Merger of jp morgan chase and co

Executive Summary

This paper on the Banking industry consist the merger of JP Morgan Chase &Co. It argues that the experience of Banking industry in the US is unique and also the impact of the merger in JP Morgan Chase &Co. It is not paradigmatic also tells that all banks are not driven efficiently. The paper talks about the merger of JP Morgan Chase & Co. using The Porter's – The Fishbone Model.

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1. INTRODUCTION

1. 1 Overview of Banking Industry in US

This paper on the Banking industry consist the mergers of banks with a special emphasis on the US banks. It argues that the experience of Banking industry in the US is unique and it is not paradigmatic also tells that all banks are not driven efficiently. Mergers in banks arise because of macro structural circumstances and shifts to strategic motives in a period of time (Benston, Hunter, & Wall, 1995). Over the few years, bank mergers and acquisitions have been occurring at a very high rate.

During the recent decades the US banking system is experiencing an intense structural change which is happening at a very rapid place. When banks document deposits made by customers create credit evaluations and move funds they process information. The banks and the financial services industries entrants have been very much affected by the current information processing revolution.

The banks are moderately transforming themselves from intermediaries that have loans, deposits and securities in their balance sheets into brokers who

originate loans and then allocate them to others who obtain securitized assets. This change has occurred due to rapid increase of the technical advancements in processing information.

1. 2 Overview of JP Morgan and Chase

JPMorgan Chase & Co. is one of the world's largest, oldest, and best-known financial institutions. Since their founding in New York in the year 1799, they have succeeded and grown by listening to their customers and also by meeting their needs. Being a global financial services firm and with operations in more than 50 countries, JPMorgan Chase & Co. combines two of the world's best and premier financial brands: J. P Morgan and Chase. JPMorgan Chase & Co. is a leader in financial services for consumers; investment banking; financial transaction processing; small business and commercial banking; private equity and asset management. JPMorgan Chase & Co. serves millions of consumers in the United States and also the worlds most prominent corporate, institutional and government clients.

JPMorgan Chase & Co. is built on the foundation of more than 1, 000 predecessor institutions that has come together over the years to form today's company. Their many well-known heritage banks include J. P Morgan & Co., The Chase Manhattan Bank, The First National Bank of Chicago, Manufacturers Hanover Trust Co., Bank One, Chemical Bank and National Bank of Detroit, each closely tied in its time for innovations in finance and for the growth of the United States and global economies. (The History of JP Morgan Chase & Co., 2008)

2. STUDY OF MERGER BETWEEN JP MORGAN & CHASE (2000)

On examining, there are four main paths are identified which explains explains the reasons behind the mergers activity. These paths are related to (1) creating economies of scales, (2) expanding in geographically means, (3) increasing the combined capital base (size) and product offerings, and (4) gaining the market power. In examining these paths, it appears that, at a much higher level in Porter's " fishbone" framework, the mergers are driven by cost reductions than increasing the gross revenue.

Global consolidation and Downsizing allowing banks in increasing its size and market capabilities while creating some technological efficiencies largely responsible for the cost savings of mergers. The research results on the financial performance of the merged banks have resulted in conflicting conclusions. While some research has found that bank acquisitions are not improving the financial performance of the combined banks (Baradwaj, Dubofsky, & Fraser, 1992).

When Chase Manhattan announced its merger with J. P. Morgan in September 2000, the company's shares were selling at $52. (Palia, 1994). Today, they make around $30, and the press is filled with reports of the company's performance. Getting bigger has not helped Chase Manhattan to get better. Nor has it helped other companies. The Wall Street Journal recently reported that the share prices of the 50 biggest corporate acquirers of the 1990s have fallen three times as much as the Dow Jones Industrial Average. (Toyne & Tripp, 1998). The size counts, especially in addressing the complex problems that span geographies and functions. But bigger doesn't

make a company better at serving customers. Chase is the product of two megadeals that came earlier, its mergers with Chemical & Manufacturers Hanover and.

