

**POST MERGER IMPLEMENTATION STRATEGY FOR THE FINANCIAL
SERVICES SECTOR: A SURVEY OF MERGERS IN THE KENYAN BANKING
SECTOR**

BY

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF
BUSINESS ADMINISTRATION (MBA) DEGREE, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

JULY 2008

DECLARATION

I declare that this is my original work and that it has not been presented for any award at any University.

Name.....

Date.....

Signature.....

Dedication

I dedicate this project to my friends

Acknowledgement

I acknowledge my supervisor for the tireless efforts in the completion of this project.

Abstract

The main objective of the study was to investigate post merger implementation strategy on the merged banks.

The study focussed on all the 8 mergers and acquisitions that had been witnessed in Kenya from 1995. The staff in the banking sector included senior managers lower level managers and other subordinate staff currently working at the bank mergers found in Kenya.

The study made use of questionnaires and interview guides in order to collect all relevant information on post merger implementation strategy on the merged banks. The questionnaires were used to collect information from the senior employees including senior managers and departmental heads.

A content analysis and descriptive analysis were employed. The content analysis were used to analyze the respondents' views about the post merger implementation strategy in the Kenyan banking sector.

The study concludes that most of the banks employees were aware of the government policies that affected mergers and acquisitions in the organization. The study also concludes that restructuring strategy was the main reason that prompted the banks to merge and also to increase asset/liquidity.

The study also concludes that most banks did not consult their staff during a merger and or acquisition as data from the study indicated. In addition, the study found that most of the banks had been faced with communication and financial resources as barriers to the merger.

The study recommends that institutions need to consult staff and employees before merger. An institution that has employees who may be affected by a proposed merger is required to provide information to an employee body or communicate the information in form of meetings – which may be a trade union or, in default of that, employee representatives. Where both exist the employer must consult with the recognised trade union(s).

The study also recommends that for institutions to reduce barriers to mergers, they need to innovate new products and services with combined expertise, to create more wealth, to increase capacity and scale among many other reasons for the combination.

Table of contents

DECLARATION	i
Dedication	ii
Acknowledgement	iii
Abstract	iv
Table of contents	vi
List of tables	viii
List of figures	ix
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background	1
1.1.2 Post Merger Implementation Strategy	2
1.1.3 Mergers and Acquisitions in Kenya.....	3
1.2 Problem Statement	4
1.3 Objective of the study	5
1.4 Research Questions	5
1.5 Importance of the study	6
1.5.1 To Investors	6
1.5.2 To Scholars and Researchers	6
1.5.3 To customers.....	6
1.5.4 To the Government	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1 Introduction.....	7
2.1.1 Theories of Mergers and Acquisitions.....	7
2.1.2 Mergers and Acquisitions Implementation Approach	8
2.1.3 Horizontal Mergers	10
2.1.4 Vertical Mergers	11
2.1.5 Conglomerate Merger	11
2.1.6 Benefits of Mergers and Acquisitions.....	11
2.2 Post Mergers and Acquisitions Implementations	14
2.2.1 Effects of Post Mergers and Acquisitions on Customers.....	15
2.2.2 Effects of Post Mergers and Acquisitions on Suppliers.....	17
2.2.3 Effects of Post Mergers and Acquisitions on the Rival Firms.....	18
2.2.4 Post Mergers and Acquisitions and Restructuring.....	19
2.2.5 Mergers as a Bank Restructuring Approach	20
2.3 Post Merger and Measures of Financial Performance	23
2.3.1 Profitability Analysis	23
2.3.2 Capital Adequacy Ratios.....	23
2.3.3 Long Term Solvency.....	24
2.3.4 Earnings and Profit Performance Emphasis	24
2.4 Major Challenges in the Merger and Acquisition.....	24
2.4.1 Culture Incompatibilities	24
2.4.2 Lagging Mergers and Acquisitions.....	25

2.4.4 Human Factor.....	26
2.4.5 Ambiguity	26
2.4.6 Salary Structure and Salary Administration	27
2.4.7 Communication.....	28
CHAPTER THREE	29
RESEARCH METHODOLOGY	29
3.1 Research Design.....	29
3.2 Population	29
3.3 Data Collection	29
3.4 Data Analysis	30
CHAPTER FOUR.....	31
DATA ANALYSIS AND INTERPRETATIONS.....	31
4.1 Introduction.....	31
4.2 Social demographic information.....	31
4.3 Aware of any government policies that affect mergers and acquisitions in the organization.....	33
4.4 Extent in which policies affected the way the merger or acquisition was managed.....	33
4.5 Reason that prompted your bank to merge and/or acquire	34
4.6 Factors that lead to the decision of the banks to merge.	35
4.7 Merger had any gains.....	36
4.8 Rate the following sources of gains in terms of importance.....	36
4.9 Rating of merger in terms of the following indicative factors.....	37
4.10 Extent to which the following factors were barriers to the merger or acquisition.....	37
CHAPTER FIVE	39
SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS..	39
5.1 Introduction.....	39
5.2 Summary of the Findings.....	39
5.3 Conclusions.....	40
5.4 Reccomendations	41
5.5 Areas of Further Research	41
REFERENCES.....	42
APPENDICES.....	47
APPENDIX I: QUESTIONNAIRE	47

List of tables

<u>Table 4.1 Years working in bank</u>	31
<u>Table 4.2 Aware of any government policies that affect mergers and acquisitions in the organization</u>	33
<u>Table 4.3 Factors that lead to the decision of the banks to merge</u>	35
<u>Table 4.4 Rate the following sources of gains in terms of importance</u>	36
<u>Table 4.5 Rating of merger in terms of the following indicative factors</u>	37
<u>Table 4.6 Extent to which the following factors were barriers to the merger or acquisition</u>	38

List of figures

Figure 4.1 Position in bank	32
Figure 4.2 Highest level of education	32
Figure 4.6 Merger had any gains.....	36
Figure 4.4 Reason that prompted your bank to merge and/or acquire	34
Figure 4.5 Were you consulted during the merger and/or acquisition	35
Figure 4.3 Extent in which policies affected the way the merger or acquisition was managed	34

CHAPTER ONE

INTRODUCTION

1.1 Background

1.1.1 Definition of Merger

The term merger refers to the combining of two or more entities into one, through a purchase acquisition or a pooling of interest. It can also be used to refer to the voluntary amalgamation of two firms on roughly equal terms into one new legal entity. Mergers are effected by exchange of the pre-merger stock (shares) for the stock of the new firm. Owners of each pre-merger firm continue as owners, and the resources of the merging entities are pooled for the benefit of the new entity. If the merged entities were competitors, the merger is called horizontal integration, if they were supplier or customer of one another, it is called vertical integration. Merger is a tool used by companies for the purpose of expanding their operations often aiming at an increase of their long term profitability.

Usually, mergers occur in a friendly setting where executives from respective companies participate in a due diligence process to ensure a successful combination of all parts. On other occasions, acquisitions can happen through a hostile takeover by purchasing the majority of outstanding shares of a company in the open market.

Managers of firms undertaking mergers and acquisitions often anticipate an improvement in production efficiency. However, such gains to the merging firms do not usually benefit all the stakeholders. For instance, merged firms could easily collude with rival firms and increase prices at the expense of customers. Merged firms may also increase their bargaining power over suppliers by pooling their prices and forcing suppliers to compete to sell to the combined firm. Higher prices to customers and lower prices charged on supplies imply that the merging firms are able to make higher profits.

As a result, many mergers are often successful. In business or economics, a merger is a (commonly voluntary) combination of two companies into one larger company. This involves stock swap or cash payment to the target. Stock swap allows the shareholders of the two companies to share the risk involved in the deal. A merger can resemble a takeover but

result in a new company name (often combining the names of the original companies) and new branding. In some cases, terming the combination a “merger” rather than an acquisition is done purely for political or marketing reasons. Examples include the merger of Universal Bank with Paramount Bank and that of the Heritage Insurance Company with Africa International Insurance Company.

1.1.2 Post Merger Implementation Strategy

Mergers and acquisitions produce synergy, hence better use of complementary resources leading to geographical or other diversification. This smoothens the earning of a company, which over the long term smoothens its stock price, giving conservative investors more confidence in investing in the company.

Some motives however don't add shareholder value. While diversification, for example, may hedge a company against a downturn in an individual industry, it fails to deliver values, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger.

Overextension tends to make the organization fuzzy and unmanageable. Managers' overconfidence about expected synergies from M&A (managers' hubris) may result in over payment for the target company. In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the local profit while decreasing the profit per share hence manager's compensation maybe a setback. Another setback is empire building that involves managers having larger companies to manage and hence more power.

1.1.3 Mergers and Acquisitions in Kenya

Businesses may combine through mergers whereby the assets of two or more companies become vested in or under the control of one company; this is found under section 27(1) (a) of the Restrictive Trade Practices, Monopolies and Price Control Act. Further, businesses may combine through a takeover of one or more enterprises by another enterprise; this is found under section 27(1) (b) of the Restrictive Trade Practices, Monopolies and Price Control Act.

Differences in management styles, threats of layoffs, initial inequities in compensation programs, authority superimposed on the target firm, and an increase in size of the acquiring firm are administrative factors that may hurt the anticipated benefits of acquisitions (Lubatkin, 1983). Smith & Hershman (1997) investigated three factors, including acquisition price, strategic intent, and post-acquisition management that might affect shareholder value, through examining more than 340 large acquisition transactions between 1986 and 1996. They concluded that “only post merger management of an acquisition has really made a difference in determining the odds of value-creation in the major deals of the last decade.

