# EFFECTS OF MERGERS ON THE PERFORMANCE OF COMPANIES: A CASE OF CFC STANBIC BANK LIMITED

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**EGERTON UNIVERSITY**

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## DECLARATION AND RECOMMENDATION

### DECLARATION

I declare that this proposal is my original work and has not been submitted for examination in any other institution.

Signature: ………………………… Date: ……………………

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Reg. No. CM11/00318/07

### RECOMMENDATION

This proposal has been submitted with our approval as university supervisors.

Signature: …………………………… Date: ……………………

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## DEDICATION

I dedicate this thesis to my parents, Maurice and Mary and to my brother Michael

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My acknowledgement goes directly to the Almighty God for without whom I would not have come this far. I appreciate the administration of Egerton University for granting me the opportunity to advance my studies and knowledge in the university. I would like to thank my project supervisor Mr. Joshua Langat for his patience, guidance, and constructive assistance throughout this study which was invaluable. My sincere appreciation goes to my lecturers whose support towards the achievement of this course cannot be overemphasized. My utmost gratitude is also extended to my parents and friends for their continuous support and encouragement to aim higher even from miles away. Finally, I am thankful to all the people who in their special ways made this research a success.

## ABSTRACT

A merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. According to popular perception, Mergers fail to deliver the synergies, competitive scale, and financial results that executives had anticipated (Robert, 2002). With the negative viewpoint so popular, many executives may have second thoughts about proceeding with a merger, even if a deal looks promising. In Kenya, a number of organizations including banks have embraced the Merger strategic move. Despite its anticipated advantages, some studies have shown the opposite. A study on effects of mergers on the performance of companies was carried out on CFC and Stanbic Limited in Kenya with greater emphasis on profitability, Cash flow and Share price as company performance parameters. The study was hinged on a conceptual framework where the envisaged aspects of mergers would form the independent variable while the expected outcomes formed the dependent variable. The interplay of the said variables were regulated by a moderating variable hinged on government policy, nature of industry and level of competition. The target population of the study was 50 respondents. The study utilized the descriptive survey design. Data was collected from the published annual reports and accounts of the CFC and Stanbic Limited before and after merging and was subsequently analyzed using t-test. The findings of the study were used to assess whether mergers improve financial and operational efficiency of banks. The findings will also be used by the government to assess whether their policies relating to mergers are bearing fruits. Finally, the findings of the study were useful to CFC Stanbic Bank in accessing its performance over the years and how to improve competition in banking sector. The findings indicate that merger had no significant influence on profitability and share price. It however had significant influence on cash flow. Future research can be done on effects of mergers and acquisition on the performance of companies in different fields so as to shed more light on the effect of mergers and acquisitions on other companies in different countries.

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## LISTS OF ABBREVIATION

| | |
|---|---|
| CEO | - Chief Executive Officer |
| CBK | - Central of Kenya |
| CBN | – Central Bank of Nigeria |
| FCF | - Free Cash Flow |
| MA | - Mergers and Acquisitions |
| NSN | - Nokia Siemens Networks' |
| SAHL | - Stanbic Africa Holdings Limited |

# CHAPTER ONE

# INTRODUCTION

## 1.0 Background of the Study

A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives while remaining independent organizations. Strategic alliances are voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services. They can occur as a result of a wide range of motives and goals, take a variety of forms, and occur across vertical and horizontal boundaries (Sudarsaman, 2005).

Strategic alliances between firms are now a regular phenomenon. Their proliferation has led to a growing stream of research by strategy and organizational scholars who have examined some of the causes and consequences. Strategic alliances are becoming an important form of business activity in many industries, particularly in view of the realization that companies are competing on a global field. Strategic alliances are not a panacea for every company and every situation. However, through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects. Strategic alliance can be described as a process wherein participants willingly modify their basic business practices with a purpose to reduce duplication and waste while facilitating improved performance.

Increased competition arising from the fast changing global market has resulted in a situation where firms are finding it increasingly difficult to remain competitive. More than ever before many skills, capacities and resources that are essential to a firm's current and future prosperity are being found outside existing boundaries and outside management's direct control. Accordingly, managers must think outside these boundaries in order to ensure that their firms remain competitive and enter into relationships that will avail tangible and intangible benefits. The changing environments and the new forms of competition have created new opportunities and threats for firms. This has forced many of them to adopt many forms of restructuring activity. It has therefore become common phenomenon for firms to come together in pursuit of a common strategy which avails gains to both firms (Gupta, 2012). There are three potential benefits that business may realize from

strategic alliances (Sudarsaman, 2005): ease of market entry, shared risk, share knowledge and expert.

Studies tracking shareholder returns for every large, publicly traded North American acquirer in the 1990s showed that only 44 percent of deals initiated by these companies yielded superior investor returns. On average, acquirers underperformed their respective industries by 3 percent.

For example, shareholder value was an important element in the failed merger attempt between Germany's Deutsche Bank and Dresdner Bank in 2000. Early adopters of shareholder-value goals include Lloyds-TSB and banks in Scandinavia, Spain and the Benelux countries. In 1999, ABN-AMRO of the Netherlands announced a policy shift to shareholder value, requiring greater focus on the expansion of highly profitable activities like asset management; private banking and corporate finance, all of which require only relatively limited capital.

A number of obstacles have been identified as limitations to the progress of MA in the banking industry**.** A 1993 ILO study on banking noted that efficiency improvements through mergers were frequently overestimated. Contemporary research appears to confirm this observation. Worldwide, two-thirds of mergers end in failure – some because of staff hostility and others because of insufficient preparation and inability to integrate personnel and systems. Even more failures are due to irreconcilable differences in corporate cultures and management. Among some of these obstacles to MA are bank regulation, competition policy, trade union organization, internet banking, and inadequate assessment of cultural aspects of MA: each poses a limitation on effective growth of MA in banking. For example, bank regulation places a limitation on MA to ensure that a merged institution does not exceed the legal size to assume the position of a relatively giant monopoly, as stipulated by law. Also, a 1999 KPMG study noted that MA deals were 26 percent more likely than average to be successful if they paid satisfactory attention to cultural issues, and that a company increases its chances of success if it uses reward systems to stimulate cultural integration or cooperation. Cultural aspects therefore constitute a significant obstacle to cross-border combinations even though the differences continue to ease with time, education and training. Any merger or acquisition is a complex process taking up more time than usually

expected: it requires integrating very different organizations, blending often very diverse cultures and dealing with complex questions of dissimilar work organization. This requires high levels of managerial capacity in change management, the constitution of effective teams and network integration – all demands for which many managers are ill-equipped but which can lead to an accumulation of critical errors, misunderstandings and ruin that might look like a highly promising deal on paper!

Developed countries are the most important sellers and buyers in MA, accounting for about 90 per cent of sales/purchases in 1998-99. Of about 10 per cent of sales/purchases involving developing countries, the bulk (70 per cent) originates in Latin America and the Caribbean. The value of mergers and acquisitions' sales by developing countries increased from $12 billion in 1991-95 to $61 billion in 1996-99. MA purchases by firms from developing countries rose from an average of $8 billion in 1991-95 to $30 billion in 1996-99.

In varied attempts to reduce costs and improve profitability, most major South African banks are examining possibilities of merging with assurers or other banks, while many others are expanding into other African countries. Standard Bank (Stanbic) expanded into 14 African countries in the 1990s, believing this would allow it to be the financial services provider for industries wishing to tap African markets. An attempted hostile takeover of Stanbic by Nedcor was blocked by the Minister of Finance in 2000, partly because of competition concerns, fears of increased systemic risks and the possible loss of up to 10,000 jobs in a country with extremely high unemployment. In arguing its case to the regulatory authorities, Nedcor advanced the need for South Africa to have a "national champion" to compete on a global scale. It claimed the merger would result in enhanced revenues, risk mitigation and cost reduction. These arguments were disputed by Stanbic that highlighted the failure of similar mergers elsewhere and noted that 70-80 percent of mergers in financial services did not deliver the efficiency touted. Among the reasons it stressed for merger failures were the loss of talented staff, low employee morale, unrealistic estimates of synergy benefits, under estimation of revenue losses and unexpected difficulties in integrating back office functions and systems.

In Kenya, mortgage financial institutions and banks are regulated according to the provisions of the Banking Act. These banks are the players in the Kenyan banking industry and

therefore a need to study them to ensure that they operate according to the law, (Gachanja, 2013).There are fourteen major M&A in Kenya since the year two thousand.

## 1.2 Problem Statement

Mergers and Acquisitions as evidenced by their increased activity seem to be very popular to the corporate players involved. However, they appear to provide at best, a mixed performance to the broad range of stakeholders involved. Numerous studies from around the world have failed to agree on whether acquisitions improve the acquiring firm's financial performance. Some studies show that there is improved post acquisition financial performance for MA firms (Azhagaiah and Kumar 2011: Ramaswany and Waegelein, 2003: Kithinji, 2007: Korir, 2006). However, other studies show that acquisitions have no financial benefits for the acquiring firms (Selcuk and Yilmaz, 2011:Yeh and Hoshino: Ndura, 2010). While target firm's shareholders generally enjoy positive short-term returns, investors in bidding firms may experience share price underperformance in the months following acquisition, with negligible or no overall wealth gains for portfolio holders. The Acquiring firm's shareholders may also experience decreased earnings per share as a result of reduced profits. Other than indicators with legal requirements by the central bank of Kenya merger restructuring has not improved the financial performance of the majority of merger institutions as indicated by the profitability and earnings ratios (Chesang, 2008)This study therefore seeks to fill the existing research gap by determining the impact of MA on the financial performance of the CFC Stanbic in Kenya.

## 1.3 General Objective

The general objective of the study is to assess the impact of MA on the financial performance of the CFC Stanbic in Kenya.

