MERGERS AND ACQUISTIONS AS AN ENTRY STRATEGY BY CFC STANBIC BANK IN THE KENYAN MARKET

BY

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DECLARATION

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

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

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DEDICATION

I dedicate this research project to my family members, my dear mother Joyce Wanjiku, my siblings and friends for their support, patience, encouragement and understanding. They gave me the will and determination to complete my masters.

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ABSTRACT

The purpose of the study was to determine how mergers and acquisitions were used as an entry strategy by CFC Stanbic bank in the Kenyan market. The research design used in the study was case study. The researcher used interview guides as the main data collection instrument from the sampled employees at the company. The study targeted 9 employees in the management levels of the company. A qualitative content analysis was employed to analyze the respondents' views about mergers and acquisitions as an entry strategy by CFC Stanbic bank in the Kenyan market. The data was then coded to enable the researcher to make explanatory assertions. The study found out that there arevarious factors affecting the use of mergers and acquisitions by CFC Stanbic bank in the Kenyan market including cultural differences, geographic differences and differences in valuation. The study also found out the advantages and disadvantages of using mergers. The advantages include increased market share, reduced competition, higher profits, economies of scale, buying in bulk which brings higher discounts, greater investment in R&D, greater efficiency and protecting companies from closing down.

The disadvantages include diseconomies of scale if the company becomes too large, making employees redundant which may affect the level of motivation, clashes of culture and conflict of objectives of between different businesses making decisions hard to make.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The volume of cross-border acquisitions has been growing worldwide, from 23% of the total merger volume in 1998 to 45% in 2007. Conceptually, cross-border mergers occur for the same reasons as domestic ones: two firms will merge when combining them increases the value (or utility) from the perception of the acquiring firm's managers. Multinational corporations sit at the intersection of production, international trade, and cross-border investment. Mergers and or acquisitions continue to be a dominant growth strategy for companies worldwide. This was partly driven by key stakeholders' vigilance in their pursuit of increased shareholder value (McDonald, Coulthard, & Lange, 2005). As Lovas and Ghoshal (2000) noted, the international business offers the possibility of exploiting three sources of the competitive advantage unavailable for the national companies; global efficiencies, the multinational flexibility and worldwide learning process.

Keegan (2003) notes that most classifications of market entry modes contain only generic categories, such as direct or indirect exporting, franchising, licensing, joint venturing, partially or wholly owned overseas subsidiary, management contracting and contract manufacturing. Driscoll, (2005) makes a distinction between three broad groupings of foreign market entry modes; export, contractual and investment-based. Market entry mode selection is a particular case of the wider decision process category often referred to in the literature as market servicing decisions (Benito & Welch, 2004).Root (2004), three basic approaches to entry mode selection are possible: selection in absence of any

market entry strategy, or ``the sales approach'' characterized by, among others, short time horizons, no systematic selection criteria, few product adaptations and no effort to control overseas distribution; selection in accordance with an existing market entry strategy and selection which considers some strategy rule(s) and involves systematic comparisons of alternative modes available.

In the recent past, there has been a steady increase in the number of mergers and acquisitions taking place in Kenya and a recent paper done by Export Processing Zone Authority (2005) brought this out clearly. According to The Competition Authority formally known as the Monopolies and Price Commission of Kenya (MPC), merger cases presented to them in 2008, were 12% more than those present in 2007 (CAK); the figure however slightly dipped in 2009 but is expected to pick in 2010 keeping in mind the governments' directives to banks to increase their minimum share capital.

1.1.1 Concept of International Business

Daniels, Radebaugh and Sullivan (2007), describe International business refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations.

International business comprises all commercial transactions that take place between two or more regions, countries and nations beyond their political boundaries. These transactions are both private and governmental, sales, investments, logistics and transportation. While private companies undertake such transactions for profit, governments undertake them for both profit and political reasons. Transactions of

economic resources include capital, skills, and people for international production of physical goods and services such as finance, banking, insurance etc.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called multinational corporation (MNC) or transnational company (TNC). Examples of multinational corporations include vehicle manufacturers such as General motors, Ford motor company and Toyota, consumer electronics companies such as Samsung, LG and Sony and energy companies such as Shell and BP.

1.1.2 Entry strategies

Mergers as a form of corporate restructuring have received a lot of attention in the financial environment and in the world economy. Forces attributed to this can be identified as; acceleration of the pace of technological change, reduction in the cost of communication and transportation, globalization and its impacts on markets and market share, emergence of new industries, increased industry regulations in some areas and deregulations in others (Tichi, 2001). The issue of market entry strategy continues to be of great interest to international business academics and practitioners (Mayrhofer, 2004). The chosen market entry strategy is important as it determines the manner in which the companies develop and implement marketing programs, coordinate business activities both within and across markets, and ultimately the success in foreign markets (Malhotra et al., 2003). From a market entry strategy standpoint, one of the greatest challenges for cross border merger is overcoming the liability of foreignness i.e. the liability associated with foreign operations (Miller and Parkhe, 2002).

Cross border Mergers world over are conducted under strict regulation requiring several approvals to be sort. For instance, in the United States, the *Sherman Act of 1890* was enacted to control restrictive and monopolistic trade that was emerging as a consequence of mergers (Bacon and Gersdorff, 2008). Regulators in Kenya, August 2011 saw the operationalization of the competition Act 2009. Market entry strategies are inherently difficult. A firm's managers need to consider the influence of numerous factors both internal and external to the firm in deciding when and how to enter a market with a new product (Lieberman and Montgomery, 2001).