The primary purpose of merging and acquiring new firms is usually to improve overall performance (Lubatkin, 1983) by achieving synergy, or the more commonly described as the “2 + 2 = 5” effect (Cartwright and Cooper, 1993) between two business units that will increase competitive advantage (Porter, 1985; Weber, 1996).

Kenya's financial sector witnessed failure of many banks in the eighties and the nineties. After this period, banks as a reactive or proactive measure embarked on restructuring and among the approaches they used is merging and acquiring horizontally. Among the recent mergers are CFC/Stanbic Bank merger, EABS-Akiba Bank merger, EABS/ECOBANK merger and the yet to be finalized Equity/Uganda microfinance merger. The mergers have been aimed at strengthening the financial base of the resulting firm hence increasing its competitiveness.

1.2 Problem Statement

Given the environment of competition in the commercial banking industry, there is likely to be a diverse approach by each bank in its strategic goals and tactics. Success is likely for firms who are able to exploit each others potentials. The lack of systematic and thorough attention paid to potential problems of post-acquisition integration appears to reflect the difficulty of recognizing the process itself as part of the problem, Jemison & Sitkin (1986). Therefore, the post-acquisition integration strategy should be planned from the very beginning stage of the overall acquisition management process, and should be managed incrementally. Post-acquisition integration may involve a complex and interactive mutual adjustment process between the two firms, but change is almost always one-sided, occurring primarily with the target firm (Buono & Bowditch, 1989; Datta, 1991; Hambrick & Cannella, 1993; Shanley, 1987; Shanley & Correa, 1992).

The authors considered post acquisition management as the single most important determinant of a successful acquisition. Smith & Hershman further stated that the price of the transaction may be right. The strategy may be a brilliant plan to enhance the company's product or service offerings or to expand into new markets. But we have found that if an acquiring company does not move swiftly and decisively to integrate the two companies into a smoothly running firm after the deal is done, then it may be allowing value to slip right through its fingers. Much of the research has concentrated mainly on the private sector and only few researchers have investigated what impact the intellectual capital management might have in public sector service organisations (Habersam and Piper, 2003).

Even fewer have given attention to the role and value of intellectual capital in the financial institutions (Van Beveren, 2003). A study, conducted in Italy and Austria, revealed that intangible resources are highly relevant in financial organisations (Habersam and Piper, 2003), however because of its specific characteristics, it was thought that a new set of tools and techniques might be needed for managing intangibles effectively (Van Beveren, 2003). Further, the influence of intangible resources on the performance of organisations has been proven (Carmeli and Tishler, 2004). Consequently, it is argued that current performance measurement systems need to be adjusted or rather extended in order to capture the

contribution of intangible resources to the performance of the organisation (Usoff et al., 2002). Due to the range of intangible resources in such organisations, Roos et al. (2005) suggest that managers should focus on the key post merger implementation strategies, those that have a strong impact on performance.

Locally, studies on mergers and acquisition have been conducted. C. Muya (2006) did a survey of experiences of mergers. Edwin Kiplagat (2006) carried a survey on effects of mergers on financial performance of companies listed at the NSE. Mukele (2006) carried a survey of the factors that determine the choice of mergers & acquisition partners in Kenya. Felistus W.N. (2007) did a survey of mergers & acquisitions experiences by commercial banks in Kenya. Marangu K. (2007) did a research on effects of mergers on financial performance of non listed banks in Kenya. While, Barasa (2008) did a research on the effect of mergers and acquisitions announcements on share prices-evidence on the Nairobi Stock Exchange.

No known study has been conducted on post merger implementation strategy in the Kenyan banking sector. This study therefore seeks to fill the existing gap by carrying out a survey on post merger analysis to find out how banks that have recently merged have dealt with the foresaid issues to have a synergistic effect.

1.3 Objective of the study

The main objective of the study was to investigate post merger implementation strategy on the merged banks.

1.4 Research Questions

The research will be guided by the following research questions

1. What are the effects of the merger or acquisition on the new entity formed?
2. What are the sources of gains after a merger or acquisition?
3. To what extent is a merger or acquisition effective as a restructuring tool?
4. What are the challenges involved before, during and after the merger or acquisition?

1.5 Importance of the study

1.5.1 To Investors

The study findings will contribute to the broadening of the knowledge base on the topical issue of the stockholder analysis. This will help widen the knowledge of the stakeholders when making decisions on mergers and acquisitions.

1.5.2 To Scholars and Researchers

The study will provide a basis for further research to the scholars.

1.5.3 To customers

This can be used by customers as evidence when anti-trust authorities are investigating on proposed mergers and their effects on customer welfare such as a merger that can create a monopoly.

1.5.4 To the Government

This will help the anti-trust authorities in controlling the activities of mergers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theories of mergers and acquisitions, mergers and acquisition implementation approach, horizontal mergers, vertical mergers, conglomerate merger, benefits of mergers and acquisitions, post merger and acquisition implementations, effects of post mergers and acquisitions on customers, effects of post mergers and acquisitions on suppliers, effects of post mergers and acquisitions on the rival firms, post mergers and acquisitions and restructuring, mergers as a bank restructuring approach, post merger and measures of financial performance, profitability analysis, long term solvency, earnings and profit performance emphasis, capital adequacy ratios, earnings and profit performance emphasis, major challenges in the merger and acquisition, culture incompatibilities, lagging mergers and acquisitions, human factor, ambiguity, salary structure and salary administration and communication.

2.1.1 Theories of Mergers and Acquisitions

Economists have promoted several competing theories of M&As. Among them are empire-building (Baumol, 1967), furthering anti-competitive activities, such as monopoly power (Mueller, 1993), management-entrenchment (Shleifer and Vishny, 1989), and an overestimation of a manager's ability to improve the performance of a target he or she perceives to be underperforming (Roll, 1986). The other theory is of is that inefficient plants and firms are taken over and efficient firms survive (Manne, 1965). Theories of M&As are not mutually exclusive. A firm could, for example, seek to gain market power and at the same time be building an empire and believe that it can more efficiently manage the business of a firm or plant it has targeted as a potential acquisition.

Various reasons for why firms merge have been proposed. The list includes efficiency-related gains, disciplining target management, spreading new technology, and changes in industry structure. While there is an ongoing debate about the merits and deficiencies of each

of the proposed explanations of mergers, there seems to be a consensus on some important aspects of merger activity: mergers happen in waves and, within each wave; they tend to cluster by industry. Yet, why this is the case remains an open question. Brealey, Myers and Allen (2006) go so far as to suggest that why merger waves occur is one of ten most important unresolved questions in corporate finance. Several theories have been put forward to explain merger waves. Lambrecht (2004) examines mergers motivated by operational synergies and predicts pro-cyclical mergers. In his model, mergers are likely to happen in periods of economic expansion.

Maksimovic and Phillips (2001) show that mergers and asset sales are more likely following positive demand shocks, causing pro-cyclical merger and acquisition waves in perfectly competitive industries. In their paper, higher quality firms buy lower quality ones when the marginal returns from adding capacity are great enough to outweigh decreasing returns to managerial skill. In Lambrecht and Myers (2006), takeovers serve as a mechanism to force disinvestment in declining industries. Their arguments lead to takeover transactions occurring mostly in industries that have experienced negative economic shocks. Some recent papers link takeover activity to stock market misvaluation. In Shleifer and Vishny (2003), rational managers exploit the misvaluation of less-than-rational investors. Rhodes-Kropf, Robinson and Viswanathan (2006) show theoretically and empirically that merger activity is correlated with high market valuations, causing overvalued bidders to make stock bids that are more likely to be accepted by targets

2.1.2 Mergers and Acquisitions Implementation Approach

Mergers and acquisitions are commonly characterized by the clash of cultures (Barros et al., 2003; Evans et al., 2002). Managerialism usually assumes two approaches to implementing the change process. The first is the logic of absorption that implies the intent of making the acquired company like the purchaser. It is supposedly accomplished by reproducing its values and practices. The second is the logic of integration, where the emphasis is on “capturing hidden synergies by swapping and leveraging capabilities” (Evans et al., 2002, p. 263).

The implementation approach determines the level of change in the organizations (and impact on individuals) involved in the process (Barros et al., 2003; Evans et al., 2002; Marks and Mirvis, 1998). Absorption implies the dissemination of the acquirer's values, practices, and artifacts throughout the acquired organization. It aims at a high level of change for the acquired organization and little or no change for the acquirer. Integration, on the other hand, implies change for both organizations involved, and also for their employees.

This paper analyzes discourse practices of three experienced executives during a post-acquisition process determined by the logic of absorption, by using discourse analysis (Grant et al., 2001, 2004; Hardy, 2001; Phillips and Hardy, 2002; Spink, 2004). Our main objective is to better understand how experienced executives use narratives and storytelling to frame – and reframe – their own role and to “strategically” position themselves in the change process.

Merger refers to the combination of two or more firms, in which the resulting firm maintains the identity of one of the firms, usually the larger. Horizontal merger is an acquisition of a firm in the same industry as the acquiring firm, where the firms compete with each other in their product. Horizontal merger is when two companies competing in the same market merge or join together. This type of merger can either have a very large effect or little to no effect on the market. When two extremely small companies combine, or horizontally merge, the results of the merger are less noticeable. These smaller horizontal mergers are very common. If a small local drug store were to horizontally merge with another local drugstore, the effect of this merger on the drugstore market would be minimal. In a large horizontal merger, however, the resulting ripple effects can be felt throughout the market sector and sometimes throughout the whole economy.

Mergers challenged by antitrust authorities do not lead to improvements in operating performance perhaps consistent with the concessions granted to antitrust authorities to win approval of the mergers mitigating the gains to the deal (Fee and Thomas, 2003).

