

The impact of mergers and acquisitions on profitability of commercial banks in Kenya

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Abstract:

Mergers and acquisitions are now a very common feature of modern business life and they form a major reason for the growth of firms and shed more light on the theory of the firm. Firth (1979) suggests that benefits from mergers were unique and could only have been achieved by those two particular firms combining. The main objective of this study was to establish whether M & As lead to an increase in profitability of commercial banks in Kenya. The study was guided by two specific objectives including: to determine the profitability of merged institutions before the Merger/Acquisition; to determine the profitability of Merged/Acquired institutions after the Merger/Acquisition; and establish the effect of Merger/Acquisition on the financial institutions profitability. Data from 20 banks that underwent mergers/acquisition was analyzed for a period of 10 years from the population of interest comprising 70 banks that have merged or been acquired in Kenya. The study used secondary sources of data from published audited annual reports of accounts for the population of interest, C.B.K., N.S.E., C.M.A., and bank supervision annual reports from C.B.K. Financial data from Balance Sheets, Profit and Loss Accounts, and Cash Flow Statements of the 20 banks for 10 years each was used to calculate and analyse the accounting ratios, also known as performance indicators. 3 profitability performance indicators were used: EPS, ROA & ROE. Analyzed data presented increases and decreases in the profitability ratios. Before the merger, 7, 8 & 7 banks either had positive ROA, ROE and EPS respectively. On the year of the merger, there was improvement in ROA and ROE and EPS. After the merger, 6, 8 & 8 banks posted an improvement in ROA, ROE & EPS respectively even if there was a decline in profitability in the year of the merger/acquisition.