



Major reasons for Nepalese Finance Companies' Mergers  
Failure – Case – Synergy Finance Ltd.

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<p>Abstract:</p> <p>The thesis is the result of the curiosity of the author about the unusual growth of mergers and acquisitions in Nepal. Author realized the trend is not going well with the 'C' grade finance companies. So, he focused on the particular SFL merger's failure to find out the major factors responsible for the downfall. He has studied about the 3 companies under the renowned frameworks set by (Harspeslagh and Jamison 1991) and (Jarillo 2003). Author has relied mainly upon literature reviews and other the secondary sources like scholarly articles, journals, newspapers and other publicly available sources on web. This study reflects the deep study of the official statistics, data and reports and further analysis of them. For the reliability, author collected the various interviews of the ex-chairperson and ex-CEO of SFL. In first part, author analyzes the reports of financial regulatory body Central Bank of Nepal to understand the situation of the mergers. Along with that, he studies the Mergers Bylaw-2011 provisions. Futhermore, he analyzes the almost all reliable financial and non financial indicators of SFL before and after mergers in order to focus on the particular reason of its failure. As the conclusions, author finds that mergers is taken as handy strategy to increase the capital adequacy rather than strategic improvement of financial health of company. And furthermore, SFL failed in the mergers due to the unhealthy mergers and failed strategy of reducing non performing loans of the company.</p>	
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# 1 INTRODUCTION

## 1.1 Research Aim

In recent years, Nepalese Banking and Financial Institutions (BFIs) sector has seen number of mergers. These trends of mergers have been quite unusual. As of July 2015, Central Bank of Nepal (NRB) reports says that there have been more than 35 big BFIs mergers after the Merger bylaw was enforced in 2011. Even though most of them have shown positive results within last 3 years, it would be too early to say that they have succeeded. Nepalese Economists suggest that it needs time to see whether their merger strategies were short term or long term.

Few of them have shown drastic downfall of their business even in the starting phase of newly formed Financial Institutions. Other might follow this trend if some complex and important aspects of mergers are seriously underestimated.

Through this thesis, author wants to reveal the major factors responsible for the failure of these financial institutions. Author wants to study a case of Synergy Finance Ltd (a 'C' Grade Financial Institution) a newly formed entity in 2013 after Butwal Finance Ltd. acquired Alpic Everest Finance Ltd. and CMB Finance Ltd. This young company showed major losses soon after the formation.

### **Research Questions:**

What is causing the unusual growth of M&As in Nepal?

Why is SFL merger 2012 - a failure?

Along with those aims of research, author will study the mergers practicalities in context of Nepal.

Author hopes that the thesis will be helpful for other similar BFIs to locate and focus on the particular delicate issues that are usually neglected during mergers.

## **1.2 Methodology**

Author uses the exploratory research in collecting secondary data as the foundation. For the deep study of the subject, author relies upon literature reviews, and other secondary sources like World Wide Web and various scientific journals, newspapers and scholarly articles. This is why thesis doesn't include vast mathematical analysis or any interviews. Rather than those, author has presented his research in form of text and some official statistics obtained from reliable sources. Major statistics and data are obtained from official annual reports of Central Bank of Nepal and SFL. For the reliability, reports after year 2010 are given priority for the case. Author collects the required information and put them at one place for the further analysis. Moreover, the various published interviews of Ex-CEOs of SFL, Rajendra Man Shakya and Rajendra Manandhar are also read thoroughly to get into the real situation of the company and their visions and strategies. Furthermore, author is a Nepalese national and has observed the present and past financial, political, economical and social issues of Nepal so closely. This provides benefits to the author that he has good ability to differentiate the information gathered.

Under the frameworks of the perspectives set by (Harspeslagh and Jamison 1991) and (Jarillo 2003) and Synergy Realization model set by (Larsson & Finkelstein 1999/9), author analyses the pre-merger and post-merger situations. The situations are studied as per finance and capital market perspective, strategic management perspective and Organization behavior perspective. Author focuses on the changes shown by major financial indicators that analyze the performance of SFL. After the major determinant is pointed, author will try to find out where the company failed to maintain the determinant up to mark.

## **1.3 Limitations**

The topic is very vast which requires focused analysis of the financial statistics and data. Due to this complexity of the topic and structures, author has restricted the research of bigger mergers. Since, there are so many similar mergers and study of their individual data is impossible,



author wants to focus particularly on one of the small Nepalese Finance Companies. Author expects the achieved thesis result applies to most of those mergers.

Furthermore, study of companies other than banking institutions has not been conducted throughout the thesis.

## **1.4 Structures**

In first part, thesis contains the theoretical backgrounds due to which the author was inspired. It contains theoretical grounds and frameworks of research. Along with those, the choice of case is also defined. After that, major understandings of mergers and acquisitions are discussed. Then, the Nepalese banking and financial institutions present situations and history is presented. Next, it provides lights on the recent unusual growth of mergers and acquisitions in Nepal. Afterwards, mergers practicalities are discussed in context of Nepal. Here, major provisions like Mergers bylaw-2011 is studied in detail. And then, author focuses on the recent results of mergers and acquisitions.

In the second part, it follows the analysis of 3 companies involved in the mergers. It includes the information about the challenges during integration phase. And then their financial and non-financial indicators evaluations and comparisons in pre-mergers and post-mergers are performed. And finally, author concludes with his opinions and possibility of further research in the conclusion part.

## **2 THEORETICAL BACKGROUNDS**

Mergers & Acquisitions can be studied under various theoretical lenses. (Davenport, Barrow 2009) writes ‘incompatible cultures as the number one pitfall’. Author came up with the curiosity that if cultural differentiation is major role in success and failure of mergers and acquisitions, what could be the other reasons for mergers failure. Furthermore, Adhikari (2014) illustrate the importance of mergers in Nepalese BFIs in his thesis ‘M&A as an indispensable tool

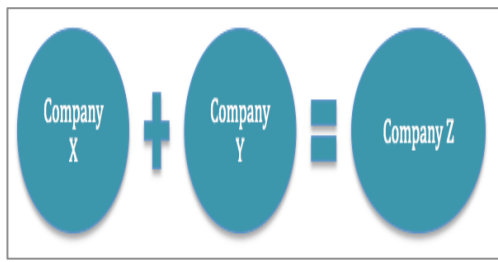
for strengthening Nepalese Banking & Financial Institutions). Author did research on whether recent mergers and acquisitions in Nepal are successful or not. And he finds that the success rates of those mergers were just around 20% (NRB report 2014). Moreover, the failure was higher among the Finance Companies' mergers. So, author tries to find out the recent Finance company's mergers after Nepal Mergers Bylaw-2011 was introduced. Finally, the mergers of Butwal Finance with CMB Finance and Alpic Everest best suites the interest of author.

Mergers and Acquisitions is one of those areas in finance, which attracts interest from general public as well as finance specialists and managers.

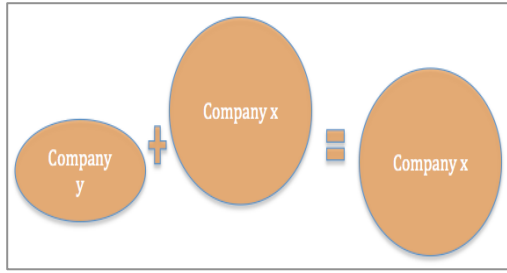
Arnold (2002) defines mergers in his book Corporate Financial Management, 'A merger is the process of combining of two business entities under common ownership.' It brings two separate companies into new, joint organizations. Obviously, mergers can be the best strategies for the business organizations that want to expand their business with the increment in the synergy of efficiencies.

'Joint efficiency of two companies is believed to yield more than single firms. It goes by the equation  $2+2=5$ . The managerial efficiency, experts working together drive the work force and functions towards efficiency on a full swing' (Sadler, Smith & Campbell 2008). For a merger to be a successful merger, it needs to generate profits to shareholders. Brealey (1981) writes 'You should go ahead with the purchase if it makes a net contribution to shareholders' wealth.'

Some economists use the term 'Mergers and Acquisitions' as an interchangeable. While, other wants to differentiate them for accounting and legal purposes (Brealey 1981). But usually, mergers takes place when two companies of roughly equal size come together to become one. And acquisitions or takeovers refer to the purchase of one company by other by means of financial and managerial dominations. Usually, mergers are friendly because of the same size of both firms but acquisitions can be hostile in case the acquiring company provides tender offer to the shareholders without the involvement of the target companies' management officials.



*Figure 1 Mergers of Equal Size*



*Figure 2 Acquisitions*

## **Horizontal Mergers**

It is process of a company taking over another offering same products or services that original company offers. Companies are in same line of business. Often competitors can be the target companies. Major motives for such mergers could be the economies of scale and enhancement of market power with the reduction in competition. A merger of Walt Disney and Lucas Film in October 2012 is an example of Horizontal Mergers.

