CHALLENGES OF THE IMPLEMENTATION OF MERGERS AND ACQUISITION STRATEGY AT NCBA BANK KENYA PLC

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DECLARATION

This research project is my original work and has not been submitted for presentation in any other university.

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SUPERVISOR'S APPROVAL

This research project has been submitted for presentation with my approval as the university Supervisor.

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DEDICATION

This research project is dedicated to my parents for instilling good values in us as a family and supported me morally as I undertook this challenge of pursuing this course and continually encouraged me to embrace education as the best inheritance from them. It is also dedicated to my son, Branny, who every day gave me a renewed meaning of life and encouraged me to work towards achieving my dream , my mentor James for encouraging me along the way, and to my sister Pauline for the moral support.

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ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
CBA	Commercial Bank of Africa Limited
KBA	Kenya Bankers Association
NCBA	New Bank name after NIC and CBA merger
NIC	National Industrial Corporation Bank
ROA	Return on Asset
ROE	Return on Equity

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Challenges of mergers and acquisitions are the main topic of our study, we delve into both the dependent and the independent variables of these factors. Some of the challenges that a merger may face includes lack of good motives, that is when the initial process is being initiated, they may not have the exact end goal they seek to achieve. There may be targeting of the wrong company that you seek to merge with or even acquire, this needs to be avoided by having the correct team at hand, this needs experts with skills to do the prospectus before the merger is started. According to Robert Seliga (2019) on the strategic challenges of mergers and acquisition, he expounds on the things that have to be considered and the objectives set prior a merger to avoid challenges. It is a procedure that has to be followed to achieve results. Mergers are dependent on many factors, among them the firms that are coming together, do they have the same vision and mission, do they have the financial muscle to be able to transform, what is the duration that the merger is being implemented and what are the success factors of the activity.

Over estimating Synergies is another challenge faced. Synergy is achieved when the capital base of the merged company is greater than the worth of separate company pre-merger combined. According to Mckinsey (2004) on synergy, most companies overestimate the worth of the entity post the merger, which then is a challenge when it comes to the valuation of the entity.

According to Karodia & Soni (2015) on the objectives of the merger, social economic factors must be considered when formulating the objectives, both internal external and the external factors. According to Cai (2016) on how to measure the challenges of the merger and acquisition, he expounds that as a restructuring strategy, mergers are meant to increase the efficiency of the entity, and the results should reflect both in the books of accounts, in the sales figures and volumes and in the operational efficiency of the entity. More challenges include the high risks, lack of faith by important investors, lack of enough due diligence before the process not quitting when its time, when you see all red lights and still ignore, that is a challenge that should be avoided.

The supporting theories to the challenges of mergers according to Lepsa (2016) she explains that the value of the joint organisation should be greater compared the worth of the one company before the merger, this adds to Chandra (2016) on when checking the firm to merge with, a company should go for a high worth, profitable firm and not a loss-making entity, this helps to create a high net worth merger for efficient profitability. Hansen (2016) expounds on the theory of choice of exchange of the merging entities to boost the value of the entity, it should be a symbiotic relationship where both firms benefit, Cali (2018) explains further how the empirical literature appropriate to solve the challenges faced during the merger, there should always be a tenable solution where challenges are faced to ensure the success of the whole process.

This research majors on the banking sector in Kenya, specifically National Industrial Credit Bank also known as NIC, which was formed in 1959 merged with the Commercial Bank of Africa also known as (CBA) to form the entity names as the NCBA Bank Kenya PLC.

Initially National Industrial Credit Bank was well known for its excellent performance in asset financing, that really boosted its income statement due to the huge amounts of interest income. On the other side there was Commercial Bank of Africa which was a Tier 2 Bank and doing exemplary well in retail banking and thus the motivation of the two entities to come together was mainly to maximize the strengths of the individual entities and to achieve competitive advantage as explained by Professor Michael Porter when he explains the concept of competitive advantage that aids entities to attain profitability and also achieve efficiency according to Michael E Porter (1980) on the technique for analysing industries and competitors. The motivation of this study is to showcase the challenges experienced and coming up with solutions to help entities that may want to merge in the future.

1.1.1 Mergers and Acquisition Strategy

Mergers and acquisition refer to the bringing together organizations by joining what each individual company owns and becomes jointly owned. It is a strategy used for business improvement or even to turn around the performance of a company. It can also be used to introduce a new aspect of a business, for example in the banking industry, one bank may be in retail banking while the other is in asset financing, a merger in this case would enable the bank to incorporate both angles to grow the business and to strategically introduce new products and services to the sector. Bill Snow (2011), expounds that this strategy helps make remarkable moves in business and helps make business dealings successful.

It is viable to be considered by business owners, investors, venture capitalists, and members of a private equity firm that is looking to grow a business, and that is where mergers and acquisitions come in. Restructuring is common in corporates across the globe, according to Patrick Gaughan (2021), entities restructuring continues to be a significant tool in building the emerging trend of re-engineering companies with the skills and resources to compete on global basis. Merging of corporates ensures the company is equipped to be able to trade with similar companies internationally. Financial institutions have embraced technology and have implemented online and internet banking to be able to meet needs of clients in different locations, geographical location challenges notwithstanding, enhancing digitization in the effort to make the global a level playing ground for key players.

Like any other strategy, there are challenges that face the process as this research seeks to show. What are some of the challenges that companies merging encounter in their coming together and how would those challenges be eliminated in future. Mergers can be horizontal, vertical, conglomerate, or concentric. The vertical merger is where a bigger outfit in terms of assets and balance sheet acquires a smaller company. Horizontal merger is where companies at the same operational level come together to form a more stable company and conglomerate merger is whereby the companies coming together offer diverse and unrelated products and services, Concentric merger are between companies who have similar audiences with different products.

According to Donald DePamphillis (2011) in his explanation of restructuring, the integrated activities, tools, cases and solutions, the scholar expounds mergers and acquisitions based on his reading and research as an expert helping firms restructure successfully. Robert Bruner (2014) explains mergers and acquisitions and expounds on why most of them fail, and why others succeed. He further explains that mergers and acquisitions are used as a response by managers to respond to a challenge of turbulence in their business environment. When a merger and acquisition happen, the shares of the entities merging are held in safety, and new ownership for the new organization formed. It now operates as a fresh new entity, with new management if necessary.

