

**MERGERS AND ACQUISITIONS AS A GROWTH STRATEGY BY  
COMMERCIAL BANKS IN KENYA**

**BY**

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## **DECLARATION**

This Research Project is my original work and has not been presented for a degree, diploma or certification qualification in any other university or institution of learning.

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## **Supervisor's Approval**

This Research Project has been submitted for examination with my approval as the University Supervisor.

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## **ABBREVIATIONS AND ACCRONYMS**

- GDP- Gross Domestic Product
- M&A- Mergers and Acquisitions
- CBK- Central Bank of Kenya
- SPSS- Statistical Package of Social Sciences

## ABSTRACT

This research was a study of mergers and acquisitions as a growth strategy by commercial banks in Kenya. There are various reasons why mergers and acquisitions are applied by businesses in Kenya. Compared to its neighbors Kenya is hailed as having the most resilient financial system a mature private sector devoid of protection and is one of the most profitable and vibrant sectors in the country with a consolidated profit before tax of Kenya Shillings 61.5 billion for the period January to June 2013 according to data released by Central Bank of Kenya. This study focused on why commercial banks adopt mergers and acquisition as long term growth strategies. This study utilized the survey design. The population of study consisted of all sixteen the commercial banks in Kenya that have adopted mergers and acquisitions as a strategy for growth after the year 2000. Data analysis was done through descriptive statistics since the data obtained from participants was not in numerical form. This study was a census of all the commercial banks and used primary data. The data collected was analyzed using Statistical Package for Social Sciences (SPSS) and presented using table and figures. The study revealed banks use the mergers a. A good number of banks have adopted mergers and acquisition. In addition, mergers and acquisition help in the growth of sales of the banks. Further, mergers and acquisition as growth strategy help in market power of the bank. Mergers and acquisition as growth strategy help in bank's stock value. The major reason for employing mergers and acquisitions by commercial banks in Kenya has been to bring strengths of the involved entities to be stronger as one. One plus one equals two is the popular reason why mergers and acquisitions are used and the research was able to show that the arithmetic add up. Two merged entities are better than two competing entities. Finally, mergers and acquisition as growth strategy help in acquisition impact of GDP. The study recommends that banks need to adopt mergers and acquisition which will maximize the shareholders wealth. Merger/acquisition is a strategic tool that must be cautiously applied and implemented.

**Keywords:** Mergers, Acquisitions, Strategy and Growth Strategies

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Mergers and Acquisitions are an essential tool for growth in the corporate world. They are applied for varied reasons depending on the strategy adopted by a business. Mergers and Acquisitions deal with the buying, selling, splitting and combining of different businesses. Muia (2010) noted that mergers and have been a very important tool for strategic growth. The present era is known as competition era. In this era companies avoid competition and go for mergers and enjoy sometimes monopoly. According to Kimani and Were (2012) noted that in the first seven months of 2012, the Kenya recorded a sharp rise in the number of mergers and acquisitions deals. Mergers and Acquisitions are the most popular means of corporate restructuring or business combination, which have played an important role in the external growth of a number of leading firms in the world.

The number of world mergers and acquisitions is higher in developed countries than in developing countries and Kenya is no exception. The argument for use of mergers and acquisitions is that acquiring firms seek to grow internally and externally. Mergers and acquisitions are strategic decisions leading to the maximization of a company's growth by enhancing its production and marketing operations. Mergers and acquisitions have become popular in recent times because of the enhanced competition, breaking of the trade barriers, free flow of capital across countries and globalization of business as a number of economies are being deregulated and integrated with other economies. In the banking sector changes in the operating environment has resulted in commercial banks, having to merge acquire other banks in the industry. Reasons for their adopting mergers and acquisitions vary but the main reasons include: to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others.

### **1.1.1 Growth Strategy**

Strategy in a firm as a long term plan of action, it defines where the firm wants to go and how it wants to get that point, considering its strengths and weaknesses and the external opportunities and threats. Growth is essential for sustaining the viability, dynamism and value-enhancing capability of a firm. A growth-oriented firm is not only able to attract the most talented executives but it would also be able to retain them. Growth leads to higher profits and increase in shareholders' value. A firm can achieve its growth objective by combining its operations with other firms through mergers and acquisitions (Pandey, 2008). It follows that mergers and acquisitions activity is a key corporate growth strategy in finance through which managers can enhance their firms' growth.

Strategic growth concepts are applied where management realizes that the business is not where it needs to be in terms of success, revenue is not meeting the projections, the market power of the business needs to increase, there is need to penetrate a market or the economic environmental is making operating of the business difficult. Once management has realized that they are encountering these challenges the management needs to look at the available growth strategies. Mergers and Acquisitions is one of the tools used by companies to accomplish the strategic growth objects based on internal and external analysis of the business environment.

### **1.1.2 Mergers and Acquisitions**

Mergers and Acquisitions are the most popular means of corporate restructuring or business combination, which have played an important role in the external growth of a number of leading firms in the world. These are the fastest way to grow because target firm with its value chains already exists (Luypaert, 2008). It should be noted however that mergers and acquisitions from a legal perspective mean different things. The terms merger and acquisition mean slightly different things, a merger being two firms of equal size agree to move forward as a single entity. An acquisition however is when one business establishes itself as the owner of another business.

Mergers and acquisitions produce synergy, hence better use of complementary resources leading to geographical or other diversification. This smoothens the earning of a company, which over the long term smoothens its stock price, giving conservative investors more confidence in investing in the company. The primary purpose of merging and acquiring new firms is usually to improve overall performance by achieving synergy, between two business units that will increase competitive advantage (Weber *et al.*, 1996). Kenya's financial sector witnessed failure of many banks in the eighties and the nineties. After this period, banks as a reactive or proactive measure embarked on restructuring and among the approaches they used is merging and acquiring horizontally.

### **1.1.3 Banking Sector in Kenya**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Kenya currently has 43 licensed commercial banks and one mortgage finance company.

Compared to its neighbors Kenya is hailed as having the most resilient financial system a mature private sector devoid of protectionalism. Kenya's commercial banks play a crucial role in ensuring Kenya's economic progress. The banking industry in Kenya plays a very significant role in the economic development of the country and is one of the most profitable and vibrant sectors in the country with a consolidated profit before tax of Kenya Shillings 61.5 billion for the period January to June 2013 according to data released by Central Bank of Kenya. There is however great competition and the legal and statutory capital requirements make this sector one that has readily taken up mergers and acquisitions. The banks that have taken up mergers and acquisitions have cited the need to enlarge their balance sheet as well as increase their branch network. Acquisitions have been used by foreign banks to penetrate the highly competitive sector.

## **1.2 Research Problem**

In Kenya, economic activities have been characterized by a low number of local and cross-border mergers and acquisitions over the years despite the benefits that accrue thereof. The ensuing disparity in world mergers and acquisitions and Kenya in particular necessitates this study. According to Luypaert (2008) the aggregate financial market conditions do not affect growth of firms through mergers and acquisitions. Firms are tempted into mergers and acquisitions solely because of favourable capital market conditions. Firms are more likely to grow through mergers and acquisitions when stocks are booming. Aggregate financial market conditions do not impact on the nature of merger or acquisition. This study seeks to identify how mergers and acquisition can be used as a tool for strategic growth in Kenya.

The context of the research study aimed to answer the question of whether mergers and acquisitions have an effect on the sales volumes of banks, market power, stock prices, profitability and the general growth of the GDP in Kenya. Overall the study will look at how effective mergers and acquisitions are to the strategic growth of banks. The assumption being that mergers and acquisitions have the positive effect on the above mentioned and the research aiming to confirm that the same is true. There are many efforts that have been undertaken to address use of mergers and acquisition as a tool for strategic growth by the corporate world. This study will address the various gaps established by the past researchers. Past research it appears has not studied the effect mergers and acquisition in Kenyan banks. This is to scrutinize the banks overall performance after being subjected to mergers and acquisition.

Research gap exists since there is little research done to answer the question of whether mergers and acquisition contribute to the strategic growth of banks, it was identified that there should be a significant study done to establish the contribution. In his study Walker MM (2000) was not able to identify the worth of mergers and acquisitions to commercial banks. Most of the research didn't address how a bank is able to achieve strategic growth through mergers and acquisition. Previous study done by Muia (2010) looked at mergers and acquisitions for firms listed in the Nairobi Stock Exchange, the study did not address

the question of how commercial banks can realize market power through mergers and acquisitions and also fallen short of the how mergers and acquisitions can increase the firm's value in the stock exchange. While looking at the gaps relating to the issue of impact of mergers and acquisitions on GDP, the research aims to answer the question of whether there is a relationship between strategic use of mergers and acquisitions by banks and the country's GDP.

The research study had identified various questions that needed answering. There was need to look at the reasons why banks would adopt mergers and acquisitions. The question needed to be answered whether mergers and acquisitions increase the profitability of the firms, sales volumes in banks, increase business market power, firm's stock price and the relationship between the country's GDP and that of mergers and acquisitions. An examination of the factors above would answer the question of whether mergers and acquisitions have an effect on the strategic growth aspirations of commercial banks in Kenya.

### **1.3 Research Objectives**

The objective of this study was to investigate mergers and acquisition as a growth strategy of commercial banks in Kenya.

### **1.4 Value of the Study**

In theory researchers and academicians are groups who will benefit from the study in that they may identify the researcher gap and conduct research on this topic. Also they might benefit by gaining information which can be used to conduct other studies on the area mergers and acquisition as tool for strategic growth in Kenya. This research aims to provide the basis for more research to be done by academics as a basis for research of other sectors in the Kenyan economy.

In practice the study will be used by the management of organizations who are technically agents of the shareholders. The management of the firms will gain insights on whether to use mergers and acquisition as tool for strategic growth. The management will be able to know which form merger and acquisition they can use in order to enhance organization growth. The shareholders who are the owners of the firms are interested in



the growth of the organization. The growth of the firm will be witnessed by the shareholders if there is increase of the shareholders wealth. The management must be engaged in strategic management whereby they must maximize the shareholders wealth by investing in mergers and acquisition that will enhance growth of the firm. The growth of the firms is a major concern for the government because it is an indicator of economic development. The government will benefit to know whether the firms are growing through expanding their market share. The potential investors will be interested in the firms that are experiencing growth so as to invest in in order to recover the returns. The firms that are in merger will attract a significant number of investors.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents a critical and in-depth evaluation of previous research; it will contain theoretical literature and empirical literature. It entails reviews of secondary sources obtained from published work such as journals, master's thesis books, conference proceedings, and other reports.

