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The Economic & Profitability Impact of Mergers & Acquisitions among Banks in Lebanon

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Chapter 1
Introduction

Who will keep a seat in the banking industry in the near future with the ever-mounting upsurge in information technology? Is there enough room for everyone especially smaller banks" The answer is definitely no. The industry is over saturated. When we add competition from foreign banks & international banks with the advent of e-banking, & potentially from other financial institutions, it is an inevitable fact that consolidation will continue...

1.1 Overview of Mergers & Acquisitions

Driven by globalization of competition, technological developments, & economic or strategic barriers to normal growth, mergers & acquisitions (M&As) have dramatically become the primary means by which many companies around the globe are quickly attempting to grow revenues (Gaplin & Herndon, 2000). All companies in almost all industries are being increasingly faced by new challenges amid the intensifying competition locally & internationally. It is becoming a daily challenge to keep up with new competitors, technological breakthroughs, & ever-more demanding & sophisticated customers. It is widely documented that mergers & acquisitions are the primary methods of consolidation for quick corporate expansion & growth. Most of the M&As literature has used the two terms interchangeably despite the formal distinction that has been drawn between them which has been widely considered as somewhat vague. Both terms are used to refer to transactions involving the combination of two independent firms to form one or more commonly controlled entities where a change of control takes place through a transfer of ownership (Sudarsanam, 1995; OECD, 2001).

Although the history of M&As activity can be dated to before the 1960's, with a substantial increase since the mid-60s - if to consider the case of the United States – it has been viewed that today's mergers are fundamentally different from those in the previous waves. An exemplary comparison is conducted by Gaplin & Herndon (2000), in the Complete Guide to M&As, between the merger wave of the 1980's & that of the 1990s or `today's wave' as they refer to it. In the 1980s a merger deal was primarily a financial transaction for controlling undervalued assets. The target was often a dissimilar industry or a business line distinctly separate from the acquirer's main business. Besides, price premiums were less common & the margin of error was often greater in general terms. However, the M&As wave of the 1990's features quite strategic mergers that are not motivated by short-term profits or are dependent on highly leveraged capital structures (Gaughan, 1996). Strategic M&As, as defined in the literature, involve operating synergies whereby the two merging firms are more profitably combined than separate. Stated differently, such mergers result in overall benefits when the consolidated entity is more valuable than the aggregate of the two separate pre-merger firms. Now executives are targeting established customer bases as well as new & better distribution channels & talents that would increase & extend strategic opportunities for farther growth in revenues & share price (Galpin & Herndon, 2000). A primary cause of such perceived gains is performance improvement following the merger, which may be achieved in several ways. For example, if the management of the acquiring firm is superior in efficiency & effectiveness per se to that of the target, then higher levels of performance could be attained by improving the quality of management (Pilioff, 1990; Cummis, Tennyson, & Weiss, 1999). It has been documented in numerous studies that in a substantial proportion of M&As, a larger & more efficient institution tends to take over a smaller, less efficient one, presumably to spread the expertise or operating policies & procedures of the more efficient institution over additional resources (Pilloff & Santomero, 1998; Berger, DeYoung, Genay, & Udell 1999). Benefits maybe also achieved, theoretically speaking, as argued by most researchers in this field, when a more efficient institution is created through offering a more profitable mix of products & services; thus increasing market power which would supposedly lead to higher performance in general terms.

1.2 Objectives of Mergers & Acquisitions

The merger literature has come about a wide variety of motives or reasons that underlie the merger decision, & in any case, more than one motive may trigger or initiate the decision. Mergers in any industry are of interest for many reasons the most important of which is that mergers have the potential to fundamentally restructure an industry in a way that there would be fewer more efficient large firms (Rhoades, ZOCC). 'Numerous empirical studies have attempted to determine the motives for mergers; unfortunately, the actual motives are not directly observable & may differ from those stated by management at the time of the merger announcement (QECD, 200I). In general terms, incentives may vary with firm characteristics such as size or organizational structure, overtime, across countries & across industries. It has been widely agreed & documented that the immediate objective of a merger is self- evidently growth, expansion, & market power (Sudarsanam, I995: Craughan 1996). However, a more fundamental objective maybe the maximization of shareholders' wealth through consolidation aimed at