EFFECT OF MERGERS AND ACQUISITION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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17/02361

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NOVEMBER, 2021
DECLARATION AND APPROVAL

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name: Jamhuri Isaac Masavi Reg, No: 17/02361 Sign……….. Date…………

I do hereby confirm that I have examined the master’s dissertation of Jamhuri Isaac Masavi and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Sign: ……………………….. Date: ……………….. Name: Dr. Gladys Bunyasi

Dissertation Supervisor
This study was undertaken to assess the effects of mergers and acquisition on the financial performance of commercial banks in Kenya. The business environment in all economies is ghastly evolving and with the advent of globalization, the environment has become more volatile and as a result, competition among firms in different sectors of the economy has become very stiff. Some organizations have been adversely affected by the competition level and have quit the race while others have opted to merger while others have been acquired as a wind up strategy. The study looked at customer base, strategic realignment, asset acquisition and technical expertise acquired and how these affects the financial performance of commercial banks in Kenya. The study was based on resource dependency theory, financial synergy theory, theory of corporate control and shareholders wealth maximization theory, discuss all independent variables through empirical review as well as gaps left by past researchers, and finally present a conceptual framework to depict the relationship between the dependent and independent variables of the study. The study adopted a descriptive research design and targeted all commercial banks in Kenya. Purposive sampling was used to select a sample of 195 employees from the 39 commercial banks in Kenya. The researcher collected primary data from the banks employees by use of structured questionnaires, which were be administered through emails as well as drop and pick basis. Secondary data was collected on financial performance of the banks from the central bank website. Collected data was analysed by use of both quantitative and inferential statistics with percentages and means responses from the mean. A regression analysis was also be undertaken by the researcher to test and determine the level of connection between the independent and dependent variables. From the data analysis, the study concludes that there is a positive financial performance of commercial banks in Kenya due to acquisition and mergers. This was indicated by 1.05 units for market base, 1.39 units for technical expertise and 1.50 units increase in financial performance of banks that had mergers and acquisitions respectively The study recommended that that banks facing constraints on the market should consider merging with others and or being acquired in a bid to consolidate their energies to expand their profitability. This is because mergers/acquisition is not just for the best interest of the managers but also shareholders as it leads to an increase in shareholders’ wealth as opposed to each financial institution operating separately on its own by increasing the number of customers a bank has. Financial institutions that are already struggling with financial crisis to consider consolidating their assets, technical expertise, market base and formulate new dynamic strategies that will improve their financial performance. With a combined approach through either merger or acquisition, banks stand a better chance to survive in the ever changing financial sector of the economy.
ACKNOWLEDGEMENT

I want to thank God for the gift of life and the opportunity to undertake this academic journey in life. This wouldn’t be possible without Him. Secondly, special thanks go to my family members who have always stood by me and making my work easier by offering their moral support. making this possible without Him, this would not be possible. A special thanks to my supervisor (Dr. Gladys Bunyasi) who supervised this study and gave valuable feedback and advice throughout the entire research project.
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DEDICATION

I dedicate this research project to my lovely wife Jemimmah Ndina and children Stephen Masavi, Ruth Nzangi and Sarah Kambua who has been with me through every step of my life. They stood by me and offered moral support during my academic journey.
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ACRONYMS AND ABBREVIATIONS

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<th>Abbreviation</th>
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<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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OPERATIONAL DEFINITION OF TERMS

**Asset Base**  
Assets base as defined by refers to all tangible and intangible assets owned and controlled by an enterprise (Depamphilis, 2021). Ideally, these assets gives value to the business organization and can be used as security to undertake transactions. Banks assets are have no fixed assets just like any other set up as some can appreciate while others are depreciating.

**Financial performance**  
This is measured by how better investors and shareholders are at the end of the period than they were at the start. It is usually determined by using ratios from statements that is statement of comprehensive income and financial position as well as data on securities prices. The results enables the firms to compare based on the previous periods and compare with other firms of similar business (Obamuyi, 2013).

**Market Base**  
Market base or simply the customer base is defined as the number of clients a bank is serving at a given period of time and especially customers who are loyal to the organization and its brand (Ghosha and Dutta, 2014).

**Strategic Realignment**  
Strategic alignment is defined as a dynamic process adopted by organizations to realign their operations to beta competition and or take advantage of both internal and external environments that would affect its performance (Muthini, 2012).

**Technical Expertise**  
as defined by Hernandez and Juan (2010) refers to the distinct competencies owned and controlled by an organization in running its daily operations and also in improving their performance in the market.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The environment in which organizations across the globe operate in relation to technology, regulations and economic aspects is drastically changing and organizations are forced to coin new survival technics (Waweru, 2015). One of the changes witnessed to evade adverse changes in the operating environment is the creation of mergers and acquisitions. Organizations have merged on mutually agreed upon terms combined their business operations and those with weak positions have simply being acquired by the big institutions and the whole process is meant to ensure business sustainability (Akinbuli & Kelilume, 2013). As stated by Waweru (2015) the bottom-line of mergers and acquisitions are meant to improve on the market share, gain competitive advantage, improve business performance, reduce the operational risks of the enterprise, improve on the shareholders wealth and finally to improve on the product power in the eyes of the consumers.

Across the globe, the concept of mergers and acquisitions has constantly gained moment and recognition as many economists argue that these business arrangements are good for improving competitiveness of companies due to increased market share, gaining power to enter into new markets, improved the firms capitalization and accrue of economies of scale to such organizations (Kemal, 2011). The adoption of mergers and acquisition business models have been utilized outside Africa. For instance, Kouser, (2011) in Pakistan indicates that banks in a bid to improve their financial performance have been merging and or using acquisition models since mid-twentieth century. Moreover, Altunbas & Ibanez (2014) affirmed that in the USA, UK and India the issue of merging and acquisition especially in the banking sector has been widely practiced. The motives behind mergers are the combined synergy, more revenue generation,
economies of scale, low taxation and diversification of either its products or business portfolio (Joash & Njangiru (2017).

In the African context, Dwyer et al., (2012) did a study based on Egyptian context on the impact of mergers and acquisition on the performance of banks. The study results revealed a positive effect of mergers and acquisition on the banks return on equity. However, the researcher also revealed that even after mergers and or acquisition, the level of efficiency in banks operations did not improve. A total of 14% of the banks studied however, revealed a better performance in terms of operational income after the merger and or acquisition. The level of credit risks after the new venture was formed also reduced and banks operations were more stable. Moreover, in Devos at el, (2009), in South Africa, Bemile & Banguess, (2011) in Ghana and Nigeria and finally Dyer et al (2004) in made a similar conclusion that merging of financial institutions improves market efficiency, better utilization of available resources and increase in number of new customers the firm controls (Sudarsanam, 2003).

In East Africa, Safa (2017) established that all business entities are created with an aim of achieving certain corporate objectives including corporate growth and increase in financial performance. A profit is a key yardstick an organizations success can be determined by its management. The fact that organizations operate in an ever-changing environment achievement of the planned objectives is usually at stake especially when the economic conditions are volatile due to factors that are beyond organizations control (Weston & Weaver, 2011). Authors such as Safa (2017) argue that acquisitions and mergers are business models motivated by the need to fully utilize the market opportunity offered by operating as a combined organization instead of direct competition.
Locally, mergers and acquisitions impose a considerable degree of change on an organization and it is imperative that properly designed procedures and processes are designed and applied in their implementation. The golden rule for mergers and acquisitions is that companies should pursue mergers and acquisitions only if they create value (Kouser, 2011). Mergers and acquisitions become fruitful if synergies in the forms of operational, financial and managerial efficiencies arise (Ogada and Achoki, 2016). Some of the benefits attributable to mergers and acquisitions include rapid access to new technology and products, an extended customer base, an enhanced market position, operating risk reduction, better management expertise, improved resource allocation and a stronger financial position.

Across all industries, Business skills, technologies, capacities and resources that are essential to an organizations current and future growth and performance usually emanate from within the organization but in some circumstance these are acquired outside the organization in order to fast-track the organization performance (Fatima & Shehzad, 2014). Given this, the management must therefore act swiftly and look into the possibilities of utilizing capabilities and skills outside the organization as a strategy of ensuring steady profit margins and competitive advantage. Therefore, relationships that tend to give a firm these competences that are outside its current tangible and intangible assets are important. Kithitu, Cheluget, Keraro, and Mokamba, (2012) argued that in order to stay competitive and profitable, even the most competitive and profitable organizations have to recognize and control resources and competencies found elsewhere as part of their organizational strategy. This underscores the importance of business consolidations to the modern-day organizations’ survival and growth.
1.1.1 Mergers and Acquisitions

Chesang, (2013) defined a merger as a business model where two separate business entities combine their operations and trade name resulting into a single business entity. Merging or consolidating the business takes place in circumstances where organization have equal market power or even when they want to control a big percentage of the market. Moreover, a merger can be said to be a mean by which combination of businesses results into one economic business unit from previous two or more single (Mishra, & Chandra, 2010).

An on the other hand is a business model where one entity takes over another organizations assets and even trade name with exchange of either ordinary shares, cash, loan stock or a combination of the three options. Therefore, the acquired organization ends up being completely absorbed by the firm that has acquired it. Ireri (2010) on the other hand defined a takeover or acquisition as an arrangement where an organization gains control over another entity without cooperation of the existing business leadership. The acquiring fir usually brings on board key shareholders into the acquisition process in a bid to cement transparency and ensure success of the business process.

Mergers and Acquisitions are crucial in business operations as they are known for creation of modes that can combine business resources and ultimately lead to competitive advantage. As postulated by Ogada and Achoki (2016) when businesses merger or are acquisitions take there is better access to technology, product expansion, extended customer base and finally stronger financial muscle. Moreover, a successful merger and or acquisition in the business environment leads to expansion of the cumulate customer base. This presents an opportunity of the new business entity to improve on their sales volume of the existing combined products in the new acquired market and provides an opportunity for future business growth. In
addition, combined business entities can own a huge market share in the existing market resulting into better competitive advantage. Mergers and acquisitions also are crucial to firms that intent to reposition themselves into a previous existing market segment (Mboroto, 2012).

Both financial and non-financial motives are explored organizations that want to adopt either mergers or acquisition business model (Ogada and Achoki. 2016). In financial consideration, an organization allows the incoming entity to enjoy the benefits of their existing portfolio while at the same time reducing the risk of operations in the market resulting into better rate of return on the investment made by the combined organizations. In circumstances where the two firms that have merged are operating at different business cycles, the newly formed entire can take advantage of the two models at different maturity levels to improve on their business income levels and reduce operational risks. In addition, as stated by Badreldin & Kalhoefer (2015) shareholders wealth and value are improved when such operating life cycles are consolidated to form a better version of the two existing business models. Moreover, the non-financial motives of adopting either mergers or acquisitions as stated by Ireri (2010) includes the desire to have a better control of the market, expand their management skills, and acquire new markets, new products and improve on the brand image.

Across the globe, business executives understand that purchasing existing business entities gains an organization into existing markets, technology and a guarantee of business growth (Mboroto, 2012). In Kenya, merger and acquisition is a business strategy which most organizations in different sectors aiming at growing their survival chances and increase in assets value. For instance, since 2010 to 2020, a total of eleven banks have gone either acquisition of mergers.
1.1.2 Financial Performance of Commercial Banks

Financial performance is measured by how better investors and shareholders are at the end of the period than they were at the start. It is usually determined by using ratios from statements that is statement of comprehensive income and financial position as well as data on securities prices. The results enables the firms to compare based on the previous periods and compare with other firms of similar business (Obamuyi, 2013). Financial performance is an evaluation of how an organization generates revenue through proper utilization of its assets to improve shareholders value (Jaber, & Al-khawaldeh, 2014). Moreover, financial performance can be viewed as the extent to which an organization achieves its financial objectives as enshrined in the firm’s annual budgets. As reported by Kiganda (2019) financial performance of the commercial banks in Kenya has progressed positively for the last decade.

