

**MERGERS AND ACQUISITIONS AS COMPETITIVE STRATEGIC OPTIONS WITHIN
THE BANKING INDUSTRY: CASE OF CFC STANBIC BANK**

By

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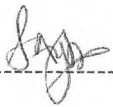
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**A Management Research Project Submitted In Partial Fulfillment of The Requirments For The
Award Of The Degree Of Master Of Business Administration, School Of Business, University Of
Nairobi.**

OCTOBER 2009

DECLARATION

I the undersigned declare that this Research Project is my own original work and has not been submitted to any other college, institution or University.

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This Project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This study is dedicated to my family. Thank you for the enormous support you provided throughout this study. God bless you.

Do not forsake wisdom, and she will protect you; love her, and she will watch over you (Proverbs 4:6)

ACKNOWLEDGMENT

My gratitude goes out to God, my father and friend who has made it possible to complete this journey.

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ABBREVIATIONS AND ACRONYMS

BBK.....	Barclays Bank of Kenya
CBA.....	Commercial Bank of Africa
CBK.....	Central Bank of Kenya
ICBC	Industrial and Commercial Bank of China
IMF.....	International Monetary Fund
JSE.....	Johannesburg Stock Exchange
KBA.....	Kenya Bankers' Association
M&A.....	Mergers and Acquisitions
MBA.....	Master of Business Administration
NIC.....	National Industrial Credit
NSE.....	Nairobi Stock Exchange
SCBK.....	Standard Chartered Bank of Kenya
UON.....	University of Nairobi

ABSTRACT

The objectives of this study were to generate new knowledge on Mergers and Acquisitions in the Banking Industry in Kenya and its importance, including the Motives and attraction behind it, establish how valuable partnerships can be built through M&A as a competitive Strategy, determine why CFC Stanbic Bank chose M&A as a Competitive strategy and also determine its effects on Management and Staff and finally to determine the challenges/pitfalls as well as the future of M&A within CFC Stanbic Bank.

The study revealed how the Merger and Acquisition worked at CFC Stanbic Bank and also what it was perceived to be within the Bank. The significance of this study was to look at the concept of Mergers and acquisition as one of the Competitive Strategic options available in dynamic industries such as the Banking Industry, in order to survive and maintain competitive top slots. The Research also discussed various forces that determine competition and how CFC Stanbic Bank responded to its external environment with regards to obtaining Competitive advantages.

CFC Stanbic Bank made intentional effort to please its customers even after the merger, using both offensive and defensive moves to counter the maneuver of rivals, and to strengthen its market position and its approach to securing a competitive advantage vis- a- vis rivals and the study captured these moves .

The Research design appropriate for this study was a Case study as it allowed for in-depth exploration of issues such as current happenings/events at CFC Stanbic Bank with regards to M&A. This method also offered an opportunity to learn about the events through extensive description and contextual analysis in line with the objectives of the study. The use of Literature and interviewing individuals who could speak authoritatively on the subject was applied and data collected during the study was analyzed qualitatively.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Mergers and Acquisitions, abbreviated as M & A is a well established Strategy which Organizations' have continued to pursue. Evidence indicates that it existed as early as 1890 when some of the earliest antitrust cases involved acquisitions and consolidations, according to Hale and Hale (1962) early researchers on the subject. Research on the subject continued from 1996-2000 where 11,333 M & A's operations in the United States and 7,423 in Europe, with total value equal to 3,684 and 1,541 billion dollars respectively were finalized according to Focarelli and Panetta (2003), implying that it still is considered as one of the Competitive strategic options applicable today and worth further exploration. Firms globally are competing in ever changing, dynamic environments and it is therefore important that to survive and sustain competitive advantage, various Competitive Strategic options must be embraced.

1.1.1 Competitive Strategies

Johnson G., Scholes, K., and Whittington, R (2006) describe Competitive Strategy as the basis on which business units might attain competitive advantage in its market. Porter (1985) on the other hand describes Competitive Strategy as the search for a favorable competitive position in the industry and aims at establishing a profitable and sustainable position against forces that determine industry competition. Competitive Strategic options exist and are applicable by Organizations today after they have responded to their external environments. Thompson (1997) points out that old competitive strategies of invention and mass production can no longer work in increasingly turbulent business environments. Competitive Strategy according to Thompson, Strickland and Gamble (2007) is dealing exclusively with the specifics of managements game plan for competing successfully; its specific efforts to please customers, offensive and defensive moves to counter the maneuver of rivals, responses

to whatever market conditions prevail, initiatives to strengthen its market position and its approach to securing a competitive advantage vis- a- vis rivals.

A Company according to Thompson et al (2007) achieves competitive advantage whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces. Thompson et al add that a Company has various Competitive strategies and once they have settled on any one, it must decide whether to supplement its choice of basic competitive strategy with other important strategy choices. These choices supplement the competitive strategy selected and some of these additional strategic options could be collaborative in nature, such as Strategic alliances or a firm can select Mergers and Acquisitions. This Paper seeks to examine Mergers and Acquisitions as one of the many unique strategic options as employed by CFC Stanbic Bank Limited to remain competitive in the Banking Industry which has seen tremendous changes recently.

1.1.2 Mergers and Acquisitions

M & A is essentially about survival. Horne (1993) has shown that a merger is a combination of two corporations where only one survives. The merged corporation goes out of existence leaving its assets and liabilities to the acquiring Corporation and a merger or consolidation often begins with negotiations between the managements of the two companies. It is one of the trends for companies the world over today, joining other trends such as strategic alliances, acquisitions and joint ventures, with the main purpose of a merger being to form one strong and large entity, (Horne, 1993). This kind of action is more precisely referred to as a merger of equals. Both companies' stocks are surrendered and new company stock is issued in its place. A good illustration points to both Daimler-Benz and Chrysler; they ceased to exist when the two firms merged, and a new company, DaimlerChrysler was created. Ansoff and McDonell (1988) define Acquisition as varying from Licensing, to purchase of developed products, to mergers with another firm. They explain that the price of an acquisition will include

primarily a premium which frequently has to be paid as compensation for the risks which had been taken by the seller to develop the property and competencies being sold.

However, they continue to explain that in some cases, the premium paid on acquisition may not be an accurate reflection of the risks which have been taken. Thus, a firm which seeks to diversify into a currently glamorous growth industry is forced to pay a premium which may be excessive. Ansoff and McDonell (1988) also state that in Acquisition of a firm the delay is theoretically only as long as the time taken to consummate the transaction. In practice, a time delay is added during which the acquisition is introduced into the parent organization. They give some reasons to avoid acquisition which include the desire to avoid large dilutions in earnings per share and lack of attractive acquisition opportunities in the new industry. The term Merger is sometimes used interchangeably with corporate coalitions or strategic partnerships; such actions that move towards mergers are more often than not voluntary. A merger can resemble a takeover but result in a new company name where names of the original companies are combined to form a new brand, they conclude. Riggs, Bethel, Atwater, Smith, and Stackman, A.H. Jr (1987) found out that in some cases, terming the combination a merger rather than an acquisition is done purely for political or marketing reasons. Realistically, a merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated.

The CBK Prudential Guidelines (2006) define a Merger as the fusion of two or more institutions licences under the Banking Act (Cap.488) and defines an Acquisition as the purchase of one institution by another, for cash, an exchange of shares, or a combination of both. The process is also referred to as a take over. According to Kay (1993), Mergers did not just happen but occurred in waves. He explains that the First great European Merger boom took place in the 1920s when the development of mass-

production techniques created the modern manufacturing corporation. Until then, the largest firms in European economies were frequently railways or banks.

Kay adds that a second wave came in the 1960s, led by the United Kingdom and also largely motivated by the belief that the internalization of the world economy necessitated larger firms. Finally the third wave, in the 1980s was due to further internalization of the world economy - as seen in dismantling of trade barriers within Europe and the Japanese dominance of some manufactured goods sectors. According to Kay, without the evolution and the effect of the mergers, the balance between large and small firms would have today remained unchanged.