A merger increases the size of the institution which may have cost or revenue efficiency effects. Revenue scale economies may occur because some customers may need or prefer the services of larger institutions, to the extent that larger portfolios result in improved risk diversification (Berger, 1997).

Acquiring firms during the announcement period generate positive returns while bidder firms generate negative returns. Also, the relative size between the acquiring firms could be a contributing factor to the level of gains from the merger and acquisition activity. A larger target firm requires more effort in combining the operations of the two companies and would create a financial strain for the acquirer (Bowman and Wong, 2007).

Mergers have been demonstrated to create economic value. The intuitive reason underlying this value creation stems either from an ability to reduce costs of the combined entity, an ability to charge higher prices, or both.

Large horizontal mergers are often perceived as anticompetitive. If one company holding twenty percent of the market share combines with another company also holding twenty percent of the market share, their combined share holding will then increase to forty percent. This large horizontal merger has now given the new company an unfair market advantage over its competitors. All companies are subject to Federal laws that prohibit certain actions from taking place during a horizontal merger. When a horizontal merger takes place, the loss of a competitor in the market creates benefits for the companies that merged; while at the same time serves to drive prices up for the consumer. Federal laws protect the consumer.

2.1.3 Horizontal Mergers

A horizontal merger brings together firms that produce the same product within the same market. Horizontal mergers can be either beneficial or detrimental overall. By definition, horizontal mergers reduce the number of actual competitors in the market. Horizontal mergers may also produce cost savings and other benefits. If these benefits outweigh any reduction in competition, then the merger should be allowed to proceed. Examples of horizontal mergers are: Daimler –Benz and Chrysler which merged to form Daimler Chrysler. Exxon and Mobil, which merged to form Exxon Mobil. Volkswagen and Rolls Royce and Lamborghini, Ford and Volvo, Disney and Miramax, Bell Atlantic and GTE corporation to form Verizon, Shell-BP, PricewaterhouseCoopers GlaxoSmithKline Plc, Aon Minet ,Kenya Oil Co. Ltd and Crown Berger.

2.1.4 Vertical Mergers

A vertical merger brings together firms in potential customer-supplier relationships, such as that between a firm that provides wholesale or intermediate products to a firm that produces retail or final products. Vertical mergers are generally considered beneficial. Vertical mergers can: reduce transaction costs by streamlining the process of acquiring and converting inputs into outputs, improve efficiency through more integrated production, and eliminate the potential for a “double markup”, which can occur where there is market power at both the wholesale and retail stage of the market.

Vertical mergers may raise competition concerns in limited sets of circumstances. A vertical merger may “foreclose” the market by preventing non-integrated retail competitors from staying and competing in the market. Foreclosure generally requires pre-existing market power at one or more levels in the new vertically integrated firm. For example suppose that a firm controlling an essential facility at the wholesale level merges with a retailer. The merged firm may withhold supply of the essential facility to its retail competitors, preventing them from competing. Alternatively, a vertical merger may be motivated by the goal of raising rivals’ costs. For example, suppose a retail firm merges with the supplier of a wholesale input. By removing a source of supply from the wholesale stage of the market, the retailer is able to increase the price of the input to its competitors (but not itself).

2.1.5 Conglomerate Merger

A conglomerate merger is whereby two companies or organizations merge, which have no common interest and nor competitors or have or could have the same supplier or customers. To modern business analysts, the best argument for conglomerate organizational form is that it may allow capital to be allocated in a more efficient way. The main question associated with this strategy is why this improves upon a market-based allocation of capital.

2.1.6 Benefits of Mergers and Acquisitions

Mergers lead to a reduction in production and distribution costs arising from greater realization of economies of scale and the elimination of overlapping facilities. This will eventually have an increase in the firm’s upstream and/or downstream market power (Ekbo,

1983). He further looks at the collusion hypothesis. He notes that gains to merging firms may come at the expense of their downstream customers though increased output market prices. With increased size comes the increased buying power to induce greater upstream competition and reduced input prices. The gains to the merging firms are at the expense of their up-stream suppliers.

Revenue enhancement is one important reason for acquisitions in that combined firm generates greater revenue than two separate firms. Increased revenues may come from marketing gains, strategic benefits and market power (Ross et al., 1990).

Reductions in post-merger cash flows for suppliers imply an increase in cash flows of the merging firms (Fee, 2003).

Although the overall market reaction to merger announcements are generally recognized, proper understanding of the association between the magnitude of the abnormal return to each merger event and specific sources is still limited. Various theoretical sources of gains to takeovers have been suggested. They include (1) synergies such as potential reductions in production or distribution costs; (2) financial benefits, including the use of tax shields, avoidance of bankruptcy costs and other types of tax advantages; (3) elimination of managerial inefficiency; (4) anticompetitive motivations; and (5) wealth distribution. They also reviewed most of the redistribution theories about the sources of merger gains. They found that none of those hypotheses was supported by the empirical evidence and concluded that the merger gains primarily reflected economically beneficial reshufflings of productive assets and management (Wu and Ray, 2005).

Cost reduction is another benefit due to efficiency acquired by the combined firm in operations. One of the ways in which cost reduction is achieved is through economies of scale. Economies of scale occur when the average cost of production falls while the level of production increases (Ross et al., 1990).

The stockholders of merging firms earn positive abnormal returns from merger activity.

A standard interpretation of this evidence is that control over the target firm's resources enables the successful bidder to initiate a revaluation of its own (as well as the target's) shares by implementing a higher-valued operating strategy. Therefore the stockholder gains reflect an increase in the expected spread between the merging firms' future revenues and costs (Eckbo, 1982).

Tax considerations are a key motive for merging. The tax benefit stems from the fact that one of the firms has a tax "loss carry forward". A company with a tax loss could acquire a profitable one to utilize the tax Loss. The acquiring firm would boost the combinations after earnings by reducing the taxable income of the acquired firm (Gitman, 2006). There is near unanimous agreement that target stockholders benefit from merger, as evidenced by the premium they receive for selling their shares. The stock price studies of takeovers also indicate that bidder generally break-even and the combined equity value of the bidding and target firm increases as a result of takeovers. These increases in equity values are attributed to some unmeasured source of real economic gains such as synergy. But the equity value gains could also be due to capital market inefficiencies (Healy, 1992). A profusion of event studies has demonstrated that mergers seem to create shareholder value, with most gains accruing to the target company (Gregory, 2001). The increase in the stock-market value of the merging firms may represent either value creation or wealth transfers from other stakeholders of the firm. Value creation may arise from economies of scale or scope, increases in managerial efficiency; improvements in production techniques or other synergistic gains (Kim, 1993). Various theoretical studies have suggested expected elimination of the agency cost, adoption of more efficient production or organization technology and the realization of scale economies as possible reasons for abnormal returns associated with merger announcements (Wu and Ray, 2005).

There are insignificant stock price changes for the unsuccessful takeovers for the target firms. These empirical studies do not restrict themselves to horizontal mergers between firms in the same industry. They generally examine mergers by analyzing the data from a several-week time "window" around a merger announcement. He also examined that when the time frame was extended to one to three years after the merger event, acquiring firms are found to

experience negative abnormal returns. However a long-run study often confounds the effects of various events that occur over the longer time horizon with the effect of the merger event itself. As a result, the variance is usually high and the negative abnormal returns often turn out to be insignificant (Scherer, 1988).

2.2 Post Mergers and Acquisitions Implementations

As noted earlier, successful mergers depend very much on the swift implementation of a carefully thought out post-merger policy, often only after a careful period of courtship (Testa and Morosini (2001). After a pre-merger phase of eight months in which Renault's vice-president, Carlos Ghosn, led the negotiating team, an agreement was reached. Under the terms of the accord Renault acquired the following equity participations: 38.8 per cent of the capital of the Nissan Motor Company; 22.5 per cent of the capital of Nissan Diesel and 100 per cent of Nissan's European sales and financing subsidiaries. The total sum paid amounted

to Y643 billion or FF32.7 billion (Schweitzer, 1999). This allowed Renault the option of

ultimately increasing its share in Nissan to 44 per cent, with Nissan being able to take a share in Renault when the time was opportune. Almost immediately, Ghosn, who had joined Renault in 1996, was charged with turning Nissan round. Reaction to the deal in Japan was somewhat muted. There was a resentment that a foreigner had been placed in charge of rescuing a famous Japanese company, but this was tempered by the fact that all seven of Nissan's own internal rescue plans had failed and that its management's credibility was at an all-time low (Hunston, 1999a).

According to Testa and Morosini (2001), the successes of mergers can be impeded by the failure to enact it under a credible leader, able to deal with diverse national or company cultures as well as being capable of decisive action. Important as this may be, there is also a requirement for putting into place both managerial and communications structures. The choice of Ghosn as Chief Executive was astute. His management record with his previous

employers, Goodyear Uniroyal and Michelin, was sound. At Renault, he was credited with the successful restructuring of the firm in the late 1990s, getting costs under control and revitalising the firm. Well aware of the social and cultural differences between the two societies and firms, Ghosn's approach to his task was sensitive. Among the differences were those of language, decision-making, communications systems and labour regulations. Decision-making at Nissan was by consensus in contrast to Renault's European style of decision-making by senior management. At Renault stress was laid on individual responsibility, accountability and rewards, whereas in Nissan these were group oriented (Hughes et al., 2001). There were, however, similarities between the two entities. Both were large, enjoyed a long history, had a sense of patriotism and were bureaucratic with strong hierarchical structures with a high proportion of senior management being former civil servants with little formal business education (Flament et al., 2001).

