

**STRATEGIC RISK MANAGEMENT PRACTICES
AS A PREREQUISITE IN BANK MERGER AND
ACQUISITION FEASIBILITY STUDIES.**

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ABSTRACT

Only a few of all the bank acquisitions that have been attempted recently, have realised. The reason for this is that general merger and acquisition principles are used, while restructuring in the banking sector must be treated as a special case. This is because of the regulatory framework that prevails in banks, but more importantly, because of the particular way in which strategic risk management is practised in banks. The general merger and acquisition principles, applicable to corporates, must thus be integrated into this regulatory and strategic risk management framework, to make it possible to consider a bank merger or acquisition decision from a strategic risk management viewpoint. The Asset and Liability Committee (ALCO) process can be seen as the strategic risk management process in banks. It is thus important to determine whether the strategic management process, as conducted through the ALCO processes of the relevant banks, is reconcilable and whether it can be combined into a new strategic management and strategic risk management process, so that an acquisition can be planned and executed successfully. It is also important to consider cultural issues, because this helps in giving the bank a sense of direction.

The paper will describe guidelines for the integration of general merger and acquisition principles with the evaluation of bank strategic management and strategic risk management principles. Recommendations for the more effective evaluation of possible mergers and acquisitions in the banking sector will be made.

1. INTRODUCTION

Financial services, including banks, are a vibrant sector of the economy. In South Africa, this sector contributes approximately 16 per cent to the GDP and employs approximately 221 000 people. The market capitalisation of financial services companies, listed on the Johannesburg Stock Exchange, is also more than 30 per cent of the total market capitalisation, making it one of the dominant sectors on the Exchange (Butler, 1999:8). Over the past decade, the banking industry has experienced an unprecedented level of consolidation, as mergers and acquisitions among financial institutions have taken place at record levels (Piloff & Santomero, 1996:4). Despite the continued pace of merger and acquisition activity, new deals are met with increasing scepticism amongst investors. The reason for this is that many mergers and acquisitions have simply not delivered the benefits that were promised (Marcus, 2000:11). This makes bank managers and directors afraid of attempting or concluding mergers or acquisitions before careful consideration.

The aim of this article is to determine why only a few of all the bank mergers and acquisitions that have been attempted, have realised. In the second section general merger and acquisition principles are discussed. Section three describes the risks prevalent in mergers and acquisitions, as well as in the banking sector, and section four describes the strategic management process used in banks. Important regulatory aspects with regard to mergers and acquisitions in the banking sector will be described in section five, after which a section on the role of culture in bank mergers and acquisitions and a conclusion follows.

2. IMPORTANT ASPECTS WITH REGARD TO MERGERS AND ACQUISITIONS

The motives for bank mergers and acquisitions are manifold and highly diverse. Some motives focus primarily upon the maximisation of shareholder utility through expected post-merger gains. Other bank merger motives seem to be more closely connected to the goal of optimising management's welfare. Mergers and acquisitions may also be driven by the objective of risk reduction through greater diversification that can benefit both bank shareholders and management through greater stability of cash flows (Rose, 1997:67). According to BIS (2001:12-13), the most important forces encouraging consolidation are improvements in information technology, financial deregulation, globalisation of financial and real markets and increased

shareholder pressure for financial performance. These forces will subsequently be discussed.

2.1.1. Improvements in information technology

New technological developments have encouraged consolidation because of their high fixed cost and the need to spread these costs across a large customer base. At the same time, dramatic improvements in the speed and quality of communication and information processing have made it possible for financial service providers to offer a broader array of products and services to larger numbers of clients over wider geographic areas than had been feasible in the past.

2.1.2. Financial deregulation

Over the past years many governments have removed important legal and regulatory barriers to financial industry consolidation. The removal of these barriers has opened the way for increased mergers and acquisitions, both within and across national boundaries and both within and across financial industry segments.

