CHAPTER 6

CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Introduction

This chapter summarizes the whole thesis giving a comprehensive picture of the entire study. Section 6.2 provides the overall summary of the thesis. Section 6.3 briefly presents the findings and the implications of the study. Contribution to the body of knowledge is given in Section 6.4. Section 6.5 Implies policy recommendations, while the limitation and future research direction are presented in Section 6.6.

6.2 Overall Summary

This thesis investigates the impact of mergers & acquisitions on Islamic and conventional banks' operational performance and stability. M&As related factors and mediating role of market structure are examined and discussed. This thesis is divided into two main parts, i.e., the first three chapters (e.g., Chapter 1, 2 & 3) provided an overall introduction of M&As, literature reviews of M&As and research methodology. Meanwhile, Chapter 4 presents the results and discussions of M&As in banking sectors (Islamic and conventional banks). The results and discussions of the mediating role of market structure on the relationship between M&As and operational performance and bank stability in the banking sectors are reported in Chapter 5 and Chapter 6 provides a summary and recommendations of the thesis. Finally, this thesis tries to answer the research questions outlined in Chapter 1.

1. Do the factors (bank size, intermediary roles, modes of financing) associated with M&As of the bank have an impact on the operational performance and stability for Islamic and conventional banks?

After scrutinize observations, the findings imply that factors show statistically significant impact on the operational performance and stability of Islamic and conventional banks in pre-M&As and post-M&As (i.e., see the summary of findings at Section 4.3.1.1 and Section 4.3.2.1). Specially, based on the post M&As results it is shown that there is differences between Islamic banks conventional banks (looking at sign of the coefficient). Therefore, the results support research hypothesis 1 to hypothesis 5.

2. Does the level of bank sizes (large, medium & small) have an impact on the operational performance and stability of M&As for banking sectors?

The results show that the level of bank sizes has positive and statistically significant effects on the operational performance and stability of M&As in the banking sectors. More specially, small banks (compared to large & medium) have a positive and significant impact on operational performance in pre and post M&As. Meanwhile, large, and medium-sized banks show a positive and significant impact on bank stability compared to small sized banks. This means large and medium-sized banks can minimize economies of scale and gain economies of scope, therefore, making them more stable and less insolvent. See the summary of findings at Section 4.3.3.1 and Section 4.3.4.1. Therefore, the results support research hypothesis 6.

3. Does market structure play a mediating role in the relationship between the M&As and operational performance and stability for Islamic and conventional banks?

It is surprising to note that in the pre-M&As scenario, there is no impact of market structure. On the contrary, in the post M&As scenario, market structure plays the mediator role (i.e., partial and full mediation) in the relationship between M&As and operational performance and stability for Islamic and conventional banks (Section 5.2.2.1 and Section 5.2.4.1). The result supports research hypothesis 7.

6.3 The Research Findings and Implication of the Study

The findings and research results are presented empirically and analytically in Chapter 4 and Chapter 5. To recap, a summary of the findings is discussed here. The findings imply that M&As improve operational performance of Islamic and conventional banks while stability does not show any significant difference in pre and post M&As. Market structure mediates the relationship of M&As and operational performance and stability of Islamic and conventional banks. The findings of the thesis are three folds. Firstly, looking at the size effects, bank size does not improve the performance of conventional banks while Islamic banks did well in the post M&As. For the bank stability, did not show any differences between these two types of banks. Secondly, with segregated level of banks sizes, small sized banks better performed after M&As while large and medium sized banks did well for bank stability. Thirdly, market structure mediates the relationship between M&As, operational performance and stability in post M&As while in pre-M&As did not for both types of banks.

The findings of the bank size are inconsistent between Islamic and conventional banks. However, it shows mix results. In the post-M&As scenario, bank size shows a positive impact on the operational performance of Islamic banks while negative on conventional banks. Moreover, bank size improves operational performance of Islamic banks while conventional banks does not. Therefore, the results are consistent with Naseri, Bacha, & Masih (2020) who said that there is no concern about too big to fail relatively too small to succeed for Islamic banks. On the other hand, it (bank size) positively impacts the stability of Islamic and conventional banks.

