

**FACTORS INFLUENCING MERGERS AND ACQUISITIONS ON THE
PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE OF CFC
STANBIC BANK, NAIROBI COUNTY**

BY

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**A Research Project Proposal Submitted in Partial Fulfillment of the Requirements for
the Award of Master of Arts in Project Planning and Management of the
University Of Nairobi**

2019

DECLARATION

I declare that this is my original work and to the best of my knowledge, has not been submitted to any other institution or University for the purpose of examination.

Signature

Date.....

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The research project proposal has been submitted for examination with my approval as the candidate`s supervisor.

Signature

Date.....

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DEDICATION

This project is dedicated to Almighty God who always gives me strength, knowledge and wisdom in everything I do. My parents Mr. Isaac Melly and Mrs. Zipporah Melly for their endless support and guidance, daughter Kirsty Melly who has been affected in every way possible by this quest, my brother Godwin Melly, sister Lilian Melly for their moral support. Colleagues Dr. Onesmo Shuma and Washington Omwomo for their technical support, Steven Bonga (Norway) who made it happened and friends who have consistently encouraged and supported me throughout this course. My supervisor Dr. Naomi Gikonyo for her endless support. May God bless you.

ACKNOWLEDGEMENT

This project would not have been possible without the guidance and the help of several individuals who in one way or another contributed and extended their valuable contribution in the preparation and completion of this proposal. I forthwith pay gratitude to my supervisor Dr. Naomi Gikonyo for guidance in the course work and the research project. I also wish to thank her for support, patience and understanding throughout the research. My sincere gratitude also goes to the lecturers at the University of Nairobi for their input especially in units that were essential in formulation and development of this study. They were ready to assist where their assistance was sought during the writing of this document. They have shared valuable insights in the relevance of the study. I further acknowledge the support of my family and my study colleagues who have stood by me throughout my studies and particularly for their unending support.

TABLE OF CONTENT

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABBREVIATIONS AND ACRONYMS	x
ABSTRACT.....	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	3
1.3 Purpose of the Study	4
1.4 Objectives of the Study	4
1.5 Research Questions	5
1.6 Significance of the Study	5
1.7 Delimitations of the Study	5
1.8 Limitations of the Study.....	5
1.9 Definition of Significant Terms	6
CHAPTER TWO: LITERATURE REVIEW	7
2.1 Introduction.....	7
2.2 Concept on Mergers and Acquisitions on Commercial Banks	7
2.3 Capital Base and Performance of Commercial Banks	9
2.4 Customer Service Delivery and Performance of Commercial Banks.....	10
2.5 Customer Base and Performance of Commercial Banks	12
2.6 Cost of the Process and Performance of Commercial Banks	13
2.7 Theoretical Review	15
2.7.1 Free Cash Flow Theory.....	15
2.8 Conceptual Framework.....	15
2.9 Knowledge Gap	17
2.10 Summary of Literature Review.....	17

CHAPTER THREE: RESEARCH METHODOLOGY	19
3.1 Introduction.....	19
3.2 Research Design.....	19
3.3 Target Population.....	19
3.4 Sampling Procedure	20
3.5 Data Collection Methods and Instruments.....	22
3.5.1 Data Collection Instrument	22
3.5.2 Data Collection Procedure	23
3.6 Pilot Testing.....	23
3.11 Data Analysis Techniques.....	24
3.12 Ethical Considerations	24
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION	25
OF FINDINGS	25
4.1 Introduction.....	25
4.2 Questionnaire Response Rate	25
4.3 Demographic Data Analysis	25
4.3.1 Distribution by Gender	25
4.3.2 Distribution of Respondents by Age	26
4.3.3 Distribution of Level of Education	27
4.4 Performance of Commercial Banks	27
4.5 Capital Base and Performance of Commercial Banks.....	29
4.6 Customer Service Delivery and Performance of Commercial Banks.....	31
4.7 Customer Base and Performance of Commercial Banks.....	33
4.8 Cost of the M&A Process and Performance of Commercial Banks	35
CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATION	38
5.1 Introduction.....	38
5.2 Summary of Findings.....	38
5.2.1 Capital Base and Performance of Commercial Banks.....	38
5.2.2 Customer Service Delivery and Performance of Commercial Banks	39
5.2.3 Customer Base and Performance of Commercial Banks	39
5.2.4 Cost of the M&A Process and Performance of Commercial Banks.....	40

5.3 Discussions	40
5.3.1 Capital Base and Performance of Commercial Banks.....	40
5.3.2 Customer Service Delivery and Performance of Commercial Banks.....	41
5.3.3 Customer Base and Performance of Commercial Banks.....	42
5.3.4 Cost of the M&A Process and Performance of Commercial Banks.....	43
5.4 Conclusions.....	43
5.5 Recommendations.....	44
REFERENCES	45
APPENDIX I: INTRODUCTION LETTER	47
APPENDIX II: QUESTIONNAIRE.....	48

LIST OF TABLES

Table 3.1: Target Population.....	20
Table 3.2: Target Population.....	22
Table 4.1: Response Rate.....	25
Table 4.2 Gender Distribution	26
Table 4.3 Distribution of Respondents by Age.....	26
Table 4.4 Level of Education.....	27
Table 4.5 Performance of Commercial Banks	28
Table 4.6 New Bank Branches.....	29
Table 4.7 Capital Base and Performance of Commercial Banks	30
Table 4.8 Customer Profitability.....	31
Table 4.9 Customer Service Delivery	31
Table 4.10 Customer Service Delivery and Performance of Commercial Banks.....	32
Table 4.11 Customization of Banking Products	33
Table 4.12 Customer Base and Performance of Commercial Banks.....	34
Table 4.13 Customization of Banking Products	35
Table 4.14 Cost of the M&A Process and Performance of Commercial Banks.....	36
Table 4.15 Cost of Legal Counsel.....	37

LIST OF FIGURES

Conceptual framework	16
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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
M&A	Mergers and Acquisition
USA	United States of America

ABSTRACT

Mergers and acquisition refers to where two or more financial entities combine corporate resources to operate as a unit with an aim of improving their performance. Previous study on this topic give conflicting findings on how commercial banks performance react to merger and acquisition The objective of the study is to investigate the effects of merger and acquisition on the performance of commercial banks in Kenya being guided by the following objectives; to examine the influence of capital base of the mergers and acquisitions; to determine the influence of customer service delivery on the performance of commercial banks; to establish the influence on customer base on the performance of commercial banks and to examine whether cost of the process has influence on the performance of commercial banks in Kenya. The study intended to address challenges and problems faced in the Mergers and Acquisition process in relation to commercial banks from to reinstating public trust and to ways of increasing profitability and also to examine if merger and acquisition will facilitate economic growth and stability in the banking sector in Kenya. The study was guided by Free Cash Flow Theory with the conceptual framework displaying the relationship between the independent variables and the dependent variable; this study adopted the use of descriptive survey research design and involved a population of 159 respondents that brought about a sample size of 112 using stratified random sampling. Data analysis was done and findings presented in frequency and percentage tables. The study found out that bank's usually go through the M&A process because one of them is not being profitable hence not guaranteeing profitability after the process, that from respondent's experience the banks should adopt a hybrid mode of communication and so they still use the same platforms to communicate whereas the cost of legal counsel influences the budget for the overall M&A Process. The study recommends that commercial banks involved in M&A's should always consider their customers' welfare, opinions and needs. The changes brought about by the process should not disrupt but rather enhance a friendlier affordable customer experience.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banking industry has experienced an unprecedented level of consolidation as mergers among financial institutions have become a general phenomenon globally. For instance between 1993 and 1996, about 1500 mergers were recorded in the USA (Pilloff 1996), a similar experience was observed in the Europe and Asian continents (Schenk 2000). To a large extent, this consolidation is based on a belief that gains accrue through expenses reduction, increased market power, reduced earnings volatility, and scale and scope economies. However, this characteristic of reforms induced mergers in the banking industry which then created doubts about its potential of realizing efficiency gains.

A Merger is a tool for expanding ones business or gets around different laws or regulations such as tax laws or monopoly regulations (Ross, Westerfield & Jaffe, 2002). The mergers wave has become the most debatable issue for investors particularly the regulators and academicians. Banks are the cornerstone of the economy of any country; they occupy central position in the country's financial system and are essential agents in the development process. By intermediating between the surplus and deficit savings units within an economy, banks mobilize and facilitate efficient allocation of national savings, thereby increasing the quantum of investments and hence national output (Afolabi, 2004).

Mergers and acquisitions (M&A) are a recurring phenomenon in global scenario. Merger and acquisition activities are found in all sectors over the world including banking sector. Merger and acquisition in banking sector is influenced by various factors. The most dominant reason for M&A to take place is the synergy that can be created by the combination of business activities which will lead to better, faster and low cost performances. Essentially, a business will attempt to merge with another business that has complementary strengths and weaknesses (Renaud, 2016). M&A is now renowned for being an action commonly undertaken by management, although research studies over many years have suggested that there is a consistent failure of 30-50 percent (Booz and Hamilton, 1985). However, in the most recent research done which covered 314 companies from several European countries, it was found that some 80 percent of the acquisitions were successful. The report stated that M&A is not a corporate objective in itself but is a means of achieving corporate goals

although the results of the survey show that M&A objectives are geared to the company's visibility in its markets rather than hard edged economic returns (Hussey, 1999). Authors like Shleifer and Vishny (2003) as well as Rhodes-Kropf and Viswanathan (2004) have developed models in which merger waves resulted from managerial timing of market overvaluations of their firms.

