

**AN INVESTIGATION OF THE BENEFITS AND CHALLENGES OF MERGERS
(A CASE OF COMMERCIAL BANK OF AFRICA AND FIRST AMERICAN
BANK)**

BY

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
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LIST OF ABBREVIATIONS

1 S.r.l. M Societe Financiere Pour les Pays D'outre Mer.

Commercial Bank of Africa

3 L B OLeverage Buy Out


.....First American Bank of Kenya

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
Declaration

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

Signature  -iy..... Date -

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This research project has been submitted for examination with my approval as the university supervisor.

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ABSTRACT

This research seeks to assess the effect of corporate mergers and acquisitions in the **Kenyan** financial sector, using the case of Commercial bank of Africa and First American **bank**. The specific objectives of this study will be to determine the efficiency gains if any **realized from** combining the management of the two firms. The effect of market power **on** the firms will be analyzed for instance to the extent with which market share has increased, and diversification of product range established. The operational synergy of the merger will be analyzed to establish whether the firm has gained any economies of scale or operational efficiency as result of the merger and the extent with which integration of technology processes and people has taken place.

The research will also target to establish whether there have been any financial gains resulting from the merger such as reduced tax liability, risk diversification increased profitability and increased credit worthiness of the firm.

The study will be carried out through a cross-sectional survey design. The data will be collected using a structured questionnaire where the respondents will be required to score on a 5-point likert scale indicating the extent of the effect of the corporate merger. Data obtained will be analyzed using frequencies ,percentages, mean score and factor analysis .

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The business environment in which organizations are operating has over the years witnessed drastic changes. The changes are complex and organizations have found it increasingly difficult to cope with increasingly complex environments from internal resources and competences alone. Sometimes, firms can operate alone i.e. Without formal relationships with others and remain successful. Certain developments in the environment are however making it attractive for firms to enter into collaborative arrangements .They also may see the need to obtain materials, skills, innovation, finance or access to markets and recognize that these may be as readily available through cooperation to partnerships. The growing integration of the global market place since 1970s to the new millennium termed as globalization has seen the emergence of all sorts of corporate relationships and linkages from alliances ,mergers and acquisitions ^partnerships and joint ventures. Vanhorne J.C. (1989).

Mergers and acquisitions are typically the result of organizations coming together voluntarily because they are actively seeking synergistic benefits, perhaps as a result of common impact of changing environment in terms of their opportunities threats or excessive cost of innovation ,Weston (2005).

A merger is a combination of two corporations in which only one survives. The merged corporation goes out of existence living its assets and liabilities to the acquiring corporation. A merger can be distinguished from a consolidation which involves a combination of two or more corporations whereby an entirely new corporation is formed. The old company ceases to exist and the shares of common stock are exchanged for the shares in the new company, Tatenbaum. (1991)

A merger occurs when two corporations are fused, one of which survives while the other loses its corporate existence and has its properties combined with those of the company which remains. Fusion through consolidation or amalgamation as the process is sometimes termed, involves the formation of a new corporation and the transfer to it the assets of the constituent companies, Schall (1983).

Previous studies in mergers and acquisitions

According to Weston and Brigham (1990) some of the case studies of mergers and acquisition include

The merger of Schlitz and Stron brewing company:

Schlitz one of the largest US brewer had been losing money and market share. By 1980s it had become the fourth largest brewer with a market share of 8.5% and it seemed to be in collision course with bankruptcy

Schlitz problems arose due to poor marketing strategy a problem that it was unable to conquer. To overcome this problem Schlitz was acquired by Stron brewing company a good marketer.

Acquisition of Electronic data system by General motors

General motors acquired electronic data system EDS the worlds largest data processing company for \$2.2 billion .GM had excess cash and it wanted to diversify outside the auto industry to stabilize earnings.Also its management believed that EDS could help GM set up better internal management control systems and help with the companies planned automation of manufacturing operations.Ross perot founder and 50% owner of EDS was offered more than \$1 billion plus a seat on the GM board.for his stock as well a chance to continue running EDS.

Acquisition of Hughes aircraft by General motors

Gm acquired Hughes aircraft a privately held company that was started by the late Howard Hughes in the 1930's .Hughes was one of the largest defence contractors and was highly profitable but what general motors wanted was its expertise in high-tech electronic controls .Gm must utilize such technology in its design and manufacturing of autos if its to compete effectively with the Japanese .

Investment analyst believe that there are tremendous potential synergistic benefits to gm from Hughes merger.

Acquisition of first american bank by commercial bank of africa.

***This j**

11S study 0,1 acquisition of First American Bank by Commercial bank of Africa

CS 10 *investigate the reasons for the merger and the impact of the merger 011 the

company in its key sectors such as its corporate market share, growth in managerial efficiency, growth in operational synergy and financial synergy.

The two banks have been chosen since they are accessible in terms of access to information and access to senior executives of the company.