This improves efficiency and performance in terms of output, production, sales and even revenues and productivity. The merger between the banks that the researcher explored happened in September 2019 and was gazetted on September 27th, 2019. The merger was between two banks operating in Kenya. They merged their operations forming East Africa's third largest bank. Mergers and acquisitions according to Andrew Sherman (1998) explain that this turnaround strategy is an, efficient and versatile strategy employed in companies and in all sectors .It is an effective strategy that aids in achieving competitive strategy and superiority as explained by Michael Porter (2008).

Mergers are usually for a common goal which is business growth. The researcher also aims to incorporate the cultural orientation of the merging banks. How does the human capital of the two banks get along? Is there culture shock from the two individual banks?

How does new merged the entity ensure that there is unity of purpose and core goals from the teams from the two teams coming together? Scott Whitaker (2016) defines cross – border mergers and acquisitions on a broader overview and perspective and explains that navigating through mergers and acquisitions is a smooth integration implementation across borders and it's a practical toolbox for corporate strategy and helps in development for professionals dealing with many challenges across the borders.

Samuel C Thompson (2010) expounds on business planning to ensure a successful merger, he explains the legal aspects that must be followed during this process to avoid foreseeable challenges , ensuring the merger is a success. How does the human resource function of the bank ensure there is unity of purpose and common goals which the team ensures to achieve? This is all being determined on how the banks culture is cultivated and how the transition is done to ensure none of the staff and the clients feel disoriented. Initially the two banks had different operations and the clients had different expectations. Again, the cultural orientation as far as the clients are concerned comes into play and was analyzed in this research paper. Uniformity of treatment is key for the bank to meet the clients needs which is the key objective of every business.

1.1.2 Challenges of the implementation of Mergers and Acquisition Strategy

Mergers and acquisitions have five stages. These are the corporate strategy evolution, the organizing for acquisition, the deal structuring and negotiation, and the final entity after implementation. According to Sudi Sudarsadam (2017), he expounds on the five stages and the challenges per stage.

Namely, corporate strategy and some of the challenges include the strategy formulation challenges to ensure they meet the standards of the company.

Stage two is the organizing for the acquisition, challenges originate from not doing due diligence prior the acquisition. Stage three involves the deal structuring, failure to which many gaps are expected which is not good for the process. Stage four entails the post-acquisition integration which is the implementation of the entire process. Swarit (2016) explains the biggest challenges encountered and why mergers flop. These included over estimated synergy, where you have unrealistic expectations of the merger, they also fail due to inadequate planning, whereby the implementers of the strategy may rush through the process thus resulting to a failed project. Wall Mojo (2016) in his journal he expounds on lack of transparency that may occur between the two entities merging, for instance some managers may not want to disclose the assets owned by the company in full.

Lack of communication, when there is a communication lapse. Some of the challenges expected of course are the combining the human resource who were from different organizations with different work ethics. How do you ensure that the clients all feel appreciated and well handled? Klson Patel (2021) explains the diversity in the Deal room journal in a very diverse way. Z. Fluck (1999) explains how the use of technology makes easy the entire process, technology helps the company to survive the period of distress and instability. R. Larsson (2009) explains how integration of the process enhances success and coordination of the process. R. Fiorentino (2014) expounds on the management decision of carrying out a merger to attain synergy.

Other risks may be operational risks that a business may be undergoing. A credit risk – incase a business is facing debt financing and may not be able to pay its credit liability then that means the business continuity is threatened and needs to be taken care of K.G. Ray and S.G. Ray (2014) expound on how to overcome the risks attached. Krishnan (2009) explains on how to overcome challenges during implementation and how to build synergy to ensure a successful restructuring. Inadequate due diligence is another thing that is a challenge to mergers. Ignoring to exit a venture when indicators show it is time, especially in initial stages.

The entire process needs to be well though of and all requirements both operational and technical procedures followed to ensure the merger is a success. If there are many challenges then the implementation may not be effective and thus no financial gain achieved as the end process, which in essence is the main goal eventually. Umashankar (2016) expounds on how variables must be balanced to attain synergy, they range from the cultural, financial between the firm has to be evaluated post-merger.

1.1.3 NCBA Bank Kenya PLC

The Merger between the banks that the researcher explored happened in September 2019 and was gazetted on September 27th, 2019. The Merger was between National Industrial Credit bank commonly known as NIC Bank and CBA, both operating in Kenya and the new entity was referred to as NCBA Bank Kenya PLC still operating in Kenya.

They merged their operations forming East Africa's third largest bank. CBA had been operating for 50 years prior the merger was a tier 1 bank and same case to National Industrial Credit Bank which is well known for excellent Asset financing. The main aim of the merger was for the banks to combine their strengths in various spheres of operation, Commercial Bank of Africa being excellent in Retail banking and National Industrial Credit Bank being excellent in Asset financing. The new entity NCBA Bank Kenya PLC aims to intensify the competition in the banking industry among the tier 1 banks. Kenya is a growing economy which has had many successful mergers in various fields.

1.2 Research Problem

The study variables in this research are the mergers and acquisitions as a restructuring method in the corporate world and also as a turnaround strategy employed by a struggling business that hopes to turn from loss making to profitability. We compare the independent and the dependent variables, delve more to the challenges of a merger, the methods of overcoming the challenges and the results of a business after a merger. Implementing mergers ought to be a well thought out procedure to ensure the implementation is a success. According to NT Amolo (2018) he explains laying out the legal framework of the entity as a key challenge. Usually, a proposal is done by experts to plan and see how viable a merger is. The consultant weighs the financial muscle of both firms and see the stability and how solid the organization structures are before they commence the merger.

The human resource is also a factor to consider when looking to merge. How the employee ethics is, and how the organizational behavior fits in is important because employees can get culture shock when they are not well prepared for the merger. The employees ought to be psychologically prepared that a merger happened. The stakeholders also must be informed of the expected merger that is happening so that they are prepared and nothing finds them by surprise. That's a way to ensure smooth transition. Some of the relationships between the variables in this case institutions may be null due to the diverse line of operations.