According to the Boschetti and Moeller (2008), all mergers/acquisitions would require the Authority's authorization before they are consummated. The aim of this being establishment of checks and balances that ensure the transaction does not lead to concentrated market structures with ramifications on the competition process. (CAK, 2013). When the competitive stakes are high, it is clearly in a firm's best interest for its management to plan carefully such a market entry timing decision by giving careful consideration to a broad array of information including information on the competitor, the competitor's product offering, the market, and the firm's internal resources and product offerings.

1.1.3 Mergers and Acquisitions

This is an aspect of corporate strategy, corporate financing and management dealing with buying, selling and dividing and combining of different companies and similar entities that can help an enterprise grow rapidly either in its place of origin or in a new field without creating a subsidiary or child entity or using a joint venture. When one company

takes over another and clearly establishes itself as the new owner, the purchase is called an acquisition.

A merger on the other hand happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. Both companies' stocks are surrendered and new company stock issued in its place.

1.1.4 Banking sector in Kenya

The Kenyan banking sector remains sound and resilient whereas the Kenyan financial sector is developing and deepening faster than the overall economy. This is according to the Central Bank of Kenya in a just released Banking Sector Development Report for the second quarters ended 30th June 2012.There are 44 banks in Kenya. The first three banks to be formed in Kenya were Barclays, Kenya Commercial Bank and Standard Chartered bank. They are still the largest banks. Foreign banks in Kenya control 40.3% of the market share in terms of assets, with Barclays and Stan chart controlling 30%.The banking systems in sub-Saharan Africa (SSA) in general and Kenya in particular, are shallow and fragile. This is reflected in low lending levels, high interest rate spreads, high levels of non-performing loans and several bank failures. The banking system in Kenya is highly segmented by size and ownership factors.

There are the four segments as: foreign owned banks, government owned banks, large private owned banks and small private owned banks. In light of the four segments, there are three different relationships: lending relationship between a bank and its borrowers; deposit mobilization a bank and its depositors; corporate governance between the

shareholders and management of a bank. The analysis shows that different segments of the banking sector face clients of significantly different size and type and that this segmentation has a strong impact on performance of banks in each of the segments & is based partly on economic and social factors such as: the size of a bank's structure of ownership; trust between banks and their clients. Segmentation affects and influences a number of things: Lending decisions, Deposit mobilization and Governance of banks. Structural constraints faced by banks in Kenya are varied, complex and grounded in social factors.

1.1.5 CFC Stanbic bank

CfCStanbic Bank, which is part of the Standard Bank Group, is now the fourth largest bank in Kenya measured by total assets. The Standard Bank Group, which has its head office in South Africa, is Africa's largest bank by market capitalization and assets. At the end of 2007, the Standard Bank Group had total assets of over R 1,191 billion (approximately USD175.0 billion) and employed over 40,000 people worldwide. The Bank's market capitalization as at 3 April 2008 was R145 billion (approximately USD18.6 billion).

CfC Stanbic Bank was formed in June 2008 out of a deal that brought together Stanbic Bank Kenya Ltd and CfC Bank Ltd, which includes CfC Bank, CfC Life, CfC Financial Services, Heritage Insurance and Heritage Insurance Tanzania. CfC Stanbic bank is listed on the Nairobi Stock Exchange (NSE) and currently has a market capitalization of Ksh 11.7b (USD 129m) at November 28th 2011.

Customers of the previous separate banks continue to use their existing "home" branch for over-the-counter transactions. The operations and products of the merged banks have been pulled together and are able to provide you with a broader choice of tailor-made products and services, delivered to you in a manner that best suites you.Both CfCbank and Stanbic bank ceased to exist when the two firms merged, and a new company, CfC Stanbic, was created.

1.2 Research Problem

Mergers and acquisition is a combination of two or more enterprises whereby the assets and liabilities of one are vested in the other, with the effect that the former enterprise loses its identity. There are various ways that mergers and acquisition could happen which include, Horizontal': between enterprises in the same product market and at the same level of the production or distribution cycle. 'Vertical': between enterprises that operate at different levels of the production or distribution cycle. 'Conglomerate': between enterprises operating in different markets. The motivation of mergers and acquisitions is to diversify the areas of activity and thereby to reduce business risks, achieve optimum size to reap the benefits of economy of scale and to reduce the duplicate expenses and thereby to improve the profitability.

Despite the fact that a large proportion of worldwide merger activity involves firms from different countries, the voluminous literature on mergers and acquisition has focused primarily on domestic deals between publicly traded firms in Kenya. In recent years, the growth in mergers and acquisition activity created increased competition for. Different firms both locally and internationally have poor or inadequate understanding international

mergers and acquisition, as they do not address a number of factors related to country-based differences between firms, such as cultural or geographic variables, or factors associated with the firm's home country's economy.

Many researchers have addressed the question of wealth gains resulting from mergers and acquisition (Dalkir & Warren- Boulton, 2001).According to Mutambah (2012), the focus of the operations of multinational corporations is on the coordination of the allocation of resources in its international operations in order to minimize production cost and maximize revenue. Yip (2006) notes that the success of many Japanese firms in the global marketplace has made much attention to been focused on the marketing and entry strategies and tactics used by Japanese companies. Tallman and Shenkar (2004) underscore the importance of the foreign market entry mode decision indicating that entry mode chosen has a major impact on the level of control the company has over the venture.