In dealing with such cultural problems and underlying resentments, Ghosn knew that cultural sensitivity would have to be complemented by swift action if Nissan were to be rescued quickly. It was made clear that Renault's approach was not one of cultural imperialism but one of mutual respect in which the participating parties would treat each other as equals (Le Monde, 1999). Moreover, there was no cull among the executives who had failed Nissan. Instead they were reallocated to other duties when Ghosn's reforms were implemented (Hunston, 1999a)

2.2.1 Effects of Post Mergers and Acquisitions on Customers

When customers read about imminent mergers and acquisitions, they have lots of questions on the impact it will have on them. Their concerns range from improved customer service in the form of: More efficient deliveries, Broad range of products to choose, Lower costs because of economies of scale, Better credit terms to the negative of: Less concern about smaller customer, Longer delivery times, Increased product cost due to increased operating cost, Less customer interaction due to reduced sales force, Poor service delivery during uncertain period including the integration period after mergers and acquisitions, the customer base is increased (Samuels, 2005). Products come and go, but the ability to acquire, retain and grow highly profitable customers never loses its power.

Any change in how a firm does business can have an effect on the firm's customers. A merger can have a substantial one. Smaller companies do not have huge customer bases. They are likely to have a smaller number of customers, and that makes them more dependent. To the smaller firm, each customer represents a far greater percentage of his or her income (Selden, 2005). Mergers and acquisition may improve efficiency, allowing economies of scale, synergies and better management of assets. On the other hand, if the merging companies have significant local market overlap and their market power is dominant, the deals will result in higher prices. Any efficiency gains from the merger would not be passed on to consumers in the form of lower prices (Focarelli and Panetta, 2003).

Efficiency gains are realized and passed on to consumers only in the long run. The merging firms passed cost savings resulting from the merger on to consumers in the form of lower prices (Weinberg, 2007). The merger between Air France and KLM did not just led to synergies and increased profitability; it is also very beneficial for the customers of both airlines. There are many new customer benefits: A vast network linking Europe to the rest of the world, with many frequencies and the possibility of combining fares, A shuttle service between Paris and Amsterdam which considerably increases connecting opportunities all over the world via the hubs of Paris-CDG and Schiphol, A joint frequent flyer program «Flying Blue», the biggest in Europe. Horizontal mergers also provide opportunities to customers, in which they can reduce costs and trim lead times, but the firms have to have the right products for the market at any given time. Mergers place one face in front of the customers because they will now deal with one representative instead of different ones from different companies.

A merger also provides an enhanced capital base, which enables them to meet the customer, demands in terms of the product as well as research and development. This has the effect of better quality and reduced prices to customers. However there is no evidence that corporate customers are affected by upstream mergers (Fee, 2003). It is the role of customers in informing competition authorities and courts about the likely effects of proposed mergers. He noted that customers stand to benefit from mergers that are anticompetitive, or may be harmed by mergers that are welfare-enhancing (Heyner, 2007). As a result of managerial

skills employed, the customers benefit by getting quality products. The benefit of the large size after the merger enables continuous research leading to improvements of products. There is an observation on quality products and noted that as result of managerial skills employed, the customers benefit by getting quality products. This is mainly because the merging firms can embark on continuous research leading to continuous improvement of products. This will be due to the benefit of its large size after the merger. Also, customers do benefit from the merger. This is due to reduced costs of production hence a reduced price. He noted however that the possibility of collusion means the customer would not benefit (Gitman, 2006)

2.2.2 Effects of Post Mergers and Acquisitions on Suppliers

Suppliers on average experience significant declines in cash flow margins immediately subsequent to downstream mergers. This was found to be consistent with their buying power. He also noted that the net effect of a merger on a particular supplier was dependent on the supplier's ability to retain its product market relationship with the merged entity. This was because firms that were terminated as suppliers subsequent to the merger experienced negative and significant abnormal returns at announcement of the merger and a significant deterioration in cash flows post-merger. Suppliers lose in that they could be pitted against one another in a price competition to remain suppliers post-merger. Suppliers retained may sell a higher quantity but at a lower price. On the other hand, suppliers that lose the bidding competition do suffer.

Suppliers who are relatively more reliant on the merging firms and who will face potentially higher switching costs, experience significantly larger reductions in cash flow margins subsequent to the merger. Suppliers that operate in a more concentrated environment are likely to be affected negatively. Great concentrations are associated with larger reductions in cash flow margins for suppliers (Fee, 2003).

2.2.3 Effects of Post Mergers and Acquisitions on the Rival Firms

Horizontal mergers may result in fewer industry firms. This may make cartelization more likely and easier to sustain (Stigler, 1964). Under the collusion hypothesis, rivals were expected to benefit, since this implied increased industry output prices.

However, there is a caution on the collusion hypothesis. A positive reaction by rivals to merger announcements itself is not enough evidence to accept the collusion hypothesis.

Such a positive reaction may also arise from the productive efficiency hypothesis if the market believes that the rivals can also realize these efficiency gains through future takeovers (Stillman, 1983 and Eckbo, 1983).

Positive and significant stock price reactions are observed in challenged mergers, mergers in concentrated industries and mergers resulting in large changes in industry concentration. These positive returns to rivals may reflect either expected gains to anticompetitive collusion or efficiency. However, there are no negative average abnormal returns to rivals on challenge dates for the sample of all blocked deals (Fee and Thomas, 2003). A horizontal merger can reduce the monitoring costs by reducing the number of independent producers in the industry. The fewer the members of the industry, the more 'visible' are each producer's actions and the higher is the probability of detecting members who try to cheat on the cartel by increasing output. The higher this probability, the lower the expected gains from cheating, and the more stable (and profitable) is the cartel in the short run (Eckbo, 1982).

Rivals of initial acquisition targets earn abnormal returns because of the increased probability that they will be targets themselves. On average, rival firms earn positive abnormal returns regardless of the form and outcome of acquisition. These returns increase significantly with the magnitude of surprise about the initial acquisition. Moreover, the cross-sectional variation of rival's abnormal returns in the announcement period is systematically related to variables associated with the probability of acquisition. In addition, rivals that subsequently become targets earn significantly higher abnormal returns in the announcement period (Song, Moon and Ralph, 2000). If a merger were to result in higher prices and thus a transfer of

surplus away from consumers and towards firms, there would be an increase in the equity value of the merging parties and their rivals. If the antitrust authorities announced an attempt to block such a merger, there would be negative abnormal returns for rival firms and obviously, the merging parties.

He also argued that the high variance of stock returns of large rival firms that receive a relatively small proportion of their profits from the market affected by the merger makes event study tests for uncompetitive mergers of little power (Weinberg, 2007). Most of the rival firms demonstrated no abnormal returns on the dates of events that would impact the probability of those mergers being consummated (Stillman, 1983). Abnormal returns of rivals of firms undertaking horizontal mergers that were challenged can be examined. At the time of merger announcements, rivals earn positive abnormal return on average; at the time of antitrust complaints, the rivals earn normal returns. The evidence suggests that the mergers may have created efficiencies, but the pattern of abnormal returns is not inconsistent with mergers that may also have resulted in higher product prices (Schumann, 1993).

Kim and Singal (1993) examined 14 airline mergers from 1985 to 1988 and estimate the effect of a merger on fares. Over the entire period, they find that fares increased by 9.44% whereas the rival firms actually increased their fares by 12.17%. They also find increases in fares during the announcement period that were offset by fare decreases, arguably due to efficiency gains, during the completion period. Small rivals experience positive abnormal returns while large rivals experience insignificant abnormal returns (Fee and Thomas, 2003; Schuman, 1993).

2.2.4 Post Mergers and Acquisitions and Restructuring

Systemic bank restructuring aims at improving bank performance; restore solvency and profitability, improve the banking systems capacity to provide financial intermediation between savers and borrowers and restore public confidence. Governments began to restructure their public sectors mainly to create an enabling market environment and to rebuild investor confidence (Claessens, J. 1998). Restoring financial institutions to viability means stopping accrual of unpaid interest, eliminating borrowers and refinancing on non-

performing loans and making provisions for bad debts. In so doing, institutions that have no capital must be recapitalized, merged with healthy institutions, or closed if they have no further role to play in the financial system(Long, M., 1991)

Banks fail because of liquidity, insolvency, mismanagement, sudden shock to the economic system; such as violent fluctuations in interest rates or outright frauds. He observes that reasons for failure can be at Micro or Macroeconomic levels. Depending on the severity of the problem of the failing banks, the remedial measures open to Central bank vary.

Furthermore the method used depends on a country's specific situation and the strength of the financial system. Claessens(1998), identifies two types of bank restructuring approaches; financial and operational restructuring. He argues that these approaches focus on policy and legislative clarity; competitive framework; interrelationship with capital markets, development of regulatory and supervisory structures and capacities and benchmarking of Global standards and practices at macro-level Restructuring refers to several related processes i.e. recognizing financial losses; restructuring financial claims and operational restructuring of banks.

The main elements of sustainable corporate restructuring are broadly four fold; Improving the enabling environment, developing the institutional and legal frame¹⁴ work for restructuring; enhancing capacity for restructure and a greater role for capital markets. Despite the positive encouraging developments in restructuring of financial systems; the stock market development and banking development in Africa are grossly incomplete (Nadeen et al., 1998). Severe informational problems have compounded this matter. The success of a country's resolution program; "fixing the roof while the sun shines" entails resolution or control of financial crisis using appropriate measures. It depends on the government's ability to clean up losses of distressed banks and restructure (that is recapitalize, merge, liquidate etc) insolvent banks.