Shukla (2018) explains the variables, hypothesis and stages of evaluating different research problems and coming up with appropriate results and solutions to challenges. Olayemi (2017) expounds on the importance of considering research variables in each research assignment. In this case the two banks merged form the NCBA Bank Kenya PLC which is an improved outfit that is maximizing the retail and corporate banking excellence and it also combines this with great asset financing products. This makes the bank to remain competitive in a very competitive world. This helps the bank attain a competitive edge in the industry and competitive advantage as taught by Michael Porter (2008) in his book which made him be crowned the father of strategy.

The research solutions and recommendations will offer solutions to companies that seek to merge in future, to have a policy document in place that can guide them to avoid repeating the same problems that NCBA encountered. It's an area that few have gone through, and a policy guidance document would come in handy. Other Banks that have merged are Cooperative Bank that acquired Jamii Bora Bank to cash in on the small and mediums enterprises financing.

Access Bank acquired Transnational Bank to have presence in Kenya as it is mainly in West Africa. Kenya Commercial Bank merged with National Bank on Kenya when the later was struggling, to help stabilize operations and banking on the Government support from the exchequer and funding state projects.

We refer to both local and international scholars on this matter of mergers and acquisitions and challenges faced in the implementation. Robert Seliga (2019) and Lukasz (2019) expound further on the strategic challenges of the mergers and acquisitions in the higher education. The research methodology used in this case is comparative analysis of the case studies. They illustrate the nature and constitutes a starting point to in-depth research in the field of mergers in academic institutions. This is a policy paper that can be used in subsequent mergers of institutions.

According to F Chumo (2012) the challenges affecting the commercial banks such as NCBA, were strategic and management challenges, which had to do with the integrational of both strategic management of top tier managers and also the operational management of both banks. How the individual banks operated was very key as that would affect how the merged entity would operate hence forth.

Another challenge common with the NCBA merger was technical hitches with the data migration to the core banking system. With technology as a developing field, hitches were expected, and it was prudent that the banks had excellent coping mechanisms which ensured that the migration was a success. Of course, there were challenges here and there but ensuring the clients affected were rightfully compensated was a win for the bank that ensured that the merger was a success.

Haven Allahar (2015) explains implementation overview of mergers and he uses the qualitative methodology. He aims to explore mergers in developing countries. The findings show diverse opinions from the data collected and questionnaires filled depending on the nature of entity merging.

According to Business daily, the merging of the branches minimized the rent liability, and it enhanced the centralization of the operations. This also ensured it cut the staffing cost as the bank had to lay off some of the redundant staff. The research gap of the study entails coming up with the solutions to challenges, which include investing in a stable banking software such as Finacle which is hard to hack and maintains high level of confidentiality. It needs a lot of passwords to access, thus ensuring that the data security is guaranteed. E.O. Obondy (2012) explains on the development of this concept. He used the qualitative methodology. The research problem is how to curb challenges facing implementation of mergers and acquisitions. The research question, with special emphasis on NCBA Bank was, “what are the challenges experienced during the implementation of mergers and acquisitions?”
(Doody and Bailey 2016) emphasize on the need to have a leading question when undertaking research. We seek to answer this question through analysis and interpretation of data, what are the challenges of the implementation of mergers and acquisition at NCBA Bank?

1.3 Research Objective

The objective of the study was to determine the challenges of mergers and acquisitions at NCBA Bank.

1.4 Value of the study

The value of this study was to come up with a conclusion of how effective the mergers and acquisition is as a mode of enhancing business expansion and also how successful is it in growing the new entities, profitability and the asset books.

How effective was this in ensuring efficiency in operations of the new entity. This study is also valuable in that it delves deeper to explain how the cultural orientation of the two banks is affected by the merger, both positively and negatively. We use both the cognitive theory and the behavioural theory since we are interacting with people. A. Bandura (2012) explains the social cognitive theory that brings value to the study; he explains the psychology of people in data collection for the study.

This is in both theoretical policy papers used by other scholars and also as a practical tool to be used by policy makers and investors who are keen to invest in merged entities.The policy of the study should always be to bring a solution and bridge the gap or gaps identified. Dillon (2022) explains the importance of policy in research. The policy dictates why your research was needed and its contribution to being a solution to the prevailing challenges. That helps to make the merger more effective and avoid repeating challenges already done. This study aims to bring solutions to many questions that go unanswered on the challenged experiences. It will help investors to implement effective strategies of growing the business and starting new business, removing excess capacity matters like staffing, increasing market access, helping introduce new products, and acquire new technology more aptly, and quickly than it could be built before.

It will also help investors improve on input and output, and also increase the target in matters of a business efficiency, productivity and profitability; this is both in the theoretical scope and the practical scope. The policy on mergers has to be followed during implementation to ensure efficiency.

According to N. Shrestha (2014) this research endeavors to explain the value enhancement of a merged entity. According to F.C. Row (2014) expounded on its effect to the shareholders and the stakeholders too. P. Lamutu (2018) in his journal seeks to show the impact on the books of accounts of the entity, more so on the equity and share capital of the merged entity. K. Bosecke (2009) emphasizes on value creation of the mergers in the practical context; mergers increase an entity's value. G. Nyagah (2018) elaborates the firm's performance is improved. The research findings of this research will be valuable to other entities who need more insight before deciding to merge and will also be used for policy formulation by the banking industry in the country. This goes further to explain and elaborate why the study is important and how effective it is as a solution solving and gaps bridging tool, and how applicable is it.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature that relates to the challenges of mergers and acquisition strategy in business, it is used as a turnaround strategy or a restructuring strategy in corporates. Theories associated to the subject are described, including the origin, meaning, development, limitations, challenges encountered and relevance to this study. The theories of efficiency, strategic realignment and synergy gain are explained. This write up further showcases empirical research variables just as showcased by other researchers, students, analysts and writers. It further expounds on how to measure the efficiency of activities and their implementation. It measures the success of theories associated with mergers and acquisitions of commercial banks and theories embedded on the sustainability agenda of mergers in to the corporate strategies. Secondly this chapter examines the challenges associated with mergers and acquisition strategy as described by other studies. In this study, the challenges are identified, explained, and referenced. These challenges are relevant because they were written by other authors carrying out the mergers and acquisition research. The empirical studies both global and local are reviewed, where previous research related to the topic is analysed.