This paper evaluates the extent to which these international factors influence the decision of firms to merge. It focuses on cross-border mergers and acquisition but is not present to the same extent in domestic mergers and acquisition, such as cultural differences, geographic differences, country-level governance differences, and international tax effects. It looks at the use of Mergers and acquisitions as an entry strategy by CfC Stanbic in the Kenyan market. The research will attempt to answer the question: how has CfC Stanbic used mergers and acquisitions as an entry strategy to access the Kenya market?

1.3 Research Objectives

To establish mergers and acquisitions as an entry strategy by CfC Stanbicin the Kenyan market.

1.4 Value of the Study

To the Kenyan multinational enterprises, the study will be of valuable to the Kenyan multinational enterprises management in that it will provide an insight into the use of mergers when entering a new market for effective and successful marketing strategy and increase of profits.

The study will be useful to the government in policymaking regarding taxation and other regulatory requirements of the multinational enterprises merging with the local companies in the country.

To the academicians, the study will provide a useful basis upon which further studies on market use of cross border mergers in the private sector could be conducted. This is because, the study will add to the existing pool of knowledge and therefore form part of literature on use of cross border mergers by multinationals

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents theoretical foundation and review of past literature on the use of mergers by multinational companies to access local or new markets. Therefore, the chapter is structured into theoretical foundation and empirical review.

2.2 Theoretical foundation

The theoretical foundation looked into are the International Entrepreneurship theory (IET) and the bargaining power theory. These theories are discussed below.

2.2.1International Entrepreneurship theory (IET)

This theory is about the trend and behavior observed internationally concerning entrepreneurship with a major focus on how companies discover, enact, analyze and exploit opportunities in the production of goods and services.

According to Masum, & Fernandez, (2008), entrepreneurship is one of the most common forms of internationalization as the entrepreneur has the knowledge on how to measure the opportunities in the market with the ability to create relationships that are stable with other organizations, consumers, suppliers and contractors in the market (Sauvant, Mendoza, & Irmak, 2008).

The entrepreneur should be objective and a risk taker and should be able to commit resources in a more efficient manner in order to attain competitive advantage for the company. In this theory, the entrepreneur needs to seek opportunity in other countries and

exploit ay new opportunities that may arise in the market (Sauvant, Mendoza, & Irmak, 2008).

2.2.2 Bargaining power theory

Bargaining power theory asserts that the entry mode a firm chooses depends on the relative bargaining power of the firm and the foreign government (Franko, 1971; Tallman and Shenkar, 2004).

As noted by Gomes-Casseres (1990) and others who have employed the bargaining power framework, access to foreign markets is controlled by political actors at home and abroad, so that the initial market entry decision has to include the political imperative. Without these actors' explicit or implicit permission, no subsequent marketing activity is possible (Boddewyn and Brewer, (1994).

International firms often negotiate with a variety of governmental actors to accomplish all or part of their objectives (Wells, 1973).Thus; the bargaining power of the political and corporate actors in market entry decisions becomes a salient consideration (Gomes-Casseres, 1990). Bargaining power theory starts from the premise that a firm has a natural preference for a high-control mode of entry, since this is the most desirable arrangement in terms of the firm's long-run ability to dominate a foreign market. However, the firm may be forced to settle for a lower control mode of entry if it has low bargaining power.

As used in this study, the term bargaining power refers to a bargainer's ability to set the parameters of the discussion, win accommodations from the other party, and skew the

outcome of the negotiation to the desired ownership alternative (Lax and Sebenius, 1986; Tung, 1988).

A primary source of the host government's power in the negotiations is its ability to control the market access and to hand out or with draw in incentives for the investment project. On the other hand, as noted by Kumar and Subramanian (1997), BP theory suggests that much of the firm's bargaining power stems from ``ownership advantages'' that it possesses, such as the ability to employ people and contribute to the local economy. According to the bargaining power theory, the actual mode of entry a firm eventually settles for will depend on the relative bargaining power between the firm and the host government.

2.3 Factors Affecting Use of Mergers by International Companies

Di Giovanni (2005) considers cross-border mergers value flows in the 1990-1999 period for a broad set of 193 countries and estimates a simple gravity model using a Tobit specification that controls for possible bias caused by censored data. The results indicate that geographical distance negatively affects the value of international deals, which are also influenced by GDP and financial variables. Firms also tend to invest more in countries with which they trade more and with which they share a common language.

In a similar vein, Hyun and Kim (2010) analyze bilateral M&As in 101 Organization for Economic Co-operation and Development (OECD) and developing countries worldwide over the 1989-2005 period. By estimating a Tobit model, they show that market size and a common language have positive and significant effects, while distance is negatively related to cross-border M&As.

Coeurdacier, De Santis and Aviat (2009) analyze cross-border M&As in the manufacturing and service sectors for a sample of 31 European and OECD countries for the 1985-2004 period. They include GDP, the degree of capitalization, the presence of a common language, and trade integration as controls for country characteristics. Geographical distance is found to have a no significant impact on cross-border M&As, potentially because the sample consists primarily of developed countries, where the information costs measured by geographical distance are less important.