The key stakeholders in the financial sector have recognized that the sector is crucial in helping the country achieve the vision 2030 and have put in measures continuously put up measures to improve the performance of the sector (Kamau & Were, 2014). Where, evaluating the financial performance of a firm such a bank several aspects are put into consideration. These include the profitability level, liquidity availability and ratios, and Solvency levels of the firm, financial efficiency over a given period of time, loans repayment capacity, working capital management capacity and finally the strategic formulation process (CBK, 2018).

The financial performance of an organization can also be compared to other related firms in the same industry or an aggregation of the sectors. In modern business environment, assessment of financial performance of firms is done using financial rations that looks at key areas such as assets, debts, profit or even investment levels. As postulated by Holtzman (2014),
understanding the financial performance of a firm is crucial in enabling the management know
the viability of the enterprise.

Banks management are involved in creation and formulation of annual and long term
strategies to enable the banks survive and meet their financial objectives (Jaber, & Al-
khawaldeh, 2014). Financial performance in the banking sector is mostly eases through the profit
margins earned by the bank on annual basis and this is scrutinized through net profit realized
after business operations. Financial performance in this study will be gauged based on the banks
profit levels, return on equity and return on assets because of mergers and acquisition of
commercial banks in Kenya. Return on equity is a financial ratio that indicates the rate at which
the amount invested by shareholders in an organization yields financial benefits. Return on assets
is a financial ratio, which evaluates the rate of return on assets of an organization over a given
period of time.

1.1.3 Commercial Banks in Kenya
In Kenya, 43 commercial banks have been registered and granted the permission to trade in the
country (CBK, 2020). This banks include 1 Mortgage Finance Company, 42 Commercial Banks,
9 foreign offices representatives, 3 Credit Reference Bureaus (CRBs), 8 holding but non-
operating Companies, 13 Microfinance Banks (MFBs), 19 providers of money remittance and 70
Foreign Exchange (forex) Bureaus. Moreover, 29 commercial banks have domestic ownership
while 14 are foreign owned. Commercial banks in Kenya have registered an inconsistent
performance for the last five years due to changes in the operating environment (CBK, 2020).

The banking industry operates with regulations including the banking Act, the Companies
Act, the central Bank of Kenya Act among other soundly formulated prudential guidelines
formulated and enforced by the government. The sector went through a significant
transformation in 1995 when it was liberalized and all exchange controls were repealed. As such, the central bank was given the full mandate to fully control the sector to ensure sound financial system in the country and to support the government economic policies. The central bank in upholding this mandate creates policies and regulations to ensure all banks are operating in a sound environment and that all transactions by the banks are monitored to ensure full compliance of the existing regulations (CBK, 2014).

There are three key categories of commercial banks in Kenya depending on their assets regulations. These categories are first tier, tier two and finally tier three. The tier one are required to operate with asset base of more than 40 Billion shillings, tier two has asset base of between Kshs 10 billion to Kshs 40 billion while the final tier (third tier operates with asset base of less than Kshs 10 billion (CBK, 2018). The practice of mergers and acquisition in the banking sector to some extent works against the provision of the competition laws such as monopolies and price control act and the restrictive trade practices (Musyoki & Murungi, 2015). These laws were enacted in the country with a bid to promote health competition among commercial banks in their operations as they provide financial services in the country. Therefore, when banks think of the acquisition and or merging options, they must refer to the provision of these regulations to ensure the process is swift and has been approved by the central bank of Kenya (CBK, 2018).

1.2 Statement of the Problem
The business environment in all economies is ghastly evolving and with the advent of globalization, the environment has become more volatile and as a result, competition among firms in different sectors of the economy has become very stiff (Musyoki & Murungi, 2015). As indicated by Joash & Njangiru, (2017) some organizations have been adversely affected by the competition level and have quit the race while others have opted to merger while others have
been acquired as a wind up strategy. However, other firms have been forced to consider mergers and acquisitions due to limited growth opportunities, low market control, inadequate managerial expertise, and inability to utilize the latest technology. Due to the turbulence in the operating environment and internal struggles, organizations therefore result into survival models such as mergers and acquisitions (Ndung’u, 2015). Mergers and acquisition are a corporate finance strategy has been considered to be one of the best strategies for firms that desire for market growth and increased profitability.

The directive by the Central Bank of Kenya directive that bank’s increase their core capital to one billion by close of the year 2012 could have been the force behind some banks looking into the prospect of merging with other banks to meet the threshold (Korir, 2016). In support of this concept, by the close of the year, 2010, thirteen (13) banks had not reached the threshold stated above and the management embarked on meeting the regulatory requirement (CBK, 2018). Owing to this move, economists, and scholars have expressed fears that most banks would rush to meet the CBK threshold, which would not bring financial benefit to them and their shareholders. Joash & Njangiru, (2017) established that small and medium banks are marred with inefficiency rates, low customer base, insolvency, incidences of financial distress, vulnerable financial operations that derails their growth. These challenges acts as a catalyst for many banks to consider the possibility of mergers and acquisitions with the hope of combining their market base realign their strategies, acquire a wide asset base and technical expertise to perform better. In addition, Yeboah & Asirifi (2016) postulates that banks have rushed into merging and acquisition models to beat the CBK directive with minimal consideration of the financial effect of the move hence creating more problems to the shareholders.
Scholars have looked at the effect of mergers and acquisitions on organizations. Onotu and Yahaya (2016) in Nigeria, Yanan et al. (2016) in USA, Ismail et al. (2014) in Egypt, and Mboroto (2013) in Kenya concluded that there was a positive relationship between mergers and acquisitions and financial performance of firms. In addition, studies by Gupta and Banerjee (2017) in India, Akben- Selcuk and Altiok-Yilmaz (2014) in Turkey and Mulwa (2015) in Kenya reported a negative relationship between mergers and acquisitions and firm’s financial performance. Moreover, studies by Mahesh and Prasad (2012) in India, Musyoki and Murungi (2015) in Kenya, and Yusuf (2016) in Jordan reported no changes in firm’s financial performance following mergers and acquisitions. The results of the above studies present a mixed perception on the performance of firms due to mergers and acquisitions indicating the question raised has not been conclusively answered. In addition, most of these studies adopted financial indicators which differ from the current study which will use non-financial indicators. This leaves a gap to be filled by this study by looking at the effects of mergers and acquisition on the financial performance of commercial banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To evaluate the effects of mergers and acquisition on the financial performance of commercial banks in Kenya

1.3.2 Specific Objectives

i. To assess the effect of market base on the financial performance of commercial banks in Kenya

ii. To investigate the effect of strategic realignment on the financial performance of commercial banks in Kenya
iii. To investigate the influence of asset base on the financial performance of commercial banks in Kenya

iv. To assess the effect of technical expertise on the financial performance of commercial banks in Kenya

1.4 Research Questions

i. What is the effect of market base on the financial performance of commercial banks in Kenya?

ii. What is the effect of strategic realignment on the financial performance of commercial banks in Kenya?

iii. What is the influence of asset base on the financial performance of commercial banks in Kenya?

iv. What is the effect of technical expertise acquired on the financial performance of commercial banks in Kenya?

1.5 Justification of the Study

The concept of mergers and acquisitions has constantly gained moment and recognition as many economists argue that these business arrangements are good in improving effectiveness of organizations due to increased market size, gaining power to enter into new markets, improved the firms capitalization and accrue of economies of scale to such organizations. However, despite the numerous studies on mergers and acquisition, there has been conflicting findings on the effect of merger and acquisition on the financial performance of companies in Kenya hence the need for a study to explore the phenomenon.
1.6 significance of the Study

1.6.1 Commercial Banks Management

The study will benefit commercial banks management by providing crucial information that will help them in appreciating effects of its merger and acquisition models and how this affects the banks financial performance. This may therefore inform on the decision by the banks management to think of adopting either of the models as a survival technique and or as a mode of gaining competitive advantage in the market.

1.6.2 Policy Makers

Policy makers such as the government of Kenya and the central monetary authority will benefit from this study by understanding how either mergers and or acquisitions affects the financial performance of the banks. This will inform proper formulation of policies and regulations to guide the mergers and acquisition models to ensure proper operations of the banks in providing services to citizens and at the same improve on their performance.

1.6.3 Scholars and Future Researchers

This study will form a good source of information for reference by future scholars who will need to carry out a study on the area of mergers and acquisition in baking sector and any other sector and how this affects the financial performance of firms

1.7 Scope of the Study

This study focused on analyzing the effects of mergers and acquisitions on the financial performance of commercials banks in Kenya. The study independent variables were market base, strategic realignment, asset base and technical expertise. The target population was all employees working in the commercial banks chosen purposively by the researcher. The study collected both primary and secondary data from the commercial banks employees and central bank of Kenya
website. Primary data from the banks employees was obtained through questionnaires. The collected data was analysed both qualitatively and quantitatively and the research process was eight months.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter will look at the existing theories and the existing literature that supports the study, the past studies done in line with the study objectives, the study gaps, summary and finally the conceptual framework.

2.2 Theoretical review

2.2.1 Resource Dependency Theory
The resource dependency was first propounded by Pfeffer and Salancik in the year 1978. The theory is built on the assumption the source of the scarce resources in an organization comes for its international and external environments and firms dependent on these scarce resources to run their operations. The theory further posits that uncertainty in organizations operations comes in when an organization is unable to control these resources. Therefore, firms must cultivate strategies to fully exploit these scarce resources since other organizations which are direct competitors are chasing the same resources.

The theory further established factors that have significant influence on the level of dependence an organization has on particular resources. The first factor relates to overall importance of the resource to the firm; second is the scarcity of the resource. The more scarce resource is, the more dependent the firm becomes (Ogada and Achoki, 2016). Secondly, stiff competition among the firms in an industry influences the level at which they can control resources. The three factors cumulatively influence the level at which a firm can control the resources available relatively to their competitors. The theory also infers that the strategies used by an organization are determined to a mostly by the environment in which it operates in. Since
firms depends on the environment for its current resources, they need to come up with proper methodology of acquiring these resources.

This theory was criticized by authors such as Hillman et al. (2009), Davis and Cobb (2010), and Sharif & Yeoh (2014) who all assumed that the theory failed to explain circumstances in which organizations after perceiving external threat from organizations in the same industry of other industries come together to form mergers or joint ventures in order to improve on their synergies. Moreover, though the theory explained how behavior in an organization can be modified to accommodate changes both internal and external, the theory did not suggest such change in behavior such as forming mergers and acquisitions would lead to financial performance of an organization.

The theory is applicable in this study in explaining how both internal and resources are combining with other organizations resources to form a merger or in some instances acquired to improve on the capacity of the newly formed organization in providing services better. The new assets acquired will enable an organization to improve on its asset ratio and fund more investment for growth both in the short-run and long run (Abdulazeez, & Yahaya, 2016). Assets are key assets in organizations and they determine the net value of the enterprise. Therefore, in forming and acquisitions, as argued out by this theory, assets to be brought in and how they will be utilized to improve performance of the institution.

2.2.2 Financial Synergy Theory

This theory was developed by Fluck and Lynch (1998) and it explains that the motivation of M&A’s is due to the fact that firms, singly on their own are not able to engage in profitable projects due to the challenges that arise from agency problems. The financial synergy theory is consistent with the empirical studies that concluded that mergers and acquisitions led to the
increased combined value of the forms that were involved in the combination. The theory implies that firms will only engage in mergers and acquisitions when the combination is expected to generate synergies that will be beneficial to both the bidder and the target. It assumes that the merger will create value and yield positive returns to the firms involved in the combination due to benefits arising from economies of organizations operations.

According to Kiselakova & Sofrankova (2015) organizations that do not have sufficient liquid assets may not engage in all the valuable investment opportunities due to information asymmetry in the financial markets. Firms will thus increase their value by merging with firms that are more liquid if there is minimal information asymmetry. This theory therefore concludes that M&A’s enhance the combined value of the firms engaged in the combination and it is more applicable in scenarios where one firm has more financial muscle over the target (Adebayo & Obademi, 2012). The theory further concludes that takeovers are a means of alleviating information asymmetry and achieving financial synergies.

