

**MERGERS, ACQUISITION AND FINANCIAL PERFORMANCE OF
COMMERCIAL BANKS IN KENYA**

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DECLARATION

This research project is my original work, and it has not been presented for a degree in any other University

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I confirm that the work in this research project was done by the candidate under my supervision.

Signature



Date 14/05/2025

Dr. Ng'ang'a

DEDICATION

This thesis is dedicated to Swalehe malingi, Timothy Jillo, Felix Ochola, my closest friends for their support and encouragement. To my parents Boniface Chengo and Agnes Kadzo who have been a pillar and motivator to my life. To my siblings Benard Faraji, Frankline Sande, Abel Kahindi who have always been there to accord me support in all the requisite areas.

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TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
OPERATIONAL DEFINITION OF TERMS.....	x
ABBREVIATIONS & ACRONYMS	xii
ABSTRACT.....	xiii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Study Background.....	1
1.1.1 Mergers and acquisition.....	3
1.1.2 Financial Performance	5
1.1.3 Commercial Banks in Kenya	6
1.2 Problem Statement	7
1.3 Study Objectives	8
1.3.1 General Objective	8
1.3.2 Specific Objectives	9
1.4 Research Hypotheses	9
1.5 Significance of the Study	9
1.6 Scope of the study.....	10
1.7 Limitation of the study	10
1.8 Organization of the study.....	10
CHAPTER TWO	12
LITERATURE REVIEW	12
2.0 Introduction.....	12
2.1 Theoretical Review	12
2.1.1 Monopoly-market Power theory	12

2.1.2 Resource Based Firm Theory.....	13
2.1.3 Financial Synergy Theory.....	14
2.1.4 Agency Theory.....	15
2.2 Empirical Review.....	16
2.2.1 Market share and Financial Performance	16
2.2.2 Shareholder’s value and Financial Performance.....	17
2.2.3 Income Diversification and Financial Performance	18
2.2.4 Customer portfolio and Financial Performance.....	20
2.3 Summary	21
2.4 Conceptual Framework.....	26
CHAPTER THREE	27
RESEARCH METHODOLOGY	27
3.1 Introduction.....	27
3.2 Research Design.....	27
3.3 Target Population.....	27
3.4 Data Collection Instruments	28
3.5 Data collection procedure and Diagnostic Tests.....	28
3.5.1 Stationarity Test.....	28
3.5.2 Autocorrelation	29
3.5.3 Heteroskedasticity Tests	29
3.6 Data Analysis and Presentation of Data.....	30
3.7 Ethical Considerations	31
CHAPTER FOUR.....	32
RESEARCH FINDINGS AND DISCUSSION.....	32
4.1 Introduction.....	32
4.2 Results of Descriptive Analysis	32
4.3 Diagnostic tests	35
4.3.1 Normality Test	36
4.3.2 Multicollinearity Test.....	37
4.3.3 Heteroscedasticity Test	38
4.4 Results of Inferential Analysis.....	39

4.4.1 Regression Analysis.....	41
CHAPTER FIVE	45
SUMMARY, CONCLUSION AND RECOMMENDATION.....	45
5.1 Introduction.....	45
5.2 Summary.....	45
5.3 Discussion of the Results Findings	45
5.3.1 Market share value influence on FP of Merged Commercial Banks	45
5.3.2 Shareholders value influence on FP of Merged Commercial Banks	46
5.3.3 Income diversification influence on FP of Merged Commercial Banks.....	46
5.3.4 Customer Portfolio influence on FP on Merged Commercial Banks	47
5.4 Conclusion	47
5.4.1 Market share value Influence on FP of Merged Commercial Banks.....	47
5.4.2 Shareholders value Influence on FP of Merged Commercial Banks.....	47
5.4.3 Income diversification Influence on FP of Merged Commercial Banks	48
5.4.4 Customer portfolio Influence on FP of Merged Commercial Banks	48
5.5 Recommendations.....	48
5.5.1 Market share influence on FP of Merged Commercial Banks.....	48
5.5.2 Shareholder’s value Influence on FP of Merged Commercial Banks	49
5.5.3 Income diversification Influence on FP of Merged Commercial Banks	49
5.5.4 Customer portfolio influence on FP of Merged Commercial Banks	49
5.6 Recommendations for Further Studies.....	50
REFERENCES.....	51
APPENDICES	54
Appendix 1: List of All Merged Commercial Banks	54
Appendix II: Document Review Guide.....	55
Appendix III: Kenyatta University Graduate School Letter	56
Appendix IV: Nacosti Permit.....	57

