ARTICLE

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From Chairman’s Desk

Quality research is produced by quality evidence. The research should be based on clear chains of inferential reasoning supported and justified by a complete coverage of the relevant literature and exploratory findings. The research design, methods and procedures needs to be sufficiently transparent and researcher should ensure that an independent, balanced and objective approach is adopted. Researcher should provide sufficient description of the sample, the intervention, and comparison group. He should use appropriate and reliable conceptualization and measurement of variables, examine alternative explanations for any findings and assess the possible impact of systematic bias.

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Dr. P. V. Ramana,
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Prof. V. V. Sople, Ph.D.
Chief Editor
Emirates Bank International (EBI) merger with National Bank of Dubai (NBD)- A Valuation Perspective

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Abstract
This study analyses the Emirates Bank International merger with National Bank of Dubai -the largest banking merger in the Middle East. The study examines the effect of the merger on the wealth of the shareholders of both the banks and on post merger corporate performance.

On the assumptions of market efficiency, the study finds that the merger announcement was a value enhancing activity for the shareholders of both National Bank of Dubai and Emirates Bank. The study documents share price return of 0.47 per cent and 4.73 per cent respectively for NBD on the day of announcement and the following day. The cumulative abnormal return (CAR) analysis reveals positive returns for both the banks during the different shorter time window period.

The operating performance model based on cash flow return on assets suggests that corporate performance have improved after merger.

Keywords: Mergers, Valuation, Banking

JEL Classification: G34

1. INTRODUCTION
For a firm characterized by an objective of stockholder wealth maximization the appropriate test of a Merger’s success is the Merger’s effect on stock prices. In an efficient capital market, investor’s expectations of the merger’s future benefit should be fully reflected in stock prices by the merger date. Formally if the capital markets are semi strong efficient, then the value of future benefits should be fully reflected by the first public announcement of the merger and should certainly be fully reflected by somewhat later merger date. The increase in the equity value of the acquiring firm in the wake of a successful merger is a compelling evidence for the synergy theory of mergers. Basically two types of synergy can be distinguished. The cost based synergy focuses on reducing incurred costs by combining similar assets in the merged businesses. Revenue based synergy focuses on enhancing capabilities and revenues, combining complementary competencies. Revenue based synergy can be exploited if merging businesses develop new competencies that allow them to command a price premium through higher innovation capabilities (product innovation, time to market etc) or to boost sales volume through increased market coverage (geographic and product line extension).

2. OBJECTIVE OF THE STUDY
In the theoretical context, where mergers has to lead to synergistic benefits such as complementary resources, greater market share and increased capacities, this study analyses whether the EBI-NBD merger- the largest ever banking merger in UAE has borne fruitful results with respect to economic value addition and enhancement of shareholder wealth. The analysis was done with respect to both share price and operating performance.

3. HIGHLIGHTS OF THE MERGER
Emirates NBD is the biggest banking group in the Middle East in terms of assets. The Group has a leading retail banking franchise in the UAE with 536 ATMs and 114 SDMs across both conventional and Islamic banking franchises. It is a major player in the UAE corporate banking arena with a combined market share of almost a fifth of corporate loans. It has also strong Islamic banking, investment banking, private banking, asset management and brokerage operations.

On March 6 2007, the merger between Emirates Bank and National Bank of Dubai to form “Emirates NBD” was announced. Emirates were the second largest and National Bank of Dubai was the fourth largest bank in UAE. This merger was in tune with the high levels of growth achieved by the banking industry over the past few years on the back of the booming UAE and regional economies. During the past three years, the UAE GDP grew at an average rate of 20 per cent. In 2007 the total assets of UAE banks grew by 45 per cent to US $ 337 billion. The value of deposits grew by 35 per cent to US $ 204 billion.

The merger resulted in the union of two powerful legacies which was aimed to become a leading regional financial institution with an increasing international presence. The merger was aimed to leverage financial strength, scale and market positioning to capture domestic and regional opportunities. The merger facilitated the partnership for wholesale, retail, investment, treasury and Islamic banking clients. The total income of the two banks reached AED 7.1 billion, an increase of 50 per cent year on year. The group became a major player in the corporate banking arena with a joint market share of almost a fifth of corporate loans. This strategic merger was meant to create a bank with scale, financial strength and service quality standards to compete effectively in a dynamic market.

