this is age of firm, a company needs to have strong market experience before taking such decisions, if a firm is new in industry, it is not advisable to opt for such strategic action, rather it should focus on stabilizing its market position (Hardford, 2004). Next is competitive advantage of the firm, it needs to have some USP to control its position in such integrative scenario; otherwise it might lead to loss. Apart from this, industry scenario, firm size and culture also plays significant role in shaping the final decision. For example, in telecom industry, merger and acquisition is common, however, in Defence industry it's a rare phenomenon. Further, firm size matter as it should not be too small than other firm. Such decisions require adaptive, learning and open culture within organization; restrictive environment will cause poor implementation, barriers from employees, conflicts, poor management and chaos

within companies. Before taking such decisions management also needs to review their internal cultures (Andersen, 1997).

2.3.3. Decision making factors

If the above stated macro and micro factors are favoring the firm's decision of expansion then, it's time to evaluate final decision making factors. It include history and value of both the firms involved in the process, decision making them that will be involved in overall process of finalizing merger and acquisition process, experience of the team (Sae, 2007). Risk attitude also plays significant role, there needs to have strong risk taking ability within employees. Managers need to evaluate factors like degree of internationalization requirement, planning orientation before taking decision to opt for such strategy (Thomson Reuters, 2014).

2.4. Success and failure of Merger and Acquisition

This section of the report aims at evaluating success and failure rate of merger and acquisition in the market. Different researches have been undertaken to evaluate the factors that cause success or failure of merger and acquisition decision. According to findings the rate of merger and acquisition failure is high, whereas success rate maintains an average of 50 percent. According to researchers managers failed to meet financial objectives set with merger and acquisition decision. According to research, on an average 40 percent higher price is paid to acquire a firm due to which it becomes difficult to reach desired level of earnings. There is rising cost of implementation, expenditure etc. This shows that despite of high chances of establishing synergy between firms, there is risk of high cost involved; further the cost of implementation is higher in case of cross border integrations. According to a research conducted by KPMG on seventeen percent of cross border merger and acquisition are successful.

Rising rate of merger and acquisition failure is a matter of concern which require strategic action; there are several factors that can cause such failure, it include gaps in economy, many time geographical and political difference between companies causes barriers in taking strategic action; there are problems in context of national culture, organizational and international culture. Such difference causes conflict within organization leading to poor performance and employee behavior. Another researcher aimed to evaluate performance of the company after such strategic action; this study evaluates profitability, change in revenue, sales and income after merger and acquisition, therefore here objective is to evaluate financial gains (Birkler, 2000).

This evaluation creates a contradictory situation in researcher mind that despite of such high failure rate, why at all this strategy is so famous in the market, reason for high adopting rate of this strategy. According to researches findings, major reason for high rate of merger and acquisition in the market is result of rising market competitiveness, due to which managers encounters immense pressure for adopting ways that will help in increasing their profitability; these is need to take higher risk to increase market position. However, there are managers who ignore such failure statistics and opt for this strategic decisions, such overconfidence might lead to poor planning and failure. Sometimes, competition causes adoption of this strategy as managers have to adopt merger and acquisition so that competitor won't be able to do so; such market pressure also causes adoption of this strategy.

2.4.1. Factors of success

This section aims to evaluate factors that help in successful merger and acquisition in the market.

First in the list is experience in previous merger and acquisition, there are companies that opt this strategy as a tool for strategic growth; they have prior experience in merger and acquisitions, so their previous success help in making positive impact. However, critic's states that every acquisition is different from each other, therefore previous experience won't help in establishing success. Another critic states that in such decisions quality is important than quantity therefore, previous success does not help much. For example, Quaker Oat's had a successful merger with Gatorade but it failed in its merger decision with Snapple.

Another element is transfer factor, which states that previous position of the company just before the merger and acquisition impact its success. When two companies combine their resources, marketing, production and operational facilities also integrates which influence its success. Here objective is to understand that effect of type of resources, its quantity, timing, quality impacts outcome(Alvesson, 2002).

Similarly, another research was undertaken to evaluate the impact of firm size on merger and acquisition success, a research was conducted on 12000 locally held merger and acquisitions in US between years 1980 to 2001. According to findings of this paper, small scale companies tend to success at higher rate in comparison to large scale companies through mergers. In large scale firms the acquisition decision merely leads to a rise of one percent premium but value loss of 25.2 million. The chances of success are more when small firms are being acquired by large firms if contrary to large firms getting integrated with large scale firms. failure of merger, for instance, role and quality of senior management team in decision making Further, people associated with acquired firms also play significant role in success or

plays significant role. Another key factor is the type of ownership in the firms that opt for this decision, whether firms are private limited or public enterprises. For example, it is difficult for organizations to develop value with public enterprises whereas easier to integrate with private sector enterprises(Cartwright & Cooper, 2005). Researcher also claims that mode of payment selected for acquisition also influence the way capital market respond to the given scenario. According to researcher, company that pay in stock during merger and acquisition have higher rate of success in comparison to one that pay in cash.