The contribution by Ragozzino (2009) is based on firm-level data and focuses on 608 international deals made by US companies worldwide in the 1993-2004 period. Ragozzino demonstrates that acquirers prefer shared-ownership deals in remote locations and full ownership in proximate locations due to the presence of asymmetric information. Moreover, he finds that if cultural distance and political risk are high, firms seek higher ownership stakes in more distant locations than in closer ones.

Lerner (1995) examines the role of geographic distance as a determinant of board membership of venture capitalists (VCs) in entrepreneurial firms, finding that proximity significantly increases the likelihood of direct participation by VCs in these firms. In turn, the monitoring function of VCs reduces the risks of agency problems that tend to surface when appropriate controls (such as direct participation) are not in place.

2.3.1 Cultural Differences

Cultural differences have been often indicated as one of the main drivers of economic relationships between countries, as the closer two economies are in terms of social behavior, the lower the transaction costs and, in turn, the higher the probability of

observing movements of people and the exchange of capital and goods. However, several contributions have proxied for cultural closeness by simply including a dummy for sharing a common language.

Recently, Ragozzino (2009) employed the well-known cultural index originally proposed by Hofstede. In his seminal contributions, Hofstede (1980, 2001) grouped countries on the basis of four cultural dimensions, namely, power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity. Two other cultural dimensions were subsequently added to define the cultural profile of a nation: long-term orientation and indulgence versus restraint.

Cultural factors in IM&As can be studied at both the organizational and the national levels. These two levels of culture should be treated as separate variables to show how they relate to other aspects of IM&As (organizational structure, performance, and acculturation). Larsson and Lubatkin's (2001) assessment shows that most researchers have treated organizational and national culture as one factor in their analyses; and have concluded that culture clash results in a decline in shareholder value at the buying firm, it affects organizational restructuring, it causes a deterioration of operating performance at the acquired firm, it lowers employee commitment and cooperation, and it results in greater turnover among acquired managers.

Acknowledging the importance of culture in the success of IM&As, researchers have recommended a harmonious integration of the beliefs and values of merging firms and say that the ability to integrate organizational cultures (achieve acculturation) is more important to merger success than financial or strategic factors. In summary researchers,

consider cultural synergy an important success factor (Marks and Mirvis 2001). However, most researchers have treated culture at the organizational level and discussed success factors of cultural integration in M&As with the exception of few (Rondinelli and Black 2000) who have treated culture at the national level but have analyzed IM7As and trends in a specific region.

A few researchers who acknowledge that national and organizational cultures act at different levels still include them in their analysis as one factor. One of the most cited studies is Malekzadeh and Nahavandi's (1998) work on the role of leadership in IM&As. They acknowledge that acculturation takes place at two levels, national and organizational concept that has been called a double-layered acculturation process. However, they consider both levels of culture as part of the leader's mindset, with a major impact on the acculturation course leading to the eventual success or failure of the merger.

National culture sets the direction of how foreign investors are perceived by the host country and defines the host government's preferences in economic and social forms and consequently in its trade policies. Through their institutions, nations affect the norms according to which buying firms manage the post-acquisition process.

The influence of national culture on acculturation of IM&As might be hard to specify empirically, but also hard to deny (Larsson and Lubatkin, 2001). To support this argument, Larsson and Lubatkin compare Swedish and American cultural preferences in IM&A. They argue that Swedish buying firms are more likely than American buying firms to achieve acculturation. Swedish firms, they say, are more likely that U.S. firms to

govern the post-acquisition process in ways that minimize culture clashes and improve the likelihood of achieving acculturation (egalitarianism, collective responsibility, cooperation, jointly negotiated agreements and voluntary compliance).

Executives of different nationalities have a different perception of risk, which affects their evaluation of a merger. The perception of risk or their attitude toward uncertainty is one of the national cultural dimensions that allow one to measure cultural differences.

2.3.2 Geographic Differences

While it has been argued that the relevance of geographic distance should decrease over time, as telecommunication, information technology, and transportation systems advance (Grosse & Trevino 1996), there is a growing body of work that has studied the economic importance of geography to firms' ability to grow, innovate, and even survive (Audretsch& Stephan 1996).

The recent literature has emphasized that geographical distance helps to explain how managerial perceptions of foreign countries may systematically influence decisions regarding firms' international activities (Hakanson & Ambos, 2010). The geographical distance (GEO) between countries has been computed as the distance in kilometers between the countries' capital cities where the concentration of economic activity is typically highest.

Evidence of the importance of geographic distance as a proxy for information asymmetry exists in the M&A area as well. A recent paper by Grote and Rticker (2007) shows that the wealth effects experienced by German firms acquiring foreign targets vary greatly based upon the proximity of their investments. More precisely, these authors show that

all else constant, acquirers experience positive cumulative abnormal returns of 6.5 percent when buying a firm in a neighboring country, while they lose an average of 4.4 percent in other deals. In a related paper, Grote and Umber (2006) study a sample of US-based acquisitions and bring evidence of firms' greater returns in proximate investments than in remote ones, owing in part to the availability of better information on targets in less distant deals.