## **Vertical Mergers**

It involves two companies that produces same goods or services but at different stages of production. This type of merger helps increase the market power. A car wheels companies getting merged with Car Company is an example of Vertical Mergers. Companies are in the same line of productions. In fact, these mergers take place when supplier buys customer or customer buys supplier. A remarkable recent example of vertical mergers is the acquisition of Motorola Mobility Holdings by Google in June 2012.

## **Concentric/Congeneric/Conglomerate Mergers**

It involves two companies that produce different goods or services but they serve same consumers. Usually, risk reduction through diversification, opportunity for cost reduction and improved efficiency are some motivating factors for such mergers. Recent example of such mergers is Berkshire Hathaway acquiring Lubrizol in 2011.

## 2.1 Global M&A Position

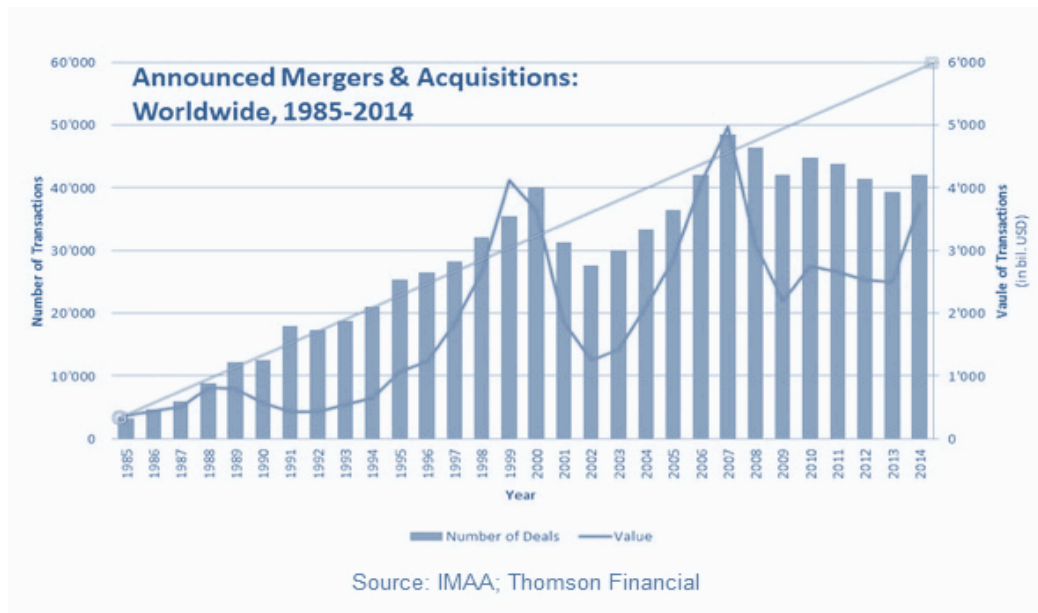


Figure 3 Global Mergers and Acquisitions. From *Global Announced Mergers & Acquisition 1985-2014*, (Slater John 2015)

Arnold (2002) says that first major wave of merger took place in late 1970s and gradual increase in the data took place in late 1980s, 1990s and record high transactions in 2007 before recession (2008). Figure 3 above helps to illustrate that the number of transactions and value of the transactions was peak high in 2007. Following recession in 2008, though the transactions shows gradual decrease in numbers, the value of mergers seems to fall so quickly and has regained its ascend since 2013.

## 2.2 DRIVING FACTORS OF M&As

Mergers can also be termed as the investment decision of a firm. Their numbers should be delicately calculated like other investments. These decisions might lead to significant uncertainties if not seriously handled.

The benefits of mergers are often difficult to quantify. Generally, merger is taken as device to expand the business in larger geographical regions with larger capital value. It is believed that merger is more applicable than sharing bonus in order to raise capital. Major driving motives could be:

- Apply superior managerial skills,
- Obtain unique technical capabilities,
- Enter new market

In today's world, most acquisitions fail to deliver their expected outcomes but yet they remain very popular and essential for the growth of companies (Moeller and Brady, 2007)

<b>Synergy</b>	<b>Bargain Gaining</b>	<b>Managerial Motives</b>	<b>Third Party Motives</b>
<ul style="list-style-type: none"> <li>▪ <math>PV_{AB} = PV_A + PV_B + \text{gains}</math></li> <li>▪ Market power</li> <li>▪ Economies of scale</li> <li>▪ Internationalization of transactions</li> <li>▪ Entry to new markets</li> <li>▪ Tax advantages</li> <li>▪ Risk diversifications.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Elimination of inefficient and misguided management</li> <li>▪ Undervalued shares: strong form or semi-strong form of stock market efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Empire Building</li> <li>▪ Status</li> <li>▪ Power</li> <li>▪ Remuneration</li> <li>▪ Hubris</li> <li>▪ Survival: speedy growth strategy to reduce probability of being takeover target</li> <li>▪ Free cash flow: Management prefers to use free cash flow in acquisitions rather than return it to shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Advisors</li> <li>▪ At the insistence of customers or suppliers.</li> </ul>

Table 1 Mergers Motives. Note. From Mergers Motives (Glenn Arnold 2002, p.873)

In Table 1 above, it shows that the present value (PV) of companies together is higher than when the companies are apart. After mergers, companies want to gain something extra in market power, economies of scale, new market and so on. This creation of extra value of merged entity is 'Synergy'. In this case, it would be wise to say 'Higher the synergy creation, higher the excitement in mergers.' In 2<sup>nd</sup> column, bargain buying suggests the benefits which might be gained by acquiring company which has efficient management ability, either at running target's operation or at identifying lowest possible price of target firm. In 3<sup>rd</sup> column, it shows various motives of the managerial teams, which might finally encourage going to mergers. Finally, 4<sup>th</sup> column suggests the motives of 3<sup>rd</sup> parties other than the entities involved into mergers. Expectations of certain benefits by 3<sup>rd</sup> parties like advisors might play lead role in creating mergers.

### **3 RECENT MERGERS WAVE IN NEPAL**

Nepalese Financial Institutions History dates back to 1937 after the establishment of first commercial bank of Nepal – Nepal Bank Ltd. It was established in the joint ownership of Nepal government and general public. Central Bank of Nepal – Nepal Rashtra Bank (NRB) was established 19 years after Nepal Bank Ltd. started its operation. Other governmental banks were also established before NRB.

After few decades of operation of those banks, Nepal government realized the need of expansion of such facilities to many areas of country. So, it formed various rules and regulations. And in 1980's Nepal government adopted liberal policies in financial sectors. After the policy, foreign banks could be opened in joint venture in Nepal.

Nabil Bank Ltd. was among such banks, which was opened in joint venture.

(Development of Nepalese Financial System 2008)

As of 2015, NRB has licensed altogether 204 banking and financial institutions. These FIs have provided banking services to public with their total 3456 branches. This will average 9791 people per branch. (NRB Banking and Financial Statistics 2014)

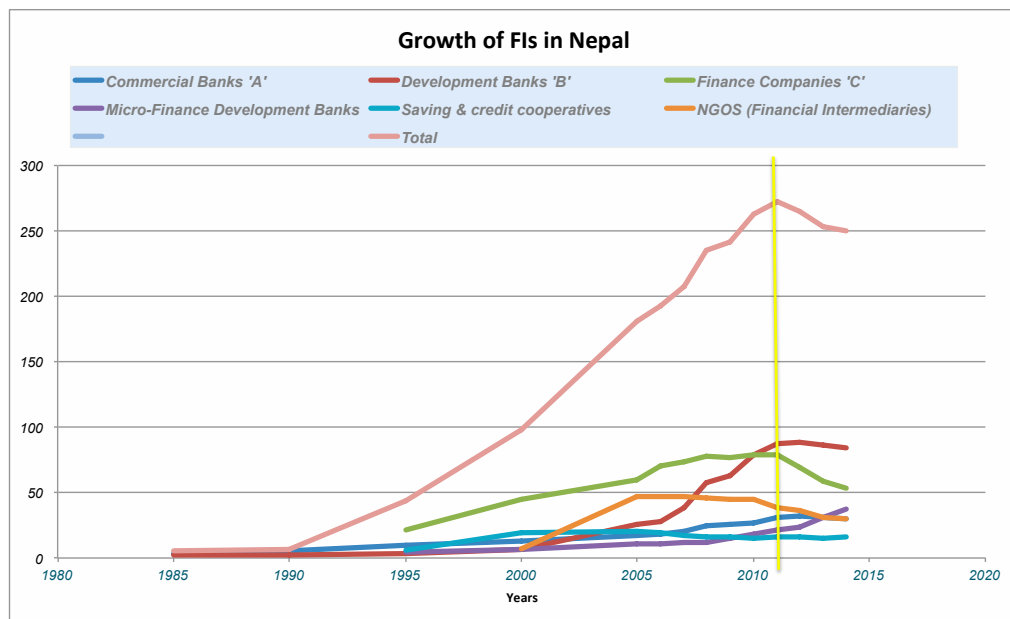


Figure 4 Growths of BFIs in NEPAL (Source: Information from Banking and Financial Statistics NRB 2014)

Above Figure 4 illustrates that the number of Financial Institutions were increasing rapidly till 2011. But after the Mergers bylaw was introduced in 2011, mergers process got a pace and gradually the number of banking and financial institutions reduced.