4. SIGNIFICANCE OF THE MERGER
4.1 Increased Power
The merger created a national champion and a regional powerhouse.
4.2 Increased Financial Strength and Scale

- Largest bank by assets in the GCC
- Top 5 regional bank by market capitalization
- Well capitalized with the highest shareholders’ equity in the UAE on a combined basis.
- Expanded regional presence
- Strategically positioned to capture high growth potential of domestic and regional markets

4.3 Superior Value creation potential

Expected significant cost and revenue synergies driving value creation

4.4 Significant Events

<table>
<thead>
<tr>
<th>Date</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>06 March 2007</td>
<td>The merger between Emirates Bank and National Bank of Dubai was announced</td>
</tr>
<tr>
<td>14 March 2007</td>
<td>A Merger steering committee was appointed</td>
</tr>
<tr>
<td>09 April 2007</td>
<td>Goldman Sachs International appointed as lead financial advisors on the merger</td>
</tr>
<tr>
<td>12 July 2007</td>
<td>Emirates Bank and National Bank of Dubai announced terms of their merger</td>
</tr>
<tr>
<td>05 Sept 2007</td>
<td>Emirates Bank Shareholders approved the merger's terms at an Extraordinary General meeting</td>
</tr>
<tr>
<td>06 Sept 2007</td>
<td>National Bank of Dubai shareholders approved the merger’s terms at an Extraordinary General Meeting</td>
</tr>
<tr>
<td>18 September 2007</td>
<td>Emirates NBD closed its initial offer to shareholders of National Bank of Dubai and Emirates Bank</td>
</tr>
<tr>
<td>08 October 2007</td>
<td>Emirates Bank and National Bank of Dubai's shares were suspended from trading on the Dubai Financial market</td>
</tr>
<tr>
<td>16 October 2007</td>
<td>Trading began on shares in Emirates NBD PJSC, the newly merged banking group listed on the Dubai Financial market.</td>
</tr>
<tr>
<td>18 October 2007</td>
<td>Emirates NBD announced the integration of its ATM Network making it the largest in the UAE.</td>
</tr>
<tr>
<td>04 Nov 2007</td>
<td>The National Bank of Dubai’s building became the new headquarters for Emirates NBD.</td>
</tr>
</tbody>
</table>

Emirates NBD's strategy is focused on seven key areas.

- **Wealth Management**
  Wealth management services have been growing strongly in the UAE on account of sustainable economic growth. Emirates Private banking offers immense potential for growth. The consolidated bank would be in a position to leverage the bank’s investment banking, asset management, structured product, real estate, trust and family office product capabilities in order to further enhance the wealth management business.

- **Corporate banking**
  The merger was also aimed to boost the combined bank’s leading position in the corporate banking arena. The rapid growth of small and medium sized enterprises in the region was meant by Emirates NBD’s sophisticated and tailored product offerings. This forms a core strategy for the bank to further increase the growing corporate and institutional client base.

- **Investment Banking**
  Dubai’s emergence as a financial centre has facilitated Emirates NBD’s attempt to create a world class investment banking platform. The merger also intended to enhance the product capabilities that ranged from corporate finance advisory and execution to private equity offering.

- **Islamic Banking**
  Emirates NBD also envisages enhancing and expanding Islamic banking. The strategic perspective involved expanding the current branch network and increasing innovation in the Shariah compliant product portfolios. Expansion was also possible from cross selling to the Bank’s broader customer base.

- **Strategic Expansion**
  The merger aimed to strength the bank’s presence in the GCC particularly in the Kingdom of Saudi Arabia and Qatar. The merged bank could leverage the scale, financial strength and existing regional network to pursue this strategic objective.

- **IT and operations**
  The synergistic benefits would also result from the integration of the two banks Information systems and operations which could result in value addition through reduction in costs.

4.5 Financial Highlights

The significance of the merger of Emirates Bank International (EBI) and National Bank of Dubai (NBD) was reflected in the strong pro forma results of Emirates NBD. Total income reached AED 7.1 billion on a proforma basis. The primary drivers for the increase in total income were robust growth in customer assets supported by a rise in customer deposits across both the retail and wholesale businesses. The group continued to maintain a healthy mix of funded and non funded income. The growth in income was supported by a steady increase in fee based product revenue.

The operating costs for Emirates NBD was AED 2.7 billion on a pro forma basis, an increase of 51 per cent over 2006. The increase in costs was driven by continued investments in expanding distribution and product capabilities building robust infrastructure and developing strong governance capabilities.

Net profits of the Group were AED 4 billion (excluding amortization of intangibles) for 2007 on a pro forma basis,
an increase of 35 per over 2006. Emirates NBD reported a 25.12% return on average shareholder equity, a 1.6% increase over 2006. Total assets recorded at the end of 2007 were AED 253.8 billion an increase of 53% for EBI and NBD’s combined assets in 2006. This positioned Emirates NBD with a 20.5 per cent market share of banking assets in the UAE and as the largest bank in the Middle East.