2.3.3 Differences in Valuation

A potentially important factor in international mergers is valuation. Given that markets in different countries are not perfectly integrated, valuation differences across markets can help to motivate cross-border mergers. Suppose that a firm’s currency rises for some exogenous reason unrelated to the firm’s profitability. This firm would find potential targets in other countries relatively inexpensive, leading some potential acquisitions to be profitable that would not have been profitable at the old exchange rates. Therefore, we expect to observe more firms from this country to engage in acquisitions, since they will be paying for these acquisitions in an inflated currency (Tallman and Shenkar, 2004).

The logic by which valuation differences can lead to cross-border mergers depends on whether participants believe these movements are temporary or permanent. If the valuation differences are temporary, then cross-border mergers effectively arbitrage these differences, leading to expected profits for the acquirers.

Shleifer and Vishny (2003) develop a behavioral model in which firm values deviate from their fundamentals. Managers of an overvalued acquirer consequently have incentives to issue shares at inflated prices to buy assets of an undervalued or at least a

less overvalued target. This transaction transfers value to the shareholders of the acquiring firm by arbitraging the price difference between the firms' stock prices. The key component of this model is that the source of the valuation difference is private information owned by managers.

While it is implausible, that one particular firm's managers have superior information about the valuation of the overall market or any particular currency. Baker, Foley, and Wurgler (2009) argue that cross-border mergers could similarly occur because of mispricing of securities from fluctuations in risk-aversion by local investors or irrational expectations about a market's value (each accompanied by limited arbitrage), implying that managers of target company would be willing or accept payment in a temporarily depreciated currency or overvalued stock.

If the valuation differences are permanent, the attractiveness of mergers, especially the ones that involve targets with cash flows in local currency, would be unaffected by the valuation movement. However, there are a number of channels through which even permanent valuation differences can affect merger propensities. As Kindleberger (1969) originally observed, cross border mergers can occur because under foreign control, either expected earnings are higher or that the cost of capital is lower.

If domestic firms produce goods for sale overseas or compete in their domestic market with overseas competitors, then the profits of domestic firms potentially increase the following permanent currency depreciations, making the firms attractive to potential foreign acquirers. Alternatively, when a foreign firm's value increases relative to that of a domestic one, for example through unhedged exchange rate changes or stock market

fluctuations, its cost of capital declines relative to that of a domestic firm because of a reduction in the magnitude of the information problems it faces in raising capital (Froot and stein (1991).

This argument implies that permanent changes in valuation can lead to cross-border mergers because the value changes lead to a lower cost of capital under foreign control, allowing potential foreign acquirer to bid more aggressively for domestic assets than domestic rival bidders. Because this explanation for a relation between currency movements and cross-border mergers is based on asymmetric information, it is likely to be particularly relevant in the case of private targets, for which asymmetric information tends to be high relative to otherwise similar public targets.

2.3.4 Advantages of use of mergers

A merger occurs when two firms join together to form one. The new firm will have an increased market share, which reduces competition. This reduction in competition can be damaging to the public interest, but help the firm gain more profits. However, mergers can give benefits to the public (Marks and Mirvis 2001).

Economies of Scale**,** this occurs when a larger firm with increased output can reduce average costs. Lower average costs enable lower prices for consumers. Technical economies, if the firm has significant fixed costs then the new larger firm would have lower average costs. Bulk buying, a bigger firm can get a discount for buying large quantities of raw materials. Financial benefits whereby better rates of interest are offered for large companies. Organizational advantage, one head office rather than two is more efficient (Grote & Umber 2006).

International Competition, mergers can help firms deal with the threat of multinationals and compete on an international scale. Mergers may allow greater investment in R&D. This is because the new firm will have more profit which can be used to finance risky investment. This can lead to a better quality of goods for consumers. This is important for industries such as pharmaceuticals which require a lot of investment. Another advantage is greater efficiency, redundancies can be merited if they can be employed more efficiently(Hyun & Kim 2010).

Mergers and acquisitions help protect industries from closing business. Mergers may be beneficial in a declining industry where struggling firms are to stay afloat in the hard times. In the UK government allowed a merger between Llyods TSB and HBOS when the banking industry was in crisis.

2.3.5 Disadvantages of use of mergers

The disadvantages of mergers and acquisitions are, diseconomies of scale if business becomes too large, which leads to higher unit costs and clashes of culture between different types of businesses can occur, reducing the effectiveness of the integration.

The companies may need to make some workers redundant especially at management levels and this may have an effect on motivation. There may be a conflict of objectives between different businesses, meaning decisions are more difficult to make causing disruption in the running of the business (Coeurdacier, De Santis&Aviat2009).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design and research method used to carry out the study. In particular issues related research design, the population, the type of data that was collected, data collection instrument, validity and reliability of the instrument and the technique for data analysis and presentation are discussed.

3.2 Research design

A case study plan was used for this study. The case study research design is an appropriate method because it is an essential aspect of inquiry that is preliminary to the formulation of types and generalizations. The case study is a way of ordering social data with the view of preserving the unitary characters of whatever is being studied. The function of the case study is to describe the case in terms of the particularities that are observable. This makes it possible for the researcher to undertake an intensive examination of the specific factors implicated in the case.