2.2 Theoretical Foundation

This study is founded on two theories, the institutional theory and the contingency theory, these explains how companies relate with the environment and the external forces and new trends in operation and management such as mergers or acquisitions and utilize resources at their disposal, be it skills and expertise and modern-day technology in the implementation of the same, which is used as a turnaround technology to maximize output, profitability and operational excellence of an entity. It further demonstrates how to incorporate organizational policies even during uncertainties.

2.2.1 Institutional theory

The theory explains that society's institutions operate as a set of operational policies that aid in making solid and firm decisions for corporate institutions. It explains that the approach aims to understand how corporates affect the socio-cultural aspect of running business and not necessarily affecting the economic status of the company. The socio bit is expressly explained by how the merger comes in to play and affects the human resource efficiency of the organization without necessarily impacting the income statement of the entity. It aims to explain the management practice of the entities, the socio political and economic system which banks and other companies operate in, and aims at expounding operations to gain legitimacy. The company earns the legitimacy to survive and has to conform to the institutional framework and guidelines which comprises normative, regulatory and cognitive elements (Virick & Wright 1999).

Banking regulations and framework are legal rules and procedures that influence organizational policies (Cool, 1989). All elements together provide stability and meaning to social and political life and economic life to some extent. In this case banks in the commercial sector, become more homogeneous in process and structure overtime. They have similar rules and policies and procedures on which they operate on as a benchmark to their daily operations to attain efficiency and excellence. This process and structure is followed overtime. Institutional theory links with mergers and acquisitions in showing how organizational behavior is diverse and implemented in the banks, it expounds on the management practice according to Scott (2020) on how to defy economic development rationally where market affiliations put pressure on banks to merge to maximize output and increase profitability. This makes the market aware of the sustainability trends in the industry.

The Institution theory further suggests that especially in a fluctuation, unstable and non-dominant environment, organizations are forced to copy the behavior of other market key participants. In this case banks copying the new products being launched by other banks. Most banks have ventured into insurance products and also to investment banks and more banks copy the new branches and products, that is according to Argoe & Ingram (2000).

That way companies are able to develop more sustainable strategies and corporate organizational behavior, policies and procedures to be followed in future. Institutional theory has been used to ascertain the interdependence between companies and institutions strategic decisions (Thomas, 1988).

It has been observed that the pressure exerted by stakeholders positively influences a company's environment plan formulation. Institutional theory demonstrates how the human capital relate with the organization as a product of social rather than economic pressures.

2.2.2 Contingency Theory

The contingency theory is considered theoretical, rational, open system model at the structural level of analysis in organization theory (Scott, 1992) it is dominant. The important assumption of this theory is that the surrounding in which an entity operates decides the most appropriate way for it to perform. Researchers try to pick a similarity between the breakdown of the environment and those of the company that are at the forefront to high profitability and efficiency (Betts, 2010). This similarity is ideal, and translates to better the performance. This theory further explains that there is no other ideal strategy to arrange a corporate entity, aid in decisions making process for a legal entity. Alternative course of action sorely relies upon the internal and external factors affecting the organization.

One of the initial components of research using this approach was determining the difference between mechanistic and organic forms of organizations and top leadership (Burns & Stalker, 1961). The leadership also ensures a company is run in an effective way to maximize output and profitability. The theory justifies the need for excellent able leadership and justifies the need to have firm corporate strategies, which contribute towards a firm attaining competitive advantage in that even if the environment of doing business changes, the firm still remains relevant in the market and competitive.

Organizations seeks to get feedback from the users to ensure effectiveness. Contingency theory is preferred to the closed system as it is more realist and user friendly for decision making and for creating answers to the challenges the companies face. Linking contingency theory to this study we expound on the fact that there is no ideal alternative to arrange a company, to improve an organization, in all this the most significant plan of doing things is dependent upon both internal and external factors.

2.3 Challenges of the implementation of mergers & acquisition strategy in organizations

Most organizations experience poor goal setting as a challenge in mergers and acquisition strategy implementation. This is caused by not having specific goals and objectives when implementing the strategy, for example when entities are merging, they must have the timeline in which they ought to achieve the results. They also need to have a specific budget set aside for the implementation process. Brinkschroder (2017) states that lack of alignment in the organization goals is a main challenge. Ochanda (2018) explains the challenge of being unable to track the progress and thus resulting to no remarkable progress. When people doing the implementation are not well skilled or not well connected to the strategy then there has to be challenges.

When mergers and acquisitions implementation have no success measurements or leading indicators then it is bound to experience challenges because that means that the process was done blindly, not knowing the financial stake of the company being acquired or the number of staff being on boarded then that means that there were no lead indicators and this results to challenges.

According to Paul Bouvier (2019) he explains that implementation has to have alignment with the organization mission and vision. There must be technology used to ensure transparency of systems, policies and procedures. The prospectus of the merger has to be strictly adhered to.

2.4 Empirical studies and research Gap

This section presents a consolidated summary of the empirical studies. The breakdown presents the various studies researched by earlier scholars, the study methodology used shows the final outcome of these studies reached at and the knowledge gaps this ideal study was to address particularly showing this on the main focus of the research. The research gap is the challenges of the implementation of mergers and acquisition, so we delve into the works of previous researchers to ascertain the scientific efficiency of mergers and acquisitions. The study was based on and measured via knowledge from actual experience rather than theory.

According to Voxco (2020) on organizational behavior during mergers, he uses verifiable evidence from past companies that have merged to explain that the organizational structure is not altered in the process. He expounds that the information used is verifiable in order to achieve an accurate and expected research outcome. The scholarly journal released in March 2020 expounds on the same, that the outcome is verifiable. In his study on Firm performances during Mergers and acquisition. G. Nyaga (2018) uses the content analysis methodology to show and expound that the banks and other corporates have merged before, and this has had an upward trajectory on the profitability. It increases the sales and profits of the entity and also enhances the efficiency of the merged entity. This study aims to show that the mergers and acquisitions improve the firm's performance both in financial aspect and in operational efficiency, this basically majors on implementing mergers.