### 1.3.1 Specific Objectives

i. To determine effect of MA of CFC Stanbic Bank Group on profitability
ii. To assess effect of MA of CFC Stanbic Bank Group on Share price
iii. To evaluate the effect of MA of CFC Stanbic Bank Group on cash flow

## 1.4 Research Hypotheses

The research was guided by the following null hypotheses:-

i. MA of CFC Stanbic Bank Group have no effect profitability

ii. MA of CFC Stanbic Bank Group has no effect on share price
iii. MA of CFC Stanbic Bank Group has no effect on Cash flow

**1.5 Significance of the Study**

This study was carried out during the current era of high level competition experienced by firms in banking industry as a result of globalization and reduction of barriers to entries. The banking industry is experiencing high costs of competition coupled with high costs of promotion and customer retention. This leaves the banks with few opportunities of exploiting the market to sustain them in the industry. Mergers and acquisitions are now used to circumvent competition and reduce the borrowing interest rates to attract investors (Damodaran, 1998). In developing countries the activities of mergers are a recent phenomenon and their impacts have not been investigated to underscore their importance. This study is therefore carried out at an opportune time to provide direction on the significance of mergers in influencing performance levels of companies.

The findings of this study would be used by different stakeholders in different ways. The study would be important to management of companies who may use the findings to formulate policies and strategies which would be used to enhance performance of the business through merger and acquisition. It would also assist them to understand the challenges facing MA and how they can face them in the event their companies want to merge with other companies.

Employees of merging companies would use the findings to understand the positive and negative effects of embracing MA in organizations so as to improve their job security and blend skills for the general welfare of other employees, it would also assist them to improve and adjust to the environment of the new companies formed after merger.

The study would be used by scholars to carry out further studies in the related areas to compliment and supplement the current studies, scholars would also use it to establish the effects on mergers on performance of companies and their challenges and carry out further investigations to improve on the challenges. Central bank would use the findings to establish the effects of mergers in the banking industry and make recommendations on what ought to be done to improve service delivery in the banking industries and finally in other institutions.

The study would recommend various ways other organizations would use to change the negative popular perception of M&A. The management scholars would use this as a case study on various factors related to the success of M&A that need to be considered when preparing a platform for competition. It would also add to the body of knowledge in this specific area.

### 1.6 Scope of the Study

A study on effects of mergers on the performance of companies was carried out on CFC and Stanbic Limited in Kenya with greater emphasis on profitability, Share price and total assets as company performance parameters. The study was conducted at the CFC Stanbic Bank Limited, CFC Stanbic Centre, and Chiromo and mainly focused on the merger of CFC and Stanbic Bank Limited since they are the most visible high profile merger in the banking industry in Kenya. It involved a study of the published annual reports and accounts of the CFC and Stanbic Limited before and after the merger.

### 1.7 Limitation/delimitation of the Study

The limitations of this study included the following:-

Some respondents were not cooperative enough to give the required information needed by the researcher due to the sensitivity of the financial information. The researcher expected to experience difficulty in accessing the relevant information on the financial reports and accounts for the years to be investigated. The researcher therefore used internet materials and primary data to supplement the secondary data.

### 1.8 Definition of Key Terms

A **strategic alliance-** Is an agreement between two or more parties to pursue a set of agreed upon objectives while remaining independent Organizations. This form of cooperation lies between Mergers & acquisition (MA) and orgaCFC Stanbic growth.

**Acquired companies -**Are those companies that surrender the majority of their equity shares to an acquiring company.

**Acquiring company** - Is a single existing company that purchases the majority of equity shares of one or more companies.

**Acquisition**- This is when one company takes over another and clearly establishes itself as the new owner; the purchase is called an acquisition. From a legal point of view, the target

company ceases to exist, the buyer swallows the business and the buyer's stock continues to be traded.

**Acquisition:** Acquisition may be defined as an act of acquiring effective control over asset or management of a company by another company without any combination of businesses or companies. It is also defined as the process of taking a controlling interest in a business (Dictionary of Finance and Banking).

**Allocative efficiency:** This Concerns the clearance of markets and the achievement of maximal consumer benefits given a particular production function.

**Capital adequacy:** Capital adequacy is the ability of a bank to meet the needs of its depositors and other creditors. It is the proportion of risk capital to risk adjusted assets in a bank. Capital adequacy can also be defined as the percentage ratio of a financial institutions primary capital to its asset (loans and investment), used as a measure of its financial strength and stability.

**Circular combination-** Companies producing distinct products seek amalgamation to share common distribution and research facilities to obtain economies by elimination of cost on duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification.

**Commercial banks:** Commercial banks are organized on a joint stock company system, primarily for the purpose of earning profit. They can be of either the branch banking type, as seen in most of the countries, with a large network of branches, or of the unit banking type as seen in countries such as the USA, where banks operation are confined to a single office or to a few branches within a strictly limited area.

**Conglomeration-** This is a combination or amalgamation of two companies related in unrelated industries.

**Consolidation:** Consolidation is a combination of two or more companies into a new company. In this form of merger, all companies are legally dissolved and a new entity is created. In a consolidation the acquired company transfers its assets, liabilities and shares to the new company for cash or exchange of shares.

**Corporate restructuring:** Corporate restructuring can also be termed business combination and it includes merger and acquisition (M&A), amalgamation, takeover, leveraged buyouts, capital reorganization, sale of business units and assets etc.

**Dynamic efficiency:** This Concerns the clearance of markets in a dynamic perspective through the improvement of existing products and processes and the development of new

products.

**Horizontal combination-**This is where two fairly equal companies that are in direct competition and share the same product lines and markets decide to come together and form one company.

**Merger -**A merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. This kind of action is more precisely referred to as a merger of equals. Both companies' stocks are surrendered and new company stock is issued in its place. It occurs when two or more companies combine into one company. Merger through absorption: Merger through absorption is a combination of two or more companies into an existing company whereby only one company retains its identity and the rest loses theirs. Example: Access Bank= [Access bank, Marina international bank and capital bank international]. Merger through consolidation: Merger through consolidation is a combination of two or more companies to form a new one. In this type of merger all companies are legally dissolved and a new entity is formed. In a consolidation, the acquired company transfers its assets, liabilities and shares to the new company. Example Unity bank= [Intercity Bank PLC, First Interstate Bank PLC, Tropical Commercial Bank, Centre-Point Bank PLC, Bank of the North, New African Bank, Societe Bancaire, Pacific Bank and New Nigeria Bank].

**Productive efficiency:** Is the ability of firms to get the highest output from the least input given current technological constraints. According to Merjaarel (2005) mergers can influence productive efficiency through economics of scale, economics of scope and synergies.

**Recapitalization:** This is defined as the process of changing the balance of the debt (leverage) and equity financing of a company without changing the total amount of capital. Recapitalization is often required as part of reorganization of a company under bankruptcy legislation.

**Return on asset:** Statistic calculated by dividing a company's annual earnings by its total assets. It indicates how profitable a company is relative to its total assets (Encarta dictionary).

**Return on equity:** The return on equity is net profit after tax divided by share holders' equity which is given by net worth. This is the net income of an organization expressed as a percentage of its equity capital, i.e. it indicates how well the firm has used the resource for owners (shareholders).

**Synergy:** Synergy implies a situation where the combined firm is more valuable than the sum of the individual combining forms. It is defined as two plus two equals five (2+2=5) and

sometimes also denoted by (1+1=3) phenomenon. Synergy refers to benefits other than those related to economies of scale. The working together of two or more, organizations, firm usually when their outcome is greater than the sum of their individual effects or capabilities.

**Takeover:** A takeover can be said to be an acquisition. A takeover occurs when the acquiring firm takes over the control of the target firm. In some case it can be said to be an assumption of control of a corporation achieved by buying a majority of its shares (Encarta dictionary), a takeover can also be a conglomerate merger.

**Transactional efficiency:** This recognizes that firms expend resources to protect the economic returns to their efforts and properly right.

**Vertical combination:** This is when a supplier on the supply chain and the customer decide to come together and form a single entity.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Introduction

This chapter contains literature review. It describes the theory, conceptual framework and literature on mergers. The literature provides the previous studies on effects of merger on various performance indicators, provides a critical review and a summary of the chapter.

## 2.2 Theoretical framework

### 2.2.1 The Value increasing theory

According to the value increasing scale, mergers occur, broadly, because mergers generate „synergies' between the acquirer and the target, and synergies, in turn, increase the value of the firm (Hitt et al., 2001). The theory of efficiency suggests that mergers will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to both parties and synergies would be more achievable if the companies involved are engaged in related lines of business. The synergy concept suggests that advantages are created when economies of scale and speed are combined with administrative co-ordination (Krumm et al., 1998) as cited in the (GERHARD BENECKE et al., 2007).

According to Bwala (2003), efficiency is the ratio of a system's effective or useful output i.e. its total output. It can also be defined as the degree to which actual output(s) deviate from the optimum given a unit of measures of input. Akvein et al (1997) said that the economic literature distinguishes four types of efficiency, which includes: productive efficiency, transactional efficiency, allocative efficiency and dynamic efficiency.

According to the research carried by Tripe (2000) on a small sample of seven to fourteen New Zealand banks he found that five or six merged banks had efficiency gains based on the financial ratios while another only achieved a slight improvement in operating expenses to average total income as cited in (GERHARD BENECKE et al., 2007). Hence, if we observe a merger deal, efficiency theory predicts value creation with positive returns to both the acquirer and the target firm.

### 2.2.2 Theory of Synergy

In mergers and acquisition literatures, synergy usually refers to financial synergy that is gained through the merging of conglomerates (Chang, 1990); while in the industrial economics

literature, synergy features in the context of economies of scale that lead to cost savings (Chang, 1990) as cited in (Gerhard Benecke et al., 2007). Synergy comes from a Greek word called "synergos" which means working together. Synergy is the ability of two or more business units or companies to generate greater value working together than when they work separately. It is expressed in this mathematical equation as [2+2=5] and sometimes it can also be expressed as [1+1=3]. Synergy motives are widely seen as the most frequently mentioned motives when managers want to embark on M&A project. Thus, Marco (2008) defined synergy as the increase in performance of the combined firm above what the two firms are already expected to accomplish as independent firms through gains in competitive advantage. Jrisy Motis (2007) posit that Synergies are efficiencies that can only be achieved by merging, that is, they are merger specific. Synergy takes the form of revenue enhancement and cost savings, operating efficiency is also a form of synergy. Gaughan (2007) presents operational and financial synergy. According to Gaughan (2007) operational synergy appears in the form of revenue enhancements and cost reductions. Financial synergy is achieved when the cost of capital may be reduced through the combination of two companies.