4.6 Business Highlights
Emirates NBD’s wholesale banking’s net income (excluding IPO business) grew by 38 per cent and its assets by 42 per cent in the year 2007. The Structured Finance and Syndication Division (SFS) remained at the forefront of the UAE’s loan syndication market in 2007. The division gained a significant share in the local debt syndication market in value and number of deals acting as mandated lead arrangers and book runners in a number of high profile transactions. The division also managed multiple benchmark transactions for the UAE’s largest and highest profile issuers in the year 2007. The Financial Institutions Division (FDI) became an important contributor to the wholesale banking sector in the year 2007. In 2007, the division managed an array of products and services ranging from debt syndications, forfeiting trade and payment tie ups, structured credit, primary and secondary trade financing and asset distribution from its revenue contribution.

4.7 Consumer Banking and Wealth Management
As a result of the merger, the Group’s distribution network became the largest in the UAE. Emirates NBD ended the year with a total of 88 retail branches following the opening of 13 new outlets. The number of ATMs increased to 440. The expansion of the Al Shaheen and Suhail branch network to 27 in 2007 positioned the Bank with the largest network of affluent banking centres in the country. Growth in customer deposits and loans was strong in 2007 outperforming the market growth. With the advent of cross selling across the integrated group, improved delivery across all channels and a partnership with the UK’s John Charcoal Brokers facilitated NBD to become the UAE’s leading non Islamic home loans provider in 2007. These additional advantages increased the importance of the mortgage business for the bank.

In April 2007, ahead of the Emirates Bank and NBD merger, the asset management business of EBI merged with the asset management business of Emirates Financial Services to form Emirates Investment Services (EIS).

4.8 Private Banking
As part of its expansion strategy, Emirates NBD acquired two new locations in 2007. The Private Banking division worked with its London Office in the introduction of the Hammersmith project to its client base. The Investment Management Group added a mix of mutual funds to its platform in 2007 covering emerging markets, multi manager, global real estate and commodities.

4.9 Investment Banking
NBD Investment Bank provides integrated investment banking, financial markets and private equity solutions and serves the needs of corporations, governments, institutional and high net worth clients across the GCC and wider MENATSA region. A number of transactions were successfully managed by the investment bank on behalf of prestigious clients such as Nakheel, Dubai Aerospace, Istithmar, Dubai World Trade Centre and GEMS (loan syndication and bridge finance).

4.10 Group Treasury and Markets
In 2007, the group treasury activities included USD 1.5 billion 5 year syndicated deposit facility; USD 1 billion Sukuk – Trust Certificate Issuance program arranged for Emirates Islamic bank. The Group’s new credit structuring and trading areas became fully operational in 2007. The Foreign Exchange and Interest rate trading volumes increased positioning the newly merged group as a leading market maker in GCC currencies.

As a result of the merger, the Group’s direct International footprint extended to six countries outside of UAE namely the kingdom of Saudi Arabia, Qatar, United Kingdom, India, Iran and Singapore. The international banking team participated in four merger and acquisition transactions successfully acquiring a card services company in Egypt, a strategic move for the Group’s North Africa development plans.

4.11 Information Technology and Operations
A number of major system initiatives were implemented in the year 2007 including core banking system replacement, the adaptation of an ERP system for e HR and Enterprise Financial Management and the implementation of a state of the art treasury system which enables integrated processing of the front, middle and back offices. A new consumer finance system that processes the complete life cycle of loans was implemented in the year 2007.

According to bank officials, merger synergies achieved in the year 2008 exceeded the initial expectations in the year 2008 with total synergies achieved during 2008 of AED 235 million exceeding the targeted synergies of AED 124 million by 90%. The integration of the combined banks Group ATM’s and Smart Deposit Machines (SDM) were completed by 2008 which rose to more than 650 across UAE making it the biggest network in the country. Mobile and online banking has also been fully integrated with enhanced functionalities and 13 payment partners available to all of the bank’s customers.

4.12 The Key terms of the merger
The creation of Emirates NBD was by the merger of common ownership of EBI and NBD. The salient features of the consideration were 1) Exchange ratio of 0.95 Emirates NBD shares for every NBD share. 2) Exchange ratio of 1 Emirates NBD for every EBI share.

As on July 01 2007, the implied share price for NBD was AED 8.84. The implied share price for EBI was AED 9.30. The implied total consideration was AED 13.75 billion. The offer price represented 14 per cent premium to the prices on the day prior to announcement.

4.13 Key Merger benefits
Shareholders
- Creation of the leading UAE banking Franchise
- Enhanced regional and international expansion opportunities
- Increased financial strength and capital position to support growth
• Value creation through revenue and cost synergies established management expertise and exchange of best practices

Customers
• Greater Convenience through broader domestic branch and ATM Networks
• Wider access to regional and international markets through the Group’s expanded presence
• Broader product suite and delivery of more customized financial solutions

Employees
• Enhanced career opportunities through a growing and more diversified organization
• Improved training and career development capacity
• Greater ability to attract and retain top talent

4.14 Synergies expected from the Merger

Revenue synergies
In the corporate banking, the cross selling of new product capabilities is expected to result in revenue synergy through increase in fee income. In the retail banking sector, the focus will be on incremental revenue generated through market share/pricing advantages and the leveraging of the largest distribution network in the UAE. In the Investment banking sector, expansion of client base and cross selling of new product capabilities is expected to lead to revenue synergies. Revenue synergies also result from improved cost of funding due to a stronger capital base and improved sales due to integrated broader offering.