2.1.3. Globalisation of financial and real markets

Globalisation¹ is, in many respects, a by-product of technological changes and deregulation. Its influence as a factor in encouraging consolidation has been strongest among institutions engaged in the provision of wholesale financial services, highlighting the importance of the expansion of capital markets. As non-financial institutions expand the geographical scope of their operations, they expect their financial service providers to be able to meet their changing needs, which may also encourage consolidation.

¹. Globalisation can be viewed as an extension of the process through which barriers to the exchange of goods and services among nations are being either dismantled or overcome. It can also be viewed as an extension of the tendency towards increasing specialisation and trade (Eslake, 2001:1-2).

2.1.4. Increased shareholder pressure for financial performance

Increased competition has helped to squeeze profit margins, resulting in shareholder pressure to improve performance. Shareholders have gained power relative to other stakeholders in recent years. This development is expected to continue, as it is the result of a structural move towards the institutionalisation of savings.

The motivation for bank consolidations (merging with or acquiring other banks) can also stem from the following factors:

2.1.5. Competitive positioning

Banks may merge with or acquire other banks in order to improve their competitive positioning relative to remaining competitors. By acquiring an existing bank in a market where the acquirer has little presence, the acquiring bank can pursue new business more aggressively. Banking institutions may also merge with or acquire one another as a response to the competitive threat created by the ongoing consolidation in the financial services industry as the current pace of bank mergers and acquisitions may have created a perception that a bank must acquire others in order to avoid being acquired (Banning, 1999:138).

2.1.6. Growth and employment stability

The incentive for a bank to grow stems from the observation that larger banks are less likely to fail. In a doctrine, known as “too big to fail” (see 5.3), regulatory bodies have been reluctant to close large, troubled banks, under the assumption that if a large bank were allowed to fail, it would create severe financial problems throughout the banking system. By growing as large as possible, a bank can improve their employment stability through acquisition (Banning, 1999:139-140).

2.1.7. Cost efficiency

Consolidation enables cost to be lowered if scale² or scope³ economies can be achieved. Larger banks may be more efficient if redundant facilities and personnel are eliminated within the post-merger bank. Moreover, costs may be lowered if one bank can offer several products at a lower cost than separate banks, each providing individual products (scale economies). Cost efficiency may also be improved through merger or acquisition activity if the management of the acquiring bank is more skilled at limiting expenses for any level of activity than that of the target (Pilloff & Santomero, 1996:6).

2.1.8. Revenue efficiency

Scale economies may enable larger banks to offer more products and services, and scope economies may allow providers of multiple products and services to increase the market share of targeted customer activity. Acquiring management may additionally raise revenues by implementing superior pricing strategies, offering more lucrative product mixes or incorporating sophisticated sales and marketing programs. Banks may also generate greater revenue by cross-selling various products of each merger partner to the customers of the other partner (Pilloff & Santomero, 1996:6-7).

2.1.9. Market power enhancement

Deals among banks with substantial geographic overlap reduce the number of banks in markets in which both banks compete. A related effect of in-market mergers is that the market share of the surviving bank in these markets, is raised. The increased market power of the surviving organisation may enable it to earn higher profits by raising loan rates and lowering deposit rates (Pilloff & Santomero, 1996:7).

² Economies of scale occur when the unit cost declines with increases in the volume (Gardner & Mills, 1994:621).

³ Economies of scope are present when the joint output of a single institution is greater than the output that could be achieved by two different institutions each providing a single product (Pindyck & Rubinfeld, 1995:218).

2.1.10. Diversification

Consolidation may increase diversification by either broadening the geographic reach of a bank or increasing the range of the products and services offered. Moreover, the addition of newly acquired assets and deposits facilitates diversification by increasing the number of bank customers. Greater diversification provides value by stabilising returns and the lower resultant volatility may raise shareholder wealth (Pilloff & Santomero, 1996:7-8).

Important forces discouraging consolidation are diverse domestic regulatory regimes and corporate and national cultural differences (BIS, 2001:3). These forces will subsequently be discussed.