LIST OF TABLES

Table 2.1: Summary of Literature by other Scholars.....	21
Table 4.1 Pre-Merger	32
Table 4.2 Post-Merger	33
Table 4.3. Shapiro-Wilk Test of Normality	36
Table 4.4 Multicollinearity Test	38
Table 4.5 Test for Heteroscedasticity	39
Table 4.6 Correlation Analysis	40
Table 4.7 Model Summary	41
Table 4.8 Analysis of Variance.....	42
Table 4.9 Coefficients.....	43

LIST OF FIGURES

Figure 2.1: Conceptual Framework (sources-student).....	26
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OPERATIONAL DEFINITION OF TERMS

Acquisition	Ownership and purchase regarding to a company's controlling stake in a share capital.
Bank	An entity that undertakes to do any banking business excluding the CBK.
Banking Business	Refers to activity of deposit taking and repayable upon demand or after notice issuance, it also involves investing the deposit collected as may be decided by the institution, lending to whom its feels like so and any other activity prescribed by the CBK.
Bank Size	Is a measure of value hold by a bank determined by the assets.
Financial performance	It refers to a firms achievement over a period of time , parameters such as leverage, liquidity, solvency, profitability and capital adequacy used to determine the firms strength in collection and allocation of finance.
Horizontal Merger	It refers to a merger of two firms operating in the similar stage of productions in the same industry.
Kenya Banks Reference Rate	Refers to the recommended base rate that Banks rely on while pricing loan products decided upon by the lender of last resort (CBK).
Market Extension	This occurs when companies that have merged or take over sale similar goods but are at a different geographical location.
Mergers	Refers to joining of two companies in which the later becomes obscure and results to a new company formed.

Operating Cost	Costs incurred in the running of a business i.e. administrative, sale and marketing costs and others
Product Extension	This type results when the company whose the predator and the prey are functionally similar in distributions, productions but directly aren't competing in the product sell.
Vertical Merger	This one is as a result of firms merging within the same industry that provide supply chains that which are different.

ABBREVIATIONS & ACRONYMS

CA	Correlation Analysis
CAR	Capital Adequacy Ratio
CBK	Central Bank of Kenya
EBIT	Earnings before interest and taxes
FP	Financial Performance
IAI	Integrated Alternative investments
IMAA	Institute for Mergers Acquisitions and Alliances
KBA	Kenya Bankers Association
KBBR	Kenya Bankers Reference Rates
M&A	Mergers and acquisition
P&L	Profit and loss account
PE	Private Equity
PLC	Public Limited Company
PLC	Public Limited Company
RA	Regression Analysis
ROA/ROE	Return on Assets /Equity

ABSTRACT

Mergers refers to an agreement that unites firms in which one firm is formed after the event while Acquisition refers to the purchase and ownership of a controlling stake of the other firms share capital. Mergers and acquisitions has been a source of growth option for several firms; whose main goal is to maximize the shareholders' wealth. Numerous scholars around the globe have failed to establish through a report which is conclusive on Mergers and acquisitions impact on financial performance of the resultant firm, by putting into consideration legislative amendments that may take effect, therefore providing the basis for this research. The goal was to discuss Mergers, acquisitions and Financial of Kenyan commercial Banks guided by the following variables forming the specific objectives: customer portfolio, market share, shareholders value and income diversification. The study also used monopoly-market power theory, theory of financial synergy, resource-based theory and agency to expound on the specific objectives. The causal design was used in the study; the research was conducted in Kenya with a target of 10 banks which merged during the period of study (2013-2021) out of 38 licensed to operate, and used secondary data captured from official Central Bank of Kenya, supervisory reports and statements showing the status of commercial banks under review. It further conducted predictive statistics that included multivariate regression and findings analyzed through excel and Statistical Package for the Social Sciences software (version 20) respectively data presentation done in form of tables. The study was restricted to banks based in Kenya: Combinations of businesses had a beneficial influence on profitability and dramatically manifested its outcomes as per findings reported. It supports the findings of Lovestam, Kiran and Ingham (2011), who examined the effects of mergers and acquisition on the 500 top companies (without focusing specifically on the banking sector). Their findings illustrated through regression analysis that merged banks experienced an upward trend in return on equity, while correlation analysis depicted a strong relationship between the dependent variables and independent one, notably banks after merger would diversify their sources of income by using a variety of creative concepts in order to boost their profits.