Cost Synergies
Cost synergies is expected to result from retail banking due to a) Branch and ATM network consolidation b) Integration of card acquiring business c) Pricing advantages on advertising/marketing spend. The cost synergy was also expected from Optimized head office and group functions. Cost synergies would also result from reallocation of IT personnel from NBD to EBI IT dedicated centre. Cost synergies were also expected from brokerage due to improved efficiency from integrated operations and IT platform. Cost synergies are also expected from leveraging Emirates Islamic bank as a platform for unified Islamic offerings.

5. REVIEW OF LITERATURE:
Two main research approaches explain Mergers and Acquisition profitability. The event studies examine the abnormal returns to shareholders in the period surrounding the announcement of a merger or acquisition. The accounting studies examine the reported financial results of acquirers before and after the acquisitions to see how the financial performance changes.

It is a well-established fact that target shareholders gain when a merger, acquisition or tender offer is announced. Research in the area of mergers has more than kept pace with the increasing number of mergers in the economy.

5.1 Stock Market Studies
Most of the broad based risk adjusted studies on mergers like those of Mandelker (1974) and Langeteig (1978) have shown that the stockholders of acquiring firms either gain a small, statistically insignificant amount or as in the study by Dodd (1980) lose a small significant amount from the announcement of a merger bid.

The study by Asquith et al (1983) examines the effect of mergers on the wealth of bidding firms shareholders. Bidding firms gain significantly during the twenty-one days leading to the announcement of each of their first four merger bids. The results fail to support the capitalization hypothesis that bidder’s gains are captured at the beginning of merger programs. The study by Langeteig (1978) employs four alternative two-factor market industry models in combination with a matched non-merging control group to measure stockholder gains from mergers. Moeller et al (2004) examined the announcement returns using a sample of 12,023 acquisitions by public firms during the period 1980-2001. The results of this study show that the equally weighted abnormal announcement returns is 1.1 per cent but acquiring firm shareholders lose $25.2 million on average upon announcement. Moeller et al find that acquisition announcements in the 1990s are profitable in the aggregate for acquiring firm shareholders until 1997, but the losses of acquiring firm shareholders from 1998 through 2001 wiped out all gains made earlier thereby making acquisitions announcements in the latest merger wave costly for acquiring firm shareholders.