Mitchell and Mulherin (1996) argued that merger waves resulted from shocks to and industry's economic, technological or regulatory environment. While considering the banking sector, it is of no exception to be affected by the waves of merger and acquisition. Global mergers and acquisitions in banking sector have led to the study on determinants of these M&A activities and decision (as activities are the execution of decisions). The studies conducted by Novickytė and Pedroja (2015) have shown that the causes of bank mergers and acquisitions can be put into three categories: maximization of bank's assets/return, seeking to satisfy selfish ambitions of bank's management, and factors that create a favorable environment for such transactions to take places. Based upon the types of synergies, they could be income synergy, cost synergy, market power synergy and intangible synergy

Mergers have become a prominent phenomenon in Kenya's banking system. Over the past decade, the banking industry has experienced various consolidations as mergers among large financial institutions have taken place at record levels. In the last ten years 33 mergers have taken place in the Kenyan banking industry. Accordingly, Ochieng' Oloo, Chief Executive Officer, Think Business in a press conference in May 7th 2010 commented that, commercial banking sector in Kenya is set to witness major mergers and acquisitions in the run up to the 1 billion 2012 deadline for re-capitalization. The banks, according to an industry survey released on 28th May 2009, are engaging in talks that could see some list at the Nairobi Stock Exchange to raise additional capital. Most of the banks will either be merged or acquired by their peers to attain set targets of the capital in two years' time. Some are also looking at Initial Public Offerings as the way to raise the money.

To relate this foreseen move with the banking sector experience in Nigeria, the Central Bank of Nigeria's (CBN) recent reform strategy employed certain policy measures to strengthen Nigerian Banking System by drastically increasing the minimum capital requirement from 2 billion Nigerian Naira (N) to N25 billion (\$US 190million). Through review of relevant literatures, and analysis of policy documents, official reports and economic information on the banking sector, it became evident that the strategy led to a remarkable

reduction in the number of banks from 89 to 25, by mergers, acquisition, initial public offer and other means at the beginning of 2006 in a short period of time. This reform has resulted in making the banks more efficient and reliable and also their intermediary potentials have also been raised. It's worth evaluating whether merged banks have actually obtained gains in efficiency of their financial intermediating roles.

CfC Stanbic Bank Kenya formed from the merger of CfC and Stanbic Bank, to make the country's seventh largest bank, a member of Standard Bank Group. The merger represented a significant gain in size for the South African bank, which has been struggling to expand its presence in Kenya, a strategic location for multinationals seeking a hub for the region. The new entity was the first fully integrated financial service provider and the seventh largest bank by asset value in Kenya, with a combined asset base of Sh76.1 billion which has further increased to 95 billion by first quarter of 2016. CfC Stanbic as a holding company provides through its subsidiaries, life assurance, general insurance, fund management, investment banking and stock broking services and banking services.

The group subsidiaries include CfC Stanbic Financial Services Limited, CfC Insurance Holdings limited CfC Stanbic Insurance Agency and CfC Stanbic Bank Limited. In the merged entity CfC-Stanbic Holdings, Standard Bank through Stanbic controls a 60 per cent stake while CfC holds the other 40 per cent. With ICBC having acquired 20 per cent in Standard Bank, its holding in CfC-Stanbic translates to a stake of between 8 to 12 per cent in CfC for the Chinese Bank. CfC Stanbic Bank full year 2015 results, recording a 13.7% decrease in profit after tax to Kes 4.9Billion. However, the Full Year 2015 Earnings Per Share (EPS) stood at Kes. 12.41. Therefore, since the importance of mergers and acquisitions cannot be overemphasized, this prompted the researcher to assess the perceived impact of merger and acquisition on the development of the commercial banks in Kenya.

1.2 Statement of the Problem

Consolidation has been a widespread development in the banking industries of many countries in recent decades. As a consequence, the number of banking firms has declined significantly in many countries, and a number of large universal banking firms with international operations has emerged (DeYoung et al., 2009). In many emerging markets, bank M&As have been driven by government policy initiatives for restructuring the banking

industry. Frequently such initiatives have followed a financial crisis, and have been directed towards stabilizing the banking system and the wider economy.

The present gradual stabilization of key macro-economic variables in the economy notably, interest rates, exchange rates and inflation rate is a salutary development and that underscores the need for the regulatory authorities to remain on their toes to ensure the sustainability of and even improvement of such a development. Although the minimum capitalization segment of consolidation of the industry has since been achieved, the necessary mergers/ acquisition/ buyouts that ensued have thrown up some challenges which include, but not confined to, integration of the systems, human resource issues, equipment nature and maintenance, core values, corporate culture, etc, of the various banks in consolidated group. A poor handling of any of those integration challenges could spell disaster for the affected group, the industry and the national economy. This study focuses on the impact of mergers and acquisition on the development of commercial banks in Kenya with study of CfC Stanbic Bank. Over the years, the most disturbing problems that facing the bank mergers and acquisition in Kenya were attributed to reinstating public trust and to ways of increasing profitability and also to examine if merger and acquisition will facilitate economic growth and stability in the banking sector in Kenya. The banking industry is already proliferated with local and multinational financial institutions hence mergers and acquisitions cuts down the number.

1.3 Purpose of the Study

The purpose of the study is to investigate the determinants of mergers and acquisitions influence on the performance of Commercial Banks in Kenya: case of Cfc Stanbic Bank, Nairobi County

1.4 Objectives of the Study

- i. To examine the influence of capital base of the mergers and acquisitions on the performance of commercial banks in Kenya.
- ii. To determine the influence of customer service delivery on the performance of commercial banks in Kenya.
- iii. To establish the influence on customer base on the performance of commercial banks in Kenya.
- iv. To examine how cost of the process has influence on the performance of commercial banks in Kenya.

1.5 Research Questions

- i. What is the impact on the capital base of banks by mergers and acquisitions on the performance of commercial banks in Kenya?
- ii. To what extent does customer service delivery influence the performance of commercial banks in Kenya?
- iii. How does the customer base influence the performance of commercial banks in Kenya?
- iv. To what extent does the cost of the process has influence on the performance of commercial banks in Kenya?

1.6 Significance of the Study

The need for having a sound economy and most especially sanitizing the banking sector informed the choice of the topic. It is hoped that this work will proffer solution to the importance and advantages of merger and acquisition as a policy tool for the survival of our banking sector. It will equally be of a tremendous significance to those outside the financial sector, who do not know much about bank merger and acquisition some of the benefit. Also, the study when completed will be very useful to the management banks in Kenya, who will formulate appropriate policies on how to ensure that the full benefits of mergers and acquisitions are realized. Finally, the study will add to the existing literature on the subject matter of recapitalization and also compliment the work of other authors.

1.7 Delimitations of the Study

The study sought to assess the influence of mergers and acquisitions on the performance of Commercial Banks in Kenya with reference to the Cfc Stanbic Bank. Whereas a myriad of aspects exist in this regard, the present study will narrow down the same into four, namely: capital base of the banks, customer service delivery, customer base and cost of the mergers and acquisition process. The scope of the study further encompassed top, middle and operational level employees at Cfc Stanbic, all who are geographically located in the bank's branches Nairobi County, Kenya.

1.8 Limitations of the Study

Lack of co-operation from the management and staff due to the sensitivity of the process in relation to financial information, this may be minimized by indicating the importance of the study to the management. The cost of doing the study may be too high; this may be minimized by ensuring that the researcher has a sound budget that will cater for the whole

process whereas in terms of limited time, the researcher is to do a practical work plan with clear time schedules so as to complete the research on time.

1.9 Definition of Significant Terms

The following are terms used in the study defined as concepts in the context of the study

Capital Base	This is the banks financial position before and after the merger and acquisition and how it affects the process and the bank's going concern
Customer Base	The effects of the merger and acquisition process on the bank's customers and their behavior in terms of sticking to the bank or seeking others
Customer Service Delivery	How will the merger and acquisition of Cfc Stanbic impact its way of interacting and servicing its existing and potential clientele
Mergers and Acquisitions	This is the area of corporate finances, management and strategy dealing with purchasing and/or joining of the commercial bank with other financial entities due to one reason or the other
Performance of Commercial Banks	Relates to how the commercial bank will continue to operate in terms of profitability or losses after the process has taken its course

1.10 Organization of the Study

The study is organized in five chapters, chapter one covers background of the study, problem statement of the problem, objectives of the study and research questions. It also covers significance of the study, limitations of the study, definition of terms and finally organization of the study. Chapter two covers literature reviewed from past works that have been done in the same area of study. It reviews what other scholars in the field have found out, it also covers the theoretical review and the conceptual framework. Chapter three spells out the research methodology which includes the research design, target population, sample size and sample selection, research instruments, data collection procedures and data analysis procedures. Chapter four covers data presentation, analysis and interpretation and finally chapter five covers summary and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented a review of literature relevant to the study. Past research studies were studied in order to give more insight into the topic and to find out the approaches that have been used in earlier studies, compare methodologies used to examine findings obtained in the past and sample current opinions given. The chapter was organized according to research objectives to ensure there was relevance to the research questions; the chapter also discussed empirical literature review, theoretical framework and the conceptual framework of the project study.

2.2 Concept on Mergers and Acquisitions on Commercial Banks

A major obstacle faced by organizations seeking to merge or acquire others has been that of identifying the business area in which a firm should participate in order to maximize its long-term profitability. A merger and acquisition is normally one of the most important strategies that a company will embark on. Mergers and acquisitions may lead to financial deficiency. For example, firms may diversify their earnings by acquiring other firms or their assets with dissimilar earning streams. Earnings diversification within firms may lessen the variation in their profitability, reducing the risk of bankruptcy and its attendant costs. Mergers and acquisitions are the modes of establishing inter organizational linkages whereby companies buy a part of or a controlling interest in another company (Harrison, 2002). A merger is the unification of two or more organizations into a single unit whilst an acquisition involves the purchase of one organization by another so that the buyer assumes control (Brouthers et al., 1998).

M&A can be seen as means of accessing growth through two ways; firstly, developing the strengths that the organization currently possess and secondly, acquiring the strong points or competitive edge enjoyed by another organization. This notion is supported by Salleo (2002), mergers & acquisitions (M&A) are a means of reinforcing existing capabilities and for accessing a new set of valuable capabilities, which are difficult to imitate not widely available and integrated in an indivisible part of another firm. This view on M&A's is similar to that put forward by Kang and Johansson (2000), as the two authors refer to strategy as a process that enables the organization achieve its goals in much shorter time once it harnesses the strengths of the firm with which it engages in the strategic partnership. This perspective of business structures, there is a whole host of different mergers. Horizontal merger occur

where two companies that are in direct competition and share the same product lines and markets. Vertical merger are combinations that involve a customer and company or a supplier and company for instance a cone supplier merging with an ice cream maker. Market-extension merger are mergers where two companies that sell the same products in different markets merge.