K. Bosecke (2009) expounds on the value creation, he uses the methodology of descriptive research designs to show correlation conducted. This research seeks to show the value that mergers add to an entity, by improving profitability and efficiency. The knowledge gap filled Is that value has to be created by existing entities because continual improvement is inevitable in a business set up. His main focus is on creating value for entities to ensure the firms do not ark time. Mergers and acquisitions are known for creating synergy and ensuring the outfit that comes out of the merged entity is good, well-staffed with proper skilled human resource with required expertise for better results.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter showcases the methodology to be adopted by the researcher in carrying out the research. Prior areas of study expound on the research design, the target scope of the research, data collection methods, data analysis, and data presentation to be used. Since the study mainly focuses on the NCBA Bank Kenya PLC, the study adopted the case study research design. For the sole focus of this study, the scholar majorly depended on both primary and secondary data.

The primary data is collected from the staff of the NCBA Bank both in top level and middle level management, and the secondary data from shareholders of the bank. The data adopted for this research was largely qualitative through interviews of middle level management and by reviews of the published financial reports from the two banks involved pre-merger. The management are directly involved in the merger and acquisition as a strategic choice and therefore are very instrumental towards the success of the implementation. The study majors on the challenges encountered by the merging banks.

3.2 Research Design

The research adopted a case study design as it’s a specific scope of coverage. This research design is used to come up with an in-depth, diverse and multiple sided understanding of complicated and compound issues in its common context.

It is an understandable research design used to amass the comprehensive data in every aspect extensively. It involves analysis of small data sets; the case study design is made possible by the interview guide issued to the target population for data collection to be able to get other peoples' opinion.

The case study is the most ideal and justified research design because it is specifically important to use when there is an urge to attain an in-depth, detailed understanding of an issue. In this case we seek to obtain the in-depth basis on which strategy implementation faces challenges, in this case the challenges of mergers and acquisition implementation. It seeks to examine a scenario, an issue or an event or phenomenal of interest in its natural real-life context. In this case we seek to go step by step in analyzing the challenges and recommend how to solve these challenges to ensure the strategy is a success.

3.3 Data Collection

The study used both primary and secondary data. The primary data was collected using a structured interview guide designed to cover mainly general information about mergers and acquisitions in the banking sector and a keen look at the challenges of merger between NIC and CBA to form NCBA. The respondents were the middle level managers of the bank and customers of the bank. The method through which the researcher intends to collect secondary data includes but not limited to reviewing the financial reports of the bank, as published by Central Bank of Kenya in annual financial reports.

Information was gathered from the current staff of NCBA. These staff are most appropriate as they by far contribute to business profit growth by being instrumental to the operations of the bank and adequately actively suggest ways to improve the banking business. They are also part of organization leadership which prepares and supervises the implementation of the company strategies to ensure success. Secondary data was obtained from the banking industry records, such as the companies' audited reports and analysis by the KBA.

3.4 Data Analysis

The gathered information was coded then analyzed with the use of descriptive statistics. Descriptive studies explain the 'what is in description of a populations' characteristics (Borg and Gall, 1989). This will make possible presentation in a more elaborate format, creating a platform a more comprehensive interpretation of the data. According to Zikmund (2014), some widely used descriptive statistics include variance, means, modes, median, and standard deviation. The data was presented using tables and figures.

The content analysis was used in qualitative research, the three distinct approaches to be used are the conventional, directed and the summative approaches. These help to explain the meaning of the context text data, and to ensure the trustworthiness of the data. Tables and graphs are easy to understand and cannot misrepresent data. They give a summary that is easy to interpret to end users of the information for context and interpretation of the same.

CHAPTER FOUR:

DATA ANALYSIS AND FINDINGS

4.1 Introduction

The chapter covers the analysis of the findings from the information that was gathered through the interview guide. The key themes from the responses shared by respondents were determined and captured as discussed in the subsequent sections.

4.2 Respondents file

This study was set out to interview 5 managers, 4 customers of NCBA bank totalling to 9 respondents. However, a total of 8 respondents were available for the interviewing. These were 5 managers, 3 customers translating to a response rate of 88.9%. This was adequate and consistent with Deutskens, De-Ruyter, Wetzels and Oosterveld (2004) who noted that an above 70% response rate is ideal for analysis.

4.3 Descriptive Statistics

The general information of the respondents was determined, and the analysis is as presented in table 4.1

Table 4.1: Response Rate

	Frequency	**Percentage**
Response	8	88.9%
Non-response	1	11.1%
Total	**9**	**100.0**

Source: Primary data 2022

4.3.1 Management Level

The study sought to determine the management level of employees who were drawn from the bank. It was observed that out of the 5 managers, 2 were from senior level management while 2 were from the middle level management. This means that in general, the respondents drawn from the bank were in managerial positions.

That allowed them to participate in strategic activities like Mergers and Acquisitions and thus they were believed to have adequate information to share on the challenges of the implementation.

4.3.2 Designation of respondents .

The designation of the respondents was determined, and it emerged that 5 were managers, 2 were customers and 1 was a shareholder of NCBA. This means that diverse and representative information on M&As was obtained from the respondents that had been drawn from different designations.

4.3.3 Years of Service

The findings on years of service of the respondents were determined and summarized as shown in Table 4.2.

Table 4.2: Years of Service

	Frequency	**Percentage**
Less than 5 years	2	22.2%
6-11 years	3	33.3%
12-17 years	4	44.4%
Total	**9**	**100.0**

Source: Primary data 2022

From Table 4.2, while 44.4% of the respondents had provided services to NCBA for 12-17 years, 33.3% had done so for 6-11 years and 22.2% for less than 5 years. This finding was expected as the study included management staff who are required to have worked with the bank for a significant period of time in order to earn promotions.

4.4 Corporate Information

The name of the corporation that was used as a case study was NCBA Bank. It is located in Mara Road in Upper-hill Nairobi. Its postal address is 44599-00100 NCBA can be traced back to a merger between NIC and CBA occurred in September 2019. Presently, the bank has over 250 employees.

4.5 Profitability of CBA and NIC

The study sought to establish the profitability of both CBA and NIC before merger.

4.5.1 Returns on Assets and Equities before Merger

Profitability was evaluated in terms of ROA and ROE. Table 4.3 gives a breakdown of the results.