CHAPTER ONE

INTRODUCTION

1.1 Study Background

Every organization has that objective of increasing value of shareholders. Each organization has its own means of increasing returns, aiding its survival in a market which may be characterized as fast growing. There are times for a firm to stay afloat in a certain market it has to employ certain market strategies has like new market entrants, product developments. These strategies require financial strength; hence the small low profit returns firms are left with no option other than exiting from the market (Muhammad et al, 2014)

Market advancement over years has contributed to changes in the operating environment in the world today. The pursuit for meeting increased share capital levels, market dominance and expanding network distribution has been a major contributing factor to inorganic growth, (Joseph, 2012). Among other popular ventures by firms in that quest to increase profits and reduce resultant cost , M&A forms the most popular strategy embraced by the firms(Georgios & Georgios, 2011)

M&A is a very important tool in the market world today and from history, in the 15th century regions formed alliances with each other in search for protection from enemies or in moments where a region wanted to expound its frontiers due to wealth search or superiority purposes,. Freidheim (1998) in the United States it started as early as eighteen century, according to (Salleo, Focarelli and Panetta, 2002) its commencement was recorded to the nineteenth century .Initially it was limited to developed nations like US

and UK, however for the past three decades; firms have continuously embraced the strategy for corporate restructuring, (Muhammad et al, 2014).

IMAA institute (2020) states that there have been 790,000 transactions worth 57 trillion USD recorded since the year 2000, which increased in Value by 4% to 3.8 trillion USD in 2018 with an increased in number of deals by 8%. This clearly denotes the growing trend through M&A all over. According to IMAA institute(2020) Vodafone acquiring Mannesmann AG formed the highest transaction in value for M&A in Europe a value of USD 202.79B/EUR 204.79B in 1999, in Asia the highest was a merger between Citic pacific Ltd. And Hong Kong value of USD 42.2/EUR32.0 year 2014, Middle East & North Africa the highest merger in value was Teva pharmaceuticals industries and Allergan PLC-generic Drug Bus value USD 38.75/EUR 34.93 year 2015.

In Kenya a number of M&A has been recorded across different key sectors apart from the financial services sector specifically the commercial banks, showing how most companies look to M &A process as a way of achieving growth within a specific required time frame, they include with few examples: Education sector: Example of deal between Actus Education Holding a subsidiary of Actus Equity through purchased a stake of 22.32% of Riara group of schools on the issued share capital. Godrej Consumer Products Ltd (GCPL)-(fast moving consumer group from India) announced the take over 25% stake value worth 1.5 billion kenya shillings to Cannon Chemicals-Kenyan based firm.

Retail Sector- through Adenia capital, Adenia Partner completed a merger with Quick Mart Limited in 2019. The transaction was structured through Adenia capital EUR 230 million investment fund. Financial services sector-De La Rue PLC through its Kenyan

based was acquired by HID Corporation Ltd which is American based. Banking Sector- Kenya Commercial Bank (KCB) 100 % acquired National Bank of Kenya (NBK); September 30th, 2019 the NIC group PLC merger to commercial Bank of Africa Limited was effected; Commercial International Bank (CIB) which is a listed company in Egypt acquired 51% stake Mayfair Bank capital injection worth USD 35 in Kenya; July 2020 CBK allowed 100% acquisition of Transnational Bank PLC by Nigerian lender at an undisclosed amount..

