

**IMPACT OF MERGERS & ACQUISITIONS ON THE  
OPERATIONAL PERFORMANCE AND STABILITY OF  
ISLAMIC AND CONVENTIONAL BANKS**

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**UNIVERSITI SAINS ISLAM MALAYSIA**

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ISLAMIC AND CONVENTIONAL BANKS**

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## AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

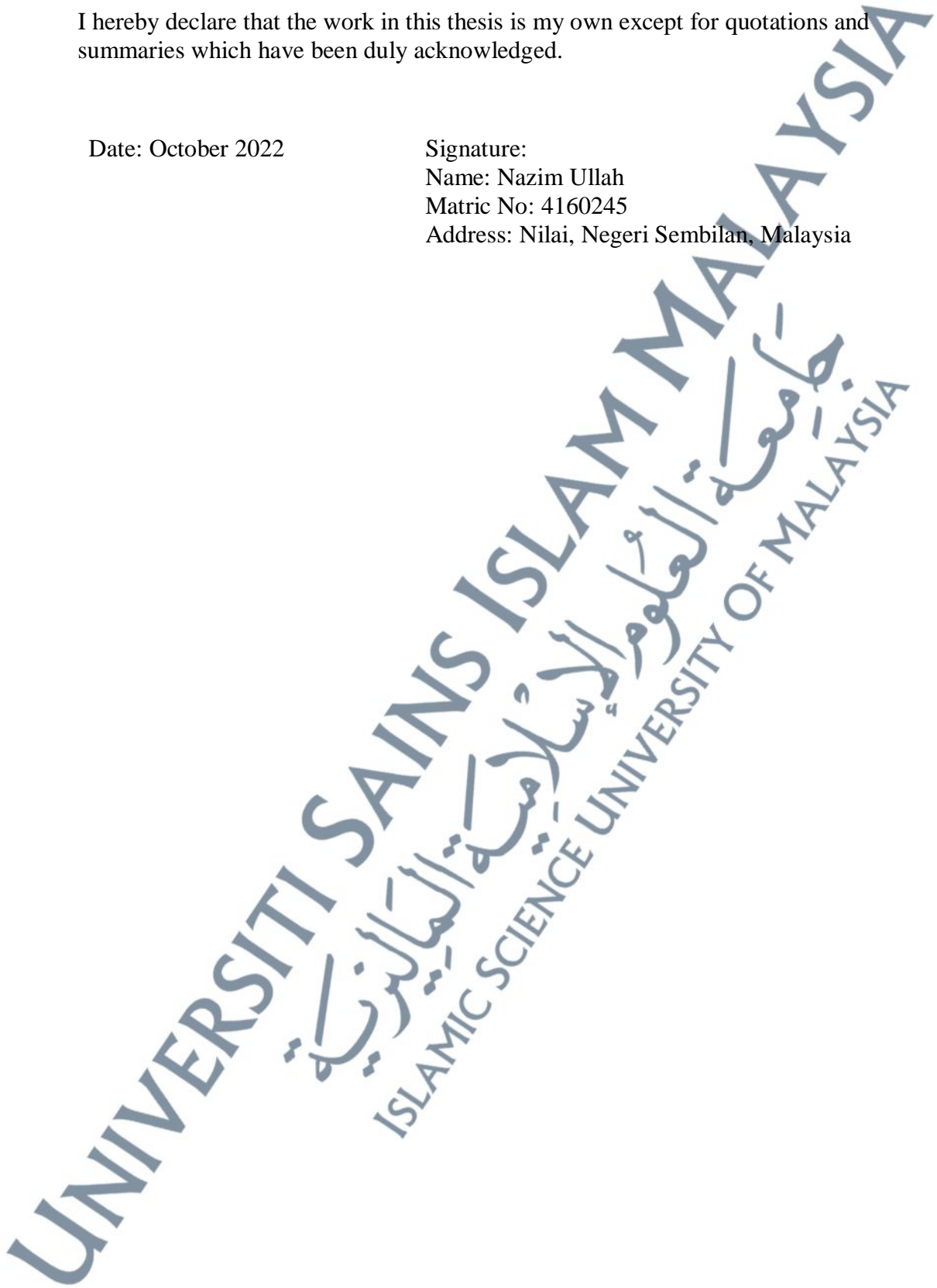
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## ABSTRAK