Table 4.3: Profitability of CBA and NIC

Year	NIC		CBA	
	ROA	**ROE**	**ROA**	**ROE**
2016	3.66%	19.6%	3.60%	27.6%
2017	2.94%	19.6%	3.13%	22.8%
2018	3.1%	19.2%	3.4%	23.5%
Average	**3.233%**	**19.467%**	**3.377%**	**24.633%**

Source: CBK Website,Secondary data 2022

Table 4.3 shows that on average 3 years before the merger, CBA was performing well relative to NIC as shown by an average ROA and ROE of 3.377% and 24.633% as compared to the values recorded by NIC for ROA and ROE of 3.233% and 19.467% respectively.

4.5.2 Loan Book of CBA and NIC before Merger

Profitability of CBA and NIC 3 years before the merger was determined and summarized as shown in Table 4.4.

Table 4. 4: Loan Book of CBA and NIC

Year	NIC	CBA
	Kshs. M	**Kshs. M**
2016	112,509	105,082
2017	118,459	107,038
2018	117,786	118,271
Average	**116,251.3**	**110,130.3**

Source: CBK Website ,Secondary data 2022

The findings in Table 4.4 shows that on average 3 years before the merger, NIC was doing well in terms of loan book that averaged at Kshs. 116,251.3 million as compared to CBA that had average loan book of Kshs. 110,130.3. Therefore, before the merger, CBA was doing well in terms of ROA and ROE as compared to NIC. On the other hand, NIC was doing well within the same period in terms of loan books as compared to CBA.

4.6 Post Merger Evaluation

The study sought to establish if the motive of the merger had been achieved two years after the same had been implemented. Table 4.4 summarizes the findings based on ROA, ROE and loan book of NCBA in a period of two years after the merger took place.

Table 4.5: Post Merger Evaluation

	ROA	ROE	Loan book (Kshs. M)
2020	1.41%	9.7%	259,698
2021	3.3%	21.4%	255,664
Average	**2.355%**	**15.55%**	**257,681**

Source: CBK Website ,Secondary data 2022

Table 4.5 indicate that two years after the merger, ROA, ROE and loan book of NBCA have hovered around 2.355%, 15.55% and Kshs. 257,681 respectively. Comparing this with the earlier findings established before the merger in Tables 4.3 and 4.4; two key observations can be deduced. First, the merger has contributed to a significant decline in ROE and ROA of the resultant NCBA than when the two banks were operating individually.

Secondly, the merger contributed to strengthening of the loan book of the resultant bank (NCBA) as compared to when the two banks were carrying out operations individually.

4.7 Summary

This chapter has analysed the findings from the responses received from the respondents in NCBA Bank. The analysis has therefore revealed that the effects of the merger have had a great impact on the loan book of the merged entity and that merging has boosted the efficiency of the bank's operations. The combined entity has balanced out the strengths of the separate banks post-merger. All respondents therefore felt that the merger was of paramount importance and the employees who had reservations due to anticipated job loss, eventually embraced the decision. Challenges of technological hitches had also been addressed by having state of the art software that can handle large amount of data.

4.8 Discussion of results .

Financial institutions and especially commercial banks have a key role to play in the economic development of a country . This is according to F.A Abdu 2020 on his research on wether Mergers and acquisitions impact the bank lendings .Before this merger NIC was doing very well with lending ,its strength being asset financing .in 2016 till 2018 the loan book averaged around Ksh 116,251.3 Million compared to CBA whose loan book averaged at 110.130.3 Million .Total average loans pre merger were averaging around Ksh 226,381 Million .After the merger in 2020 and 2021 the loan book grew tremendously by a mergin of over 20 million and 40 million respectively to record Gross loans of Ksh 244,395 and Ksh 259,698 million respectively .This was significant in measuring the success of the merger because its evident that the loan book grew by a margin.

This was evident because on one of the main aims of the merger as explained by the respondents who are current employees of the NCBA was to have a platform to source for more capital of the bank which was mainly to be used in the lending business which is the key agenda of the bank and core business of the entity .
According to I Erel 2006 , he explains on the effects of mergers on loans and it is evident that in this case the merger had a positive effect on the loan book of the bank. Therefore this research would be appropriate to advice banks seeking to merge on the positive effect of mergers on the loan book .

Upon the merger, loans from the 2 entities were consolidated and now the loans from NIC bank were restructured and the merger provided an opportunity for the customers to have their payment plans adjusted .This is according to the customers who were glad that they were given an improved repayment plan and a longer time to be able to pay their loan , this was a great a idea especially in the wake of the pandemic where most businesses were affected and the cashflow affected due to the lock down procedures that were put in place and that ensured business were closed post curfew hours .Also businesses were affected because the lock down and planes not moving made it hard for businesses to get stock from abroad .This was explained by P Sapienza (2002) as he explains on the effects of mergers and acquisitions on loan contacts and the effect of individual borrowers and the ability to negotiate suitable interest rates . Upon the merger the customers were able to pay their loans seamlessly without any challenges .The migration of loans to the new system was seamless ,although there were teething problems of the system and adaptability to the banking systems by the new staff who had not used the system before , but the system technical hitches were managed .

The profitability of the bank was evaluated by the Return on Equity and the Return on Assets of the bank .It was concluded that CBA was performing well as compared to NIC bank with a average ROA and ROE of 2.277% an 24.633 % respectively while NIC had ROA and ROE of 3.233% and 19.467 % respectively .Therefore the merger was aimed at improving the financial performance of NIC to level up to CBA financial performance as represented by the profitability .That is a way of attaining synergy and enhancing financial improvement for the merged entity ,in 2020 the merged entity ,NCBA had a ROA of 1.41% and ROE of 9.7% which was still low but can be attributed to the teething problems post merger .That was one of the challenges of implementing the merger and ensuring that the bank had a high profitability instantly , which proved not realistic, but is achievable over time as the implementation results are evaluated overtime and is a work in progress .This is as explained by F H Nima (2017) as he explains the effects of mergers and acquisition on the financial performance of banks .

Most banks especially those listed on the stock exchange always aspire to make profits .This is as explained by CN Njoroge (2012) in her research on the effects of the mergers on the financial performance .Profitability always comes first and that is why no one wants to bank with a loan making bank lest it be put under receivership by the regulator which is Central bank of Kenya .The banks always gear to leverage their financial performance. Merging is one of the reasons why banks come together to hedge on risks such as loss making and poor customer service .In the case of NCBA ,the customers were glad that the service delivery of the bank had really improved .