### 2.2.3 Concentration Theory

This theory argues that economies of scale bring about bank merger and acquisition so that concentration will be based on bank efficiency (Demirguc-kunt and Levine, 2000) as cited in (Nwankwo, Odi 2013). Concentration refers to the degree of control of economic activity by large firms (Sathye 2002) as cited in (Olagunju Adebayo and Obademi Olalekan, 2012). According to Allen and Gale (2003), concentrated banking systems may also enhance profits and therefore lower bank fragility. Jrisy Motis (2007) posit that each wave is characterized by a concentration of the type of merger and specific industries. The outcomes of numerous researches have resulted in the existence of numerous bank concentration theories in literature. Intensified competition in the financial markets, in which banks operate, has further encouraged consolidation, for example through mergers and acquisitions (M&A). A clear majority of M&A transactions has occurred between banks, but financial conglomerates involving; banks, insurance companies and securities firms have also been created. Domestic mergers continue to dominate international mergers. The relatively modest volume of international mergers could indicate that domestic banking mergers are apparently more advantageous than international mergers. Individual European economies are rather heterogeneous, implying that purely domestic banking mergers offer ample opportunities for

asset risk diversification. Domestic mergers will therefore be preferred to international mergers, with their concomitant cultural and language problems, differences in national regulations, for instance; deposit insurance systems, taxation differences and country-specific restrictions on banking activities. This will discourage cross-border consolidation. The strong world-wide consolidation observed during the past decades is reflected by a sharp fall in the number of banks, increased concentration, and the increased size of the largest (five) banks, both in absolute terms and relative to the smaller banks. While the level of concentration in the EU as a whole, though rising, is still substantially lower than in the U.S., reflecting the limited level of cross-border consolidation in Europe, the pace at which concentration is progressing is higher in Europe than in the U.S.

### 2.2.4 The Reasons and Motivations behind Mergers and Acquisitions

The motivations behind mergers include growth, creating synergy, diversification, deregulation and economies of scale and scope. It enhances industry consolidation when the overall market is mature and where market opportunities are flat or shrinking. It enables geographic expansion into neighboring regions for adding new areas in its basket. It enhances expansion into new markets, for revenue growth, in which the opportunities are less for the internal development. It involves acquisition of new technology or products or knowledge when the firm doesn't have the resources to develop the product or technology. It involves combining with one or more other firms in order to realize a synergy that would form a preeminent firm with superior market advantages or economies of scale (Briscoe, 2004).

### 2.2.5 Benefits Derived from Mergers

#### 2.2.5.1 Economies of Scale

By merging, the companies hope to benefit from the following: Economies of scale- Size matters, improved market reach and industry visibility and acquiring new technology. Whether it's purchasing stationery or a new corporate IT system, a bigger company placing the orders can save more on costs. Mergers also translate into improved purchasing power to buy equipment or office supplies - when placing larger orders, companies have a greater ability to negotiate prices with their suppliers (Cartwright, 2002). Staff reductions - As every employee knows, mergers tend to mean job losses. Consider all the money saved from reducing the number of staff members from accounting, marketing and other departments. Job cuts will also include the former CEO, who typically leaves with a compensation

package. Companies buy companies to reach new markets and grow revenues and earnings. A merger may expand two companies' marketing and distribution, giving them new sales opportunities. A merger can also improve a company's standing in the investment community: bigger firms often have an easier time raising capital than smaller ones. To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge (Sherman, 2006).

#### 2.2.5.2 Growth & Expansion

Growth being the reason behind M&A seems to be a straightforward statement. Companies try to strengthen corporate growth strategies. The main objective is to broaden product lines and increase the market share and finally stabilize the financial position of a company. Whether growth refers to revenue growth or to growth in profitability is the main difference, and the two may be very different. Companies can grow in two ways through internal expansion or orgaCFC Stanbic growth. This process of growth is slow and presents its own risk. Through M&A's this process can allow companies to capture the opportunities available in the market more quickly. M&A's enables a company to acquire a running business rather than build up a new one (Gaughan, 2002). The value created after the merger is more than the individual values of the independent firms before merging. This is usually a significant factor for the firms entering into the business. This is usually achieved through economies of scale. The factors which can contribute to the economies of scale are: Some production processes are efficient usually when the production is in the bulk e.g. the automation industry. Large scale can allow use of more specialized or more efficient factors of production (land, labour, capital). Firms can spread their costs over larger number of output units and thus experience falling long-run average costs (Lindeman, 2002). If there are companies that can take advantage of merging with the appropriate companies, then the option of mergers and acquisition is generally very prudent. Example, Compaq and HP combined together to take the advantage of economies of scale and generated synergy. Firms can take advantage of synergies between their different operations and product lines. For example, when Tata Steel acquired Corus in 2007, it gained access to Corus rolling mills and distribution channels in Europe, while Corus gained access to Tata Steels in-house sources of iron ore (Haberberg, 2008). Synergies are created when the value of the combined firms involved in M&A's process is more than the sum of their pre-acquisition. The concept of synergy is used to refer

to the economies of scale at the firm level. Synergy is also said to arise from intangible assets such as goodwill, knowledge and organizational arrangements in an industry.

#### 2.2.5.3 Synergy

Synergies are mainly classified into: - Operating synergy**-**This is achieved by the combination of companies that result in operating economies from a reduction in costs. These cost reduction may result from economies of scale. (Gaughan, 2002) This is an economic term that refers to the reduction in per unit costs that result from an increase in the size or scale of companies operations. Cost advantages can also be achieved from the expansion of the scope of the company's operations. Economies of scope result from the ability to use combining inputs or production facilities and offer a wide range of products and services. Diseconomies of scale may also arise due to higher cost associated with the management of the organization and other problems associated with coordinating a larger scale operation like culture divergence, management style and structure.

#### 2.2.5.4 Revenue sharing synergy

These synergies are created when it increase the ability of the combined firm to generate and increases revenues. If a corporation has an increase in its revenue after the merger, then perhaps synergies explain the gain (Gaughan, 2002). Among the two types of synergy, revenue sharing synergy is more difficult to achieve. It is easier to implement cost-cutting techniques and to find areas of overlapping business that can be eliminated, thereby reducing costs. It is often more difficult that the combination of two companies generates higher revenues than they would have as two separate companies. This is one of the main challenges of M&A's, and many do not succeed in their attempt to increase revenue growth in a way that more than offsets the costs of the deal (Gaughan, 2002).

There are also other sources of synergy such as: Financial Synergy-When a company with better financial position with less profit making opportunities merges with a company with has certain growth opportunities but has insufficient access to capital, financial synergy is created and the above problem is alleviated. This can be seen with the merger of small companies by a large corporation. The only vital point is that the target actually has profit-making tools. Financial synergies are more focused and include tax benefits, diversification, a higher debt capacity and use for excess cash (Damodaran, 2004). This synergy is seen in the

merger of private businesses with the public ones. There might be another view-point taking financial in the form of hostile takeovers. But according to (Sherman, 2006) hostile takeovers are not followed by significant change in the level of the capital investments of acquired firms. So, the standard point of view still focuses on the improvement of the performance rather than destruction of the target firm.

#### 2.2.5.5 Tax based synergy

Sometimes a combination may be fruitful for a buyer when it is successful in exploring the unexploited tax benefits of the target. Tax benefits arise when target's assets book value is lower than its market value. Then the company acquiring this target has the advantage of showing assets it buys in the balance sheet at the market value which is lower than the book value. Also, the net operating losses (NOL's) may be transferred to a buyer which may enable the target to offset profits on which it had to otherwise pay taxes. Other sources of tax based synergies may be depreciated tax shields, which may come from a step up in the basis of the target assets following an acquisition (Gaughan, 2002). However, tax benefits may not be the same in all the countries and the tax legislation might curb the merger process for such a motive. Many authors have criticized the concept of synergies over the years operational and managerial synergies seem to be vague concepts of merger activity. According to Sherman (2006), financial synergy cannot be achieved in an efficient capital market. There was no evidence for a lower systematic risk or perfect internal capital market.

#### 2.2.5.6 Improved Management and Diversification

It is reasonable motive for acquisition by large companies with high level of management expertise when the target is a company that lacks such resources. It takes a greater degree of managerial sophistication to control a larger organization than a small business. A company which is efficient may acquire a company which is relatively inefficient (Beena, 2004). This process improves the efficiency in many ways. Inefficient managers may be replaced with better ones and the threat of being a target, the managers is forced to improve the efficiency. The salary of the managers is related with the size of the company (Martin a, 1991). Mergers are a simple way to eliminate inefficiency as the managers would never demote themselves and shareholders don't have direct access to those who run the firm. The role that managerial pride plays in M&A's for their own personal reasons rather than the economic gains of the company is questionable. Managers commit errors of over-optimism in evaluating mergers at

the cost of the company. (Gaughan, 2002) Managers might unintentionally and randomly make errors also in a merger process which leads to excessive premiums paid for the target companies. On the other hand managers who are rational may make valuation mistakes in spite of the gains from the acquisition and may also deliberately overpay for target companies at the expense of the shareholders. For example managers who have an empire building ambition are obsessed with power and want to expand their control beyond reasonable boundaries.