Product-extension merger occur when two companies selling different but related products in the same market. Conglomeration merger involves two companies that have no common business areas. In addition there two types of mergers that are distinguished by how the merger is financed. Each has certain implications for the companies involved and for investors: Purchase Mergers is the kind of merger that occurs when one company purchases another. The purchase is made with cash or through the issue of some kind of debt instrument; the sale is taxable. Acquiring companies often prefer this type of merger because it can provide them with a tax benefit. Acquired assets can be written-up to the actual purchase price, and the difference between the book value and the purchase price of the assets can depreciate annually, reducing taxes payable by the acquiring company. Consolidation Mergers is a merger where a brand new company is formed and both companies are bought and combined under the new entity. The tax terms are the same as those of a purchase merger. CFC Stanbic Bank took a horizontal merger to combine the two banks that previously operated in the same industrial settings and competed for the same market.

For the entire M&A process to be a success there must be a transfer of the capabilities and knowledge for cost effective synergies to become a reality. There are certain objectives and reasons for mergers and acquisitions that propel the increase in mergers and acquisitions (Hensmans et al., 2001). These include; desire to increase the size of the organization to ensure it reaps the benefits of enhances economies of scale, business combination also leads to risk diversification, particularly where the two companies have different income streams, increasing the company's market competitiveness; thus, being in a position to stay off competition. The strategy may also be used as a means of avoiding taxation, as a means of achieving the organizations' growth objectives by expanding their existing markets or by entering in new markets, businesses with good potential may be poorly managed and the assets underutilized, thus resulting in a low return being achieved as a result such a business is likely to attract a takeover bid from a more successful company (Shimizu et al., 2004).

In Kenya, merger and acquisition is a strategy that has been widely used by companies that intend to grow their asset value and increase their market share. Since year 2000 to 2014, a total of 19 companies have engaged in either a merger and/or acquisition. Some of the financial institutions that have merged with other firms include; CFC Stanbic, Paramount Universal Bank, Kenya Commercial Bank Ltd., Citibank NA, Southern Credit 4 Banking Corp. Ltd., Co-operative Bank of Kenya ltd, Investment & Mortgage Bank Ltd., Commercial Bank of Africa ltd, EABS Bank ltd, Prime Bank Ltd., Kenya Commercial Bank Limited, Jamii Bora Bank Ltd., Equatorial Commercial Bank Ltd. Dubai Bank Ltd. Other companies that have acquired others include; Bank of Africa Bank Ltd., Ecobank Bank Ltd., Guaranty Trust Bank (Kenya) Ltd, K-Rep Bank Ltd and Equatorial Commercial Bank Ltd among others (CBK, 2014)

2.3 Capital Base and Performance of Commercial Banks

Mergers and acquisitions (M&A) are being increasingly used world over for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale not forgetting strategic positioning. The world globalization has led to world financial crisis which has significantly affected the banking industry and has consequently increased the need for mergers and acquisitions (M&A) in the consolidation of deposit money banks. One of the major policies introduced to solve these financial problems is by consolidation through mergers and acquisitions.

Mergers and Acquisitions are important as they lead to combining corporate resources, but only if it results in a competitive advantage. Some of the benefits are rapid access to technology and products, an extended customer base, an enhanced market position and a stronger financial position. Another importance of mergers and acquisitions is access to an expanded installed base of customers. This not only provides an opportunity for sales of existing products to a larger group of customers, but also provides a greater base for future product sales. In addition, consolidated companies can own a greater share of market, which gives them a substantial competitive advantage. Mergers and acquisitions also benefit companies wanting to reposition themselves in the market. By adding capabilities to their product offerings, companies can rapidly expand their market coverage and modify their market position (Mboroto, 2012).

The potential economic benefits of Mergers and Acquisitions are changes that increase value that would not have been made in the absence of a change in control (Pazarkis et al., 2006). These changes in control are potentially most valuable when they lead in the redeployment of assets, providing new operating plans and business strategies. The motives behind mergers and acquisitions are to improve financial performance in form of revenues and profitability, faster growth in scale and quicker time to market, and acquisition of new technology or competence. This is largely the reason why merger and acquisition are perceived as effective methods of improving corporate performance (Mboroto 2013). A study conducted in Pakistan, in which the impact of merger and acquisition on post-merger life of company captured indicated positive changes have resulted in the share price of five companies and negative impact in the share price of the two companies have been found one month after the merger. Moreover, no change in the price of one company has been found. Overall, the results indicate that M&A positively affect the share price of companies. (Fatima and Shehzad 2014)

Akinbli and Kelilume (2013) did a study on the effects of mergers and acquisition on corporate growth and profitability of Nigeria and the results support the idea that mergers and acquisitions are not a prima facie solution to the problem of financial distress in corporate organizations. This is especially so when mergers are regulatory imposed than business environment driven. The study further found that while mergers and acquisitions can drive growth and profitability in some organizations, operating efficiency suffers at least in the short-term in the post-merger and acquisition corporate entity. The evidence also shows that mergers and acquisitions provided only a temporary solution to financial distress and no solution at all to operating indiscipline.

2.4 Customer Service Delivery and Performance of Commercial Banks

A merger could enhance the quality the customer receives. A merged company may be able to deliver better products or services at a quicker rate than before. Options that were not previously available to one of the smaller companies may allow the merged company to offer enhanced service or products that were not previously available. A [merger](#) can affect the customers of the involved business entities on several levels, including price of the product or service, the quality of the product or service, the level of satisfaction the customers receives from the company and the options the customer has when conducting business with the company.

Mergers can affect the level of customer service. For example, a merger of two small real estate companies may lead to the termination of sales positions, lost client relationships and confusion over new commission rates. Customers are one of the most important stakeholders that determines firms' profitability. Firms will achieve a higher profitability if they could secure and improve their customer satisfaction (Anderson, Fornell & Lehmann, 2006). Hallowell (1996) argues that the relationship between profitability and customer satisfaction is mainly bridged by customer loyalty. In other words, customer satisfaction will impact profitability indirectly through customer loyalty. In consideration of this linkage, it can be inferred that customers play a pivotal role in determining the future and survival of firms. Mergers of service companies, such as Internet service providers, may lead to billing errors and overwhelmed customer service staff, which leads to unhappy customers and lower profits.

However, customer service could also improve in some cases. For example, the merger of two small inbound call centers can improve call response times, as the combined center would have additional resource flexibility for scheduling customer calls. The effect that a merger or an acquisition has on the network, i.e. companies and organizations in the surrounding environment, might mean that the co-operation between the 'new' company and their former customers and suppliers will be either stronger or weaker than before. How do they experience their new situation and what action do they take? Customers and suppliers to merging or acquiring companies must be studied since the phenomena of mergers and acquisitions so frequently occurs. Since these are frequent phenomena, as well as the fact that many large companies are involved, it is interesting to see what if any effect these have on connected companies. Not only customers and suppliers will be affected but most probably also rivals to the merging and acquiring firms.

Many of today's mergers are driven primarily by strategic goals such as the quest for market access, new technologies, critical mass, and growth. The increase in the importance of strategic goals in M&AS have led the customer-integration to become more imperative in determining the success or failure of M&As (Weber & Dholakia, 2000). Anderson, Havila and Salmi (2001) support the idea that the customer and supplier relationships are fundamental in an M&As. According to them, good M&A outcomes largely depend on how well managements can identify external relationships and also the possibility of the acquirer taking over the business relationships of the target company. Recent study, by Swaminathan, Groening, Mittal and Thomaz (2014) indicate that merger firms will produce greater value

creation than the non-merger ones if they could achieve customer satisfaction and efficiency simultaneously. They argue achieving customer satisfaction and efficiency during the merger process is crucial to enhancing long-term value creation.

2.5 Customer Base and Performance of Commercial Banks

The market share of an acquired company can not automatically be transferred to the buyer without losing some part of the market; to achieve positive coordination gains, standardization of the product range could mean losing customers. The acquiring company might for some customers only represent the second best buying alternative after a merger due to the customers buying habits, brand loyalty, etc. To achieve coordination gains, the distribution system might have to be rearranged and the merged company might have to deliberately let go of a part of the total market.

Tetenbaum (1999) discusses that the effort of integrating two companies might affect the customer side as the work with integrating the two companies takes attention away from customers, competition, and productivity. One could suspect, as in the case with Tetenbaum (1999), that the customers react and affect the outcome of the acquisition. The thought of customers as influencing the performance is shared by for instance Salmi et al (2001) and Anderson et al (2001). In Anderson et al (2001) a distinction between intended effects and unexpected effects are made, pointing out that the outcome of a merger or acquisition is partly dependent on planned motives and partly on unexpected reactions from others. An example of the former is the possibilities of exploiting a strong brand name, etc to change the customers' perception of an existing product (Capron, 1999). This at the same time indicates that after a merger or acquisition, market changes may be evident. Another way of dealing with customers in M&A literature, is to view them as influencing the M&A activities. When a business partner is affected by a merger/acquisition, it would only be natural to expect the business partners to perceive the event and eventually react to it. When Capron (1999) points at the possibility to change a customers' perception of an existing product, the exploiting of the acquired/acquiring company's brand name to other products, has positively influenced the customers; what could also be seen as an example of customers acting upon their own will is Hayward (2002) when pointing out that buying a competitor etc, will not necessarily lead to more market shares. The remaining competitors might develop a more attractive product, and thus attract the customers, or the loss of customer focus during the integration phase (Tetenbaum, 1999) may lead to the loss of customers.

As is the case when customer related issues are given as motives to merge or when discussing the outcome of a merger or acquisition, the customers are often looked upon in an instrumental way, and only in a few cases they are discussed as being influenced by or influencing the M&A activities. But does an attempt to acquire additional market shares, extending the market etc, necessarily mean that the company achieves additional market shares or more customers? We would argue that it is dependant on how the customers act towards the merger/acquisition. Customers are often viewed as trade able assets (“If we buy company X, which has a market share of 10 percent, we will automatically get hold of their customers and thus increase our market share by 10 percent”), but is it not reasonable to think that customers could be affected by the M&A activities of their suppliers and that the customers’ actions and reactions might have an impact on the outcome of the merger/acquisition? As shown in Havila & Salmi (2000), etc M&A activities may affect connected relationships to the acquiring/acquired companies. Thus to only look at the acquirer and the acquired company seems to be a too narrow approach.