CHAPTER FIVE.

SUMMARY AND CONCLUSION

5.1 Introduction

The main objective of this study was to establish the challenges of the implementation of mergers and acquisitions at NCBA Bank. To realize thus objective primary data was gathered from different managers at the bank using an interview guide. Content analysis methodology was used to analyse the data. The following is the discussion and conclusion on the analysed data.

5.2 Summary

a) Perceptions on the merger by the staff and clientèle

Respondents were asked to disclose how the employees said about the merger that took place between NIC and CBA. One of them shared that some of the employees opposed the merger intention with a belief that it would result into significant job losses. Another respondent said that the merger has resulted into increased efficiency in operations and the way of doing things at the place of work had improved. Thus, it can be inferred that employees had mixed opinions and views as far as the merger between these two banks was concerned, it was however still early to evaluate the success of the merger, as the process was still a work in progress. This was as explained by JLM Andembesa (2014) as he explained on how employees culture is affected by mergers and how changes of a working environment affect staff productivity and morale .

The study sought to determine whether the clients accepted the new entity after the merger in terms of performance and customer relation. The study observed that although initial resistance had been registered in the early years of the operation of the new entity, this has become the norm and it has been widely accepted clients.

One respondent shared that the new entity had put in place a customer care department that effectively handled the customer complaint. This had been noted as a great step towards improving customer relation in the newly formed entity after the merger, there was still room for improvement in service delivery. This was as explained by M Kivuti (2013) on effects of mergers on service delivery and customer service in ensuring customer satisfaction .

Respondents were requested to share the pros and cons of merging businesses. It was shown that mergers create synergies that are important when it comes to an improvement in financial position of the firm. One respondent said that mergers allowed the firm to increase their size which allows them to enjoy the economies of scale that result into sustainable competitive advantage. It was shown that mergers allow the firm to acquire unique external capabilities and resources which are instrumental for the firm that seeks to compete and survive in an industry. Despite the aforementioned pros, the study also observed that are some that mergers may pose. One of the respondents said that mergers can lead to job losses among employees. Another respondent noted that merger announcements may create tension among employees because of fear of unknown. This was as explained by JM Ali (2011) as he explained on post merger effects and impact on increased customer base .

b) Implications of mergers on the staff and organizational culture

The implication of the merger to cultural orientation of CBA and NIC was determined. The study observed that the merger of the two banks resulted into a blend in the existing cultural values, mission and vision statements as well as core values of the individual bank. Staff were happy that they now had better benefits and more growth opportunities. One respondent shared that employees had a challenge when it came to copying the new culture that that their bank did not have in place before the merger. Thus, the merger between NIC and CBA had negative implication on cultural orientation, but this had improved over time. ZM Ali (2019) explained on the post merger effects of employees behaviour, he stated staff needed grace period to familiarise on new organisational changes .

Matters regarding the organisational behaviour ,it was established that these were two banks coming together and as such , different organisational behaviours and cultures were involved .This then meant that the staff had to be handled with care and with patience as they got used to the new policies and procedures of the new entity .Staff who had uncertainty on matters of job security needed to be assured their jobs were safe and as such they needed not be worried,rather they were supposed to give their best at the job so that to make the efficiency of the merger .

This challenge was preferably to be managed by having staff trainings and capacity buildings to boost staff confidence in the organisation .Different organisations have different work cultures and as such the two must be allowed to settle in without forcing any policies .That way you ensure that the implementation of the strategy is seamless and with no challenges .

c) Challenges of mergers and acquisition in the data migration stage and technical hitches.

The study sought further to establish the implication of the merger to customers of the bank. From the findings, one of the respondents said that the merger contributed to an extra cost in terms of payment of fee to acquire new ATM cards. It was challenging to merge the operating banking systems.

It was evident from the respondents that it took some time to come to the realization of the change of name of the two banks to the resultant NCBA. The clients and staff also had complaints regarding the system migration process which had technical hitches and a lot of downtime for the internet banking users who experienced difficulties transacting in between the data migration exercise. It was however advantageous that customers were now able to bank with a more financially stable institution.

There were prompt responses of queries and also clients were able to access statements online .The customers also noted that the system downtimes had also reduced . J Hagedoorn (2012) in his research on impacts of mergers on technological performance stated that there were expected challenges that would be sorted as the implementation was rolled out and hence there were no causes of alarm.

Technology is a developing area and most of the solutions to problems encountered are customised to the customer design , therefore the challenge of technological itches should be expected especially during data migration and system upgrading ,and as such , The team on the ground has to be well skilled and well conversant with technology and banking systems since financial data is very important and messing with it can cost the bank immensely .

5.3 Conclusion

The study concludes that challenges evident during a merger and acquisition implementation can be solved and the process deemed successful. Human beings are naturally resistant to change, and that is why most of the staff pre- merger complained of expected job losses once the two banks merged. The study sought to determine the main aim of the merger between NIC and CBA.

It was noted that this merger was meant to achieve growth and enjoy the economies of scale like ease of access to funds needed to grow the loan portfolio and introduction of more new banking products to customers. This was achieved because customers have been able to borrow more from the bank and the borrowing process has also been automated and clients can now apply loan from the online banking platform which has enhanced convenience in the banking process .

The merger was meant to combine resources and operate more efficiency. The merger was meant to strengthen and increase the assets of the resultant bank so that it is more stable. These findings are supported by Bosecke (2009) who shared that mergers and acquisitions are known for creating synergy. The merger also had to ensure the corporate outfit that came out of the merged entity was good, well-staffed with proper skilled human resource with required expertise for better results.This was achieved by having online courses facilitated for the staff to sharpen their skills in all areas of the banking business, from customer care, to credit and lending to Information technology (IT) and even management .

A critical evaluation of the implications of the merger was conducted in this study. The findings indicated that the merger has contributed to a significant decline in ROE and ROA of the resultant NCBA than when the two banks were operating individually. This finding contradicts with Nyaga (2018) who showed that the mergers and acquisitions improve the firm's performance both in financial aspect and in operational efficiency, this basically majors on implementing mergers.