**2.2.5.7 Diversification**

It is said to be one of the most important motive for M&A activity. According to Thompson (2008), a company which has excess of cash or credit is influenced by executive desires to growth rather than simply distributing excess resources to the shareholder INR. Also conglomerate acquisition allows companies to diversify their risk and exposure to volatile industry segments by acquiring firms in different industries. There are many advantages of diversification. It helps to increase the value of the company through economies of scale, scope or market power Geographical diversification gives a company access to bigger markets and a state of depression is not likely to occur at all places at the same time and to the same extent. However, there are arguments put against diversification. Following a conglomerate acquisition, firm’s value drops by 13 % - 15% on an average. Also Brealey (2004), argue that diversification is easier and cheaper for the shareholders than for the corporation and investors don’t pay premiums for diversified firms.

Achieving these economies of scale is the natural goal of horizontal mergers. It provides the advantage of decrease in average cost of production due to increase in scale of production. Low costs are important for company’s profitability, success and survival. Brealey (2004) Operating economies can also be achieved by combining firms at different stages of an industry which can lead to better coordination at different levels. Economies of scope imply to savings of production attributable to an increase in a variety of goods produced. There are significant gains in cost efficiency for targets consistent with gains from economies of scope and also find significant improvements in efficiency for acquiring firms (Brealey (2004). Economies of scale and scope may arise in M&A process through the consolidation of marketing and sales force, improving customer base and sharing technological innovations within the newly created company. Reduced competition and larger markets allow greater

pricing power which in turn allows higher sales growth and increased profits (Damodaran, 1999). It is one of the important factors for the increase in the number of mergers and acquisitions in a specific industry. Opportunities for companies are created as deals which were previously prevented are made possible through deregulation.

## 2.3 Empirical Studies on MA and Performance

Overall, some of these studies provide mixed evidence and many fail to show a clear relationship between mergers and acquisitions and performance.

The studies of Cabral et al., (2002), Carletti et al., (2002) and Szapary (2001) provided the foundation for a research on the linkage between banks mergers and acquisition and profitability. Evidence as provided by De-Nicolo (2003) and Caprion (1999) suggested that mergers and acquisitions in the financial system could impact positively on the efficiency of most banks. Samuel (2010) in a study of recent banking sector reforms and economic growth in Nigeria using ordinary least square regression techniques, established that interest rate margins, parallel market premiums, total banking sector credit to the private sector, inflation rate, size of banking sector capital and cash reserve ratios account for a very high proportion of the variation in economic growth in Nigeria. This shows that there is a strong and positive relationship between economic growth and banking sector reforms in Nigeria. Okpanachi (2011) concluded that his result showed an enhanced financial performance leading to improved financial efficiency of the banks that engaged in Merger.

Adegbagu and Olokoyo (2008) used descriptive research design (Mean and Standard Deviation) and t-test and test of equality mean analytical techniques to study the effect of recapitalization on the bank's performance on Nigerian banks. The study found out that the means of bank profitability ratios such as the Yield on Earning Asset (YEA), Return on Equity (ROE) and Return on Assets (ROA) were significant. This means that there is statistical indifference between the mean of the pre and post 2004 bank recapitalization. Somoye (2008) examined the performance of government induced banks consolidation and macro-economic performance in Nigeria in a post consolidation period. He found out that banks consolidation may not necessarily be a sufficient tool for financial system stability and sustainable development. The study posits that consolidation program have not improved the overall performance of the banking industry significantly and contributed little to the growth of the real sector for sustainable development.

Ezeoha (2007) studied the structural effects of banking industry consolidation in Nigeria. He noted that the ongoing banking industry consolidation in Nigeria represents the latest attempt by the CBN to solve the problem of bank distress and failure, and to reposition the industry for national and global economic challenges.
The study finds that some of the operational difficulties facing the banks even before consolidation are external to them and are still prevalent in the Nigerian economy. The study concludes that consolidation alone cannot be seen as the solution to the problem of the industry, unless the background, economic difficulties such as the weak state of the national economy, deplorable state of the infrastructure and the decreasing level of public confidence in the overall economic and financial reforms going on in the country is addressed, the expected benefits of consolidation may be hard to realize as cited in (Nwankwo, Odi 2013). In a related study, the Chilean banking industry, Kwan (2002) found that the high rate of economic activities experienced in Chile was mainly from productivity improvement from the large banks formed as a result of mergers and acquisitions as cited in the work of (Okpanachi 2011). Economic analysis and evidence indicate that merger and acquisition play important role in economic growth and has made substantial benefits for the shareholders. The majority of studies comparing pre and post mergers performance found that, the potential efficiency derived from mergers and acquisitions rarely comes into existence. But, for Yener and David (2004), mergers and acquisitions played an important role in improving after merger financial performance, which is a stimulus for efficiency as cited in (okpanachi 2011). Gourlay (2006) examined the efficiency gains from mergers among Indian Banks over the period 1991-1992 , 2004-2005 and observed that the mergers led to the improvement of efficiency for the merging banks as cited in the (GERHARD BENECKE et al., 2007). Bakare (2011) used Sample Test techniques and E-view statistical packages to analyze the trend and growth implication of bank consolidation in Nigeria. The study revealed that banks are more adequately capitalized and are less risky after the corporate restructuring exercise.

Ahmed Badreldin and Christian Kalhoefer (2009) opined that in their findings that M&A did not result in improved return on equity and other discouraging fact about M&A is that they are much more visible to the general public and may involve the stockholders. Although these findings are in contradiction stating the reforms which took place in the United States in the late 1980s and similar reforms in the European Union in the early 1990s resulted in

increased banking consolidation, which led to improved bank performance (Yener et al., 2004:5; Focarelli et al., 2002:1049, 1063) as cited in (Ahmed Badreldin and Christian Kalhoefer 2009). Akpan (2007) using chi-square to test his stated hypothesis found that the policy of consolidation and recapitalization has ensured customer's confidence in the Nigerian banking industry in terms of high profit. Similarly, Uchendu (2005) and Kama (2007) opined that, the bank consolidation, which took place in Malaysia facilitated bank's expansion, which led to the growth in their banking sector as cited in the work of (Adesegun Owolabi and Nelson O. Ajayi 2013).

Nwankwo, Odi (2013) who used T-test observed that post bank consolidation have a significant positive effect on the growth of Nigeria economy. For the recent merger wave that happened in Nigeria Most of the key players in the sector saw the time frame within which to meet the requirements as unreliable. Walter and Uche (2005) posit that mergers and acquisitions made Nigerian banks more efficient. They used tables to present their data which was analyzed using simple percentage. However, according to Adesegun Owolabi and Nelson O. Ajayi (2013) they concluded that it is still impossible to clearly state whether mergers and acquisitions in the Nigerian banking sector leads to improved financial efficiency. This is because mergers and acquisitions in the Nigerian banking sector are a continuous scheme. According to Francis Kehinde Emeni and Chinwuba Okafor (2008) they said that M&A have contributed to a dramatic increase in the average size of banking institutions in Nigeria. Anjan V. thakor and Arnoud W. A. Boot (2008) posit that M&A could result in a less competitive banking system, concentrating market power in a handful of very large institutions, or they reduce the supply of funds to small firms by driving community banks out of business and that Banks can also achieve dual goals of risk diversification and new sources of funds through cross border expansion. Ahmed Badreldin and Christian Kalhoefer (2009) suggested in their findings that the process of financial consolidation and banking reforms have not completely achieved their desired results in improving the banking sector. Elumilade and David Oladepo (2010) posit that most studies fail to find a positive relationship between merger activity and gains in either performance or stockholder wealth.

Many studies have been conducted across the globe to investigate various aspects of mergers by using different analysis models e.g., Data Analysis Envelopment Stochastic Frontier Analysis, Wilcoxon Signed-Rank Test and ratio analysis (Sufian & Fadzlan, 2004; Sinha & Kaushik, 2010, Koetter M., 2005 and Arshad, 12). The results of these studies vary

dramatically.

Although research of corporate performance was difficult as compared to event study due to collection of data and construction of valid variables, yet many studies have used this approach to find out accurate results (Altunbas & Marques, 2007; Badreldin & Kalhoefer, 2009; Kemal, 2011 and Arshad, 2012).

Pawaskar (2001), empirically proved worse post-merger performance of Indian firms. The research was carried out for the time period of 1992-1995 using data retrieved from Capitoline-Ole database. Regression results indicated better performance of non-merging firms than merging firms over the defined time period. Moreover, the characteristics of all thirty six mergers showed that liquidity, leverage, profitability growth and tax savings did not show any remarkable significant change after mergers.

Sufian & Fadzlan (2004) investigated performance of ten commercial banks for the time period of 1998 to 2003 by using non- parameter frontier approach of data envelopment analysis (DEA).

Three inputs i.e., labor, capital and deposits were used where as total loan and investment and dealing securities were used as outputs. It was revealed that overall post-merger efficiency achieved by the Malaysian banks was about 96%.
Koetter M., (2005) used the stochastic frontier analysis (SFA) to examine the German wave of mergers. Results showed that corporative banks performed better than savings banks. Pazarskis, Vogiatzogloy, Christodoulou, & Drogalas (2006), inspected opposite result during research on Greece's wave of mergers. Post-merger performance of fifty Greece companies listed on Athens stock exchange (ASE) during the time period of 1998 to 2002 was compared. Three pre and post–merger years were incorporated and the year of merging event was omitted to validate the results. Pyramid Approach and questionnaire approach witnessed a decreased in performance after mergers.

European mergers mostly enjoy positive results due to their strong economy. According to Altunbas & Marques (2007), performance increased by approximately 2.5% and 1.2 % in cross border mergers and domestic mergers respectively.Results indicated that in case of

domestic mergers, different capital structure and smaller target size enhanced domestic merging firm's performance and vice versa in case of cross border mergers. Indian financial Institutes also induced positive post-merger performance (Sinha & Kaushik, 2010). They examined seventeen companies during the time period 2000 to 2008 by using non-parametric approach of Wilcoxon Signed-Rank Test. Four parameters, i.e. profitability, liquidity, solvency and efficiency were used to inspect performance and proved significant relationship of performance with mergers and acquisitions. In contrast, Egyptian wave of mergers was not as profitable as in U.S., U.K and India because Egypt is new in the field of banking reforms (Badreldin & Kalhoefer, 2009). Further, ROE basic scheme witnessed that the impact of cross boarder as well as domestic mergers and acquisitions on Egyptian banking sector for year 2004-2007 was unclear.
Abdur-Rehman & Ayorinde (2011) examined the relationship of mergers and performance of Nigerian banks. They denoted merger by strategic decisions, i.e., liquidity risk, credit risk, capital structure, asset profile and operating efficiency. Return on equity, return on assets and net profit margin were used as performance indicators. Findings of multiple regression analysis revealed positive relationship of performance with mergers and it was suggested that mergers should be implemented to increase performance of banks.