Commercial Bank of Africa

Commercial bank of Africa is the largest privately owned bank, whose primary form is corporate and institutional banking. Its efforts and resources are channeled towards providing an efficient, personal and stress free banking experience to corporates, foreign missions, NGOs and the quality end of the personal banking market. (C.B. A. Staff Handbook)

Commercial bank of Africa was founded in 1962 in Dar es Salaam, Tanzania and quickly obtained branches in Nairobi and Mombasa in Kenya, and also in Kampala in Uganda with the rationalization of banks in Tanzania. CBA reincorporated itself in Kenya in 1967. In light of developments in Uganda in 1971. It subsequently sold the Kampala branch. CBA originally commenced business as a subsidiary of Societe Financiere pour les Pays d'Outre Mer (SFOM) a Swiss based consortium bank with interest in financial institutions all over Africa. Original consortium members include Bank of America, Commerzbank (later sold to Dresdner Bank), Bank Bruxelles Lambert, and Banque National de Paris. In 1980, Bank America acquired all the shares of the other SFOM partners and CBA became a subsidiary of Bank of America with 16%

shares held by Kenyan investors.. During period 1980 to 1984 Bank of America re - organized CBA developing and installing Bank of America global systems and disciplines .In late 1984, Bank of America agreed to sell the majority of its shares to local investors while retaining minority interest and continuing to provide management to the bank via a management agreement.

Bank of America eventually sold the remainder of its shares and CBA is now wholly **Kenyan** owned. .(C.B.A. Staff Handbook)

The management of the two firms made a strategic decision to merge the two firms primarily because they wanted to overcome the problem of slow growth and to increase profitability. The merger enabled the organization to increase its customer base without increasing its asset base.

The merger in a way was also intended to enable the organization limit competition and to utilize underutilized market power.

The other motivating factor for the merger of the two banks was for the organization to achieve diversification and to gain economies of scale and to increase the organizations income.

First American Bank of Kenya

First American bank of Kenya is the former branch of the First National bank of Chicago, which commenced operations in Kenya in 1974..On 1st January 1987, having

acquired the assets and goodwill of first national bank of Chicago, First national bank commenced operations under new name and ownership.

First American bank was a wholesale corporate bank offering commercial and banking products and services including internet banking ,branchless banking and trade finance corporate finance , treasury products and cash management to corporate and high networth individuals.(F.A.B.K Staff handbook)

The bank provided highest level of resource and personalized service to its discerning client base that includes government parastals. large corporate businesses, non-governmental organizations and diplomatic missions.The bank was the first to introduce bankers acceptances and certificates of deposits in Kenya and was also the first local bank to introduce internet banking.

Further the bank entered the Tanzania market through its associate bank namely ,United bank of Africa Limited in Dar es salaam ,Tanzania . .(F.A.B.K Staff handbook)

11 Statement of the research problem

According to Weston and Brigham (1990)A company which takes up mergers and acquisitions as strategy is able to benefit from operational synergies or operating economies of scale , financial synergies and Tax advantages, economies of scale in used managerial capacities and marketing synergies

' This study on the acquisition of First American Bank by Commercial bank of Africa **tries to** investigate the benefits for the merger and the challenges of the merger on the **company** in its key sectors such its corporate market share ,growth in managerial efficiency, Growth in operational synergy and financial synergy.

1.3 Objective of the study

To carry out an investigation of the benefits of mergers.

To carry out an investigation of the challenges of mergers.

1.4 Importance of the study

The findings and deduction of this study will be of interest to:

The management of private and public companies will benefit from this study. This study will enable them to understand the implications and importance of merging companies in order to make them more efficient or competitive and to be able to tackle certain problems that that organization might be having i.e. marketing problems or data processing problems.

This study will be of benefit to consultants whose primary role is to deliver advice to clients on mergers and acquisitions. Consultants will be able to use this study to elaborate the effect and benefits of mergers to their clients by borrowing the ideas that have been used in this study.

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This study will also be of benefit to scholars and academicians may wish to use the findings of this study as basis of for further research especially in areas that have not yet been tackled. Refereces and other ideas can also be used to write academic papers,dissertations, journals and other academic literature.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The increased competition arising from the fast changing global market has resulted in to a situation where companies are finding it difficult to go it alone. More than ever before, many of the skills, capacities and resources that are essential to a firm's current and future prosperity are to be found outside the firm's boundary and outside the firms management direct control .Accordingly managers must think outside these boundaries in order to remain competitive. Therefore, relationships that tend to give a firm these competencies such as mergers and acquisitions have become increasingly popular. Many organizations have resulted to mergers and acquisitions so as to gain synergies in operations .financial planning ,marketing and management experience.. Mergers have therefore become the modus operandi in this ever changing and complex environment. Ezra (1980).

2.2 Theories of corporate restructuring

According to Weston (2005).the theories of corporate restructuring .The removal of inefficient management by a merger or tender offer would represent a gain in efficiency. Tlic most general theory of mergers involves differential efficiency .If management of firm A is more efficient than management of firm B and if Finn A acquires firm B , the efficiency of firm B is brought to the level of efficiency of firm A efficiency is increased^bV a merger.