2.2.5 Mergers as a Bank Restructuring Approach

Any form of restructuring should aim at making the system sound, transparent and more efficient. The process of adopting the best practices continues especially after the Asian Crises. Mergers from a legal standpoint and for purposes of this study means: “any transaction that forms one economic unit from two or more previous” (Weston, F.J., Copeland, T., 2000). According to Pandey, merger is said to occur when two or more companies combine into one company (Pandey, I.M., 1999). One or two companies may merge to form a new company. It may take two forms; absorption and consolidation. Absorption is a combination of two or more companies into an existing company. All companies except one lose their identity. Merger through consolidation on the other hand is a combination of two or more companies into a new company. In this form of merger all companies are legally dissolved and a new entity is created. Ross, Westerfield and Jaffe define a merger as the absorption of one firm by another.

These techniques have been prevalent particularly following crisis (Ross, A., et al., 1999) Restructuring using merger technique has been prevalent in Kenya. The technique has been undertaken to strengthen the financial systems so that they achieve efficiency, productivity and profitability. It tends to be a long-term measure. Mergers and acquisitions still seem to be the most prudent way forward for the small medium sized banks to remain profitable and compete effectively. The Central bank of Kenya has continued to encourage and sensitize the banking industry on the need for mergers. In the year 1999 for example, the merger for six institutions was approved. Further the amendment of section 9 of the Banking Act now comprehensively covers the interests of institutions which undertake merger as a restructuring option. Many previous legal hurdles in the transfer of assets and liabilities between the merging institutions have been removed to hasten the merger process and reduce costs. Merger is an important feature of structural changes. The first wave of Bank Mergers in Kenya occurred in 1998 and continues to the present day.

At the global scene overall efficiency has probably retarded over the years. The small banks were too dependent on narrow business bases and found it difficult to prosper due to competition. This contributed to bank failures in 1980's. Many countries in South - East Asia have then encouraged mergers of finance companies and other financial institutions. The

global trends appear to be towards the consolidation rather than the proliferation of banking institutions. Governments are paying increasing attention to avoid failure of financial institutions, as the repercussions are costly and difficult in underdeveloped financial markets (Jayamaha, 1998). The importance of bank restructuring has been reiterated in establishing financial system soundness. 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 in 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 to their financial sector. The aim is to restore solvency, increase profitability and rebuild confidence. The Korean government proposes to classify troubled financial institutions into three categories to separate the healthy ones from those that should be closed or merged and those needing capital increases. To encourage bank mergers, the Capital for a Deposit Insurance Agency in Korea will be increased to 17 to provide money to compensate healthy banks taking over ailing ones. The recently formed Financial Services Authority (FSA) in the UK has expressed its concern over the merger of banks, Finance institutions and Accounting Companies arguing that there is a high degree of concentration; hence less competition. Little has been done to clearly assess the success of banks restructuring tools used in Kenya. Following bank crisis however, the major challenge for the authorities has been to try and contain the crisis situation after realizing that a sound banking system is critical for both economic growth and stability. Kenya has experienced three financial crises since 1980s; 1989, 1993 and 1998, which led to tightening of the regulatory framework by introducing changes in the Banking Act aimed at enhancing efficient operations of the industry in conformity with the primary objectives of the International Basle committee on banking supervision.

Banking crisis contributes to a substantial weakening of the Macro-economic performance with major re-adjustment policies. It leads to increase in share of non-performing loans,

increase in losses (due to foreign exchange exposure, interest rate mismatch, contingent liabilities) and decrease in value of investment causing solvency problems in the financial system. It is expected that viable restructured banks will have improved performance. Measures available in crisis situation depend on the country's legislative framework. Long-term measures include; liquidation, mergers, restructuring of activities, recapitalization, while short term emergency measures include, lender of last resort and Central Bank intervention in management of ailing institutions. However, measures undertaken should positively influence the performance of affected institutions (Detragiache and Kunt, 1997)

2.3 Post Merger and Measures of Financial Performance

Performance is the ability to generate and sustain income, stability and growth. It is a measure of relative investment of relative investment and can be relative to one of the following factors: Assets, capital adequacy, liquidity, liabilities, number of employees and other size measures. According to Pandy and Brealey and Myers, the following are the most common measures the financial performance

2.3.1 Profitability Analysis

This is the most common measure of financial performance. The measures are used to assess how well management is investing the firms' total capital and raising funds. Profitability is generally the most important to the firm's total shareholders. Profits serve as cushion against adverse conditions such as losses on loans, or losses caused by unexpected changes in interest rates. Consequently, creditors and regulators concerned about failure also look to profits to protect their interests although the measures ignore firm's risk. Profits depend on three primary structural aspects of financial institutions: Financial leverage, Net interest margin and non-portfolio income sources. Return on Equity, (ROE) and Return on Assets (ROA) are the most commonly applied profitability ratios used to assess financial performance.

2.3.2 Capital Adequacy Ratios

They relate to the firms overall use of financial leverage. Generally firms with high financial leverage will experience more volatile earnings behavior. It indicates the extent to which an

institution's capital base covers the risks inherent in its operations. Important capital adequacy ratios include:

- (i) Shareholders equity to Total assets
- (ii) Shareholders equity to Total loans
- (iii) Shareholders equity to Total customer deposits (Gearing ratio).

2.3.3 Long Term Solvency

Solvency refers to the ability of an enterprise to survive over a long period of time. It is the same concept as liquidity except that it is for long term rather than short term. Ratios to assess long-term solvency are measures of company riskiness. There is no absolute ratio that has been put forward theoretically as the best measure of a good level of solvency. Total liabilities to Total assets and Shareholders' funds to Total Assets have been used in this study.

2.3.4 Earnings and Profit Performance Emphasis

The banking sector management have shifted their focus to profitability because of the recent developments in the sector which include: the need for additional capital adequacy funds implying profits should be boosted as a main source, increased needs for provisioning of bad and doubtful debts, need for funds for expansion and modernization/technological advancement to serve customers better and attain competitive advantage. This requires efficiency and intensive capital investment, high volatility of interest rates and exchange rates and intensive competition following liberalization of the sector are the factors considered Weston and Copeland concluded that profitability ratios are the most critical factors in a firm's ability to avoid failure (Weston, F.J. and Copeland, T., 2000)

2.4 Major Challenges in the Merger and Acquisition

2.4.1 Culture Incompatibilities

Several studies have showed that the cultural incompatibility is consistently rated as the greatest barrier to successful integration. For instance, a 1992 Coopers and Lybrand study reported that in one hundred failed or troubled mergers, 85 per cent of executives who were

surveyed said that the major problem was differences in management style and practices. A 1996 British Institute of Management survey also reported underestimation of the difficulties involved in merging two cultures to be a major factor in failure (Galpin and Herndon, 2000). Culture difference is the major obstacle to the merger. In Quaker Oats's acquisition of Snapple, Quaker Oats lost \$5000 million of market value with the announcement of the Snapple acquisition, long before anyone attempted integration. Quaker Oats Co. has agreed to bite the bullet and sell Snapple Beverage Corp. to Triarc Cos. for \$300 million.

This move came only 27 months after Quaker spent \$1.7 billion to acquire the maker of the trendy drinks. Quaker lost \$1.6 million for each day it owned Snapple (Harvard Business Review, 1999). In the early 1990s, AT&T was too late in noticing its significant cultural differences with NCR. Unionized employees objected to working in the same building as NCR's non-union staff. Executive turnover among the NCR staff was so severe that by 1997 only four of the top thirty NCR managers stayed. When AT&T finally sold NCR, the failure of the acquisition had cost AT&T more than \$3 billion, and NCR lost almost half its market value (Galpin and Herndon, 2000). When the AOL and Time Warner merger was announced, it was positioned as the greatest merger of the century.

That so-called greatest merger has turned into the worst merger of the century. AOL/TimeWarner reported a loss of 54 billion dollars in the first quarter of 2002. This is the highest one-quarter loss reported by any company in history (Harvard Business Review, 1999). Southwest Airline's acquisition of Morris Air. "According to Lublin and O'Brien, Southwest spent two months exploring its cultural compatibility before finalizing the acquisition in 1993. Known for its can do attitude and friendly esprit, Southwest was committed to finding a partner with a similar orientation. As a result, the integration was completed successfully in only 11 months, rather than three years as was originally estimated" (Galpin and Herndon, 2000).

2.4.2 Lagging Mergers and Acquisitions

Speed makes a difference. People used to say that the integration process must move slowly, carefully and minimize mistakes. It all sounded so logical. Unfortunately, the thinking was

wrong. In a technology-driven and globally competitive world, companies have to act and respond quickly. A timely merger and acquisition is among the most important developmental response to market-based change. If they are not implemented quickly, their opportunities will dissolve before they can extract the rewards. Feldman (1999), has said, “Companies that win are those that learn faster, act quicker and adapt sooner.” A prolonged transition adds cost, destroys profit, and decreases cash flow. When asked, “If you had to do it over again, what would you do differently”? Nine out of ten participants in the Pricewaterhouse- Coopers survey said they would respond and move faster during the post deal transition (Domis, 1999).

President of Wells Fargo and Company commented on the company’s troubled takeover of First Interstate Bankcorp said, “If I had to do it over again, I would have done it faster” (Domis, 1999). In fact, surveys have shown that employees feel uncertainty when integration moves slowly. Slow integration process approach lets problems fester and it fails to take advantage of the energy stirred up by mergers and acquisition even (Clarkson, Pritchett, and Robinson, 1997). Those companies will compress time by making informed decisions about economic value creation, and focused resource allocation. They will use these decisions to take early firm stands on management deployment, organization structure and culture. These actions will increasingly help them to sustain long-term and economic value creation (Feldman, 1999:21).