1.1.1 Mergers and acquisition

In business, it is an agreement of entities to form a single entity this includes all of their assets as well as debts (Gwaya, 2015). Georgios (2011) defines a merger as two or more entities approaching each other to be become a single entity; Joseph (2012) defines acquisition as the purchase or ownership by a firm to another firm part or full stake of the share capital. Gwaya (2015) describes take over simply as a case where one entity buys another after agreed discussions

Year 1989 9 institutions in the banking industry that were in distress merged forming the consolidated Bank of Kenya, a governments initiative to take up firms that are in distress through the financial sector reform program. November 1994 a merger to form Credit Agricole Indosuez through Indosuez Merchant Finance and Banque Indosuez which was later acquired by Bank of Africa on 30th April 2004, (www.centralbank.co.ke): since then till now we have seen a cumulative 34 mergers and 12 acquisitions. The most recent acquisition was Jamii Bora The Banking Corporation being purchased by Co-op bank, which will rebrand as Kingdom Bank of Kenya Limited on August 21, 2020. (www.centralbank.co.ke).

It is observed that firms mostly engage in a variety of activities with the aim of seeking for opportunities or diversify their portfolio in return to boost profits; this can be through Mergers, tender offers and joint ventures. For expansion to be tangible then a need to select best talent is imperative this will help to execute the process and thus making the whole merger process efficient. Horizontal merger refers to an agreement of firms operating similar supply chains in the same industry, having the benefit of economies of scale. It has been believed heavily that this kind of a merger creates an environment that causes a monopoly power causing anti-competitive practises, (Sagwa, 2018).

Muia (2010) remarks of the reasons why firms undertake vertical mergers, being the saving of cost incurred in retreating and transportation example of the integration between iron and steel production. Second, elimination of certain kinds of cost example for searching of prices, collection of payment, adverts and also facilitates reduction of costs from communication and production coordination. Third, produces a more efficient information system which facilitates planning for both production and inventory within the firm.

Vertical mergers are either backward when there's a merger between a supplier and a firm or a forward when there's a merger between a firm and a customer. Example of forward integration is a merger between a chain of toy stores and a manufacturer of toys; a merger between a tire company with auto manufacturers serves as an example of back integration. Conglomerate mergers is classified into three; First, product extension refers to one which are related in use but don't compete, two firms one manufacturing soap taking over a firm that manufactures bleaching agent.

Second, market extension refers to firms that have merged but sale same products at different geographical locations e.g. firm producing milk in Mombasa, taking over a firm producing milk in Nairobi, (Sagwa, 2018).Thirdly, unrelated involves a take of firms that do not relate in their functions, like a Bank acquiring milk producing firm. Joseph (2012), states of a conglomerate defined in two major characteristics. Its control, in different firms, that need expertise in functions of management, in production, marketing and engineering in applied research. Second, inorganic growth achieves diversification more than the normal internal development.

1.1.2 Financial Performance

IAI (2016) refer it(financial performance) as the firms strength in managing and control of its resources in a particular timeframe, which also focuses on how revenue is obtained and how a firm expenses the revenue measured by certain indicators in ratios like liquidity, solvency, profitability, leverage ratios.

Didin and Mochamad (2018), defines it as the results of a firm for a certain period measured by certain factors that cover collection of funds and there appropriation. Didin and Mochamad (2018), financial performance of a company can be viewed through financial statements. Didin (2017) defines statements of financial position as a reference of companies affair which includes its balance sheet, cash flows, income statement, statement of equity and others.

Its important to calculate profitability as most businesses target profits, while there are dozens of ratios to use, the key ones are: margin of gross profit which shows production efficiency of each unit which the management produces and in service industry it

measures net sales (Joseph,2012), Net profit margin takes into account all cost i.e direct cost , plus overheads, and interest and tax payments to determine profit, While return on capital takes into account earnings after paying taxes and preference dividends, which are determined based on shareholders' contributions, return on the entirety of assets and businesses' equity take into account returns from total resources invested.

1.1.3 Commercial Banks in Kenya

Banking Act (Cap 491) Banks are controlled and licensed by the CBK and CBK play the oversight role, creating an overall soundness in Banking industry, adherence to stipulated regulatory establishments is enforced by the CBK.(CBK, 2020).