Operating synergy or operating economies may be involved in horizontal or vertical mergers. For horizontal mergers, the source of operating economies may represent a form of economies of scale. These economies in turn, may reflect indivisibilities and better utilization of capacity after the merger. Another area in which operating economies may be achieved is vertical integration. Combining firms at different stages of an industry may achieve more efficient coordination at different levels. This is because vertical integration reduces costs of communication, various forms of bargaining and opportunistic behavior. Weston, (2005)

The possible financial synergies involve some unsettled issues in finance theory. Financial synergy argues that the cost of capital function may be lowered for a number of reasons if the cash flow streams of the two companies are not perfectly correlated. If cash flow of two companies are not perfectly correlated bankruptcy possibilities may be lowered and this consequence may decrease the existing present value of bankruptcy costs which may be lowered for a number of reasons. Another evidence emphasized by Henry (2002) is economies of scale in floatation and transaction cost that may be realized by conglomerate firms. Another dimension of financial synergy theory is that bidders have excess cash flows but lack good investment opportunities. In contrast targets are said to need additional funding to finance growth investment opportunities.

A related proposition is based on the distinction between internal and external funds. The differential transaction cost associated with raising capital externally and the differential treatment of dividends may constitute the condition for more efficient allocation of

capital through mergers from low to high marginal returns production activities. Weston,.(2005)

The strategic planning approach to mergers appears to imply either the possibilities of economies of scale or the utilization of unused capacity in firm's present managerial capabilities. Another rationale is that by external diversification, the firm acquires management skills for needed augmentation of its present capabilities. Weston,.(2005)

Short-term myopia is said to be the market participants especially institutional investors emphasize shortterm earnings performance .As a consequence it is argued that corporations with long-term investment programs are undervalued. When firms are undervalued they become attractive targets to raiders i.e. other firms or individual investors with large resources at their command.

Market below replacement costs: one reason that firms have stepped up diversification programs is that in recent years. For various reasons stock prices were depressed during 1970s and did not recover until the later part of 1982.as the level of inflation dropped the business prospect improved .Also the current replacement cost were higher than their recorded historical book values. These two effects resulted in the decline of the q ratio .In some years q ratio has been below one if a company wished to add capacity in producing^a particular product it could add capacity more cheaply by buying a company that

produces that product rather than buying new plant and equipment. Weston & Copeland
, (2005)

The announcements of restructuring activities may convey information or signals to market participants. For example the announcement of a merger or tender offer may convey information that the target is sitting on a gold mine or signal that the old management will receive a kick in the pants from the new management. A variation of this theme is that the announcement of a merger or tender offer signals that future cash flows are likely to increase and future values will increase accordingly. Thus announcement for restructuring may signal potential for future value increases.

Jensen (1988) formulated the implications of agency problems. An agency problem arises when managers own only a small portion of the ownership of shares of a firm. Partial ownership may cause managers to work less vigorously than otherwise or consume perquisites such as luxurious offices, company cars, membership to clubs because majority owners bear most of the cost. In large corporations with widely dispersed ownership individual owners do not have sufficient incentive to expend the substantial resources required to monitor the behavior of managers.

Empire building as stated by Mueller (1969) hypothesized that managers are motivated to further increase the size of their firms. He assumed that management compensation is a function of the size of the firm. The free cash flow theory of Jensen, (1988) is based on

inherent conflict of interest between managers and shareholders .It adopts meullers t h e 0 j
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that managers seek to protect or build the empires or salaries.

Agency theory states suggests that when market for managers does not solve the
problem restructuring may take place Merger activity is a method for dealing with ^
agency problem. Because of potential divergence of interest between managers ^
shareholders (owners of the firm) described by agency theory performance of firm
be improved if managers are made to think like owners .if managers are made to t h ^ ^
like owners .If by restructuring and altering managerial compensation contracts
wealth position of managers is substantially impacted by the price level of the fir ^ g
stock. The motive of managers to improve the stock value may
strengthened. Weston,.(2005).

Winners curse (Hubris) occurs when bidding takes place for a valuable object, the v a i U e
which is uncertain. If the true value of the object is the same to all bidders (a com
value action) then the winner of the auction is likely to be the person who has made t j l e
largest positive error estimating the value of the object. The positive valuation e r r o r
represents the winners curse.Weston ACopeland .,(2005)

The restructuring and control changes have not had a great impact on concentrating j
ti
e e c o n o m y . Neither concentrating in individual industries nor aggregate concentrati o n
measured by the position of the top 100 ,200 or 500 firms in the economy has

greatly changed to any significant degree Jensen , (1988).The increased mobility of firms is likely to decrease concentration in the longrun. A strong market position is rapidly eroded by new firms and sources of competition. Weston & Copeland,.(2005)

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Another theory of mergers suggest that tax effects are an important motivating factor in some instances .The tax synergy argument is that mergers facilitate the utilization of tax shields not available in absence of an acquisition transaction. Tax saving is a form of redistribution from the tax benefits .Weston,.(2005)

2.3 Varieties of mergers

According to Myers&Brewer (1991) There are four major types of mergers. These are Horizontal mergers, Vertical mergers ,Congeneric mergers and Conglomerate mergers Horizontal merger ,this results when two firms in the same type of business are merged An example would be the merger of two machine tool manufacturers This form of merger results in the expansion of a firms operations in a given product line at the same time eliminating competition