Leung, Poulet, and Shavers (1993), state that forces driving merger booms are constantly evolving, have intensified and will hit with a vengeance. Leung et al., add that for mergers only the boldest players will seize this brief window of opportunity and become the new leaders. They observe that especially for Banks, M&A activity is surging as they need capital, and they must turn to outside investors to find it. In Kenya, price control-era still rules which only works to impede M&A yet if the Government can encourage M&A and improve the speed of approving the same, it would create national Kenyan champions with regional reach and capacity to compete globally, this is according to Makau (2008) who says that it's not only in Kenya where M&A is slow but in Africa as a whole. Potential for M&A exists despite the slow growth as Makau observes that in the last two years, the shifting focus to new markets has brought investors knocking on the doors of Africa. The resource laden continent which is slowly emerging from decades of widespread instability and economic decline is now becoming the new playing field for the world's financial and industrial heavyweights.

Makau (2008) further states that Africa may still lag behind in the global M&A map, but with the world's appetite for key commodities showing no signs of abating, the need to control the sources of

raw materials and the rapid penetration of financial services is set to spur M&A activity in the continent.

Kariuki Thande, the Head of corporate finance at CBA (personal communication, April 28, 2008, Investors come knocking on Africa's doors) feels that Firms that fail to consider M&A as a catalyst for growth may find their competitiveness declining especially with the entry of firms from South and Western Africa. M&A therefore remains a challenging yet exciting notion for growth. Logan and Hegarty (1989) agree with the idea that M&A is exciting and support this by saying that Mergers make headlines; new thrusts into growth areas are foreshadowed; realignments of supply are imminent; the status, security and social relationships of many people are affected; large blocks of capital are involved; and government agencies gird for action. Attempt at Mergers whether successful or not, will definitely result in change.

1.1.3. Overview of CFC and Stanbic Bank

Reforms in the banking industry in Kenya begun with liberalization in 1995. During this era, long awaited exchange controls were lifted and reorganization within the Banking industry leading to Mergers took place, some which worked out and some which failed. Mukele (2006) states that some mergers failed to take off due to incompatibility on organizational cultures and overall logistical incongruence between partners. He points to the intended mergers between Fidelity Commercial Bank and Southern Credit Bank Limited to form Southern Fidelity Limited and that between Euro Bank and Daima Bank to form Euro Daima Bank Limited both in the year 2000 as just some of the mergers in Kenya that did not take off and some of these Banks have since been liquidated. On the other hand, some mergers managed to take off and that is the focus of this project, that between Standard Bank and CFC, now CFC Stanbic Bank. These two banks have separately delivered strong performance over the years, weathering global financial market stresses not seen in the last decade.

CFC Bank shareholders' funds as at 30th September 2006, was at approximately KShs.4 billion (\$62.8 million) and total assets at approximately KShs.39 billion (\$557.6 million). The Bank recorded a pre-tax profit of KSh865 million in 2005, according to Standard Bank Group Annual report (2007). Standard Bank Group is a big fish with a global stature having recorded a profit of KShs.439 million in the same financial year. The group has a representation spanning over 18 African countries and 21 countries outside the African continent, including the key financial centers of Europe, the United States and Asia. It is listed at the JSE and has 746 branches operating in South Africa and 241 in the rest of Africa.

CFC Stanbic Bank in Kenya has a nationwide spread but most branches are based in Nairobi; the core functions of the Bank are conducted at the Head office, which is also based in Nairobi. Standard Bank Limited has been involved in finalizing on acquisitions in the important emerging markets of Argentina, Turkey and Nigeria; negotiating and gaining the necessary approvals for historic transactions such as that between Standard Bank and ICBC which resulted in Standard Bank gaining a valuable strategic partner and a significant injection of tier one capital in a cost effective manner and achieving financial results that have met principal published objectives of growth, Standard Bank Group – Annual report (2007).

With the injection of significant capital, Standard Bank made another acquisition here in Kenya with CFC Bank, merged and formed CFC Stanbic Bank, a stronger brand; The Annual report of 2007 states that the CFC Stanbic merger was worth Kshs.17 billion. The rationale for the merger approved in November 2007 was explained as synergies, very similar and complementary customers, regional opportunities, and enhanced capital adequacy. Customers would get a one stop shop for all their

business, staff would get to work in a bigger bank with more career opportunities and all employees assured of retaining their jobs.

Success of the Merger could be felt soon after as it led to a scramble for the Bank's stocks and increased interest from institutional investors thus fueling the Bank's growth, according to The Banking Survey (2009). CFC Stanbic Bank is currently undertaking a series of internal business re-engineering processes aimed at radically redefining the new business agenda that is expected to form the basis of its growth strategy and make it a demand driven organization. According to Mike du Toit the Managing Director of CFC Stanbic in The Banking Survey (2009), the merger was not easy. "There is no denying that the portfolio quality is something below our expectations". Du Toit also admits that the merger has been dogged down by the need to realign the internal working mechanisms of the bank. The Banking Survey (2009) also informs us that there are still nitty gritty issues under discussion which include the role of senior managers and key players on client relationships. The two banks operated on different banking platforms before their merger in 2008, which was completed in spite of a series of drawn out court battles that threatened to scuttle the process. Mr. du Toit adds that the banking institution is working as "operational integration" as "we are still running two different core banking platforms". However, there are processes that have been undertaken as part of the merger, among them issues of staff welfare, retirement benefits, medical schemes and harmonization of human resource policies. He admits that with the outstanding issues being harmonized, the parties involved might have underestimated the level of work required to make the consolidated banking institution work properly.

1.2 Research Problem

Kenya has experienced Banking problems since 1986 leading to major Bank failures (37 failed Banks have been noted since 1998) following the crisis of 1986-1989; 1993/1994 and 1998, according to

studies highlighted by Chesang (2002). The number of Banks absorbing their subsidiaries or merging with other Banks has equally increased, according to the CBK Act (2000).

With the growth that Africa is experiencing; access to resources as well as the opportunities in infrastructure development, private equity still remains a significant driver of M&A in the Banking Industry despite the failures experienced so far. World over, the economy has seen growth and this includes the Banking industry. As Africa becomes prime hunting ground for international investors, M&A activity in the Banking Industry in the continent still appears pale in comparison to firms in similar industries in more developed economies. There is therefore need to keep up with survival by crafting competitive strategies that help maintain competitive top slots and M&A is one of these strategies.

Locally, however, there has been failure to realize that M&A is a good strategy for growth as opposed to growing organically- Banks in Kenya are today concentrating on opening more branches instead as many other local firms are unwilling to relinquish control as well as rationalizing of operations that may come with the merger or acquisition by another firm - but this opposition may come at a cost as Makau (2008) suggests. He adds that if M&A is successful in Kenya, it should be encouraged and any issues that stifle the same should be curbed before it's too late. According to IMF (1998), in the context of widespread insolvency, restructuring is a necessary "medication" to restore health to individual banks and the financial system. In view of the importance of the banking system, it is necessary to avoid fiscal and monetary cost of permanent subsidization of an ailing system without sound banking.

IMF report (1998) adds that waiting for the recovery of the economy to outgrow banks problems may not work unless the problem is shallow. Further, tightening prudential controls may not be an adequate measure to restore financial stability. This study chooses to address mergers as one of the unique options of restructuring as selected by CFC Stanbic, seeking to understand why while some institutions

shy away from M&A, CFC Stanbic still chose it as a viable option to pursue efficiency and remain competitive.

Studies have also been conducted on merger restructuring and financial performance of Commercial Banks in Kenya, by Chesang (2002) but no known studies have been conducted to determine that the same option can lead to competitive advantage sighting a unit within the Banking Industry as an example and this study will fill that gap.

This study further seeks to answer two questions; the first one asks how effective has M&A as a Competitive strategic option been to CFC Stanbic Bank, while the second question asks what challenges CFC Stanbic Bank have faced and how are they are overcoming the same.