The studies on impact of mergers on performance of banks in Pakistan have mainly focused on one or two banks. As Ullah, et al., (2010) investigated two merging events of Faysal investment bank limited and Atlas investment bank by comparing four years pre and post-merger performance. Three factors; profitability, capital adequacy and solvency were used to determine financial performance. T-test indicates that there was insignificant increase in profit while capital adequacy and solvency had improved significantly. After mergers both banks were in better position due to improvement in technology, administration, and elevated capacity of the banks to pay back their long term liability.

Kemal (2011) examined performance of one bidder bank by using twenty ratios for the time period of 2006-2009. He investigated the post-merger performance of Royal Bank of Scotland after it merged with ABN AMRO. Profitability, liquidity, leverage, asset management and cash flow were used as determinants of performance. He concluded that failure occurred after mergers. No test was used to verify these results. Similarly, no model was used to verify the post-merger performance during research of SCB (Arshad, 2012). She

analyzed one bank's post-merger performance during research of SCB after it merged with Union bank. Profitability, liquidity and capital ratios were used to determine performance. Pre-merger period was 2004-2006 and post-merger period was 2007-2009. The results of eleven ratios declared a decrease in after-merger performance.

Researchers (Altunbas & Marques, 2007; Kemal, 2011; Arshad, 12 and Ullah, et al.,2010) supported the fact that mergers have a significant impact on performance of banks and many factors such as liquidity, leverage, capital adequacy and size influence this performance .In addition most of studies used accounting based comparative research method instead of event studies.

A study carried out by Weston (2001) found out that there are normally a number of reasons why organizations undertake certain strategic measures. Most of these companies, being in business, usually aim at improving their operating performance, shareholder value as well as profit margins. As such, organizations normally pursue strategic moves such as Mergers & Acquisitions, takeovers, combinations among other strategies. This study aimed to look into the effect that the CFC and Stanbic Banks merger had on the position of Standard Bank Group Limited value performance. They studied the pre and post-merger performance of conglomerate firms, and found that their earnings rates significantly underperformed those in the control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. The improvement in earnings performance of the conglomerate firms was explained as evidence for successful achievement of defensive diversification.

Brealey (2004) studied the financial performances of 43 merging firms in Japanese manufacturing industry and found that the rate of return on equity increased in more than half the cases, but rate of return on total assets was improved in about half the cases. However, both profit rates showed improvement in more than half the cases in the five-year test, suggesting that firm performances after mergers began to be improved along with the internal adjustment of the merging firms: there was a necessary gestation period during which merging firms learnt how to manage their new organizations.

Surjit (2002) compared the pre and post-takeover performance for a sample of 20 acquiring companies during 1997-2000, using a set of eight financial ratios 3, during a 3-year period

before and after merger, using t-test. The study concluded that both profitability and efficiency of targeted companies declined in post-takeover period, but the change in post-takeover performance was statistically not significant.

### 2.3.1 Profitability

Two aspects of profitability have been studied in this research; first, it has been used as an absolute proxy for performance to measure impact of mergers on performance in phase 1 as used by (Altunbas & Marques, 2007; Abul-Rahman & Ayorinde, 2013), secondly, it has been used as a determinant of performance along with other variables for comparison of annual rate of profitability before and after merging event in phase 2 as used by (Kemal, 2011). Here, return on equity (ROE), return on assets (ROA) and return on investment (ROI) have been used as proxies of profitability. The research found a connection of profitability with liquidity, leverage, capital adequacy, and size that influence the profitability of bidder banks.

**H** = Mergers have significant impact on post-merger performance of banks in Pakistan.

A review of empirical works reveals that there exists conflicting results of the effect of mergers and acquisitions on the financial performance of the business entities involved. Early empirical works with the objective of establishing the effect of mergers and acquisitions on the financial performance of the business entities involved found more evidence of financial gains. However, others found little evidence of financial gains when the firms merged or were acquired.

Njuguna (2012) conducted a study to assess the effect of mergers and acquisitions on the financial performance of petroleum companies in Kenya between 2002 and 2012. All the petroleum companies were considered but only four mergers and five acquisitions were selected. Secondary data was collected from the annual statements of accounts and financial reports of the firms. Financial performance ratios were computed and compared between the mean of three years pre-mergers and acquisitions and post-mergers and acquisitions. He concluded that mergers and acquisitions had insignificant effect on the overall financial performance of petroleum companies in Kenya.

Kinyua (2011) conducted a research to assess the effect of information content of mergers

and acquisitions on the financial performance of oil companies in Kenya. The study took on a causal research design. In the study, the target population was the oil companies in Kenya with keen interest on those that had undergone mergers and acquisitions. The process of data collection involved self-administered drop and pick questionnaires distributed to the management and employees of the oil companies involved. Data was received from 27 respondents. The finding was that there was a clear indication of the firms performing better financially after the resulting mergers and acquisitions.

Ireri (2011) conducted a survey on effect of mergers and acquisitions on the financial performance of oil companies in Kenya between 2002 and 2007. 5 mergers and 4 acquisitions were selected. Secondary data was collected from the annual statements of accounts. Financial performance ratios were computed and compared between the mean of three years pre – mergers and acquisitions and post-mergers and acquisitions. According to him the oil companies performed better financially after the resulting mergers and acquisitions.

Acharya, Gopalaswamy and Malik (2008) conducted a study on stock price reaction to mergers announcement in India Securities Market. The objective of the study was to assess the effect of mergers announcements on stock prices reaction of the companies listed at Bombay Stock Exchange. An event study methodology was used and secondary data collected from the market. A sample of 25 firms was selected from Bombay Stock Exchange which met the requirement that both the target and acquirer were listed. The finding was that there was an upward trend in stock prices a few days prior to mergers announcement.

Mahmood et al. (2012) studied the impact of mergers and acquisitions on the financial performance of companies in Pakistan between 2000 and 2002. It covered a sample of eight companies which had undergone mergers and acquisitions. Earnings per Share and return on assets were computed and compared three years before the mergers and acquisitions from the secondary data that was collected from the financial statements of the companies. They concluded that after mergers and acquisitions, the financial performance of the companies improved.

Fatima and Shehzad (2012) examined the impact of mergers on the financial performance of

banks in Pakistan that had merged between 2007 and 2010. Ten banks that had merged were selected as a sample for analysis. Secondary data was collected from the financial statements and published reports of the commercial banks in Pakistan. Return on equity, return on assets and earnings per share were computed and compared four years before the mergers and four years after the mergers. They concluded that mergers improved the financial performance of the commercial banks in Pakistan.

Ingham, Kiran and Lovestam (1992) studied the relationship between mergers and acquisitions and the financial performance of the companies with the objective of assessing the effect of mergers and acquisitions on the financial performance of the UK's top 500 companies between 1985 and 1989. Only 50 acquisitions and 45 mergers were selected subject to the availability of data. Secondary data was collected from the financial statements of the companies. Return on assets and earnings per share were computed and analyzed three years before the mergers and acquisitions and three years after the mergers and acquisitions. They concluded that financial performance greatly improved after mergers and acquisitions.

Andre, Kooli and L'Her (2004) studied the financial performance of 267 Canadian mergers and acquisitions that took place between 1980 and 2000 with the objective of assessing the impact of mergers and acquisitions on the financial performance of Canadian companies. Secondary data was collected from the financial statements and return on equity, return on assets and earnings per share were computed and analyzed 3 years before the mergers and acquisitions and three years after the mergers and acquisitions. They concluded that Canadian companies underperformed over the three year post mergers and acquisitions.

Muthiani (2007) studied the cross cultural perspective of mergers and acquisitions done by GlaxoSmithKline Kenya with the objective of assessing cross cultural perspective of mergers and acquisitions on the financial performance by conducting a study on the 50 senior and middle managers of GlaxoSmithKline. It was established that the GlaxoSmithKline's staff were highly motivated and performance driven inherent from organizational culture evolving from the merger. The study concluded that culture is a very important element for the success of mergers and acquisitions as it is also a key to success of a business and a good culture also leads to better financial performance of a business.

Chesang (2002) studied how mergers of commercial banks in Kenya influenced their financial performance. The objective of the study was to assess the effect of mergers on the financial performance of commercial banks in Kenya that merged between 1995 and 1999. All the 30 commercial banks that merged were considered. 10 mergers were selected subject to the availability of data. ROE, ROA and EPS were computed and compared three years before mergers and after mergers. He concluded that commercial banks performed poorly after mergers.
Muchae (2010) studied challenges of cross border mergers and acquisitions and the factors influencing the same in Tiger Brands Limited. He found out that performance related factors such as perceived synergies, wider products scope and new market for products were the driving factors for mergers and acquisitions of Tiger Brands Limited. The study found out that following acquisition the staff were less motivated with loss of incentives and the uncertainty regarding their job security and the challenges experienced in bedding down the new structure were redundancy which were addressed by offering retirement packages and excess capacity was replayed which negated financial performance. He concluded that MAs did not add any value to the financial performance.

Ndora (2010) studied the effect of mergers on the financial performance of insurance companies in Kenya. A sample of six insurance companies that had merged between the year 1995 and 2005 were considered. The information for five years before and after the mergers were compared and the results tabulated. The findings indicated an increased financial performance by the firms for the five years after the merger than it was five years before the merger. He concluded that mergers increased the financial performance of insurance companies in Kenya.