This theory is applicable in this theory in explaining managerial synergies which can be attained when the acquiring firm managers possess managerial skills and knowledge which lack in the management of the firm being acquired (Biao, 2014). The financial synergy has recently been under immense scrutiny with the prominent argument being that there exists no proof that can either back lower systematic risks or advantages of internal capital markets. Moreover, it was established that operational and managerial synergies have no relationship with raising motivation levels for acquisitions.

2.2.3 Theory of Corporate Control

This theory stems from agency theory which leads to negative shareholders returns and it was first proposed by Professor Henry G. Manne of Washington University Law School in 1965 who
analyzed the role of corporate control as having the ability to mitigate the problem of agency caused by the separation of ownership and control (Jensen, 1983). It is based on the premise that value is created by mergers because there always exists an underperforming firm whose managers have not been able to turnaround the performance; hence there is always a management team that is ready and willing to acquire such firms.

Jensen (1983) and Shliefer and Vishny (1991) argue that more often than not firms do not perform well due to the fact that some of the managers lack the requisite knowledge, expertise and skill to provide to the shareholders maximum return for their investments. The theory is conceptually a simple theory that reduces the corporation to two participants of managers and shareholders. The theory posits that employees or managers in organizations can perpetuate self-interest at the expense of the shareholders.

The Synergy theory will inform this study as one of the most popular motive behind Mergers and Acquisitions is to achieve efficiency in the operations of the firm by taking advantage of the resources of the target company such as skills of the managerial team. When organizations combine through either mergers or acquisition, they are able to new markets as well as perform better in the market (Wangari, 2015). Other managers fail to meet the standards of performance because more often than not, they focus on their personal growth and expansion while comprising on the returns to the organizations and shareholders; therefore, mergers and acquisitions are a channel through which efficiency can be improved by replacing the inefficient managers. They argue that the target firms may not record the intended level of performance because of the selfish interests of the management and the fact that the management sometimes lacks the necessary knowledge and skills requisite for maximizing firm and shareholders’ value.
This theory predicts that firms that perform poorly are more likely to be taken over and their performance is predicted to improve after the takeover (McCarthy and Witzel, 2009). This theory suggests that M&A’s are an effective measure of management efficiency and performance because by the management are portrayed as good stewards of the organizations as the performance of the company can be directly attributed to the perceptions of the individual performance of the managers. When institutions not performing well accept to merger their operations or to be acquired by a performing organization, their financial woes are solved and their key creditors are paid all their dues.

2.2.4 Shareholders Wealth Maximization Theory

This theory was first proposed by Friedman (1970). Shareholder Wealth Maximization model (SWM), proposes that the single goal of the firm should be to maximize the return to shareholders for a given level of risk, or conversely, minimize the risk to shareholders for a given rate of return (Jensen & Ruback, 1983). With this in place, the firm will be able to increase its financial performance. This theory assumes that the shareholders can eliminate all random type risks, except the risk of overall stock market movements, through portfolio diversification. International portfolio diversification is the ultimate method of this type of risk reduction (Ansong, 2015). The SWM model assumes the traditional belief that the stock market is efficient (Jensen, 1978). This market efficiency assumes that the equity share price is always correct because it captures all the new information on return and risk as perceived by investors, and quickly incorporates this new information into the share price. Share prices are in turn, the best allocators of capital in the macro economy (Shah & Arora 2014). Shareholder’s contract with management is to maximize shareholders wealth (Bambale, 2016).
Shareholder wealth maximization is a norm of corporate governance that encourages a firm’s board of directors to implement all major decisions such as compensation policy, new investments, dividend policy, strategic direction, and corporate strategy with only the interests of shareholders in mind (Migitha, 2016). There is a strong support for the idea that shareholder wealth maximization should be the primary norm underlying the governance of profitable corporations with objective of increasing their financial performance (Diz, 2014). Managers who strive to maximize their own interests rather than the firm’s profits are likely to be replaced by the shareholders of the firm.

This theory is applicable in this study to explain reason why managers, boards and business owners decide to go for merger and or acquisition. In a bid to improve the image of the business and attract more customers, better strategies, superior assets and superior management skills which translates into better business performance in terms of revenue, most organizations decide to merger. As explained by Ogada and Achoki (2016) when businesses merger or are acquisitions take there is better access to technology, product expansion, extended customer base and finally stronger financial muscle. Moreover, a successful merger and or acquisition in the business environment leads to expansion of the cumulate customer base. This presents an opportunity of the new business entity to improve on their sales volume of the existing combined products in the new acquired market and provides an opportunity for future business growth.

2.3 Empirical Review

2.3.1 Market Base

Market base or simply the customer base is defined as the number of clients a bank is serving at a given period of time and especially customers who are loyal to the organization and its brand (Ghosha and Dutta, 2014). In the banking sector, this refers to the number of clients who utilize
the banks financial services such as having a bank account, acquiring loans, making deposits, doing online transactions, supporting the banking social corporate responsibilities among other activities. With mergers and or acquisitions, banks are meant to acquire more customers from the combined banking operations and it’s also hoped that it will result into better financial performance.

Through mergers and acquisitions, organizations will be able to extend their market base and revenue collection hence increase their profitability (Shah & Arora, 2014). When organizations come together through either mergers or acquisitions, they also acquire customer base, which is an accumulation different customer segments that were previously owned by the independent organizations before the merger and or acquisition model was adopted. These acquired or combined organizational competencies make good use of the market established to improve on the customer’s satisfaction. Moreover, this market acquired and or combined grows significantly if new products, design and service modification is undertaken by the new organization. Customers become loyal and the organization is likely to improve on their financial performance through increased sales revenue (Shah & Arora, 2014).

The time at which mergers and acquisitions realize value added from the indented purpose differentiates their composition (Kemal, 2011). In normal circumstances, some mergers and or acquired organizations will generate value added benefits instantly while others while others take time to generate value due to improved efficiency in the operations after adoption of the business model (Kim & Singal, 2016). In the merger concept it’s a common practice to establish and differentiate the source of the benefits since some are realized from a mix of market efficiencies, market power and improvement in the market segments which generates more revenue to the organization. Efficiency in production, stakeholders relationships, adoption of
new marketing strategies and production capacity improves the market a merged and or acquired organization controls (Salant Switzer and Reynolds, 2017).

However, mergers and acquisitions are associated with growth of market power that are beneficial to the new firms and that are harmful to the customers. Although profit is the sole goal of all firms, such combination of market creates a loophole that organizations can utilize to exploit the consumers (Salant et al., 2017). Moreover, this does not mean organizations only target money as their main objectives since some are service and non-profit based. However, in improving the market grip most managers are looking at how they can improve on the shareholders’ value through improved financial ratios such as the return on assets and the return on Equity. As postulated by Salant Switzer and Reynolds (2017), the combined market gives the new entity enough capacity to generate more value to the shareholders as it guarantees more sales activities that are beneficial to the entire entity and the stakeholders.

According to Kemal (2011), M&As are seen as the best strategy by organizations form all sectors to easily gain competitiveness, market share broadening their portfolio of products, reduction in market risks and also entering into new markets in different geographical areas. Moreover, mergers and business acquisitions improves organizations market competitiveness, capitalization, economies of scale and increase brand awareness that is a recipe for brand recognition and increased customer retention and loyalty (Salant et al., 2017). The key reason behind organizations opting for mergers and or acquisition is that when two competing firms combine their operations they perform better in the market (Sharma, 2009). Most academicians and scholars agree that mergers and acquisitions improves the market performance of an organization through improved customer base, new market entrants, geographical segregation, revenue generation, more market synergy and ability to diversify their products.
A study by Ghosha and Dutta (2014) in India looked at the level of change/variation in performance levels of the firms in the telecom sector. Comparison between the post and pre-merger phase was done through HR and different financial parameters such as the human capital return on investments. The study adopted a descriptive research design and targeted all employees in the Telkom sector. Both descriptive and inferential statistics were used analysis primary data that was collected through a questionnaire. The study established that besides the increasing number of customers, M&A led to an increase in the number of bank branches as well as access to new markets. Additionally, M&A in the banking industry has been found to boost customer confidence in the banking sector.

In local context, Muchoki and Njuguna (2020) did a study on the implications of acquisitions on non-financial performance of the acquisition of Giro bank ltd by I&M Bank Ltd. The study adopted a descriptive study with a population of 1030 employees from I&M fourteen banks branches. Primary data was collected through questionnaires and analysed using descriptive analysis. The research focused on key market base expansion and the key determinants of new market developments in the banking sector. The research established that mergers and acquisition are key factors that contribute to market development. Organizations that are going through financial turmoil are at liberty to fold their functions and form a more strong organization that combines their market base, develop new products and increase their market share. With this new venture, as explained by Njambi and Kariuki (2018) customer conversion rate and retention becomes easy for the organizations. Therefore, merger and acquisition has a potential of creating new markets for organizations, increase revenue and improve financial performance.
A study by Ndora (2010) did a study on the effects of on M&A on the financial performance among the insurance firms in Kenya. Descriptive research design was employed in the study and primary data was collected by used of questionnaire as well secondary data collected from the insurance bank websites on return on assets and return on investment. The study targeted all the forty two registered insurance companies in Kenya and finally settled for a sample of six firms that emerged between 1995 and 2005. The firms’ information about the five years prior and after the merger was analysed after which the outcome was tabulated. The study therefore concluded that M&A resulted in an increase in market share and financial performance.

A study by Misigah (2013) looked at the effect of mergers and acquisitions on the growth of commercial banks in Kenya. The study targeted a population of fifteen commercial banks in Kenta that had emerged between the years 2000 and 2010 to obtained primary data for analysis. The study adopted a comparative study analysis to compare the effects of mergers and acquisitions on the expansion of the bank’s assets, shareholders value and financial performance in profits before and after mergers and acquisitions. The data analysed using SPSS indicated that one of the key reasons why banks adopted the mergers and acquisition business model was to grow the shareholders wealth through market expansion, sales generation resulting in more profits. Therefore, the conclusion was that mergers and acquisitions improves the market share and growth of the banks and this improves the financial performance.

Long & Ling (2011) did a research to investigate how and why companies adopt either business mergers or acquisitions in USA. A case study research design was employed and a target population of 6000 employees targeted and a sample size of 384 employees in the sector used. Both primary and secondary data was employed and a regression analysis was run. The study results revealed that firms that feel threatened by competition and have weak systems
would not survive in the market and this would therefore force its management to think of acquisition while two small competing firms choose to merge their operations so as to improve on their performance. The study concluded that market acquisition though an automatic outcome of acquisition and mergers, not all customers would be retained in the process and some would abandon the newly formed organization.

2.3.2 Strategic Realignment

Strategic alignment is defined as a dynamic process adopted by organizations to realign their operations to beta competition and or take advantage of both internal and external environments that would affect its performance (Muthini, 2012). According to Khrawish (2011) when new strategies have been developed through mergers, acquisition or even new expansion in either the enterprise or business unit level or executives there should be proper of the organization with the new direction. An organization contemplating merger or acquisition should carry out a feasibility test of the entire process to ensure maximum benefits. Firms utilizing these options of either merging or acquisition have the ability to reduce operational risks and improve on their performance through realignment of their key competencies operations.

Ndede- Amadi (2014) undertook a study to determine the effect of on strategic alignment on competitive advantage of commercial banks in Indonesia. A cross sectional research design was adopted in the research and secondary data was collected from all registered banks in Indonesia. Descriptive analysis was employed in analyzing the research data. The study established that tops management commitment to the course of strategic realignment would be a key step in ensuring that the organization improve on their performance. The study also established that strategic realignment occurs swiftly if firms adopt the latest technology that can synchronize all their operations. Moreover, the study found out that with proper strategic
realignment and adoption of technology, firms could reduce operational risks, monitor their progress and ensure their financial performance is improving positively. Strategies are the means by which organizations see their operations in both the long term and short-term to increase their market share, revenue generation and finally their performance.

