Do M&As in the EU banking industry lead to an increase in performance?

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Abstract

This paper investigates whether M&A operations influence the performance of banks. Using a sample of 714 deals involving EU acquirers and targets located throughout the world over the period 1991-2005, we investigate whether M&A operations are associated with improved performance (measured using both standard accounting ratios and cost and alternative profit X-efficiency measures). Despite the extensive and ongoing consolidation process in the banking industry, we find that M&A operations are associated with a slight deterioration in return on equity, cash flow return and profit efficiency and with a marked improvement in cost efficiency. Hence, the improvements in cost efficiency appear to be transferred to bank clients. These changes in performance are directly attributable to the M&A operations, and would not have occurred in their absence. Moreover, these changes exhibit a particularly negative trend for cross-border deals to testify the importance of geographical relatedness in order to achieve better post-M&A performance. The environmental and bank-characteristics that make a deal successful or unsuccessful are finally identified.

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