Penggabungan dan pengambilalihan (*Merger & Aquisition- M&A*) adalah salah satu kaedah alternatif untuk mengembangkan perniagaan dan membawa manfaat kepada pengembangan pasaran, menjana dan mengeksploitasi ekonomi mengikut skala dan skop, mendapatkan kuasa pasaran, kepelbagaian produk dan perkhidmatan yang sesuai dan peningkatan prestasi secara menyeluruh. Kajian ini meneliti impak M&A (lima tahun sebelum & lima tahun selepas) terhadap prestasi operasi dan kestabilan bank-bank Islam dan konvensional dengan mengambil kira struktur pasaran sebagai perantara. Kajian ini menggunakan kaedah data panel dan Pemodelan Persamaan Terstruktur (*Structural Equation Modelling - SEM*). Kajian ini menganalisis satu set sampel yang terdiri daripada 10 buah bank Islam dan 14 buah bank konvensional yang terlibat dalam M&A dari tahun 2004 suku pertama hingga tahun 2020 suku keempat. Sampel ini terdiri dari enam buah negara iaitu Qatar, Kuwait, Bahrain, Arab Saudi, Emiriah Arab Bersatu dan Pakistan. Variabel bersandar iaitu prestasi operasi dianggarkan menggunakan pulangan atas aset (*Return on Asset- ROA*), pulangan atas ekuiti (*Return on Equity- ROE*) dan margin faedah bersih (*Net Interest Margin- NIM*), manakala skor-Z digunakan untuk mengukur kestabilan bank. Beberapa faktor iaitu saiz bank, tahap saiz bank (kecil, sederhana, dan besar), peranan pengantara (kewangan dan bukan kewangan), dan mod pembiayaan digunakan sebagai variabel tidak bersandar. Selain itu, variabel khusus bank dan makroekonomi digunakan sebagai variabel kawalan. Saiz bank dan tahap saiz bank dianggarkan menggunakan jumlah aset, jumlah deposit dan pendapatan operasi. Variabel perantara, iaitu Indeks Herfindahl-Hirschman (HHI) dan nisbah konsentrasi digunakan sebagai proksi bagi struktur pasaran sesebuah negara. Hasil kajian menunjukkan bahawa M&A meningkatkan prestasi operasi bank Islam dan konvensional, manakala aspek kestabilan tidak menunjukkan sebarang perbezaan ketara sebelum dan selepas M&A. Struktur pasaran berperanan sebagai perantara selepas M&A dengan prestasi operasi dan kestabilan bagi kedua-dua jenis bank. Tambahan pula, bank yang bersaiz kecil menunjukkan impak yang lebih baik kepada prestasi operasi, manakala bank yang bersaiz besar dan sederhana menampakkan impak yang lebih baik kepada kestabilan bank. Tambahan lagi, dalam senario pra M&A, tiada perbezaan di antara prestasi operasi bank Islam dan konvensional, memandangkan kedua-duanya mempunyai tanda pekali pemboleh ubah yang sama. Sebaliknya, dalam senario selepas M&A, terdapat perbezaan di antara bank Islam dan konvensional. Sementara itu, tiada perbezaan kestabilan sebelum dan selepas M&A di antara bank Islam dan konvensional. Implikasi kajian ini terbahagi kepada dua. Pertamanya, M&A memiliki lebih banyak potensi bagi bank Islam daripada bank konvensional. Keduanya, syarikat perlu mengambil kira struktur pasaran memandangkan ia menjadi perantara yang menghubungkan di antara M&A dengan prestasi operasi dan kestabilan bagi kedua-dua jenis bank.

## ABSTRACT

Mergers and acquisitions (M&As) are an alternative way for business expansion and brings benefits for expansion of the market, generation and exploitation economies of scale and scope, gain of market power, proper diversification of products and services and overall improved performance. This study examines the impact of M&As (five years before and five years after) on operational performance and stability for Islamic and conventional banks by taking into consideration the mediating role of market structure. It employs panel data techniques and structural equation modeling (SEM). The study analyses a set of samples consisting of 10 Islamic banks and 14 conventional banks involved in M&As for the period of 2004Q1 to 2020Q4 from six countries which are Qatar, Kuwait, Bahrain, Saudi Arabia, United Arab Emirates, and Pakistan. The Dependent variables: operational performance is estimated using return on assets (ROA), return on equity (ROE) and net interest margin (NIM) while Z-score is used to measure bank stability. Several factors namely bank size, level of bank sizes, intermediary roles (financial and non-financial) and modes of financing are used as independent variables. Moreover, bank specific and macroeconomic variables are used as a control variable. Bank size and the level of bank sizes (i.e., small, medium, and large) are estimated using total assets, total deposits, and operating income. Mediating variables namely Herfindahl-Hirschman Index (HHI) and concentration ratio are used as a proxy for the market structure of the country. The findings imply that the implementation of M&As improves operational performance of Islamic and conventional banks while stability does not show any differences in pre and post M&As. Market structure mediates the relationship of post M&As with operational performance and stability of both types of banks. Moreover, small sized banks imply better impact on the operational performance while large and medium sized banks show better impact on stability of banks. Furthermore, in the pre-M&As scenario, there is no difference between operational performance of Islamic and conventional banks since the sign of the coefficient is the same. In contrary the post M&As scenario, it shows differences between Islamic and conventional banks. Meanwhile, there is no difference of stability in pre and post M&As of Islamic and conventional banks. The implication of the study is twofold. Firstly, M&As have more potential for Islamic banks than conventional banks. Secondly, they should take into consideration the market structure since it mediates the relationship between M&As and operational performance and stability of both types of banks.