Banking industry was liberalized in the early 1990s after 20 years since independence where price controls were implemented, and in September 14th 2016 the banking act (section 34(4) was amended setting curtailing rates on lending and deposit to be 4% above the base rate by CBK; minimum interest rate of 7% placed on deposit held, (CBK, 2020) which was then lifted the year 2019 November. Over the recent past in Kenya, the industry in Banking has seen a positive trajectory in market share, customer portfolio, and shareholders value and income diversity leading to increased profitability. Over the recent past most banks have been listed into the Nairobi Stock exchange thereby through M&As most have increased their shares, conversely some have experienced a reduction. Customer portfolio has broaden with its increase attached on digital inventions that have created a wider informational spread, as a result of increased returns shareholders value has over the years witnessed the impact. Some have been forced to seek other means of making money thereby diversifying operations to other sectors.

Growth has been experienced majorly by a number of increase strategies like entry into new market through the branch expansion and also increase in automation services that replace the old conventional banking methods (Joseph, 2012).

1.2 Problem Statement

The ultimate growth of any firm is to attain an excellent performance, which forms the main aim of mergers and acquisition. Joseph (2012) several studies have been carried out but results obtain can't be considered as the 'rule of the thumb'. Powell and Yawson (2005) studied on acquisition observing that after a merger the returns experienced are higher than internal growth. However the Inability to establish the relationship between levels of merger activity and returns was experience.

Gupta (2012) provided a variety of performance to the stakeholders involved, Selcuk and Yilmaz(2011) observed that M&A for acquired firm have no financial gain. There is a failure in share price months after purchase. Local based researches done on mergers and acquisitions: Wanguru (2011) stated averagely that there was an increase in returns as compared to five years prior the merger, finally concluding that M&A causes an increase in profits to the resultant.

Joseph (2012) concludes that M&A contributes to increased clientele and also asset based of a firm and with an upward trajectory in lending thereby causing a resultant increase in profits. (George et al 2014) concludes that there is a non-effect in performance of the acquiring firm in corporate take overs.

Faridah (2015) researched on mergers and acquisitions of commercial Banks by analyzing its profitability stating that the firm formed after the takeover improved in

profits, but dropped slightly after the third year below the average return of the firms before occurrence of the event. (Melly 2019) found out that banks usually go through the M&A process because one of them is not being profitable hence not guaranteeing profitability after the process, The research was done during the time when the banking trade was liberal.

From these studies it is clearly unsettled on the influence of M&A to a firms FP, and the results attained cannot be ‘rule of the thumb’ putting into consideration the time of this study, which was faced with amendments in the finance bill (Sec 33B) 2016, which touched on the key role of Banks in an economy; it provided for, among other things, a ceiling of 4% over the rate set by the CBK on interest charged by financial institutions, which was later scraped on 5 Nov 2019 (Bowman 2019).None of the researchers from the studies above was able to answer when faced with changes in legislation thus for the interest of knowledge this research will therefore accomplish the niche by keenly determining M&A and FP of Commercial banks in Kenya: giving a keen look into variables which are customer portfolio, income diversification, market share, shareholders value at a time when there were Banking Act amendments.

1.3 Study Objectives

1.3.1 General Objective

To determine the effect of mergers and acquisition on financial performance of commercial Banks in Kenya

1.3.2 Specific Objectives

- i. To examine the effect of customer portfolio on FP of commercial Banks in Kenya
- ii. To identify the effect of market share on FP of commercial Banks in Kenya
- iii. To establish the effect of shareholders' value on FP of the commercial Banks in Kenya
- iv. To determine the effect of income diversification on FP of commercial Banks in Kenya

1.4 Research Hypotheses

H₀₁: Customer portfolio has no significant effects on financial performance of Commercial Banks in Kenya

H₀₂: Market share has no significant effects on financial performance of Commercial Banks in Kenya

H₀₃: Shareholders value has no significant effects on financial performance of Commercial Banks in Kenya

H₀₄: Income diversification has no significant effects on financial performance of Commercial Banks in Kenya.