According to Mugenda and Mugenda (2003), sampling procedure refers to a systematic process of selecting individuals to represent the larger group from which they will be selected. The researcher used a stratified sampling approach to cover the total population given the nature of the respondents. The main advantage of sampling was that it was difficult to observe the whole population; therefore sampling helps to reduce costs and time related to observing the entire population as is the case in census

Sample size refers to the number of subjects. According to Mugenda and Mugenda (2003) the sample size should be as large as possible so as to produce the salient characteristics of the accessible population to an acceptable degree. The sample size should be in such a way that it is within plus or minus 0.05 of the population proportion with a 95 percent level of confidence

Ramenyi et al (2003) argue that 10 % to 20% of accessible population is acceptable in a descriptive research. The researcher will examine a sample of 9 which is 20% of whole population in CFC Stanbic bank. Stratified random sampling technique was used in order to divide members of the population into homogeneous subgroups before sampling and subdivided into group or strata to obtain a representative sample

3.3Data Collection

In order to investigate the use of mergers by multinational companies, interview guide was used to gather information from sampled employee sat the company. Interview questions were designed to investigate the use of mergers by CfC bank and Stanbic bank to enter the Kenyan market.

According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. The population of interest /respondents of this study were the staff at CFC Stanbic bank. The study targeted9employees in the company,3 from top-level management, 3 from mid-level management and 3 from low-level management in the company.

In order to obtain views aimed at investigating the use of merger by CFC bank and Stanbic bank, employee in the three management levels were selected. The researcher used the interview guide as the main data collection instrument. The interview was in depth allowing the interviewer to ask opinions or get unrestricted comments allowing the researcher to take notes for analysis and give recommendations for the study.

3.4 Data Analysis

Before processing the responses, the case study aims to search for data patterns that help in the analysis. A qualitative content analysis was employed. The content analysis was used to analyze the respondents' views about the use of mergers by CFC bank and Stanbic bank. The data was then be coded to enable the researcher make explanatory assertions. Narratives have been used to describe the overall results.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATIONS AND INTERPRETATION

4.1 Introduction

This chapter presents the data presentation and analysis. The main objective of the study was to establish mergers and acquisitions as an entry strategy by CfC Stanbic in the Kenyan market. The study targeted 9 employees in the management levels of the company. The researcher used the interview guide as the main data collection instrument. A qualitative content analysis was employed.

4.1.1 Response Rate

Sample size was 9 employees in the management levels of CfC Stanbic bank. However, due to various study limitations only 6 staff members were successfully interviewed. This translates to 66.67%. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent, so from Mugenda (1999), the response was excellent, hence, the response rate was deduced as excellent.

4.2 Demographic information

4.2.1 The level of management in the company

The study found out the level of management of the respondents and elaborated their roles. According to the study, findings there were three levels of management that were indicated. These included top-level management, middle level management and lower level management. The majority of the respondents indicated that they were in middle

level management, which was comprised of different managerial levels. The study also asked them to indicate the roles they play in the CfC Stanbic. Bank Supervisor: responsible for a small group of people, usually doing the same job or very similar jobs. The supervisor handles work assignments, timekeeping and problem solving. They are responsible for quality, motivation, and training. Bank Manager: responsible for the planning, organizing, directing, and monitoring management functions, but usually in partnership other managers; also, they are responsible for quality, schedule, and budget, but not for the people related functions like training and discipline. Manager: responsible for HR responsibility, and more discretion. Senior Managers: responsible for the administrative and functional direction of a group of employees. They generally have more discretion and greater financial authority. General Managers: responsible for supervising the other managers of all their functions in the company, they are also the hiring authority for the company and decision-making.

4.2.2 Education level of the respondents

The study sought to find out the education level of the respondents. The results obtained indicated that majority of the respondents had reached collage education; another had university education while a few had postgraduate education. This implies that majority had adequate knowledge and could therefore provide viable information with regard to the aim of the study. It also emerged that majority of the respondents were still continuing to upgrade their education level through various institutions of learning.

4.2.3 Period worked in the company

The study sought to find out the period the respondents have worked in this company this would be essential in determining

Their experience and knowledge about theme geentered by the company. The results obtained showed that majority of the respondents were had worked for 6-10 years there are those who have worked for between 1- 5 years, there are those for who have worked for 11-15 years, others for16-20 years and the a few of them haveworkedabove20 years. These findings imply that the majority had adequate experience with the company and therefore knew more about the mergers.

4.2.4 The opportunities that influenced the choice of Kenya as a market for the company

The study sought to find out the opportunities that influenced the choice of Kenya as a market for the company. According to the study findings, the respondents indicated the opportunities influencing the Kenyan market as a choice is credited to the Kenya's expanding banking sector. The large number of people seeking better terms in the banking services influenced the need for the bank to consider the Kenyan market as viable. The virgin property market financing also is indicated by majority of the respondents as untappeds sector that the banks have opportunity to venture. The growing demand for financial products among various sectors in Kenya is also ideal to make business. According to the majority of the respondents, the unique products of the bank gave it confidence that the Kenyan market is ideal for their business. It is therefore

indicated that majority of the respondents in this study mentioned market share, finances, name brand and customer base which is similar to Tallman and Shenkar, (2004) findings.

4.2.5 Reasons for using mergers as an entry strategy for your company to the local market

The study sought to find out the reason why the companies chose this mode of strategy to enter into the Kenyan market. The results obtained in the study indicated divergent views from these respondents interviewed. Majority indicated that improving market research as the main reason for using mergers as this woulden able them to understand their clients better and broaden the base. According to the study other respondents indicated that the reason was to maintain a competitive ensure that the strategies employed are better to remain a floating a competitive market such as Kenya. There are those who indicated that enhancing performance and cost efficiency as one of there as on of rising this entry strategy as this woulden sure that both the companies put their resources together to be able to attain this goal. The cost efficiency is another issue which some respondent raised as reasons for the companies choosing this mode of entry.