Mergers and acquisitions (M&As) represent a strategic approach for businesses to acquire resources and build competitive advantages. Many studies have investigated the process and results of such resource integration between two firms. Some cases reveal satisfactory results in building asset portfolios, while others uncover downsides after M&As due to conflicts in cultural and system integration. Although the key M&A objective is to expand business operations in providing customers with superior products and services, limited understanding exists in regards to how companies retain the quality of post-merger customer relationships.

2.6 Cost of the Process and Performance of Commercial Banks

Although the main cost in any M&A transaction is most likely the cost to acquire the company (or assets), both Buyers and Sellers incur other costs. These costs range from the retinue of advisors needed to close deals, paying off debt, adjustments made after the close, and, regrettably, taxes, M&A deal-makers can’t do the job alone. Any Buyer or Seller should retain a capital M&A advisor (investment banker), a lawyer, and an accountant. These people don’t work for free, so their charges are part of the expenses of doing a deal. Outstanding planning and execution are essential for a successful merger. Integration is reached only after mapping the process and issues of the companies to be merged. Even then just 23% of all acquisitions earn their cost of capital. When M&A deals are announced, a company’s stock price rises only 30% of the time. In acquired companies, 47% of executives leave within the first year, and 75% leave within the first three years. Synergies projected for 3 M&A deals

are not achieved 70% of the time. Productivity of merged companies can be affected by up to 50% in the first year and financial performance of newly merged companies is often lacking.

There are myriads of anecdotes of failed M&A deals. According to academic research, failure rates range from 50% to 80%. To be more precise, these failure rates apply to acquirers. Shareholders of target companies typically receive a large premium on the sale of their shares. And multi-business corporations that divest non-core activities typically achieve superior shareholder returns as they reverse the conglomerate discount embedded in their share prices. While failed acquisitions understandably catch the public attention, many acquirers are actually very successful. Success and failure is therefore not something beyond the control of acquirers, but can be managed. For companies considering an acquisition it is crucial to have an understanding of the factors that contribute to the success or failure of a deal.

Growth through acquisitions is inherently more risky than organic growth. Organic growth allows for gradual investments which can be adjusted on the basis of learning and new information. In contrast an acquisition is an investment 'at once', typically fully paid for upfront, in a company of which the acquirer has less knowledge than its own business. Nowhere is this risk more apparent than in the deal phase. Acquisitions are frantic, involving many corporate functions, multiple business units and a myriad of advisers. Acquisitions are subject to time pressure, often compounded by competitive bidding situations, which forces acquirers to make decisions on the basis of limited information. And in the later stages of the deal 'tunnel vision' and 'deal fever' are likely to set in, creating biases in decision making. This is compounded by the high stakes involved in M&A and the potential conflicts of interest. If managed incorrectly, acquisitions can expose a company to unwarranted risks: it may end up with a business it should not own, it may overpay, or it may not be able to manage and integrate the target company. If financed with too much debt a bad acquisition can even bring a company to the brink of disaster. While the integration phase of a deal seldom grabs headlines, the successful integration of a target is the only way to evaluate the outcome of a deal. However many integrations are not successful. The seeds of failure may already have been sown in the strategy phase: a good integration cannot make up for a poor deal rationale. Integration failure is often related to the complex and demanding nature of post-deal integration. Lack of preparation, the absence of a detailed integration plan, insufficient staff and funds dedicated to integration and too little attention from senior executives are some major reasons for failure.

2.7 Theoretical Review

The study is guided by the following theory

2.7.1 Free Cash Flow Theory

A major explanation why firms pay dividends is the free cash flow hypothesis (Jensen, 1986), which explains dividends as a means to mitigate agency cost of free cash flows. The free cash flow hypothesis is primarily based on the argument that there is a conflict of interest between managers and shareholders. That is, rather than act in shareholders' best interests; managers could allocate the firm's resources to benefit themselves (Thanatawee, 2011). An implication of the free cash flow hypothesis is that cash-rich firms that are mature with scarce investment opportunities tend to have overinvestment problem. Thus, a dividend increase announcement by these firms should be accompanied with a positive stock market reaction since it is a signal to shareholders that management will not wastefully use corporate cash flows (Buusa, 2015). One way managers can divert free cash flows from dividends is by issuing debt and thus binding themselves to pay out future cash. This theory prompts the need to improve financial performance of firms through mergers and acquisitions. Return on shareholder equity is affected when managers divert the free cash flow from dividends thus affecting the financial performance of a company. This is because return on equity measures a corporation's profitability by revealing how much profit a company generates with the funds invested by shareholders (Mboroto 2012).

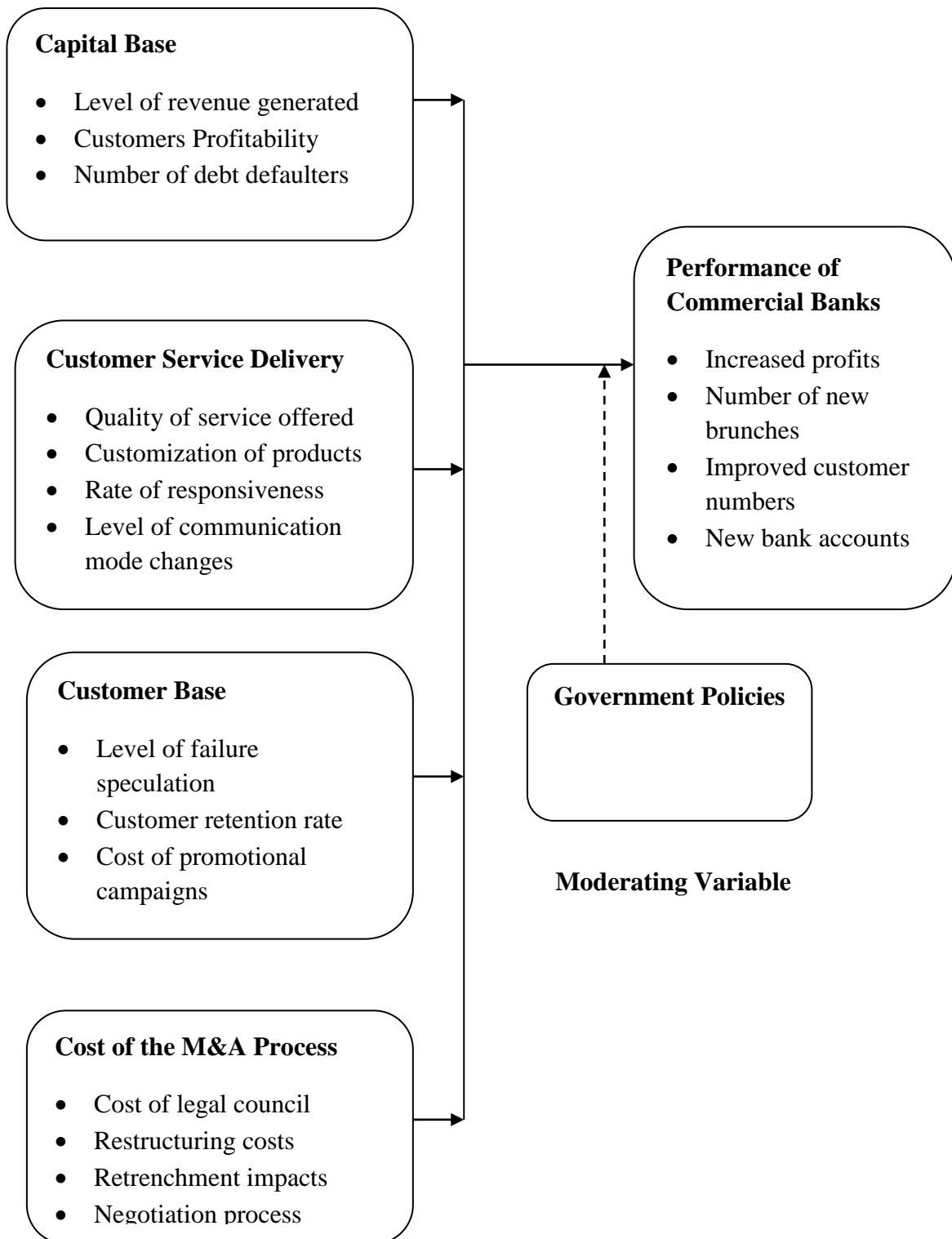
2.8 Conceptual Framework

In this study, performance of Commercial Banks in Kenya was viewed as a dependent variable. Capital Base, Customer Service Delivery, Customer Base and Cost of the M&A Process constitute the independent variables. These are interrelated as shown in the conceptual framework in Figure 1

Conceptual framework

Independent Variables

Dependent Variable



2.9 Knowledge Gap

Variable	Author/ Year	Findings	Knowledge Gap
Capital Base and Performance of Commercial Banks	Mboroto (2012) Fatima (2014)	Found out that there existed a strong relationship between capital base and performance of banks.	There is need to examine and emphasize this relationship in great detail
Customer Service Delivery and Performance of Commercial Banks	Halowell (1996)	This study showed that there is a relationship between how customer service is delivered and growth of commercial banks	The study did not indicate clear methodologies that were used to reach these conclusions. On that basis, this study shall design a clear methodology to verify this influence
Customer Base and Performance of Commercial Banks	Capron (1999) Anderson (2001)	A relationship does exist between the variables (level of failure and customer retention rate) and food production projects.	There is need to explore these findings in the context of Kenyan commercial banks
Cost of the Process and Performance of Commercial Banks	Williams (2000). Tadele (2012) Campbell (2009)	Found out that there existed a strong relationship between cost of the process and performance of commercial banks	There is need to examine and emphasize this relationship in the Kenyan context

Table 2.1: Knowledge Gap

2.10 Summary of Literature Review

The literature review has captured; how merger has affected the capital base, profitability, benefit of merger in terms of customer services delivery, and problems confronting Kenyan banks before the merger. Therefore growth is an essential aspect for financial institutions success. It is something for which most banks strive for. It is observed commonly that small banks want to grow big and big banks want to grow bigger. Indeed banks have to grow and

the reasons behind are almost same for every organization. However, different banks adopt different strategies for this purpose and the most suitable strategy is the one that supports the company to move progressively towards accomplishing its stated goals (Greiner, 1991).The ultimate objective of most banks is profitability, hence whatever strategy is adopted, profit remains at the heart.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a general approach to studying a research topic. It is the framework underlying the strategy of a research. This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that were used to select the sample size. It also describes how data was collected and analyzed.