1.5 Significance of the Study

Huge resources are usually set aside for establishments of M&As hence it is of great concern study was undertaken. It will increase the know-how to the following:

First, Legislators will introduce ways and standards of M&A thereby determining on liquidity management of firms in the event of merger or acquisition. Secondly, the study

will enable potential & current investors, clients and commercial banks in understanding of mergers and its importance while analyzing performance. Third, it will create a base for more research, building on the already existing empirical and theoretical knowledge.

1.6 Scope of the study

Research covered 10 operating Commercial banks in Kenya, which underwent the process of M&A during the period 2013-2021. The period of study was due to it being the period when interest rates through the government were capped and also lifted (2016&2019 respectively) thus the entire banking industry experienced mixed outcomes in performances. The study covered a number of banking variables (customer portfolio, income diversification, market share, shareholders value) and moderating variable.

1.7 Limitation of the study

Finance data is mostly guarded as classified by the banks themselves and even CBK that plays an oversight role, thereby not being readily accessible, research permit from the NACOSTI will be sought for to allow accessibility to certain key materials to the success of this research. The research will also use data panel analysis to provide unbiased results.

1.8 Organization of the study

This project was planned into five parts. First, the research background then the statement of the problem which brings out the gap, then follows the general objectives plus the specific ones that form the variables both independent and dependent respectively, followed by the assumptions which are the hypotheses then the importance of study, its scope then the limitations speculated. Second part discusses the literature review while the third part discusses methods used to accomplish the desired goals. Fourth, study

findings, analysis and data representation while fifth chapter discussed on the report recommendations and conclusions

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section adds on problem focused in the research, objectives (general and specific) and hypothesis as identified in the previous chapter; through various theories upon which the study is supported, also critically reviewing relevant literatures done by other researchers both locally and internationally that touch on the subject purpose. The study discussed the theoretical framework, Then it moved on to the empirical studies by other academics that are pertinent to the subject and that elaborate on the objectives.

2.1 Theoretical Review

The proposed relationship between the variables under examination has been covered in a number of theories. The theories being discussed include agency theory, financial synergy theory, resource-based company theory, and monopoly-market power theory.

2.1.1 Monopoly-market Power theory

Monopoly-market power theory developed in 1990 by Trautwein. The theory stipulates that mergers are formed majorly to attain a state of monopoly through increased market power. Power of the market can be attained by the number of activities like supply reduction, product being cross-subsidized and placing barriers for new entrants into the market. (Trautwein,1990)

A company makes choices upon their ability to assess the attractiveness of the market, the competition present, and value creation upon integration of demands in the market and strengths of the firm (Sudarsanam, 2013). Development through merger and

acquisition implies power and renown and in addition the potential for higher compensations and rewards (Bierman, 2014). A scarcity of resources, information asymmetry would cause a firm to seek external resource to increase among other things factual information, supply and reduction of supply volatility (David & Cobb, 2010).

The theory informed why the state of monopoly created by M&As are attained with the aim of increasing market share that in the long run is converted to profits.

2.1.2 Resource Based Firm Theory

This theory was proposed by J.B Barney (Barney, 1991) stated that it (resource based firm theory) arguably serves to look into the reason for M&As. It states that a firm's strength in its way of operation is measured on basis of performance brought forth by assets owned. He also placed a well-structured plan of noting the desired characteristics of assets by a firm in which in its long run will add value to it against its competitors. The value being, the capacity to explore the market niches and cause neutrality in the threats

Wernerfelt (1984) stated that efforts created by management are meant to create competitiveness thereby resulting in diversification of income.

This theory remarks that firms are self-reliant on specific resources. Motivators behind collaboration are the shortages in one or more tactical resources, thus reducing uncertainties (Chen, 2013). According to Barney these resources are classified as specific assets, attributes of the firm, and processes by the organization, the capabilities, knowledge and information etc. The resources are the main drivers for strategies meant at achieving high performance to. He further remarks that economies of scope can be achieved through diversification of resource capabilities enabling the sharing of core

competences and activities creating a sustainable competitive advantage. Mostly acting as the reason for acquisition, firms can gain by adapting the best of systems and processes of both firms.