### **2.2 Theoretical Foundation of the Study**

The main reason for merging and acquiring similar business is with the aim to obtain synergy between the two business units. Apart from this, other reasons for horizontal mergers and acquisitions are to increase the market power, exploit economies of scale, to diversify through separate markets and provide different services. The level competition in an industry is affected by the increased horizontal mergers and acquisitions and according to the economic theory consumer's benefit from the increased competition. Gaughan (2002) noted that this is the combination of two corporations in similar lines of business or between two competitors.

The resource-based view has recently emerged as an alternative approach to understanding industrial organizations and their competitive strategies. According to this view, a firm is equivalent to a broad set of resources that it owns. Wernerfelt (1984: 172) defines resources as "those (tangible and intangible) assets which are tied semi-permanently to the firm." Unlike traditional industrial organization economics, which relies heavily on the analysis of the competitive environment, the resource-based view focuses on the analysis of various resources owned by the firm. Because many resources are firm-specific and not perfectly mobile or imitable, firms are continuously heterogeneous in terms of their resource base. Sustained firm resource heterogeneity, thus, becomes a possible source of competitive advantage, which then leads to economic rents, or above normal returns.

Traditional strategy research suggests that firms need to seek a strategic fit between their internal characteristics (strengths and weaknesses) and their external environment

(opportunities and threats). Considerable emphasis has usually been given, however, to a firm's competitive environment and its competitive position. In contradiction to that external emphasis, the resource-based view embodies a different approach, which stresses the internal aspects of a firm.

Mergers and acquisitions involve a process that would practically involve the following steps: first, is for a firm to perform target identification; secondly, the firm get involved in acquisition/merging; thirdly, the firms integrate; finally, the firm's post-acquisition/post-merger assessment. A study done by Ruess and Voelpel (2012) noted that successful acquisitions ultimately depend on the correct timing, and they are suitable because they help in grow and expanding of the company. They continue to note that if timing is wrong or the wrong company is acquired, then there is lack of synergy. It is for this reason that the companies should do pre-acquisition screening so as to ensure that they merging or acquisition enhance the company's growth. (Collan and Kinnunen, 2011). Collan and Kinnunen (2001) alluded that operational synergy and divestiture the most important aspects for achievement of growth after M&A. Growth can only be achieved if the two companies have managed to effectively integrate on the aspects of the strategic, structural, personnel, cultural and stakeholder levels (Ruess and Voelpel, 2012). The growth of companies after mergers and acquisition is largely dependent on the organizational learning that occurs during the post-acquisition assessment phase. This phase of post-acquisition assessment can help the company to expand its market territory through mergers and acquisitions (Collan and Kinnunen, 2011, Ruess and Voelpel, 2012). During this phase the acquiring company has an opportunity to assess how adept they were at identifying the right company to acquire so as to enhance the growth of the affected companies.

### **2.3 Mergers and Acquisitions**

Mergers and Acquisitions according to Brealey and Myers (2004) and Gaughan (2002) can be classified into three categories; horizontal, vertical and conglomerate. The classification is dependent on the nature of the business the two entities are involved in at the time of applying mergers and acquisitions strategy.

Horizontal according to Gaughan (2002) is the combination of two corporations in similar lines of business or between two competitors. The main reason for merging and acquiring similar business is with the aim to obtain synergy between the two business units. Apart from this, other reasons for horizontal M&A's are to increase the market power, exploit economies of scale, to diversify through separate markets and provide different services. The level competition in an industry is affected by the increased horizontal M&A's and according to the economic theory consumer's benefit from the increased competition.

A coming together of companies in same line of business but different aspects of production according to Brealey and Myers (2004) was referred to vertical. This may be of two types: When a producer acquires a supplier of the raw material in the chain of production, with the aim of reducing cost of production, it is called backward vertical integration. When a company buys its vendor, in the direction of its consumer to reduce marketing and delivering costs, it is called a forward merger and acquisition.

A combination of companies with different or unrelated fields of business is referred to as a conglomerate. These companies neither are related nor are they competitors. The main motives for conglomerate M&A are efficient capital allocation and the reluctance to distribute cash flows to the company's shareholders. Companies also seek diversification of risks and entry to a new emerging market through this type of acquisition (Marks and Mirvis, 1998). Cartwright and Cooper (1992) make a distinction of one more category called the concentric merger, which is acquisition of the dissimilar but associated field of business in which the buying company looks forward to expansion.

Mergers and Acquisitions involves a process that would practically involve the following steps: first, is for a firm to perform target identification; secondly, the firm get involved in acquisition/merging; thirdly, the firms integrate; finally, the firm's post-acquisition/post-merger assessment. A study done by Ruess and Voelpel (2012) noted that successful acquisitions ultimately depend on the correct timing, and they are suitable because they help in the growth and expansion of the company. They continue to note that if timing is wrong or the wrong company is acquired, then there is lack of synergy. It

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### **2.3 Growth Strategy**

In 2008 the government increased the minimum core capital requirements from Kenya Shillings 250 million to Kenya Shillings 1 billion. This made it necessary for banks to look at ways of growing their balance sheets with deadline for achieving the core capital requirements being 2012. The new capitalization level for banks was to foster consolidation of the banking industry through mergers and acquisitions. In order for a firm to achieve growth it must formulate strategies to achieve its objectives this is according to Luypaert (2008). Pilloff and Santomero (1996) argue that mergers and acquisition activities can significantly reduce operating costs from the fact that larger firms can be more efficient if redundant facilities are eliminated. On the other hand, DeYoung et al. (2009) argues that mergers and acquisitions can increase firm size. Firms with large size can increase market power in determining higher prices or generating profits. The driving force in bank mergers and acquisitions include better risk control through the creation of critical mass and economies of scale, advancement of marketing and product initiatives, improvements in overall credit risk and technological exploitation. These drivers have led to improved operational efficiencies and larger and capitalized institutions. The results of this policy are neither here nor there contrary to the

policy expectations. The most difficult aspect of consolidation is the ones induced by government through mergers and acquisitions.

One of the strategic tools for growth is mergers and acquisitions which deal with the firms buying, selling, and combining of different firms that can help in gaining the resources and capabilities in order to gain competitive advantage. Mergers and Acquisitions are the fastest way to grow because target firm with its value chains already exists (Luypaert, 2008). Mergers are distinguished by the relationship between two or more firms that are merging. The dominant rationale used to explain mergers and acquisitions activity is that acquiring firms seek to grow internally and externally (Pandey, 2008). It is believed that mergers and acquisitions are strategic decisions leading to the maximization of a company's growth by enhancing its production and marketing operations. Mergers and acquisitions have become popular in recent times because of the enhanced competition, breaking of the trade barriers, free flow of capital across countries and globalization of business as a number of economies are being deregulated and integrated with other economies. A number of reasons are attributed for the occurrence of mergers and acquisitions. For example, it is suggested that mergers and acquisitions are intended to limit competition, utilize under-utilized market power. Ruess and Voelpel (2012) noted that in their study merger activities and theories focusing on macro-economic factors influencing mergers waves such as economic fundamentals such as GDP growth, stock market index and interest rates. Found a negative correlation between economic growth and mergers and acquisitions activities. Luypaert (2008) investigated the determinants of growth through Mergers and Acquisitions.

Mergers and acquisitions are a natural way of expansion for growing companies (Collan and Kinnunen, 2011) noted that offering various potential benefits, such as efficiency increases, economies of scale and increases in market share is one of the major reasons why they merge. According to Bruner, 2004a, 2004b; DePamphilis, 2009; Krishnamurti and Vishwanath, 2008; Pablo and Javidan, 2004) described that majority of the firms merge in order to shared costs and risks as well as stock market returns for the acquiring company. Ooghe *et.al* (2006) on their study noted that mergers and acquisitions can be

lumped together as the mode through which previously independent firms combine to become a single entity by this the firms are able to achieve growth and have a larger market.

Banks may come together for the purpose of making profit (Ruess and Voelpel, (2012)). Profitability variable is seen as the most objectives of the banks which merge or acquire each other due to increase their profitability margin. According to Luypaert (2008) in highly concentrated industries, banks tend to recognize the impact of their policies and actions on one another. This could influence reactions to changes in competitive behavior like quantity restrictions, tacit collusion and horizontal mergers and acquisitions to increase the concentration within an industry which may help banks to realize high profits.

When the banks merge they increase their core resources and core capabilities of the banks thus have a positive relation between industry concentration and external growth may arise particularly in related mergers and acquisitions. Conversely, when the industry is already highly concentrated, it could have a lower incidence of mergers and acquisitions as there is less room left for further consolidation this leading to high profit (Collan and Kinnunen, 2011). Mitchell and Mulherin (1996), Andrade and Stafford (2004), Powell and Yawson (2005) have examined the effect of industry shocks on mergers and acquisitions in regards to the growth of the sales of the banks and found that when the banks merge or acquire each other there is increased in sales which results to maximum profits. Collan and Kinnunen (2011)alluded that initially investigated through sales growth found that banks in mature or declining industries may want to shift their resources into growing industries, to guarantee their long-run survival hence existence of positive relationship between sales growth and mergers and acquisitions. Bidder variables are operationalized by assessing bankprofitability which tends to positively influence mergers and acquisitions.

Banks which are concentrated on the same industry may be interested in coming up together so as to increase their market power (Ruess and Voelpel, 2012). Large and

profitable banks often have or can better access financial resources that are needed to acquire other banks so as to enhance market power geographically. More over large banks are expected to engage more in diversifying mergers and acquisitions as there may be few opportunities left for growth in their own industry to increase and retain the already market they have. These financial resources can also create value when used to acquire a financially constrained target bank thus a positive relation between market power and share, bank size and mergers and acquisitions (Gaughan, 2002).

Mergers and Acquisitions help the banks to improve on its image especially in the Nairobi Stock Exchange (NSE). When the image is improved the company is able to raise more finance in terms of shares stocks that can be used in expanding the banks (Ruess and Voelpel, 2012). Most of the popular corporate restructuring or business combinations have played an important role in the external growth of a number of leading banks in the world. In Kenya for instance, most banks would want to gain credit in NSE and they can do so through mergers.

