

**Do Bank Mergers Have Hidden or Foregone Value?
Realized and Unrealized Operating Synergies in One Bank Merger**

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ABSTRACT

A widely publicized series of mergers has characterized the banking industry in recent years. Shareholder returns from these mergers have often been disappointing. This study finds delays in implementing potential operating savings and realizing benefits of scale economies may be one reason bank mergers have disappointing returns.

We analyze a 200 branch network formed in a merger of four banks. Data envelopment analysis (DEA) was used to benchmark the operating efficiency of each branch against "best-practice" branches within both the combined merged bank and the four individual pre-merger banks. DEA applied to the entire merged bank identified opportunities to reduce branch operating costs by 22 percent. In contrast, DEA benchmarking within each pre-merger bank suggests cost saving opportunity of under seven percent. This suggests that beyond traditional merger cost savings, such as closing branches, new added savings can be generated by benchmarking across the larger merged bank. More rapid and aggressive consolidations of management control systems in bank mergers may increase profits and shareholder value, improving returns in bank mergers. This study's contributions include:

- 1)exploring the potential new use of DEA in analyzing mergers;
- 2)confirming the value generated in bank mergers using internal operating data found in contrast to most studies using aggregated publicly reported data;
- 3)documenting one reason bank mergers may appear to have disappointing returns--deferred rationalization of merged banks' operations.