This theory is crucial as it seeks to give ways through which a firm's financial performance can attain higher results, giving opinions on income diversification through resource capability expansion. and also gives suggestions on how to diversify income by expanding resource capability. By diversifying their resource their resource capabilities, firms will be able to diversify their incomes by entering new markets or new ventures. Therefore the theory sought to give more insight on ways of diversifying income and also improving the financial state of a firm.

2.1.3 Financial Synergy Theory

It can be attributed to Friedrich Trautwein (Trautwein, 1990) stating this synergy results from lower internal cost vis a vis higher external financing cost. Capital cost that is relatively low and tax saving is attainable through an agreement between firms having positions of cash flows which are different and investment opportunities which are unmatched. An Increased capital size and cash flow position sets a base for a higher debt capacity of the merged firm, because of increased debt security.

This theory also states that an acquirer acquires capital of the acquired in cases whereby the latter has a greater capital base than the former, it also acquires the investments opportunities. Trautwein (1990) this simply means an M&A causes a financial synergy. Firms with healthy opportunities but facing distress are likely to encounter mergers (Paul, 2014).

According to Huyghebaert & Luypaert, (2013) the result of M&As are mostly felt on the cost of capital of both the acquired firm and the acquirer. Most definitely, capital cost, of the acquirer and acquired would be brought down when firms of merged companies with different cash flows merge, it will also add to economies of scale and also a growth of investment opportunities created internally (Basmah & Rahatullah, 2014).

As guided by the theory the project greatly benefited in knowledge as it expounded on shareholders' value that is realized after a merger transaction.

2.1.4 Agency Theory

Leibenstein H. Leibenstein (1966) stated that this theory places emphasis on information differences or incompleteness/ information breakdown resulting into conflicts between managers of the firm and owners of the firm. Agency problems can also lead to mergers whereby managers are more concerned with their welfare than the shareholders aim of increasing their wealth. Acquisition caused by this motives leads to managers securing their positions earning both wealth and power. Assumptions by the managers may also be the higher or larger a company in size or asset may be a reason to bar from being acquired thereby offering security to their positions.

Tsuji (2011), agency theory is an important issue both in corporate governance and capital structure. Managers reduced efforts in doing work which is also an agency problem may be caused by ownership separation of the firm and its overall control whereby most will prefer all 'in one basket'. With all these conflicts managers prefer what places them at the vantage point in terms of their benefits. To the extent M&A's motives are placed on

managers self which in the long run are purposely meant to create synergies to improve a firm's effectiveness generating more profits (Paul, 2014)

For this research, this theory is important primarily as an internal management tool used in tackling the matters of the agency by lowering the cost of the agency that affects the firm's overall financial status. Information asymmetry/breakdown can be handled through monitoring structures in a firm that will keep a keen check on information distribution of knowledge relevant to the firm's growth, hence building a customer portfolio that is guided to satisfy the needs of both shareholders (principal) and manager (agent). This theory was of much help in discussing on customer portfolio and its effects after a merger.

2.2 Empirical Review

This part discusses on the objectives of the study from the point of previous researches, it talks of the four stipulated specific objectives.

2.2.1 Market share and Financial Performance

Mergers, in consideration to horizontal merger, M&As can be administered with aim of increase size and build on firm's mass, increasing its power to bargaining. In her study Ndora (2010) used 6 insurance firms that were amalgamated in year 1995-2005 in a population of 42 insurance firms registered measured their financial position comparing 5 years before and after merger. Ratios were used to measure the financial position, ratios including the solvency ratios were also used. Findings for years before and after occurrence of the event of merger (5 years) were compared through tables and analyzed

that an increase was report in the first 5 years past the occurrence of the merger when compared to individual firms before merger.

A combination of firms provides the basis of profit growth through expected increase in the market share, this will at some instances help the firm formed to build capacity to increase its market. By law most M&As that are likely foreseen as a threat to the market in form of causing unhealthy competition are at most rejected to proceed, this has protected consumers not only the small firms in the market(Evripidou, 2012).