Vertical merger occurs when a firm acquires a supplier or a customer .For example the **merger** of a machine tool manufacturer with the supplier castings would be a vertical **merger**. The economic benefit of vertical merger stems from a firms increase in customer **base** suppliers.Brigham, E.F. (1989)

Congeneric merger is achieved by an acquiring firm in the same general industry but neither in the same line of business nor a supplier or customer. An example is the merger of a machine tool manufacturer with the manufacturer of industrial conveyor systems. The benefit of a congeneric merger is the resulting ability to use the same sales and distribution channels to reach customer of both businesses. Weston & Brigham, (1987)

Conglomerate merger is a combination of two or more firms engaged in unrelated lines of business activity. A typical example is merging of a machine tool manufacturer with a chain of fast food restaurants. The key benefit of a conglomerate merger is the ability to reduce risk by merging firms with different seasonal or cyclical patterns of sales and earnings O'Connor, D., (1981).

Trends in merger activity.

According to Long & Samat (1988) the following trend in merger activity took place, From 1893 to 1904 a wave of horizontal mergers motivated by the desire to acquire monopoly power swept the United States. This merger wave created many of the now familiar corporate giants: U.S. Steel Corporation, the original Standard Oil Company, the American Tobacco Company and many others. This was the golden age of the great trusts and while scale economies played a role, monopolization and promoters' profits were the prime movers behind most of the most famous and largest of the mergers. In many ways this was the most important of the merger movements. In retrospect it shaped the structure which characterizes much of the U.S. industry to this day. Prior to 1890, many of the nation's more important industries were made up of small and medium sized

firms; subsequent to the mergers, they were transformed into industries dominated by a single firm or a small group of large enterprises. This early wave of merger activity was brought to an end by the Supreme Court's Northern trust decision which prohibited the creation of monopoly power through merger and acquisitions.

The 1920's

Following world war I, The consolidation process was given a further boost by a renewed wave of mergers .If the first wave represents an attempt at monopolization the mergers of the 1920's have been characterized by Nobel Prize laureate George Stigler as 'mergers of oligopoly'. These combinations attempted to restore the concentration which had become diluted over the years in many industries. However, only rarely did percentage of the market controlled by the new firm approach that of the first wave ,in which the leading firms seldom merged less than 50% of an industries output. The Great depression of the 1930s and World War II brought an effective end to merger activity, but not before government had intervened to discourage increases in concentration and creation of market power.

Mid-1950s to 1970

Merger activity continued to increase during the 1950s and by the middle of the decade had again reached the level of the 1920s .But it was in the second half of the 1960s that a virtual explosion of mergers and acquisition (over 8000) took place .This is about double the number of mergers which took place in the during the first half the decade

From a standpoint of financial management, considerable interest attached to this wave °f mergers ushered in the 'age of the conglomerate'. Motivated by Celler -Kefauver

Merger act of 1950, which had an adverse effect on horizontal combinations, and perhaps by the theory of risk diversification, the bulk of the acquired assets during this period are accounted for by conglomerate mergers. This merger wave came to an end in 1970s which coincides with a decline in the stock market.

The merger mania of the 1980s

The most recent merger wave began at the end of the 1970s and has continued into 1980s and the 1990s. This latest merger wave has not been as widespread as its predecessor of the 1960s, but it has produced a number of very large combinations. Although many of the mergers of this period have been of conglomerate type, it also marks the reappearance of horizontal and vertical mergers. Two significant changes in government policy sparked the latest increase in merger activity.

1. The removal in 1982, of the antitrust rule against vertical mergers and the relaxing of the U.S. justice department's rule against horizontal and vertical mergers in the same year and again in 1984.

2. The deregulation of specific industries since 1978. For example the deregulation of the banking, transportation and communication industries has permitted a greater combination of assets than had hitherto been possible. As a result recently deregulated industries accounted for a significant share of merger and acquisition activity during first half of the 1980s. Brigham, E.F. (1989)

Mergers & Acquisitions are the most popular means of restructuring or business combinations. They have played an important role in the external growth of a number of

leading companies the world over. There are several aspects relating to mergers and acquisitions that are worthy of study. Some important questions are: What are the basic economic forces that lead to mergers and acquisitions that are worth of study? How do these interact with each other? What are the managers' true motives for mergers and acquisitions? Why do mergers and acquisitions occur more frequently at some times than at other times? Which are the segments of the economy that stand to gain or loose? How could merger and acquisition decisions be evaluated? What managerial decision is involved in merger and acquisition decisions? What process is followed in integrative merging and merged firms post merge. (Weston 2005)

It is believed that mergers and acquisitions are strategic decisions leading to maximization of a company's growth by expanding its production and marketing / operations.