4.2.6 The challenges involved in the CfC Stanbic merger.

The respondents were asked to indicate the challenges CfC Stanbic Company is facing in Kenya and according to the study findings the CfC Stanbic Company was faced with the challenges of profitability of other operators forcing them to streamline their operations and develop new revenue streams in this market. The respondents also indicated that one of the greatest challenges for investing abroad for CfC Stanbic is overcoming the liability of foreignness meaning the liability associated with foreign operations from a market

entry strategy point. The respondents also indicated the challenge of making strong decisions since they keep on evolving in the market.

4.2.7 Where the company banking products sell well in the Kenyan market

The study sought to find out the main part in Kenya that respondent well to their products. There results obtained indicated hat majority of the respondents mentioned the urban areas because this is where majority of educated population could be found. The products from the company often target property market and loans for the salaried individuals. There are those who thought that the market was also entering well in the rural areas where farmers and others use their services to acquire assets. A small section of the respondents indicated that the market is well balanced and the bank could be found in most towns in Kenya.

4.2.8 Whether choice of Kenya as a market influenced your decision to market in nearby markets

These respondents were asked whether the company access to the Kenyan market had any effect on their subsequent access to the nearby market. According to the results from the study majority of the respondents agreed that this influence this positively. There as given include that the interaction in the east Africa free market has enabled many potential clients to know more about the bank products which hasled to an increase of those seeking these services. As a results the bank had been forced to open branches in areas outside the country to reach out to these clients such as in southern udan and Uganda as similarly found by Coeurdacier, De Santis and Aviat (2009) analyze cross-

border M&As in the manufacturing and service sectors for a sample of 31 European and OECD countries for the 1985-2004 period.

4.2.9 Whether the Kenyan market has grown

This study question was aimed at finding out whether there was any progress in the Kenyan market by the company since its entry. Majority of the respondents in the study indicated that the bank has tremendously grown and has created a name for it self the competitive market. This is similar to the findings by Hyun & Kim (2010) indicating that another advantage is greater efficiency, redundancies can be merited if they can be employed more efficiently. However, a slight majority of the respondents felt that the company has not grown as was expected as a result of the challenges it has faced in trying to adapt its products to the Kenyan market which has also derailed their growth, not forgetting the rampant competition from other brands.

4.2.10 Whether the banking company did any licensing and franchising **arrangements with any other party in Kenya**

The respondents were asked to indicate whether their company had done any licensing and franchising arrangements with any party in Kenya. According to the study findings, CFC Stanbic Bank has made licensing and franchising arrangements with other banking companies, in order to establish owned subsidiaries. Licensing and franchising arrangements are non-equity associations between an international company and a party in Kenya.

The study also further ask the respondents how licensing and franchising arrangements have influenced the company's operations and Return on Investment (ROI). According to

the study findings, licensing is a common method of international market entry for companies with a distinctive and legally protected asset, which is a key differentiating element in their marketing offer similar to the findings by Coeurdacier, De Santis and Aviat (2009) in their analysis. The respondents further stated that because little investment on the part of the licensor is required, licensing has the potential to provide a very large return on investment (ROI).

4.2.11 Whether the company experienced culture crush after the venture

The study sought to find out whether the differences in culture had any effect in the company trying to venture in the Kenyan market. The results obtained indicated that majority of the respondents refuted that claim terming it as not true. This is because the merger between the companies was well organized and arranged and the bank was also established in the Kenyan market before merger. This echoes the study by Ragozzino (2009) employed the well-known cultural index originally proposed by Hofstede .There are however a few who indicted that there was a problem in merging the organization culture as they had been used to operating differently.

4.2.12 Whether the banking company has been affected by the geographical position of Kenya

The study question sought to find out the effect of the geographical position between the two merging companies. This according to majority of the respondents was not a major issue because of the increased level of communication through instant messaging on the internet and mobile phones. The efficiency in communication has brought far distant location too close to each other. This is therefore not a major issue as indicated by

majority of the respondents. There were however few who still felt that it the impact as the geographical position influenced their choice of entry strategy.

4.2.13 whether Kenya is a strategic geographical location

This was aimed at finding out whether the choice of entry was based on the strategic position of the country. According to the majority of therespondentsKenyaislocatedinagoodgeographicalpositionconsidering this is the entrance out to the eastern and central Africa Kenya being a power house in the region. It is therefore influential when it comes to multinational company's decision to tapin to the local or regional market. The infrastructure in Kenya is also adequate to facilitate trade and therefore majority of the companies feel that starting from the country they would be able to venture in other countries in the region. This echoes the findings by Grote and Umber (2006).

4.2.14 CfC Stanbic Bank benefits in terms of risk and market opportunities

According to the study finding, majority of the respondents indicated that the company has benefited it is has been able to venture deeping the Kenyan market. The increase in the customer base and ability to come out with products that suit well in the local market are some of the issues raised by respondents as beneficial to the bank which has seen it rise in capital and spread to other major towns in the country. Similar to findings by Grote and Umber (2006) study a sample of US-based acquisitions and bring evidence of firms' greater returns. The handles laid by poor financial policies by the state and extreme competition are some of the risks that the company has faced and been able to overcome.