According to Luybaert (2008) the aggregate financial market conditions do not affect growth of banks through mergers and acquisitions. Banks are not however tempted into mergers and acquisitions solely because of favourable capital market conditions. Banks are less likely to grow through mergers and acquisitions when stocks are booming. Aggregate financial market conditions do not impact on the nature of merger or acquisition. The relation between GDP growth and growth of banks through mergers and acquisitions is positive when banks seek immediate increases in production capacity in a growing economy. The desire for bank to grow through a merger or an acquisition might in turn be tempered by bad business conditions. In overall the empirical evidence between GDP growth and growth of banks through mergers and acquisitions is limited and mixed (Ruess and Voelpel, 2012).

#### **2.4 Mergers and Acquisitions as a Growth Strategy**

It's clear from the literature review that while mergers and acquisitions are a strategic tool for growth of banks their application in Kenya is not yet been up to international



standards. The research gap has identified that there is a researchable study since while there are many theories that look at the reasons why companies take up mergers and acquisitions none of the theories conclusively answered the questions of the effect on profits, sales volumes, firm market power and the stock price of the banks in Kenya. Banks needs to take up more of mergers and acquisitions in order to capitalise on market synergies and increase product and services competitiveness in the international market and by extension increase the country's gross domestic product (GDP).

A noted gap on strategy models based mainly on environmental and industrial scrutiny make the unrealistic assumption of firm homogeneity. Rather than being defined by the competitive environment, the parameters of a firm's competitive strategy are critically influenced by its accumulated resources. In other words, what a firm possesses would determine what it accomplishes. Accordingly, a firm should pay more attention to its resources than to its competitive environment. The contribution of the resource-based view is that it develops the idea that "a firm's competitive position is defined by a bundle of unique resources and relationships" (Rumelt, 1984: 557), and thus provides a balance vis-a-vis environmental models of strategy.

A number of theorists believe that the resource-based view could be a new theory of the firm, it is still part of a developing paradigm in strategy research. The usefulness and richness of the paradigm need to be demonstrated in a variety of strategy areas. Indeed, researchers are still in the phase of accumulating applications of the resource-based view. For example, Peteraf (1993) shows that sustainable differences in firm profitability that cannot be attributed to industrial differences can be better explained by the resource based view. Our understanding of diversification strategy is also enhanced because the resource-based view strongly argues for strategic relatedness within a conglomerate (Chatterjee & Wernerfelt, 1991). Harrison, Hitt, Hoskisson, and Ireland (1991) examined the performance of mergers and acquisitions through a resource-based perspective. Global strategy, technological strategy, and strategic regulation have also been studied by applying the resource-based view (Collis, 1991; Leonard-Barton, 1992; Maijoor & Van Witteloostuijn, 1996). One area that remains under-explored in the literature is the

resource-based view of strategic alliances, even though such alliances are rapidly increasing in importance in today's competitive landscape (Das & Teng, in press; Doz & Hamel, 1998; Gomes-Casseres, 1996; Yoshino & Rangan, 1995). A resource based view seems particularly appropriate for examining strategic alliances because banks essentially use alliances to gain access to other banks' valuable resources. Thus, firm resources provide a relevant basis for studying alliances.

These four components are integral to a general theory of alliances, because they have been the main focus of alliance research. What has been lacking in the literature thus far is the fact that none of these aspects has been adequately examined from the resource-based perspective. Taken together, the four aspects contribute toward a comprehensive and integrated theory of strategic alliances from the resource-based viewpoint. To facilitate empirical testing of the resource based theory of strategic alliances presented here, we also develop a number of propositions.

The few studies that have applied the resource-based perspective to strategic alliances cover only limited aspects (e.g., Blodgett, 1991; Kogut, 1988). Focusing exclusively on the resource-based view of strategic alliances, found essentially that alliances are more likely to be formed when both banks are in vulnerable strategic positions (i.e., in need of resources) or when they are in strong social positions (i.e., possess valuable resources to share). Other researchers have tackled only selected aspects of alliances, such as organizational knowledge (Kogut, 1988) and international business (Blodgett, 1991; Lyles & Salk, 1997). Thus, a general resource-based theory of strategic alliances has yet to emerge. Our purpose here is to develop a more encompassing resource-based theory of strategic alliances than is available in the extant literature.

Research in organizational Mergers and Acquisitions demonstrates that for an organization to remain competitive in a changing global business environment, it needs to continuously renew itself growth through comparing with the market share with other banks in the same industry (Holland and Salama, 2010). A firm can acquire another firm

so as to take advantage of competitive advantage as noted by the study done by (Geroski and Mazzucato, 2002)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research design, population of the study, sample size and method, data collection method and the data analysis methods. It's a blueprint of how the study was conducted from data collection to the point of analysing and concluding the research findings.

### **3.2 Research design**

Thornhill (2003) described a research design as a plan of action that a researcher has to take in order to tackle a problem. A similar definition has been given by Saunders et al (2003) who described a research design as a plan of study providing the overall framework for collecting data. Once the problem has been formulated, a design is developed in order to provide a format for detailed steps in the study.

The study adopted the cross sectional research design. This involved the study of the whole population to support inferences of cause and effect. Cross sectional studies are descriptive studies. According to Thornhill (2003) the descriptive method of research is process of collecting data in order to test hypothesis or answer question concerning the current status of the subject in the study. Such method of study determines and reports the way things are. Neuman (2000) also say that descriptive research is concern with conditions that exist, practices that prevail, beliefs and attitudes that are held, processes that are ongoing and trends that are developing. The research design used a descriptive survey design. The descriptive survey was relevant in this study as it enabled the researcher to find out the impact of mergers and acquisition as strategic tool for growth of banks in Kenya.

### **3.3 Population**

CBK data indicates that there have been 36 cases of mergers and acquisitions in the banking sector since 1989, affecting 32 banks. The population for this study consisted of 16 banks that have used mergers and acquisitions as a growth strategy from 1<sup>st</sup> January 2000 in Kenya. This gave 95% confidence level at 20% confidence interval estimate. The

target population is the totality of objects or individuals under consideration of which the statistical attributes may be estimated by the study of sample or sample drawn from it. Neuman (2000) defines research population as the specific pool of cases, individuals or group of individuals which the researcher wishes to investigate.

### **3.4 Sample Design**

The non-probability method of sampling was used. It is used when a researcher wants to infer the characteristics of the sample population to the whole population and is rather interested in the information. Purposive or convenient sampling was used in studying the entire population of the banks that have merged. This took into consideration the fact that the banks are scattered all over the Nairobi County. The study involved a conducting a census to the entire population.

### **3.5 Data Collection**

The researcher collected primary data through administering questionnaires and interviews questions to the management of the banks. The questionnaires contained open ended and close-ended questions.

Data collected on all the commercial banks that have applied the mergers and acquisitions. The banks are listed on appendix IV page. A pilot study was conducted to test the accuracy of the instruments. This was done before the actual fieldwork. This involved 5 respondents who are part of the sampling frame but whose data was not used for analysis. Validity is the extent to which an instrument captures what it purports to measure, It is the accuracy and meaningfulness of inference which are based on the research results .It is the degree to which results obtain from the analysis of data actually represent the phenomenon under study (Mugenda & Mugenda, 2003).

The questionnaire was administered to the top management, middle level management and lower level management. The study used of both primary and secondary quantitative and qualitative data. Secondary data was collected through literature review from various sources. Content analysis from the internet will also be used to obtain up to date literature related to this assignment especially on Mergers and Acquisitions.

### **3.6 Data Analysis**

Data analysis was done through descriptive statistics since the data obtained from participants was not in numerical form. Descriptive statistics was used to provide details variables under study. In this respect, measures of central tendency such as the mean and standard deviation were used. To evaluate the factors collected from data collection a variety of online data analysis tools which easily integrate with Microsoft Excel was used for the data analysis. Reliability is a measure of the degree to which research instrument yields consistent results or data after repeated trials. Reliability in research is influenced by random error (Mugenda & Mugenda, 2003). This definition implies one method for assessing reliability the test –retest method, where the research is exactly replicated.

The research recognised that coding as an interpretive technique was used to organise the data and provide a means to introduce the interpretations into certain quantitative methods. It required the researcher to read the data and split segments within it with each segment labelled with a code that give an idea how the associated data segments inform the research objectives. The coding then led to preparation of various reports by summarizing the codes, discussing similarities and differences in related codes across distinct original sources/contexts, or comparing the relationship between one or more codes.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the findings on the effects of mergers and acquisitions as a growth strategy by commercial banks in Kenya. In addition, the content of this chapter involve the descriptive analysis which was done to see the pattern and frequency of the background of the respondents and variables which were under study. The findings are summarized under the objectives of the effects of mergers to the variables of background, profitability, growth of sales, market power of the bank, bank's stock value, and acquisition impact of GDP. The findings of the study were analyzed using SPSS and presented in form of frequency tables, bar graphs and pie –charts.

Preliminary analysis such as normality, reliability, validity and factor analysis were assessed. Normality tests were done to see whether the data obtained were normal, reliability test was to see whether the items that make up a scale are all measuring the same underlying construct, validity test was to see whether the item measures what it is supposed to measure, and factor analysis was to verify the dimensionalities of measured constructs.