### Abnormal Returns associated with Mergers and Acquisitions Period-1990-2005

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample Period</th>
<th>Event Period</th>
<th>Bidding Firm (%)</th>
<th>Target Firm (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franks et al (1991)</td>
<td>1975-1984</td>
<td>Five days before the first announcement of a bid and ending five days after the last bid.</td>
<td>-1.02</td>
<td>28.04</td>
</tr>
<tr>
<td>Cornett (1992)</td>
<td>1982-1987</td>
<td>From one day before through the day of announcement</td>
<td>-0.8</td>
<td>8</td>
</tr>
<tr>
<td>Anup et al (1992)</td>
<td>1955-87</td>
<td>One month to sixty months after merger completion</td>
<td>-10.26</td>
<td></td>
</tr>
<tr>
<td>Singal (1996)</td>
<td>1985-88</td>
<td>From one day before through the day of announcement</td>
<td>1.843</td>
<td>18.42</td>
</tr>
<tr>
<td>Y Amihud et al (2002)</td>
<td>1985-1998</td>
<td>From 10 days before through 1 day after merger announcement</td>
<td>-1.0</td>
<td></td>
</tr>
<tr>
<td>Fueller et al (2002)</td>
<td>1990-2000</td>
<td>Two days before through two days after the announcement date.</td>
<td>1.77</td>
<td></td>
</tr>
<tr>
<td>Sara et al (2005)</td>
<td>1998-2001</td>
<td>Acquisitions in 2 year windows immediately before and immediately after the first large loss deal a firm made</td>
<td>-0.65</td>
<td></td>
</tr>
</tbody>
</table>
5.2 Operating Performance Studies
Krishna Palepu (1985) finds that there is no significant cross-sectional difference between the 1) profitability of firms with predominantly related and unrelated diversification and 2) Profitability of firms with high and low total diversification. Moreover, the study finds that the superior profitability growth of related diversifiers is significantly greater than that of unrelated diversifiers. Herman and Lowenstein (1988) examined the post merger performance of a sample of hostile acquisitions between 1975 and 1983. The study by Paul M Healy and Krishna G Palepu (1992) examines the post merger cash flow performance of acquiring and target firms and explores the sources of merger induced changes in cash flow performance based on 50 largest US mergers between 1979 and mid 1984. The study finds that merged firms show significant improvements in asset productivity relative to their industries, leading to higher operating cash flow returns. These improvements were particularly strong for transactions involving firms in overlapping business. The study further suggests that post merger cash flow improvements do not come at the expense of long term performance since sample firms maintain their capital expenditure and R&D rates relative to their industries after the merger. The study also found strong positive relation between post merger increases in operating cash flows and abnormal stock returns at merger announcements indicating that expectations of economic improvements explain a significant portion of the equity revaluation of the merging firms. Cornett and Tehranian (1992) examine the post acquisition performance of large bank merger between 1982 and 1987. The results of their study indicate better performance for merged banks due to the improvements in ability to attract loans and deposits, in employee productivity and in profitable asset growth. Further, the study finds a significant correlation between announcements period abnormal return and the various performance measures indicating that the market participants are able to identify in advance the improved performance associated with bank acquisitions. Switzer (1996) examined the change in operating performance of merged firms using a sample of 324 combinations, which occurred between 1967 and 1987. The results of the study indicate that the performance of the merged following their combinations and also the results are not sensitive to factors such as offer size, industry relatedness between the bidder’s and target’s businesses or bidder’s leverage. The study also found positive association between the abnormal revaluation of the firms involved around the merger and changes in operating performance observed. The study by Healy et al (1997) finds that strategic takeovers which are generally friendly transactions involving stock and firms in overlapping business are more profitable than financial deals which are usually hostile transactions involving cash and firms in unrelated business. The results of this study also showed that the acquiring companies did not generate any additional cash flows beyond those needed to recover the premium paid. Alok Ghosh (2001) compares the post and pre acquisition performance of merging firms relative to matched firms to determine whether operating cash flow performance improves following acquisition. The result finds no evidence of improvement of operating performance following acquisitions.

6. METHODOLOGY

6.1 Stock Price Analysis
The studies of abnormal returns provide a basis for examining the issue of whether or not value is enhanced by mergers. The study analyses the share price performance using Market adjusted method.

The market’s reaction to a merger bid is measured using daily stock return data to compute excess stockholder returns. These excess returns are a measure of the stockholder’s return from the new information, which becomes available to market. The daily excess return for the security is estimated by

\[ XRt = Rt - E( Rt) \]

Where \( t \) = day relative to an event.

\[ XRt = \text{Excess return on the security for day } t. \]

\[ R_t = \text{Actual Return on the security for day } t. \]

\[ E( R_t) = \text{Expected rate of return on the security for day } t. \]

The excess return for a time window period is cumulated to get the Cumulative Abnormal Return (CAR).

The choice of the benchmark is probably the most important factor in making accurate measurement of a merger’s impact.

The expected rate of return on the security is found out using the Market Return Adjusted Method.

The predicted return for a firm for a day in the event period is just the return on the market index. The market index used in the study is DFM index.

\[ R_t = R_{mt}. \]

Where \( R_t \) is the expected return., \( R_{mt} \) is the market index return. The merger date used was the announcement date. The day of announcement of the merger is titled \( t=0 \), the days before as -1, -2 etc and the post merger days as +1, +2 etc.

6.2 Operating Performance Analysis

Model for Analysis of operating performance:
Total Operating cash flow return on assets is defined as profit before depreciation, interest and taxes divided by the book value of assets.

\[ \text{Cash flow return on Assets (CFA)} = (\text{Total Operating cash flow } / \text{Book Value of assets}) \]

Share Price Analysis and Interpretation

<table>
<thead>
<tr>
<th>Table: 1 NBD Share price daily returns during the announcement period:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day t</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>-5</td>
</tr>
<tr>
<td>-4</td>
</tr>
<tr>
<td>-3</td>
</tr>
<tr>
<td>-2</td>
</tr>
<tr>
<td>-1</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>
The figure 1 shows that there have been increased returns for NBD during the immediate merger announcement period. There has been a drastic upward movement in the cumulative share price returns after day -22 of the merger announcement period followed by volatility in the share price returns and finally a drastic downfall in the price movement after +13 day of announcement.