2.2.1. Regulation

Remaining legal and regulatory restrictions and differences in regulations across countries continue to discourage some types of consolidations, especially those that involve cross-border activity (compare 5).

2.2.2. Cultural differences

Cultural differences, which include different corporate cultures and corporate governance regimes, as well as differences in language or national customs, appear to be important impediments to consolidation, especially on the cross-border and cross-product levels (compare 6).

Consolidation can thus be discouraged and encouraged by various motives. Sometimes, however, the risks inherent in bank consolidations are of such a nature that they eliminate possible benefits.

3. RISKS IN MERGERS AND ACQUISITIONS

Risk is an inherent characteristic of all strategic decisions, for example mergers and acquisitions, in that there is some degree of uncertainty associated with decision

outcomes (Pablo & Sitkin, 1996:2). Not every risk associated with a merger or acquisition is insurable, therefore identifying and mitigating the overall strategic business risk associated with a transaction is important. A strategic risk analysis must thus be conducted prior to a merger or acquisition. If the performance, based on the above analysis, is viewed to be below expectations, the company might consider developing an exit strategy before finalising the transaction. If performance, on the other hand, is better than expected, the new entity may require more resources and technology to take advantage of the current opportunities (Sammer, 2000:3).

Going ahead with a merger or acquisition strategy is a decision involving risk. In addition to the more typical business uncertainties (competition, pricing volatility and product obsolescence), acquirers face the following additional risks (Anon, 2000):

3.1.1. Operating risk

This occurs if the acquired (target) bank does not perform well after the transaction has been completed. If the acquirer does not have a sound post-acquisition integration plan, or does not execute the plan well, it will be easy to miss operating targets which were needed to justify the price paid for the target (Anon, 2000).

3.1.2. Financial risk

Financial risk is defined to encompass both individual financial institutions and systemic financial crises that can encompass a part of or the whole financial system. Systemic financial risk is the risk that an event will trigger a loss of economic value or confidence in, and attendant increases in uncertainty about, a substantial portion of the financial system that is serious enough to quite probably have significant adverse effects on the real economy. Systemic risk events can be sudden and unexpected, or the likelihood of their occurrence can build up through time in the absence of appropriate policy responses (BIS, 2000:125).

Banks are also exposed to several major risks in the course of their business, for example, credit risk, interest rate risk, liquidity risk, foreign exchange risk, operational risk, investment risk, capital risk and market (price) risk. With regard to bank

mergers and acquisitions liquidity risk, interest rate risk and credit risk are the most important, and will subsequently be discussed.

3.2.1. Liquidity risk

Liquidity risk for banks is the risk that a bank will not be able to meet its commitments (Kelly, 1993:362). Liquidity problems can be the cause of an institution being a merger/acquisition target. A bank (especially the acquirer) must ensure that after a merger or acquisition it will still have sufficient funds to meet all obligations (unexpected ones as well) as they become due.

3.2.2. Interest rate risk

Interest rate risk can be defined as the potential variability in a bank's net interest income and market value of equity due to changes in the market interest rates (Koch, 1995:108). A bank should not borrow to enable it to acquire another bank, because interest rates are unstable and a bank can end up paying more for another bank than it is worth. Banks are not able to avoid interest rate risk, but they must manage it in order to prevent it from creating a crisis in the bank.

3.2.3. Credit risk

Credit risk is the risk of customers failing to comply with their obligations to service their debt (Bessis, 1998:7). Credit risk management techniques can be deployed effectively to support the merger or acquisition proposition, both before and after a deal is completed. In the pre-merger (pre-acquisition) and due diligence phases, decision analytics can be used to assess critical factors, such as, portfolio value, customer value, product characteristics and customer compatibility. Credit quality assessments can also be facilitated via automated interface with credit bureaus. After the merger, whether collection operations are consolidated or kept separate but co-ordinated, automated collections management systems can be leveraged to increase operating efficiency, reduce workforce and lower net-bad-debts. In addition, decision analytics can be used in a test-and-control environment to continuously monitor the risk portfolio, identify best-practices and cost-effective processes, recognise and manage duplicate cost structures and evaluate and refine marketing campaigns and collection treatment approaches. In doing this, the new bank will

continue to improve service quality, while minimising risk and maximising profitability (Nestler & Titan, 1999:2-3).