### **4.2 Data Presentation**

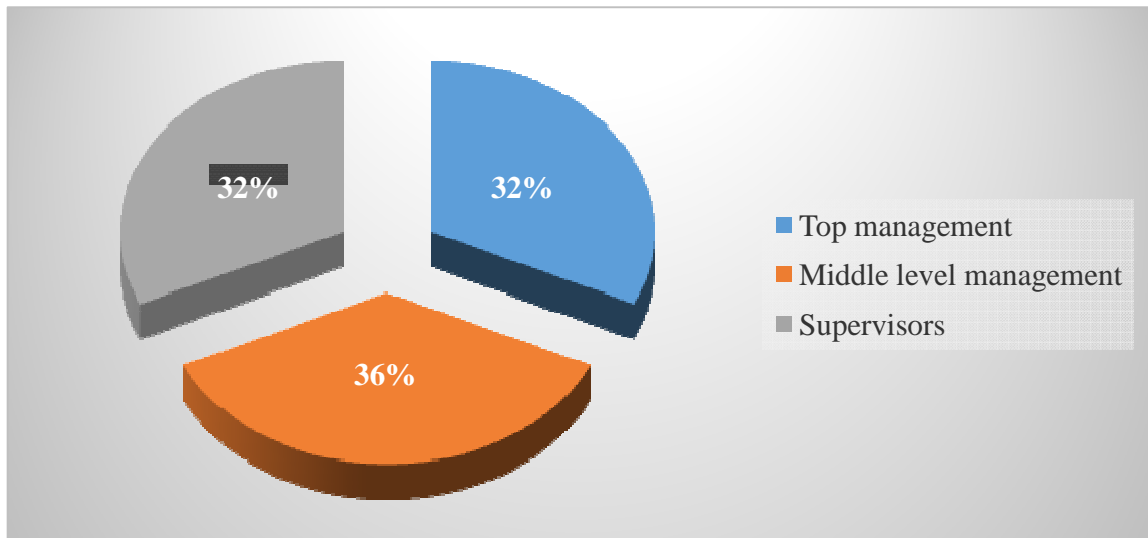
The study here sought to establish the effects of mergers and acquisitions in 16 commercial banks in Kenya since the year 2000. The study period was the year 2000 to the year 2012. The findings were as presented in tables, pies and bar graphs. The questions asked were graded and scaled in order to make it easier to present the findings picked during data collection.

The general information considered relevant to this study included the profession of the respondents and reasons for the bank to adopt mergers and acquisitions as a strategy for growth.

#### **4.2.1 Profession of the respondents**

The respondents were asked to indicate their profession. Further, the respondents were given the scale of top management, middle level management and supervisors as shown in the figure 4.1.

**Figure 4. 1: Profession of the respondents**



Source: Research Data (2013)

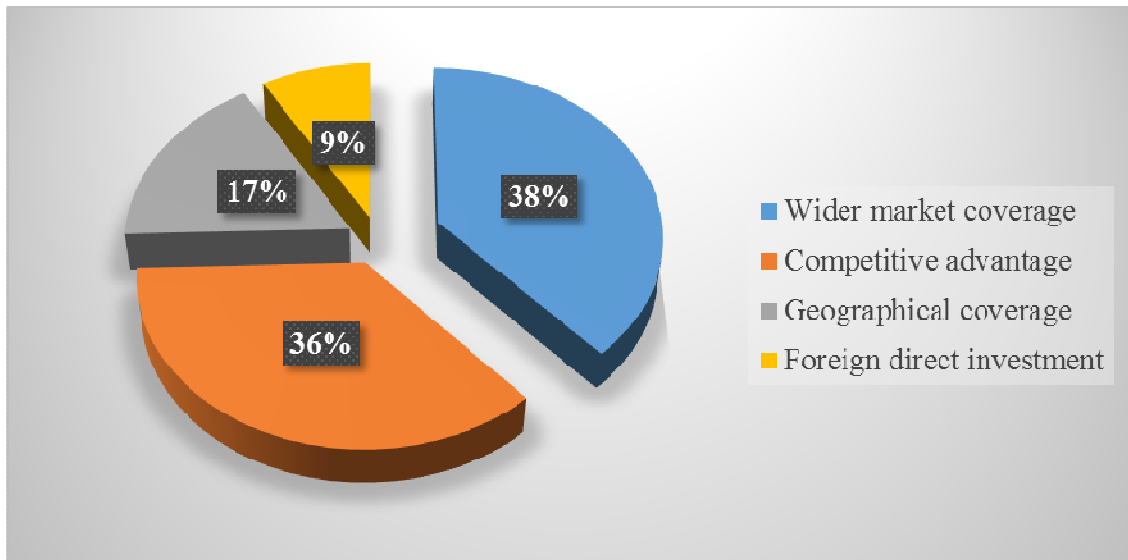
Figure 4.1 represents profession of the respondents' data of the respondents who were subjects for the study. From the findings of the study the majority of the respondents were middle level management representing 36%. Respondents who were top management and supervisors represented 32%.

#### **4.2.2 Reasons the banks adopted mergers and acquisitions**

The respondents were asked to give reasons for the bank to adopt mergers and acquisitions as a strategy for growth. Moreover they rated from wider market coverage, competitive advantage, geographical coverage and foreign direct investment. The results were shown in the figure 4.2 below.



**Figure 4.2: Mergers and acquisitions as a strategy for growth**



Source: Research Data (2013)

The results of the study findings in figure 4.2 show that reasons for the bank to adopt mergers and acquisitions as a strategy for growth is that of wider market coverage representing 38%. In addition, those that stated that to gain competitive advantage representing 36%. Also, those that indicated that the reason for bank to adopt mergers and acquisitions as a strategy for growth were geographical coverage and foreign direct investment representing 17% and 9% respectively.

#### **4.2.3 Profitability**

The respondents were asked to rate the extent to which mergers and acquisitions as a growth strategy by commercial banks in Kenya and profitability, a measure on a seven point likert scale. The range was strongly agree (1) to moderately disagree (7). The scores of strongly disagree and disagree were taken to represent a variable that had an impact to a small extent (S.E) equivalent to a percentage score of 0 to 0.05 on a continuous likert scale; ( $0 \leq S.E \leq 5$ ). Scores of neutral were taken to represent a variable that had an impact of a moderate extent(M.E) equivalent to a percentage score of 0.06 to 0.12 on the continuous likert scale: ( $0.06 \leq M.E \leq 0.12$ ). The scores for both agree and strongly agree were taken to represent a variable which had an impact to a large extent(L.E) equivalent

to a percentage score of 0.13 to 0.99 on a continuous likert scale; ( $0.13 \leq L.E \leq 0.99$ ). The results were given in the table 4.1

**Table 4. 1: Profitability**

Where SA = Strongly Agree, A = Agree, MA = Moderately Agree, NS = Not sure, SD = Strongly Disagree, D = Disagree and MD = Moderately Disagree.

<b>Profitability</b>	SA%	A%	MA%	NS%	SD%	D%	MD%
Mergers and Acquisitions have help in increasing of the banks profit as compared to before merger.	51.1	21.3	12.8	6.4	4.3	2.1	2.1
Mergers have increased the profit after 1 year	34.0	36.2	8.5	4.3	6.4	6.4	4.3
Mergers help in expanding the bank's profitability index	27.7	38.3	8.5	4.3	6.4	8.5	6.4
Mergers have increased the banks before tax	38.3	29.8	12.8	6.4	4.3	2.1	6.4
Mergers have increased the banks after tax	36.2	29.8	12.8	8.5	4.3	4.3	4.3

Source: Research Data (2013)

The findings from the study in table 4.1 indicate that 51.1% of the respondents strongly agree that mergers and acquisitions helps in increasing of the banks profit as compared to before merger, 21.3% agrees and 12.8% moderately agree. On whether mergers and acquisitions helps in increasing of the banks profit as compared to before merger 6.4% of

the respondents were not sure. The study findings also indicate that 4.3% of the respondents strongly disagreed that mergers and acquisitions helps in increasing of the banks profit as compared to before merger, 2.1% disagreed and moderately disagreed that mergers and acquisitions helps in increasing of the banks profit as compared to before merger.

The finding further indicates that 34.0% of the respondents strongly agreed that mergers have increased the profit after one year. In addition, those respondents agreed that mergers have increased the profit after one year representing 36.2%. The study findings further indicate that 6.4% of the respondents strongly disagreed and disagreed that mergers have increased the profit after one year. Moreover, 4.3% indicates not sure and moderately disagree that mergers have increased the profit after one year. Further, 27.7% of the respondents strongly agreed that mergers help in expanding the bank's profitability index. The finding further indicates that 38.3% of the respondents agreed that mergers help in expanding the bank's profitability index. Also, 8.5% of the respondents moderately agree and disagreed that mergers help in expanding the bank's profitability index. Similarly, 6.4% of the respondents strongly disagreed and moderately disagreed that mergers help in expanding the bank's profitability index, 4.3% were not sure.

The finding further indicates that 38.3% of the respondents strongly agreed that mergers have increased the banks before tax. In addition, those respondents agreed that mergers have increased the banks before tax representing 29.8%. The study findings further indicate that 12.8% of the respondents moderately agreed that mergers have increased the banks before tax. Additionally, 6.4% indicates not sure and moderately disagree that mergers have increased the banks before tax. Again, the study reveals that respondents who strongly disagreed and disagreed, that merger has increased the banks before tax scored 4.3% and 2.1% respectively.

The findings indicate that 36.2% of the respondents strongly agreed that mergers have increased the banks after tax. Moreover, those respondents agreed that mergers have increased the banks after tax representing 29.8%. The study findings further indicate that

12.8% of the respondents moderately agreed that mergers have increased the banks after tax. Also, the findings indicate that those respondents were not sure scored 8.5%. Finally, 4.3% of the respondents indicates similar scores on strongly disagree, disagree and moderately disagree that mergers have increased the banks after tax.

#### **4.2.4 Growth of sales**

The respondents were asked to rate the extent to which mergers and acquisitions as a growth strategy by commercial banks in Kenya and growth of sales, measures on a seven point likert scale. The range was strongly agreeing (1) to moderately disagree (7). The scores of strongly disagree and disagree were taken to represent a variable that had an impact to a small extent (S.E) equivalent to a percentage score of 0 to 0.05 on a continuous likert scale; ( $0 \leq S.E \leq 5$ ). Scores of neutral were taken to represent a variable that had an impact of a moderate extent(M.E) equivalent to a percentage score of 0.06 to 0.12 on the continuous likert scale: ( $0.06 \leq M.E \leq 0.12$ ). The scores for both agree and strongly agree were taken to represent a variable which had an impact to a large extent(L.E) equivalent to a percentage score of 0.13 to 0.99 on a continuous likert scale; ( $0.13 \leq L.E \leq 0.99$ ). The results were given in the table 4.2 below.

The findings from the study in table 4.2 indicate that 31.9% of the respondents strongly agree that before merging and acquisition the sales turnover were low, 40.4% agrees and 14.9% moderately agree. On whether before merging and acquisition the sales turnover were low 6.4% of the respondents were not sure. The study findings also indicate that 2.1% of the respondents strongly disagreed, disagreed and moderately disagreed that before merging and acquisition the sales turnover were low.