Table: 2 Cumulative Returns for NBD during different time windows

<table>
<thead>
<tr>
<th>Time Window surrounding announcement</th>
<th>Cumulative Return in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>-40 to +40 days</td>
<td>1.70</td>
</tr>
<tr>
<td>-20 to +20 days</td>
<td>-8.6</td>
</tr>
<tr>
<td>-10 to +10 days</td>
<td>7.62</td>
</tr>
<tr>
<td>-5 to +5 days</td>
<td>3.755</td>
</tr>
<tr>
<td>-3 to + 3 days</td>
<td>1.29</td>
</tr>
<tr>
<td>-2 to +2 days</td>
<td>5.70</td>
</tr>
<tr>
<td>-1 to +1 days</td>
<td>7.15</td>
</tr>
</tbody>
</table>

The announcement day return for NBD was 0.47 per cent. The share price return for NBD was 4.73 per cent for the day immediately after the announcement. The previous day before the announcement documented a return of 1.94 percent for the NBD bank. An analysis of different time window period reveals that the maximum cumulative return of 7.62 per cent was observed during the 21 day period (-10 to +10). During the three day window period (-1 to +1) the cumulative return was 7.15 percent. During the time window of 11 days (-5 to + 5) surrounding the merger announcement, the cumulative share price returns was 3.755 per cent. The cumulative returns during the 81 day period were 3.30 per cent.

The analysis documents a return of 7.48 per cent for Emirates Bank in the day immediately after the announcement of merger. The share price returns were negative during both -1 and the day of announcement. During the time window period of -5 to +5 days, only the +1 and +5 day surrounding the announcement period documented positive share price returns.

From the table, it is observed that only during the shorter time window period of -2 to +2 and 3 day period of -1 to + 1, the share price returns are positive. All other time window period registered negative returns with 41 day and 21 day period having negative returns of approximately 39 per cent and 34 percent.

Table: 3 Emirates Bank’s Share price daily returns during the announcement period:

<table>
<thead>
<tr>
<th>Day t</th>
<th>Return in %</th>
<th>Cumulative Return in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5</td>
<td>-2.86</td>
<td>-2.86</td>
</tr>
<tr>
<td>-4</td>
<td>-2.95</td>
<td>-5.81</td>
</tr>
<tr>
<td>-3</td>
<td>-0.38</td>
<td>-6.19</td>
</tr>
<tr>
<td>-2</td>
<td>4.19</td>
<td>-2</td>
</tr>
<tr>
<td>-1</td>
<td>-4.02</td>
<td>-6.02</td>
</tr>
<tr>
<td>0</td>
<td>-3.05</td>
<td>-9.07</td>
</tr>
<tr>
<td>1</td>
<td>7.48</td>
<td>-1.59</td>
</tr>
<tr>
<td>2</td>
<td>-3.60</td>
<td>-5.19</td>
</tr>
<tr>
<td>3</td>
<td>-1.14</td>
<td>-6.33</td>
</tr>
<tr>
<td>4</td>
<td>-1.92</td>
<td>-8.25</td>
</tr>
<tr>
<td>5</td>
<td>1.96</td>
<td>-6.29</td>
</tr>
</tbody>
</table>

The figure above reveals that the share price returns were positive in the pre merger period with a declining trend in the post merger period. There have been positive returns in the period immediately surrounding the merger announcement.

Table: 4 Cumulative Returns for Emirates Bank during different time windows

<table>
<thead>
<tr>
<th>Time Window surrounding announcement</th>
<th>Cumulative Return in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>-40 to +40 days</td>
<td>-23.57</td>
</tr>
<tr>
<td>-20 to +20 days</td>
<td>-38.87</td>
</tr>
<tr>
<td>-10 to +10 days</td>
<td>-34.18</td>
</tr>
<tr>
<td>-5 to +5 days</td>
<td>-6.37</td>
</tr>
<tr>
<td>-3 to + 3 days</td>
<td>-9.58</td>
</tr>
<tr>
<td>-2 to +2 days</td>
<td>0.93</td>
</tr>
<tr>
<td>-1 to +1 days</td>
<td>0.39</td>
</tr>
</tbody>
</table>

The figure 2 shows that the share price returns for NBD during the merger announcement period (-40 to +40 day).

The figure 2: Share price returns of EBI during the Merger announcement period (-40 to +40 days)

The figure above reveals that the share price returns were positive in the pre merger period with a declining trend in the post merger period. There have been positive returns in the period immediately surrounding the merger announcement.
per cent respectively. For the eighty one day period (-40 to + 40), the cumulative return was negative 23.57 per cent.

It can be stated that the cumulative share price returns were positive for NBD in different time window period except the window period -20 to + 20. In comparison, Emirates Bank’s share price returns were highly negative in larger window periods.