2.4.4 Human Factor

Human issues must be considered when deciding whether combining two businesses makes sense. Human factors play a critical role in mergers and acquisitions. However, human factor issues tend to take second place to commercial and financial considerations. Indeed, the human factor is often neglected (Rankine, 1998).

2.4.5 Ambiguity

The immediate post mergers and acquisitions period is critical due to the expectations, questions, and reservations among the personnel and managers of both companies. Because mergers and acquisitions create immense change management issues, managers must meet and respond quickly. The first topic to become a matter of great concern among people at all

levels of the organization is the personal issue. Employees commonly get blindsided, emotionally jolted by the news that their corporate family is being reshaped and given a new authority structure. Before people become curious about combined market share, they consider the personal impacts.

Will I lose my job? Will my pay be affected? Will I have to move? These questions underscore the real issues in the minds of managers and employees. Everyone is suffering from the unknown. “No area in corporate life is more sensitive than employee relations” (Yunker, 1983:21). Having a company perceived as a good environment to work by employees, as reasonable in relations with labour unions, are critical attributes in attracting good workers. Yet, managers tend to ignore this sensitive area frequently during mergers or acquisitions (Yunker, 1983). For instance, it is always true that there is a conflict between the newly acquired company and the parent corporation. The changes in existing policies and procedures must be handled carefully and explained to the employees before they are implemented. Sufficient time must then be allowed for a reaction and feedback. In order to minimise the worries about changes in the existing policies and procedures, managers must discuss fully the reasons behind the corporation’s policies and procedures. It is not necessary that all of the newly acquired employees agree with the policies, but they should understand what they are (Clarkson et.al., 1997).

2.4.6 Salary Structure and Salary Administration

In mergers and acquisitions, complications arise because the two corporations do not match. Should an employee get some increase every year? Is the 40-year-old employee with a wife and two children going to be paid exactly the same as the 30-year-old with no family who is doing the same job? All these debatable issues should be addressed quickly. Salary administration people should begin to review and discuss these matters (Yunker, 1983).

How is this transition to be accomplished? First of all, it should be recognized that it takes time requiring integration. Moreover, salary administration should make adjustments over several years so as not to affect any employees immediately. Just as in the salary levels, companies must also have competitive benefit programmes (Yunker, 1983).

2.4.7 Communication

Mergers and acquisitions make the communication channels grow longer due to more people being involved. Moreover, due to its larger size, some employees may unintentionally get left out of the loop. Therefore, trying to maintain closer-than-usual contact is very important (Clarkson et. al., 1997). After acquisition, for instance, many managers and employees in acquiring companies begin to feel threatened by the seemingly more efficient processes and high level of talent in the acquired company. These changed dynamics create the need for more communication. Top managers should have been better prepared for these reactions in the acquiring company's workforce, and they should have initiated action to address these reactions through earlier, more frequent communication with the acquiring company's managers and employees. A merger and acquisition transaction is a setting for great uncertainty, frequent rumours, and constant decisions that change the scene. Communication has played one of the key roles of successful integration. Clear and constant communication throughout the integration process can provide decisive answers and dispel rumours. Open communication is essential. Open communications clarify expectations and reduce ambiguity.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This is a descriptive survey study and it aimed at establishing the post merger implementation strategy adopted by the banking sector in Kenya. It has been successfully used in other studies on commercial banks. For example, Otieno (2006) used survey design in the investigation into internet banking technology adoption among Kenyan Commercial Banks.

3.2 Population

The study focussed on all the 8 mergers and acquisitions that had been witnessed in Kenya from 1995. The staff in the banking sector included senior managers lower level managers and other subordinate staff currently working at the bank mergers found in Kenya. The banking sector was selected largely because it had always taken a lead role in implementing strategic issues in management practices and was reported to spend huge amounts on the same.

3.3 Data Collection

This study mainly utilized primary data sources. The study made use of questionnaires and interview guides in order to collect all relevant information on post merger implementation strategy on the merged banks. The questionnaires were used to collect information from the senior employees including senior managers and departmental heads. These questionnaires were distributed to the respondents through direct administration to the staff. Structured interviews were used to obtain more detailed information from the senior managers and highlight other key areas of concern and recommendations.

3.4 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis were employed. The content analysis was used to analyze the respondents' views about the post merger implementation strategy in the Kenyan banking sector. The data was coded using SPSS to enable the responses to be grouped into various categories. The quantitative data was analysed using T-test and significance tests. Descriptive statistics were used to summarize the qualitative data. This included percentages and frequencies. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. The findings were then presented using tables, pie charts, and bar graphs for easier interpretation.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the data analysis and interpretations of the findings. Data was analyzed using SPSS and summarized using tables, charts, frequencies and percentages. From the study population of 8 questionnaires were filled correctly.

4.2 Social demographic information

4.2.1 Years working in bank

This section aimed at indentifying the number of years that the respondents' had worked at the banks. The findings in table 4.1 show the results.

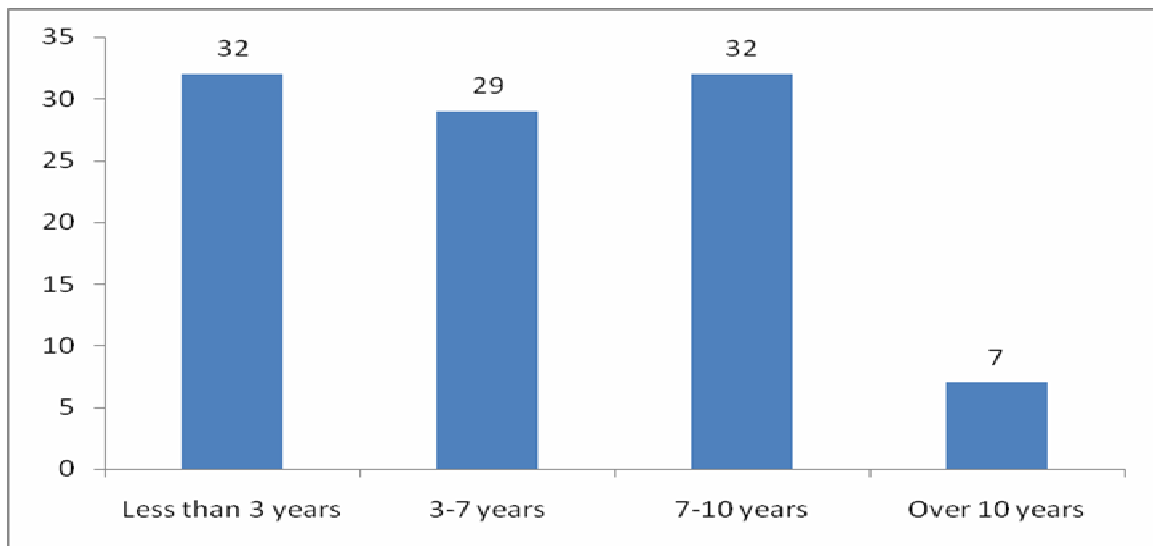


Table 4.1 Years working in bank

Majority of the interviewed respondents had worked for less than 3 years and 7 to 10 years, comprising 32 percent while 29 percent had worked for a period of 3 to 7 years. Only 7 percent had worked for a period of over 10 years.

4.2.2 Position in bank

This section was aimed at establishing the various positions of the respondents in the banks. The figure below shows the results.

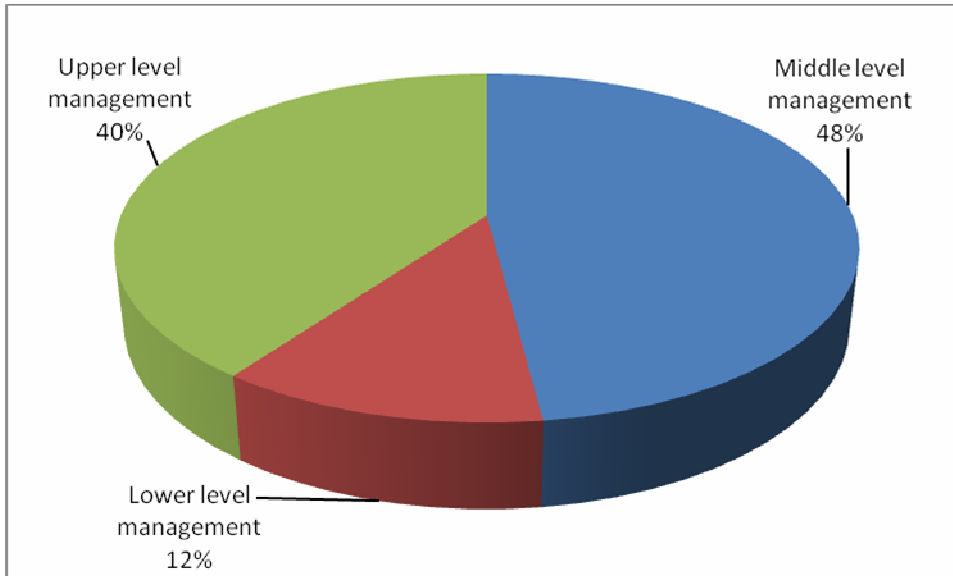


Figure 4.2 Position in bank

Data presented in the figure above shows that most of the respondents were in middle management level comprising of 48 percent while 40 percent were in upper management level. 12 percent were in lower management level.

4.2.3 Highest level of education

This part of section sought to establish the highest level of education of the respondents.