Jouirou and Kalika (2015) empirically examined strategic alignment as a performance tool. Their study purposed to investigate whether the alignment of information technology, strategy and organizational structure of small and medium enterprises in France resulted to performance. The study used data from 381 small and medium enterprises operating in different sectors. The study employed a multivariate perspective to test the alignment between strategy, structure and information technology. The study established that strategic alignment significantly influenced performance. As such it was concluded that when organizational structure, firm’s corporate structure and information technology strategy are aligned, performance of improves. There was therefore a positive link between strategic alignment and firm performance.

Kasina (2012) did s study to evaluate how strategic alignment provides competitive advantage in the Equity Bank Limited in Kenya. Descriptive research design was employed and 345 employees from equity bank were targeted with a sample size of 79. Primary and secondary data was used and analysed both qualitatively and quantitatively. The study found that the banks competitive advantage did not come from internal competencies alone but also from the key strategic realignments the banks management had adopted. This realignment however must be properly attached to the banks vision and mission statement as they help the management to identify opportunities for market growth, increase in shareholders wealth and financial performance of the firm. The study concluded that the bank must have proper strategic alignment in all its operations to facilitate proper monitoring of its entire portfolios, improve on its control
procedures and processes and finally improve on reporting which has a bearing on the financial performance of the bank.

Muthini (2012) did a study to evaluate the effect strategic alignment on the performance of Kenya Revenue Authority. The target population consisted of respondents deemed to be knowledgeable of the effect of strategic alignment on organizational performance. Data collection was based on both primary and secondary sources. An interview guide was used to collect data from the respondents. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews. Secondary data was collected from organizational records. The study established that the parastatal had properly aligned its internal and external strategies in manner that it improves the level at which revenue is collected by the organization. The study found out that due to the alignment, the authority had adopted different technologies that have helped in streamlining all its operations in collecting revenue. In making these realignments, Kenya revenue authority was motivated by the need to have efficiency in its operations and the need to mitigate risks that it encounters in collecting revenue which is the key source of government income.

2.3.3 Asset Base
Assets base as defined by refers to all tangible and intangible assets owned and controlled by an enterprise (Depamphilis, 2021). Ideally, these assets gives value to the business organization and can be used as security to undertake transactions. Banks assets are have no fixed assets just like any other set up as some can appreciate while others are depreciating. However, assets gives the banks financial muscle to meet their clients’ needs while meeting legal and regulatory framework set in the country by the government and the central monetary authority. As advised
by the central bank of Kenya (2018), banks through either acquisition or mergers should bring on board substantial assets that will ensure smooth and stable formation of the newly formed bank.

Company’s asset includes among others; current asset, fixed asset, credit portfolio, and other investments. These assets which may be directly proportional to the age of the firm directly affect the firm’s profitability (Mishra & Chandra 2010). In the case of banks, the loan book constitutes major asset that generates the major share of the bank’s income. The quality of loan portfolio determines the profitability of banks, noting that the highest risk facing banks are the losses generated by delinquent loans (Fatima & Shehzad, 2014). In this respect, non-performing loan ratios are determinants of asset quality. Therefore, low nonperforming loans to total loans ratio shows that the good health of the portfolio a bank and asset quality of an organization can be improved through merger and acquisition.

Marozva (2015) did an empirical study to establish the relationship between assets acquisition and performance banks in South Africa for a period between the years 1998 and 2014. The researcher adopted both ordinary least squares and autoregressive distributed lag methods. After data collection and analysis, the study found out that the quality of assets acquired by an organization has a significant effect on its performance especially in the banking sector. Additionally, the study recommended that banks and other institutions in the financial sector should focus on both short-term and long-term assets acquisition, as this would guarantee the banks liquidity and better performance in the market. Assets acquisition can be done through acquiring another organization with a potential for growth but which is stagnant.

Korir (2016) undertook a study to establish the effect of mergers and acquisitions on financial performance listed companies in the NSE. One of the variables was the effect of acquisition on assets growth. He study used a sample of 10 banks divided into two categories of
banks that have merged and which had not merged where each category had ten banks. Secondary data was collected for the two sets of banks for a period of ten years from the reports published both in the NSE repository and the banks websites. The study used measures of performance such as profit levels, bank turnover, the market share and return on assets. The study found out that mergers and acquisitions resulted into having more controllable assets to an organization and ultimately positive financial performance of banks.

Ndura (2010) did a study to evaluate the effect of mergers on financial performance of insurance companies in Kenya and this was done for ten years between 1995 to 2005. The study collected both primary and secondary data to evaluate the level at which mergers affected the financial performance of insurance firms in Kenya. The study concluded that a merger of two organizations in the insurance industry did not have any positive effect on their financial performance of the newly formed firm in the short-term. However, with time, the assets acquired through the merging process accumulates returns the in the long run, if put into proper use, the financial performance of the firms will improve. Moreover, the study found out that mergers had no significant effect on the capital adequacy of the insurance firms and also their level of solvency in the short-term. However, the overall effect of mergers of insurance companies is that it greatly affects the financial performance of the firms as this results into more assets that can be used to generate more services and products as well as improving the market share and sales.

Ayele (2012) in his study established that the right mix of assets and capital when brought into an organization through mergers and acquisitions results into superior financial performance. The study was undertaken to establish the key determinants of banks profitability in Ethiopian Market. The study targeted all listed banks and secondary data was employed and analysed using logit linear regression. The study suggested that either one of the key strategies of
improving the financial performance of the banks was to enter into agreements internally or externally that would improve the assets base of the banks. Moreover, the study suggested that the existing central monetary authority regulations should be modified to allow banks to acquire more assets including from direct competitors who are struggling to survive in the market. The size of the assets mix owned and controlled by a bank is a cushion to challenging economic times and also improves the firms capacity to meet its obligations to customers and also improve on their financial performance.

Ajibike and Aremu (2015) did a study to evaluate the effect of liquidity on banking performance in Nigeria. The study wanted to establish the role of banks liquidity and assets mix on the performance of banks in Nigerian economy. The research adopted the generalized method of moments method to evaluate the relationship between both independent and dependent variables. The study was undertaken for a period of eight years and focused on thirteen banks. The study findings indicated that there was a negative relationship between the banks loans and its financial performance. The study also concluded that the banks liquidity affected the financial performance on the banks but to a very little extent and that assets provided a strong link to the financial performance.

Olagunju Adeyanju & Olabode (2011) did a research on the effect of asset mix on the performance of commercial banks in Nigeria. The study used both primary and secondary data to establish the relationship between independent and dependent variables. In analyzing the data, multiple regression was adopted to test the nature and strength of the relationship between variables. The study established that the right asset mix either generated internally or acquired through mergers and acquisitions improved the financial performance of commercial banks in
Nigeria. Moreover, with mergers and acquisitions assets of a firm grows significantly leading to superior products and services and ultimately its financial performance.

2.3.4 Technical Expertise

Technical expertise as defined by Hernandez and Juan (2010) refers to the distinct competencies owned and controlled by an organization in running its daily operations and also in improving their performance in the market. In recent economy and the dynamic business environment, organizations performance in greatly influenced by the levels at which its man agent is technically gifted and can fully utilize their skills to steer forward the organization despite its channels.

Due to the emergency of knowledge era in 1980s there has a significant shift in both local and international business environments (Ombaka & Jagongo, 2018). Knowledge and or technical expertise is one of the key success strategies that enables an organization to fully utilize its resources to survive, grow, expand and meet customers’ needs in a better manner. Therefore, this has been one of the reasons behind acquisitions and mergers in order to take the advantage of knowledge possessed by an organization (Williamson, 2017). In modern business era, the value of technical expertise is a key asset that can steer forward an organization towards in improving their performance. Technical expertise is an intangible asset that can be well utilized by an organization to improve their experience and financial performance (Fatima and Shehzad, 2014).

Girma, Conyon, Thompson & Wright (2011) did a study to establish the effect of mergers and acquisitions on profitability and employee remuneration in UK manufacturing industry. The study was undertaken for a period of five years collecting information on how mergers and acquisitions affected the internal competencies of its human resource and its overall effect of this
on the financial performance of the firms. Secondary and primary data was used and the study targeted all listed manufacturing firms in UK. The study established that when organizations combine their operations through acquisitions and mergers they are able to improve on their internal capacity of employees who improve efficiency, increase their productivity and the organization benefits from the model.

Fatima and Shehzad (2014) did a study to analyze the effect of mergers and acquisitions on the firm’s performance in Pakistan commercial banks. The study specifically looked and how the combination of two separate business entities would affect the financial performance of the banks. The study established that combination of employees from two separate entities creates a pool of technical expertise and this improves the efficiency in the firm, improves productivity and finally the performance of the firm. However, this improvement doesn’t come without frictions when the two organization are trying to find the right mix of combining the employees and creating an organizational structure that can accommodate all employees.

Hernandez and Juan (2010) in Indonesia postulatesthat the environment in which organizations operate keep on changing and organizations must therefore look into its internal capacity to mitigate and reduce all operational risks. Opportunities in the market appear once and only organizations that have the right technical expertise can easily spot the opportunities and fully utilize them for their advantage. With merging and acquisitions of business organizations, expertise from these two organizations combine their operations and acquire skills that can be used to utilize the opportunities.

Fatima and Shehzad (2014) did a study on acquisitions and mergers on financial performance of insurance companies in Pakistan. Descriptive research design was employed and the study targeted all commercial banks in Pakistan that had gone through either mergers and or
acquisitions between 2000 and 2010. Secondary data was collected and analysed using panel regression model. The study established that insurance companies in Pakistan had adopted to merge their operations with direct competitors so as to improve on their competencies. With proper acquired and or merged model, the employees that come together are able to combine their efforts in handling business operations which has an effect on the financial performance of the firms. Employees are a major resource in every organization. Through mergers and acquisitions, organizations acquire skilled manpower that can be utilized to improve the efficiency in the organization, its competitiveness, brand and finally its financial performance.

Fatoki (2014) did a research on the Impact of Managerial Competencies on the Performance of Immigrant- Owned Enterprises in South Africa. The study employed descriptive research design and a target population of 367 small and medium enterprises to establish how management affected their performance. The study established that the performance capability of managers has very crucial consequence on the functionality of the business. Thus lack of education and professional training are the reasons of a lot of managerial problems in small and medium enterprises. They observe that, entrepreneurs perform badly in many areas of management such as, bookkeeping, marketing, costing, warehousing, stock control, production scheduling, and quality control. The owner/managers in some cases either do not understand financial statements or do not use them for planning purposes. Some owner/managers still do not distinguish the personal expenditure and business expenses, and have no precise awareness of their production costs. They recommend that for small and medium enterprises to survive owners/managers must be familiarized with management aspects such as; finance, personnel, sales, production management.
According to Ndung’u (2011) formation of mergers and or business acquisition has an effect of combining business activities as well as the technical expertise form the two independent organizations. When this business models are adopted, the results will improve the performance of the business through proper utilization of its expertise that is emanating from their independent organizations. Moreover, Ajibike and Aremu (2015) postulates that with proper technical expertise, an organization performance is doubled. Technical expertise such as research and development, unique packaging of products and skilled manpower are some of the key technical expertise that newly formed organizations through mergers and or acquisitions organizations gain and which improves their financial performance.

2.4 Research Gap

Mergers and acquisitions have been researched on by several authors. For instance, studies by Yanan et al. (2016) in USA, Ismail et al. (2014) in Egypt, Onotu and Yahaya (2016) in Nigeria and Mboroto (2013) in Kenya reported a positive relationship between mergers and acquisitions and firm’s financial performance. However, studies by Akben-Selcuk and Altiok-Yilmaz (2014) in Turkey, Gupta and Banerjee (2017) in India and Mulwa (2015) in Kenya reported a negative relationship between mergers and acquisitions and firm’s financial performance while studies by Musyoki and Murungi (2015) in Kenya, Mahesh and Prasad (2012) in India and Yusuf (2016) in Jordan reported no changes in firm’s financial performance following mergers and acquisitions. The results of the above studies present a mixed perception on the performance of firms due to mergers and acquisitions indicating the question raised has not been conclusively answered.