Merger and acquisition decisions and actions can have an influence on bank risks as well as on the strategies of the bank. Anon (1999:3) states that banks need to address bank risks in a structured manner by upgrading their risk management procedures and by adopting asset and liability (ALM) practices. ALM provides a comprehensive and dynamic framework for measuring, monitoring and managing the risks of a bank that needs to be closely integrated with the bank's business strategy. The objective of a good risk management system is that this system should evolve into a strategic tool for bank management.

4. STRATEGIC RISK MANAGEMENT IN BANKS

The risks associated with a bank's normal operations and those associated with merger and acquisition decisions are complex and large, requiring strategic management. According to Preble (1997:770) the strategic management process includes three primary components: strategy formulation, strategy implementation and strategy control or evaluation. These components will subsequently be discussed.

4.1.1. Strategy formulation

The formulation of a sound corporate strategy is paramount to success in merger and acquisition activity (Saavedra-Lim, 1998:4). Strategy formulation is concerned with determining the future direction of an institution and it usually includes conducting an external audit or scan that results in the specification of key external opportunities and threats, and an internal audit of the institution's most important strengths and weaknesses. Also included in this phase are the development of a mission and/or vision statement and the specification of long-term objectives (Preble, 1997:770). The external and internal environments of all the financial institutions that will be involved in a consolidation, must thus be examined in order to understand their different visions and missions. After this is done, one or more merger or acquisition strategies must be developed, based on what is learned and the long-term objectives that must be achieved with the merger or acquisition must be specified.

4.1.2. Strategy implementation

As soon as bank strategies are formulated they must be implemented. According to Preble (1997:770) strategy implementation is concerned with the modification of organisational structures and processes to ensure that planned results are obtained. This phase includes processes such as the establishment of annual goals and policies, the allocation of resources to obtain objectives and adjusting motivation and reward systems to better match new strategic thrusts.

4.1.3. Strategy evaluation

After a bank strategy has been implemented, the success achieved with this strategy must be evaluated. According to Preble (1997:770-772), strategy evaluation is concerned primarily with traditional control processes, which involves the review and feedback of performance to determine if plans, strategies and objectives are being achieved, with the resulting information being used to solve problems or take corrective action.

The asset and liability committee (ALCO) process can be seen as the most important part of strategic management in banks. This process can be used for the determination and consequent evaluation of merger or acquisition strategy/ies in banks and comprises the following ten steps:

4.2.1. Step 1: Reviewing the previous month's results

The aim of this step is to determine whether the bank has followed the ALCO's decisions and whether the targets set for the bank have been met. According to Styger & Bothma (1998:2) the variance report forms the basis of this evaluation and the limits of variance that can be tolerated, the procedures to identify the causes of the unacceptable variance, the procedures to correct unacceptable deviations and steps to prevent future occurrences should be specified.

4.2.2. Step 2: The assessment of the current balance sheet position (present situation)

It is essential to understand the current balance sheet structure, before strategies are formulated. According to Styger & Bothma (1998:2) the different benchmarks that can be used to evaluate the current balance sheet structure should be specified. These benchmarks include (Styger & Bothma, 1998:2):

- Financial management benchmarks such as ROA (Return on assets), ROE (Return on equity) and the cost/income ratio
- Strategic risk benchmarks such as credit risk on an aggregated level, liquidity and liquidity buffers and market segment exposure
- Tactical risk benchmarks such as VAR (Value-at-risk) and totals of the various hedging portfolios
- Performance measures such as ROC (Return on capital) and RAROC (Risk adjusted return on capital)
- Regulatory requirements and in-bank benchmarks regarding amounts over and above the prescribed requirements.