The finding further indicates that 40.4% of the respondents strongly agreed that mergers and acquisitions help in increasing of sales. In addition, those respondents agreed that mergers and acquisitions help in increasing of sales 27.7%. The study findings further indicate that 14.9% of the respondents moderately agreed that mergers and acquisitions helps in increasing of sales. Moreover, 6.4% indicates not sure that mergers and acquisitions helps in increasing of sales. 4.3% of the respondents disagreed and moderately disagreed that merger and acquisitions helps in increasing of sales of commercial banks.

**Table 4. 2: Growth of sales**

Where SA = Strongly Agree, A = Agree, MA = Moderately Agree, NS = Not sure,  
SD = Strongly Disagree, D = Disagree and MD = Moderately Disagree.

<b>Growth of sales</b>	<b>SA%</b>	<b>A%</b>	<b>MA%</b>	<b>NS%</b>	<b>SD%</b>	<b>D%</b>	<b>MD%</b>
Before merging and acquisition the sales turnover were low	31.9	40.4	14.9	6.4	2.1	2.1	2.1
Mergers and Acquisitions helps in increasing of sales	40.4	27.7	14.9	6.4	2.1	4.3	4.3
Mergers and Acquisitions have in sales maximization or optimization	44.7	23.4	8.5	8.5	8.5	4.3	2.1
Mergers and Acquisitions helps the two banks to combine their sales turnover	38.3	25.5	17.0	6.4	6.4	4.3	2.1
Mergers have increased the company's sales volume	31.9	21.3	21.3	8.5	4.3	4.3	8.5

Source: Research Data (2013)

Further, 47.7% of the respondents strongly agreed that mergers and acquisitions have in sales maximization or optimization. The finding further indicates that 23.4% of the respondents agreed that mergers and acquisitions have in sales maximization or optimization. Also, 8.5% of the respondents moderately agree, not sure and strongly disagreed that mergers and acquisitions have in sales maximization or optimization, 4.3% of the respondents disagreed that mergers and acquisitions have in sales maximization or

optimization, 2.1% of the respondents rated moderately disagreed that mergers and acquisitions have in sales maximization or optimization.

The finding further indicates that 38.3% of the respondents strongly agreed that mergers and acquisitions help the two banks to combine their sales turnover. In addition, those respondents agreed that mergers and acquisitions help the two banks to combine their sales turnover 25.5%. The study findings further indicate that 17.0% of the respondents moderately agreed that mergers and acquisitions help the two banks to combine their sales turnover. Additionally, 6.4% indicates not sure and strongly disagree that mergers and acquisitions helps the two banks to combine their sales turnover. Again, the study reveals that respondents who disagreed and moderately disagreed that mergers and acquisitions helps the two banks to combine their sales turnover scored 4.3% and 2.1% respectively.

Further, the findings indicate that 31.9% of the respondents strongly agreed that mergers have increased the company's sales volume. Moreover, those respondents agreed and moderately that that mergers have increased the company's sales volume representing 21.3%. The study findings further indicate that 8.5% of the respondents moderately disagreed and not sure that that mergers have increased the company's sales volume. Finally, 4.3% of the respondents indicates similar scores on strongly disagree and disagree that that mergers have increased the company's sales volume.

#### **4.2.5 Market power of the bank**

The respondents were asked to rate the extent to which mergers and acquisitions as a growth strategy by commercial banks in Kenya and market power of the bank, a measure on a seven point likert scale. The range was strongly agree (1) to moderately disagree (7). The scores of strongly disagree and disagree were taken to represent a variable that had an impact to a small extent (S.E) equivalent to a percentage score of 0 to 0.05 on a continuous likert scale; ( $0 \leq S.E \leq 5$ ). Scores of neutral were taken to represent a variable that had an impact of a moderate extent(M.E) equivalent to a percentage score of 0.06 to 0.12 on the continuous likert scale: ( $0.06 \leq M.E \leq 0.12$ ). The scores for both agree and strongly agree were taken to represent a variable which had an impact to a large

extent(L.E) equivalent to a percentage score of 0.13 to 0.99 on a continuous likert scale; ( $0.13 \leq L.E \leq 0.99$ ). The results were given in the table 4.3.

**Table 4. 3: Market power of the bank**

Where SA = Strongly Agree, A = Agree, MA = Moderately Agree, NS = Not sure, SD = Strongly Disagree, D = Disagree and MD = Moderately Disagree.

<b>Market power of the bank</b>	<b>SA%</b>	<b>A%</b>	<b>MA%</b>	<b>NS%</b>	<b>SD%</b>	<b>D%</b>	<b>MD%</b>
Mergers and Acquisitions increases the market power of the bank's	44.7	23.4	10.6	4.3	8.5	4.3	4.3
Mergers and Acquisitions increases the market share of the bank's	42.6	31.9	10.6	4.3	2.1	2.1	2.1
Mergers and Acquisitions have increased the geographical market power of the firm	36.2	31.9	10.6	6.4	8.5	2.1	4.3
Mergers and Acquisitions market power of the bank's is determined by the by product quality after merger	38.3	31.9	12.8	6.4	4.3	4.3	2.1
The product price after merger determines the market power of the bank's	51.1	23.4	8.5	6.4	4.3	2.1	4.3
The marketing strategies of the firm after merger determines the market power of the bank's	40.4	27.7	10.6	6.4	4.3	8.5	2.1

Source: Research Data (2013)

The findings from the study in table 4.3 indicate that 44.7% of the respondents strongly agree that mergers and acquisitions increases the market power of the banks, 23.4% agrees that mergers and acquisitions increases the market power of the banks. In addition, and 10.6% moderately agree that mergers and acquisitions increases the market power of the banks. On whether mergers and acquisitions increases the market power of the banks 8.5% of the respondents strongly disagreed. The study findings also indicate that 4.3% of the respondents not sure, disagreed and moderately disagreed those mergers and acquisitions increase the market power of the banks.

The findings further indicate that 42.6% of the respondents strongly agreed that mergers and acquisitions increase the market share of the banks. In addition, those respondents agreed that mergers and acquisitions increase the market share of the banks representing 31.9%. The study findings further indicate that 4.3% of the respondents moderately agreed that mergers and acquisitions increase the market share of the banks. Moreover, 2.1% rates similar results on strongly disagree, disagree and moderately disagree that that mergers and acquisitions increases the market share of the banks.

Further, 36.2% of the respondents strongly agreed that mergers and acquisitions have increased the geographical market power of the firm. The finding further indicates that 31.9% of the respondents agreed that mergers and acquisitions have increased the geographical market power of the firm. Also, 10.6% of the respondents moderately agree that mergers and acquisitions have increased the geographical market power of the firm. Also, 8.5%, 6.4%, 4.3% and 2.1% of the respondents strongly disagreed, not sure, moderately disagreed and disagreed that mergers and acquisitions have increased the geographical market power of the firm respectively.

The finding further indicates that 38.3% of the respondents strongly agreed that mergers and acquisitions market power of the bank's is determined by the by product quality after merger. In addition, those respondents agreed that mergers and acquisitions market power of the bank's is determined by the by product quality after merger representing 31.9%. The study findings further indicate that 12.8% of the respondents moderately agreed that mergers and acquisitions market power of the bank's is determined by the by product quality after merger. Additionally, 6.4% indicates not sure that mergers and acquisitions market power of the bank's is determined by the by product quality after merger. Again,



the study reveals that respondents who strongly disagreed and disagreed that mergers and acquisitions market power of the bank's is determined by the by product quality after merger scored the same results of 4.3%. Further, 2.1% of the respondents rated moderately disagree that mergers and acquisitions market power of the bank's is determined by the by product quality after merger.

The study findings further indicate that 51.1% of the respondents strongly agree that the product price after merger determines the market power of the banks. Additionally, 23.4% indicates agree that the product price after merger determines the market power of the banks. Again, the study reveals that respondents who moderately agreed that the product price after merger determines the market power of the banks scored 8.5%. Further, 4.3% of the respondents rated strongly disagree and moderately disagree that the product price after merger determines the market power of the banks. Moreover, 2.1% of the respondents indicates disagree that the product price after merger determines the market power of the banks.

It is further indicated that 40.4% of the respondents strongly agreed that the marketing strategies of the firm after merger determine the market. Respondents agreed that the marketing strategy of the banks after mergers and acquisitions determines the market 27.7%. 10.6% of the respondents moderately agreed that the marketing strategies of the firm after merger determine the market. Also, the findings indicates that those respondents were not sure, strongly disagree, disagree and moderately disagree that the marketing strategies of the firm after merger determines the market scored 6.4%, 4.3%, 8.5% and 2.1% respectively.

#### **4.2.6 Bank's stock value**

The respondents were asked to rate the extent to which mergers and acquisitions as a growth strategy by commercial banks in Kenya and bank's stock value, measures on a seven point likert scale. The range was strongly agreeing (1) to moderately disagree (7). The scores of strongly disagree and disagree were taken to represent a variable that had an impact to a small extent (S.E) equivalent to a percentage score of 0 to 0.05 on a continuous likert scale; ( $0 \leq S.E \leq 5$ ). Scores of neutral were taken to represent a variable

that had an impact of a moderate extent(M.E) equivalent to a percentage score of 0.06 to 0.12 on the continuous likert scale:  $(0.06 \leq M.E \leq 0.12)$ . The scores for both agree and strongly agree were taken to represent a variable which had an impact to a large extent(L.E) equivalent to a percentage score of 0.13 to 0.99 on a continuous likert scale;  $(0.13 \leq L.E \leq 0.99)$ . The results were shown in the table 4.4.

**Table 4.4: Bank's stock value**

Where SA = Strongly Agree, A = Agree, MA = Moderately Agree, NS = Not sure, SD = Strongly Disagree, D = Disagree and MD = Moderately Disagree.

<b>Bank's stock value</b>	SA%	A%	MA%	NS%	SD%	D%	MD%
Mergers and Acquisitions positively influence the banks price of shares	38.5	42.6	4.3	6.4	2.1	4.3	2.1
The Mergers and Acquisitions increases the share base of the company	44.7	27.7	8.5	8.5	4.3	4.3	2.1
The Mergers and Acquisitions increases the bank's investors' confidence	46.8	27.7	12.8	4.3	4.3	2.1	2.1
Mergers and Acquisitions helps in increasing the shareholders wealth of the bank's merging	78.6	10.6	2.1	4.3	2.1	2.1	2.1

Source: Research Data (2013)

The findings from the study in table 4.4 indicate that 38.5 % of the respondents strongly agree that mergers and acquisitions positively influence the banks price of shares. Further 42.6% agrees that mergers and acquisitions positively influence the banks price of shares.