Mergers and acquisitions are market concepts that have been applicable in all sectors of the economy and therefore having mixed results leaves a gap for further scrutiny of the concept. This
informed the decision to undertake this research to focus on the effects of mergers and acquisition and how it affects the financial performance of commercial banks in Kenya

2.5 Summary Literature Review

Several authors have done a research on the same area and some have established a positive link between M&A and performance of organizations while others have established negative relationship with performance. Literature reviewed above also supports the concept that mergers and acquisitions are viable and practical business arrangements that have been applied and succeeded in different continents. However, the effects of the acquisitions and or mergers are not direct or deterministic and success depends on proper planning and utilization of the newly formed institutions resources to meet customer needs. This study, was guided by the resource dependency theory, financial synergy theory, theory of corporate control and shareholders wealth maximization theory and discuss all independent variables through empirical review as well as gaps left by past researchers and finally present a conceptual framework to depict the relationship between the dependent and independent variables of the study. The gaps reviewed depicts that although research has been done on the area of mergers and acquisitions in the financial sector, the results have been inconclusive since some results revealed positive and others negative relationship between the variables.

2.6 Conceptual Framework

Mugenda and Mugenda (2013) defines a conceptual framework as a diagram which depicts the relationship between the independent and dependent variables in a study. The association between the two sets of study variables are represented in a diagram with lines joining and showing the nature and flow of the relation. In this study, market base, strategic realignment,
asset base and technical expertise will be presented as the independent variables while financial performance will be presented as the dependent variable.

**Independent Variables**

<table>
<thead>
<tr>
<th>Market Base</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Total customers</td>
<td>➢ Return on assets</td>
</tr>
<tr>
<td>➢ New market development</td>
<td>➢ Profitability</td>
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<table>
<thead>
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<th>Strategic Realignment</th>
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<tbody>
<tr>
<td>➢ Strategy combination</td>
<td></td>
</tr>
<tr>
<td>➢ Combined Strategy</td>
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<tr>
<td>Implementation methodologies</td>
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<table>
<thead>
<tr>
<th>Asset Base</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>➢ Cash acquired</td>
<td></td>
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<tr>
<td>➢ Debtors acquisition</td>
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</table>

<table>
<thead>
<tr>
<th>Expertise Acquired</th>
<th></th>
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<tbody>
<tr>
<td>➢ Business knowledge</td>
<td></td>
</tr>
<tr>
<td>➢ Skills sets acquired</td>
<td></td>
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</tbody>
</table>

**FIGURE 1**

**Conceptual Framework**
### 2.7 Operationalization of Variables

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Variable</th>
<th>Indicator</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>Market Base</td>
<td>Total combined customers Total market share</td>
<td>Ordinal scale</td>
</tr>
<tr>
<td>Independent</td>
<td>Strategic Realignment</td>
<td>Combined Strategy New strategy implementation process</td>
<td>Ordinal scale</td>
</tr>
<tr>
<td>Independent</td>
<td>Assets Base</td>
<td>Total number of assets Value of Assets acquired</td>
<td>Ordinal scale</td>
</tr>
<tr>
<td>Independent</td>
<td>Technical Expertise</td>
<td>Management skills Level of Business Knowledge</td>
<td>Ordinal scale</td>
</tr>
<tr>
<td>Dependent</td>
<td>Financial Performance</td>
<td>Return on assets Return on Investment Profitability</td>
<td>Ratio</td>
</tr>
</tbody>
</table>
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter articulates the research design to be adopted in the study, explain the target population and the sample size and how it is determined, the data collection and finally data analysis and how the findings were presented.

3.2 Research Design
In this study, descriptive research design was preferred. As defined Kothari (2014) descriptive research design involves a process of collecting designing a research problem and collecting data in the field in order to test the hypothesis and to find answers from the filed so as to describe the actual status of the phenomenon under review. Moreover, as postulated by Mugenda & Mugenda (2013) this design is appropriate in finding solutions to questions such as when, how and or who which helps in understanding the topic under review better. Moreover, descriptive research design is appropriate when cost and time are key considerations in undertaking a social science research process.

3.3 Target Population
According to Mugenda and Mugenda (2013) target population refers to the total number of elements under review in a study and upon which the researcher intents to obtain information from. The elements however must have similar observable features for easy identification by the researcher. As defined by Kothari (2014), population is a total set of items, people of anything where information about the topic under review was collected. However, the target population must have the ability to provide the required information that can be used to make conclusions and test the study hypothesis. In this study, the population of interest consisted of all 39
registered commercial banks in Kenya. Within the banks, five heads of department were targeted to provide primary data while all banks financial statement were used to provide secondary data.

3.4 Sample Size and Sampling Procedure

As defined by Mugenda & Mugenda (2013), sampling is a statistical process employed in research to select representative elements from the entire population identified. The main purpose of sampling is to reduce the effort, cost and time used to acquire information from the population. For the purpose of this study, purposive sampling was adopted to select the sample size. According to Kothari (2014), purposive sampling is a judgmental non-probability sampling method in research that aims at arriving at a convenient sample size to collect data so as to test the research hypothesis. Five employees from all commercial banks in Kenya were purposively selected to form the sample size. The sample size therefore was 195 employees. These employees were issued with questionnaires to provide primary data.

3.5 Instrumentation

As defined by Mugenda and Mugenda (2013), a research instrument is the tool that the researcher intend to utilize in order to collect the required data for the entire research process. The instrument should be carefully selected and composed if actual data is to be obtained from the population. For the purpose of this study, both questionnaires and a data collection form was used. The questionnaire was used to gather primary data from the selected employees in the Kenyan commercial banks. A questionnaire was used since it can be used to collected huge volume of information from a large number of people with minimal cost and time. A data collection form was also used to record the secondary data on financial performance of the banks as obtained from the central bank of Kenya website for the base year.
3.6 Data Collection

For the purpose of the research study primary and secondary quantitative data was collected by the researcher. Primary data was gathered through administering of questionnaires to the selected sample size by the researcher. The questionnaire had questions based on a likert scale. The likert scaling is a bipolar scaling method measuring either positive or negative response to a statement (Vohra, 2008). Due to the ministry of healthy regulations to reduce the spread of COVID-19, the questionnaires were delivered to the respondents through email addresses that was provided by the banks management. Secondary data on the other hand was collected in the central banks of Kenya website on the financial performance of the commercials banks in Kenya.

3.7 Data Analysis and Technique

To analyze the data obtained from the field, the researcher utilized both descriptive and inferential statistics. After the primary data collection process, the data collection and the questionnaire were subjected to inspection process to ensure all questions have been filled properly by the responded and finally all the questionnaires were given a code. The data was then keyed into Statistical Package for the Social Sciences software (SPSS) for the purpose of analyzing the raw data. The results of the analysed data were presented by use of tables and charts that indicated the percentages, means and the standard deviation of the mean response. Additionally, regression analysis was run by the researcher as a mean of providing an objective evaluation of the degree of relationship between the study independent and dependent variables.

The regression equation was be as follows

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_3 X_4 + \varepsilon \]

Where \( Y \) = Financial Performance

\( \beta_0 \) = Constant
X1 = Market Base
X2 = Strategic Realignment
X3 = Assets Base
X4 = Technical Expertise

\( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) = Regression Coefficients

\( \varepsilon \) = Error term

3.8 Diagnostic Test

Before undertaking the regression data analysis, the researcher checked on the collected data to establish if it meet the assumptions criteria.

3.8.1 Normality Test

This is a statistical test used to establish the level at which data collected from a field fits a set standard normal distribution (Gujarati, Basic Econometrics, 2003). In this study, Shapiro-Wilk test was used to determine the level of distribution of the data where of the value is more than 0.05 the data was assumed to be normal.

3.8.2 Homoscedasticity Test

Rucker et al. (2011) describes homoscedasticity as an occurrence in linear regression where the error terms in the relationship between the predictor and dependent variables is the same across all the values of the variables. Levene’s test was conducted to test if the variance between independent and dependent variables is the same. According to Levene (1960), if the significance is greater than 0.05, the variances are roughly equal and the assumption is tenable.
3.8.3 Multicollinearity Test
Multicollinearity is a measure of the level at which predictor variables in a model are correlated. In this study, the researcher tested the presence of variance inflation factor (VIF). To determine this, a variance of variation on less than 5 means there is no multicollinearity (Kothari, 2014).

3.8.4 Cronbach’s Alpha Test
This test was conducted to measure the extent of the consistency of the variables used in the study (Brown, 2002). As a coefficient of reliability, it tests the inter-correlation among the variables being considered (Bland & Altman, 1997). A higher Cronbach’s alpha indicates a high average inter-item correlation.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction
This chapter presents the results of the analysis carried out in the study. The analysis is aimed to answer the study’s questions.

4.2 Demographic Response

4.2.1 Response Rate
The researcher distributed a total of 195 questionnaires to bank employees were distributed by the researcher. From the 195 questionnaires, a total of 168 questionnaires were filled and returned to the researcher. This response is shown in chart 4.1.

![Chart Showing Response Rate](chart.png)

**FIGURE 2**
Chart Showing Response Rate

Source, (Research data, 2021)
Figure 4.1 indicates that 86.2% of the respondents representing 168 did fill all questionnaires and returned them to the researcher. However, 13.8% of the respondents representing 27 did not return the questionnaires. The researcher attributed this to their busy schedule. According to Mugenda and Mugenda (2013) response rate of 50% is adequate for analysis and reporting, a rate of 60% is good and 70% and above is excellent. Therefore, this response rate was deemed fit for the study and the information provided by the respondents was adequate to make conclusions about the research objectives.

### 4.2.2 Respondents Age Group

**TABLE 1**

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25 years</td>
<td>9</td>
<td>5.4</td>
</tr>
<tr>
<td>26-30 years</td>
<td>15</td>
<td>8.9</td>
</tr>
<tr>
<td>31-35 years</td>
<td>30</td>
<td>17.9</td>
</tr>
<tr>
<td>36-40 years</td>
<td>42</td>
<td>25.0</td>
</tr>
<tr>
<td>41-45 years</td>
<td>24</td>
<td>14.3</td>
</tr>
<tr>
<td>46 and above years</td>
<td>48</td>
<td>28.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>168</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: (Research Data, 2021)*

From table 4.1, 5.4% of the respondents were below the age of 25%. 8.9% of the respondents ranged between 26-30 years, 17.9% were between 31-35 years, 25.0% were between 36-40 years and more 14.3% were between 41-45 year. However, the remaining bank employees 28.6% were above 46 years old. From the study it can be concluded that majority of the employees in the banks that have undergone mergers and or acquisitions in the chosen departments are 46 years and above. This depicts that they have adequate experience in the banking sector and would therefore provide adequate information required for the study.
4.2.3 Working Experience

The respondents were asked by the researcher to indicate their work experience in the banks in terms of years. The years were, Less than one year, For 1-3 years, For 4-6 years and For 7 years and above. The responses are shown in figure 4.2

![Pie chart showing work experience distribution](image)

**FIGURE 3**

**Working Experience**

**Source:** (Research Data, 2021)

The figure 4.3 indicates that 2(3.7%) of the respondents had worked in the banking sector for a period less than one year. 10(18.5%) had worked for a period of between 1-3 years. However, 13 (24.1%) had been working in the bank for a period between 4-6 years while the rest, 29(53.7%) have been working in the bank for a period more than 7 years. This indicates that the respondents have been in the sector before and after acquisition or merger and this enables them to provide adequate data for the study. To have a proper understanding and provide adequate and reliable information concerning the effect of mergers and acquisition requires engagement with experienced people in the banking sector.
4.3 Descriptive Analysis

In this sub-section, the variables used in the study are described in detail. In addition, summary statistics of the variables used in the study are provided. The respondents were asked three questions about the performance of the banks on four key factors affecting financial performance. The respondents were given statements on the statuses of the respective institution’s market base, strategic realignment, asset base and technical expertise. The respondent’s extent of agreement on the statements were recorded on the Likert scale as: (1) small extent, (2) moderate extent, and (3) great extent. In tables 4.1, the frequency of these responses are compared between the banks that had mergers and acquisitions and those that did not have during the period of study.

