REVIEW ARTICLE | JANUARY 01 1997

Bank Mergers, X-Efficiency, and the Market for Corporate Control

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Managerial Finance (1997) 23 (1): 32–47.

https://doi.org/10.1108/eb018600

A thick cost frontier methodology is used to estimate pre- and postmerger X-inefficiency in 348 mergers approved by the OCC in 1987/88. Efficiency improved in only a small majority of mergers, and these gains were unrelated to the acquiring bank's efficiency advantage over its target. These results are not consistent with the traditional market for corporate control story, in which well-managed firms acquire poorly managed firms and subsequently improve their performance. Rather, the results suggest motivations other than cost efficiencies were driving U.S. bank mergers in the late 1980s. Efficiency gains were concentrated in mergers where acquiring banks made frequent acquisitions, suggesting the presence of experience effects.

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