ROLE OF WOMEN IN MERGER AND ACQUISITION IN BANKING SECTOR

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Introduction

The banking system in India has undoubtedly earned numerous outstanding achievements, in a comparatively short time, for the World's largest and the most diverse democracy. There have been several reforms in the Indian banking sector, as well as quite a few successful mergers and acquisitions, which have helped it, grow manifold. The year 1968 witnessed an ordinance issued by the Government of India and 14 large commercial banks in the country were nationalized. These fourteen banks, back then, contained a whooping eighty-five per cent of the total bank deposits in our country. in the year 1993, the government took yet another stride towards economic prosperity and made a turn towards merger of banks. The New Bank of India was merged with the Punjab National Bank (PNB). This was the first merger between nationalized banks, ever witnessed in Indian history and consequentlyWhen two or more banks join together and form one bank it is called as merger. Now it is matter of concern whether presence of women on board effect the merger and acquisition decisions in positive terms on negative terms. There is evidence that financial performance is always affected by presence of women in board. For example, in a recent study of Fortune 500 companies in which the potential influence of gender is measured by the percentage of women serving as members of the board, a positive influence has been found for return on equity, return on sales, and return on invested capital. In this paper we are about to study this aspect weather women on higher position like board member effect the decisions and cost especially in case of merger and acquisition in positive or negative manner.

Literature Review

In August 2008 Maurice Levi in his paper “Mergers and Acquisitions: The Role of Gender” said that financial performance of organistion improve when there are women on board in organisation.

In 2019 Max van der Spoel in his paper “The effect of gender diversity in the board of

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directors on the merger and acquisition activity of european listed firms" said that there is negative effect on performance if there is gender diversity in members of Board.

In 2020 Mario Ossorio in his paper "Board Gender Diversity and Cross-border Mergers and Acquisitions: Evidence from European Deals" confirms that the significant effect female directors have on firms' strategic choices, suggesting that if, on one hand, they are reluctant to undertake risky transactions, on the other they avoid the risk of overvaluing potential synergies arising from the merger of acquirer and target firms.

Objectives

1. To study the basics of merger and acquisition
2. To study whether presence of women in board effect decisions.
3. To study Women on board advisable or not.

Merger and Acquisition of Banks

Indian banking system has undoubtedly earned numerous outstanding achievements, in a comparatively short time. The reform process of the banking sector or industry is part and parcel of the government's strategic agenda aimed at repositioning and integrating the Indian banking sector into the global financial system. Mergers and acquisitions are most widely used strategy used by the banks (or anybody corporate) to strengthen and maintain their position in the marketplace. M&As are considered as a relatively fast and efficient way to expand into new markets and incorporate new technologies. For instance, in 1993, Punjab National Bank acquired New Bank of India. The other nationalized bank merger was the merger of Bhartiya Mahila Bank with State Bank of India in 2017. In August, 2019 the government merged 27 public sector banks and reduced it to 12. The second largest bank PNB amalgamated with Oriental Bank of Commerce, United Bank of India and Bank of India.

Meaning of Merger

A Merger is the process by which two or more companies or banks decide to come together and merge together and created a new company often with a new name rather than remain separately owned and operated. The merger helps in reducing the weakness and get a competitive edge in the market. In the merger process, the merging companies share information related to debt, resources, technology, and assets, etc. With each other.

Meaning of Acquisition

An acquisition is a corporate action in which a company buys most, if not all, of another firm's ownership stakes to assume control of it. An acquisition occurs when a buying company obtains more than 50% ownership in a target company. As part of the exchange, the acquiring company often purchases the target company's stock and other assets, which allows the acquiring company to make decisions regarding the newly acquired assets without the approval of the target company's shareholders.

Benefits of Banking Mergers

1. After these mergers, the lending capacity of the Public Sector Banks will increase and their balance sheet would also be strong.
2. These big banks would also be able to compete globally and increase their operational efficiency by reducing their cost of lending.
3. India needs investment in huge quantities to turned India into a 5 trillion economy. If banks have sufficient money to fund big projects than the economic development of the country would speed up.
4. The merger would help in better management of banking capital.