Kiarie (2012) conducted a study to assess the effect of mergers on the financial performance of firms listed at the Nairobi Securities Exchange between 1997 and 2013 in Kenya. All the firms that had merged and were listed at Nairobi Securities Exchange were considered. 15 mergers were selected. The study used secondary data which was obtained from the financial statements of the firms. Event analysis design was used to analyze the data four years before and after the mergers. DPS ROE, ROA and EPS were analyzed to determine the effect of mergers on financial performance. The study concluded that mergers improved the

financial performance greatly.

The researchers came up with different study findings on the effect of mergers and acquisitions on the financial performance of the business entities involved. While other studies confirmed positive effect of M & As on the financial performance, others confirmed insignificant effect of M & As on the financial performance of the business entities involved. It is against this background that the present study will be undertaken so as to confirm the existing literature.

### 2.3.2 Effects of Mergers on Share Price of Companies

The acquiring firm generally earns positive returns prior to announcements, but less than the market portfolio in the post-merger period Surjit (2002). Empirical research has consistently documented bidding firms largely pay large premiums for target firms. Most of the broad-based risk adjusted studies on mergers had shown that the stockholders of acquiring firm gain a small statistically insignificant amount lose from the announcement of a merger bid.

The study by Paul (2002) examines the effect of merger on the wealth of bidding firms shareholders. The study by Asquith (2003) investigates the entire merger process from 480 days before a merger bid until 240 days after a merger bid. Two merger events had been used, the announcement date and the outcome date. The results reflected that the bidding firms gain significantly during the 21 days leading to the announcement of each of their first four merger bids. Bidders' abnormal returns had been found positively related to the relative size of the merger partners.

Another study by Asquith (2003) examined whether firms are worth more combined than separate. They suggested that there are resources, which earn positive returns when combined across firms. If the resources are unique to only target firms, a competitive acquiring market result in most of the gains being captured by the target firm's shareholders. If the resources are unique to only bidding firms then their shareholders should capture the returns from the resources. If the resources are unique across a particular pair of firms or limited to a set of firms e.g. monopoly power or horizontal economies of scale, the gains from the merger would have to be split between the building and target firms. The study concludes that resources are unique to the target firms and that their shareholder receives large abnormal gains in successful mergers. In an efficient capital market, if there is certainty about scope,

timing and success of a firm's merger program, then the entire net present value of a merger program should be capitalized in stock prices when the program is first announced. If there is uncertainty about the program, the market's reaction should be an ongoing process as new information is released.

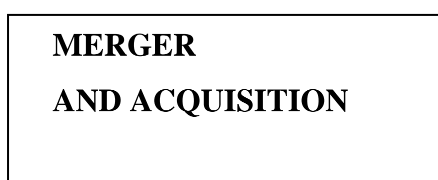
The study by Asquith, (2003) re-examined the magnitude of stockholder gains from merger. In the study stockholder gains were computed by employing four alternative two-factor, market industry models in combination with a matched non-merging control group. Post-merger stock prices could experience a merger related increase or decrease as actual merger benefits are realized to be greater than or less than expectations. Market efficiency requires that realization of merger benefits represent a fair game in the sense that at the time of merger, it is just as likely that merger benefits would be greater than expected as less than expected.

## 2.4 Research Gap

Many studies have been done on mergers and acquisitions. Most of these studies have examined the effects of the mergers or acquisitions in several companies in a single study. For instance Kithiku's study examined the role of mergers and acquisitions on various commercial banks in Kenya (Kithitu, 2012). Studies of this kind have produced mixed results; some have found that merging companies benefited from the merger whereas others found that the mergers had no positive impact on the companies' performance. The inconsistent findings could be attributed to the fact that companies differ in many respects. Previous studies have similarly failed to examine the characteristics of particular banks before and after they merged. Consequently, all the literature available on this subject is conflicting and too general. It is difficult to make concrete conclusions on the basis of the existing literature. From the literature review, it is apparent that there is no empirical evidence on the effect of MA on the performance of CFC Stanbic Bank group in Kenya, which becomes the main purpose of the study.

## 2.5 Conceptual Framework

**INDEPENDENT VARIABLE** **DEPENDENT VARIABLE**



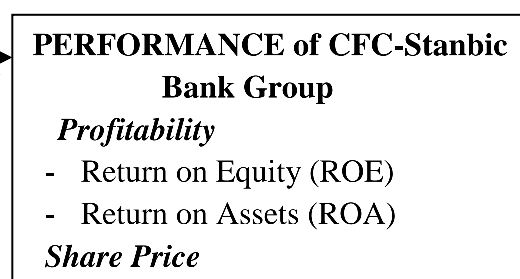



**Fig 2. 1: Conceptual framework**

**Source: Author (2016)**

The study was hinged on a conceptual framework where the envisaged aspects of mergers and acquisition which are profitability, share price (and synergy, diversification, and differentiation) and cash flow formed the dependent variables while the expected outcomes formed the independent variable. The interplay of the said variables would be regulated by an intervening variable hinged on government policy, nature of industry, level of competition.

# CHAPTER THREE

# METHODOLOGY

## 3.0 Introduction

This chapter gave an overview of the research design and methods that were used in this study. It discussed the research design, research area, data collections instruments, data collection procedure, validity and reliability of research instruments, ethical considerations and data analysis and presentation.

## 3.1 Research Design

The study used descriptive survey design. This design serves best in studies that collect descriptive data. The study was largely descriptive in nature and that's why this design was preferred. The design is used when describing the characteristics of a phenomenon in a particular situation (Kothari, 2008). The design helps in obtaining information on the current status of the merged banks.

## 3.2 Target Populations

According to Mugenda and Mugenda (1999), the target population is the entire group a researcher is interested in or the group about which the researcher wishes to draw conclusions. It is any set of persons or objects that possesses at least one common character. According to CBK report, there were 14 major mergers and acquisitions that had taken place in the banking industry in Kenya since 2000 to the time of study. The population of this study was comprised of all the 14 banks that had merged or acquired in Kenya since year 2000 to the time of study. The target population of this study was CFC Stanbic Bank Limited.

## 3.3 Sample Size

According to Orodho and Okombo (2002), research site selection starts with the larger population through progressive elimination and end up with the actual site where data is collected. This study was conducted in Nairobi city which is the capital city of Kenya. The county consists of several private and public banking institutions. The study focused on CFC Stanbic Bank Limited located at CFC Stanbic Centre, Chiromo.

## 3.4 Sampling Technique

The study made use of purposive sampling techniques. Purposive sampling is justified for the study basing on the argument by scholars (Kombo and Tromp, 2006) that it is useful when the sample has information rich cases for in-depth analysis related to the issues being discussed.

## 3.5 Reliability and Validity

### 3.5.1 Validity of Instruments

Validity according to Moses and Kalton (1971) refers to the extent to which research instrument can accurately be interpreted and generalized. It deals with accuracy and meaningfulness of inferences based on the findings. There was need to test the content and face validity of the instruments to measure what the instruments intend to measure. The validity of the instruments was sought by discussing the items with experts (lecturers) in the Department of Business Administration, Egerton University and their comments were used in making any necessary amendments. Their comments were incorporated in the final draft to strengthen the content Validity.

### 3.5.2 Reliability

Reliability is the measure of the degree an instrument used in research would yield the results or data after repeated trials (Mugenda, 2008). It is the consistence of the instrument, accuracy or precision of a measuring instrument (Orodho, 2003).

## 3.6 Data Collection Instruments

Secondary annual panel data of the merging banks for the time period of 2004- 2007 the pre-merger and post merger period 2013 to 2015.The five-year interval after 2008 to enable us gauge the progress or otherwise of a post-merger period of over seven years, using ratios of profitability, price share and total assets, Chi- square and test of statistical significance was to be employed to consider the difference, if any, between pre-merger and post merger periods (Kemal, 2011; Arshad, 12; Sinha & Kaushik, 2010 and Altunbas & Marques, 2007).

## 3.7 Data Analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda&Mugenda, 2003). The study used quantitative technique to analyze data of CFC Stanbic bank before and after merger. Quantitative data was analyzed using descriptive and inferential statistics methods. Descriptive statistics was used to summarize and present the data of CFC Stanbic bank before and after merger by the measures of central tendency and dispersion using statistical methods like the mean, median, mode, variance and standard deviation. Statistical tools such as frequency distribution tables and bar charts were used. Inferential statistics was used to analyze and evaluate data of CFC Stanbic bank before and after merger using correlation and regression models.

# CHAPTER FOUR

# DATA ANALYSIS, PRESENTATION AND INTERPRETATION

## 4.1 Introduction

The method will look at such criteria of profitability (Antwi-Asare and Addison, 2000) as Return on Assets before tax (RoA), share price and total assets in the pre-merger and post-merger periods.  Indicators of operational efficiency were efficiency ratios. The year 2007 was considered as the pre-merger year; and two specific periods in be post-merger periods: 2013 and 2015; that is, the five-year interval after 2008 to enable us gauge the progress or otherwise of a post-merger period over seven years, using ratios of profitability, Chi- square and test of statistical significance was employed to consider the difference, if any, between pre-merger and post merger periods.

## 4.2 Profitability

To determine the performance, the profitability was analysed. This was determined by the return on assets and return on equity.

### 4.2.1 Pre-merger Profitability

The table 4.1 below shows pre-merger and post merger performance. In 2003, CFC Bank had returns assets of 1.87, 2004 was 1.91, 2005 was 1.64, 2006 was 2.1 while 2007 was 3.1.

Stanbic Bank had rate of return of 1.48, 1.29, 2.5, 2.9 and 3.4 for 2003 to 2007 respectively. Stanbic was steadily growing.