(Pokharel J. 2012) says ‘Total assets of banking sectors are about NPR 1198 billion which is quite close to GDP of Nepal NPR 1346 billion.’ So, BFIs mergers and acquisitions and success and failure has great role in shaping Nepalese economy.

Mergers if taken more strategically, can be vital in making a business bigger and successful. Bigger mergers of commercial banks like NIC Bank and Bank of Asia seemed more focused on strategic alliance. While most of the BFIs especially finance companies mergers trend seemed struggling in recent years. Most of them have gone for mergers because of the following reasons.

### **3.1 Requirement of Strong Capital Base**

Nepal is a member of WTO since 2003. Moreover, Nepalese Government adopted liberation policy in 1980's. Since then, foreign banks started to open in Nepal as joint venture. It was assumed that Nepalese Banks would not be able to compete with those foreign banks. In that case, the insolvency of large number of banks would generate adverse effects in Nepalese economy. Since, then, proper provisions to strengthen the market power of these banks were being discussed from time and again. As we follow up banks and governmental issues regarding banking services, banks in Nepal are in transition phase. In one hand Nepalese government is encouraging the banks to provide service even in remote areas. While on the other hand, government is coping up with the situation to keep checking on unusual growth of number of banks in Nepal.

This was not only the major issues of Nepal government but was also one of the interests of international economic society. IMF and World Bank had been continuously warning Nepal before that the unusual growth of banks could create problems in future. And what happened finally were the risks and uncertainties of that higher number of weak capital based banks in Nepal. So, Nepal Rashtra Bank, IMF and World Bank analyzed the situation and enacted Merger by law. This Mergers trend, which was affiliated by the bylaw, is playing vital role in strengthen of the financial health of Nepalese BFIs which finally avoids the degrading of Nepalese economy.

As NRB has enforced the banking rules and regulations on behalf of adequate capital requirements, Nepalese BFIs have felt sort of compulsion to go for mergers process. Because, as per the guidelines, NRB approved the proposal of World Bank that banks in Nepal should increase their capital base by:



BFIS	CAPITAL REQUIRED (NPR)
Commercial Banks	2 Billion
Development Banks	640 Million
Finance Companies	300 Million

*Table 2 Capital Base Requirements. Source: Nepal Mergers Bylaw-2011*

In recent years, IMF and World Bank have been regularly monitoring the situation of Banking sectors and preparing report and guidelines how the problems can be overcome. IMF has already suggested NRB to reduce BFIs of Nepal to reduce and form strong BFIs not more than 100 in number. (NRB 2012)

In year 2012 guideline was provided to Central Bank of Nepal from IMF and World Bank. In fact, Basel III provisions were implemented in Nepal by NRB. In recent years, mergers of various banking institutions are so common in Nepal. Due to this, we can see the trend of mergers and acquisitions going more aggressively. NRB expects that in next 5 years, all FIs will perform as banking organization. In context of Nepal as an under developing country, efforts to promote small business and strengthening them can provide national benefits. Around the world, merger has been great tool in stabilizing the economic situation of small and medium scale banking institutions.

Maximum number of banks in Nepal has created confusion among general customers to make their choices. So, economists suggested 'M&A in Nepal, sooner the better.' In Basel III, it was stated that efforts would be applied so that this maximum number of banks would be reduced to just 100 in coming year. The intention was clear when the 2 billions capital base requirement limit is further planned to be rise to NPR. 5 billion.

Nepalese unstable politics and economic turmoil are the major reasons that Nepalese BFIs are unable to gain the confidence of public. In this situation, increasing capital via issuance of shares is unlikely. Obviously, there is the fear of not getting proper returns from the investment. So, rather than taking mergers as business growth strategy, in Nepalese financial sectors, most of the mergers are taken as an indispensable option for increasing capital base. Since, many of these banks don't have their own capacity to increase it, they are compelled

for consolidation for their survival in market. This is why many BFIs' mergers are taking place in present context of Nepal.

### **3.2 Liquidity Crunch**

Liquidity crunch is major problems faced by Nepalese BFIs. Liquidity means amount of money in form of cash. In Nepalese FIs, amount of deposits in banks are very low and rate of loan recovery rate very low. They don't have higher amount of available money to invest in. Higher liquidity rate refers to the strength of FIs. So, in order to be safe, they prefer going for mergers. Usually, finance companies are in real trouble of liquidity crunch. In order to maintain the operating expenses they cannot afford to give higher interest on deposit. So, public are moving away from finance companies to commercial or development banks for the deposit.

### **3.3 MERGERS PRACTICALTIES IN NEPAL**

Every merger in Nepal is performed as per Mergers Regulation Act Nepal 2011. Its usual that companies seeking mergers will have to get approval from shareholders in Annual General Meeting (Asian Banking & Finance 2013).

Practical steps in case of Nepalese BFIs are highlighted below:

#### **Formation of Merger Committee**

- The committee consists of Directors from all BFIs, which are about to merge.

#### **Special AGM**

- Reasons and objectives of the ongoing mergers process are discussed.
- Sharing information to shareholders.
- If majority of shareholders approve, then decision comes into action.

### **MOU (Memorandum of Understanding)**

- Prepared through the consensus of both parties from merging entities which tells about the future plans and objectives.

### **Letter of Intent to NRB**

- In this application, the financial position of merging entities is mentioned. Along with it, the future plans are also highlighted.

### **Due Diligence Report**

- It is the report prepared by independent 3<sup>rd</sup> party. It might be an audit firm. It gives the idea about what happens when these companies merge. In this report, Capital adequacy, liquidity position, market share, loans, stock valuation and various other financial indicators are mentioned.

### **Final Approval**

- All the documents provided by the merging companies are studied and if every criterion is met then the application is approved by NRB.

Some rules and regulations on behalf of Financial Institutions;

1. Legal and tax provision
2. Company act 2063,
3. Bank and financial institutions act 2063,
4. Competition, promotion and market protection act 2063,
5. Security act 2063,
6. Labor act 2048,
7. Income tax act 2058,
8. Section 69 of Bank and Finance

*(Problems and Prospects of Mergers and Acquisitions in Nepal 2015)*

### **3.4 MERGERS BYLAW 2011**

Mergers Bylaw- 2011 is the provision established with the guidance of IMF AND WORLD BANK in order to help Nepalese Financial institutions to strengthen the capacity of them. NRB supervises the Nepalese BFIs mergers under Merger Bylaw – 2011. Major issues raised by the law.

- Reduce unhealthy competition and malpractices among BFIs,
- Focus on strategically important Financial Institutions,
- Expand banking services to rural areas,
- Increase capital base and lending capacity,
- Provide guidance in proper investment and so on.

#### **3.4.1 Objectives of Bylaw 2011**

- Improving the banking, financial, human resources and technological capacities of Nepalese BFIs in order to provide smooth and reliable banking services to public.
- Protecting the rights of investors and stakeholders,
- Providing decentralized banking services to almost all areas of the country.

(Source: Nepal Mergers Bylaw-2011)

### **3.5 Success Rate of M&As: Global and Nepalese Contexts**

Kafle (2012) writes ‘Study in Wharton, Harvard and Morgan suggests that 50% to 85% of the merged forms don’t achieve the shareholders’ expected value. In context of Nepal, last seven years result shows the success rate is 15%.’

As of 1<sup>st</sup> May 2015, it is estimated that among all of mergers since 2011, only around 25% of mergers have succeeded while half of them have share price below the face value of Nepal Stock Exchange (Kafle 2012).

It takes time for the evaluation of a certain mergers. Even though that the various indicators like capital adequacy ratio, non performing loans and return on equity show the positive figures in few years of mergers, we can not judge them.

According to SFL-CEO Rajendra Man Shakya (2012), ‘It takes time for the merged entity to succeed. Additional issues like human resource management can play vital role in future financial positions. ‘

Raj Kumar Timilsina (2012) from Nepal Investors Forum says ‘ in most of the cases, mergers have been taking place to avoid regulation action, when the financial health of FIs is bad. Due to this, it causes bad forced mergers. Immaturity of BFIs can create various problems for future operations’ (*Mergers And Acquisitions in Nepalese Banking Sector 2012*).

NEPSE (Nepal Stock Exchange) reported that there is the fall in number of Group A BFIs in NEPSE. It assumes that those group A BFIs have not met the standard requirements set by NEPSE. It shows that the recent mergers are not working that good with those bigger banks and financial institutions as well.

As mentioned by Investopedia, ‘Success of the mergers depend on the assumption how realistic the deal makers are and how well they can integrate two companies while maintaining day to day operation.