3.2 Research Design

This study adopted the use of descriptive survey research design. Research design provides an operational frame within which the facts are placed, processed through analyzing procedures and the valuable research output is produced. Orodho (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. This study therefore was able to generalize the findings to all the enterprises.

3.3 Target Population

Target population is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events and group of things or households that are being investigated. The population can be divided into sets, population or strata and which are mutually exclusive. The target population composed of all the staff employed at CfC Stanbic Bank branches in Nairobi amounting to 159 staff members. The structure in CfC Stanbic Bank put staff in three categories; top management level consisted of the executives (head of departments and the deputy heads of departments); middle management comprises functional heads (tactical level of management and comprised all the senior and middle level officers in all departments of the company who are tasked with the responsibility of implementing policies made) while low level management is mainly unionsable staff (accounting and customer attendant officers whose main duty is performing daily tasks which are routine and repetitive in the company). The target respondents included the departmental heads, assistant departmental heads and lower cadre staffs like the supervisors, accounts and finance officers from the bank. For purpose of this study the target population was stratified through top level, middle level and low level management.

Table 3.1: Target Population

Sections	Population (Frequency)	Percentage
Top Management	16	10
Middle Level Management	23	14
Low Level Management	120	75
Total	159	100

Source: CfC Stanbic Bank, 2016

3.4 Sampling Procedure

Sampling techniques provide a range of methods that facilitate to reduce the amount of data need to collect by considering only data from a sub-group rather than all possible cases or elements. At the time of conducting research, it is often impossible, impractical, or too expensive to collect data from all the potential units of analysis included in the research problem. A smaller number of units, a sample, are often chosen in order to represent the relevant attributes of the whole set of units, the population. Since the samples are not perfectly representative of the population from which they are drawn, the study cannot be confident that the conclusions generalize the entire population (Shahidul and Sheikh, 2006). Ngechu (2004) emphasizes the importance of selecting a representative sample through making a sampling frame. A population frame is a systematic list of subjects, elements, traits, firms or objects to be studied. From the population frame the required number of subjects, respondents, elements, firms are selected in order to make a sample.

Sampling ensures that some elements of a population are selected as riding representative of the population this was according to Keya et al., (1989). Stratified random sampling technique was used to select the sample. According to Kerry and Bland (1998) the technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. The study grouped the population into three strata i.e. low level, middle level and top level management. According to Cooper and Schindler (2003), random sampling frequently minimizes the sampling error in the population. This in turn increases the precision of any estimation methods used.

Cooper and Schindler (2006) argue that if well chosen, samples of about 10% of a population can often give good reliability. Stratified random sampling technique was used since population of interest is not homogeneous and could be subdivided into groups or strata to obtain a representative sample. The study selected a section and particularly the staffs who included departmental heads, assistant departmental heads and lower cadre staffs like the tea leaders, clerks and other officers from CfC Stanbic Bank since they were the ones conversant with the impact of the mergers on the banks performance. From the above population of one hundred and fifty nine, a sample of 112 respondents (predetermined using Fisher formula) was selected proportionally from within each group in proportions that each group bears to the study population.

This generated a sample of 112 respondents which the study sought information from. This made it easier to get adequate and accurate information necessary for the research.

The sample size was given by Fisher formula as follows:

$$n = p \times q \left[\frac{z}{e} \right]^2$$

Where: n= was minimum sample size required

p = the proportion belonging to the specified category

q = the proportion not belonging to the specified category

z = the value corresponding to the level of confidence required (90% certain=1.65, 95% certain= 1.96 and 99% certain=2.57)

e% = the margin of error required.

When the population is less than 10,000 the sample need to be adjusted according to minimum sample size formula as shown below:

$$n.' = n. / (1 + n./N) \text{ where}$$

n.' = the adjusted minimum sample size

n. = the minimum sample size (as calculated)

N = the total population

Using p=50%, q=50%, z=1.96 (95% certain) e= 5% (i.e. within plus or minus 5% of the true percentage, the margin of error that can be tolerated), N=159

$$n. = 50 \times 50 \times \left[\frac{1.96}{5} \right]^2$$

$$= 2500 \times 0.153664$$

$$= 384$$

Adjusted sample size

$$n.' = 384 / [1 + (384/159)]$$

$$= 384/3.41509434$$

$$= 112.44$$

Approx = 112

The selection per category or strata was as follows:

Table 3.2: Target Population

Sections	Population (Frequency)	Proportion	Sample Size
Top Management	16	$(112/159) \times 16$	11
Middle Level Management	23	$(112/159) \times 23$	16
Low Level Management	120	$(112/159) \times 120$	85
Total	159		112

3.5 Data Collection Methods and Instruments

According to Ngechu (2004) there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. Data may be collected by a wide variety of methods. Primary data is gathered and generated for the project at hand. Primary data is information gathered directly from respondents and for this study the study used questionnaires. Secondary data is the data is gathered for other purposes and used in the recent project usually the secondary data are found inside the company, libraries, research centers, internet and etc. Secondary data involved the collection and analysis of published material and information from other sources such as annual reports, published data.

3.5.1 Data Collection Instrument

The study made use of a survey questionnaire administered to each member of the sample population. The questionnaire had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations.

The closed ended questions were used to test the rating of various attributes and this helps in reducing the number of related responses in order to obtain more varied responses. The open-ended questions provided additional information that may not have been captured in the close-ended questions. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its

validity and accuracy of data to be collected for the study. Secondary data was also collected for this study. This data was useful for generating additional information for the study from already documented data or available reports. Cooper and Schindler (2003) further explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, reports, government documents and opinions.

3.5.2 Data Collection Procedure

The study administered the questionnaire individually to all respondents of the study. The study exercised care and control to ensure all questionnaires issued to the respondents were received and achieve this, the study maintained a register of questionnaires, which were sent, and which were received. The questionnaire was administered using a drop and pick later method.

3.6 Pilot Testing

The researcher carried out a pilot study to pretest and validates the questionnaire. This was in line with a qualitative research design methodology employed in this research project. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which will be employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. The study selected a pilot group of 10 individuals from the management staffs of Jamii Bora Bank to test the reliability of the research instrument. Jamii Bora Bank was realized after the merger between City Finance Bank Ltd and Jamii Bora Kenya Ltd in year 2010.

This was achieved by first stratifying the individuals according to level of management, level of education, number of years worked. The pilot data was not included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was established so as to enhance the instrument's validity and reliability. The pilot study enabled the study to be familiar with research and its administration procedure as well as identifying items that required modification. The result helped the study to correct inconsistencies arising from the instruments, which ensured that they measure what was intended.

3.11 Data Analysis Techniques

According to Baily (1984), data analysis procedure includes the process of packing the collected information, putting it in order and structuring its main components in a way that the findings could be easily and effectively communicated. Data analysis involves examination of what has been collected in a survey or experiment in order to make deductions and inferences.

After the field research is completed and the expected number of questionnaires returned, inspection will be done to ensure they have been filled as intended; the data is then to be analyzed using qualitative and quantitative techniques by use of descriptive tools in order to come up with useful conclusions and recommendations. The data will then be presented in frequency and percentage tables. Descriptive statistical analysis was used to enable the study summarize, organize, evaluate and interpret the numeric information.

3.12 Ethical Considerations

This study was based on the following ethical considerations. First, the research participants were allowed to make informed decisions on whether to participate in the research process or not. These implied that the researcher was not to force or coerce the respondents into participating in the research process. Secondly, the responses from the respondents were considered anonymous; this implies that the respondents will not be required to give their names on the questionnaires to be filled. This prevented victimization considering the fact that the study is on a very sensitive health and safety topic and requires unparalleled level of privacy. Thirdly, the researcher sought permission from all the research stakeholders – the university and the telecommunications organization involved before undertaking the process of data collection. The researcher is to communicate the findings of the study to all interested research stakeholders.

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION
OF FINDINGS

4.1 Introduction

This chapter discussed the interpretation and presentation of findings. It began with the presentation of demographic information of the respondents followed by presentation of the findings as per the objectives in relation to the topic on Determinants of Mergers and Acquisitions on the Performance of Commercial Banks in Kenya: Case Of Cfc Stanbic Bank, Nairobi County.

4.2 Questionnaire Response Rate

The study targeted a sample size of 112 respondents out of which 98 were filled and returned giving a response rate of 88% (Table 4.1). This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of over 70% is excellent.

Table 4.1: Response Rate

Response rate	Frequency	Percentage
Responded	98	88
Non-response	14	12
Targeted	112	100

4.3 Demographic Data Analysis

In this section, the researcher sought to get information on the respondent's gender, age, highest academic qualification, and experience in terms of the years they have spent in the procurement department.

4.3.1 Distribution by Gender

To establish the gender of the respondents, they were asked to indicate them in the brackets. The findings of this were as in Table 4.2

Table 4.2 Gender Distribution

Age Bracket	Frequency	Percentage
Male	68	65.80
Females	30	34.20
Total	98	100

According to the findings in Table 4.2, majority of the respondents at 25(65.80%) were male while 13(34.20%) of them were female. This depicts that men form a larger representation of workers in this particular company.