In order to carry out the analysis, 195 questionnaires were sent to the 39 commercial banks in the country. After a period of working 10 days, 168 filled questionnaires were returned, translating into 86 percent response rate.
4.3.1 Bank’s market base and Financial Performance

<table>
<thead>
<tr>
<th>Market Base and Financial Performance</th>
<th>Merger &amp; acquisition (mean)</th>
<th>No merger &amp; acquisition (mean)</th>
<th>Diff(mean)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank acquired new customer segment</td>
<td>2.51</td>
<td>1.57</td>
<td>-0.94</td>
<td>-9.25***</td>
</tr>
<tr>
<td>Significant increase in the market share of the bank</td>
<td>2.39</td>
<td>1.67</td>
<td>-0.71</td>
<td>-7.11***</td>
</tr>
<tr>
<td>Significant improvement bank’s brand image</td>
<td>2.38</td>
<td>1.62</td>
<td>-0.76</td>
<td>-7.10***</td>
</tr>
</tbody>
</table>

Source, (Research data 2021)

As in any other business venture, the profitability of commercial banking is dependent on the market share. From the responses, it is clear that banks that had undergone mergers and acquisitions had (relative to their previous positions and situations) acquired new customer base, increased their market share and improved the brand image, compared the banks that did not undergo mergers and acquisitions. The mean differences in all the responses are statistically significant at 5 percent level of significance.

4.3.2 Strategic Realignment and Financial Performance

The financial performance of commercial banks responds to the extent of strategic adaptation in the operating environment. Following mergers and acquisitions, banks are likely to merge the ongoing strategies, develop new overall strategies and change the key pillars of the existing strategic plans, among other strategic realignments. From the sampled respondents, a statistically
significant difference was established between banks that underwent mergers and acquisitions compared to those that did not merge or acquire/get acquired.

**TABLE 3**

**Strategic Realignment and Financial Performance**

<table>
<thead>
<tr>
<th></th>
<th>Merger &amp; acquisition (mean)</th>
<th>No merger &amp; acquisition (mean)</th>
<th>Diff(mean)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank merged ongoing strategies</td>
<td>2.41</td>
<td>1.60</td>
<td>-0.81</td>
<td>-7.57***</td>
</tr>
<tr>
<td>Bank developed a new overall strategy</td>
<td>2.38</td>
<td>1.58</td>
<td>-0.80</td>
<td>-7.40***</td>
</tr>
<tr>
<td>Bank changed key pillars of the strategic plan</td>
<td>2.49</td>
<td>1.61</td>
<td>-0.87</td>
<td>-8.52***</td>
</tr>
</tbody>
</table>

**Source, (Research data 2021)**

4.3.3 **Bank’s asset base and Financial Performance**

The asset base of commercial banks leverages on its overall financial performance. The analysis of the responses reveals that commercial banks that got involved in mergers and acquisitions acquired (relative to pre-merger and acquisition period) tangible, cash and securities assets. These banks’ enhanced performance in the acquisition of assets was statistically significant compared to the banks that did not undergo mergers and acquisitions.
TABLE 4

Bank’s Asset Base and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Merger &amp; acquisition (mean)</th>
<th>No merger &amp; acquisition (mean)</th>
<th>Diff(mean)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank acquired significant new tangible assets</td>
<td>2.31</td>
<td>1.60</td>
<td>-0.70</td>
<td>-6.45***</td>
</tr>
<tr>
<td>Bank has increased its cash assets</td>
<td>2.54</td>
<td>1.59</td>
<td>-0.95</td>
<td>-9.20***</td>
</tr>
<tr>
<td>Bank acquired securities assets that can be traded in the securities market</td>
<td>2.28</td>
<td>1.67</td>
<td>-0.61</td>
<td>-5.82***</td>
</tr>
</tbody>
</table>

Source, (Research data 2021)

4.3.4 Technical Expertise and Financial Performance

In this study, the technical expertise of commercial banks was measured by the pool of managerial skills, the bank’s management impact on brand image and strategic plans for growth. Relative to their prior positions, undergoing mergers and acquisitions raised the performance of the sampled banks compared to the counterpart banks that did not undergo mergers and acquisitions. The differences, as reported in the responses, are statistically significant.


**TABLE 5**

Technical Expertise and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Merger &amp; acquisition (mean)</th>
<th>No merger &amp; acquisition (mean)</th>
<th>Diff(mean)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank has acquired management expertise</td>
<td>2.46</td>
<td>1.58</td>
<td>-0.88</td>
<td>-8.07***</td>
</tr>
<tr>
<td>Bank management has significantly bank’s image in the market</td>
<td>2.41</td>
<td>1.67</td>
<td>-0.74</td>
<td>-6.88***</td>
</tr>
<tr>
<td>Bank’s management has drafted robust strategic plan for growth</td>
<td>2.33</td>
<td>1.58</td>
<td>-0.75</td>
<td>-7.08***</td>
</tr>
</tbody>
</table>

Source, (Research data 2021)

**4.3.5 Bank’s Financial Performance**

The respondents were asked to state the extent to which they agreed with the statement ‘there is a significant improvement in the bank’s financial performance’. The responses ranged from ‘small extent, moderate extent, and great extent’. The mean results are compared for banks with mergers and acquisition and those without and are presented in table 4.6
TABLE 6

Bank’s Financial Performance

<table>
<thead>
<tr>
<th>Merger &amp; acquisition (mean)</th>
<th>No merger &amp; acquisition (mean)</th>
<th>Diff(mean)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant improvement</td>
<td>2.38</td>
<td>1.62</td>
<td>-0.76</td>
</tr>
</tbody>
</table>

in the bank’s financial performance

Source, (Research data 2021)

The results indicate a statistically significant difference between the two categories of the banks, with the respondents from the banks that underwent mergers and acquisition agreeing to a greater extent about the improvement of their institution’s financial performance.

4.3.6 Financial Performance Ratios

A standard measure of a banks’ performance is the profitability (CBK, 2018). The measure of profitability used in this study is the return on assets. The banks’ return on assets is measured by dividing the net profits with the total assets. This indicates how the financial entities are able to acquire deposits and invest them profitably (Sari & Endri, 2019). Return on assets of 39 commercial banks in Kenya were used in this study and their summary statistics is provided in table 4.7
TABLE 7

Financial Performance Ratios

<table>
<thead>
<tr>
<th>Number of observations</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on assets</td>
<td>39</td>
<td>-0.25</td>
<td>5.54</td>
<td>-24.59</td>
</tr>
</tbody>
</table>

Source, (Research data 2021)

A comparison of the return on assets for the banks that had mergers and acquisitions and those without is provided in table 4.8

TABLE 8

Financial Performance Ratios Response

<table>
<thead>
<tr>
<th>Merger &amp; acquisition (mean)</th>
<th>No merger &amp; acquisition (mean)</th>
<th>Diff(mean)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on asset</td>
<td>1.54</td>
<td>-0.78</td>
<td>-2.33</td>
</tr>
</tbody>
</table>

Source, (Research data 2021)

The t-test results reveal that there was no statistically significant difference between the rates of return of the two categories of commercial banks for the reporting period ending December 2020. This phenomena is explained by the fact that COVID-19 had affected the commercial banking sector since borrowing by customers was very low and citizens were not saving well in the banks.

4.4 Inferential statistics

4.4.1 Diagnostic Tests

In this subsection, the validity of the variables used to analyze the effect of mergers and acquisitions on the financial performance of commercial banks is tested.
4.4.1.1 Normality Test

Shapiro-Wilk test was adopted in this study to test normality. In Shapiro – Wilk test, if the p values lie below 0.05, then the decision is reached that the data is not normally distributed (Razali & Wah, 2011). Field (2013) on the other hand asserts that statistic vales close to 1 indicate possible normal distribution while statistic values below 0.4 show skewed data. The study null hypothesis stated that the data is not normally distributed. Normality test results were as shown in table 4.9.

**TABLE 9**

<table>
<thead>
<tr>
<th>Normality Test</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
</tr>
<tr>
<td>Market Base</td>
<td>0.99</td>
</tr>
<tr>
<td>Strategic Realignment</td>
<td>0.99</td>
</tr>
<tr>
<td>Asset Base</td>
<td>0.99</td>
</tr>
<tr>
<td>Technical Expertise</td>
<td>0.99</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>0.99</td>
</tr>
<tr>
<td>Return on asset (ROA)</td>
<td>0.54</td>
</tr>
</tbody>
</table>

*Source: (Research Data, 2021)*

Observations on market base, technical expertise, strategic realignment, asset base, financial performance were found to be normally distributed, as indicated by the p-values that are greater than 0.05. On the other hand, observations of return on assets were found not to be normally distributed. This reflects the commercial banking industry in Kenya, where some banks are making losses and therefore are candidates for mergers and acquisitions. For the purpose of statistical analysis, the variable was transformed into logarithm, to improve on the distribution.
4.4.1.2 Homoscedasticity Test

Rucker et al. (2011) describes homoscedasticity as an occurrence in linear regression where the error terms in the relationship between the predictor and dependent variables is the same across all the values of the variables. Levene’s test was conducted to test if the variance between independent and dependent variables is the same. According to Levene (1960), if the significance is greater than 0.05, the variances are roughly equal and the assumption is tenable.

**TABLE 10**

**Homoscedasticity Test Results**

<table>
<thead>
<tr>
<th></th>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Base</td>
<td>2.18</td>
<td>1</td>
<td>166</td>
<td>0.14</td>
</tr>
<tr>
<td>Strategic Realignment</td>
<td>0.01</td>
<td>1</td>
<td>166</td>
<td>0.97</td>
</tr>
<tr>
<td>Asset Base</td>
<td>4.72</td>
<td>1</td>
<td>166</td>
<td>0.03</td>
</tr>
<tr>
<td>Technical Expertise</td>
<td>5.35</td>
<td>1</td>
<td>166</td>
<td>0.02</td>
</tr>
<tr>
<td>Financial performance</td>
<td>0.64</td>
<td>1</td>
<td>166</td>
<td>0.43</td>
</tr>
<tr>
<td>Return on asset (ROA)</td>
<td>4.91</td>
<td>1</td>
<td>166</td>
<td>0.03</td>
</tr>
</tbody>
</table>

**Source:** (Research Data, 2021)

The test for heteroscedasticity was conducted and market base, strategic realignment, financial performance were found to have constant variance in the residuals. However, asset base, technical expertise, return on asset were found not to contain constant variance in their residuals. For the ROA, which is a continuous variable, a transformation was done to correct for the heteroscedasticity. Since asset base and technical expertise are measured in ordinal values, their non-constant variance cannot significantly affect the results.
4.4.1.3 Multicollinearity Test

Variance inflation factor (VIF) and tolerance level are among the suitable tools to test multicollinearity in a dataset (Cohen & Cohen, 2003). Landau and Everett (2004) describes that, VIF more than 10 and tolerance values below indicates multicollinearity.

**TABLE 11**

**Multicollinearity Test Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>VIF</td>
</tr>
<tr>
<td>1 Market Base</td>
<td>1.40</td>
<td>0.72</td>
</tr>
<tr>
<td>Strategic Realignment</td>
<td>1.51</td>
<td>0.66</td>
</tr>
<tr>
<td>Asset Base</td>
<td>1.29</td>
<td>0.78</td>
</tr>
<tr>
<td>Technical Expertise</td>
<td>1.49</td>
<td>0.67</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Financial Performance*

**Source:** (Research Data, 2021)

Variance inflation factors were in the range of one, meaning that there is no correlation between the predictor variable being considered and the rest of the predictor variables. Therefore, the data did not have any multicollinearity problem.

4.4.1.3 Cronbach’s Alpha Test

This test was conducted to measure the extent of the consistency of the variables used in the study (Brown, 2002). As a coefficient of reliability, it tests the inter-correlation among the variables being considered (Bland & Altman, 1997). A higher Cronbach’s alpha indicates a high average inter-item correlation. In this study, the Cronbach’s alpha was found to be 0.31 for the qualitative variables (market base, strategic realignment, asset base, technical expertise and financial performance) as well as the return on assets ratios. This obviously low level scale
reliability coefficient improved when the return on assets variable was excluded and the Cronbach’s alpha rose to 0.73. This indicates that the tool used to collect data and the study questions were consistency in proving data on the study variables.