1.3 Research Objectives

The objectives of this study are to:-

- 1) Generate new knowledge on M&A in the Banking Industry in Kenya and its importance, including the Motives and attraction behind it.
- 2) Establish how valuable partnerships can be built through M&A as a competitive Strategy.
- 3) Determine why CFC Stanbic Bank chose M&A as a Competitive strategy and also determine its effects on Management and Staff.
- 4) Determine the challenges/pitfalls as well as the future of M&A within CFC Stanbic Bank.

1.4 Significance of the Study

The findings of this project will be beneficial to the academia, practitioners and Commercial Banks in Kenya as it will increase the existing body of knowledge on M&A in the banking industry. To the Management of CFC Stanbic Bank, it will be important as it will help outline their professional

expectations and the business they steer, and will also help them understand their roles, duties, responsibilities and possibly liabilities with regards to M&A as a competitive strategy for growth.

Importance to Shareholders will be felt as this study will also discuss issues of profits and investments, effective competition, efficiency and probity which will benefit the Bank as a whole. Finally the study aims to show why CFC Stanbic Bank chose M&A and how it is sustaining the valuable partnership built while at the same time determining if M&A within CFC has been successful.

1.5 Scope of the Study

The study will be conducted at the Headquarters of CFC Stanbic Bank in Nairobi. As Mergers and Acquisition is a strategic decision, Management who are also Heads of Departments dealing directly with Competitive strategies will be targeted for this study. The research will address challenges faced by CFC Stanbic Bank, effectiveness, speed and success of the strategy. It will also address the future of M&A in the Banking industry in Kenya but will not address the means of financing M&A at CFC Stanbic Bank.

CHAPTER TWO: LITERATURE REVIEW

This Chapter captures the unique factors that exist in M&A and seeks to fill knowledge gaps on the subject. It further seeks to evaluate M&A as a Competitive strategic option on a wider scale and M&A as a strategy within CFC Stanbic Bank.

2.1 Strategic Options

Various Strategic options exist to drive competitive advantage. The main choices selected by a Company are termed as generic while supplementary choices are referred to as complementary according to Thompson et al (2007). Thompson adds that there are five distinct competitive strategic approaches which include the following:-

Low Cost provider - This involves striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by under pricing rivals.

Broad differentiation – Involves seeking to differentiate the Company's product offering from rivals in ways that will appeal to broad spectrum of buyers.

Best Cost Provider- Involves giving customers more value for their money by incorporating good to excellent product attributes at a lower cost than rivals.

Focused Low Cost and Focused differentiation – A Company concentrates on small volume custom products, for which it has cost advantage and leaves the large volume standardized market to the cost leader. The focus is on building market share in one segment and if successful, may begin to serve more and more market segments, chipping away the differentiators' competitive advantage.

Thompson et al (2007) add that other than the 5 main generic strategic options above, a Company will still need a 'grand strategy'. According to Pearce and Robinson (1997), a Grand Strategy is defined as a comprehensive general approach that guides a firms' major action. They are the basis of coordinated and sustained efforts directed towards achieving long term business objectives. They include Collaborative Strategies such as Alliances and Partnerships, Mergers and Acquisition Strategies, Outsourcing, Offensive Strategies, Defensive Strategies and Web site strategies. Many Mergers and Acquisitions are driven by Competitive strategies listed above to achieve any of the five strategic objectives below.

- 1) To create a more cost efficient operation out of combined companies – many acquisitions are undertaken with the objective of transforming two or more otherwise high cost companies to one lean competitor with average or below average costs.
- 2) To expand a Company's geographic coverage – this involves acquiring rivals with operations in desired locations.
- 3) To extend a Company's business into new product categories – this occurs when a company has gaps in its product line that need to be filled. Acquisitions can be a quicker and more potent way to broaden a company's product line than going through the exercise of introducing a company's own new product to fill the gap.
- 4) Gain quick access to new technologies or other resources and competitive capabilities; its a common option when a company is racing to establish a position in an industry or product category about to be born.
- 5) Try to invent a new industry and lead the convergence of Industries whose boundaries are being blurred by changing technologies and new market opportunities; in this case, resources and old products of several different companies are brought together.

2.2 Building Valuable Partnerships through Mergers and Acquisitions

Concept of Strategy

According to Pearce and Robinson (2004), Strategy reflects a company's awareness of how, when, and where it should compete; against whom it should compete and for what purposes it should compete. A successful entity will first address challenges in the industry in which it operates; it must respond to the environment in which it exists by ensuring that whatever approach it chooses to adopt, end result will be value creation. Various concepts usually intertwine to create value, growth and profitability and to deal with everything that affects this value, growth and profitability of a firm, the organization deals with management processes that will position the organization optimally to its competitive environment by maximizing the anticipation of environmental changes and of the internal and competitive demands through appropriate Strategy. The first writings that contain thoughts about what today we would call strategic thinking go back to antiquity, authored by Greeks and Romans. The oldest text that deals systematically with this matter is the 'art of war', written by Sun Tzu, 183 of China in the fourth century, B.C. It is a book which according to Lysons and Farrington (2006), appeared in the West in the 18th century and became well disseminated by the end of the 20th century. Sun Tzu according to Lysons and Farrington (2006) explained in the 'art of war' that the evolution of strategy as a concept was born in military campaigns whose results whether good or bad, was largely the product of the minds of strategists.

"From ancient times, much has been said about great military commanders and their strategies. It is explained that the word 'strategic' actually comes from the Greek stratego, which literally means general. In the classic division of war into operational, tactical, and strategic aspects, strategy is linked to planning, to the broader environment and the longest time frame.

Even though its meaning has changed over time, since the Napoleonic wars, it has encompassed military, political and economic dimensions. In fact the meaning changed after World War II and it began to be used more in business contexts". Strategy is what a company does and how it actually positions itself commercially and conducts the competitive battle. This means that strategy deals with the basis for positioning of the organization in the competitive arena or landscape. This forms the basis for understanding the concept of implementing M&A strategy as a means for competitive advantage and any firm that wants to consider M&A should carefully consider sustainable competitive advantage. Kay (1993) defines M&A as the most common competitive strategy providing the means of entry into new markets and that it plays a central role in all discussion and formulation of corporate strategy. Mergers among banking institutions and merging of brands considered strong raise curiosity and lead to building of long term partnerships.

Newman et al., (1989) found out that careful steps have been taken to embrace M&A and research done on the same to establish success rates as not all mergers are so well conceived. He argues that some are opportunistic, taking advantage of short-run financial gain. Ideal of course, is a partner that both pushes us forward on basic strategy and provides a financial advantage. Whatever the fit, the "price" paid must also be weighed. A heavy debt burden, troublesome stock options, and exhaustion of cash reserves can result, and this unhealthy financial condition can seriously deter execution of other facets of company strategy.

Newman et al., add that unhealthy conditions could also affect the efficiency of operations as well; or, the package given to owners of the acquired company such as common stock may create no strain. A strong financial structure is closely related to future growth and both the quid and the quo of the merger deal require close scrutiny in terms of their impact on the master strategic plan.

Strategic Capability

Strategic Capability can be defined as the adequacy and sustainability of the resources and competences of an organization for it to survive and prosper according to Scholes and Whittington (2006). To create valuable and sustainable partnerships, firms must analyze their internal resources, classified into tangible and intangible resources. Tangible resources are the physical assets of an organization such as plant, labor and finance while intangible resources are non-physical assets such as information, reputation and knowledge. Typically organizations' resources can be considered under physical resources, financial resources, human resources or intellectual capital. Core competencies must be analyzed and issues such as diversification of risk and products addressed. Firms that intend to merge, just like any other firms in business should assess their strategic capabilities to ensure that the resources they possess whether financial or otherwise sustain the merger.