With the segregation of the banks, the small-sized banks have more potential for benefits from corporate strategies like M&As compared to medium and large-sized banks due to their better operational performance. These findings are consistent with Kosmidou, Pasiouras, Doumpos, & Zopounidis (2006) and Aladwan (2015), who noted that small banks performed better than larger ones. On the contrary, it is intuitive enough to be noted that M&As affect bank stability when banks are medium and large-sized. According to the expectation, large banks are most efficient in minimizing cost and economies of scale since they diversify their resources into portfolios, economies of scope. Therefore, large and medium-sized banks are less risky and more stable

Intermediary roles (financial & non-financial) significantly impact Islamic and conventional banks' operational performance and stability. Accordingly, modes of financing (cash) show comparatively better operational performance and bank stability than stock financing.

Furthermore, the mediating role of the market structure shows the significant mediation effects in explaining the relationship between post-M&As and operational performance and stability of Islamic and conventional banks. Market structure partially (i.e., complementary mediation and competitive mediation) and fully (i.e., indirect only mediation) mediates the relationship between M&As and operational performance and stability for both Islamic and conventional banks. Surprisingly it (market structure) does not show any mediation effects on the relationship between pre-M&As and operational performance and stability.

In essence, theoretically speaking, the theoretical framework is the foundation of the study. Based on the theoretical framework, the operational framework is designed and developed. The theoretical framework of the present study consists of four theories: resource dependency theory, efficiency theory, the theory of financial intermediation, and the relative market power hypothesis. The resource dependency theory surveys bank sizes in the present study. Efficiency theory and financial intermediation theory cover economies of scale, scope, and non-financial intermediary roles. Lastly, the relative market power hypothesis implies that larger banks have more market power since the small number of competitors leads to higher concentration levels and better performance.

Along with these theories, the free cash flow hypothesis is applied as well. The hypothesis explains the main source of M&As financing. Collectively, these theories and hypotheses are strongly associated and help to shape M&As activity in the banking sectors. The present study has added value to these theories. The discussion on the level of bank sizes is the value added to the resource dependency theory. Value-added to the efficiency and the financial intermediation theory is analyzed of the variables that have mediation effects on the banks' operational performance and stability. The research believes that this is the first analysis in linking these theories with a mediation effect towards shaping M&As activities.

The study produces two main novel policy implications. Firstly, policy makers state that practitioner should be careful about M&As of conventional banks since after M&As, its size would be the large and hance over size may reduce the performance (too big to fail). While for Islamic banks becomes potential since M&As produces positive outcome. Secondly, another novel contribution of the study is the mediation effects of market structure. Market structure also need to be considered when having M&As. It (market structure) mediates the relationship between M&As with operational performance and stability for Islamic and conventional banks.

6.4 Contribution to the Body of Knowledge

The study's contribution is four-fold: in banking, mainly for Islamic banks versus conventional banks, segregated level of bank sizes, mediation effects of market structure, and operational performance and bank stability. This research contributes to exploring the less explored area in the field of M&As for banking sectors, by contributing to industry, literature, and theory. Petre & Rugg (2010) stated that making a significant contribution means adding to the body of knowledge by providing evidence to substantiate a conclusion that’s worth making.

6.4.1 Contribution to the Industry

In the business world, the importance of financial institutions is undoubted. Among financial institutions, banks play a significant role as financial institutions. Banking is critical to shaping the economy. Banks have various expansion strategies like mergers and acquisitions, diversification, joint venture. A favourite method is mergers and acquisitions. Therefore, this study looked into the impact of M&As in banking sectors on operational performance and bank stability. Previous studies have covered various factors to explain M&As; nevertheless, this study re-examined those factors by also looking into segregation following the level of bank sizes. To recap, the selected variables play a significant mediating role in shaping M&As activities in the banking sectors (i.e., Islamic and conventional banks). Variables such as bank sizes, level of bank sizes, financial intermediary role, non-financial intermediary role, modes of financing, bank-specific variables, and macroeconomic variables influence market structure in mediating between M&As and operational performance and bank stability.