## **4 SFL MERGERS- TRANSITION PHASE ANALYSIS**

### **4.1 Screening Stage**

Every successful deal should be able to yield incremental value and revenue synergy. For able to be a good M&A, the deal should be able to generate the extra value of minimum 50%. If there is certain margin for errors, or if deal is tight and uncomfortable, they management should be able to say ‘No’ for such deals. In most of the conditions, mergers fail because of the inability to recognize the suitable partners going for mergers. It requires good valuation of

the target companies. Various approaches should be used to evaluate the partners' financial and operational position of the companies. (Making Successful Mergers 2012)

#### **4.1.1 Assessing Target Company**

A company might pay too much or too less than what target companies really deserves. So, a good financial valuator's presence is always required. So, it is really very important to deeply study the performance of each individual company before acquiring. Performance not only refer to the profit and loss but also these:

- Value in share market,
- Public image,
- Capital strength,
- Market power and
- Number of customers, if possible.

##### **❖ Comparative Ratio**

This assessment relies on the price-earning ratio of the company. Viewing P/E ratio as a pivot, the acquirer makes an offer that is multiple of earnings of Target Company.

##### **❖ Discounted Cash Flow (DCF)**

This is the method of determining company's current value according to its estimated future cash flows.

Free cash flows (net income + depreciation/amortization – capital expenditures – change in working capital) are discounted to a present value using the company's weighted average costs of capital (WACC).

Note: Free cash flow means cash flow after capital expenditure necessary to maintain the company as an on-going concern. (IMF Report, Financial Sound Indicators)

#### ❖ **Business Life Cycle**

It is equally important to know about the industry life cycle stages and determine whether to go for mergers or not. Acquirer and target should always be able to categorize the business on the basis of their positions.

#### **4.1.2 CMB and Alpic Everest Introduction**

As per the balance sheet-2012 of CMB, it had recorded a negative reserve and surplus. It had shareholder equity in form of retained earnings. It was because of the higher amount of bad debts. After mergers, CMB transferred reserve loss of (NPR 46,248,000) to the account of SFL. In order to meet regulatory requirement of 5.5% core capital ratio, these types of financial institutions should have to improve the financial situation. Otherwise, it may prompt NRB to take action.

However, in the fourth quarter of 2012, CMB generated profits of NPR 2.15 million and their financial indicators were improved as its non-performing loans reached 10.39% from more than 20% and capital adequacy ratio was 24.08%. Moreover, CMB finance had higher reach of customers. Its services of ABBS facility and SMS banking were pretty new for 'C' grade finance companies.

Rather than finding ways to improve its performance to even further, CMB chose to merge with Butwal Finance. It was a sort of opportunity for CMB in order to get merged in order to stay on the business.

However, Alpic Everest was showing average good financial status. It showed profit of around NPR 5,969,000 during fourth quarter of 2012.

Rather than the opportunity, Butwal Finance Ltd. agrees to merge one moderately good and other poor finance company in order to increase the capital requirements and to increase the area of services. (Nabil Invest; *Mergers in Nepal 2012*)

Expanding the activities of the firm through acquisition involves significant uncertainties. Very often the acquiring management seriously underestimate the complexities involved in merger and post-merger integration. (Arnold, 2002)

Mergers should be treated as the similar investments, which adds value to the business. It includes almost all such calculations of present and future cash flow like other investments. Net present values merging entities are to be calculated and analyzed properly. Further analysis of transition phase of these companies along with their possibility of new entity's success is presented below.

## **4.2 Analysis as per framework**

### **4.2.1 Finance & Capital Market Perspectives**

It is often assumed that any mergers aim should be able to generate more than what they used to generate when they are apart. So, its often assumed that  $2+2=5$ . For this, management team should be able to realize the synergy in order to create more effective, innovative and profitable entity.

Author studies the synergy realization of Synergy Finance Ltd. as per the framework set by Larsson and Finkelstein (1999). The model states that ‘‘integrate the combination, integration, employee and performance issues into a comprehensive model that views M&A performance as a function of combination potential, organizational integration and employee resistance.’’



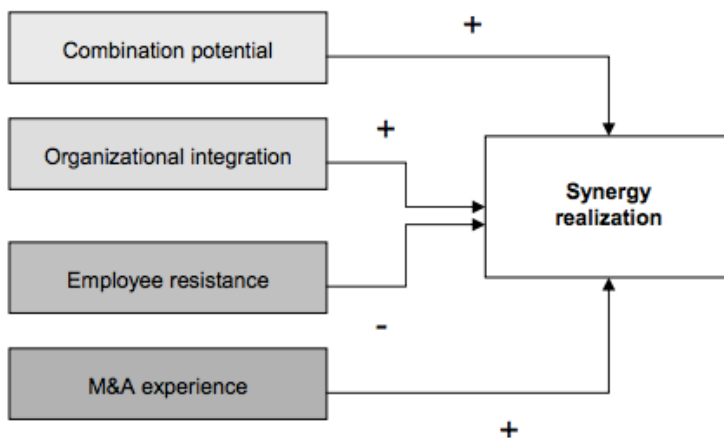


Figure 5 An integrated model for synergy realization (adapted from Larsson & Finkelstein, 1999/9)

### Combination Potential

Combination potential can be described as the degree of relatedness between the acquirer and target, or as the complementary aspects of their operations (Andersson, Karlsson 2006/6).

Butwal Finance was performing well before the mergers. It showed confidence for further operation of bigger companies in a better way. As of the concept of ‘Strategic similarities’ (Larsson and Finkelstein 1999/9), the economy of sameness was the major confidence that the Butwal Finance Ltd. management gained.

As there is no environment for increasing the capital by issuing rights shares and issuing bonus shares will not be enough to raise the capital to the required level, finance companies have no other option than going for merger,” said (Rajendra Man Shakya, SFL CEO & president of the Finance Companies’ Association of Nepal 2012)

(Thinking of linking: Mergers on the rise in Nepali banking sector 2012)

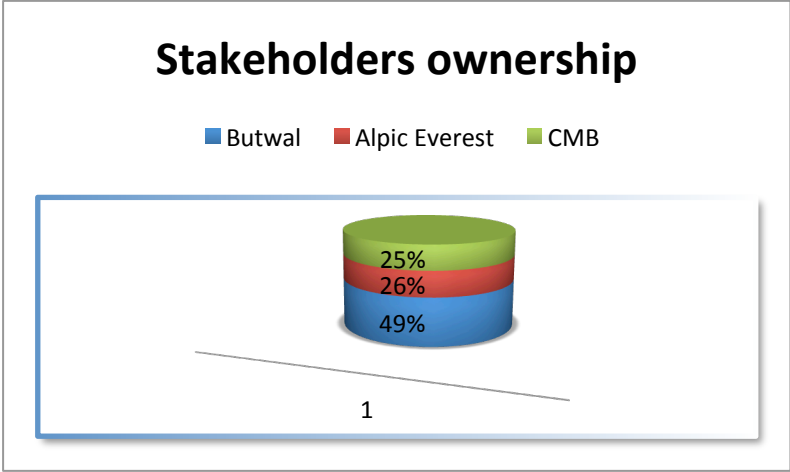


Figure 6 Stakeholders ownership (Information Source: SFL Financial Report 2069)

As per the agreement of three parties, promoter of Butwal Finance will control around 49% stake in the new unit; investors of CMB will own around 26 per cent shares and promoters of Alpic Everest Finance will control around 25 per cent stake in the merged company. ‘

Based on this arrangement, post mergers share unit values were:

Finance Companies	Unit shares (per 100 shares)
Butwal Finance Ltd.	120
Alpic Everest Ltd.	110
CMB Finance Ltd.	88

Above table illustrates that, shareholders holding every 100 units of shares in Butwal Finance will be entitled to 120 units of shares in the consolidated unit. Similarly, every shareholder controlling 100 shares of Alpic will get 110 units of shares in the new unit, while shareholders holding 100 units of share of CMB will receive 88 units of shares in the merged unit.

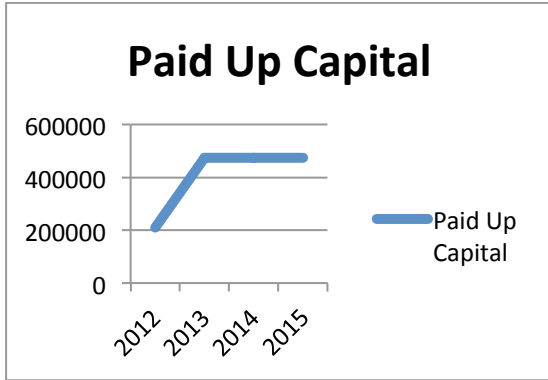


Figure 7 Paid Up Capital. (From SFL AGM Report 2012)

Paid up capital increased by 135% after mergers. It was the reason that, SFL was more confident with the bigger size of the business. Hence, the investment also increased in various sectors like hydropower and other projects.