On whether mergers and acquisitions positively influence the banks price of shares 6.4% of the respondents were not sure. The study findings also indicate that 4.3% of the respondents strongly agreed and disagreed that mergers and acquisitions positively influence the banks price of shares. Also, 2.1% strongly disagreed and moderately disagreed that merger and acquisitions positively influence the banks price of shares.

The finding further indicates that 44.7% of the respondents strongly agreed that the mergers and acquisitions increase the share base of the company. In addition, those respondents agreed that the mergers and acquisitions increase the share base of the company representing 27.7%. The study findings further indicate that 8.5% of the respondents moderately agreed and not sure that the mergers and acquisitions increases the share base of the company. Moreover, 4.3% indicates strongly disagreed and disagreed that the mergers and acquisitions increase the share base of the company. Also, 2.1% of the respondents indicate moderately disagreed that the mergers and acquisitions increases the share base of the company

It was noted that, 46.8% of the respondents strongly agreed that the mergers and acquisitions increase the bank's investors' confidence. The finding further indicates that 27.7% of the respondents agreed that the mergers and acquisitions increase the bank's investors' confidence. Also, 12.8% of the respondents moderately agree that the mergers and acquisitions increase the bank's investors' confidence. In addition, 4.3% of the respondents indicate not sure and strongly disagree that the mergers and acquisitions increases the bank's investors' confidence. Similarly, 2.1% of the respondents disagreed and moderately disagreed that the mergers and acquisitions increases the bank's investors' confidence.

The finding further indicates that 78.6% of the respondents strongly agreed that mergers and acquisitions help in increasing the shareholders wealth of the bank's merging. In addition, those respondents agreed that mergers and acquisitions helps in increasing the shareholders wealth of the bank's merging representing 10.6%. The study findings further indicates that 2.1% of the respondents moderately agreed, strongly disagree,

disagree and moderately disagree that mergers and acquisitions helps in increasing the shareholders wealth of the bank's merging. Additionally, 4.3% indicates not sure that mergers and acquisitions helps in increasing the shareholders wealth of the bank's merging.

#### **4.2.7 Acquisition impact on country's GDP**

The respondents were asked to rate the extent to which mergers and acquisitions as a growth strategy by commercial banks in Kenya and acquisition impact of GDP, a measure on a seven point likert scales. The range was strongly agreeing (1) to moderately disagree (7). The scores of strongly disagree and disagree were taken to represent a variable that had an impact to a small extent (S.E) equivalent to a percentage score of 0 to 0.05 on a continuous likert scale; ( $0 \leq S.E \leq 5$ ). Scores of neutral were taken to represent a variable that had an impact of a moderate extent(M.E) equivalent to a percentage score of 0.06 to 0.12 on the continuous likert scale: ( $0.06 \leq M.E \leq 0.12$ ). The scores for both agree and strongly agree were taken to represent a variable which had an impact to a large extent(L.E) equivalent to a percentage score of 0.13 to 0.99 on a continuous likert scale; ( $0.13 \leq L.E \leq 0.99$ ). The results were shown in the table 4.5 below.

The findings from the study in table 4.1 indicate that 51.1% of the respondents strongly agree that mergers and acquisitions are the effects poor GDP growth in the economy. In addition, 21.3% of the respondents agree that mergers and acquisitions are the effects poor GDP growth in the economy. On whether mergers and acquisitions are the effects poor GDP growth in the economy 6.4% of the respondents indicated moderately agree, and not sure. Also, the findings indicates that those respondents were, strongly disagree, disagree and moderately disagree that mergers and acquisitions are the effects poor GDP growth in the economy scored 8.5%, 4.3% and 2.1% respectively.

The finding further indicates that 59.6% of the respondents strongly agreed that low GDP growth influence companies to merge in order to be competitive. In addition, those respondents agreed that that low GDP growth influence companies to merge in order to be competitive representing 21.3%. The study findings further indicate that 6.4% of the respondents moderately agreed that that low GDP growth influence companies to merge in order to be competitive. Moreover, 4.3% indicates strongly agree and moderately

disagree that that low GDP growth influence companies to merge in order to be competitive. Also, 2.1% indicates not sure and disagree that that low GDP growth influence companies to merge in order to be competitive.

**Table 4.5: Acquisition impact of GDP**

Where SA = Strongly Agree, A = Agree, MA = Moderately Agree, NS = Not sure, SD = Strongly Disagree, D = Disagree and MD = Moderately Disagree.

Acquisition impact of GDP	SA%	A%	MA%	NS%	SD%	D%	MD%
Mergers and Acquisitions are the effects poor GDP growth in the economy	51.1	21.3	6.4	6.4	8.5	4.3	2.1
Low GDP growth influence companies to merge in order to be competitive	59.6	21.3	6.4	2.1	4.3	2.1	4.3
Low GDP affects the capital markets growth	59.6	23.4	8.5	2.1	2.1	2.1	2.1
Low GDP influences slow flow of capital investment	42.6	29.8	12.8	4.3	4.3	2.1	4.3
Banks growth depends on the GDP growth	56.5	15.2	8.7	4.3	6.5	6.5	2.2

Source: Research Data (2013)

Further, 59.6% of the respondents strongly agreed that low GDP affects the capital markets growth. The finding further indicates that 23.4% of the respondents agreed that low GDP affects the capital markets growth. Also, 8.5% of the respondents moderately agree that low GDP affects the capital markets growth. Also, 2.1% of the respondents not sure, strongly disagreed, disagree and moderately disagreed that low GDP affects the capital markets growth.

The finding further indicates that 42.6% of the respondents strongly agreed that low GDP influences slow flow of capital investment. In addition, those respondents agreed that low GDP influences slow flow of capital investment 29.8%. The study findings further indicate that 12.8% of the respondents moderately agreed that low GDP influences slow flow of capital investment. Additionally, 4.3% indicates not sure, strongly disagree and moderately disagree that low GDP influences slow flow of capital investment. Again, the study reveals that respondents who disagreed that low GDP influences slow flow of capital investment scored 2.1%.

Further, the findings indicate that 56.5% of the respondents strongly agreed that banks growth depends on the GDP growth. Moreover, those respondents agreed that banks growth depends on the GDP growth representing 15.2%. The study findings further indicate that 8.7% of the respondents moderately agreed that banks growth depends on the GDP growth. Additionally, 4.3% indicates not sure that banks growth depends on the GDP growth. Also, the findings indicates that those respondents who strongly disagreed and disagreed and scored same results of 6.5% that banks growth depends on the GDP growth. Finally, 2.2% of the respondents indicates moderately disagree that banks growth depends on the GDP growth.

### **4.3 Variables code**

Table 4.6 states the items of each variable and its simplified code to know which item is which, in table 4.7 that will show the mean, standard deviation and the variance of each item in the questionnaire is presented.

**Table 4.6 Variables code**

<b>Variable</b>	<b>Response</b>	<b>Code</b>
<b>Profitability</b>	Mergers and Acquisitions have help in increasing of the banks profit as compared to before merger.	P1
	Mergers have increased the profit after 1 year	P1
	Mergers help in expanding the bank's profitability index	P2
	Mergers have increased the company's bank's before tax	P3
	Mergers have increased the company's bank's after tax	P4
<b>Growth of sales</b>	Before merging and acquisition the sales turnover were low	G1
	Mergers and Acquisitions helps in increasing of sales	G2
	Mergers and Acquisitions have in sales maximization or optimization	G3
	Mergers and Acquisitions helps the two banks to combine their sales turnover	G4
	Mergers have increased the company's sales volume	G5
<b>Market power of the bank</b>	Mergers and Acquisitions increases the market power of the bank's	M1
	Mergers and Acquisitions increases the market share of the bank's	M2
	Mergers and Acquisitions have increased the geographical market power of the firm	M3
	Mergers and Acquisitions market power of the bank's is determined by the by product quality after merger	M4
	The product price after merger determines the market power of the bank's	M5
	The marketing strategies of the firm after merger determines the market power of the bank's	M6

<b>Bank's stock value</b>	Mergers and Acquisitions positively influence the bank's price of shares	B1
	The Mergers and Acquisitions increases the share base of the company	B2
	The Mergers and Acquisitions increases the bank's investors' confidence	B3
	Mergers and Acquisitions helps in increasing the shareholders wealth of the bank's merging	B4
<b>Acquisition impact of GDP</b>	Mergers and Acquisitions are the effects poor GDP growth in the economy	A1
	Low GDP growth influence companies to merge in order to be competitive	A2
	Low GDP affects the capital markets growth	A3
	Low GDP influences slow flow of capital investment	A4
	Banks growth depends on the GDP growth	A5

Source: Research Data (2013)

#### 4.4 Mean, standard deviation and variance

The respondents were asked to rate the extent to which variables of profitability, growth of sales, market power of the bank, bank's stock value and acquisition impact of GDP measure on a seven point likert scale. The range was strongly agree (1) to moderately disagree (7). The scores of strongly disagree and disagree were taken to represent a variable that had an impact to a small extent (S.E) equivalent to a mean score of 0 to 1.0 on a continuous likert scale; ( $0 \leq S.E \leq 1.0$ ). Scores of neutral were taken to represent a variable that had an impact of a moderate extent(M.E) equivalent to a mean score of 1.1 to 1.9 on the continuous likert scale: ( $1.1 \leq M.E \leq 1.9$ ). The scores for both agree and strongly agree were taken to represent a variable which had an impact to a large extent(L.E) equivalent to a mean score of 2.1 to 3.0 on a continuous likert scale; ( $2.1 \leq L.E \leq 3.0$ ). A standard deviation of 1.5 implies a significant difference on the impact of the variable among respondents.