At the same time, the merger contributed to strengthening of the loan book of the resultant bank (NCBA) as compared to when the two banks were carrying out operations individually. One of the main aims of merger between CBA and NIC was to build synergy .CBA was very good in retail banking and NIC on the other side was very good with asset financing .When these banks merged, The Loan book grew immensely that when the two banks were operating individually pre merger .That means that the main aim if the merger was achieved in a very short time .This is as explained by DJ Ravenscraft (2016) while explaining probability effect of mergers

However ,with evaluation overtime, the profitability has not yet shot immediately but this may take time to be achieved .Mergers and acquisition is a strategy whose results would not be felt immediately but overtime as it's a continuous process .This is as explained by CN Kiarie (2016) ,her findings were that the returns on assets and returns on equity would be boosted by the merger and therefore automatically boosting profitability automatically ,unfortunately that was not the case for NCBA , but the growth of profits has been gradual and quite promising in the years to come . With time the merger would boost profitability of the bank .

Respondents were asked to indicate their perceptions as in regard to the merger between the two banks. It was shown that the merger has resulted into increased efficiency in operations and the way of doing things at the place of work had improved.It was shown that mergers allow the firm to acquire unique external capabilities and resources which are instrumental for the firm that seeks to compete and survive in an industry. These findings are consistent with Bosecke (2009) who shared that mergers and acquisitions are known for creating synergy.

5.4 Recommendations

From the numerous complaints from the employees of the two banks that were merging, it is evident that some of them did not understand how the entire process was conducted. they did not understand the basics of implementations of mergers and acquisition and that is why they were resistant.

It is therefore recommended that entities that seek to implement mergers should conduct and employee workshop for awareness purposes and seek member participation pre-merger.According to Nschulz (2017) on the effects of mergers on technological innovations, it was explained that technology is an advancing subject and so customers and staff had to be patient with system upgrades .

This ensures that the employees are on the same page and therefore no resistance during implementation and this ensures a flawless implementation process. The staff should also have an on-boarding training, similar to an induction to the new entity, here the staff are taught on the expected organizational behaviours adjustments.

These helps create synergy amongst employees from different institutions and enhance unity of purpose, improving operational efficiency.The merging entities should also ensure timely preparation and release of the prospectus to the stakeholders, clientèle, staff and even the shareholders. This helps the people involved to have prior knowledge on what to expect after the merger. This help in minimizing resistance and therefore making the process a success.

A successful implementation is one that has a successful data migration process, and as such, the entity must ensure that it has a solid banking software that can handle the magnitude of data without crushing or slowing down, staff also must be trained to ensure there is a good system user interface. The process should then be evaluated after implementation using the SWOT analysis to ascertain the strengths, weaknesses and how to solve the teething problems.

5.5 Recommendation for further study

Effects of mergers and acquisition on the financial performance of banks in Kenya, and how operational efficiency translates to profitability. A cross sectional survey could be carried out for a longer period of time to make findings more generalizable.Turn around strategy is one of the strategies mostly used to grow a business ,many researches have been done around this subject , however the area of challenges and limitations that curb the success of this strategy is something that has not been seriously pursued by researchers.In the aim of preparing policy documents for subsequent mergers this area has to be researched to enable find out that there are no gaps in this area .

Efficiency of the success of mergers can also be researched and delve deeper to know how merging an entity affects the the profitability of an entity and also grows revenues and improves an efficiency of the matter . The effect of mergers on the staff culture also is a recommended area of research .How the employees take in the news and how they react to the entire process is an area worth studying further as employees are instrumental in ensuring the process is successful and efficient .

On any research on banks success measures of mergers was associated with successful system migration .According to J Hagerdoorn (2011) on the effects of mergers on technological performance of an entity , it was concluded that system development , migration and upgrades were an ongoing process and as such were a work in progress and end users were urged to be patient as some of the upgrades were aimed to solve specific problems encountered in the course of the merger .

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APPENDICES

Appendix I: Letter of Introduction

Dear Respondent,

My name is Lilly Njue. I am currently a final year master's in business administration student at the University of Nairobi. As part of my course requirement, I am expected to conduct research titled: Challenges of Mergers and Acquisition at NCBA and present it as a thesis. In order to undertake the study, it is important for me to collect data from banks that have merged in Kenya. The information being collected is strictly for academic purposes only and there are no personal benefits or risks to your participation. The information received will be handled with utmost confidentiality and will not be circulated widely.

You are requested to complete the attached questionnaire, feel free to seek further clarification on questions not well understood.

Please fill in the spaces provided or tick where appropriate.

Appendix II: Interview guide

SECTION A: PERSONAL INFORMATION OF RESPONDENT

1. Management level

Senior level management [ ]

Middle level management [ ]

Low level management [ ]

2. What is your designation?..

3. Length of service in the position

Less than 5 years	[ ]	6-11 years	[ ]
12-17 years	[ ]	18-23 years	[ ]
24-29 years	[ ]	Above 30 years	[ ]

SECTION B: CORPORATE INFORMATION

4. Name of Bank...

5. Location and address

....

....

6. Year merger happened ....

7. Number of people working in your firm?

(Choose one of the following answers)

Less than 10	[ ]	10-50	[ ]
51-100	[ ]	101-250	[ ]
More than 250	[ ]		

8. Does your bank have a staff culture trend?

Yes [ ]   No [ ]

9. What were the profits of CBA before the Merger?

10. What were the profits of NIC before the Merger?

11. What was the Loan book for NIC and CBA respectively?

12. What was the main aim of the Merger?

13. Has the motive of the merger been achieved two years down the line?

14. What do the employees say about the merger, was it a good move?

15. Do the Clients appreciate the new entity, performance wise and customer relations?

16. What are the pros and cons of merging the business according to you?

17. What is the implication of the merger to the cultural orientation of staff in the 2 banks?

18. What is he implication of the merger to the customers of the banks?

Thank you for your time and response.

Appendix III: Banks that have entered in Merger and acquisition in Kenya

1. NCBA Bank Kenya PLC (NIC and CBA)
2. Access Bank (and Transnational Bank)
3. National Bank
4. Kenya Commercial Bank
5. Jamii Bora Bank
6. Cooperative Bank

Source: Central Bank of Kenya, 2021