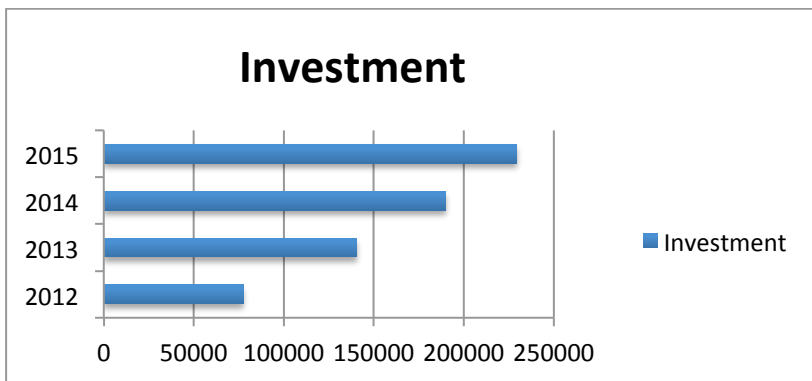


Figure 8 Investments. Source: Information from AGM Report 2069/2070, 2070/2071)

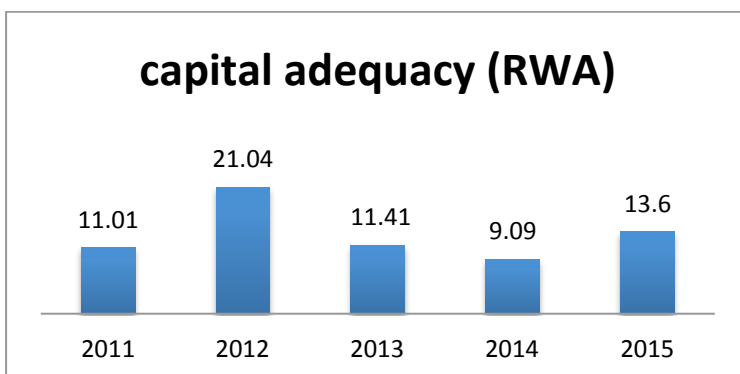


Figure 9 Capital Adequacy Ratios. Source: Information from AGM Report 2069/2070, 2070/2071)

As per the regulations implemented by NRB, Finance companies were forced to maintain their capital adequacy ratio of around 10%. Due to the economic recession at that time, it was not easy to issue share to get the required amount of capital. It was great deal for all of them to merge and make very good capital adequacy ratio of around 20%, which was quite higher than what they had before. These firms believed that this capital adequacy rate would give SFL strength to expand its credit portfolio, which is essential to generate profit. Moreover, SFL got more confidence and the amount of investment has grown dramatically since the mergers.

Furthermore, analysis of three finance companies suggested that company's consolidated unit would be financially strong as SFL's new non performing loans will stand less than 5% of the total credit portfolio.

#### **4.2.2 Strategic Management Perspectives**

With the blend of previous experience management team was pretty confident of providing good return to share holders. It knew that non-performing loans were the major obstacles for the finance companies. So, management team was determined to tackle higher number of bad debt cases as per the provisions of NRB.

As suggested by NRB, they decided to differentiate the nature of loans (as re-performing loan, moderately bad loans, bad loans) and treat them respectively. Management team was highly concentrated on maintaining the capital requirements and maintaining good amount of liquid ratio.

Shakya (2012) 'My main goal will be to strike a balance between borrowers' demand for cheaper loans and depositors' demand for higher rates. In this regard, we will be offering competitive borrowing and lending rates to lure as many clients.' (CEO's words, SFL Annual Report 2069/2070)

Management further aims at finding good projects to invest in. So, it decided to form separate R&D team for the possible beneficial projects.

### **4.2.3 Organizational Structure Perspectives**

#### **Management team**

Three parties agree upon forming the nine-member BOD, five of whom will come from promoters group, three from public shareholder and one from among professionals. They also agreed on nominating existing CEO of CMB Finance, Rajendra Man Shakya to continue as CEO of new entity- SFL. And Rajendra Prasad Manandhar nominated as financial director of the form. Management team after the mergers seemed to gain blend of experiences.

#### **HRM Role**

Employees working on both the companies are the most valuable property for them. Their skills and knowledge gained over years can help boost the base of these companies. A good human resource management always value these peoples' dignity and identity and create excitement at work during overturn of deeply seated principles and cultures. Each and every culture should be respected. If cultures can't be changed, then they should be learned and mutual cooperation in diversity should always be prioritized.

During mergers, managers might focus on cost cutting strategies, due to which the employees might fear about the loss of their jobs. This will cause demotivation among them, which does not give positive result in production.

Obvious cases of corruption, power politics have been seen for appointing CEO for newly formed company. This might be the case if these companies are government owned and controlled.

So, this sensitive business process should always be put aside from the shadow of bad politics.

Previously, tangible aspects like capital, raw materials, and equipment used to be major matter of concerns. But these days, other intangible aspects like culture, knowledge, goodwill, human resource and patent etc. have great role in companies' success and failure.

It's obvious that most of the mergers focus on the business and accounting practicalities while M&A. But, we might have seen many M&A having problems in addressing the terms like, Culture of Engagement, New Identity and Shared Vision. Since, the period of M&A process is accompanied with the roller coaster of thoughts and feelings among all the employees in both companies, there might be the case, when they feel like they are not the vital part of the companies. There might be lack of confidence, downgrade of work quality and so on. Due to the lack of proper vision of the managers during mergers, the prolonged mergers process might be the reason that many companies neglect their core business during transitions phase. This leads to the downfall of the business.

**Employees resistance**

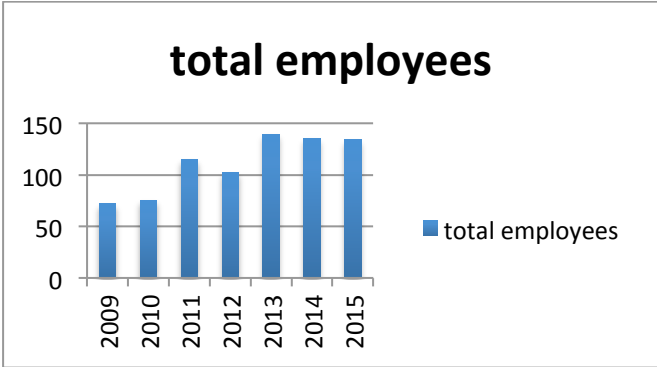


Figure 10 Employees Structures. (Source: SFL Annual Report 2069/70, 2070/71)

After mergers, total number of staffs increased from around 100 to 140. CMB and Alpic personnel were not so many. Even though their duties and areas of work were changed in some cases, almost all the employees were employed even after the mergers. Since, management committee did not focus on the cost cutting strategies by reducing employees, it was delighting factor for all the staffs and the new company. And also, even if few fears existed, they did not last long because the process of mergers completed within just 4 months.

During the process of mergers, most of the employees' psychological state is like 'we versus they'. They have to face the challenges like condescending attitudes, distrust, tension and hostility (Astrachan 1990). Worst-case rumors, various stress reactions and constricted communication is further drawbacks of lingered merger process. The longer the mergers process, higher is the amount of distrust and demotivation among staffs. Individual employee reactions can be classified as per the psychological and career perspectives. Mergers by nature affect career plans of employees by forcing layoffs, relocation and loss of individual influence (Greenwood 1994) The 1980s were characterized by a wave of mergers and acquisitions (M&As) that transformed industries and affected the careers of millions.

Moreover, cultural clashes among the employees are very vital during the integration process. The difference in established working schedules, dress codes, and communications with top managers is very difficult to establish again among the varieties of employees.

After SFL mergers, total number of staffs increased from around 100 to 140. CMB and Alpic personnel were not so many. Even though their duties and areas of work were changed in some cases, almost all the employees were employed even after the mergers. Since, management committee did not focus on the cost cutting strategies by reducing employees, it was delighting factor for all the staffs and the new company. And also, even if few fears existed, they did not last long because the process of mergers completed within just 4 months. (SFL AGM Report 2069/2070, 2070/2071)

### **4.3 SFL Mergers- Integration**

This is the most complicated stage of mergers activities. Many companies fail to generate realized synergy due to the ineffective integrations. Sensible integration requires broad based process oriented integrative model which includes integration of theoretical perspectives from economics, finance and especially strategy, organization theory and human resource management. In fact, Integration should be like (reduced cost per unit, increased income, etc.) by the interaction of two firms involved in a merger or acquisitions. (Rikard 1999) Extreme focus on strategic, economic and financial perspectives of the integration might shadow the or-

ganization and HRM issues that are major factors responsible for the success and failure of the M&As. (Chatterjee 1992, Datta 1991) These days, M&As seems concentrating only on the criteria of financial income and accounting measures. But in fact, higher synergy realization can be achieved if all of these perspectives are handled properly in proportionate.