## الملخص

عمليات الاندماج والاستحواذ طريقة بديلة لتوسيع الأعمال وتحقق الفوائد: توسيع السوق، وتوليد واستغلال وفورات الحجم والنطاق، واكتساب القوة السوقية، والتنويع المناسب للمنتجات والخدمات، وتحسين الأداء إجمالياً. تبحث هذه الدراسة تأثير عمليات الاندماج والاستحواذ (قبل خمس سنوات وبعد خمس سنوات) على الأداء التشغيلي والاستقرار للبنوك الإسلامية والتقليدية من خلال مراعاة الدور الوسيط لهيكل السوق. تستخدم تقنيات بيانات الألواح ونمذجة المعادلة الهيكلية (SEM). تحلل هذه الدراسة مجموعة من العينة تتكون من 10 بنوك إسلامية و14 بنكا تقليدياً منخرطة في عمليات الاندماج والاستحواذ في الفترة من 2004 - الربع الأول إلى 2020 - الربع الرابع من ست دول هي قطر والكويت والبحرين والمملكة العربية السعودية والإمارات العربية المتحدة وباكستان. والمتغيرات التابعة: الأداء التشغيلي تقدر بعائد الأصول (ROA) وعائد الأسهم (ROE) وصافي هامش الفائدة (NIM)، بينما يتم استخدام Z-Score لقياس استقرار البنك. يتم استخدام العديد من العوامل مثل حجم البنك ومستوى أحجام البنوك وأدوار الوسيط (المالية وغير المالية) وطرق التمويل كالمغيرات المستقلة، كما يتم استخدام المتغيرات الخاصة بالبنك والاقتصاد الكلي كالمغير الضابط. ويتم تقدير حجم البنك ومستوى أحجام البنوك (أي الصغيرة والمتوسطة والكبيرة) باستخدام إجمالي الأصول وإجمالي الودائع ودخل التشغيل. ويتم استخدام المتغيرات الوسيطة، أي مؤشر Herfindahl-Hirschman (HHI) ونسبة التركيز كبديل لهيكل سوق البلدان. تشير النتائج إلى أن عمليات الاندماج والاستحواذ تحسن الأداء التشغيلي للبنوك الإسلامية والتقليدية، بينما لا يظهر الاستقرار أي فرق قبل وبعد عمليات الاندماج والاستحواذ. يتوسط هيكل السوق علاقة عمليات الاندماج والاستحواذ مع الأداء التشغيلي والاستقرار لكلا النوعين من البنوك. علاوة على ذلك، تشير البنوك الصغيرة إلى تأثير أفضل على الأداء التشغيلي، بينما تظهر البنوك الكبيرة والمتوسطة تأثيراً أفضل على استقرار البنوك. علاوة على ذلك، في سيناريو ما قبل الاندماج والاستحواذ، لا يوجد فرق بين الأداء التشغيلي للبنوك الإسلامية والتقليدية لأن علامة المعامل هي نفسها، بخلاف سيناريو ما بعد الاندماج والاستحواذ، والذي يظهر فرقاً بين البنوك الإسلامية والتقليدية. وفي الوقت نفسه، لا يوجد فرق في الاستقرار قبل وبعد عمليات الاندماج والاستحواذ بين البنوك الإسلامية والتقليدية. للدراسة أثران: أولاً، أن عمليات الاندماج والاستحواذ تنطوي على إمكانات أكبر للبنوك الإسلامية من البنوك التقليدية. ثانياً، يجب أن تعتبر هيكل السوق لأنه يتوسط العلاقة بين عمليات الاندماج والاستحواذ والأداء التشغيلي والاستقرار لكلا النوعين من البنوك.

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