2.4.2. Factors that lead to failure

According to analysis almost 70 to 80 percent of merger and acquisition decisions fails, therefore it is a challenging task to implement this strategy successfully within organization, so the factors that lead to failure of merger and acquisition in the market are as follow;

Poor negotiation is the primary cause of failure, it takes place before actual implementation of decision takes place, it involve decision related to price, stakes, other terms and condition; poor negotiation can cause payment of higher prices that leads to failure and poor integration Another reason is poor understanding about need for acquisition, it is very crucial to have clear understanding of purpose of opting for this strategy, so that companies able to select organizations that match their purpose, able to establish a cultural fit between organizations and ensure a disruption free integration process.

Culture plays significant role in success or failure of a merger decision, it helps in establishing synergy between firms, without establishing a cultural fit, and there can be high rate of employee conflict, poor progress and high employee turnover. Employees have significant impact of merger as they are the one who encounter changes, it cannot be changed easily. It is crucial for managers to evaluate internal culture before signing a deal; otherwise it might cause a real loss to the company(Branine, 2010). Sometime political and governmental organizations can also lead to

merger and acquisition failure, inter relation between nations, exchange prices, stock market, fiscal and monetary regulations might impact merger decision adversely(Ciobanu&Bahna, 2015).

2.5. Challenges in merger and acquisition

In case of improper merger, different departments in an organization encounter different types of challenges; researcher have studies different departments to analyze their difficulty, which are discussed below.

Number one challenge that organizations encounter during merger and acquisition is cultural clash, it can happen both in domestic and international mergers. Different organizations have different type of cultures, adaptive or non-adaptive; risk takers or risk averse, structure, marketing strategy also shapes the way employees behave in an organization. Employees have within organization(Kessler & Wong-Mingji, 2010). There are several sub-challenges attached fear of uncertainty, fear to lose their position, job or authority which causes barriers and conflicts with employees, it include ability to understand employee requirements, human resource integration, union management to decide what to retain and what not, is a major decision to be taken by management(Sudarsanam, 2010). This decisions face resistance from employees, which impact organizational success significantly. Another challenge is to clearly communicate the decision of merger to employees. Generally organization create a hush-hush environment and suddenly the integration is announced, which is totally wrong strategy, there is need for communicating the decision, its reasons and reparations properly to all employees otherwise failure is assured(Andrade, Mitchell, & Stafford, 2001). Managers should not take personal decisions while taking merger and acquisitions, overconfidence of managers, ignorance towards failure ratio. Another challenge that managers encounter is to ensure a flawless operation during this integration phase, customers should not suffer due to strategic decision of the company. Apart from this, performance evaluation to map the actual success is another challenging task to be achieved.

2.6. Performance analysis for merger and acquisition

It is very crucial to evaluate performance of merger and acquisition, it will help in understanding success or failure of decision taken by the management, different strategies that can be taken to evaluate it are discussed below;

2.7. Case study of Mergers and Acquisitions of Three banks of Saudi Arabia

National Commercial Bank (NCB) or Al –Ahli Bank is the largest bank in terms of capital in the Arab World .NCB was setup in 1953 as a royal decree and was converted to a joint stock company in 1997 .The National commercial Bank was the first bank established in Saudi Arabia and today is the largest bank in the country with over 340 Branches .It has involved itself in four merger altogether and Three international Mergers .Besides the acquisition of Turkish Bank ,it has acquired Real Estate Developing company ,.A.S :East gate Capital Holdings Inc,The Capital Partnership Group Limited .The acquisition of The Turkish Bank is the most Successful because it helped the NCB to get a wider customer base by virtue of its Expansion into a new international market with strong Growth

KEY FACTS –

1. Total Assests -SAR 434.9 BILLION
2. NET PROFIT –SAR 8.665 BILLON
3. Paid up Capital –SAR 20.0 Billion

2)Samba Financial group Saudi American bank until 2003 is one of the leading financial institutions in the Middle east and one of the Most profitable Retail banks in Saudi Arabia .Samba was established in 1980 with the takeover of Citibank branches in Jeddah and Riyadh that were first established in the kingdom in 1955 .A merger with United Saudi bank (USB)in 1999 has seen it become one of the largest and the most Profitable banks in the middle East