Abnormal return (Excess return) and cumulative abnormal return analysis

Table: 5 NBD’s excess returns during the announcement period:

<table>
<thead>
<tr>
<th>Day t</th>
<th>Excess Return in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3.89</td>
</tr>
<tr>
<td>2</td>
<td>3.39</td>
</tr>
<tr>
<td>3</td>
<td>-3.25</td>
</tr>
<tr>
<td>4</td>
<td>5.74</td>
</tr>
<tr>
<td>5</td>
<td>1.44</td>
</tr>
<tr>
<td>6</td>
<td>7.07</td>
</tr>
<tr>
<td>7</td>
<td>0.95</td>
</tr>
<tr>
<td>8</td>
<td>-9.02</td>
</tr>
<tr>
<td>9</td>
<td>9.06</td>
</tr>
<tr>
<td>10</td>
<td>1.78</td>
</tr>
</tbody>
</table>

The excess return or abnormal analysis for NBD reveals that on the day after the merger announcement NBD had an abnormal return of 3.89%. The highest abnormal return was observed on the 9th day after merger announcement (9.05%). Negative abnormal returns were observed during the + 3 and +8 day of announcement.

Table: 6 Cumulative Abnormal Returns for NBD during different time windows

<table>
<thead>
<tr>
<th>Time Window surrounding announcement</th>
<th>Cumulative Abnormal Return in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ 1 to +40 day</td>
<td>-31.97</td>
</tr>
<tr>
<td>+ 1 to +20 day</td>
<td>-4.97</td>
</tr>
<tr>
<td>+1 to +10 day</td>
<td>21.06</td>
</tr>
<tr>
<td>+1 to +5 day</td>
<td>11.22</td>
</tr>
<tr>
<td>+1 to +3 day</td>
<td>4.02</td>
</tr>
<tr>
<td>+1 to +2 day</td>
<td>7.2</td>
</tr>
</tbody>
</table>

The CAR analysis for NBD documents positive abnormal returns during the shorter time window period surrounding the merger announcement. The CAR during the time window period of +1 to + 10 day was 21 per cent. The CAR analysis revealed negative abnormal returns during the longer time window period.

Figure: 3 CAR for NBD during the post merger announcement period (+1 to + 40 day)

The figure 3 shows that the cumulative abnormal returns for NBD was showing a positive upward movement during the days immediately after the announcement day. The CAR increased up to + 6 day and then started fluctuating. Beyond + 14 day of announcement, the CAR showed a negative downward movement.

Table: 7 Emirates Bank’s excess returns during the announcement period

<table>
<thead>
<tr>
<th>Day t</th>
<th>Excess Return in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6.6</td>
</tr>
<tr>
<td>2</td>
<td>5.9</td>
</tr>
<tr>
<td>3</td>
<td>7.3</td>
</tr>
<tr>
<td>4</td>
<td>11.6</td>
</tr>
<tr>
<td>5</td>
<td>13.15</td>
</tr>
<tr>
<td>6</td>
<td>15.86</td>
</tr>
<tr>
<td>7</td>
<td>17.91</td>
</tr>
<tr>
<td>8</td>
<td>-3.4</td>
</tr>
<tr>
<td>9</td>
<td>-3.8</td>
</tr>
<tr>
<td>10</td>
<td>-9.27</td>
</tr>
</tbody>
</table>

The excess return analysis for Emirate’s bank reveals an excess return of 6.6 per cent compared to the market index DFM during the day immediately after the merger announcement. The analysis also documents an excess return of 5.9% and 7.3% during the +2 and + 3 day of announcement. Double digit return was observed during the +4 to + 7 day of event announcement. Negative excess return was observed in the following days up to the 10th day of merger announcement.
Table 8: Cumulative Abnormal Returns for Emirates bank during different time windows

<table>
<thead>
<tr>
<th>Time Window Surrounding Announcement</th>
<th>Cumulative Abnormal Return in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>+1 to +40 day</td>
<td>-49</td>
</tr>
<tr>
<td>+1 to +20 day</td>
<td>-20.34</td>
</tr>
<tr>
<td>+1 to +10 day</td>
<td>-9.27</td>
</tr>
<tr>
<td>+1 to +5 day</td>
<td>13.15</td>
</tr>
<tr>
<td>+1 to +3 day</td>
<td>7.36</td>
</tr>
<tr>
<td>+1 to +2 day</td>
<td>5.9</td>
</tr>
</tbody>
</table>

The CAR analysis suggests that Emirates Bank has positive cumulative abnormal returns during the shorter time window period compared to the negative returns in the longer period of analysis. The study documents a CAR of 5.9 per cent during two day period after the merger announcement. During the 6 day period of +1 to +5, the study observes a positive CAR of 13.15 per cent.

The year of merger was 2007. The data for the year 2005 and 2006 consists of consolidated figures for Emirates Bank International (EBI) and National Bank of Dubai for comparative purposes. Net profit decreased during the period 2007. All the financial variables are showing increasing trend.