SWOT Analysis

Valuable partnerships in M&A are built when each party involved feels that they are bringing worthwhile resources are going to be pooled and this is why it is also important for firms that want to be involved in M&A to carry out individual SWOT Analysis. Thompson et al (2007) explain that appraising a company's resource Strengths, Weaknesses, Opportunities and Threats, commonly known as a SWOT Analysis, provides a good overview of whether the company's overall situation is fundamentally healthy or unhealthy. A first rate SWOT analysis provides the basis for crafting a strategy that capitalizes on the company's resources, aims squarely at capturing the company's best opportunities, and defends against the threats to its well-being.

A SWOT analysis is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a business venture; it indicates the possible directions and approaches that may be adopted. It involves specifying the objective of the business venture and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. Environmental factors internal to the firm can be classified as strengths or weaknesses and those external to the firm can be classified as opportunities or threats. Such an analysis of the strategic analysis is referred to as a SWOT analysis. (See Figure 1.1). A SWOT analysis provides information that is useful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in competitive strategy formulation like that of M&A, as well as selection. Stanbic's Bank's strength was in numbers; they enjoyed international exposure in the number of branches worldwide while CFC's Bank's main strength was in the segmentation and subsidiaries which enabled them offer more products to their customers. CFC had an insurance services section divided into both Life and Property Insurance. The life section called 'CFC life' while the property section known as 'Heritage A.I.I', as well as stockbrokerage services section and according to the planned M&A arrangements, the CFC Financial Services Limited which includes all the CFC Subsidiaries were to be brought on board to sustain efficiency of operations and competitiveness.

Synergy

Goold and Campbell (1998) translate the word Synergy as having being derived from the Greek word 'synergos' which means "working together". In the Business world, synergy refers to the ability of two or more companies to generate greater value working together than they could working apart. Most Business synergies take one of the following 6 forms that could range from shared know-how; where all information is freely shared and communicated to the benefit of the whole organization.

There are also shared tangible resources which could include the freeing of sole possession of key patents or proprietary technology, partnerships with the best and cheapest suppliers or raw materials and components, favourable locations and low fixed costs. Pooled negotiating power, coordinated strategies and combined Business creation are also other important aspects of synergy.

2.3 Rationale for Mergers and Acquisitions

Mergers and acquisitions are undertaken for various reasons. Gordon, A. W., & Jay, B.B. (1990) undertook a study on managerial goals for mergers and acquisitions, which came to the conclusion that some of these goals include but are not limited to attaining improved competitiveness inherent in holding a sizeable market share or important market position, promoting visibility with investors, bankers or governments, with an eye to subtle benefits later, reducing risks and costs of diversifying products and services delivered to customers within an industry and improve efficiencies and reduce risks in the supply of specific goods and/or services to the acquiring company.

As has been pointed out, (Chesang, 2002) did an investigation on the theories of Mergers. “Theories of mergers vary from efficiency operations which advocate for mergers for social benefits; removing incumbent inefficient management and potentially reducing distribution costs resulting from adoption of efficient technology i.e. synergy, to information signaling where this hypothesis states that if the acquirer has privileged information indicating that the target firm is undervalued and takes advantage by purchasing the target for less than it’s value, then the shareholders of the acquiring firm will benefit from the merger”. Other rationale as investigated by Chesang (2002) include the Agency problem; she quotes “Jensen and Meckling (1976) who formulated the implications of Agency Problems which arises when Managers own only a fraction of the ownership shares of the firm.

The agency theory states that when market for managers does not solve the agency problem, market for firms or merger activity will come into play. It therefore states that merger activity is a method of dealing with the agency problem. This motivates managers to work more vigorously hence improved results expected”.

Chesang (2002) further cites other theories like tax considerations and market power. “Tax considerations have been major stimulating factors for merger activity; the cumulative liability of the combined unit is expected to be smaller than the sum of the tax liabilities of the two individual firms. By merging with a profitable entity, the surviving firm can temporarily fully utilize losses effectively”. Reduced tax income of the acquired firm boosts the earnings of the combined firm relative to that of independent firms. Chesang (2002) also found out that it occurs if the acquirer can raise the price of its products after the merger. She quotes two authors as saying that “This is possible if the merger reduces the number of competing firms and increases its market share in the Industry, Stigler (1964)”...and that “Improved general performance is expected according to Levine and Aaronovitch (1981) who observed that there are a number of important reasons why economists have shown great interest in the analysis of merger activity in all advanced industrial societies -the first one is rising concentration. In a case of the U.K. a comparison of 5 estimates made by different researchers led authors of 1978 govt. green paper (4) to the view that since late 1950’s, mergers accounted for half of the growth in concentration. Rise in concentration in turn, creates concern because of possible misallocation of resources, possible abuse of market power and political and social impact of concentrated economic strength in giant firms”.Chesang states in her study.

A second reason according to Levine and Aaronovitch (1981) as further quoted by Chesang (2002) is that “because mergers have been major instruments of growth by firms and often involves large scale financial outlays, there’s interest to the extent to which mergers have brought gains or losses to the firms involved including shareholders”.

There is a third reason which is connected more narrowly with the development of theories of the firm. “The unending debate between theories based on various kinds of maximizing behavior (profit maximizing, growth maximizing, etc) such as between maximizing (under constraints) and forms of satisficing, has led to attempts to formulate stable hypotheses drawn from such theories. Such hypotheses often involve the role of mergers in, for example, managerial utility functions principally directed at growth, role of stock market as a “market in control” which can discipline firms to conform to profit maximizing norms, etc” Chesang (2002) concludes. These three form the basis for interest in merger analysis, are inter-related and create interest in the determinants of merger activity.

2.4 Risks and Problems facing M&A as a Competitive strategy

Banks in Kenya of which CFC Stanbic Bank is a partner just like any other Institutions, need to be educated on some of the crucial issues that should be addressed in any merger if it is to achieve desired competitive advantage. Grace Kennedy (2004) in her report observed that problems facing M&A on a large scale are not unique and are classified as common world over. Some of these failures are as a result of Culture Clash, where the cultures of the corporations are very different and there is a war on for dominance and control. It also occurs when a company is acquired and the acquirer's management tries to preserve the target's culture and very little integration occurs. A second source of failure emanates from excessive Premiums as a result of hostile takeovers or in some cases, where a bidding war ensues for the target between two or more corporations.

The new corporation is stuck with high-priced assets that dilute future earnings. The report also addressed Poor Business Fit as a source of failure and explained this as resulting when Technologies and lines of business are incompatible. Debt is another source of M&A failure; in situations where a company borrows money to fund an acquisition or assumes too much debt of an acquired company, too much of the earnings of a company are consumed by interest payments. In some cases short-term financing is used to finance the long-term investment and the company has difficulty refinancing.

Finally, the report addresses two other reasons for failure, Regulatory Delays and failure to deliver on synergies. In instances where regulatory approval is required, which was the case for Kenya in the early 1990's before liberalization of the Banking Industry, according to CBK (2000) any delays may cause staff to become nervous which could lead to the loss of talented employees from both companies while where there is failure to deliver on Synergies, if there was a cost saving or revenue boost an acquirer expected to realize from a merger which did not materialize, the result could be poor due diligence or overly optimistic forecasting. This shortfall in earnings can leave the acquirer's shareholders worse off than they would have been without the transaction.

Despite the above reasons for failure, according to the Grace Kennedy report (2004), successful mergers on the local and international market have been realised. One of the larger of these was the combination of Exxon and Mobil in 1999 to form the world's largest energy company. The company is also the second largest company in the world in terms of revenues and fourth largest in terms of market value according to Forbes Magazine's 2003 list of Global 2000 Companies. In comparison, The Royal Dutch Oil Company / Shell merger, also part of the last wave of large-scale consolidation in the energy sector, has had its challenges recently- lack of integration; two boards, one in the United Kingdom and one in the Netherlands have managed the company since the merger.