**Table 4.1: Average Return on Assets (%)**

| | **Pre-merger** | | | | | | **Post-merger** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Institution/ Years** | 2003 | 2004 | 2005 | 2006 | 2007 | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| CFC BANK | 1.87 | 1.91 | 1.54 | 2.10 | 3.10 | | | | | | | | |
| STANBIC BANK | 1.48 | 1.29 | 2.50 | 2.90 | 3.40 | | | | | | | | |
| AVERAGE | 1.675 | 1.60 | 2.02 | 2.50 | 3.25 | | | | | | | | |
| CFC STANBIC | | | | | | | 1.50 | 1.62 | 1.38 | 1.37 | 2.33 | 2.90 | 3.20 |

Source: CFC-Stanbic (2014)

### 4.2.2 Post – Merger Profitability

From 2008 after the merger, the return on assets dropped to 1.5 in 2008, 1.62 in 2009, and 2010 was 1.38; 1.37 in 2011, 2.33 in 2012 and 2.90 in 2013 and 3.20 in 2014. The return on asset is on average lower (2.04) than the individual banks before merger (2.21).

**Table 4.2: Changes in Return on Assets**

| Pre-merger average | Post-merger average | Difference | % change |
|---|---|---|---|
| 2.21 | 2.04 | -0.166 | (8.22) |

**Profits before tax/ Total Assets**.

It shows how well bank management has used the resources at its disposal to generate additional resources for the bank at the end of the year. Continued positive growth in this measure is required for the viability of any bank. ROA is therefore expected to show a positive sign as indicated in Table 4.2. It is apparent that the return on assets reduces after merger from an average from 2.21% to 2.04%. It reduced t0 1.38% in 2010, 1.37% in 2011, grew to 2.33% in 2012, 2.90% in 2013 and in 2014 had 3.20. On average, there was a

reduction on return on assets. There is a negative change in the average return on assets of 8.22%

Return on Equity

### 4.4.2 Return on Assets (ROA)

**Table 4.3: Return on Equity**

| | **Pre-merger** | | | | | | **Post-merger** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Institution/ Years** | 2003 | 2004 | 2005 | 2006 | 2007 | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| CFC BANK | 1.87 | 1.91 | 1.54 | 2.10 | 3.10 | | | | | | | | |
| STANBIC BANK | 1.48 | 1.29 | 2.50 | 2.90 | 3.40 | | | | | | | | |
| AVERAGE | 1.675 | 1.60 | 2.02 | 2.50 | 3.25 | | | | | | | | |
| CFC STANBIC | | | | | | | 1.50 | 1.62 | 1.38 | 1.37 | 2.33 | 2.90 | 3.20 |

To determine the effect of merger on profitability, the t-test on return on investment was carried out. The tables below show the results in terms of pre-merger and post merger ROA.

**T- Test ON ROA**

**Table 4.4 : Pre- merger ROA**

| Pre-merger ROA (X) | Diff (X - M) | Sq. Diff $(X - M)^2$ |
|---|---|---|
| 1.675,<br>1.60,<br>2.02,<br>2.50,<br>3.25<br>M = 2.21 | -0.53<br>-0.61<br>-0.19<br>0.29<br>1.04 | 0.29<br>0.37<br>0.04<br>0.08<br>1.08<br>SS: 1.86 |
| | | Pre-merger<br>$N_1$: 5<br>$df_1 = N - 1 = 5 - 1 = 4$<br>$M_1$:2.21<br>$SS_1$:1.86<br>$s^2_1 = SS_1/(N - 1) = 1.86/(5-1) = 0.47$ |

**Table 4.5 :Post merger T-test on ROA**

| POST-merger ROA (X) | Diff (X - M) | Sq. Diff $(X - M)^2$ |
|---|---|---|
| 1.50,<br>1.62,<br>1.38,<br>1.37,<br>2.33,<br>2.90,<br>3.20 | -0.54<br>-0.42<br>-0.66<br>-0.67<br>0.29<br>0.86<br>1.16<br>M: 2.04 | 0.29<br>0.18<br>0.44<br>0.45<br>0.08<br>0.73<br>1.34<br>SS: 3.52 |
| | | Post-merger<br>$N_2$: 7<br>$df_2 = N - 1 = 7 - 1 = 6$<br>$M_2$: 2.04<br>$SS_2$: 3.52<br>$s^2_2 = SS_2/(N - 1) = 3.52/(7-1) = 0.59$ |

T-value Calculation

$s^2_p = ((df_1/(df_1 + df_2)) * s^2_1) + ((df_2/(df_2 + df_2)) * s^2_2) = ((4/10) * 0.47) + ((6/10) * 0.59) = 0.54$

$s^2_{M1} = s^2_p/N_1 = 0.54/5 = 0.11$

$s^2_{M2} = s^2_p/N_2 = 0.54/7 = 0.08$

$t = (M_1 - M_2)/\sqrt{(s^2_{M1} + s^2_{M2})} = 0.17/\sqrt{0.18} = 0.39$

The t-value is 0.38678. The p-value is .353513. The result is not significant at $p < .05$.

**Net profit after tax / Total equity (Return on Equity)**

The study sought to find out the ROE of both institutions before and after the merger. Before the merger, CFC Bank Ltd had ROE of 14.8, 12.9, 2.5 and 34 for the period2004 to 2007 respectively while Stanbic Bank Ltd's ROE was 16.5%, 16.0%, 20.2%, 22.5% and 32.5% respectively for the period 2004 to 2007 respectively. After the merger, the new institution's ROE stood at 15% in 2008, 28% in 2009, 17.78% in 2010, 20.69% in 2011, 22.63% in 2012 24.99% in 2013 and 20.36% in 2014.

**Table 4.6: Changes in Return on Equity (ROE)**

| Pre-merger average | Post- merger average | Difference | % change |
| --- | --- | --- | --- |
| 21.14 | 21.35 | 0.21 | 9.9 |

**T-TEST ON ROE**

To determine the effect of merger on profitability, the t-test on return on investment was carried out. The tables below show the results in terms of pre-merger and post merger ROE

**Table 4.7:Pre-merger T-test on ROE**

| Pre-merger ROE (X) | Diff (X - M) | Sq. Diff $(X - M)^2$ |
| --- | --- | --- |
| 15.65,<br>14.45,<br>11.35,<br>28.25,<br>15 | -1.29<br>-2.49<br>-5.59<br>11.31<br>-1.94<br><br>M: 16.94 | 1.66<br>6.20<br>31.25<br>127.92<br>3.76<br><br>SS: 170.79 |
| | | $N_1$: 5<br>$df_1 = N - 1 = 5 - 1 = 4$<br>$M_1$: 16.94<br>$SS_1$: 170.79<br>$s^2_1 = SS_1/(N - 1) = 170.79/(5-1) = 42.7$ |

**Table 4.8: Post merger T-Test on ROE**

| POST-merger ROE (X) | Diff (X - | Sq. Diff $(X - M)^2$ |
| --- | --- | --- |

| | M) | |
|---|---|---|
| 15,<br>28,<br>17.78,<br>20.69,<br>22.63,<br>24.99,<br>20.36 | -6.35<br>6.65<br>-3.57<br>-0.66<br>1.28<br>3.64<br>-0.99<br><br>M: 21.35 | 40.32<br>44.22<br>12.74<br>0.44<br>1.64<br>13.25<br>0.98<br><br>SS: 113.59 |
| | | Post-merger<br>$N_2$: 7<br>$df_2 = N - 1 = 7 - 1 = 6$<br>$M_2$: 21.35<br>$SS_2$: 113.59<br>$s^2_2 = SS_2/(N - 1) = 113.59/(7-1) = 18.93$ |

T-value Calculation

$s^2_p = ((df_1/(df_1 + df_2)) * s^2_1) + ((df_2/(df_2 + df_2)) * s^2_2) = ((4/10) * 42.7) + ((6/10) * 18.93) = 28.44$

$s^2_{M1} = s^2_p/N_1 = 28.44/5 = 5.69$

$s^2_{M2} = s^2_p/N_2 = 28.44/7 = 4.06$

$t = (M_1 - M_2)/\sqrt{(s^2_{M1} + s^2_{M2})} = -4.41/\sqrt{9.75} = -1.41$

The t-value is -1.4123. The p-value is .094108. The result is not significant at $p < .05$.

The results agree with Ullah, et al., (2010) who investigated two merging events of Faysal investment bank limited and Atlas investment bank by comparing four years pre and post-merger performance. T-test indicated that there was insignificant increase in profit. This is contrary to Kiarie (2012), who used DPS ROE, ROA and EPS to determine the effect of mergers on financial performance and concluded that mergers improved the financial performance greatly.

### 4.3 Effect of Merger on Share Price of CfC Stanbic Bank Group

#### 4.3.1 Share Earnings

The study sought to find out the share by earning and return for the years 2004- 2007

**Table 4.9: Pre-merger Earnings Per Share (KShs)**

| Year | 2004 | 2005 | 2006 | 2007 | Average |
|---|---|---|---|---|---|
| Earnings per share | 6 | 6 | 11 | 11 | 8.5 |

Source: CSH Management

The table above (table 4.4) shows the pre-merger earnings per share. In 2004 the earnings per share were Ksh.6; 2005 was Kshs. 6; 2006 it increased to Kshs. 11 so was 2007. The average for the period was Kshs 8.5

**Table 4.10: Post – Merger Earnings Per Share (KShs)**

| Year/Average | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Average |
|---|---|---|---|---|---|---|---|
| Earnings per share (Kshs) | 3 | 2 | 8 | 22 | 22 | 21 | 11.33 |

The table above (table 4.5) shows the post-merger earnings per share. In 2008 the earnings per share were Ksh.3; 2009 was Kshs. 2; 2010 it was Kshs 8; it increased to Kshs. 22 in 2012 before reducing to Kshs. 21 in 2013. The average for the period was Kshs 11.33. This was higher than the pre-merger period.