Other corporate alliances

According to Pringle (1980) Leverage buyout (LBO) involves the use of large amount of debt to purchase a firm. LBO'S are clear example of a financial merger undertaken to create a high debt private corporation or improved cash flow and value .Typically in an LBO 90% or more of the purchase price is financed with debt .A large part of the borrowing is secured by the acquired firm assets and the lenders , bccause of the high risk take a portion of the firms equity .Junk bonds have been routinely used to raise the large amount of debt needed to finance LBO transactions .Of course purchasers of LBOs expect to use the increased cash flow to service large amounts ofjunk bonds and other debt incurred in the buyout.Brigham,E.F.(1989)

Divestitures where a company can achieve external expansion by acquiring another operating unit, plant, division, product line, subsidiary and so on of another company. In such a case the seller generally believes that the value of the firm will be enhanced by converting the unit into cash or some other more productive asset. The selling of a firm's asset is called a divestiture. Brigham, E.F. (1989).

A fundamental characteristic of merger (either through absorption or consolidation) is that the acquiring or amalgamated Company (existing or new) takes over the ownership of other Company and combines its operations with its own operations. A substantial acquisition occurs when an acquiring firm acquires a substantial quantity of shares or voting rights of the target Company. This is an acquisition two or more companies may remain independent, separate legal entity, but there may be change in control of Company. Takeover means acquisition. Weston & Brigham., (1987)

A takeover occurs when the acquiring firm takes control of the target firm. An acquisition or takeover doesn't entitle a legal control. The term takeover is understood to connote hostility. When an acquisition is a forced or unwilling acquisition, it is called a takeover. In an unwilling acquisition the management of the target Company would oppose a move of being taken over. When management of acquiring and the target **Companies** naturally agree and willingly agree for a takeover, it's called acquisition or friendly takeover. Weston & Copeland ., (2005).

2.4 Conclusion for the literature review.

Some times, the failure of an acquisition to generate good returns for the parent company may be explained by the simple fact that they paid too much for it .Having bid over enthusiastically, the buyer may find that the premium paid for the company's shares (the so called "winners curse") wipes of out any gains made from the acquisition (Henry 2002)

How ever even a deal that is financially sound may ultimately prove to be a disaster, if it is implemented in a way that does not deal sensitively with the companies' people and their different corporate cultures. There may be acute contrasts between attitudes and values of the two companies, especially if the new partnership crosses the national boundaries (in which case there may be also language barriers to contend with)

A merger is extremely stressful process for those involved: job losses, restructuring and imposition of new corporate culture and identity can create uncertainty, anxiety and resentment among company's employees (Tetenbaum 1991)

Research shows that a firms productivity can drop by 25 to 50 percent while undergoing such large scale change ; demoralization of workforce is a major reason for this(Tetenbaum 1991) .Companies can pay undue attention to the shortterm legal and financial considerations involved in merger or acquisition and ignore the implications of corporate identity and communication ,factors that may prove equally important in the long run because of their impact on workers' morale and productivity.(Henry 2002).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

This study was designed as survey research .A survey research is a systematic gathering of information from a sample of respondents for the purpose of understanding and predicting some aspects of the behavior of the population of interest.Johnson,E.R.(1987)

Primary data will be collected using a questionnaire .A survey will be adopted since it will allow an in-depth and exhaustive investigation. This would otherwise be impossible in a cross section survey given the limitation of time and other resources. JOHNSON, .E.R.(1987)

3.2 STUDY POPULATION

The study population comprises of staff members in various positions in the organization. Such as in operations,finance,corporate banking, marketing, customer service and institutional banking ,who are involved in the day to day management of the organization and thus conversant with the organization policies and procedures .The number of executives to be interviewed will be atleast 30 this is deemed adequate enough to base conclusions on.

3.2 DATA COLLECTION METHOD

Data was collected using a questionnaire developed specifically for the study. The questionnaire contained both closed and open ended questions with check boxes for respondents to record their answers. The questionnaire was selected as an appropriate

data collection method instrument due to perceived familiarity of most of the issues of interest to the researcher.

A combination of mail and drop and pick methods were be used to administer the questions. The questions were be mailed to the respondents using a prepaid self addressed envelop to increase the response rate .This was followed by telephone calls and personal visits where possible.

The questionnaire targets staff members involved in the day to day management of the organization and are thus conversant with operation ,goals strategies and plans for the organization.

3.3 DATA ANALYSIS

The returned questionnaires were edited for completeness and the data coded in spreadsheet program .Data was be analyzed using descriptive statistics .This will involve computation of mean and standard deviation on the extent in which certain variables have been observed i.e. operational synergy,financial synergy, managerial synergy and market power.

CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Introduction:

This chapter gives an analysis of the data collected and presents the findings. The data is analyzed and presented in form of means, standard deviations, percentages and tables.

The data was collected from 25 respondents out of 30 representing a response rate of 83.3%.