J. P. Morgan is the part of the venerable House of Morgan which was traditionally a commercial bank, but has aggressively entered the investment banking business. After flirting with other merger partners from Europe and elsewhere, it finally offered the famous name and blue-chip client roster to its fellow New Yorker for about $36 billion in stock. (Madura & Wiant, 1994)

2. 1 Purpose of the study

The history before the acquisition is very important to consider the enormity of the product. In 1991, Chemical Banking Corp. merged with Manufacturers Hanover Corp., keeping the name Chemical Banking Corp., then the second largest banking institution in the United States. In 1995, First Chicago Corp. merged with NBD Bancorp Inc., forming First Chicago NBD Corp., the largest banking company based in the Midwest. In 1996, Chemical Banking Corp. merged with The Chase Manhattan Corp., keeping the name The Chase Manhattan Corp. and creating what then was the largest bank holding company in the United States.

2. 2 Significance of this study

In 2000, The Chase Manhattan Corp. merged with J. P. Morgan & Co. Incorporated, in effect combining four of the largest and oldest money center banking institutions in New York City (Morgan, Chase, Chemical and Manufacturers Hanover) into one firm called JPMorgan Chase & Co. In 2004,

Bank One Corp. merged with JPMorgan Chase & Co., keeping the name JPMorgan Chase & Co. In 2008, JPMorgan Chase & Co. acquired The Bear Stearns Companies Inc., strengthening its capabilities across a broad range of businesses, including prime brokerage, cash clearing and energy trading globally.

2. 3 Limitations

It becomes abundantly clear that there is no clear direction in terms of the mergers and acquisitions that JPMorgan Chase & Co. performed in before and after the marriage of the giants happened. The merger was hailed and appreciated at the time when one of the largest mergers was in a vogue. The merger seemed to have happened through lots of pressure from competition more than anything else. Even after these so many years of being together, it is not very easy to tell if the individual entities are acting as one. (Wilson, 2003)

The problem faced is really because of cohesiveness and integration. Although the merger went through the lack of a proper regulatory authority to oversee such mergers leads to situations such as the sub-prime crisis of 2007-2008.

RESEARCH MODEL

3. 1. The Fish Bone Model

The coding scheme adopted for the content analysis that was conceptualized in the Porter strategic model (Porter, 1980) as operationalized in a " fishbone" analysis framework (Nolan, Norton & Company, 1986). The coding of the content of application approximates the use of a standardized

questionnaire. Hence, content analysis has the advantage of both ease and high reliability, but it may be more limited in terms of content validity to the extent that the applications reflect the underlying stated merger decision rationale.

These four paths are related to

creating economies of scales,

expanding geographically,

increasing the combined capital base (size) and product offerings, and

gaining market power.

This appears that decreasing costs than increasing gross revenue drives much of the merger activity at a higher. Many of the applications stated that the reduction of costs as a reason for the merger. In addition to it, many of the applications went further than a general statement of cost reduction explaining that the combined institution would create economies of scales which would result in a reduction in costs as justification for their merger/acquisition request.

3. 2 Elements of the Model

-Location

-Product

-Competitors

-Market Trends

However, since the merger/acquisitions within the banking industry should provide certain data (i. e. Community Reinvestment Act compliance or Herfindahl Indexes) to reinforce the merger/acquisition stated rationale, there is more validity in the stated rationale for mergers/acquisitions of this industry than in others using this approach (Cornett & De, 1991). The use of the widely accepted Porter strategic model provides an appropriate framework for both inductive and deductive conclusions.

3. 3. Previous Research Findings

The model provides a tight linkage to the strategy literature for validity of the coding categories. More than that, the use of multiple coders and a referee insure a high degree of reliability in coding effort. For each application, two coders independently code each paragraph and the results are entered into a spreadsheet for data management purposes. The results of the two coders were then compared, and, if there was any disagreement, the referee discussed the differences with the other coders and made a final determination. For each application, a resultant tabulation was created and overlaid upon the fishbone for visual inspection. Hence, this model contains the total numerical count of the entire sample.

3. 4. Critics for the Previous Research

Previous literature finds an empirical evidence of links between mergers and financial performance, measured in terms of either profitability or operating efficiency (Berger, Demsetz, & Strahan, 1999). The US experience cannot be a global paradigm because US banks' has dominance in the global financial arena. Prior to the US bank merger wave, the banks that operated with long standing geographic restrictions, could not expand their branch networks

when market opportunities arose outside their market areas. Hence, a sustained period of banking distress began in 1981.