Howe (1986) agrees with the Grace Kennedy report (2004) and gives his reasons for Problems with M & A as failure to establish objectives for an acquisition which fit into the overall corporate strategy, failure to compare acquisitions with alternative means of achieving corporate objectives, ignoring the financial dimension of mergers, insufficient familiarity on the part of the acquiring company management with the business of victim firms and insufficient attention to post-merger planning and to the need for such planning to realize the potential gains from the merger. Howe goes ahead to give useful tips on what can be done to ensure success of the strategy. According to Howe (1986), the areas for consideration can be classified 'five-way', the first being the Planning of mergers in the context of corporate strategy. Howe suggests here that firms that have planned their acquisitions in terms of predetermined policies, searching for opportunities, evaluating and integrating acquisitions have performed significantly better across a range of financial variables in comparison with a group of firms characterised as 'non-planners'. Secondly is the issue of consideration of alternatives to merger or acquisition; a vital decision has to be made and this is whether the strategy can be achieved by external or internal means, should the decision be to buy or build? (Table 1.1). If Management does not see themselves as an end in themselves, they continue to see them as the only means of achieving growth, increased market share etc.

Thirdly, is the development of Merger criteria; the balance in favour of building or buying will vary from case to case and time to time. On each occasion, an expanding business must carefully assess the relative merits of these alternative approaches and choose the more appropriate one in light of its individual circumstances (Table 1.2). Fourth is selection; acquisition prospects may be identified based on current informal knowledge of the industries or product markets selected, from published sources, original survey of the markets, or through professional advisers like merchant bankers or specialist corporate marriage brokers; no merger or acquisition should be approached blindly.

The fifth and final way according to Howe is the Post-merger implementation; this is very important but is usually neglected; Senior Management must be prepared to devote considerable attention and resources. It should be noted that Integration, motivation and control are the three key issues at this last stage and quoting from 'Kitching', Howe observes that "The Key variable for success is not superior strategy; it is the managers of change..... In the time period immediately following the merger, the quality of management talent determines the success or failure of the venture". This study seeks to determine if all the above guidelines were used and show what remedies can be undertaken by not only CFC Stanbic Bank, but each party involved in a Merger and Acquisition process. It further guides as to which particular stage or point in time the remedies can be undertaken to ensure that the goal of achieving efficiency and competitiveness can be reached.

2.5 Bank Mergers in Kenya

Kenya's banking industry dates back to the year 1896 when the National Bank of India opened its doors in Kenya. Tremendous improvements have been witnessed in this industry with banks competing against each other to provide services that are faster, efficient and transparent. In the early 1980's Kenya had witnessed Bank's deemed strong then, such as Trust Bank and Euro Bank fall on their knees and go under with customers' deposits, raising several questions with regards to banking regulations, customer confidence and ways of salvaging existing banks through development of strong strategies, and hence keen interest on bank restructuring begun. In the 1980's and early 1990's, several countries in developed, developing and transition economies experienced several banking crises requiring a major overhaul of their banking systems. Often, problems have domestic causes such as a weak banking supervision, political interference and inadequate capital. A countries' banking system may be outmoded and in need of rebuilding as in the case of many developing countries like Kenya, (IMF, 1998).

M&A became one of the established strategic options of rebuilding the banking industry and remains the way forward for small medium sized Banks to stay profitable and compete effectively. CBK has continued to encourage and inform the Industry on the need for mergers and acquisitions. In the year 2000 alone, merger of six (6) institutions in Kenya was approved. Section 9 of The Banking Act (2000) also supports approval of mergers and acquisitions but with conditions. The Banking Act Cap 9 (2000) states that regarding amalgamations and transfer of Assets and Liabilities, the amalgamation will only be recognized legally after receiving prior approval from the Minister of Finance.

The Banking Act Chapter 9 subsection 1 (2000) defines the manner in which the amalgamations and mergers are carried out. It states that the amalgamated institutions or in the case of the transfer of assets and liabilities, the receiving institution shall have the same rights and be subject to the same obligations as those with the amalgamating institution or, as the case may be the transferor institution may have had or to which it or they may have been subject immediately before the amalgamation or transfer. Any appointments, agreements made immediately prior to the amalgamation remain in full force. This is outlined as most shareholders of private institutions in Kenya instead of recognizing potential commercial benefits of M&A as a competitive strategic option are more concerned in what will be their role in the merged Bank, and where their loyalties will lie.

CBK Prudential Guidelines (2006) on amalgamations and mergers is clear, stating that to Merge or amalgamate in Kenya, a systematic process must be followed. Institutions must directly write to the Director, Bank supervision Department at the CBK after first seeking approval from the Minister of Finance through the CBK for the name under which they intend to use in case of change of name. They should also ascertain with the Registrar of Companies that the name selected is available and is appropriately reserved for their use.

Proposed details of senior management, proposed shareholding structure, legal due diligence covering all areas of legal concerns that may face resulting institutions, proposed branch network, staff training programmes to be reviewed and consolidated, business strategy to be adopted, anticipated tax implications of the merger and ICT strategy and system software to be adopted, etc. The process of M&A as a competitive strategy although well established, is tedious and long. The first wave of Bank mergers in Kenya occurred in 1993 while the second wave in 1998 and continues to the present day, according to CBK Act (2000). Merger technique has been one of the tools applied by authorities to achieve effective mobilization and efficient allocation of resources in the recent past. Apart from recapitalization of state-owned Banks, commonwealth countries have encouraged mergers to restore stability of their financial systems by removing obstacles to mergers of finance companies and hence banks. Increasing efforts have also been made in Kenya, Ghana, Malaysia and Sri Lanka, to attract foreign investments and technology of their financial sector, as Jayamaha (1997) points out.

Studies have been conducted to analyze the factors that determine the choice of M&A partners in Kenya by Mukele (2006), and Chesang (2002) also analyzed merger restructuring and financial performance of commercial banks in Kenya. Owuor (2004) and Koigi (2002) have provided unpublished works that have established some of the challenges of M&A in Kenya which include clash of cultures of partners involved, lack of trust between partners, lack of clear goals and objectives as well as differences in operating procedures and attitudes as some challenges that stood in the way of M&A in Kenya. Koigi (2002) discovered that Technology transfer, roles of foreign country partners and host country partners, product relatedness and specialized skills among others, were major factors that determined the choice of partner for a successful M&A.

CHAPTER THREE: RESEARCH METHODOLOGY

This Chapter outlines the various steps that were necessary in executing the study with the goal of satisfying the objectives discussed. The Research design selected here was that of a case study. This kind of scenario-based examination was selected so that it can major broadly on the subject matter and enable sieving of only the necessary information needed for this particular project; in other words, it was selected to provide a screen shot of the whole picture.

3.1 Research Design

Saunders, Lewis and Adrian (2007) argue that a case study research gives an almost 'unscientific' feel, but despite this they add that it can be a very worthwhile way of exploring existing theory and can be used when little or nothing is known about a trend, in order to identify the key aspects or features of the trend. A simple, well constructed case a source of new hypothesis and data study provides in this study was conducted on only one study unit - CFC Stanbic Bank. The use of a Case study was also appropriate in comparison with other studies as it allowed for in-depth exploration of issues such as current happenings/events at CFC Stanbic Bank with regards to M &A. This method also offered an opportunity to learn about the events through extensive description and contextual analysis in line with the objectives of the study. Literature search and interviewing 'experts' in the subjects was applied but conducting focus group interviews was not used due to time constraints.

3.2 Data Collection Method

Primary data was used to obtain personnel data relating to job categories, grades, gender, age and length of service and an interview guide was used as the instrument to collect the data. Primary data was in the form of words and were categorized accordingly. Secondary data was gathered by use of existing material such as journals and articles from various bodies and unpublished work researched by former MBA students from UON, to get a feel of various issues in relation to M&A.

Data on Organizational structure, roles and capacity, decision making processes, adaptability to new processes such as that of M&A and Stakeholders of the process was collected during the study. Respondents selected from key departments of CFC Stanbic Bank with concentration on Managers and Heads of Departments dealing directly with Competitive strategy were interviewed. The Managers selected helped the researcher establish the objectives of the merger, highlighted challenges faced and gave insight on the mechanisms that were put in place to monitor and measure the process. In their roles and capacity as Heads of Department or Team leaders, they gave views and established the level of success of objectives within the organization and helped determine the extent to which they considered the objectives of the merger successful. Questions such as whether they received prior training, who stood to lose or benefit in the process and what they actually saw the M&A process as, were answered by use of the interview guide.