4.2.15 Challenges associated with differences in valuation

The study was aimed at finding whether there were evident challenges which come as a result of valuation. The results showed that majority of the respondents the differences in the market and the exchange rate was a major challenge when taking this option. It is similar to the study by Shleifer and Vishny (2003) develop a behavioral model in which firm values deviate from their fundamentals. This could therefore have effect on the company profitability as the trading currencies keeps on fluctuating. According to the study when this valuation difference is permanent then it would not have effect on the company compared to when it sunstable.

4.2.16 The Company opened fully owned enterprises in the country

The study was aimed at finding out whether the company has fully owned enterprises in the country which majority of the respondents indicate the company did not have fully owned enterprises. In the same study some of the respondents indicate that the bank could have some in other parts of the region but not in the Kenyan market.

This agrees with study conducted by Grote and Umber (2006) study a sample of US-based acquisitions and brings evidence of firms' greater returns in proximate investments than in remote ones, owing in part to the availability of better information on targets in less distant deals.

CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of the summary of findings, conclusion and recommendation of the study and there after the suggestions for further studies respectively.

5.2 Summary of Findings

The summary of the findings were done according to the study objective and results obtained in chapter four. The objective of the study was to establish mergers and acquisitions as an entry strategy by CfC Stanbic in the Kenyan market.

On the level of management, majority of those interviewee dare in the low level management. The level of education of the respondents is college graduates. Majority of the respondents have worked in the company for6 – 10 years. The opportunities that influenced the choice of Kenyan market for the company is market share as indicated by majority of the respondents. The use of mergers as an entry strategy for the company to the local market majority of the respondents indicated improving market research. There are many challenges involved majority of the respondents indicated that there were many. The company banking products sell well in the Kenyan market majority of the respondents indicated entire country has been buying the products. The choice of Kenya as a market has influenced the company decision to market in nearby markets as indicated by majority of the respondent. The Kenyan market as grown is indicated by majority of the respondents in terms of market share. On whether the banking company done any licensing and franchising arrangements with any other party in Kenya, majority

of the respondents disagree agree. The company has not experienced culture, crush after the venture as majority of those who respondent disagreed. The banking company has not been affected by the geographical position of Kenya, majority of the respondents agreed. Kenya is a strategic geographical location, majority agree it is entrance to the eastern and central Africa Kenya being a power house in the region. On the company benefit in terms of risk and market opportunities, majority of the respondents indicate that it has been able to venture deep in the Kenyan market. There are challenges associated with differences in valuation majority of the respondents agree that dereferences in the market and the exchange rate has effect on the company's profitability. The company has not opened fully owned enterprises in the country as indicated by majority of the respondents indicated the company did not have fully owned enterprises.

5.3 Conclusions

Despite the goal of performance improvement, results from mergers and acquisitions (M&A) are often disappointing compared with results predicted or expected. Generally, the companies in our sample design their M&As based on their long-term development strategy plans rather than their passive response to the changes in external environmental or irrational behavior. Most companies have clear goals and plans before they perform M&As. The company gains its technical knowledge and expertise mainly through organic growth, including establishing partnerships. Each M&A activity, firms can have multiple motives, with some as their primary motives.

5.4 Recommendations

Cross-border infrastructure is found to have an even larger positive effect on the model. Economic and population sizes seem to be the dominant drivers of both trade and investment in road infrastructure, while cross-border road infrastructure has some identifiable influence on trade levels.

Firms can have multiple motives, with some as their primary motives. The motive should be clearly stated which could include expanding geographically, achieving more rapid growth, expanding or improving the product mix, gaining economies of scale, and acquiring technical knowledge & expertise among others which both merging firms should have clearly stated

5.5 Limitation of the Study

One of the major limitations was in terms of respondents ready and willing to respond to enquiries on the research, also the data collected was too little in relation to the number of variables; it may be too small to assess the statistical significance of many of the findings or to generalize them in any way. The single observer was not familiar with the many respondents involved; this made it difficult to determine the reliability of information provided by the respondents. Limited accessibility to information in the organization due to confidentiality being maintained which strained accessibility of data, there was also a lack of cooperation from some staff during interviews as they had to go out of their work schedule to respond.

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APPENDICE: INTERVIEW GUIDE FOR CFC STANBIC BANK COMPANY STAFF

Introduction: Background question

1. Which level of management are you in? In addition, what are your roles?
2. What is the level of your education?
3. For how long have you worked with this company?
4. What are the opportunities that influenced the choice of Kenya as a market for the company?
5. Why did you choose to use mergers as an entry strategy for your company to the local market?
6. Are there any challenges involved? Name them.
7. Where the company does's banking products sell well in the Kenyan market?
8. Has the choice of Kenya as a market influenced your decision to market in nearby markets?
9. Since the entry in Kenya, do you think that the market has grown? If yes, explain the growth.
10. Has the banking company done any licensing and franchising arrangements with any other party in Kenya? If yes name the parties.
11. Has your company experienced culture crush after the venture?
12. Has your banking company been affected y the geographical position of Kenya?
13. Is Kenya a strategic geographical location?
14. How does the company benefit in terms of risk and market opportunities?
15. Are there challenges associated with differences in valuation?

16. Has the company opened fully owned enterprises in the country?