4.3.2 Distribution of Respondents by Age

To establish the ages of the respondents, they were asked to indicate their age brackets. The findings of this were as in Table 4.3

Table 4.3 Distribution of Respondents by Age

Age Bracket	Frequency	Percentage
26 – 30 years	18	18.37
31 – 35 years	26	26.53
36 – 40 years	31	31.63
Above 41 years	23	23.47
Total	98	100.00

On the age of the respondents, the study found that the majority of the respondents were between 36-40years 31(31.63%), 26(26.53%) were aged between 31-35years while 18(18.37%) were aged between 26-30years. 23 of the 98 respondents were above the age of 41 years. This shows that majority of the respondents were of an adequate/ informative age and therefore have enough experience on the subject being researched on.

4.3.3 Distribution of Level of Education

The study sought to determine the level of education of the respondents as shown in Table 4.3 below.

Table 4.4 Level of Education

Level of Education	Frequency	Percentage
KSCE	5	5
Diploma	11	11
Degree	45	46
Masters	37	38
Total	98	100

From the findings, 5(5%) of the respondents had a Secondary School as their highest level of education, majority 45(46%) of the respondents had a bachelors degree as the highest level of education while another 11(11%) had a Diploma as the highest level of education. 37 of the respondents had a Masters degree. This shows that majority of the respondents were adequately equipped with the required education level and intelligence to understand the intricacies of the Merger and Acquisition process.

4.4 Performance of Commercial Banks

To find out the factors affecting performance of commercial banks in relation to Mergers& Acquisitions in Kenya, the study assessed the different perceptions held by the respondents. The study used the statements as indicated on the table below to analyze and draw factual conclusions on these perceptions. Table 4.5 displays the findings

Table 4.5 Performance of Commercial Banks

Statements (%)	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	
	Agree								Disagree			
	F	%	F	%	F	%	F	%	F	%	F	%
Mergers and Acquisitions guarantees a bank's profitability	9	9	22	22	28	29	20	20	19	19	98	100
Improved customer numbers can be attributed to M&A process	10	10	32	33	27	28	15	15	14	14	98	100
M&A give way to new bank accounts showing improved performance of the bank	12	12	27	28	36	38	12	12	11	11	98	100

Table 4.5 shows that 22(22%) of the respondents interviewed agree that Mergers and Acquisitions guarantees a bank's profitability, another 20(20%) of the respondents disagreed with the notion, majority 28(28%) of the respondents were neutral on the statement citing that bank's usually go through that process because one of them is not being profitable hence not guaranteeing profitability after the process. On improved customer numbers being attributed to M&A process, 10(10%) of the respondents strongly agreed with the statement with a higher number of 32(33%) also agreeing with the statement. The 15(15%) of the respondents who disagreed with that statement opined that when two banks merge into one there is bound to be an increased total number of customers not necessarily new ones. The statement on M&As giving way to new bank accounts showing improved performance of the bank was agreed upon by 27(28%) of the respondents although majority 36(38%) were undecided whether the process would result to that.

The respondents were also questioned on whether they perceive that the number of new bank branches opened can be influenced by the M&A process; the findings were as displayed in Table 4.6

Table 4.6 New Bank Branches

Response	Frequency	Percentage
Yes	54	55
No	44	45
Total	98	100

From the study findings shown on Table 4.6, 54(55%) of the respondents were of the opinion that the number of new bank branches opened can be influenced by the M&A process whereas, 44(45%) disagreed with the statement. The respondents who agreed with the statement majorly gave a reason that the process would bring about financial stability hence growth that will be indicated by the new branches.

4.5 Capital Base and Performance of Commercial Banks

The study employed key statements to analyze whether a bank's capital base influenced its performance in relation to the M&A Process. The findings are as shown in Table 4.7

Table 4.7 Capital Base and Performance of Commercial Banks

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total (%)	
	F	%	F	%	F	%	F	%	F	%	F	%
The bank's level of revenue determines its capital base performance after the M&A	18	18	37	38	25	26	10	10	8	8	98	100
The number of existing debt defaulters can influence an M&A process in terms of the bank's financial strength	21	21	33	34	26	27	12	12	6	6	98	100
The capital base of both banks in the merger can financially influence their performance after the process	20	20	30	31	18	18	18	18	12	12	98	100

Results in Table 4.7 indicate that majority 37(38%) of the respondents agree that the bank's level of revenue determines its capital base performance after the M&A, 10(10%) of the respondents disagreed with the statement and had views like the banks revenue will not be enough to improve the capital base rather the banks will depend on loans from CBK to strengthen that base. The number of existing debt defaulters can influence an M&A process in terms of the bank's financial strength, this is as shown by the findings where 21(21%) of the respondents strongly agreed and majority 33(34%) of the respondents agreed with the statement. On the capital base of both bank's in the merger being financially influenced by their performance after the process, majority at 30(31%) of the respondents agreed with the statement citing that the success of the process is fully dependent on finances and how finances will perform hence the need to have a very sound base.

The respondents were asked to indicate to what extent they perceive that the bank’s customer profitability (customer’s economic value) can influence its capital base. Their responses findings are as indicated in Table 4.8

Table 4.8 Customer Profitability

Response	Frequency	Percentage
No Extent	11	11
Small Extent	16	16
To Some Extent	26	27
High Extent	45	46
Total	98	100

From the table above, most of the respondents at 45(46%) were of the opinion that the bank’s customer profitability (customer’s economic value) can influence its capital base to a high extent since individual customer’s financial growth cumulatively result in the overall advancement of the banks; the group of respondents who indicated no extent 11(11%) further asked for absolute anonymity as they opinioned that as much as customer economic value is key, the process will portray the bank’s financial image in a negative manner hence discourage dependable customers.

4.6 Customer Service Delivery and Performance of Commercial Banks

The information being sought by this question was to gain information on which is the most applied customer service communication mode applied by CFC Stanbic. The respondents were asked to indicate which their opinion as shown in Table 4.9.

Table 4.9 Customer Service Delivery

Response	Frequency	Percentage
Call Centers	42	42
Banks Websites	18	18
Social Media	26	27
Mobile Applications	12	12
Total	98	100

From the findings presented by Table 4.9, majority 42(43%) of the respondents opinioned that call centers are the most common mode of communication between the banks and their clients. 26(27%) of the respondents were more used to Social Media platforms like Facebook, Tweeter and Whatsapp Groups as a way of communicating with CFC Stanbic Bank.

On whether customer service delivery has an influence on performance of commercial banks Kenya, respondents indicated their degree of consent against the statements given; the analysis was as shown in Table 4.10

Table 4.10 Customer Service Delivery and Performance of Commercial Banks

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total	(%)
	F	%	F	%	F	%	F	%	F	%		
Quality of customer service delivered is usually the same after the M&A process	12	12	25	26	27	38	18	18	16	16	98	100
Customer complaints and concerns' response rate determines their loyalty to the bank hence its performance	19	19	37	38	35	36	7	7	--	--	98	100

The findings presented in Table 4.10 shows that 12(12%) of the respondents strongly agree that quality of customer service delivered is usually the same after the M&A process, majority 27(28%) of the respondents were of a neutral opinion on the statement where some of them indicated that from experience the banks have yet to adopt a hybrid mode of communication and so they still use the same platforms to communicate. There was a slight difference between respondents who agreed, 37(38%) and those who were neutral at 35(36%) on customer complaints and concerns' response rate determining their loyalty to the bank hence its performance; majority were neutral and opinioned that the performance of CFC Stanbic bank depends on more than customer loyalty, its performance is pegged on sound financial structures and policies aimed at increasing its capital base.

The respondents were asked to indicate there perception on to what extent does customization of banking products influence the performance of CFC Stanbic Bank, the responses are as indicated on Table 4.11

Table 4.11 Customization of Banking Products

Response	Frequency	Percentage
Strongly Influence	40	42
Moderately Influence	32	33
Does Not Influence	16	16
Not Applicable	10	10
Total	98	100

From the findings of Table 4.11, most of the respondents 40(42%) were of the opinion that customization of banking products influences the performance of CFC Stanbic Bank, whereas 32(33%) of the respondents considered that customized products moderately influence the performance of the bank. The 10(10%) who did not deem this as applicable cited that customization of banking products only targets a certain caliber of customers and not the entire clientele base hence limiting the potential performance of the bank.

4.7 Customer Base and Performance of Commercial Banks

On whether customer base has an influence on the performance of commercial banks in Kenya, respondents indicated their degree of consent against the statements given. The findings were as shown in Table 4.14.

Table 4.12 Customer Base and Performance of Commercial Banks

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total (%)	
	F	%	F	%	F	%	F	%	F	%	F	%
M&As usually lead to high customer turnover rates in the banking sector	13	13	24	25	30	31	19	19	12	12	98	100
Stable and sustained customer retention levels determine the performance of the bank after the M&A	18	18	32	33	29	30	11	11	8	8	98	100
Promotional and customer retention campaigns should be done to stabilize the customer base of the banks after the M&A process	26	27	43	44	23	23	6	6	--	--	98	100

The results shown on Table 4.14 indicate that most of the respondents at 30(31%) are undecided on whether M&As usually lead to high customer turnover rates in the banking sector; their opinion was informed by the fact that there exists a myriad of reasons why customers leave banks for others, and these range from banking flexibility, customized products, transparency in terms of charges to loan interests; although a good number at 24(24%) agreed with the statement.

On stable and sustained customer retention levels determine the performance of the bank after the M&A, majority 32(33%) of the respondents agreed with the statement. The statement was strongly objected by 8(8%) of the respondents who talked about experiences from the banks that indicated that not enough is being done to retain customers especially

after the M&A. The statement on promotional and customer retention campaigns being done to stabilize the customer base of the banks after the M&A process was strongly supported by 26(27%) of the respondents with the majority at 43(43%) agreeing with the statement.

Table 4.13 below was to get results on the perception the respondents had on speculation about the banks success or failure during the M&A Process influencing their decision to stick with the bank

Table 4.13 Customization of Banking Products

Response	Frequency	Percentage
Strongly Influence	29	30
Moderately Influence	41	42
Does Not Influence	20	20
Not Applicable	8	8
Total	98	100

The results from Table 4.13 show that speculation about the banks success or failure during the M&A Process can influence a customer’s decision to stick to the bank or not as moderately as consented by 41(42%) of the respondents, a good number of the respondents opinioned that it strongly influences at 29(30%) and indicated that speculation especially to a customer who is not well knowledgeable about the M&A process can view it as a failed business and close bank accounts for fear of money loses.