3.3 Data Analysis

Data was accumulated and reduced to a manageable size and basic features of the data were compiled to provide in-depth understanding. Qualitative data which is based on meanings expressed through words was used. Content analysis was used for primary data as it gave room for inferences to be made. In Content analysis, phrases are categorized, described in logical structure of expressions, and ascertained associations, connections, denotations, elocutionary forces and other interpretations are made (Mugenda, 1999). Use of Content analysis also helped the researcher establish patterns of emphasized ideas in interview schedules and work out the underlying perspectives.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION.

This Chapter discusses the findings established while undertaking the study conducted through in depth interviews. The Managers selected represented the Bank in areas including Marketing and Communication, Personal and Business Banking, Audit, Finance, Customer Service, Products, Public Relations and Human Resource, and out of the eight selected respondents, six were interviewed as one was unavailable and the other declined to participate. The study established that majority of the staff at CFC were relatively young with most aged just under the age of 45. Another finding was that CFC Stanbic Bank is an equal opportunity employer as members of staff holding managerial positions comprised both genders. The Management team interviewed had served from as recent as nine months to more than ten years but the average number of years of service of most of the Managers was 5 years and above and this information was useful as it confirmed that the findings would be as objective as possible since they would give feedback based on experiences before and after the merger.

4.1 Rationale for selecting M & A as a Competitive Strategic option at CFC Stanbic.

The study established that the term Mergers and Acquisitions was used interchangeably but the process was more of an Acquisition and what merged were cultures to ensure that the members of staff worked well together. Stanbic Bank Limited whose Headquarters are in Johannesburg, South Africa had major plans to expand in order to compete with their main Competitor, Standard Chartered Bank. It begun by carrying out due diligence to seek a strategic partner who would assist with its expansion plans in Kenya and the target was a Bank already operating as a full financial institution. CFC Bank in Kenya had a property Insurance section known as Heritage A.I.I, a life insurance section known as CFC Life as well as CFC Financial services Limited, an entity purely catering for the investment needs of its clientele and it thus became the most appealing choice.

The study also established that the Acquisition was done in line with the strategy of the Stanbic Bank group which is “To build a leading emerging markets financial services organization using all our competitive advantages to the full. We focus on delivering superior sustainable shareholder value by serving the needs of our customers and where appropriate connecting them globally. The key differentiator in achieving our strategy is our people”.

According to the Personal & Business Banking Manager, CFC Bank had 8 branches and 1 agency in Kenya, while Stanbic Bank had 4 branches in Kenya thus there was a need to expand and bring the total number of branches to 12 countrywide and this would turn CFC Stanbic Bank to a stronger brand with wider coverage that would compete effectively. In addition to the expansion, the study also found out that the highest motivating factor for the Acquisition was to increase shareholders worth. The decision was reached at very high profile meetings with the shareholders who felt that it would be better to expand through acquisition rather than expanding organically by opening more branches worldwide.

4.2 Valuable partnerships through M & A within CFC Stanbic Bank.

While carrying out the study, it was established that CFC Bank Limited and Stanbic Bank Limited had synergy. They had customers who were complementary and they enjoyed regional opportunities. The study also found out that with this synergy, the two banks were able to consolidate existing products, introduce new ones and rebrand others for the benefit of their customers and thus stay ahead of the competition. A good example sighted by the Head of Marketing is the Home Loan product that has proved to be value adding; he stated that this was a product from Stanbic Bank that catered exclusively for individuals wishing to own homes, with tailor made requirements and has since been taken up fully by the Bank.

Another finding with regards to value addition through the M & A at CFC Stanbic was that client base had increased from 50,000 to over 200,000. Previously deemed small due to its customer base, the Bank is now placed as the fifth largest Bank in Africa as a result of the expansion through the acquisition. This ensured that CFC Stanbic could now compete even more effectively and command more respect as a stronger brand.

The study further established that the partnership was not only valuable to the Bank's customers but to the staff as well. Streamlining was done with regards to Performance, benefits, salary scales, terms of reference, reporting lines and job realignments for the main purpose of making the partnership successful. This study found out that with regards to terms of reference, reporting lines and job realignments, the South African model was applied and with this came changes. Some of the changes according to the study were quite difficult to adapt to for some of the parties involved and morale and enthusiasm for the job declined; for example, where previously the Bank had one Head of operations, they now had two and had to realign jobs for the purpose of continuity.

Performance was highlighted as a key factor to achieve competitiveness. This study found out that before the merger, members of CFC Bank did not sign performance management contracts which is a strong Human resource tool while those of Stanbic Bank were accustomed to a very elaborate performance management system. After the merger, staff from both CFC Bank and Stanbic Bank had to sign the performance contracts. The purpose of insisting on signing of performance contracts was to ensure that value was added to the institution as it now had a set of measures by which individuals could be appraised against to ensure that hard work was rewarded and that service delivery was excellent. One of the respondents had this to say "...that the Bank is currently undertaking a series of internal business re-engineering processes that would be a big part of its growth strategy and make it a demand driven organization".

4.3 M & A as a Competitive strategy and its effects.

According to the findings, it was established that Standard Bank brand has carried a lot more weight. It had been voted the top financial brand in South Africa, based on loyalty, awareness and attraction, since before the turn of the century. The group was also voted the best bank in sub-Saharan Africa in various surveys in the early 2000s. The 2008 survey of The Banker magazine ranked Standard Bank Group 106th in the world's top 1,000 banks and in 2009 it was ranked 223 on the Forbes Global 2000 list of the world's biggest companies. These were just some of the awards unearthed while interviewing respondents, to prove that the Bank is indeed competing effectively.

According to the findings, the acquisition of CFC Bank in Kenya by Stanbic Bank enabled the Bank to maintain its broad strategy which was to continue building a portfolio of growth options in financial services in developing economies, concentrating on retail banking Africa and other emerging markets. Its roots in Africa according to the findings meant that it understood commodity-driven economies in which access to finance was limited and development a priority. The findings further indicated that this understanding still drives M & A as a competitive strategy. The findings also indicated that competition has evolved; before the M & A, respondents felt that their key competitors were Banks such as Commercial Bank of Africa, Investments and Mortgages Bank Limited and NIC Bank to mention just a few and at this time, CFC Stanbic was competing solely as a Tier II Bank but after the M & A, the respondents felt that the competition had increased to include the bigger Banks from Tier I such as Barclays Bank Limited, Standard Chartered Bank Limited, Kenya Commercial Bank Limited and Equity Bank Limited. It now meant that they were competing on a larger scale and could not take any of the Banks for granted.

Further findings indicate that the M & A has acted as an important tool to measure competitiveness; because each of the Banks's listed have something unique to offer the market. Due to the numbers gained after the merger, findings reveal that CFC Stanbic Bank can now compete in terms of numbers by taking on banks such as NIC Bank, in terms of product offerings and corporate clients CFC Stanbic Bank can now compete with Banks like Standard Chartered Bank and in terms of worldwide network, it can consider Barclays Bank Limited a big competitor as they also now have branches operating in over 18 countries in Africa. The study thus establishes that M & A has enabled the Bank to face their competition effectively and at different levels.

Findings also indicate that as a result of the M & A, CFC Stanbic Bank has become more vocal than they originally were. From the interview conducted, it was established that the budget for marketing has increased and advertisements are now placed in the dailies, run on televisions and some are currently running on radio stations such as Classic radio and Capital FM. It was also established that by increasing in size, CFC Stanbic has come out more openly to attract clients and are pitching tents outside public places such as major supermarkets like Nakumat which was unheard of in the past and this has been a positive competitive effect of the strategy.

By the Bank embracing M & A as a competitive strategic option, findings indicate that there have been varied effects on management and staff. Management has incurred costs some expected and some unexpected while staffs have had to make major adjustments. Results of the study revealed that regular trainings have been conducted and are on going to cater to the different needs of different mix of customers who were merged having come from different backgrounds and cultures. Findings also established that a major effect of the M & A was the standardization of procedures, and because of the need to standardize these procedures, more staff were employed.