Well, in SFL mergers, acquirer and the target companies were providing similar type of banking and financial services to public. This operation similarity provides the advantage of 'Economies of sameness' to the mergers. This fades out the complexities of integration of various production, marketing and service departments' complimentary.

#### **4.3.1 Merger Integration Timeline**

Annual General meeting was held on Shrawan 29, 2069 to present the study of the possible business gains. And the maximum number of shareholders approved the proposal. Application was sent to NRB after the AGM approval.

After the due diligence in between, NRB approved the application on 7<sup>th</sup> of Dec 2007. And finally, Butwal Finance Ltd. started its operation under new name 'Synergy Finance Ltd.' since 6<sup>th</sup> Dec 2007. (SFL AGM Report 2069/2070, 2070/2071)

Time line suggests that the mergers process took place in just 4 months. This is pretty good for employees and parties involved in mergers. Merger synergy realization depends on the combination's potential, the degree of integration achieved and employee resistance.

#### **4.3.2 Integration Practicalities**

Post mergers organizational integrations can play vital role in the success and the failure of the company. This refers to how the new organization is managed after the date of operation of new entity. For this, companies should be aware of the complexities that they might face. So, pre planning is required.



### **4.3.3 New Management Team**

Companies BODs' formation is most time consuming part of mergers. Even though, they agree for the take over, the merged company still wants their representatives in top level so that there won't be any imbalance in formation of new company. In most of the cases, CEO is chosen from the original company. But, still for this, experience and good skill matters. With the slight flexibility from the both companies, they can discuss about the skills and qualifications of their previous executives. And as per the recent requirement, the better one should be appointed regardless of hierarchy of their companies' position. Shareholders can also have great role in appointing their new CEO who can provide them good return in near future. During this kind of conflict, top-level management team may leave unexpectedly, leadership vacuum might occur during process. So, both companies core team should be able to realize possible outcomes from this and should work on it as back up. In SFL's case, all parties agreed upon forming BOD of nine members. They also agreed on nominating existing CEO of CMB Finance, Rajendra Man Shakya as CEO of new entity. Total mergers process went efficiently within just 4 months. It seemed like SFL didn't have much problems during the formation of new management committee.

### **4.3.4 Brands/Identity creation conflicts**

In some extent, one is superior to the other during mergers. In many cases, this does not seem to be a great issue. But, in some of mergers, the original company always tries to dominate the other one implementing its own way of system. Huge merger can fail if conflict begins from here. Well as a solution, I would recommend to create brand names which has won consumers' heart more in recent years. Since, it is one of the sensitive part of business success, both companies should be flexible in discussing this issue and creating the brand name that will benefit newly formed company, which is good for them both. New brand of SFL is totally unique than the companies involved in the mergers. It seems like they want to start the new entity as a totally different brand.

#### **4.3.5 Banking software synchronizations**

The most sensitive part of mergers is banking software synchronizations. Various data collected during years are to be handled with delicacy and operated collectively from both companies. Even a slight mistake in data collections from this software can create larger customer turnover and lack of confidence among newer customers. In context of SFL mergers, though all of them used ABBS banking software, their way of treating financial transactions were different. So, it was difficult for them to bring all the transactions into a standard accounting system and software.

#### **4.3.6 Legal issues**

Since, M&A can have direct or indirect impact on national economy, each and every country wants to abide this system by enacted acts.

Every M&A should have to meet process proposed by legal authority. From making of paper of Mutual Understanding to the approval of central banks of the country, BFIs should strictly follow the rules and regulations. Every government wants assure that these M&A should not be taken as the way to cheat tax. As per the provisions of NRB, all the managerial teams and their actions were under the close supervision of NRB. For this, NRB gave various guidelines for the smooth mergers operations. NRB wrote on the letter on July 2015 to SFL in order to organize the election of BOD soon after the first annual general meeting. Along with that, it suggested to decrease the non-performing loan rate to below 5%. Moreover, NRB clearly wrote on the letter to remove inefficient BOD members. This way, legal act and provisions were tightly controlling and supervising the each and every transactions of SFL.

Internal or the managerial problems within banks and financial institutions

During this transition period, employees might go through vast change in state of mind. Conflicts among staffs might create because of hostility, ego clashes or layoffs. Top-level management should be able to create excitement among employees and increase the confidence of each and people working in company. Well, equality in bonus shares, rewards can be a good way to create balance.

### 4.4 Challenges during mergers

In most cases, mergers have been taking place just to avoid the regulator’s action when the particular company’s financial health is deteriorating due to which the merger becomes forced and creates more problems,’’ pointed out Nepal Investment Forums’ President (Timilsinia 2013), adding that investors look forward to mergers between promising companies such as the on-going merger process between NIC Bank and Bank of Asia Nepal. (*Mergers not a cure to all financial ills* 2012)

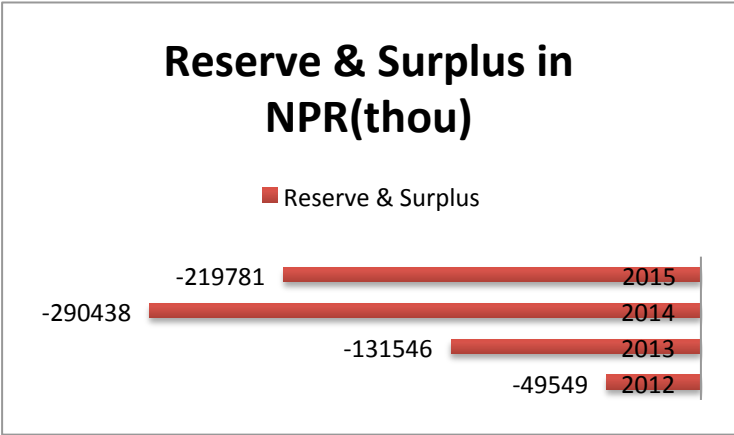


Figure 11 Reserves and Surplus. Source SFL Financial Reports (2069-2072)

During mergers in 2012, Alpic transferred its positive reserves of NPR 5,969,000. While, CMB finance transferred its huge negative reserve of around NPR 46,248,000. And Butwal Finance itself had negative reserve of NPR 49,549,000. This overall negative reserve was the huge reason; the company had shown loss of around NPR 225,951,000 in the first year of the operation.

Due to various challenges, many of the companies suffered from higher amount of losses so, their reserves are negative. It finally affects net worth and core capital situation – two indicators that display financial strength. Due to the problems like bad governance of management, most of the companies failed to register positive profit figures. So, CEO of Bank of Asia, Nepal (Kshetri 2012) says ‘Companies post negative reserve and surplus after suffering heavy losses. But if the losses were recorded due to problems, other than governance, these companies have chances of bouncing back’. Since generation of profit is key to maintaining a posi-

tive reserve and surplus, these companies can revive only if they boost their performance by recouping the bad debts, Kshetri said. (*Mergers not a cure to all financial ills 2012*)

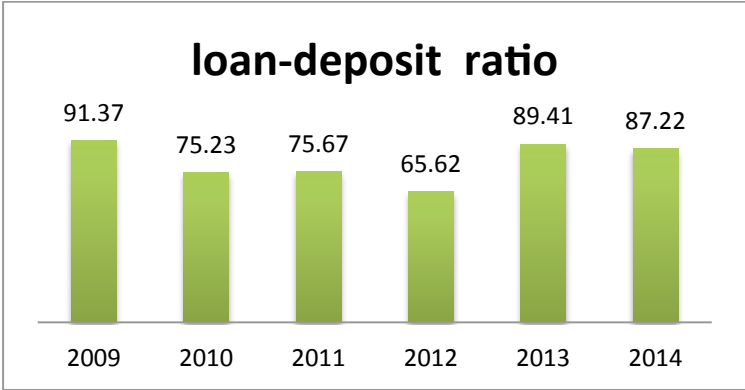


Figure 12 SFL Loan-deposit ratio. Source: (SFL Financial Reports 2069-2072)

During the year 2012, finance companies were struggling due to contraction in deposits and liquidity crunch. Moreover, finance Companies were charging higher interest rates in comparison to commercial banks. Commercial banks were enjoying the higher credit demand of public. “Last year, we had a terrible time due to contraction in deposits, but this time we are facing difficulty in finding projects to finance,” said SFL’s CEO Rajendra Man Shakya (2012). Furthermore, Normal BFIs’ functions like giving out loans and savings are also performed by commercial banks. So, small co-operatives and financing companies have more difficulties to survive.

Shakya (2012) states ‘One of the biggest challenges these days is retaining depositors as many have started moving base after losing confidence in them due to cases of financial imprudence and bad governance. ‘These financial institutions are charging more than 14% on loans in order to maintain 8% interest rates in deposits and to maintain higher cost of operations (Shakya 2012). (*Mergers not a cure to all financial ills 2012*)

# 5 SFL MERGERS-POST MERGER ANALYSIS

## 5.1 Creation of New Entity

Synergy Finance Ltd. is a ‘‘C’’ class Finance Company in Nepal, which started operation since June 2012. This new Finance Company was formed when Butwal Finance Ltd. acquired CMB Finance LTD. and Alpica Everest Finance Ltd. Before the mergers, Butwal Finance was providing services with quite a few branches in small Mid Western Region of Nepal. Its head office was in Butwal.