Tables 4.1 General profile of respondent

BRANCHES	Frequency	%
BRANCH1	5	20
BRANCH2	6	24
BRANCH3	8	32
BRANCH4	4	16
BRANCH 5	1	4
BRANCH6	1	4
	25	100

From the above results the following analysis of the findings was deduced, the number of employees who responded were 83.3% of the entire population sampled. The highest number of respondents worked for branch 3 as per our findings from the table above .this was followed by branch 2. Third highest were those who worked for branch 1. The fourth highest were those employees who worked for branch 4 . Those who were working for branch 5 and branch 6 were very few and were the least as per our results from the findings

Table4.2 Staff responserate per department

Department	Respondents	Total	%
Institutional banking	4	5	80
IT	2	2	100
Finance	5	6	83.3
Operations	8	10	80
Treasury	4	5	80
Credit risk	2	2	100

From the above table the number of employees who were presented with the research questionnaires and responded to research questionnaires were as follows: All the employees in the credit risk and IT department responded this is illustrated on the table as 100%.In the finance department five out of six employees responded this is illustrated by 83.3%. Those employees who had the lowest response rate were found in institutional banking, credit risk and treasury each had a score of 80% respectively

4.3. Factors necessitating the merger

Respondents were provided with a list to choose from the factors which motivated the organization to establish the merger the responses were ranked in the table below.

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Table 4.3 Factors necessitating the merger

Factors	Frequency	%
As part of a larger improvement standing	13	52
To gain competitive advantage in the industry	15	60
To improve quality of work done	12	48
To increase productivity	9	36
To meet customer expectations	15	60
To reduce costs of operations	18	72
To attain preferred customer base	20	80
To promote organization management.	10	40

Source: Survey data

From the research findings the following factors contributed significantly in the decision to merge the two firms. Firstly attaining the preferred customer base was the most important factor as to why the merging process took place. Secondly .the reduction of the cost of operations was the most immediate reason as to why the merger took place •The third most important reasons as to why the mergers look place was to gain a competitive edge in the industry and to meet customer expectations these two factors from our findings each had a score of 60% respectively. The least most important reasons from our findings were as a part of a larger improvement standing, to improve quality of work done, and to increase productivity which all had a score of 52%.48% and 36% **respectively.**

4.4 Benefits

Respondents were asked to indicate on a likert scale 5-1 the extent to which they agree in experience or perception on the benefits of implementing the merger.

The mean and standard deviation are shown on the table below.

Table 4.4 Benefits of the merger

RANK	<u>MEAN</u>	<u>STD PEV</u>
Were new managers recruited from other firms to take up opportunities arising out of the merger	4.75	0.923
Did the highly efficient team of the pre - merged firm use its extra managerial resources to improve the efficiency of the post merged firm	4.23	0.873
Has the organization trained the acquired firms management to bring the efficiency of the firm to the level of the acquiring firm.	3.57	0.64
Has the synergistic effects of the merger been realized through combination of non managerial organization capital of the firm with excess managerial resources of the acquired firm.	4.47	0.945
Has the merger increased the firms market share	4.15	0.899
Has the firm increased its relative size with regards to other firms in the industry	3.99	0.645

Has the organization achieved a diversification of its product range as a result of the merger	3.879	0.987
Has the merger limited severe competition between the two firms	3.873	0.765
Has the firm been able to exploit technological breakthroughs against obsolescence and price wars	4.633	0.877
Has the firm gained economies of scale and operational efficiency as a result of the merger	4.211	0.922
Has the firm created an image of aggressiveness and strategic opportunism for the bank	4.123	0.981
Did integration take place of technology processes and people	4.009	0.876
Has the organization upgraded its processes on the basis of improved technology.	4.666	0.956
Has the organization sought to outsource its functions that are not core to its business.	4.678	0.978
Were new function departments created as a result of the merger	3.953	0.6333



Has growth in operations provided excitement and challenges to executives as well provide opportunities for job enrichment and rapid career development.	4.378	0.845
Has the merger helped to diversify risk for the bank	3.009	0.645
Has the tax liability been reduced	4.123	0.967
Has profitability been enhanced as result of synergy	4.777	0.912
Has the merger of the two companies increased the stability of cashflows	4.633	0.956
/		
Has the acquisition increased the financial constraint of the acquiring firm by providing funds for internal growth	4.111	0.876
Has the acquisition increased the borrowing capacity of the acquiring firm thus allowing high interest tax shield which allows shareholders wealth.	4.231	0.875

Source: Survey data.

From the above results synergies were experienced in the major four objectives of the study.

The first objective to be analyzed was **managerial efficiency** which was analyzed using the following factors, the recruitment of new firm managers from other firms, the managerial resources of the pre-merged firms used to improve the resources of the post

merged firms, the acquired firms management trained to bring them to the level of the acquiring firm, and finally have excess resources been realized with the combination of non-managerial organization with excess managerial resources of the firm. The results from our findings which were on a likert scale showed strong correlations with the followings standard deviations **0.923,0.873,0.64,0.945** respectively This showed a strong correlation showing that there were synergistic effects experienced in the firm as a result of merging the managerial component.

The second study objective that is **Market share** was analyzed using the following factors , increase in market share, increase in relative size in relation to other firms in the industry, achievement of a diversification of its product range limited severe competition and finally has the firm been able to exploit technological breakthrough against obsolescence and price wars. The standard deviations for the respective factors were as follows 0.899,0.645,0.987,0.765,0.877.these showed a strong correlation and from the results we can deduce the strong synergistic effects were experience in the marketing component of the firm

The third objective under the study was the **operational efficiency** objective which was analyzed using the following factors i.e. has the firm gained economies and operational efficiency as result of the merger ,has the firm created aggressiveness and strategic opportunism for the bank, did integration take place of technology ,processes and people has the organization upgraded its processes on the basis of improved technology has the organization sought to out source its functions that are not core to its business were new functions created as a result of intergration,has growth in operations provided excitement and challenges to executives as well opportunities for job enrichment and rapid career enhancement to executives. The estimated standard deviations from the respective factors vyere as follows 0.922, 0.981, 0.876, 0.956, 0.978, 0.6333, 0.845 this indicated a strong correlation and this showed that synergistic effects were experienced in so far as the operational efficiency objective was concerned.