4.5 Correlation Analysis

To test correlation between the research variables, spearman correlation was run by the research using STATA. The spearman correlation uses r values to estimate the level of association between the research variables evaluated using ranked data. The resulted were checked against the spearman table of r values and their level of association between the study variables.

<table>
<thead>
<tr>
<th>Range</th>
<th>Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00-0.20</td>
<td>Negligible</td>
</tr>
<tr>
<td>0.21-0.40</td>
<td>weak</td>
</tr>
<tr>
<td>0.41-0.60</td>
<td>Moderate</td>
</tr>
<tr>
<td>0.61-0.80</td>
<td>Strong</td>
</tr>
<tr>
<td>0.81-1.00</td>
<td>Very strong</td>
</tr>
</tbody>
</table>

The results of the spearman correlation are as shown in table 4.12.
TABLE 12

Correlation Results

<table>
<thead>
<tr>
<th></th>
<th>Market Base</th>
<th>Strategic Realignment</th>
<th>Assets Base</th>
<th>Technical Expertise</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Base</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Realignment</td>
<td>0.3412</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets Base</td>
<td>0.2465</td>
<td>0.2187</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical Expertise</td>
<td>0.3649</td>
<td>0.3786</td>
<td>0.3551</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>Financial Performance</td>
<td>0.3101</td>
<td>0.3261</td>
<td>0.2988</td>
<td>0.3389</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2021)

The data presented in the table indicates a positive correlation strategic realignment between and market base (r = 0.3412). Therefore, when the banks develop new strategies based on the initial banks strategic plan, new market bases are realized. Moreover, there is a positive relationship assets base and market base as by r value of 0.2465. Moreover, there is a positive relationship between assets base and strategic realignment in commercial banks due to either merging or acquisition. This was indicated by a r value of 0.2187. Technical expertise was found to be positively associated with strategic realignment. This was revealed by r value of 0.3786. This indicates that with proper technical expertise in financial management and business administration, the banks that have gone through merger and or acquisition device sound strategic plans to help the banks perform better. Moreover, assets base and technical expertise have a positive correlation as indicated by r value of 0.3649. Assets base had a positive
association with technical expert as depicted by r value of 0.3551. With acquisition or mergers of banks, assets base of the newly formed financial institution is strong due to combination of the previously owned banks as well as acquisition of new assets through banking operations.

As indicated in the analysis, there is a positive association between financial performance and strategic realignment and technical expertise level as indicated by r value 0.3261 and 0.3389 respectively. This indicates that with merging and or acquisition, banks are able to create new strategic plans and utilize the new combined technical expertise to improve their financial performance. Moreover, there is a positive relationship between banks financial performance and market base and assets base. The r values were 0.3101 and 0.2988 respectively. This indicates that after acquisition and or merger the banks financial performance improves, as the banks are able to consolidate their markers and assets as well as acquire new assets form operational activities and new markets through sale of the new brand.

4.5 Effect of mergers and acquisition on financial performance of commercial banks in Kenya

The objective of this study is to evaluate how mergers and acquisitions influences the financial performance of commercial banks in the Kenyan context. The actual practice of merging and acquisitions involves consolidation of market and asset bases, business strategy realignment as well as accessing the necessary technical expertise. The existing literature supports the hypothesis that the access to new markets and technical expertise, acquisition of assets and strategy realignment has a positive influence on the banks’ financial outturn. The model also has a dummy variable indicating one if the bank had a merger or acquisition and zero if otherwise. The banks that had had a merger or acquisition are hypothesized to have a relatively higher financial performance. To test this hypothesis, this study uses a multinomial logistic regression
to evaluate the probability that the financial performance of the sampled commercial banks was
influenced by the indicated variables. To assess the difference of the effect of these variables on
the financial performance, a dummy variable is introduced to differentiate the banks that
underwent mergers and acquisition from those that did not. The regression results are presented
in table 4.13.

TABLE 13

Mergers and Acquisition on Financial Performance

<table>
<thead>
<tr>
<th>Number of observations</th>
<th>168</th>
</tr>
</thead>
<tbody>
<tr>
<td>LR chi2(10)</td>
<td>69.24</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.0000</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.2185</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-123.81876</td>
</tr>
</tbody>
</table>

| Variable                  | Coefficient | Standard error | z value | P>|z| |
|---------------------------|-------------|----------------|---------|-----|
| Market base               | .0412897    | .314299        | 0.13    | 0.895 |
| Strategic realignment     | -.4387786   | .343449        | -1.28   | 0.201 |
| Asset base                | -.410417    | .32999436      | -1.24   | 0.214 |
| Technical expertise       | .050651     | .3275989       | 0.15    | 0.877 |
| Merge (1=yes, 0=no)       | -16.4012    | 1143.51        | -0.01   | 0.989 |
| Constant                  | .9749822    | .9303447       | 1.05    | 0.295 |

<table>
<thead>
<tr>
<th>Base outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market base</td>
</tr>
<tr>
<td>Strategic realignment</td>
</tr>
<tr>
<td>Asset base</td>
</tr>
<tr>
<td>Technical expertise</td>
</tr>
<tr>
<td>Merge (1=yes, 0=no)</td>
</tr>
<tr>
<td>Constant</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2021)

The model used to explain the effect of mergers and acquisition on financial performance of
commercial banks in Kenya was assessed as a good fit due to the overall p-value of 0.000. This
means that the full model is statistically significant, allowing the conclusion that the inclusion of
all the variables in the model predicts the dependent variable better than when the relationship is
being explained by the intercept only.
The dependent variable has three categories of the responses indicating the level of the respondents’ agreement to the financial performance of commercial banks (small extent, moderate extent, and great extent). The measures of the independent variables are also ranked in the same scale. The three categories in the dependent variable results into two sets of logistic regression coefficients: the category of agreeing to small extent and the other agreeing to great extent. Agreeing to moderate extent therefore becomes the base category. The logistic regression coefficients are therefore compared to the base category.

The coefficients of the variables in the ‘agree to small extent’ category are all not statistically significant at 10 percent level of significance. A possible reason for the non-significance of the coefficients is the use of ordinal values in the measurement of financial performance. Thus, category three represents better financial performance compared to category two, which subsequently represents better financial performance than category one. Since category two is the base outcome (the reference category), a unit increase in the ranking of market base, strategic realignment, asset base and technical expertise is expected to be associated with lower multinomial log-odds of agreeing to a low extent in the financial performance of the banks, compared to a moderate agreement. While the sign of the coefficients are to a greater extent as theoretically expected, the association cannot be ruled to be out of chance and thus cannot be interpreted further.

In the other set of logistic regression, as the respondents increased their ranking of agreement regarding the commercial bank’s increase in the market base due to mergers and acquisition, the likelihood of agreeing that the bank’s financial performance increased to great extent compared to moderate extent increased by 1.05 units, while holding all other variables in the model constant. In addition, the respondents’ increase of ranking on the agreeing to technical
expertise due to mergers and acquisition, the multinomial log-odds of agreeing to great extent compared to moderate extent increased by 1.40 units, while holding all other variables in the model constant. The likelihood of agreeing to great extent compared to moderate extent increased by 1.50 units for respondents from banks reported mergers and acquisitions compared to the banks that did not report. This indicates that for commercial banks that had mergers and acquisition, the effect of market base, strategic realignment, asset base and technical expertise on financial performance was statistically significantly higher than for the commercial banks that had no mergers and acquisitions.

**Fitting the Regression Model**

The multinomial regression model for this study was

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 D + \epsilon \]

Where \( Y = \) Financial Performance

\( \beta_0 = \) Constant

\( X_1 = \) Market Base

\( X_2 = \) Strategic Realignment

\( X_3 = \) Assets Base

\( X_4 = \) Technical Expertise

\( D = \) Dummy variable for whether bank merged/acquired or not (takes values of 1=yes, 0=no)

\( \beta_0, \beta_1, \beta_2, \beta_3 \) and \( \beta_4 = \) Regression Coefficients

\( \epsilon = \) Error term

Based on the significant variables, the fitted model became

\[ Y = -5.78 + 1.05 X_1 + 1.39 X_4 + 1.50D \]
The regression results show that when all other factors are held at constant, the likelihood of respondents agreeing to greater extent that the commercial banks’ financial performance increased to great extent compared to moderate extent was 1.05 units for market base, 1.39 units for technical expertise and 1.50 units for banks that had mergers and acquisitions respectively.

**Correlation Analysis between the independent variables and the financial performance ratios**

Correlation analyses between the independent variables and the financial performance ratios was conducted to explore the relationship between the return on asset (ROA) ratios of the banks with the respondents’ rankings on the performance of various independent variables. Since the independent variables are ordinal and the ROA ratios are continuous, Spearman’s rank correlation analysis was used. The results are presented in table 4.14

| Return on asset ratio | Variable                | Spearman's rho | Prob > |t| |
|----------------------|-------------------------|----------------|--------|---|
|                      | Market base             | 0.2199         | 0.0042 |
|                      | Strategic realignment   | 0.2232         | 0.0036 |
|                      | Asset base              | 0.2634         | 0.0006 |
|                      | Technical expertise     | 0.2995         | 0.0001 |

**Source:** (Research Data, 2021)

The null hypothesis of the Spearman’s test is that the variables are independent. In all the tests, as can be seen from table 4.14, the null hypothesis is not accepted at 5 percent level of significance. This implies that employee perceptions on the banks’ performance on market base, strategic realignment, asset base, technical expertise are related to the banks’ financial performance, which was independently determined. These findings strengthen the validity and the robustness of the regression model and results of this study.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter covers summary of the findings, conclusion and recommendations based on the research findings. It highlights key findings and recommendations which will add to the body of knowledge on credit management as well as provide highlight for future scholars.

5.2 Summary of the Findings

5.2.1 Market Base and Financial Performance of Selected Commercial Banks
On this variable, the study established that there is a moderate positive relation between market base and financial performance of commercial banks in Kenya. This was indicated by a coefficient of 1.05 relationship in the regression model. This indicates that with a combined market due to acquisition/mergers, banks are able to improve on their market share, acquire new customers which have a potential of depositing more and borrowing more leading to improved financial performance in terms of profitability. Moreover, with mergers and acquisition helps the banks to improve their brand image as customers in the market values the new strong brand coming from the organization.

5.2.2 Strategic Realignment and Financial Performance of Selected Commercial Banks
The study established that merging and or acquisition of banks leads to merge the ongoing strategies, develop new overall strategies and change the key pillars of the existing strategic plans, among other strategic realignments. This was supported by the significance difference in banks performance mean of -0.81, -0.80 and 0.87. The strategic alliances improves the banks performance since new existing strategies can be fully re-engineered to form new strategies to improve the banks performance.
5.2.3 Asset Base and Financial Performance of Selected Commercial Banks

On this variable, the study established that there has been a significant difference in banks performance due to mergers and acquisition due to the combination of previously owned assets by the individuals banks. The mean difference was indicated by -0.70, -0.95 and 0.61 indicating that acquired tangible, cash and securities assets were key in improving the return on assets and profitability of the banks.

5.2.4 Technical Expertise and Financial Performance of Selected Commercial Banks

The study found out that relative to their prior positions, undergoing mergers and acquisitions raised the performance of the sampled banks compared to the counterpart banks that did not undergo mergers and acquisitions. The differences, as reported in the responses, are statistically significant such that the mean financial performance difference was -0.88, -0.74 and -0.75 respectively for the banks that have been merged or acquired.