Various financial indicators were showing the good performance of the banks. So, management committee was confident of operating newer, bigger company. Furthermore, Liquidity ratio was not that good and the services were very much limited. Management committee felt the need of mergers to increase the capital adequacy, increase investments, and gain more customers and so on. With the agreements in the annual general meetings they agreed upon formation of new entity with the aim of giving security and welfare to the depositors, investors and valuable customers, providing quality banking and the financial services. New entity was established with the following capital structures.

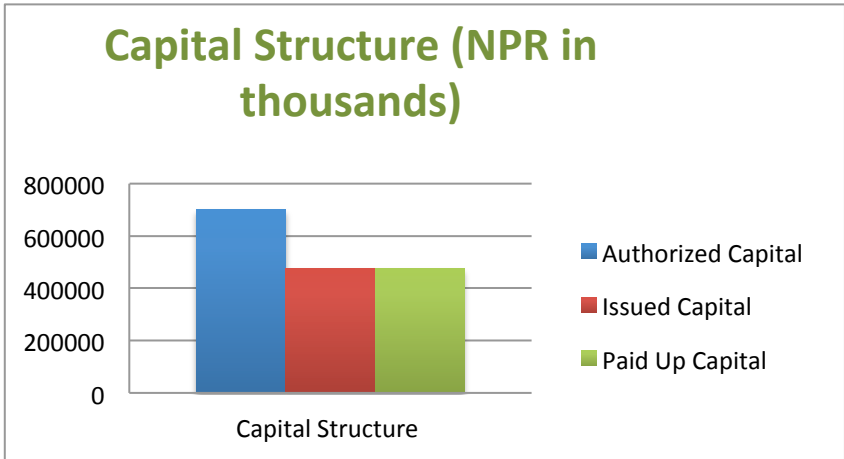


Figure 13 Capital Structures (Information from SFL AGM Report-2069/2070)

As per the Annual report of 2069/2070, ownership ratio after mergers was:  
Butwal Finance Ltd : Everest Finance Ltd : CMB Finance Ltd = 120:110:88

As per the total ownerships of the share, general people own 95.13%, and other institutions own 4.87% share of the new company. It indicates that this is totally Nepalese owned financial Institutions. (SFL AGM Report-2069/2070)

With the Corporate Office in Kamaladi, Kathmandu SFL has been operating its services with 12 branches offices in different parts of Nepal.

<b>Places</b>	<b>No. Of Branches</b>
Kathmandu	4
Kaski	2
Nawalparasi	2
Rupandehi	2
Baglung	1
Banke	1

*Figure 14 SFL Branches in Nepal (Source: SFL annual report 2069/2070)*

**5.1.1 SFL Services**

**Remittance**

Since, most of the Nepalese are employed in foreign countries, SFL has recently launched the remit counters. Remit partners include IME, Western Union Money Transfer, Prabhu, Himal Remit, Reliable Remit, City Express, Everest Remit, Sewa Express, Samsara Remit, Boom Remit, Kumari Remit, SDBL Remit, Prithvi Remit and Maya Remit.

**DIRECT BANKING**

SFL is committed to provide simple, convenient, secure and faster banking system. For this it has used Mega Banking Software. Furthermore, it has Any Branch Banking System (ABBS) for smooth operation. It has also planned for SMS banking and e banking in near future.

## Corporate Banking

As per the requirements of corporate entities, SFL provides funded and non-funded facilities. These facilities include overdraft, demand loan and project finance. SFL accounted the credit facilities exceeding NRP 30 millions.

(Synergy Finance Introduction n.d.)

### 5.2 Analysis as per framework

Since, SFL had gained the ‘economies of sameness’ (Larsson and Finkelstein 1999), It was assumed to gain the operational synergies. After the mergers, shareholders were confident that it would increase the administrative and functional strengths of company. It refers to the managerial synergies from applying complementary competencies or replacing incompetent managers (Lorsch and Allen 1973). Moreover, SFL gained more confidence in investing in varieties of projects. This was the reason that management team assumed that the merger can gain synergies from risk diversification and coinsurance (Lubatkin 1983). Furthermore, Operational synergies in service, marketing and administration achieved through economies of scale (Bain 1959), did not last longer.

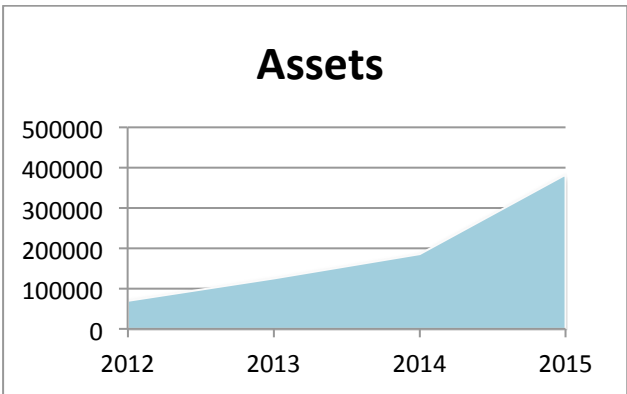


Figure 15 SFL Assets (Information from SFL Financial Report 2069-2072)

As per the expectations from the mergers, the size of the business, capital ratio and business network increased but the return was in negative numbers.

In order to cover the loss, the company had to sell its non-financial and non-banking assets.

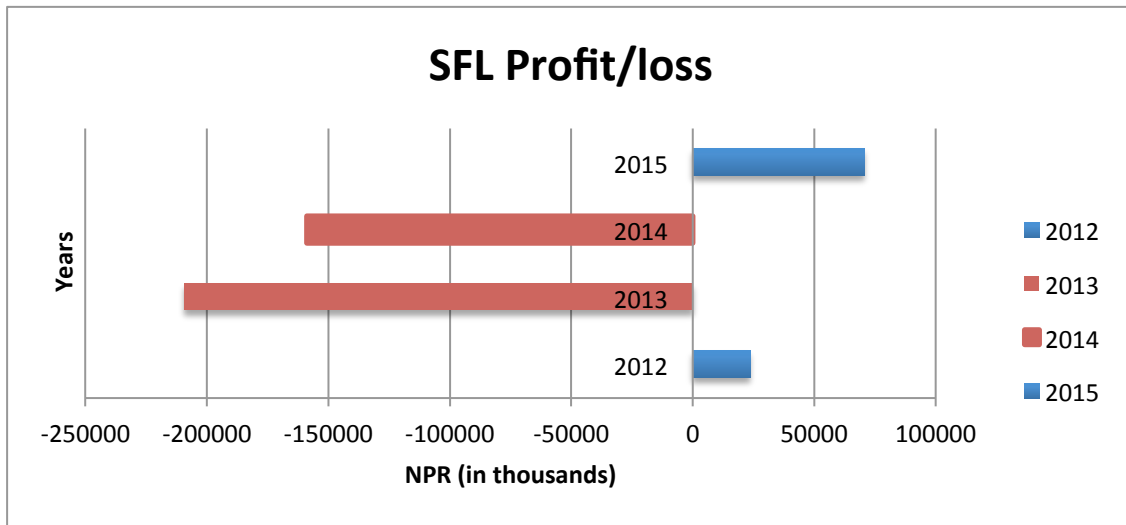


Figure 16 SFL Profit/Loss. From: Information from SFL Financial Report 2069-2072

Management Committee had been able to organize the first annual general meeting in 2014 after two years of mergers. This was because of denial of NRB. So, the 2 years annual reports have been submitted in the same meetings.

As per the report, Butwal Finance was in profit before mergers. But soon after the mergers, it faced huge loss of more than 210 millions. It faced consecutive loss for first two years. But, statistics shows that it has shown some hopeful profit this year. Even though the further challenges are foreseeable, it indicates that few improvements have been achieved in recent year.

A merger does not translate to miraculous profits immediately. It takes time for the merged entity to become profitable, as they have to deal with additional issues such as effectively managing human resources along with its operations”, said SFL CEO Rajendra Man Shakya. (Shakya 2012) further adds ‘we have observed that merged companies need to be given time to recover and become profitable.’ (*Mergers not a cure to all financial ills* 2012)

From the very first month of the operation of SFL, its strategic failure seemed triggering their capability to provide higher returns to the shareholders.