The fourth objective under the study was the **financial efficiency** objective several factors were investigated to measure this objective these were: has the merger helped to diversify the risk for the bank, has the tax liability reduced, has profitability been enhance as result of synergy, has the merger of the companies increased stability of cashflows,has the acquisition increased the financial constraint of the acquiring firm by providing funds for internal growth, has the acquisition increased the borrowing capacity of the acquiring firm. The estimated standard deviations of the acquiring firms was as follows 0.645, 0.967. 0.912, 0.956, 0.876, 0.875. These findings indicated a strong correlation and hence an indication that synergistic effects were experienced as a result of the merger of the two organization financial components.

4.5 Challenges in implementing the merger.

The respondents were asked to identify the possible problems challenges experienced by the company as result of implementing the merger. On a 5 point likert scale where(5 is strongly agree and 1 strongly disagree.).

Table 4.5 Challenges in implementing the merger

Problem challenges	Median	Standard deviation
Overbidding	3.0	0.65
Acute contrast in peoples attitudes and values of the two companies	4.5	0.987
Job losses, restructuring and imposition of new corporate Culture	4.66	0.911
Demoralization of workforce	3.99	0.876

Source: Survey data.

From the analysis of table 5 above certain factors were viewed as challenges that were experienced from the merging **process** .The most important factor was that there were job losses, restructuring and imposition of new corporate structures to the employees. I he second most important reason was that there was an acute contrast in peoples attitudes and values between the two **companies**. Another challenge that presented itself was the fact that overbidding took place of the two companies this brought in the winner curse (hubris).Demoralization of work force was also seen as major challenge but was the least significant challenge according to our findings.

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary and conclusions

This study on the acquisition of First American Bank by Commercial bank of Africa tries to investigate the benefits for the merger and the challenges of the merger on the company in its key sectors such its corporate market share ,growth in managerial efficiency,Growth in operational synergy and financial synergy.

Respondents were asked to indicate on a likert scale 5-1 the extent to which they agree in experience or perception on the benefits of implementing the merger.

The study revealed that there were managerial expertises recruited from other firms to help in the merging process. The highly efficient team of the post merged firm used its extra managerial resources to improve the efficiency of the post merged firm.

There were training programmes conducted to the acquired firm's management to bring their efficiency levels to those of the acquiring firm

The study revealed that there were synergistic effects realized through the combination of managerial capital of the two firms.

The study also revealed that the merger increased the firm's market share. Also the firm increased its relative size with regards to other firms in the industry.

The post merged firm was also able to achieve product diversification as result of the merger.

The merger limited competition between the two firms and was also able to exploit technological breakthroughs against obsolescence and price wars.

The study also revealed that the firm gained efficiency and economies of scale as result of the merger. The firm also created an image of aggressiveness and strategic opportunism for the banks

There was also an integration of technology processes and people and the organization was able to upgrade its processes on the basis of improved technology.

The study also revealed that there were new functions or departments created and growth in operations provided excitement and challenges to executives as well s provide opportunities for job enrichment as well as rapid career development.

The study also revealed that the merger helped to diversify the risks of the bank. The tax liability also reduced as a result of the merger.

The profitability levels have been enhanced by the merger and the merging process has increased the stability of cash flows of the two banks.

The acquisition also increased the borrowing capacity of the two banks.

The response rate was adequate save for a few non -responses to some sensitive questions.

5.3 Limitations for the study

Information collected in the study was a self report nature which depending on the subject areas being queried may be prone to some inaccuracy as result of less than accurate recall, lack of information, discomfort or self disclosure.

The most important limitation of qualitative research is that the findings cannot be directly generalized to a higher population. This is especially true when the definition of the population is broad e.g. the whole corporate banking industry.

Focus groups or interviews with just eighteen members of a target audience of the population of which numbers in the thousands or more cannot meet statistical assumptions to project the results accurately..

5.4 Suggestions for further research

The study was done to CBA only similar studies should be carried out within the banking industry such the merger of C.F.C. and STANBIC bank.

Other studies in future should be done to cover the winners curse (hubris) and its causes and its effects especially with merger and acquisitions in the Kenyan context

Other study areas that should be investigated are the effects of mergers and the integration of different corporate cultures of the merging companies especially if the partnerships cross national boundaries

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
P.O. BOX 30197
NAIROBI

Dear Sir /Madam

RE: AN INVESTIGATION OF THE BENEFITS AND CHALLENGES OF THE
MERGER BETWEEN COMMERCIAL BANK OF AFRICA AND FIRST AMERICAN
BANK

I am a postgraduate student undertaking a Master of Business Administration degree at the School of Business University of Nairobi. I am currently carrying out a survey on the merger between First American bank and Commercial bank of Africa.