Reviewing past performances (step 1) and existing balance sheet structures (step 2) is an essential part of the ALCO process, but not too much time must be spend on it, because the past is important only in the sense that it is the foundation upon which the future will be planned. Future strategies are thus the main concern (Maré, 1995:2).

4.2.3. Step 3: Doing future projections of the exogenous factors for various scenarios

Exogenous factors are those factors that emanate from outside the bank and over which the bank has very little or no control, for example interest rates and exchange rates (Maré, 1995:2). These factors affect the bank's income, expenses and value of certain products (Bothma, 2000:2). There are various techniques to forecast these factors (Delphi, Regression, Monte Carlo) and systems are also available to help with this forecasting. A large number of forecasts are required, for example, forecasts for each product and for each period (Bothma, 2000:2). Decisions about the upper and lower limits, as well as the most likely scenarios for these variables, should also be decided upon (Styger & Bothma, 1998:3).

4.2.4. Step 4: Developing asset and liability strategies in the light of the projected exogenous factors

In response to the exogenous factors and taking the strategic direction and objectives that were set for the bank into account, a variety of strategies should be developed (Maré, 1995:3). All the developed strategies need to be investigated. According to Styger & Bothma (1998:3) the results of any viable strategy/ies should be forwarded to the ALCO meeting with recommendations for further investigation and implementation.

4.2.5. Step 5: Simulating the various strategies for the various projected exogenous factors over the chosen future period

Guidelines regarding the time-frames that should be used for different simulations, as well as guidelines regarding the different outcomes should be provided. A list stating the purpose of the different simulations, for example to determine funding needs, the capital requirements and growth scenarios for specific types of business, should also be supplied to ensure that the ALCO meeting is provided with the required information needed to formulate strategies (Styger & Bothma, 1998:3).

4.2.6. Step 6: Determining the most appropriate strategy

The ultimate purpose of an ALCO meeting is to arrive at the most appropriate strategy for the bank, given its perception of the future (Maré, 1995:3). The most appropriate strategy is the one that gives the best results and not necessarily the one with the smallest risk or the greatest profit. Strategies must, however, be such that adequate profits will be made.

4.2.7. Step 7: Transforming the ALCO decisions into measurable targets.

The different benchmarks which are used to assess the present situation (step 2) are also the benchmarks used to set targets. Targets should be realistic and achievable, and the way in which the operational divisions should be involved in setting these targets and how their inputs and co-operation should be obtained, should be

specified, since the targets will have to be met by them. The person responsible and the time- frame for each target should be specified (Styger & Bothma, 1998:4).

4.2.8. Step 8: Communicating appropriate targets to managers

Sometimes decisions taken by ALCOs fail to be communicated or communicated effectively to the managers, as well as the personnel of the different line functions (Maré, 1995:4). A detailed list of the personnel responsible and accountable for specific tasks should form the basis of the communication process and this list should be channelled from the ALCO to the responsible persons (Styger & Bothma, 1998:4). Targets may be expressed in volumes of new business, type of product or price range and should be clearly communicated to the relevant parties (Maré, 1995:4).

4.2.9. Step 9: Monitoring the bank's activities on a regular basis to ensure that the ALCO's strategies are followed and targets are met

The terms of reference for the evaluation of personal achievements, as well as corrective or incentive actions, should be clearly specified and should be in accordance with the broad personnel policy. Guidelines on the use of the variance analysis, the benchmarks used to evaluate the success, the steps used to determine the reason for not achieving the targets and the process for corrective measures that should be taken, should be specified (Styger & Bothma, 1998:4).

4.2.10. Step 10: Determining whether the current strategy is appropriate

The assumptions regarding the exogenous factors that the strategies were based on, might have changed. The bank has to adjust to these changes and the present strategies must be such that the most advantage can be taken from the opportunities (Styger & Bothma, 1998:4). It is thus necessary that the strategies being followed be re-evaluated on a regular basis to determine whether they are still appropriate. Likewise, previous decisions and their objectives must be reviewed continuously (Maré, 1995:4).