To determine the effect of merger on profitability, the t-test on return on investment was carried out. The tables below show the results in terms of pre-merger and post merger EPS

**Table 4.11: T-Test on pre-merger EPS**

| POST-merger EPS (X) | Diff (X - M) | Sq. Diff $(X - M)^2$ |
|---|---|---|

| | | |
|---|---|---|
| 6,<br>6,<br>11,<br>11 | -2.50<br>-2.50<br>2.50<br>2.50<br><br>M: 8.50 | 6.25<br>6.25<br>6.25<br>6.25<br><br>SS: 25.00 |
| | | $N_1$: 4<br>$df_1 = N - 1 = 4 - 1 = 3$<br>$M_1$: 8.5<br>$SS_1$: 25<br>$s^2_1 = SS_1/(N - 1) = 25/(4-1) = 8.33$ |

**Table 4.12:T-Test on post merger EPS**

| POST-merger EPS (X) | Diff (X - M) | Sq. Diff $(X - M)^2$ |
|---|---|---|
| 3,<br>2,<br>8,<br>22,<br>22,<br>21 | -10.00<br>-11.00<br>-5.00<br>9.00<br>9.00<br>8.00<br>M: 13.00 | 100.00<br>121.00<br>25.00<br>81.00<br>81.00<br>64.00<br>SS: 472.00 |
| | | $N_2$: 6<br>$df_2 = N - 1 = 6 - 1 = 5$<br>$M_2$: 13<br>$SS_2$: 472<br>$s^2_2 = SS_2/(N - 1) = 472/(6-1) = 94.4$ |

T-value Calculation

$s^2_p = ((df_1/(df_1 + df_2)) * s^2_1) + ((df_2/(df_2 + df_2)) * s^2_2) = ((3/8) * 8.33) + ((5/8) * 94.4) = 62.12$

$s^2_{M1} = s^2_p/N_1 = 62.12/4 = 15.53$

$s^2_{M2} = s^2_p/N_2 = 62.12/6 = 10.35$

$t = (M_1 - M_2)/\sqrt{(s^2_{M1} + s^2_{M2})} = -4.5/\sqrt{25.89} = -0.88$

The t-value is -0.88447. The p-value is .20112. The result is not significant at $p < .05$.

## 4.4 Effects of Merger on Cash Flow Position of Cfc Stanbic Bank

### 4.4. Cash Flow Position of the Bank

The study sought to determine the cash flow position of the bank and the table below shows the cash flow position of the bank in various years. The pre-cash flow statement was as shown

**Table 4.13: Pre-merger Mean Cash Flow Position of the Bank**

| Source of Income | 2004(Ksh, M) | 2005(Ksh, M) | 2006 Ksh, m) | 2007(Ksh,M) |
|---|---|---|---|---|
| Net interest Income | 1,279 | 1,352 | 1,500 | 1,529 |
| non-interest revenue | 610 | 711 | 759 | 843 |
| the gross loan | 860 | 599 | 521 | 653 |
| the customer deposit | 22,071 | 73,072 | 82,534 | 85,695 |

Source: CSH Management

The cash flow had been steadily increasing from 2004 to 2007 prior to the merger

The study sought to find out the effect of merger (post merger) on cash flow. The results are displayed below:-

**Table 4.14: Post- Merger Mean Cash Flow (Kshs. Million)**

| Income | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Total operating income | 28,770 | 94,272 | 108,956 | 118,545 |
| Profit after tax | 20,050 | 87,820 | 100,045 | 110,320 |

| | | | | |
|---|---|---|---|---|
| Net interest income | 16,286 | 211,852 | 205,959 | 289,866 |
| Non-interest revenue | 58,386 | 70,638 | 205,906 | 211,444 |
| Gross loan | 98,970 | 647,356 | 744,028 | 1,115,701 |
| Customer deposit | 4,500,694 | 6,169,533 | 8,582,019 | 10,679,889 |

Source: CSH Management

To determine the effect of merger on cash flow, the t-test on net income was carried out. The tables below show the results in terms of pre-merger and post merger cash flow.

**Table 4.15: Pre-merger Net Income t-test**

| Pre-merger Net Income (X) **Kshs. Million** | Diff (X - M) **Kshs. Million** | Sq. Diff $(X - M)^2$ **Kshs. Million** |
|---|---|---|
| 1279,<br>1352,<br>1500,<br>1529 | -136.00<br>-63.00<br>85.00<br>114.00<br><br>M: 1415.00 | 18496.00<br>3969.00<br>7225.00<br>12996.00<br><br>SS: 42686.00 |
| | | Difference Scores Calculations<br>$N_1$: 4<br>$df_1 = N - 1 = 4 - 1 = 3$<br>$M_1$: 1415<br>$SS_1$: 42686<br>$s^2_1 = SS_1/(N - 1) = 42686/(4-1) = 14228.67$ |

**Table 4.16: Post merger Net income t-test**

| POST-merger CF NI (X) | Diff (X - M) | Sq. Diff $(X - M)^2$ |
|---|---|---|
| 16286, 211852, 205959, 289866 | -164704.75<br>30861.25<br>24968.25<br>108875.25<br><br>M: 180990.75 | 27127654672.56<br>952416751.56<br>623413508.06<br>11853820062.56<br><br>SS: 40557304994.75 |
| | | $N_2$: 4<br>$df_2 = N - 1 = 4 - 1 = 3$<br>$M_2$: 180990.75<br>$SS_2$: 40557304994.75<br>$s^2_2 = SS_2/(N - 1) = 40557304994.75/(4-1) = 13519101664.92$ |

<u>T-value Calculation</u>

$s^2_p = ((df_1/(df_1 + df_2)) * s^2_1) + ((df_2/(df_2 + df_2)) * s^2_2) = ((3/6) * 14228.67) + ((3/6) * 13519101664.92) = 6759557946.79$

$s^2_{M1} = s^2_p/N_1 = 6759557946.79/4 = 1689889486.7$

$s^2_{M2} = s^2_p/N_2 = 6759557946.79/4 = 1689889486.7$

$t = (M_1 - M_2)/\sqrt{(s^2_{M1} + s^2_{M2})} = -179575.75/\sqrt{3379778973.4} = -3.09$

The t-value is -3.0889. The p-value is .010709. The result is significant at $p < .05$.

The results concur with Kiarie (2012), who concluded that mergers improved the financial performance greatly

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter is a synthesis of the entire study, and contains summary of research findings, exposition of the findings, commensurate with objectives, conclusions and recommendations based thereon.

## 5.2 Summary of the Major Findings

The objective of the study was to assess the impact of MA on the financial performance of the CFC Stanbic in Kenya. The specific objectives were to determine effect of MA of CFC Stanbic Bank Group on profitability, assess effect of MA of CFC Stanbic Bank Group on Share price and evaluate the effect of MA of CFC Stanbic Bank Group on cash flow. Mergers and acquisitions had no significant influence on the profitability and share prices. It had a significant influence on the cash flow of CFC Stanbic Bank Group.

## 5.3 Conclusions

The overall result is that management is essential through the entire acquisition and merger process and can be perceived as the crossbar of the whole exercise. Thorough integration, financial evaluation of synergies, and extensive planning are additional key elements of performance realization. It is the result of the examination of performance that one can be sure that an acquisition and merger has been successful. Scrutinizing the theoretical the key elements of successful merger and acquisition revealed that organizational structure and culture are of importance for the outcome of the transaction as well as planning the process. Overall, management influences both issues and is additionally a further key element of the integration process which includes change management and employee motivation and retention. When it comes to measuring corporate performance and the achievement of synergies it was the evidence that three approaches were useful; measuring corporate objectives, evaluating financial key ratios, using the balanced sheet among the use of other financial statements. The use of the balanced balance sheet and financial might meet the difficulties in measuring intangible synergies and provide a complete picture of the company's performance. The study was able to determine that the merger and acquisition by the two banks were successful and be able to become profitable over the years.

### 5.4 Recommendations

#### 5.4.1 Policy Recommendations

The strategic fit between the merging companies is vital. As such, understanding the target company and preparing the process based on these assumptions is essential.
Focus on cost synergies is common and not less desirable despite the fact that revenue synergies have the highest upside potential. Also, expecting costs connected to the realization of synergies and the fact that synergies are realized over a range of years is important. In connection to the recommendation above, the underlying assumptions of the deal should support the synergy assessment.

The valuation and assessment are of great importance no matter which synergies are expected in order to avoid paying too much since synergy evaluation is a great part of the price paid for the target. An extensive planning eases the integration process. An overall vision of the company should be implemented in the planning. A powerful common vision of the combined company is vital to create coherence across the company.

Management is key – be it with regard to planning, people, communication, and strategy. Competent management may improve a deal even with the most challenging assumptions. Symbols and a strong common vision strengthen the possibility of a successful outcome. If people do not cooperate and yet even fail to understand the vision of new bank, the merger may fail. A deeper insight into a single case may show other evidence than empirical results. Acquiring companies should be aware of the measurement of the company's performance. Paying attention to the recommendations above, managers as well as analysts should be aware of the complexity of mergers and acquisitions success and that this complexity additionally affects measuring the outcome. This study recommends that the management continue adopting good leadership styles for they are important to the general performance of the merger of CFC Stanbic holdings Kenya limited.

This study recommends that the management adopt even more new financial management aspects and processes that are key in promoting the growth and performance of CFC Stanbic at all times. This can be done by engaging a high learned team in R&D where those concerned will be in a position to learn new approaches essential in financial management. The aspects learned will include good auditing skills, accounting

skills, management of cash skills, investment skills and many more to enhance the profitability levels in the life of the merger.

Finally, innovation strategies in the adoption and use of technologies at CFC Stanbic need to be enhanced making sure that effective performance. New technologies and many more upcoming ones need to be adopted with caution to avoid budget stress.

### 5.4.2 Recommendations on Further Research

Future research can be done on effects of mergers on the performance of companies in different fields so as to shed more light on the effect of mergers and acquisitions on other companies in different countries.

The same study should be carried out in other firms to find out if the same results would be obtained. This study was carried out in CFC Stanbic, it would be interesting to find out if the same results will be obtained by use of the same approach.

There are many challenges facing the formation of mergers as established in this study. A study should be carried to find out the extent to which the challenges influence on formation of mergers and why many firms' banks or commercial institutions have not formed mergers despite the advantages got from formation of the mergers.

In the Kenyan market a research comparing the effectiveness of strategic approaches in mergers within financial institutions would also be an interesting topic to be undertaken on the different banks that have undertaken these strategies

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