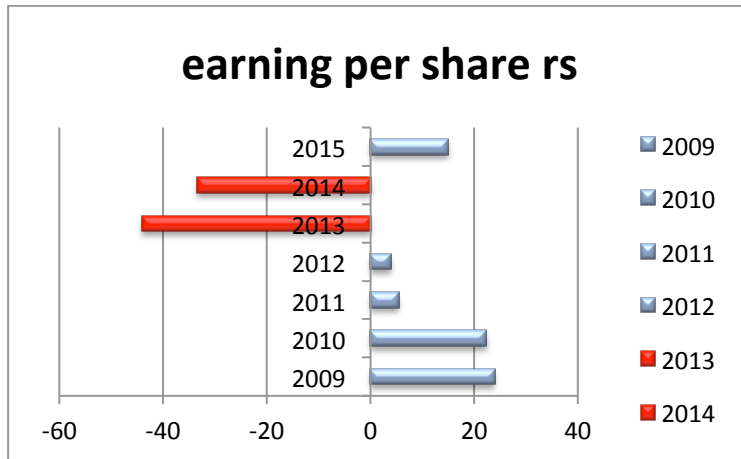


Figure 17 Earning Per Share. Source: Information from Financial Report 2066-2072

### 5.3 Post Merger Problems

#### 5.3.1 Fractured Capital Strength

After the mergers, capital adequacy ratio was more than 20%. Company gained confidence in creating credit portfolio. But within the same fiscal year, it reached to 11.41%. The capital strength is further declining below 10%. SFL has got prompt warning from NRB for its corrective measures.

#### 5.3.2 Low performing loans

During the mergers, as their business size grew, non performing loan was around 2%. Within a matter of a year, bad loans increased so rapidly that it reached to 15.62% in 2013. And the trend is still rising so rapidly. Though SFL has set the target to reduce the non-performing loans to less than 5%, debtors are not repaying loans on time. These NPL cases are treated legally under the provisions of NRB.

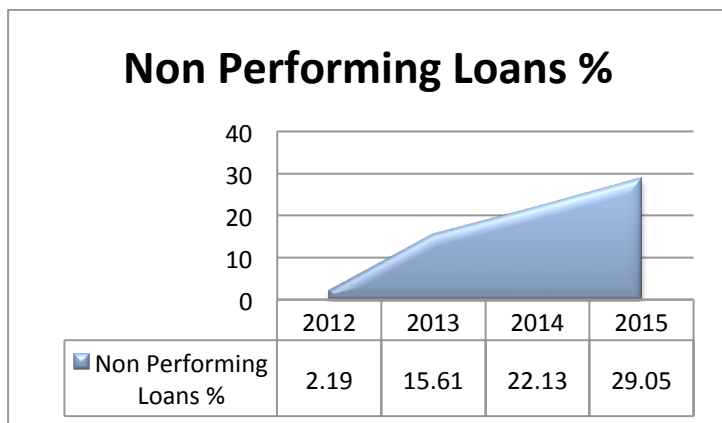


Figure 18 Non Performing Loans. (SFL Financial reports 2069-2072)

As per the provision of NRB, SFL has differentiated the non performing loans as per their performance. They are: Reperforming loan, moderately performing loans and bad loans. In 2013, bad loans accounted 18% of non performing loans. While, in 2014, bad loans accounted around 60% of non performing loans.

### 5.3.3 Global financial crisis

Due to the distrust of the public towards the financial institutions, the deposit rates were pretty low in finance companies. People were not confident with the financial institutions. So, they started taking their money out of the BFIs. And BFIs ran out of the assets in form of cash. Global financial crisis also triggered the major projects that SFL had invested in. Its major investments were in hydropower electricity and other bigger companies. Due to the crisis, they were not able to generate higher returns to investors like SFL.

### 5.3.4 Investment in unproductive sectors

SFL has recently invested in various sectors like Asian Life Insurance, Nepal Clearing House LTD, Chilime Hydro Power Co. LTD., National Hydro Power Company LTD and NLIC and so on (SFL Financial reports 2069-2072). Further more, it has bought various governmental debts and various bigger companies' shares and debentures.

Inconsistent political situation has created situation that SFL is not getting the returns from the investment in various projects. Due to these, these investments are not providing good returns. Various problems like Electricity cut offs; protests and strikes are major problems for financial sectors. Along with them, Nepal Rashtra Bank's new strict provisions, new constitution of Nepal, 2015 play major role in upcoming situation of financial sectors. Following two major earthquakes this year, it has been pretty difficult for SFL to convert non-performing loans into performing loans. This indicates that the non-performing loan percentage seems to rise in next year's annual report.

### **5.3.5 Liquidity ratio**

SFL financial statistics shows that it has provided comparatively higher amount of loan than what people are depositing in it. Furthermore, finance companies are facing difficulties in getting their loan back from public. So, the liquidity ratio is quite low. SFL has to rely highly upon the interest income, which is not good at the moment. Moreover, less liquidity ratio means SFL doesn't have readily available amount of money to invest in other sectors.

(Manandhar 2012) says that due to the finance companies' lower amount of interest on deposits, public move away from them. But in order to maintain the operating costs, they have to consider 8% interest rates on deposit.

### **5.3.6 Difficult policies**

Due to the higher inflation in the country, financial governing body NRB has to make various amendments in their rules and regulations. As per those, it might change the interest rates as required. Since, SFL major incomes are base on the interest, they may get few returns when the interest rates are lower. On one hand their interest income is based on the money they have kept in other commercial banks and the interest on the loan provided.

### **5.3.7 Accounting Reports errors**

As reported by NRB, there were few financial errors. Due to this company was unable to see the actual position of the company. This obviously was a greatest concern of the company and financial sector governing body NRB. NRB directed the management teams to appoint eligible employee. So, SFL has nominated CA Ghanshyam Poudyal as the chief Chartered Accountant for assessing all the financial calculations.

### **5.3.8 Unhealthy Competitions**

Even though the NRB has the provisions of encouraging the banks and financial institutions to open their services even in the rural areas, this has not been so effective. Most of these BFIs are in city areas. Since, bigger commercial banks have good reputation in public, finance companies having good services have to lag behind.

### **5.3.9 Bad Governance**

Arnold (2002) states that ‘inefficient management may be able to survive in the short run but eventually the owners will attempt to remove them by, say, dismissing the senior directors and management team through a boardroom coup.’ From the supervision of NRB, it was proved that some members of the management were not up to mark. So, it directed to change the bad management team members by 2015. Those ineligible members included Ram Shanta Shrestha, Rajendra Prasad Dhoju, Indra Lal Shrestha, Nirmala Suwal, Chiranjeevi Ghimire and Dhurba Khatri.

Moreover, frauds from the management team member also were great unfortunate responsible factor for the company’s failure. Former chief of Butwal Finance Ltd. was sent to prison because he was alleged of banking offence associated with the Butwal Finance before it merged. According to the article published on national daily Republica (2014) he influenced his staff members to issue loans to his kith and kin when he was the chairman of Butwal Finance. This is eventually inflicted loss of around NPR 324 million on the finance company (*Former chief of Butwal Finance in police net 2014*). It’s very crucial to check such frauds in order to avoid huge loss during mergers. This type of large-scale fraud committed is not easy

to recover. And it's very much prevailed these days in Nepalese financial companies especially during mergers.

### **5.3.10 Ineffective HRM**

Management committee did not go for the cost cutting strategies. Higher number of staffs secured their careers. Even though these motivated employees are positive factor for SFL, it doesn't seem providing required amount of trainings like before.

Even though the staffs are higher in number, they need more training to make the services more effective.

As per the reports, the employment expenses obviously have increased from NPR 21,694,000 to NPR 44,251,000 after the mergers. These employment expenses include wages and salaries and other mandatory employee expenses. But the trainings and research expenses have been reduced so much.

## **6 DISCUSSION AND CONCLUSION**

Under the frameworks of the perspectives set by Harspeslagh and Jamison 1991, Jarillo 2003) and Synergy Realization model set by (Larsson & Finkelstein 1999/9), author analyses the previous situations of all the companies of mergers. Their situations as per finance and capital market perspective, strategic management perspective and Organization behavior perspective. From the analysis, SFL mergers seem to be mergers of 3 relatively unhealthy companies. CMB finance was in loss during the period of mergers. Alpic Everest and Butwal Finance were moderately good. First year of the SFL went terrible when the company was not able to focus on their strategy to overcome the higher amount of non-performing loans. Along with the higher amount of negative reserves transferred from CMB finance was huge disadvantage for the mergers. Even though, capital adequacy rate was pretty good at 22% during the mergers, it seems declining below 9% these days. Due to this SFL has got some warnings from NRB for its corrective measures. In this situation, company is planning to merge another company, which is quite unethical. Because, the company seemed to adapt the mergers strate-

gy just to improve the capital adequacy rather than focus on the strategic implementation of their goals. Furthermore, during the mergers, bad motives of BOD members created major loss for the company. Furthermore, Nepalese unstable politics also created weak base for almost all the BFIs. Author finds that even though the failures rate of mergers are higher in the recent years, major BFIs are encouraged to go for mergers to be strong from financial point of view. And hereby concluded with the study that the merger is not always the cure for the financial inefficiency of BFIs. While writing thesis, author felt the need of research on what strategies should be adopted by finance companies in order to avoid the loss created by non-performing loans.

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