Strategic risk management (the proactive management of capital at risk) changes the way in which institutions, (for example, banks) are managed. It assists managers

in identifying potential capital problems, assessing alternatives for deploying capital and pinpointing cash flow drives. It also provides a comprehensive framework that helps managers in the pursuit of projects (for example, mergers or acquisitions), offering the highest growth and returns in excess of the cost of capital in the long term. The ultimate result is increased shareholder returns (Haubensstock & Morisano, 1997:3). This is the main objective of any merger or acquisition. In managing a bank and its risks and in developing strategies for mergers or acquisitions, certain regulatory aspects need to be taken into consideration.

5. REGULATORY ASPECTS IN BANKS

The strategies adopted by banks as financial service institutions and the objectives set by regulators have to be consistent with each other (Marcus, 2000:1). The regulatory framework within which bank supervision takes place, together with the authority, powers and responsibilities of the regulator, is provided by the Banks Act of 1990, the Mutual Banks Act of 1993, regulations relating to banks, regulations relating to mutual banks and the core principles for effective bank supervision (Marcus, 2000:3). The following aspects are regulatory concerns, because they could impact on the stability of the financial system as a whole (Marcus, 2000:1-2) and perhaps motivate mergers or acquisitions:

5.1. Contagion risk

Banks operate in a highly competitive environment, encouraged by the development of new markets, instruments and techniques. Although many of these changes provide the means of diversifying risk, they also allow for greater risks to be taken. These developments provide challenges to central banks in attaining the appropriate balance between risk and stability in the financial system. It is the central bank's responsibility to provide a financial system in which the users of financial services can benefit from healthy competition between financial institutions, but at the same time, ensure public confidence in the monetary system as a whole. In the case of a bank, contagion can best be described as the risk that a problem or problems in one or more associate entities contaminate the bank, leading to negative perceptions and sometimes also the failure of the bank (Marcus, 2000:2).

Contagion is viewed to be more serious in banking than in other industries, because in banking, contagion is perceived to occur faster, spread more widely within the industry, result in a larger number of failures, result in larger losses to creditors (depositors) at failed banks and is more inclined to spread beyond the banking industry to other sectors, the macro-economy and other countries. Given the above, losses to depositors at failed banks - the primary transmitter of systemic risk (see 5.2.) - are smaller, and bank runs - which can increase the risk by increasing the losses - tend to be informational and bank specific. Marginal depositors are generally able to differentiate solvent from insolvent banks, particularly when they are given the incentive to do so by the fear of suffering losses. As a result, contrary to folklore, bank contagion on a nationwide scale has not been a common experience and, while large-scale banking failures exacerbate economic downturns, they do not appear to start them (Kaufman, 1996:3).

5.2. Systemic risk

Systemic risk is perceived to occur because all economic agents are interconnected. This interconnection provides a chain along which shocks from any one agent are transmitted to others. The personal or institutional balance sheet of each agent includes assets that are either liabilities of other agents or whose values depend on the behavior of other agents. Likewise, the liabilities of each agent are the assets of others. If an agent suffers a decline in the value of its assets, the value of its capital will decline. This is likely to reduce the spending behavior of the agent and thereby also the income and asset values of other agents. Moreover, if the loss in asset values were sufficiently large to exceed an agent's capital, it would cause the agent to default on its debt obligations. This, in turn, will reduce the values of assets on the balance sheet of the agent's creditors and ignite a chain reaction of reduced spending and defaults (Kaufman, 1996:5).

Systemic risk is thus the possibility that the failure of one bank to settle net transactions with other banks, will trigger a chain reaction, depriving other banks of funds and, in turn preventing them from closing their positions. The consequence of this is a frequent loss of confidence in the whole banking system (Marcus, 2000:2).

The effects of conglomeration on systemic risk must not be viewed lightly. If risk is not managed properly within a conglomerate, the repercussions could extend

beyond a single bank and even over the whole financial sector. The regulator's ability to monitor and supervise the group risk management practices within banks and banking groups, is therefore becoming increasingly important (Marcus, 2000:2).