Table 10: Comparative growth rate

<table>
<thead>
<tr>
<th>Percent changes in growth rate</th>
<th>Premerger period</th>
<th>Post Merger Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>49%</td>
<td>11.26%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>53.90%</td>
<td>12.24%</td>
</tr>
<tr>
<td>Loans and Advances</td>
<td>54.12%</td>
<td>23.72%</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>29.65%</td>
<td>10.97%</td>
</tr>
<tr>
<td>Total operating Income</td>
<td>22.50%</td>
<td>70.31%</td>
</tr>
<tr>
<td>Net Profit</td>
<td>5.76%</td>
<td>32.85%</td>
</tr>
</tbody>
</table>

For the comparative analysis two base periods were selected: - 2005 for the premerger period and 2007 for the post merger period. The growth rate of the financial parameters were examined in the year 2006 (for premerger period) and 2008 (for the post merger period) with respect to their base period. It is observed that the growth rate in total assets and liabilities were greater during the pre merger period in comparison to the post merger period. The growth rate in loans and advances and customer deposits were higher during the in the premerger period. The growth rate in total operating income and net profit were higher in the post merger period compared to the pre merger period. The operating income and net profit increased by 70 per cent and 33 per cent respectively in the post merger period compared to an increase of 22 per cent and 5.67 per cent respectively in the pre merger period.

The return on equity registered a decrease of 6 per cent in the post merger period. The earnings per share also observed a decrease of 7 per cent in the post merger period.

Model for Analysis of operating performance:
Total Operating cash flow return on assets is defined as profit before depreciation, interest and taxes divided by the book value of assets.

Cash flow return on Assets (CFA) = (Total Operating cash flow / Book Value of assets)

The operating cash flow return on assets model analysis reveals that the cash flow returns have decreased by 17% during the per merger period compared to an increase of 53% during the post merger period of analysis. Hence in terms of returns on cash flow based on the asset model, the merger has led to value creation.
7. CONCLUSION:
The synergistic benefits of merger would be realized if the
merger would lead to stock holder wealth enhancement and
improvement in operating performance. This study analyses
the impact of the merger announcement on the shareholder
wealth of both the National Bank of Dubai and Emirates
Bank International. On the assumptions of market efficiency,
the study reveals that merger announcement led to excess
positive returns for the shareholders of both banks in the
different shorter time window period.

The study documents a share price return of 0.47 per cent and
4.73 per cent respectively for NBD on the day of announcement
and the following day. The cumulative share price return was
positive in all the time window period except the period of -20 to
+ 20 day. The analysis documents a return of 7.48 per cent for
Emirates Bank in the day immediately after the announcement
of merger. The cumulative share price return for Emirates Bank
was negative for the different time window period except the
shorter period of 5 and 3 day period surrounding the merger
announcement. The excess return or abnormal analysis for
NBD reveals that on the day after the merger announcement
NBD had an abnormal return of 3.89%. The CAR analysis
for NBD reveals positive double digit returns during the time
window of + 1 to +10 and +1 to +5 day of announcement.

The study documents an excess return of 6.6 per cent for
Emirates Bank following the day of announcement. The CAR
analysis documents positive cumulative abnormal returns during
the shorter time window period compared to the negative
CAR during the longer period window.

The operating performance analysis suggest that the growth
rate in total operating income and net profit were higher in the
post merger period compared to the pre merger period. The
operating cash flow return on assets model analysis reveals
that the cash flow returns have decreased by 17% during the
per merger period compared to an increase of 17% during the
newer shorter period of 5 and 3 day period surrounding the
merger announcement. The cumulative share price return for Emirates Bank
was negative for the different time window period except the
shorter period of 5 and 3 day period surrounding the merger
announcement. The excess return or abnormal analysis for
NBD reveals that on the day after the merger announcement
NBD had an abnormal return of 3.89%. The CAR analysis
for NBD reveals positive double digit returns during the time
window of + 1 to +10 and +1 to +5 day of announcement.

The study documents an excess return of 6.6 per cent for
Emirates Bank following the day of announcement. The CAR
analysis documents positive cumulative abnormal returns during
the shorter time window period compared to the negative
CAR during the longer period window.

The operating performance analysis suggest that the growth
rate in total operating income and net profit were higher in the
post merger period compared to the pre merger period. The
operating cash flow return on assets model analysis reveals
that the cash flow returns have decreased by 17% during the
per merger period compared to an increase of 53% during the
post merger period of analysis

END NOTE
3. Share price of EBI of AED 10.48 on 5 March 2007, implying a share price for NBD of AED 9.96 based on 0.95x exchange ratio.
Market price of NBD on 5March 2007 of AED 8.75 implying 14% premium. All share prices adjusted for bonus share issues.
4. The time window period for the abnormal or excess return takes the lower limit of time period as t=1(day after the announcement period of merger) due to non availability of DFM index values. The data values were available only from the last day of the first week of March 2007.

REFERENCES
B Rajesh Kumar and Manuel Fernandez
Emirates Bank International (EBI) merger with National Bank of Dubai (NBD)-A Valuation perspective