6.4.2 Contribution to the Existing Literature

The study is conducted on M&As in the banking industry. Various studies have been conducted in the conventional banking sector; however, the researcher believes that empirical analysis of M&As in the Islamic banking sector is lacking and warrant and needs further efforts. Therefore, the present study has looked into the impact of M&As on the Islamic bank's operational performance and stability along with conventional banks. This study has also found various factors that influenced market structure that mediate operational performance and bank stability. This is the main value addition to the existing literature.

6.4.3 Contribution to the Theories

Theories are the main foundation based on why the study is conducted. There are two kinds of strategies used throughout to explore M&As involving banks. For example, value creation strategy and value reduction strategy. Several theories come under the value creation strategy, such as efficiency theory, tax shield, coinsurance theory, tax benefit theory, agency theory, the perfectly competitive, asymmetric theory, valuation theory. While hubris theory, agency theory, managerial entrancement theory, managerial discretion theory, and free cash flow hypothesis are understood as part of value reductions strategy along with other related theories. Hence, this study uses efficiency theory, free cash flow hypothesis, resource dependency theory, and financial intermediation theory. It is interesting to note that all theories impact relationship between M&As of banks on operational performance and bank stability. Pointing to this market structure works as a mediating role to explain the relationship between M&As and Islamic and conventional banks. Additionally, market structure plays a mediating role in explaining the relationship between M&As and operational performance and bank stability.

6.5 Policy Recommendations

This study proposed several policy implications for strategic planners, professionals, stakeholders and academicians. These policy recommendations are discussed accordingly.

Firstly, policymakers should focus on the factors (i.e., bank size, level of bank size, intermediary roles, modes of financing, M&As periods) that have been estimated and discussed. Since all factors show significant impact on M&As of banks. Specially, bank size plays important role in the M&As of Islamic and conventional banks. It shows that bank size reduces the performance of the conventional banks while improved performance of Islamic banks. Furthermore, small sized banks well performed compared to large and medium. Meaning that Islamic banks are the more potential to involve in M&As deal than conventional banks. Academicians should analyse the up-to-date data to provide updated information to policymakers to help them realize examining market potentials.

Secondly, market structure plays an important role in explaining the relationship between post-M&As and operational performance and stability for Islamic and conventional banks. While pre-M&As does not show any mediation effects. This is intuitively noted that before M&As there is no impact of market structure on the performance and stability since does not involve in M&As deal. And hance no impact in pre-M&As. The mediation role of the market structure shows that partial mediation, i.e., complementary mediation & competitive mediation, and full mediation, i.e., indirect only mediation effects. After analysing the results, the variables, namely bank sizes, financial and non-financial intermediary roles, bank-specific variables, and macro variables, mediate the bank's operational performance and stability for Islamic and conventional banks. Therefore, policymakers should be more proactive in improving the market condition (i.e., market competition) to encourage corporate deals like M&As. M&As can potentially reduce the level of competition, and also it increases market power. Therefore, M&As in the banking sectors have tremendous benefits such as integrating resources, reducing duplicate branches, increasing market power, and exploiting economies of scale and scope.

6.6 Limitation of the Study and Suggestion for Future Research

Although this study provides various policy implications for strategic planners, policymakers and academicians, it still does have its limitations. This study is subject to limitations. For example, the research could not test the possibility of omitting the mediator variable in examining competitive and complementary mediation, hence further research is needed in the context of M&As. Further studies into cross-border M&As should be undertaken. This is one of the most important parts of market expansion strategy, merger, and acquisition. Future research should include related variables that were not included in the present study. Variables such as other performance indicators like EPS and efficiency ratio, namely interest spread. Other exogenous variables can also be included including large samples sizes. This study does not include the specific legal and regulatory aspect of M&A, therefore future research may include those terms.