It emerged from the findings that after the M & A, more staff were required contrary to the belief that there was going to be retrenchment. It was established that after the merger, some departments such as the Personal and Business Banking department needed to recruit more members of staff who were more knowledgeable on existing and new products and it was confirmed that at one time, 70% of the members of staff in that department were new to the Bank. Recruitment of high performing members of staff was to enable the Bank compete effectively even after the merger. It was further established that other than the recruitments, jobs were realigned and reshuffles within departments were also carried out and this changed the decision making process within the Bank, especially with regards to reporting lines. The findings reveal that the whole process was very costly but these costs had to be incurred to ensure smooth flow of operations even after the merger.

4.4 Key Challenges at CFC Stanbic Bank as a result of the M & A

Findings indicate that the process was not easy and very many expectations were not met. These expectations that were not met were at individual level and organizational level. The Findings also established that the merger was adversely affected by the need to realign the internal working mechanisms of the bank.

One of the Key challenges established from the study was that the Bank lost customers as a result of the merger. This happened slowly when some of the procedures were standardized because some products such as the '*No matata*' product from CFC Bank which had made access to facilities easier were done away with. Additionally, findings indicate that due to standardization there were drastic changes made to the manner of operations. Some of these changes included the provisioning system of bad accounts such that instead of classifying an account as bad after three months, it was done almost immediately and this increased the bad debts held in the books thus watering down the quality of the portfolio.

Another significant finding was that with the change in standardization practices came a new dividend policy and the practice of paying bonuses to members of staff was also carried forward from Stanbic Bank. Stanbic Bank Limited also did away with the practice of paying cheques even when there were no funds in the account based on other lending parameters and this was considered to be very rigid but was beneficial to the Bank over time. Findings established that there was a general feeling especially by CFC Bank customers that Stanbic Bank was running a one man show and this led to most of them walking out in search of alternative Banking.

A second challenge from the findings had to do with the transition process. Although no retrenchment took place, many senior managers from CFC Bank either walked out or felt that they had settled for less. This was cited as having been caused by duplication of roles of senior managers and key players on client relationships. As departments could only be headed by one individual, findings reveal that a lot of negotiations had to be reached and this affected performance of parties involved. Another example was the performance contracts signed by all members of the Bank. Findings indicate that signing of performance contracts was new to CFC Bank and they resisted as they felt they were targeted for retrenchment and doubted the real motive of the merger. It was established that constant communication had to be passed around and assurance offered to convince the members of staff that there was no hidden agenda and that it was purely to enhance performance as management had realised that a lot of information going round was based on rumours and that information passed had been misconstrued to mean something different.

The findings also unearthed a third challenge that the two banks were operating on different banking platforms and different banking systems. This was the case before their merger in 2008 and the process is still on going. CFC bank operated on '*Bankmaster*' while Stanbic operated on '*T24*', two totally different banking systems. Findings reveal that it is agreed that the Bank will take up T24 in totality and this will be done in phases. The first phase will be done by end of October 2009 while the final and last phase will be done in February 2010. The change of systems was identified as a key challenge as it slowed down processes and huge financial costs such as those to train staff on the new system were incurred and are still being incurred.

A fourth challenge according to the findings involved a series of drawn out court battles that threatened to scuttle the M & A process. The respondents mentioned two major court cases that had financial implications and brought about negative publicity, which included the case of the Industrial plant and a suit filed by retirees, commonly referred to as the "Kavilu Case" where 14 retirees wanted to have the merger postponed until a case with the pension trustees was settled and Kshs.1.1 billion deposited pending the hearing.

A final challenge established from the study and which is still being faced was cultural integration. As with any merger, respondents admitted that it has taken longer than expected to try and bring the two different groups from different backgrounds together and this clash of cultures of partners has led to the lack of trust between partners and control for dominance within the organization. Due to the slow cultural integration, the study revealed that there are still feelings that there was no preparation process and no proper consideration on the operating models that were adopted.

The study discovered that despite the challenges, there were synergistic benefits; the findings revealed that wide gaps in salary scales for most cadres of staff before the M & A have since been streamlined. Staff welfare, retirement benefits and human resource policies have also been harmonized and the medical scheme has improved significantly. The study established that the non-monetary benefits are better than before the merger, especially for senior management such as the move from the Central Business District to the lush Chiromo lane offices and also enjoying double club membership as a result of the merger.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This Chapter represents a summary of the research findings, the conclusions, limitations of the study and suggestions for further research. Senior Managers heading units that deal directly with Competitive Strategy were interviewed and out of the eight selected six were interviewed thus achieving a response rate of 75% acceptable for this study.

5.1 Summary, Discussions and conclusions

The Research study had four main objectives. The first was to generate new knowledge on M&A in the Banking Industry in Kenya and its importance, including the Motives and attraction behind it, the second objective was to establish how valuable partnerships can be built through M&A as a competitive Strategy, the third objective was to determine why CFC Stanbic Bank chose M&A as a Competitive strategy and also determine its effects on Management and Staff and the final objective was to determine the challenges/pitfalls as well as the future of M&A within CFC Stanbic Bank.

Aspects of Competitive strategy through Mergers and acquisitions that were considered included the creation of more cost efficient operations out of combined companies, expansion of geographic coverage through acquiring rivals with operations in desired locations, extension of a Company's business into new product categories where gaps existed in product lines, gaining quick access to new technologies or other resources and competitive capabilities and trying to invent a new industry and lead the convergence of Industries whose boundaries were being blurred by changing technologies and new market opportunities.

Another important aspect that was addressed by the study was that valuable partnerships can be built through the concept of strategy, analyzing the strategic capabilities of a company, carrying out a thorough SWOT analysis and also working with synergy. These factors were considered important in assessing the success of a Mergers or an acquisition. Risk and problems facing M & A as a strategy as well as Key challenges that have been faced by CFC Stanbic Bank were addressed.

The study found out that CFC Stanbic Bank had invested heavily to ensure that the process was a success. Some of the investments made so far include extensive training especially with regards to products and service delivery in order to stay competitive. Findings revealed that CFC Stanbic Bank was voted the top financial brand in South Africa, based on loyalty, awareness and attraction and these are some of the rewards gained by a competitive organization. CFC Stanbic Bank has also fully moved its head office operations to the headquarters based at Chiromo to boost the corporate image of the Bank and to place themselves strategically for their clients. They have further undertaken a series of rebranding their branches and taking part in more events that require sponsorship so that they are not only seen but heard by the public. Findings indicate that the Bank is now participating actively in CSR activities and development of stronger products for their clients is on course.

The study established that the deal was drafted and consultations on the merger took place with the full backing of the shareholders. Procedures as required by the regulatory agencies were followed to the letter to ensure unnecessary delays were avoided. To ensure that the process was not jeopardized, the Head of communication took note of the rumours going round and sent communication clarifying and reassuring the members of staff of the intention of the Merger. They also made it clear from the very beginning with the help of the Human Resource department that no retrenchments would take place, and this was comforting to the employees of the Bank.

Competition in the Banking industry is increasing daily and can no longer be ignored. Banks are now developing different kinds of strategies to help them stay ahead of the Competition. When managed correctly, mergers and acquisitions are helpful tools that managers can use to achieve their business objectives. To meet the challenges of conducting a successful merger or acquisition, certain initiatives can be taken and they include ensuring that there is a strong case for the merger / acquisition from a business strategy point of view, conducting detailed due diligence on all aspects of a potential partner, creating a merger planning group to identify and manage merger issues anticipated at all business units and levels of the organization, communicating constantly with employees so that they are not susceptible to rumors or not left in the dark on issues regarding the rationale for the transaction or the strategy or structure of the entity, paying attention to the details to ensure that nothing is taken for granted or left unattended, and once the deal is finalized, concentrating on implementing the strategy of the merged entity so as to achieve the original objectives of the merger.