To this end I kindly request you to provide the requested information by filling out the attached questionnaire . The information is required for purely academic and research purposes only and in no way will your name or that of the company be implicated in the research findings.

Your cooperation will be highly respected

Yours respectfully

Richard Mutuma.

Appendix I Questionnaire



Section A

Respondents

Name (optional)....

Jobtitle

No of years worked

Department

1. **Names** of firms before the merger or acquisition

(0

(ii)

2. Name of firm after merger or acquisition

3. Was the combination of your firm a merger or acquisition? Please tick where [appropriate

Merger ()

Acquisition ()

4. Date of merger or acquisition ()

5- How can your firm be classified in terms of ownership

a) **Locally owned** ()

b) **Foreign owned** ()

c) **Both locally and foreign owned** ()

6. What is the **structure** of your firm? Please tick where appropriate

Partnership ()

Privately owned ()

Publicly owned ()

Section B

8. When did your firm receive an approval from the commissioner for Monopolies and prices to merge, acquire or be acquired. ()

What sort of merger or acquisition did your firm undertake? Please tick where appropriate.

Vertical merger/Acquisition Backward
Forward

Horizontal Merger/Acquisition

Conglomerate merger /Acquisition Product extension
Market extension
Pure conglomerate

Concentric merger or acquisition

Section C

In your opinion which of the following motivated your organization to pursue a merger

- 1) To increase the customer base of the bank ()
- 2) To compete more effectively on the local markets ()
- 3) To gain competitive advantage ()
- 4) To improve quality of work done ()
- 5) To increase productivity ()
- 6) To meet customer expectations ()
- 7) To reduce costs of operation ()
- 8) To promote growth of the bank ()**

Please indicate the extent the following has been observed

On a scale of 1-5

1. To a very large extent
2. To a large extent
3. To some extent
4. To a small extent
5. Not at all.

1. Efficiency theories (Differential managerial efficiency)

To what extent:

i) were new managers recruited from other firms to take up opportunities arising out of the merger [(1) (2) (3) (4) (5)]

ii) did the highly efficient team of the post merged firm use its extra managerial resources to improve the efficiency [(1) (2) (3) (4) (5)] of the post merged firm

iii) has the organization trained the acquired firms

management to bring the efficiency of the firm to the level of the acquiring firm. [(1)(2) (3) (4) (5)]

iv) has the synergistic effects of the merger been

realized through combination of non managerial organization capital of the firm with excess managerial resources of the acquired firm. [(1) (2) (3) (4) (5)]

2. Market power

To what extent:

i) has the merger increased the firms market share [(1) (2) (3) (4) (5)]

ii) has the firm increased its relative size with regards to other firms in the industry [(1) (2)(3) (4) (5)]

iii) has the organization achieved a diversification of its product range as a result of the merger [(1) (2) (3) (4) (5)]

iv) has the merger limited severe competition between the two firms [(1) (2) (3) (4) (5)]

v) has the firm been able to exploit technological breakthroughs against obsolescence and price wars. [(1) (2) (3) (4) (5)]

3. Operational synergy

To what extent:

i)has the firm gained economies of scale and operational efficiency as a result of the merger. [(1)(2)(3)(4)(5)]

ii) has the firm created an image of aggressiveness and strategic opportunism for the bank [(1)(2)(3)(4)(5)]

iii)did integration take place of technology processes and people [(1) (2) (3) (4) (5)]

iv) has the organization upgraded its processes on the basis of improved technology. f(1)(2)(3)(4)(5)]

v) has the organization sought to outsource its functions that are not core to its business. [(1)(2)(3)(4)(5)]

Vi) were new function departments created as a result of integration' [(1)(2)(3)(4)(5)]

Vii) has growth in operations provided excitement and challenges to executives as well provide opportunities for job enrichment and rapid career development. [(1)(2)(3)(4)(5)]j

4. Finance synergy

To what extent:

i) has the merger helped to diversify risk for the bank [(1)(2)(3)(4)(5)]

ii) has the tax liability been reduced\ [(1)(2)(3)(4)(5)]

iii) has profitability been enhanced as result of synergy [(1)(2)(3)(4)(5)]

iv) has the merger of the two companies increased the stability of cashflows [(1)(2)(3)(4)(5)]

v) has the acquisition increased the financial constraint of the acquiring firm by providing funds for internal growth [(1)(2)(3)(4)(5)]

vi) has the acquisition increased the borrowing capacity of the acquiring firm thus allowing high interest tax shield which allows shareholders wealth. [(1)(2)(3)(4)(5)]

5. Any other determining factors (please specify and rate their importance to the extent to which they have brought positive changes to the firms as a result of the merger)

i) [(D)(2)(3)(4)(5)]

ii) [(1)(2)(3)(4)(5)]

iii) [(1)(2)(3)(4)(5)]

iv) [(1)(2)(3)(4)(5)]

6. In your opinion was the pursuit of a merger an advantage or a disadvantage

Yes ()

No ()

THANK YOU FOR YOUR TIME AND COOPERATION

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