**Table 4.7: Mean, standard deviation and variance**

<b>Variable</b>	<b>Code</b>	<b>Mean</b>	<b>Std. Error of Mean</b>	<b>Std. Deviation</b>	<b>Variance</b>	<b>Kurtosis</b>
<b>Profitability</b>	P1	2.06	.21593	1.48	2.191	2.260
	P1	2.49	.25605	1.76	3.081	3.689
	P2	2.74	.27620	1.89	3.586	2.044
	P3	2.40	.25202	1.73	2.985	2.482
	P4	2.45	.24485	1.68	2.818	2.044
<b>Growth of sales</b>	G1	2.21	.19460	1.33	1.780	3.496
	G2	2.32	.23969	1.64	2.700	3.761
	G3	2.34	.24384	1.67	2.795	0.375
	G4	2.38	.23074	1.58	2.502	3.850
	G5	2.79	.27363	1.88	3.519	3.167
<b>Market power of the bank</b>	M1	2.38	.25907	1.78	3.154	2.603
	M2	2.13	.20988	1.44	2.070	2.554
	M3	2.43	.24283	1.66	2.772	2.000
	M4	2.28	.22289	1.53	2.335	2.647
	M5	2.13	.23875	1.63	2.679	0.199
	M6	2.40	.25018	1.72	2.942	3.515
<b>Bank's stock value</b>	B1	2.13	.21207	1.45	2.114	2.161
	B2	2.21	.22950	1.57	2.475	3.423
	B3	2.06	.20941	1.44	2.061	2.877
	B4	1.60	.20097	1.38	1.898	2.685
<b>Acquisition impact of GDP</b>	A1	2.21	.24509	1.68	2.823	3.715
	A2	1.94	.23442	1.61	2.583	3.505
	A3	1.79	.19696	1.35	1.823	2.759
	A4	2.21	.23151	1.59	2.519	2.426
	A5	2.17	.25689	1.74	3.036	3.785

Source: Research Data (2013)

From the Table 4.7, the mean score (M=2.06, 2.49, 2.74, 2.40, 2.45) for profitability indicates that subjects showed profitability to be the dimension which provided the highest influence to mergers and acquisition. The standard deviation (SD=1.48, 1.76, 1.89, 1.73, 1.68) shows that moderate variation in the responses that were obtained with respect to integrity.

For the growth of sales, the mean score (M=2.21, 2.32, 2.34, 2.38, 2.79) indicated that respondents showed growth of sales to be another influencing factor to mergers and acquisition. The standard deviation (SD=1.33, 1.64, 1.67, 1.58, and 1.88) indicates that there was similarity in the responses obtained.

In terms of market power of the bank, the mean score (M=2.38, 2.13, 2.43, 2.28, 2.13, 2.40) reveals that respondents rated market power of the bank to be another factor influencing mergers and acquisition. In addition, the standard deviation (SD = 1.78, 1.44, 1.66, 1.53, 1.63, 1.72) indicates that there were moderate variations in the responses obtained on this dimension.

The mean score (M=2.13, 2.21, 2.06, 1.60) for bank's stock value indicates that subjects showed it to be one of the dimensions which provided another influence to mergers and acquisition. The standard deviation (SD=1.45, 1.57, 1.44, 1.38) shows that the responses did not differ substantially with respect to bank's stock value.

For the acquisition impact of GDP, the mean score (M=2.21, 1.94, 1.79, 2.21, 2.17) indicates that respondents showed acquisition impact of GDP to be another most influencing factor to mergers and acquisition. Further, the standard deviation (SD=1.68, 1.61, 1.35, 1.59, 1.74) indicates that there was a strong variation in the responses obtained.

#### **4.5 Normal Distribution of the variables**

The study looked at the skewed and kurtosis of each item as can be seen in Table 4.7. The skewed value provides an indication of the symmetry of the distribution whereas the kurtosis provides information about the peak of the distribution. Items complied with the skewed and kurtosis level, by having values below 2 and 3, indicating that they within the normality curve. However some of the items are not with the normal distribution.

#### 4.6 Reliability Analysis

Cronbach's Alpha is viewed as an index of reliability associated with the variation accounted for by the true score of the underlying construct (Cronbach, 2004). It is argued that Alpha coefficients range in value from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous and or multi-point formatted questionnaires or scales. However, there is no lower limit to the coefficient, however, the closer Cronbach's coefficient alpha is to 1, the greater the internal consistency of the items of the scale. The reliability of this instrument is established with the assistance of the SPSS programme in conjunction with Cronbach coefficient-alpha. The calculated coefficient-alpha is 0.627, which implies a strong positive item-homogeneity in this measuring instrument. This denotes as an indication of test reliability.

**Table 4.8: Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Items
.627	.723	33

Table 4.9 indicates that a Cronbach coefficient-alpha of 62.7% revealed that the data can be relied upon.

#### 4.7 Discussion

The results indicate that majority of the respondents were middle level management representing 36% and top management and supervisors representing the same results 32%. Also, the results of the study findings shows that one of the major reasons for the bank to adopt mergers and acquisitions as a strategy for growth is that of wider market coverage representing 38% and gain competitive advantage representing 36%.

The finding confirmed that 51.1% of the respondents strongly agree that mergers and acquisitions help in increasing of the banks profit as compared to before merger. The finding further indicates that 34.0% of the respondents strongly agreed that mergers have

increased the profit after one year. In addition, the finding further indicates that 38.3% of the respondents agreed that mergers help in expanding the bank's profitability index.

The finding further indicates that 38.3% of the respondents strongly agreed that mergers have increased the banks before tax. Further, the findings indicate that 36.2% of the respondents strongly agreed that mergers have increased the banks after tax. Moreover, those respondents agreed that mergers have increased the banks after tax representing 29.8%.

Responses on sales indicate that 31.9% of the respondents strongly agree that before merging and acquisition the sales turnover were low, 40.4% agrees and 14.9% moderately agree. The finding further indicates that 40.4% of the respondents strongly agreed that mergers and acquisitions help in increasing of sales. In addition, those respondents agreed that mergers and acquisitions help in increasing of sales 27.7%. The study findings further indicate that 14.9% of the respondents moderately agreed that mergers and acquisitions help in increasing of sales. Moreover, 6.4% indicates not sure that mergers and acquisitions helps in increasing of sales. Further, 4.3% reveals that that respondent who disagreed and moderately disagreed that mergers and acquisitions helps in increasing of sales. Further, 47.7% of the respondents strongly agreed that mergers and acquisitions have in sales maximization or optimization. The finding further indicates that 23.4% of the respondents agreed that mergers and acquisitions have in sales maximization or optimization. The finding further indicates that 38.3% of the respondents strongly agreed that mergers and acquisitions help the two banks to combine their sales turnover. In addition, those respondents agreed that mergers and acquisitions help the two banks to combine their sales turnover 25.5%. The study findings further indicate that 17.0% of the respondents moderately agreed that mergers and acquisitions help the two banks to combine their sales turnover. Further, the finding indicates that 31.9% of the respondents strongly agreed that mergers have increased the company's sales volume. Moreover, those respondents agreed and moderately that that mergers have increased the company's sales volume representing 21.3%.

The study also aimed to establish the relationship between mergers and acquisitions in commercial banks in Kenya and market power. The findings from the study indicates that

44.7% of the respondents strongly agree that mergers and acquisitions increases the market power of the banks, 23.4% agrees that mergers and acquisitions increases the market power of the banks. In addition, and 10.6% moderately agree that mergers and acquisitions increases the market power of the banks. The finding further indicates that 42.6% of the respondents strongly agreed that mergers and acquisitions increase the market share of the banks. In addition, those respondents agreed that mergers and acquisitions increase the market share of the banks representing 31.9%. Further, 36.2% of the respondents strongly agreed that mergers and acquisitions have increased the geographical market power of the firm. The finding further indicates that 31.9% of the respondents agreed that mergers and acquisitions have increased the geographical market power of the firm. Also, 10.6% of the respondents moderately agree that mergers and acquisitions have increased the geographical market power of the firm. The finding further indicates that 38.3% of the respondents strongly agreed that mergers and acquisitions market power of banks is determined by the service and product quality after mergers and acquisitions. In addition, those respondents agreed that mergers and acquisitions market power of the bank's is determined by the by product quality after merger representing 31.9%. The study findings further indicate that 12.8% of the respondents moderately agreed that mergers and acquisitions market power of the bank's is determined by the by product quality after merger. The study findings further indicate that 51.1% of the respondents strongly agree that the product price after merger determines the market power of the banks. Additionally, 23.4% indicates agree that the product price after merger determines the market power of the banks. 40.4% of the respondents strongly agreed that the marketing strategies of the firm after merger determine the market. 27.7% of the respondents agreed that the market share is affected after by mergers and acquisitions in banks. The study findings further indicate that 10.6% of the respondents moderately agreed that the marketing strategies of the banks after mergers determine the market.

On the relationship between gross domestic growth (GDP) and the use of mergers and acquisitions in commercial banks the findings from the study indicate that 51.1% of the respondents strongly agree that mergers and acquisitions are the effects of poor GDP growth in the economy. In addition, 21.3% of the respondents agree that mergers and

acquisitions are the effects of poor GDP growth in the economy. The finding further indicates that 59.6% of the respondents strongly agreed that low GDP growth influence companies to merge in order to be competitive. In addition, those respondents agreed that that low GDP growth influence companies to merge in order to be competitive representing 21.3%. The study findings further indicate that 6.4% of the respondents moderately agreed that that low GDP growth influence companies to merge in order to be competitive. Further, 59.6% of the respondents strongly agreed that low GDP affects the capital markets growth. The finding further indicates that 23.4% of the respondents agreed that low GDP affects the capital markets growth. The finding further indicates that 42.6% of the respondents strongly agreed that low GDP influences slow flow of capital investment. In addition, those respondents agreed that low GDP influences slow flow of capital investment 29.8%. Further, the finding indicates that 56.5% of the respondents strongly agreed that banks growth depends on the GDP growth. Moreover, those respondents agreed that banks growth depends on the GDP growth representing 15.2%. The study findings further indicate that 8.7% of the respondents moderately agreed that banks growth depends on the GDP growth.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of key data findings, conclusions drawn from the findings and recommendations that were made. The conclusions and Recommendations drawn were aimed at addressing research objective of investigating mergers and acquisition as a growth strategy of commercial banks in Kenya.

### **5.2 Summary of Findings**

The objectives of this study were to find out use of mergers and acquisition as a tool for strategic growth in banks. The findings revealed that all the variables that were under study affected the mergers and acquisition of banks as growth strategy. It can be seen that profitability greatly influences the adoption of mergers and acquisition as a strategic tool in commercial banks. Another variable is that of growth of sales where the research was able to reveal that this is a major reason for commercial banks adopting mergers and acquisitions as growth strategies. Market power of the bank is another growth strategy that influences mergers and acquisition. In addition, the bank's stock value indicates that it influences the banks to adopt mergers and acquisitions as a way of achieving growth.