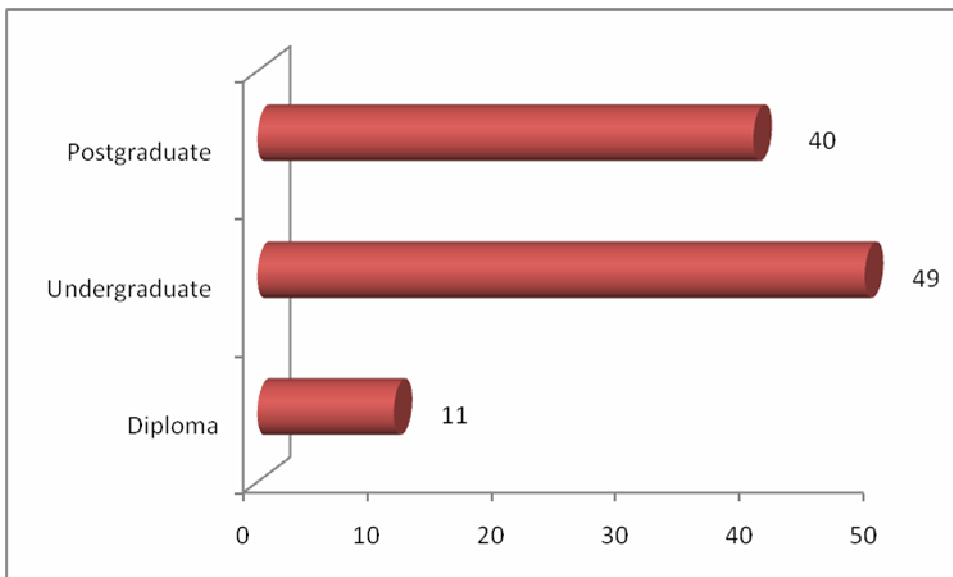


Figure 4.3 Highest level of education

On the level of the respondent's education, the study found that most of the respondents (49%) were undergraduates, 40% of the respondents had a postgraduate level of education, while the respondents who had a diploma level of education consisted of 11 percent.

4.3 Aware of any government policies that affect mergers and acquisitions in the organization.

In this area of study, the aim was to determine whether the respondents were aware of any government policies that affected mergers and acquisitions in the organization.

	Freq	Percent
Agree	7	86
Disagree	1	14
Total	8	100

Table 4.1 Aware of any government policies that affect mergers and acquisitions in the organization.

Data presented in the table shows that majority of the respondents agreed that they were aware of any government policies that affected mergers and acquisitions in the organization (86 percent) while 14 percent disagreed.

4.4 Extent in which policies affected the way the merger or acquisition was managed

In this area of study, the aim of the study was to establish the extent in which the policies that affected the way the merger or acquisition were managed.

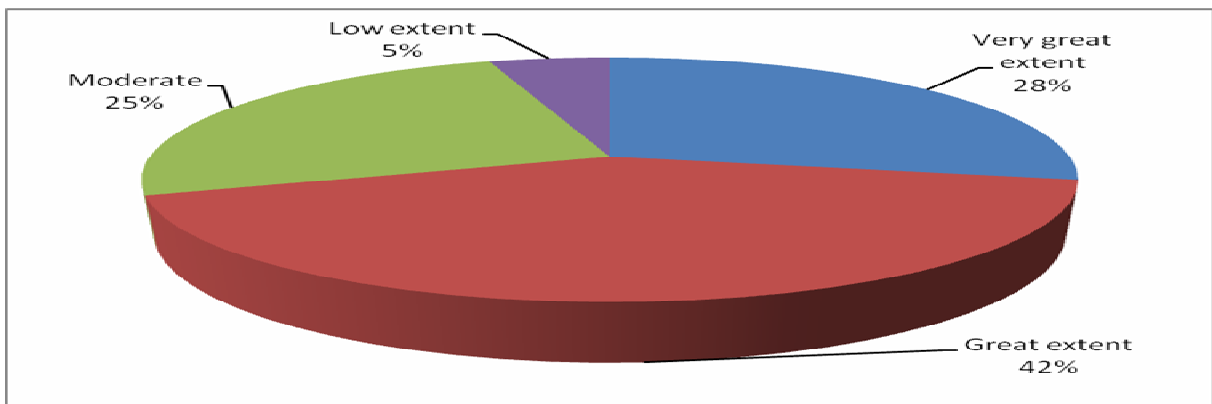


Figure 4.4 Extent in which policies affected the way the merger or acquisition was managed

Data presented in the figure above shows that majority of the respondents cited that the extent in which the policies that affected the way the merger or acquisition were managed as being of great extent (42 percent) while 25 percent cited as moderate and 28 percent as being of very great extent.

4.5 Reason that prompted your bank to merge and/or acquire

This area of study was aimed at indentifying the reasons that prompted the banks to merge or acquire. The figure below shows the results.

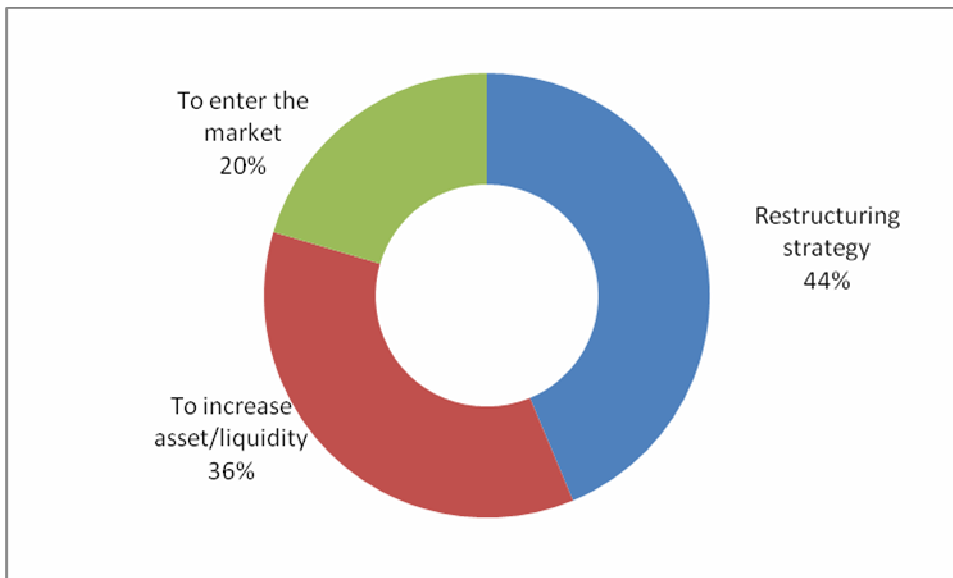


Figure 4.5 Reason that prompted your bank to merge and/or acquire

In the figure above, most of the respondents cited restructuring strategy as the reason that prompted the banks to merge (44 percent) while 3 percent cited to increase asset/liquidity. 20 percent of the respondents cited to enter the market as the reason that prompted the banks to merge.

4.5.2 Were you consulted during the merger and/or acquisition

This section of study was aimed at determining whether the respondents had been consulted during the merger and or acquisition.

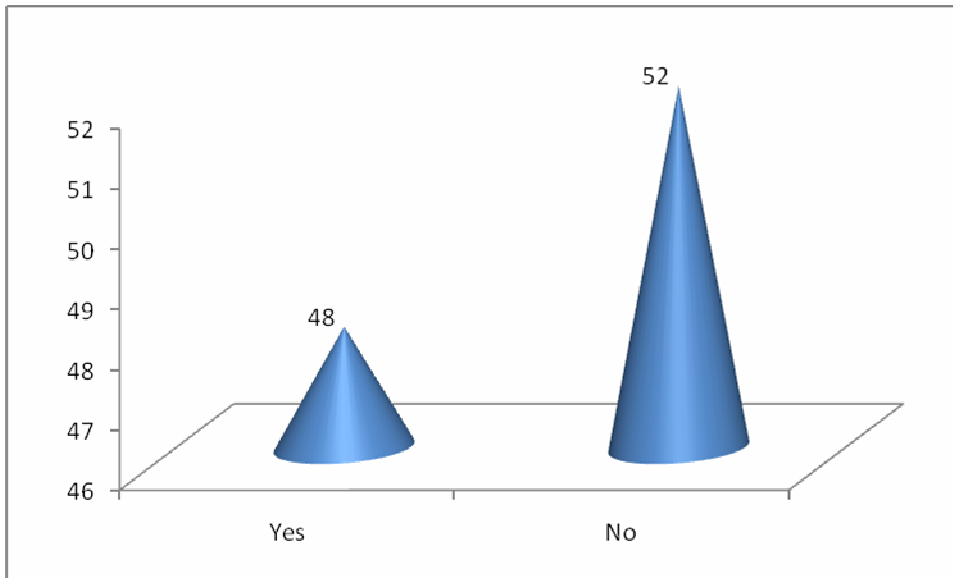


Figure 4.6 Were you consulted during the merger and/or acquisition

Data from the figure above shows that most of the respondents had not been consulted during the merger and or acquisition comprising of 52 percent while 48 percent had been consulted.

4.6 Factors that lead to the decision of the banks to merge.

In this area of study, the aim was to establish the factors that lead to the decision of the banks to merge. This is as illustrated in the table below.

	No extent	Low extent	Moderate extent	Great extent
Restructuring	0	1	24	75
To increase competitiveness	0	23	30	57
To enter the market	9	33	34	24
To increase liquidity/asset base	4	12	37	45
To expand geographically	44	32	21	3
To move out of trouble	71	23	4	2

Table 4.2 Factors that lead to the decision of the banks to merge.

Data illustrated in the table above shows that majority of the respondents agreed to a great extent that restructuring was the factor that lead to the decision of the banks to merge (75 percent) closely followed by 57 percent who cited to increase competitiveness. 71 percent

however disagreed that moving out of trouble was the factor that led to the decision of the banks to merge.

4.7 Merger had any gains

This area of study aimed at establishing whether the merger had gains. The figure below shows the results.