The thrift industry collapsed; many banks experienced distress in the early 1980s due to credit problems ranging from Latin American loans, loans in oil-rich domestic areas, loans for corporate mergers and commercial real estate. The failing or troubled institutions were often are taken over by expansion-oriented commercial banks; Nations bank grew through astute acquisitions during the period. Government-assisted mergers accounted for majority of the bank mergers in the United States between 1982 and 1989.

This period of distress mergers led to a shift in regulatory philosophy. Until this period, regulators guided by the antitrust law and the Bank Holding Company Acts of 1956 and 1970 placed some restrictions on bank activities and expansion, using the criteria that firms with monopolistic power will exploit it. In this period, many regulatory economists adopted Chicago “ new learning” approach, which shifted the attention from monopoly position to “ contestability.” Regulatory test for market power was weakened, that permitted federal regulators to override product-line and geographic restrictions in approving distress mergers. The Federal Reserve used regulatory flexibility to force “ modernization” in U. S. banking laws. Bank regulators increasingly operated on the premise that the industry is overbanked and financial innovations has made capital and credit universally available. One approach was the emergence of an upscale retail banking strategy.

PREVIOUS RESEARCH METHODOLOGY

The Banks using this approach identify a preferred customer base to which they can deliver both traditional banking services-short-term consumer loans, long-term mortgages, depository services-and nontraditional services such as mutual funds, insurance, and investment advice. The second and related approach was a shift away from maturity transformation and interest-based income, towards maturity matching, secondary market sales, and fee-based income.

Much of the revenue from upscale households take the form of fees, encouraged by the growth of secondary loan markets and of banks' involvement in the household portfolio management. The proportion of interest expenses within banks' overall expenses is declined since 1982; noninterest income has been an increasing share of bank income since 1978 (DeYoung, 1994).

Large banking firms have led to the second phase of the U. S. bank merger wave because they have most aggressively pursued upscale-retail and fee-based strategies. Since the banks are not more efficient or more profitable than the smaller banks they purchase, earnings increase have not financed these acquisitions, while Wall Street has. Wall Street's analysts have adopted the concept of banking industry excess capacity; and brokers and underwriters have earned the substantial fees from the equity issues that have provided the cash needed to sweeten offers for target banks' equity shares (Serwer, 1995) (Chong, 1991).

CONCLUSION

Although there are many frameworks used for analysis of other industries, they often do not work within the banking industry because of the imposed regulatory constraints; the model reveals that the Porter Model will be suitable in this case for examining the rationale behind the merger/acquisition activity for the banking industry. There are four main paths, for the period examined that explains the reasons behind the mergers/acquisitions activity.

Utilizing the synergies between the two partners is a common phrase found throughout the applications. The usual scenario is that the smaller partners will combine with the larger partners in order to develop the economies of scale and also to reduce their combined costs. The remaining three paths are related to increasing gross revenue but at a much lower level on the fishbone framework.

Most of the applications justified the merger either directly or indirectly by referencing the combined bank’s ability to expand geographically into various markets that the individual banks had not previously had a market presence. As a result, through the geographical expansion, the bank would be able to decrease the total risk as well as increase the sales of the products and, thus, increase overall gross revenue.

Many of the merger/acquisition either directly or indirectly justified their mergers through the fact that the combined asset base (size) would be larger and, thus, allowing the banks to make loans to companies that the individual banks could not have previously serviced due to capital base

lending regulatory restrictions. In essence, the larger capital base allowed the merged institutions to offer a new product (jumbo loans) to an existing customer or to gain new customer through the new product offering.

In addition, on the same path many of the applications justified the merger through the ability to offer a greater array of products. The smaller partner (usually) would be able to offer products already carried by the larger partner and that previously due to the smaller partner's size they had not able to offer. In both cases, the merger would allow the combined institution to offer a greater product array increasing their sales and, thereby, increasing gross revenue. The last path deals with the, often, indirect merger justifications of increasing market power. Through the merger, the merged banks would be better able to compete with banks within their market, increasing their product sales, and, thus, their gross revenue.