5.3. The size of the bank

This term might best be applied to a bank that is so large that its activities make up a significant portion of a country's payment system, credit granting process or other key financial roles. As a result, any substantial disruption in the particular bank's operations would be likely to have a serious effect on a country's financial markets, either preventing the markets from operating properly or raising questions about their integrity. The consequence of the "too big to fail" factor is that countries, through their central bank, extend protection to large banks and their customers that is not granted to others (Marcus, 2000:2). Banks can thus merge with or acquire other banks in order to receive this help from the central bank.

5.4. "Lender of last resort" assistance

One of the main responsibilities of a central bank is to prevent financial system instabilities and when pressures that cannot be avoided by preventive supervision do arise, central banks should try to contain these pressures through direct central bank intervention, acting as "lenders of last resort" (Marcus, 2000:2). There should be nothing automatic about the central bank acting as a "lender of last resort" and this function should only be used to safeguard the financial system as a whole (De Bonis & Giustiani, 1999:75). The primary aim of the "lender of last resort" function is therefore not to save the bank in distress (see 5.3.), but rather to consider the effect that the failure might have on the system and what should be done to protect the system from contagion, as described in 5.1. (Marcus, 2000:2).

Banking regulation must keep a balance between two different needs. On the one hand, it must go on relaxing barriers and unjustified limits to banks' activity, erasing bureaucratic attitudes that have often characterised public action. On the other hand, the awareness of the riskier environment in which intermediaries operate and the recent failures, might require supervisors to take a more active part in banks' strategic choices (De Bonis & Giustiani, 1999:73). A bank's strategic risk management process can be very good and all regulatory requirements can be met,

but without taking cultural issues into consideration, no merger or acquisition can truly succeed.

6. CULTURE IN BANK MERGERS AND ACQUISITIONS

Culture is the pattern of norms, values, beliefs and attitudes that influence individual and group behaviour within an institution. Approximately 85 per cent of failed mergers and acquisitions are attributable to mismanagement of cultural issues (Miller, 2000:22). To ensure the success of a merger or acquisition, the cultures of the involved parties must be integrated from the beginning. According to Pekala (2000:33-36) the differences in values, business goals and overall philosophy that each partner brings to the merger or acquisition must be recognised. These differences must then be utilised in order to leverage the strengths of the resultant institutions. Once there is a clear vision of what the new institution's culture should be, all the resources required to nurture and sustain it, must be committed. Miller (2000:22-23) states that cultural issues are thus just as important as financial analysis and should exist to support the business strategy.

7. CONCLUSION.

Bank mergers and acquisitions are encouraged by manifold and highly diverse motives. These motives, amongst others, include improvements in information technology, financial deregulation, globalisation, increased shareholder pressure, competitiveness, growth, cost- and revenue efficiency, market power enhancement and diversification. Some of these motives focus on the maximisation of shareholder wealth, while other motives are more closely connected to the goal of optimising management welfare. Mergers or acquisitions can also be discouraged by various motives. Of these motives, culture clashes and regulatory restrictions are the most important.

Risks inherent in the business of banking, as well as general merger and acquisition risks, can sometimes eliminate the possible benefits with regard to mergers and acquisitions. These risks are complex and require strategic management. The asset and liability committee (ALCO) process can be seen as the most important part of strategic management in banks and the ALCO processes of the institutions involved

in the merger or acquisition must be combined in order to determine and evaluate strategies.

The current position of a bank, as well as the risks involved and the interrelationships between the various risks, must thus be well understood in order to get a picture of what the outcome of strategies will be, as well as how the risk in the bank will shift as a result thereof. It is thus important that banks must keep in mind what they want to achieve so that they can focus their efforts on this (Bothma, 2000:4-5).

To achieve success with mergers or acquisition in banks, the traditional merger and acquisition principles cannot be used alone, but must be integrated with strategic risk management practices as well as with regulatory and cultural issues. All the above must be taken into consideration in merger or acquisition decisions in order for an attempted deal to be realised.

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