4.8 Cost of the M&A Process and Performance of Commercial Banks

On whether cost of the M&A Process has an influence on performance of commercial banks in Kenya, respondents indicated their degree of consent against the statements given. The findings were as shown in Table 4.12.

Table 4.14 Cost of the M&A Process and Performance of Commercial Banks

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total (%)	
	F	%	F	%	F	%	F	%	F	%	F	%
Performance of the banks after the M&A Process depends on the level of organization restructuring which in turn is determined by its cost	14	14	28	29	32	33	18	18	6	6	98	100
Retrenchment and letting go of some employs influences the amount of financial decisions to be put into the M&A Process	21	21	30	31	25	26	12	12	--	--	98	100
The negotiation process of the M&A is the most costly element of the whole process	10	26	22	22	39	40	14	14	13	13	98	100

The findings on Table 4.12 indicate that performance of the banks after the M&A Process depend on the level of organization restructuring which in turn is determined by its cost as strongly agreed at 14(14%) and agreed at 28(29%) by the respondents at CFC Stanbic Bank; though the majority at 32(33%) were of a neutral opinion citing that restructuring is a budgeted affair hence the issue of cost should not arise. On the statement that retrenchment and letting go of some employs influences the amount of financial decisions to be put into the M&A Process was strongly agreed and majorly agreed 21(21%), 30(31%) respectively by the respondents; the 12(12%) of the respondents who disagreed were of the opinion that the retrenchment exercise is well thought out and financial implications considered.

The negotiation process of the M&A is the most costly element of the whole process was agreed upon by 22(22%) of the respondents while majority 39(40%) of the respondents were

undecided with some citing that the negotiation process as much as it can be costly can be engaged by a cheaper agency or done by an in-house team in order to save on costs.

The respondents were asked to indicate to what extent they perceive the cost of legal counsel influences the budget for the overall M&A Process. Their responses findings are as indicated in Table 4.15

Table 4.15 Cost of Legal Counsel

Response	Frequency	Percentage
No Extent	20	20
Small Extent	18	18
To Some Extent	28	29
High Extent	32	33
Total	98	100

From the table above, most of the respondents at 32(33%) were of the opinion that the cost of legal counsel influences the budget for the overall M&A Process; the group of respondents who indicated no extent 20(20%) were mainly the legal department who are involved in a big way with the Merger and Acquisition process.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presented a summary of data findings, discussions, conclusions drawn from the findings highlighted and recommendations made there-to. The conclusions and recommendations drawn were focused on addressing the objectives of the study.

5.2 Summary of Findings

This study was undertaken to assess Determinants of Mergers and Acquisitions on the Performance of Commercial Banks in Kenya: Case Of Cfc Stanbic Bank, Nairobi County. The study initially sought to inquire information on the respondents' gender; according to findings, majority of the respondents at 65.80% were male while 34.20% of them were female. This depicts that men form a larger representation of workers in this particular company considering the nature of the industry. On the respondents' age demographic, majority of the respondents were of an adequate/ informative age between 36-40years (31.63%), 26.53% were aged between 31-35years while 18.37% were aged between 26-30years and therefore have enough experience on the subject being researched on.

5.2.1 Capital Base and Performance of Commercial Banks

An analysis on Capital Base and its influence on performance of commercial banks shows that 22(22%) of the respondents interviewed agree that Mergers and Acquisitions guarantees a bank's profitability, majority 28(28%) of the respondents were neutral on the statement citing that bank's usually go through that process because one of them is not being profitable hence not guaranteeing profitability after the process. On improved customer numbers being attributed to M&A process, a higher number of 32(33%) agreed with the statement as the 15(15%) of the respondents who disagreed with that statement opined that when two banks merge into one there is bound to be an increased total number of customers not necessarily new ones. The statement on M&As giving way to new bank accounts showing improved performance of the bank was agreed upon by 27(28%) of the respondents although majority 36(38%) were undecided whether the process would result to that. The respondents were also questioned on whether they perceive that the number of new bank branches opened can be influenced by the M&A process; the findings displayed that 54(55%) of the respondents were of the opinion that the number of new bank branches opened can be influenced by the M&A

process whereas, 44(45%) disagreed with the statement. The respondents who agreed with the statement majorly gave a reason that the process would bring about financial stability hence growth that will be indicated by the new branches.

5.2.2 Customer Service Delivery and Performance of Commercial Banks

From the findings, majority 42(43%) of the respondents opined that call centers are the most common mode of communication between the banks and their clients whereas 26(27%) of the respondents were more used to Social Media platforms like Facebook, Tweeter and Whatsapp Groups as a way of communicating with CFC Stanbic Bank. The findings presented that 12(12%) of the respondents strongly agree that quality of customer service delivered is usually the same after the M&A process, majority 27(28%) of the respondents were of a neutral opinion on the statement where some of them indicated that from experience the banks have yet to adopt a hybrid mode of communication and so they still use the same platforms to communicate. There was a slight difference between respondents who agreed, 37(38%) and those who were neutral at 35(36%) on customer complaints and concerns' response rate determining their loyalty to the bank hence its performance; majority were neutral and opined that the performance of CFC Stanbic bank depends on more than customer loyalty, its performance is pegged on sound financial structures and policies aimed at increasing its capital base. From the findings, most of the respondents 40(42%) were of the opinion that customization of banking products influences the performance of CFC Stanbic Bank; the 10(10%) who did not deem this as applicable cited that customization of banking products only targets a certain caliber of customers and not the entire clientele base hence limiting the potential performance of the bank.

5.2.3 Customer Base and Performance of Commercial Banks

The results also indicate that most of the respondents at 30(31%) are undecided on whether M&As usually lead to high customer turnover rates in the banking sector; their opinion was informed by the fact that there exists a myriad of reasons why customers leave banks for others, and these range from banking flexibility, customized products, transparency in terms of charges to loan interests; although a good number at 24(24%) agreed with the statement. On stable and sustained customer retention levels determining the performance of the bank after the M&A, majority 32(33%) of the respondents agreed with the statement though -it was strongly objected by 8(8%) of the respondents who talked about experiences from the banks that indicated that not enough is being done to retain customers especially after the

M&A. The statement on promotional and customer retention campaigns being done to stabilize the customer base of the banks after the M&A process was strongly supported by 26(27%) of the respondents with the majority at 43(43%) agreeing with the statement. Speculation about the banks success or failure during the M&A Process can influence a customer's decision to stick to the bank or not was moderately consented by 41(42%) of the respondents.

5.2.4 Cost of the M&A Process and Performance of Commercial Banks

The findings also indicated that performance of the banks after the M&A Process depend on the level of organization restructuring which in turn is determined by its cost had 32(33%) respondents with neutral opinion citing that restructuring is a budgeted affair hence the issue of cost should not arise. On the statement that retrenchment and letting go of some employs influences the amount of financial decisions to be put into the M&A Process was majorly agreed at 30(31%) by the respondents; the 12(12%) of the respondents who disagreed were of the opinion that the retrenchment exercise is well thought out and financial implications considered. The negotiation process of the M&A is the most costly element of the whole process was agreed upon by 22(22%) of the respondents while majority 39(40%) of the respondents were undecided with some citing that the negotiation process as much as it can be costly can be engaged by a cheaper agency or done by an in-house team in order to save on costs. From the findings, most of the respondents at 32(33%) were of the opinion that the cost of legal counsel influences the budget for the overall M&A Process; the group of respondents who indicated no extent 20(20%) were mainly the legal department who are involved in a big way with the Merger and Acquisition process

5.3 Discussions

This section discusses the findings in more details and is themed as per the objectives of the study.

5.3.1 Capital Base and Performance of Commercial Banks

An analysis on Capital Base and its influence on performance of commercial banks shows that Mergers and Acquisitions guaranteeing a bank's profitability was uncertain as majority of the responses were neutral on the statement citing that bank's usually go through that process because one of them is not being profitable hence not guaranteeing profitability after the process. On improved customer numbers being attributed to M&A process, a good number of responses agreed with the statement meaning that a well managed process assures

the existing customers which goes a long way in attracting new members, on the same statement those respondents who disagreed with that statement opined that when two banks merge into one there is bound to be an increased total number of customers not necessarily new ones. The statement on M&As giving way to new bank accounts showing improved performance of the bank was agreed upon by a significant number of respondents though majority were undecided whether the process would result to that; the neutrals viewed bank account opening as non-significant way to measure performance, rather the performance of the bank in relation to account opening should be the amount of money being transacted in those accounts. The findings displayed that majority of the respondents were of the opinion that the number of new bank branches opened can be influenced by the M&A process whereas, giving reasons that the process would bring about financial stability hence growth that will be indicated by the new branches.

5.3.2 Customer Service Delivery and Performance of Commercial Banks

From the findings, majority of the respondents opined that call centers are the most common mode of communication between the banks and their clients, this was evidenced by the investment put into their call centers in terms of trained man power and technology including working hours which is on a 24hr basis; whereas some of the respondents were more used to Social Media platforms like Facebook (a popular free social networking website that allows registered users to create profiles, upload photos and video, send messages and keep in touch with friends, family and colleagues), Tweeter (a social networking and micro-blogging online service that allows users to send and receive text-based messages or posts of up to 140 characters called "tweets.") and Whatsapp (a mobile phone application allowing users to have social, formal, informal, professional groupings and interactions) Groups as a way of communicating with CFC Stanbic Bank. The findings also presented that a good number of the respondents strongly agree that quality of customer service delivered is usually the same after the M&A process, majority of the respondents were of a neutral opinion on the statement where some of them indicated that from experience the banks have yet to adopt a hybrid mode of communication and so they still use the same platforms to communicate.

