

Forced mergers on bank efficiency and productivity: evidence from semi-parametric Malmquist productivity index

ABSTRACT

The paper examines the impact of mergers and acquisitions on the productivity of the Malaysian banking sector. The analysis consists of two stages. Firstly, the semi-parametric Malmquist productivity index (MPI) method is applied to a [-5, +8] window to examine the efficiency and productivity of the acquiring and target banks during the pre- and post-merger periods. Secondly, as suggested by Banker and Natarajan (2008), we employ a battery of parametric and non-parametric univariate tests to examine the difference in the efficiency and productivity of the Malaysian banking sector during the pre- and post-merger periods. We find that the Malaysian banking sector has exhibited a higher total factor productivity level during the post-merger period attributed to technological progress. The empirical findings do not provide conclusive evidence on the less productive banks becoming the target for acquisitions.

Keyword: Banks; Forced mergers and acquisitions; Malaysia; Semi-parametric Malmquist productivity index; Total factor productivity change