The study was able to show that mergers and acquisitions have a positive effect on the independent variables. Mergers and Acquisitions were used as a tool for strategic growth by commercial banks in Kenya has been able to influence the variables that were being measured. The major reason for employing mergers and acquisitions by commercial banks in Kenya has been to bring strengths of the involved entities to be stronger as one. One plus one equals two is the popular reason why mergers and acquisitions are used and the research was able to show that the arithmetic add up. Two merged entities are better than two competing entities.

### **5.3 Conclusions**

One of the objectives of this study was to find out if banks use the mergers a. A good number of banks have adopted mergers and acquisition since the year 2000. The findings indicated that profitability is main factor that banks adopt mergers and acquisition. It

further revealed that most of the banks that had adopted mergers and acquisition had registered a higher profit before and after tax. It also it can also be deduced that majority of the banks indicated that mergers and acquisition help in expanding the bank's profitability index

The study aimed to establish if mergers and acquisition help in the growth of sales of the commercial banks that have adopted mergers and acquisitions as a strategy for growth. The study revealed that majority of the banks after merger and acquisition recorded high sales as compared to the low sales before merging. It further revealed that majority of the banks that have adopted merger and acquisition as growth strategies have sales maximization or optimization. It further revealed mergers and acquisitions helps the two banks to combine their sales turnover and increases the company's sales volume.

The third objective was to establish if mergers and acquisition as growth strategy help in market power of the bank. According to the findings, mergers and Acquisitions increases the market power of the banks. In addition, mergers and acquisition increases the market share of the banks. Moreover, mergers and acquisitions have increased the geographical market power of the firm. Additionally, mergers and acquisitions market power of the bank's is determined by the by product quality after merger, the product price after merger determines the market power of the bank's and the marketing strategies of the firm after merger determines the market power of the bank's

It's been assumed that mergers and acquisition as growth strategy have an effect in bank's stock value. The study aimed to establish the effect of mergers and acquisitions on bank's stock value. The study revealed that mergers and acquisitions positively influence the banks price of shares. It further revealed that majority of the banks increased their share base of the company, bank's investors' confidence and the shareholders wealth of the bank's merging.

The last objective was to establish if mergers and acquisition as growth strategy help in acquisition impact of GDP. The study revealed that mergers and acquisitions are the effects poor GDP growth in the economy, low GDP growth influence companies to



merge in order to be competitive, low GDP affects the capital markets growth, low GDP influences slow flow of capital investment and banks growth depends on the GDP.

The study concludes that management in commercial banks believe that mergers and acquisitions are a great strategic tool that should be used when commercial banks seek to have improved profits, increased sales, share value and market power. The study also concludes that the rate of mergers and acquisitions has an influence on growth on country's GDP growth through the bringing together of resources to achieve a common goal.

#### **5.4 Recommendations**

Several recommendations were made based on the fore goings. One is that banks need to adopt mergers and acquisition which will maximize the shareholders wealth. Merger and acquisition is a strategic tool that must be cautiously applied and implemented. The maturation period of the merger must be allowed so that the banks can enhance growth and contribute to the growth of the economy. Merger and acquisitions are supposed to be consummated when organisations want to leverage on the benefit of synergy and not a strategy to escape liquidation or meet statutory requirements to still continue to exist even with toxic assets.

#### **5.5 Limitations of the Study**

The major limitation for the study is that the sample size is scattered across Nairobi thus the collection of data was complicated due unavailability of the respondents as and when the researcher needed to administer the interviews or present the questionnaires. This made the research last longer than it needed to.

The study was also reliant on primary data with questionnaires and interviews being the primary source of data. The limitations here is that the responses received are subject to emotional factors on the respondents part and or subject to different interpretations on the questions received.

## **5.6 Suggestions for Further Studies**

The findings of this study have revealed that mergers and acquisition are good strategies for growth. Future research may seek to gain insights in the following suggested areas:

- a) Mergers and acquisition as growth strategy during periods of slowed economic activity.
- b) Reasons why Mergers and Acquisitions adoption in Kenya is slow compared to developed countries.
- c) Mergers and Acquisitions as a strategic tool in microfinance firms in Kenya.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

I am carrying out a research on the impact of mergers and acquisition as to for strategic growth in Kenya. Therefore, I am requesting that you to spare sometime and provide the information so desired. This information will only be used for academic purpose only and the questionnaires will be destroyed after analyzing the data.

#### Instructions

- ❖ Tick where applicable in the box or write your response in the space provided.
- ❖ Do not write your name on this paper

#### Section A: Background information

1. Indicate you professional/role status (*Tick the box where applicable*)

Top management  Middle level management  Supervisors

2. What are the reasons for the bank to adopt mergers and acquisitions as a strategy for growth?

#### Section B: Mergers and Acquisition as strategic tools for growth of banks

Instruction: Please indicate the degree of your agreement or disagreement with each statement by marking (X) in the box provided below: -

1	2	3	4	5	6	7
Strongly Agree	Agree	Moderately agree	Not sure	Strongly disagree	Disagree	Moderately disagree

Section A- Profitability	1	2	3	4	5	6	7
Mergers and Acquisitions have help in increasing of the banks profit as compared to before merger.							
Mergers have increased the profit after 1 year							
Mergers help in expanding the bank's							

profitability index							
Mergers have increased the company's bank's before tax							
Mergers have increased the company's bank's after tax							

<b>Section B - Growth of sales</b>	1	2	3	4	5	6	7
Before merging and acquisition the sales turnover were low							
Mergers and Acquisitions helps in increasing of sales							
Mergers and Acquisitions have in sales maximization or optimization							
Mergers and Acquisitions helps the two banks to combine their sales turnover							
Mergers have increased the company's sales volume							

<b>Section C- Market power of the bank</b>	1	2	3	4	5	6	7
Mergers and Acquisitions increases the market power of the bank's							
Mergers and Acquisitions increases the market share of the bank's							
Mergers and Acquisitions have increased the geographical market power of the firm							
Mergers and Acquisitions market power of the bank's is determined by the by product quality after merger							
The product price after merger determines the market power of the bank's							

The marketing strategies of the firm after merger determines the market power of the bank's							
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<b>Section D – Bank's stock value</b>	1	2	3	4	5	6	7
Mergers and Acquisitions positively influence the bank's price of shares							
The Mergers and Acquisitions increases the share base of the company							
The Mergers and Acquisitions increases the bank's investors' confidence							
Mergers and Acquisitions helps in increasing the shareholders wealth of the bank's merging							

<b>Section E – Acquisition impact of GDP</b>	1	2	3	4	5	6	7
Mergers and Acquisitions are the effects poor GDP growth in the economy							
Low GDP growth influence companies to merge in order to be competitive							
Low GDP affects the capital markets growth							
Low GDP influences slow flow of capital investment							
Banks growth depends on the GDP growth							

## APPENDIX II: BUDGET

<b>Tasks</b>	<b>Costs (Kshs)</b>
Cost of computer time	1000
Printing, photocopying and binding	3500
Travelling expenses	500
Total	5000

## APPENDIX III: TIME SCHEDULE

<b>Activity</b>	<b>Date</b>	<b>Month(s)</b>	<b>Year</b>
Identify the problem	18 <sup>th</sup> -	June	2013
Develop a topic	19 <sup>th</sup> -22 <sup>th</sup>	July	2013
Introduction	23 <sup>rd</sup> – 28 <sup>th</sup>	July	2013
Literature review	5 <sup>th</sup> -25 <sup>th</sup>	July	2013
Research design and methodology	July	July	2013
Preparations for presentation	11 <sup>th</sup> – 15 <sup>th</sup>	July	2013
Presentation	26 <sup>th</sup>	August	2013



#### APPENDIX IV: LIST OF BANKS

<b>Institution</b>	<b>Merged with</b>	<b>Current Name</b>	<b>Date approved</b>
9 Financial Institutions	All 9 Financial Institutions Merged together	Consolidated Bank of Kenya Ltd	01 January 1989
Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10 November 1994
Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28 November 1994
Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02 December 1994
First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05 September 1995
Bank of India	Bank of India Finance Ltd.	Bank of India (Africa) Ltd.	15 November 1995
Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05 January 1996
Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15 January 1996
Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17 January 1996
CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26 January 1996
Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07 January 1997
National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14 June 1997
Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24 November 1998

Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24 November 1998
Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12 February 1999
National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24 May 1999
Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17 November 1999
Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22 November 1999
Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30 November 1999
Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03 December 1999
Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11 January 2000
Mashreq Bank Ltd.	Dubai Kenya Ltd.	Dubai Bank Ltd.	01 April 2000
Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21 March 2001
Citibank NA	ABN Amro Bank Ltd.	Citibank NA	16 October 2001
Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd.	07 December 2001
Co-operative Merchant Bank Ltd	Co-operative Bank Ltd	Co-operative Bank of Kenya Ltd	28 May 2002
Biashara Bank Ltd.	Investment & Mortgage Bank Ltd.	Investment & Mortgage Bank Ltd.	01 December 2002
Credit Agricole Indosuez (K) Ltd.	Bank of Africa Kenya Ltd.	Bank of Africa Bank Ltd.	30 April 2004

First American Bank Ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01 July 2005
East African Building Society	Akiba Bank ltd	EABS Bank ltd	31 October 2005
Prime Capital & Credit Ltd.	Prime Bank Ltd.	Prime Bank Ltd.	01 January 2008
CFC Bank Ltd.	Stanbic Bank Ltd.	CFC Stanbic Bank Ltd.	08 June 2008
EABS Bank Ltd.	Ecobank Kenya Ltd.	Ecobank Bank Ltd.	16 June 2008
Savings and Loan (K) Limited	Kenya Commercial Bank Limited	Kenya Commercial Bank Limited	01 February 2010
City Finance Bank Ltd.	Jamii Bora Kenya Ltd.	Jamii Bora Bank Ltd.	11 February 2010
Equatorial Commercial Bank Ltd	Southern Credit Banking Corporation Ltd	Equatorial Commercial Bank Ltd	01 June 2010

Source: Central Bank of Kenya (2013)

## APPENDIX IV: INTRODUCTION LETTER



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE 27/09/2013

**TO WHOM IT MAY CONCERN**

The bearer of this letter EPHRAIM MUSENE NDOGA

Registration No. DC/63029/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**