Role of Women in Merger and Acquition

Women are indispensable part of society. Their education influences the coming generation. The development of future generation mainly depends upon the education of women section. Women and men are equally treated in the eyes of the law. Culturally, a woman in India is supposed to remain confined at home for internal domestic routine work and men on the other hand is the bread earner. The literatures provides evidence that the representation of women on the higher positions affects the performance of the firm. Most of the world's richest people are men. As highlighted in Public Good or Private Wealth, they control over 86% of all companies in the world, hold more resources than women and are more likely to be at the top of the income ladder. Globally, women earn 23% less than men and have a 50% lower share of wealth. A study by UBC Sauder School of Business finance Professor Kai Li. The more women on a corporate board, the less a company pays for its acquisitions. *Journal of Corporate Finance* paper shows the

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cost of a successful acquisition is reduced by 15.4% with each female director added on a board. It also reveals that each additional female director reduces the number of a company's attempted takeover bids by 7.6%. “On average, merger and acquisition transactions don't create shareholder value, so women are having a real impact in protecting shareholder investment and overall firm performance, but some researchers say their results suggest that women are less interested in pursuing risky transactions and require the promise of a higher return on investment. It is thus expected that men will be more confident than women of their ability to make acquisitions. To determine the cost of the acquisitions, the researchers looked at the bid premium—the difference between the final offer price and the stock price of the targeted firm before the deal was signed. These figures were then correlated with the number of women directors on the various boards.

“Their findings show that the prudence exhibited by women directors in negotiating mergers and acquisitions has had a substantial positive effect on maintaining firm value,” says Professor Li. “This finding adds fire and force to recent calls to mandate a minimum number of women on the boards of publicly traded companies.”

The theory about the impact of gender diversity on the board on the performance of the firm is undetermined a priori. On the one hand, there is an expected positive effect. First, it can be argued that gender diversity increases a firm's competitive advantage. Second, gender diversity increases creativity and innovations, as these characteristics are not randomly distributed in the population. Third, gender diversity in the board can due to the variety of perspectives that emerges from a diverse board be better in problem-solving, since more alternatives are evaluated while taking a decision. Fourth, diversity may improve the image of the firm, and this could have a positive effect on customers' behaviour and eventually on the firm's financial performance (Smith et al., 2006).

Prior research has shown that there are more value-destroying instead of value-enhancing acquisitions. One important reason for these value-destroying mergers and acquisitions is the overconfident, greedy and risk-seeking behaviour of managers during the acquisition process (Goel & Thakor, 2010; Graham et al. 2002; Malmendier & Tate, 2005; Malmendier & Tate, 2008). Overconfident and risk-seeking behaviour can be seen as masculine characteristics and is a stereotype for men. Mergers and acquisition are in the modern world still characterized as a man's world, and many masculine corporate cultures are still the norm for many firms (Radu et al., 2017). On the opposite of men, women tend to be less risk seeking and less overconfident. Building on social identity theory, Chen et al (2016) argues that female directors are associated with more exhaustive evaluations, have better active oversight of strategic actions and are readier to dismiss proposals that seem to be too speculative or unconsidered. Therefore, the representation of women on the board during M&A deals could significantly influence the decision-making process of the board and have eventually different effects on the merger and acquisition activity of the firm.

Findings

- Merger improves lending capacity of banks.
- Merger helps banks in operating globally
- Women are less interested in pursuing risky transactions and require the promise of a higher return on investment.
- Female directors are associated with more exhaustive evaluations, have better active oversight of strategic actions and are more ready to dismiss proposals that seem to be too speculative or unconsidered.

Conclusion

In conclusion it can be said that women are calm in nature, make exhaustive evaluation and have better oversight over stratergic action. So if you want to make merger hurriedly and want to do speculations in merger and acquisition activity then definitely women on board is strictly not advisable, but if you genuinely want to get a successful merger with reduction in cost and without any speculation then genuinely women are best.

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