5.3 Conclusions

From the data analysis, the study concludes that there is a positive financial performance of commercial banks in Kenya due to acquisition and mergers. Merging and or acquisition significantly improves the number of banks customers number by combing the clients hence improving the levels of deposits and the banks inflows. Inflows are critical in creation of credit that is extended to the banks clients in form of loans. The loans are repaid with interest hence generating revenue for the banks. However, the findings indicates that to some extent, clients are subjected to a wave of panic due to merger and or acquisition of banks and hence would withdraw their money hence affecting the banks flows. The conclusion agrees with Salant *et al.*, (2017) study which concluded that mergers and acquisitions are associated with growth of market power that are beneficial to the new firms and that are harmful to the customers.
Moreover, a different study by Salant Switzer and Reynolds (2017) concluded that the combined market gives the new entity enough capacity to generate more value to the shareholders as it guarantees more sales activities that are beneficial to the entire entity and the stakeholders. Although profit is the sole goal of all firms, such combination of market creates a loophole that organizations can utilize to exploit the consumers. Moreover, this does not mean organizations only target money as their main objectives since some are service and non-profit based. However, in improving the market grip most managers are looking at how they can improve on the shareholders’ value through improved financial ratios such as the return on assets and the return on Equity.

Secondly, strategy formulation and implementation is key to the success of any organization. When banks are acquired or merge, there is a tendency of combining the two previously adopted strategies and merging into one composite strategy to steer forward the new entity. However, this may not lead to automatic financial performance as established in the study. Banks with combined weak strategies would not yield to positive or significant financial performance. The findings agrees with Kasina (2012) who concluded that there is a positive financial performance among banks due to strategic alignment. The study concluded that the competitive advantage among banks did not come from internal competencies alone but also from the key strategic realignments the banks management had adopted. This realignment however must be properly attached to the banks vision and mission statement as they help the management to identify opportunities for market growth, increase in shareholders wealth and financial performance of the firm. The study concluded that the bank must have proper strategic alignment in all its operations to facilitate proper monitoring of its entire portfolios, improve on
its control procedures and processes and finally improve on reporting which has a bearing on the financial performance of the bank.

Assets are a key element in financial performance of commercial banks. Through acquisition and or mergers, banks acquire assets such as debtors, outstanding loans among other which helps the banks in improving their financial stability. The bank’s assets base will determine how much they can invest, how much can be given out as loans as well as compliance levels with central banks assets base requirements. These conclusions agree with Korir (2016) who concluded that mergers and acquisitions resulted into having more controllable assets to an organization and ultimately positive financial performance of banks. Moreover, Ndura (2010) concluded that a merger of two organizations in the insurance industry did not have any positive effect on their financial performance of the newly formed firm in the short-term. However, with time, the assets acquired through the merging process accumulates returns the in the long run, if put into proper use, the financial performance of the firms will improve. Moreover, the study found out that mergers had no significant effect on the capital adequacy of the insurance firms and also their level of solvency in the short-term. However, the overall effect of mergers of insurance companies is that it greatly affects the financial performance of the firms as these results into more assets that can be used to generate more services and products as well as improving the market share and sales.

Finally, the banks when they are acquired or emerged, new competent management takes over. The new team is able to analysis the current performance and come up with better strategies to improve the performance. As indicated in the results, the banks that have merged or acquired have improved their assets ratios which is a key indicators of banks financial performance. The study conclusion, agrees with the confusions made by a study by Ndung’u
that formation of mergers and or business acquisition has an effect of combining business activities as well as the technical expertise form the two independent organizations. When this business models are adopted, the results will improve the performance of the business through proper utilization of its expertise that is emanating from their independent organizations. Secondly the conclusion agrees with those of Girma et al (2011) in UK that when organizations combine their operations through acquisitions and mergers, they are able to improve on their internal capacity of employees who improve efficiency, increase their productivity and the organization benefits from the model. Finally, the conclusion agrees with Fatima and Shehzad (2014) in Pakistan that that combination of employees from two separate entities creates a pool of technical expertise and this improves the efficiency in the firm, improves productivity and finally the performance of the firm. However, this improvement doesn’t come without frictions when the two organization are trying to find the right mix of combining the employees and creating an organizational structure that can accommodate all employees.

5.4 Recommendations

The study also recommends that banks facing constraints on the market should consider merging with others and or being acquired in a bid to consolidate their energies to expand their profitability. This is because mergers/acquisition is not just for the best interest of the managers but also shareholders as it leads to an increase in shareholders’ wealth as opposed to each financial institution operating separately on its own by increasing the number of customers a bank has. Moreover, the study recommends that financial institutions that are already struggling with financial crisis to consider consolidating their assets, technical expertise, market base and formulate new dynamic strategies that will improve their financial performance. With a
combined approach through either merger or acquisition, banks stand a better chance to survive in the ever changing financial sector of the economy.

5.5 Suggestion for Further Research

The researcher recommends another study to be done on the effects of mergers and acquisitions on the performance of small and medium enterprises in Kenya which forms a major part of the commercial sector and that go through mergers and or acquisitions frequently. Moreover, another study can be done to investigate the key determinants of mergers and acquisition in Kenya commercial banks in Kenya.

5.6 Limitations of the Study

The study only considered non-financial mergers/acquisition and how they affect the commercial banks performance in Kenya. Financial reasons behind mergers and acquisition on financial performance was not included in the study. If the financial reasons were included the results could be different.
REFERENCES


Safa, D. A (2017). The extent to which companies listed on the Damascus Securities Exchange (DSM) are required to disclose in accordance with the requirements of IFRS 8 For Operating Sectors. An Applied Study. *Economic and Legal Sciences Series, 38*(3).


APPENDIX I: AUTHORIZATION

SCHOOL OF GRADUATE STUDIES AND RESEARCH

KCA/SGS/July. 21/1 14th July 2021

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: JAMHURI ISAAC MASAVI REG NO. 17/02361

It is my distinct pleasure to introduce to you Mr. Jamhuri Masavi who is a student in our institution pursuing a Master of Science in Commerce at the College of Business.

Jamhuri is conducting a research on a topic titled: “Effect of Mergers and Acquisition on Financial Performance of Commercial Banks in Kenya” which is part of the requirements of the program he is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to him is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,

[Signature]

Dr. Nyaribo Misuko
Dean, School of Graduate Studies & Research
APPENDIX II: QUESTIONNAIRE

Dear Respondent,

This questionnaire presented to you is meant to assist the researcher in collecting data “on the effects of mergers and acquisition on the financial performance of commercial banks in Kenya” Kindly assist in the research by answering all questions below. Please note that the Information you provide here will be for academic purpose only and that of this research are all the responses will be treated with utmost confidentiality. Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.

PART A: GENERAL INFORMATION

1. Kindly indicate your age bracket

   25 years or below (   )  26-30 years (   )
   31-35 years (   )  36-40 years (   )
   41-45 years (   )  46 years and above (   )

2. Kindly the number of years you have been working in the banking sector

   Less than one year (   )
   For 1-3 years (   )
   For 4-6 years (   )
   For 7 years and above (   )
PART B: MARKET BASE

Please indicate the extent to which you agree with each statement with reference to the effect of market base on the financial performance of commercial banks in Kenya.

Given on a Likert scale as 1-3 where 1=small extent, 2= moderate extent, 3= great extent

<table>
<thead>
<tr>
<th>Study Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Has the bank acquired new customer segment through either acquisition or merger?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Is there a significant increase in the market share of the bank after either acquisition or merger?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Does mergers and acquisitions improve the banks image in the eyes of the customers?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART C: STRATEGIC REALIGNMENT

Please indicate the extent to which you agree with each statement with reference to the effect of strategic realignment on the financial performance of commercial banks in Kenya.

Given on a Likert scale as 1-3 where 1=small extent, 2= moderate extent, 3= great extent

<table>
<thead>
<tr>
<th>Study Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Did the bank after merger and or acquisition merger also the ongoing strategies?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Did the bank merger and or acquisition develop a new overall strategy to run its operations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Did the bank change the key pillars of the strategic plan after merger and or acquisition?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART D: ASSET BASE

Please indicate the extent to which you agree with each statement with reference to the influence of asset base on the financial performance of commercial banks in Kenya

Given on a Likert scale as 1-3 where 1=small extent, 2= moderate extent, 3= great extent

<table>
<thead>
<tr>
<th>Study Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Did the bank acquire new tangible assets after the merging and acquisition process?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. The value of the cash assets acquired by the bank after the merging and acquisition process?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Did the bank has acquired securities assets that can be traded in the securities market?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART E: TECHNICAL EXPERTISE

Please indicate the extent to which you agree with each statement with reference to the effect of technical expertise on the financial performance of commercial banks in Kenya

Given on a Likert scale as 1-3 where 1=small extent, 2= moderate extent, 3= great extent

<table>
<thead>
<tr>
<th>Study Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. Did the bank merge or acquired the management after the merging and acquisition process?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Has the new management after the merging and acquisition improved on the banks image in the market?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Has the new management drafted a robust strategic plan to grow the bank both in the short-term and long-term?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART F: FINANCIAL PERFORMANCE

Please indicate the extent to which you agree with each statement with reference on the financial performance of commercial banks in Kenya due to either merger or acquisition.

Given on a Likert scale as 1-3 where 1=small extent, 2= moderate extent, 3= great extent

<table>
<thead>
<tr>
<th>Study Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Is there a significant relationship between the banks acquisition and or merger and financial performance?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX III: COMMERCIAL BANKS IN KENYA

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank Name</th>
<th>Total Asset</th>
<th>Return on Asset</th>
<th>Total Shareholder</th>
<th>Profitability before tax</th>
<th>Return on Equity</th>
<th>M &amp; A</th>
<th>NOT M &amp; A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KCB BANK</td>
<td>23,586 kshs m</td>
<td>758,345 kshs m</td>
<td>111,271 kshs m</td>
<td>3.11 %</td>
<td>21.2 %</td>
<td>M</td>
<td>NOT M &amp; A</td>
</tr>
<tr>
<td>2</td>
<td>CO-OP BANK</td>
<td>16,961 kshs m</td>
<td>495,823 kshs m</td>
<td>85,597 kshs m</td>
<td>3.41 %</td>
<td>19.8 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>EQUITY BANK</td>
<td>14,207 kshs m</td>
<td>667,650 kshs m</td>
<td>86,697 kshs m</td>
<td>2.13 %</td>
<td>16.4 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>I &amp; M BANK</td>
<td>10,289 kshs m</td>
<td>283,569 kshs m</td>
<td>52,324 kshs m</td>
<td>3.63 %</td>
<td>19.7 %</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>ABSA BANK</td>
<td>8,300 kshs m</td>
<td>377,936 kshs m</td>
<td>44,969 kshs m</td>
<td>2.2 %</td>
<td>18.5 %</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>STANDARD BANK</td>
<td>7,018 kshs m</td>
<td>325,873 kshs m</td>
<td>50,219 kshs m</td>
<td>2.15 %</td>
<td>14 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>NCBA BANK</td>
<td>6,955 kshs m</td>
<td>491,614 kshs m</td>
<td>72,028 kshs m</td>
<td>1.41 %</td>
<td>9.7 %</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>STANBIC BANK</td>
<td>6,237 kshs m</td>
<td>318,986 kshs m</td>
<td>41,857 kshs m</td>
<td>1.96 %</td>
<td>14.9 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>BANK OF BARODA</td>
<td>5,791 kshs m</td>
<td>166,313 kshs m</td>
<td>26,677 kshs m</td>
<td>3.48 %</td>
<td>21.7 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>CITIBANK</td>
<td>5,480 kshs m</td>
<td>106,454 kshs m</td>
<td>22,134 kshs m</td>
<td>5.15 %</td>
<td>24.8 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>DIAMOND TRUST</td>
<td>3,942 kshs m</td>
<td>312,189 kshs m</td>
<td>54,032 kshs m</td>
<td>1.26 %</td>
<td>7.3 %</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>BANK OF INDIA</td>
<td>2,733 kshs m</td>
<td>75,129 kshs m</td>
<td>17,853 kshs m</td>
<td>3.64 %</td>
<td>15.3 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>PRIME BANK</td>
<td>1,849 kshs m</td>
<td>116,204 kshs m</td>
<td>24,902 kshs m</td>
<td>1.59 %</td>
<td>7.4 %</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>FAMILY BANK</td>
<td>1,326 kshs m</td>
<td>90,591 kshs m</td>
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source: Commercial Banks Published Financial Statements December 2020

M & A  mergers and acquisition

N  not merged or acquired

Y  Merged or acquired