The future of M & A within CFC Stanbic Bank is one filled with determination to succeed despite the problems. There is optimism and determination to see the end results and as one respondent contributed, the problems have made them work harder to compete in the industry and so far they can already see results, and although not all members of staff will agree with the decisions made, as long as it is the right decision, then it is worth a try. The trend today is that Banks are growing organically and some of the respondents interviewed felt that if they could take a step back, they would have opted for organic growth rather than the merger, not because it is not a good competitive strategic option but because it can be very frustrating and lengthy before full benefits are realised.

In conclusion, the study found out that some of the benefits CFC Stanbic Bank expect to reap in the future include lower costs, stronger technological skills, better competitive capabilities, better and advanced products & services, wider geographical coverage, greater financial resources with which to invest in areas such as Research and Development, additional capacity or even expansion into new areas. The study found out that these benefits can only be reaped with time and patience and once successful, the Organization that has selected this competitive strategic option will stand out competitively.

5.2 Limitations of the Study

As this was a Case study, the design limited the unit of study to only one and there was no room for comparison of the findings of this one unit with those of similar units. Secondly, the nature of the study limited the respondents and there was no room to compare divergent opinions.

The study also limited itself to information and details that could be discussed without compromising any part of the Bank's business aspects as it competes in a very dynamic and competitive industry. Members of staff had also previously signed confidentiality agreements which meant that the information they provided was also limited. To obtain any information from the bank, there was a specific channel to be followed; all studies conducted on the Bank were to be carried out with the full knowledge of the Head of Marketing and communication.

Time was another major limitation especially with regards to aligning the respondents' time with the researchers' time. One of the targeted respondents had to travel on a major assignment and we had to cancel our interview as he was no longer going to be available.

5.3 Suggestions for Further Research

The study concentrated on Mergers and Acquisitions as a competitive strategy for one unit, it would be interesting to carry out a survey of Banks that have used the same strategy to provide for an industry wide picture. Further research can also be done using a unit from a different industry for example the manufacturing industry to determine whether the experiences faced in applying Mergers and Acquisitions as a competitive strategy would be similar.

5.4 Recommendations for Policy and Practice

Through this study, a number of important issues have come out. M & A decision at CFC Stanbic Bank was reached at high profile meetings and members felt that they were left in the dark at the onset, thus the resistance that was experienced during the process. The findings of the study agree with Thompson et al (2007) that all too frequently, mergers and acquisitions do not produce the hoped for outcomes. Cost savings may prove smaller than expected, gains in competitive capabilities may take substantially longer to realize or worse, may never be realised at all. Morale can also drop to disturbingly low levels, key managers can get disenchanted and leave and different management styles applied may not agree. These are the exact things that CFC Stanbic Bank has undergone and is still trying to counter with the decision to apply M & A as a competitive strategy.

Findings also revealed that the process was tedious, long and frustrating but despite the experience, there is still optimism. Successful mergers and acquisitions are lengthy and come with a lot of challenges, it is thus recommended that all members of staff are well informed from the very beginning on what to expect.

It is also necessary that a Change Manager be appointed to avoid conflicts and to guide staff along through out the transition process. There was no change manager but the Head of communication acted in this capacity by sending out correspondence that kept the members of staff updated. Patience must also be exercised by both management and other members of staff so that a lot of rumours regarding the rational for the transaction can be avoided, in this particular case, there was a feeling that there was no preparation process and there was a lot of secrecy.

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APPENDIX I: LETTER OF INTRODUCTION

C/O MBA Office
University of Nairobi
P.O.Box 30197
Nairobi

September 2009

Dear Respondent,

RE: JACQUELINE OYUKE D61/8992/06.

I am a Post graduate student studying for a Master of Business Administration – Strategic Management option degree at the School of Business, University of Nairobi. I am currently conducting a research on **“Mergers and Acquisitions as Competitive Strategic Options within the Banking Industry: Case of CFC Stanbic Bank Limited”**.

The purpose of this letter is to request you to spare time from your busy schedule to respond to the Interview guide. All information provided will be used purely for academic purposes and will be treated with confidence. A copy of the final report will be issued to your esteemed organization on request. Thank you very much for your cooperation.

Incase of any queries or clarifications please do not hesitate to contact me.

Yours faithfully,

Jacqueline Oyuke
MBA Student- Researcher
University of Nairobi
Tel: 0710- 800006
Email:jaoyuke@yahoo.com

Dr.G. Mohamed
MBA Supervisor
University of Nairobi

APPENDIX II: INTERVIEW GUIDE

This Interview guide seeks to collect information on Mergers and Acquisitions (M & A) in the Banking industry and how it has been used as a Competitive strategic option at the CFC Stanbic Bank. Completion is voluntary and all responses will be treated with utmost confidence and used for academic purposes only. Please provide the information frankly and honestly.

SECTION A: RESPONDENT'S PROFILE.

1. Name of the respondent (optional)
2. Current position held.....
3. Number of years in current position
4. Please indicate your gender,

SECTION B

1. What was the motivation behind the Merger and Acquisition with regards to competitiveness?
.....
2. Who are your main competitors within the Banking Industry?
.....
3. How would you describe the level of competition faced by CFC Stanbic Bank compared to peers in the industry?
.....
4. What do you feel have been implications of the M & A as a competitive strategy within the Bank?
.....
5. What areas do you feel have been strengthened if at all, as a result of the M&A process within CFC Stanbic Bank.
.....

6. How would you compare customer satisfaction levels for CFC Stanbic Bank before and after the merger?

.....

7. What are the specific changes in terms of products/service offerings after the merger?

.....

8. What was your experience during the transition?

.....

9. Was there a preparation process for the forthcoming M&A

.....

10. Has the decision making process changed since the M&A?

.....

11. What key challenges have been faced during and after the Merger?

.....

12. How has the M&A process performed in terms of Standardization of procedures within the Bank?

.....

13. How have your expectations on M&A as one of the strategic options of competitiveness been met?

.....

14. Were any Synergy benefits realized from the Merger and Acquisition?

.....

15. Any other comment (s) on M&A at your Bank?

.....

THANK YOU

TABLES AND FIGURES

Table 1.1 Product Market Strategy and Acquisition Objectives

1. FINANCIAL CHARACTERISTICS

	High Market Share	Low Market Share
High Growth	Self-financing to cash hungry	Really cash hungry
earnings	Good to low reported earnings	Really low reported
	High price/earnings ratio	Good price/earnings ratio
	Debt level low to moderate	Debt level high
Low Growth	Cash rich	Fair Cash
	High Earnings	Low earnings
	Fair price/earnings ratio	Low price/earnings ratio
	No debt, high debt capacity	Low debt capacity

2. BASIC STRATEGIES

	High Market Share	Low Market Share
High Growth	Continue to invest heavily	Go for broke to increase market
	In market share even at expense	share (probably in specific
	Of reported earnings	segment) or cut your losses.
Low Growth	Stable situation as long as	Optimize cash and withdraw
	returns greater than stockholder	
	alternatives or seek growth areas	
	and fund entry	

3. ACQUISITION OBJECTIVES

	High Market Share	Low Market Share
High Growth	Product/market reinforcements Acquire funding sources as needed; Foothold to new growth areas.	Reported earnings Cash flows Stand-by debt capacity
Low Growth	Acquire number two company In a growth industry and fund Aggressive market penetration	Sale or merger on best terms possible

Source: J. Kitching. 'The Strategy of Merging', Management Today, October 1969, p.77

Table 1.2 ACQUISITION CRITERIA

Performance Criteria:	Return on capital employed Sales Margin Sales growth Market Share
Company Characteristics:	Size Geographical location Product range Marketing or R&D strengths
Management:	Quality of management Compatibility between organizations

Source: W.S Howe, Industrial Economics (London: Macmillan, 1978) p.186

{Tables 1.1 and 1.2 adapted from Howe, W.S (1986)}

FIGURE 1.1 THE SWOT ANALYSIS FRAMEWORK