With capital of SAR 9.0 Billion .Samba is listed on the Saudi Stock Exchange and is one of the largest listed financial services companies .Samba bank's key acquisition and mergers include 1)Samba capital and investment Management 2)samba Bank Limited Pakistan (SBL)3)COinvest off shore capital limited (COCL)4)Samba Real Estate companies

KEY FACTS

- TOTAL ASSESTS -222.582 Billion SAR
- CUSTOMER DEPOSITS -167.709 billion SAR
- LOANS –126.688 SAR

Arab National Bank -(ANB)is one of the ten largest banks in the middle east .The company provides a full range of banking products and financial services to retail and corporate customers .Arab National Bank was established in 1979 and is headquartered in Riyadh .Arab Bank PLC (Jordan)owns a 40%stake in Arab national Bank .The other merger includes 1)ANB invest

Al –Arabi heavy Equipment leasing (AHEL)

3)Saudi Home Loans SHL

4)ANB insurance

KEY FACTS

NET INCOME –SAR 2.877 Billion

LOANS –SAR -103.724 Billion

CUSTOMER DEPOSITS –SAR 129.631 Billion

SAUDI BRITISH BANK (SABB),Asaudi joint stock company ,provides a wide Array of personal ,Commercial ,investment ,institutional and Islamic Banking products and Services .SABB owns 51% of the shares of HSBC Saudi Arabia Ltd ,a joint venture with HSBC .The bank was established in 1979when it took over the operations of the British Bank of the Middle East (now HSBC Bank Middle east) in Saudi Arabia

- Total Assests192.328 SR
- Loans -130.022billion SR
- Customer deposits -150.418 SR

SAUDI INVESTMENT BANK (SAIB) Is a Saudi Arabian joint stock Company .It offers a

Full range of shariah Compliant Products and Services including Murahaba investments and Personal finance Solutions SAIB has investments in three associate companies ,including Amex Ltd ,Saudi orix Leasing Company ,and Amlak International For Finance and Real Estate Development CO.

KEY FACTS

Total Assests -92.252 billion SR

Customer Deposits –SR 70.314 Billion

Loans – SR 57.473 Billion

The above three Banks are included in the TOP 7 banks of Saudi Arabia

RANKS COMPANY TOTAL ASSESTS in SRb, JUNE 2016

1) National commercial bank (NCB)	452.672
2) Al Rajhi Bank	331.381
3) Samba Financial Group	233.992
4) Riyadh Bank	227.776
5) Banque Saudi Fransi	193.912
6) Saudi British Bank	191.871
7) Arab National Bank	167.00
8) Saudi Investment Bank	93.62
Source :Tadawul SAMA	

The Table given below shows the Net commission ,income and Market share for the Three banks
Market Share

BANK	H12014	H12015	YOY	H1 2014	HI 2015
NCB	5,551	6160	11%	22.5 %	23.2%
SAMBA	2,245	2,291	2.1%	9.1 %	8.6%
ANB	1,761	1,950	7.2%	7.4%	7.8
SABB	1,969	2,099	6.6%	8.0%	7.9%
SAIB	726	862	18.7%	2.9%	3.2%

Source :Tadawwul SAMA

Banks	Revenues			Market share	
	H1 2014	H12015	YOY	H12014	HI 2015
SAMBA	3,717	3,922	4.8	9.8	9.6
ANB	2,694	3,006	11.6	7.1	7.3

SABB	3,285	3,392	3.3		8.6	8.3
SAIB	1,308	1,293	1.2	3.4	3.1	

These Five banks together accounted for 46.9 % market share in the H1 2014 While in the H1 2015 ,the market share increased to 50.3 % while NCB accounted for an increase of net commission income from 5,551 to 6160 that is an increase of year over year of 11% .The YOY of SAIB was 18.7.The SABB put up an increase of 6.6%. The Samba Bank accounted for an increase of very less amount that is from 2,245 to 2,291 i.e and increase of 2.1 %and in absolute terms ANB's Was the lowest .It ncreased from 1,761 to 1,950 which in percentage terms was 10.7% The absolute amount in the Net commission for both the years of NCB was more than double the amount of SAMBA and ANB The Above Five banks shows that mergers and acquisitions has been more successful in National commercial bank as Compared to the other Four banks .NCB alone accounted for 23.2% of the market share while Samba and ANB together had 16% of the market share .The total assests of NCB was 452.62 Billion SR which is more than the combined assests of Samba and Arab National Bank (233.992 and 166.578)respectively for Samba and ANB Which equals 400.57 billion SR .There are very few mergers and acquisitions in the Banking sector of Saudi Arabia .There is huge scope for development in banking industry as it is still in sharing ,learning and development of Saudi Market ;Further banks in Saudi Arabia can also enter,its growth Phase .More international Banks can enter the market ,it will help in resource Plan for mergers with other banks in MENA and Asian Market

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