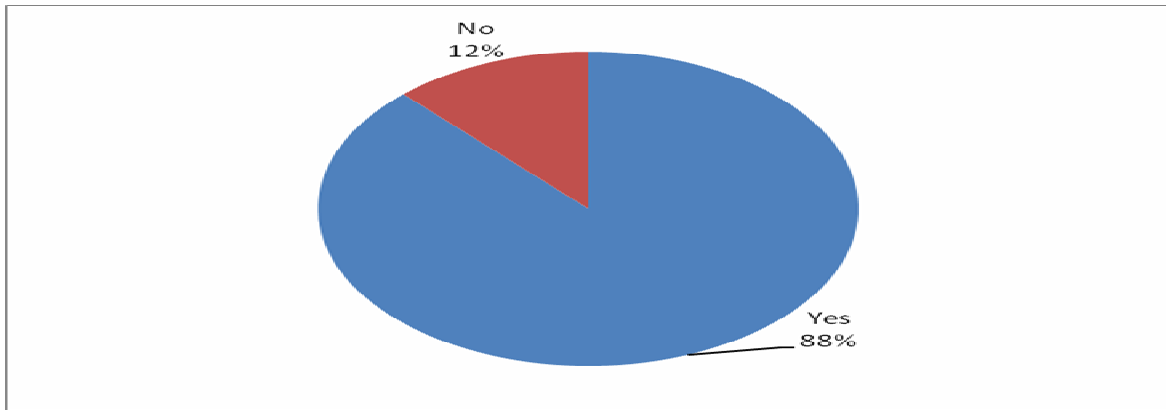


Figure 4.7 Merger had any gains

Majority of the respondents cited that the mergers had gains (88 percent) while 12 percent did not.

4.8 Rate the following sources of gains in terms of importance

In this area, the study was aimed at establishing the sources of gains in terms of importance.

	Mean	Std Deviation
Customers	3.4574	0.47839
Tax	3.1233	0.99228
Suppliers	2.785	0.93884
Competitiveness	2.577	1.06217
Reduced costs	2.2234	0.90263

Table 4.3 Rate the following sources of gains in terms of importance

Data on this section was analysed on a likert scale on a ratio of 1= not important to 5 important. Response from the respondents showed that most banks rated customers as the important with a mean of 3.4574 closely followed by tax which comprised of a mean of 3.12.

The least important source of gain for the banks according to the respondents was reduced costs with a mean of 2.223.

4.9 Rating of merger in terms of the following indicative factors

In this section of study, the aim was to establish the rating of merger in terms of various factors according to the respondents.

	Very effective	Effective	Neutral	Ineffective
Profitability	50	27	23	0
Turnover	42	28	20	
Efficiency	40	30	20	0
Public Image	35	54	9	2
Future Prospects	32	31	33	4
Resource Base	24	28	40	8
Share value/EPS	21	57	20	2
Customer relations	27	45	24	4

Table 4.4 Rating of merger in terms of the following indicative factors

Data portrayed in the table above shows that most of the respondents rated merger in terms of profitability as very effective factor comprising of 50 percent of the respondents and this was closely followed by turnover which consisted of 42 percent.40 percent of the respondents rated merger in terms of resource base to a neutral extent while 4 percent rated merger in terms of customer relations as being ineffective..

4.10 Extent to which the following factors were barriers to the merger or acquisition.

In this section of study, the aim was to indentify the various factors that were barriers to the merger or acquisition. This is as shown in the table below.

	Mean	Std deviation
Communication	3.4554	1.992278
Financial resources	3.4544	0.91492

Human factor	3.4322	0.902531
Regulations	3.3223	0.94533
Incompatible ideas	3.1891	0.90343
Time frame	3.0112	0.952392
Ambiguity	2.9934	0.902631
Culture incompatibility	2.7545	0.902631

Table 4.5 Extent to which the following factors were barriers to the merger or acquisition.

Data in this section of study was analyzed according to the likert scale on a ranking of 1= no extent to 5= high extent. Most of the respondents agreed to a high extent that communication and financial resources as factors that were barriers to the merger comprising of a mean of 3.46 and 3.45 respectively. Incompatible ideas was chosen to a moderate extent comprising of a mean of 3.1, while culture incompatibility was the least chosen factor that was considered a barrier to the merger comprising of a mean of 2.75.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings from chapter four, conclusions and recommendations of the study based on the objectives of the study.

5.2 Summary of the Findings

From the study, majority of the interviewed respondents had worked for less than 3 years and 7 to 10 years, comprising 32 percent while 29 percent had worked for a period of 3 to 7 years. In addition, most of the respondents were in middle management level comprising of 48 percent while 40 percent were in upper management level.

On the level of education, the study established that most of the respondents (49%) were undergraduates, 40% of the respondents had a postgraduate level of education. On the issue of government policies, the study found that majority of the respondents agreed that they were aware of any government policies that affected mergers and acquisitions in the organization (86 percent) while 14 percent disagreed.

In addition, the study asserted that majority of the respondents cited that the extent in which the policies that affected the way the merger or acquisition were managed as being of great extent (42 percent) while 25 percent cited as moderate and 28 percent as being of very great extent.

On the matter of restructuring strategy, the study found that most of the respondents cited restructuring strategy as the reason that prompted the banks to merge (44 percent) while 3 percent cited to increase asset/liquidity. On whether the respondents were consulted during the merger process, the study established that most of the respondents had not been consulted

during the merger and or acquisition comprising of 52 percent while 48 percent had been consulted.

On issues of factors leading to decision of the banks to merge, the study asserted that majority of the respondents agreed to a great extent that restructuring was the factor that lead to the decision of the banks to merge (75 percent) closely followed by 57 percent who cited to increase competitiveness.

In addition, the study found that most banks rated customers as the important source of gain with a mean of 3.4574 closely followed by tax which comprised of a mean of 3.12. The study also established that most of the respondents rated merger in terms of profitability as very effective factor comprising of 50 percent of the respondents and this was closely followed by turnover which consisted of 42 percent.

The study also asserted that most of the respondents agreed to a high extent that communication and financial resources as factors that were barriers to the merger comprising of a mean of 3.46 and 3.45 respectively. Incompatible ideas were chosen to a moderate extent comprising of a mean of 3.1.

5.3 Conclusions

From the study, the study concludes that most of the banks employees were aware of the government policies that affected mergers and acquisitions in the organization. The study also concludes that restructuring strategy was the main reason that prompted the banks to merge and also to increase asset/liquidity.

The study also concludes that most banks did not consult their staff during a merger and or acquisition as data from the study indicated. In addition, the study found that most of the banks had been faced with communication and financial resources as barriers to the merger.

5.4 Recommendations

The study recommends that institutions need to consult staff and employees before merger. An institution that has employees who may be affected by a proposed merger is required to provide information to an employee body or communicate the information in form of meetings – which may be a trade union or, in default of that, employee representatives. Where both exist the employer must consult with the recognised trade union(s).

The study also recommends that for institutions to reduce barriers to mergers, they need to innovate new products and services with combined expertise, to create more wealth, to increase capacity and scale among many other reasons for the combination. This may reduce financial risks involved. While making the merger deals, it is necessary not only to make analysis of the financial aspects of the acquiring firm but also the cultural and people issues of both the concerns for proper post-acquisition integration.

5.5 Areas of Further Research

From the study, the researcher suggests that further research should also be conducted in other types of organizations such as pharmaceutical industries and insurance companies that have merged to establish the effect post merger implementation strategy.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION (Kindly [] tick as appropriate)

1. How long have you been working at this bank?

Less than 3 years []

3-7 years []

7-10 years []

Over 10 years []

2. What position do you hold in the bank?

Middle level management []

Lower level management []

Upper level management []

3. What is your highest level of education?

Diploma []

Undergraduate []

Postgraduate []

SECTION B: SPECIFIC INFORMATION ON MERGERS

4. Are you aware of any government policies that affect mergers and acquisitions in the organization?

Yes []

No []

5. If your response in 1 above is 'Yes', to what extent did the policies affect the way the merger or acquisition was managed?

Very great extent []

Great extent []

Moderate []

Low extent []

Very low extent []

6. What prompted your bank to merge and/or acquire?

Restructuring strategy []

To increase asset/liquidity []

To enter the market []

To move out of trouble []

Any other

7. Were you consulted during the merger and/or acquisition?

Yes []

No []

8. To what extent did the following factors lead to the decision of the banks to merge?

	No extent	Low extent	Moderate	Great extent
	1	2	3	4
Restructuring				
To increase competitiveness				
To enter the market				
To increase liquidity/asset base				
To expand geographically				
To move out of trouble				
Any other. Please specify				

11. In your own view, did the merger have any gains?

Yes []

No []

12. If your answer in (11) above is yes, how can you rate the following sources of gains in terms of importance?

	Very important	important	neutral	Not important
	4	3	2	1
Customers				
Tax				
Suppliers				
Competitiveness				
Reduced costs				
Any other. please specify				

13. How effective can you rate the merger in terms of the following indicative factors?

	Very effective	effective	neutral	ineffective
	1	2	3	4
Profitability				
Share value/EPS				
Turnover				
Public Image				
Resource Base				
Efficiency				
Future Prospects				
Customer relations				

14. To what extent were the following factors barriers to the merger or acquisition?

	No extent	Low extent	Moderate extent	Great extent
	1	2	3	4
Culture incompatibility				
Time frame				
Human factor				
Communication				
Ambiguity				
Financial resources				
Regulations				
Incompatible ideas				

15. How did you deal with the barriers rated above?

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.....

.....

16. If the merger and/or acquisition was done all over again, what could you recommend to be done differently?

.....
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