There was a slight difference between respondents who agreed and those who were neutral on customer complaints and concerns' response rate determining their loyalty to the bank hence its performance; majority were neutral and opined that the performance of CFC Stanbic bank depends on more than customer loyalty, its performance is pegged on sound financial structures and policies aimed at increasing its capital base; on the other hand supporting

responses maintained that customer loyalty especially the corporations, businesses and high-end individuals help in maintaining the banks' financial strength hence sustain the banks' performance. From the findings, most of the respondents were of the opinion that customization of banking products influences the performance of CFC Stanbic Bank; those who did not deem this as applicable cited that customization of banking products only targets a certain caliber of customers and not the entire clientele base hence limiting the potential performance of the bank, the banks involved in mergers should take this into consideration and adopt strategies that will not exclude lower level clientele but also consider their needs and importance to the banks future success.

5.3.3 Customer Base and Performance of Commercial Banks

The results also indicate that most of the respondents were undecided on whether M&As usually lead to high customer turnover rates in the banking sector; their opinion was informed by the fact that there exists a myriad of reasons why customers leave banks for others, and these range from banking flexibility, customized products, transparency in terms of charges to loan interests; although a good number agreed with the statement citing that most customers view the process as an attempt to salvage a failing financial institution hence in order to protect their money, they opt out and close the accounts. On stable and sustained customer retention levels determining the performance of the bank after the M&A, majority of the respondents agreed with the statement though -it was strongly objected by some respondents who talked about experiences from the banks that indicated that not enough is being done to retain customers especially after the M&A; from experience, the assurance was casually done and hence the banks should consider having a proper policy backed campaign programme to retain customers.

The statement on promotional and customer retention campaigns being done to stabilize the customer base of the banks after the M&A process was strongly supported by a significant number of the respondents with the majority at agreeing with the statement. Speculation about the banks success or failure during the M&A Process can influence a customer's decision to stick to the bank or not was moderately consented by majority of the respondents; this response rate was informed by the premise that most of the responds are much aware of the negative history of mergers and acquisitions in other institutions and how those institutions failed or struggled for some time before finally stabilizing in terms of breaking even.

5.3.4 Cost of the M&A Process and Performance of Commercial Banks

The findings also indicated that performance of the banks after the M&A Process depend on the level of organization restructuring which in turn is determined by its cost had a number of respondents with neutral opinion citing that restructuring is a budgeted affair hence the issue of cost should not arise. On the statement that retrenchment and letting go of some employees influences the amount of financial decisions to be put into the M&A Process was majorly agreed by a majority the respondents; the respondents who disagreed were of the opinion that the retrenchment exercise is well thought out and financial implications considered before undertaking the process hence if it were an expensive affair, it should not lead to the M&A process.

The negotiation process of the M&A is the most costly element of the whole process was agreed upon by a significant number of the respondents who the study found out that were well conversant with the process and the financial implications at each stage; majority of the respondents were undecided with some citing that the negotiation process as much as it can be costly can be engaged by a cheaper agency or done by an in-house team in order to save on costs. From the findings also, most of the respondents were of the opinion that the cost of legal counsel influences the budget for the overall M&A Process as they had witnessed frequent legal counsel meetings that were financially catered for; the group of respondents who indicated no extent were mainly the legal department who are involved in a big way with the Merger and Acquisition process.

5.4 Conclusions

According to demographic characteristics of the respondents, the study found out that those that were involved in the study mostly male; majority of the respondents were aged between 31 to 36 years, a good age for adequate experience to respond to the questions that were asked. Furthermore, most of the respondents had acquired Degree and Graduate level education hence able to understand and comprehend the questionnaire content; the experience levels of the respondents was favorable to the study and it yielded informative data to conclude the study.

The study concluded that An analysis on Capital Base and its influence on performance of commercial banks shows that Mergers and Acquisitions guaranteeing a bank's profitability was uncertain as majority of the responses were neutral on the statement citing that bank's usually go through that process because one of them is not being profitable hence not

guaranteeing profitability after the process. On improved customer numbers being attributed to M&A process, a good number of responses agreed with the statement meaning that a well managed process assures the existing customers which goes a long way in attracting new members, on the same statement those respondents who disagreed with that statement opined that when two banks merge into one there is bound to be an increased total number of customers not necessarily new ones. The statement on M&As giving way to new bank accounts showing improved performance of the bank was agreed upon by a significant number of respondents though majority were undecided whether the process would result to that; the neutrals viewed bank account opening as non-significant way to measure performance, rather the performance of the bank in relation to account opening should be the amount of money being transacted in those accounts. The findings displayed that majority of the respondents were of the opinion that the number of new bank branches opened can be influenced by the M&A process whereas, giving reasons that the process would bring about financial stability hence growth that will be indicated by the new branches.

5.5 Recommendations

The following were the recommendations of the study based on the findings

1. Mergers and Acquisitions should be a well thought out process and investments made so as to ensure that it is the best option to take for both banks.
2. Commercial banks involved in M&A's should always consider their customers' welfare, opinions and needs. The changes brought about by the process should not disrupt but rather enhance a friendlier affordable customer experience.
3. The study be done in other institutions other than financial and comparisons done on the effects of the process.

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APPENDIX 1

INTRODUCTION LETTER

MELLY JOY CHERONO

Reg. No. L50/10135/2018

P.O BOX 30197 -00100

NAIROBI

TO.....
.....
.....

Dear Sir/Madam,

RE: ACADEMIC RESEARCH.

I am a student at the University of Nairobi Pursuing a Masters Degree in Project Planning and Management. I am conducting an academic research on **DETERMINANTS OF MERGERS AND ACQUISITIONS ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE OF CFC STANBIC BANK, NAIROBI COUNTY**

I kindly request you for your assistance in responding honestly to the interview questions and to all the items in the questionnaire. All information given will be treated confidential and will be used only for the intended research Purpose.

Looking forward for your co-operation

Thanks in advance.

MELLY JOY CHERONO

Reg. No. L50/10135/2018

APPENDIX II

QUESTIONNAIRE

I am a student at the University of Nairobi undertaking a Master of Arts Degree in Project Planning and Management. It is a requirement for the course to undertake a research project in order to qualify for graduation. The title of my research is “**DETERMINANTS OF MERGERS AND ACQUISITIONS ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE OF CFC STANBIC BANK, NAIROBI COUNTY.**” I am humbly requesting for your assistance in answering the questionnaire, all information will be treated with strict confidence.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender

Male

Female

2. Indicate your age bracket

a) 26 – 30 years

b) 31 – 35 years

c) 36 – 40 years

d) Above 41 years

3. Highest Academic Qualifications

KCSE

DIPLOMA

DEGREE

MASTERS

4. Years Spent In Banking Industry

Please check in the box that best displays how many years you have been actively engaged in the tendering or procurement department.

Below 5 years

6 – 10 years

11 – 15 years

16 – 20 years

21 years and above

SECTION B

Performance of Commercial Banks

Below are statements on perception on performance of commercial banks in relation to mergers and acquisitions. Please indicate the degree to which you agree using the given scale:

Strongly Agree (1); Agree (2); Neutral (3); Disagree (4); Strongly Disagree (5)

Statements	1	2	3	4	5
Mergers and Acquisitions guarantees a bank's profitability					
Improved customer numbers can be attributed to M&A process					
M&As give way to new bank accounts showing improved performance of the bank					

5. Do you perceive that the number of new bank branches opened can be influenced by the M&A process?

Yes

No

If No, why?

.....

SECTION C

Capital Base and Performance of Commercial Banks

6. The following are key statements on capital base in relation to performance of commercial banks. Please indicate the degree of your consent using the scale provided

Strongly Agree (1); Agree (2); Neutral (3); Disagree (4); Strongly Disagree (5)

Statements	1	2	3	4	5
The bank's level of revenue determines its capital base performance after the M&A					
The number of existing debt defaulters can influence an M&A process in terms of the bank's financial strength					
The capital base of both bank's in the merger can financially influence their performance after the process					

7. To what extent do you perceive that the bank's customer profitability (customer's economic value) can influence its capital base?

- No Extent
- Small Extent
- To Some Extent
- High Extent

SECTION D

Customer Service Delivery and Performance of Commercial Banks

8. Which is the most applied customer service communication mode applied by CFC Stanbic?

- Call Centres
- Website
- Social Media
- Mobile Apps

Others

9. On whether customer service delivery has an influence on performance of commercial banks Kenya, please indicate the degree of your consent against the statements given
Strongly Agree (1); Agree (2); Neutral (3); Disagree (4); Strongly Disagree (5)

Statements	1	2	3	4	5
Quality of customer service delivered is usually the same after the M&A process					
Customer complaints and concerns' response rate determines their loyalty to the bank hence its performance					

10. Based on your perception, to what extent does customization of banking products influence the performance of CFC Stanbic Bank?

- i. Strongly Influence
- ii. Moderately Influence
- iii. Does Not Influence
- iv. Not Applicable

SECTION E

Customer Base and Performance of Commercial Banks

11. On whether customer base has an influence on the performance of commercial banks in Kenya, please indicate the degree of your consent against the statements given.
Strongly Agree (1); Agree (2); Neutral (3); Disagree (4); Strongly Disagree (5)

Statements	1	2	3	4	5
M&As usually lead to high customer turnover rates in the banking sector					
Stable and sustained customer retention levels determine the performance of the bank after the M&A					
Promotional and customer retention campaigns should be done to stabilize the customer base of the banks after the M&A process					

12. To what extent would speculation about the banks success or failure during the M&A Process influence your decision to stick to the bank?

- i. Highly Influence
- ii. Moderately Influence
- iii. Not Influence
- iv. Not Applicable

SECTION D

Cost of the M&A Process and Performance of Commercial Banks

13. On whether cost of the M&A Process has an influence on performance of commercial banks in Kenya, please indicate the degree of your consent against the statements given.

Strongly Agree (1); Agree (2); Neutral (3); Disagree (4); Strongly Disagree (5)

Statements	1	2	3	4	5
Performance of the banks after the M&A Process depends on the level of organization restructuring which in turn is determined by its cost					
Retrenchment and letting go of some employes influences the amount of financial decisions to be put into the M&A Process					
The negotiation process of the M&A is the most costly element of the whole process					

14. To what extent do you perceive the cost of legal council influences the budget for the overall M&A Process?

No Extent

Small Extent

To Some Extent

High Extent

**Thank Very Much You For Your Participation And
Cooperation**