Yanan and Hamza(2016)effects of M&A on businesses within a time period of six years (before and after M&A), analysis of the panel data was utilized to deduce its financial situation in the U.S. The research used secondary data and a sample of 100 businesses. Analytical techniques like descriptive statistics and paired were used. The objective of the study was to evaluate the impact that M&A had on businesses by looking at how the acquiring firm changed before and after an acquisition. They established that M&A had an effect on business profitability and boosted market share.

2.2.2 Shareholder's value and Financial Performance

According to (Misigah, 2013) who undertook to compare merged Banks in the period 2000 and 2010, there effects on the asset based , value to the shareholders and financial performance- pre and post-merger using comparative analysis. Findings underscored that the major reason for mergers was on the growth in value for the shareholders, it was also established that a significant growth in financial position was felt and was as a result of the effects of synergy.

Emy and Sahibzada (2016) looked into the influence of M&As and how they affected US-based enterprises' financial standing, the research was conducted globally with a sample of 100 businesses was used in the causal design of the research. The panel information used for the research was gathered between 2010 and 2015. In order to determine comparisons (before & after), The results showed that mergers and acquisitions increased the demand for dividends and market share, which benefited stakeholders' value- The study used the paired T-test.

The effects of M&As and their financial status on companies listed on the London Stock Exchange were studied by (Momodou and Masazing, 2017). A population of 40 LSE-listed companies that merged in 2011 used an explanatory design. The analysis included the five-year period of 2012–2016, Key financial ratios following mergers and acquisitions were employed. When published data sources were examined using regression analysis and descriptive statistics, it was discovered that M&A, ROE, and revenues on shares were positively correlated.

2.2.3 Income Diversification and Financial Performance

Previously stated, arguably the core reason as to M&As establishment is to remove stiff competition 'red environment'. Thus in the long run fostering loyalty of customers (Adel, Kabir, & Shari, 2012). According to (Badreldin and Kalhoufer, 2009) through their study to determine impacts caused by M&As in Banks located in Egypt, it was discovered that not all the banks under study improved, measuring the return in equity it was noted that some manifested growth while others did not show any growth. A study by (Harjeet and Jiayin, 2013) established that an abnormal positive trajectory on return in stock was felt in the three years after the occurrence of the event of acquisition, a research done on listed

companies in Shanghai and Shenzhen stock exchanges (137 Firms), year between 1997 and 2007.

Study undertaken by (Ndora, 2010) using a selected section of insurance firms that merged between the period 1995 and 2005 (out of 42- in that period) observed that there was a positive improvement in the execution of budgetary practices causing efficiency in firms that merged this was primarily achieved through analysis of performance by keenly dissecting ROE/ROA and working capital. The current study will undertake to cover a different sector and also will use both solvency and profit ratios to analyze firm's performance.

A research by (Joshua, 2011), done in Nigeria undertook to analyze financial efficiency after M&As in the Insurance sector. Efficiency was determined by net income, profits after cost of sales and assets of firms under study, it was observed that after the merger firms enjoyed better efficiency in finance as compared to years before. The research undertook to use descriptive data analysis and inferential statistics to both collect and analyze the data however the current study will undertake to use explanatory non-experimental design to measure the secondary data while comparing the independent variables with the dependent variable and also will be carried out in Kenya.

According to (Sibel and Ihsan, 2012) on its analysis of banks domiciled in Turkey on effect of diversification in both sectors and location observed that the 50 banks under study showed no significant change during the period of 2007-2011. Results attained had no significant relationship amongst diversification and performance, as the fore

mentioned, current studies will be undertaken in Kenya and subject under review will discuss on impacts of the specific objectives to the performance of the firm.

Faridah (2015) concluded that profitability of the freshly formed firm improves but at times falls below average rates of return of individual firm observed before the merger, noting that the third year exhibited more growth than the year the event took place, the study took to test the analysis of profits in M&As of commercial banks limiting itself to Profitability ratios however the current study will thoroughly work with liquidity ratios, market valuation ratios, solvency ratios and also profitability ratios to achieve the goals of the study.

2.2.4 Customer portfolio and Financial Performance

Viverita (2008) conducted a seven years performance pre and post-merger and established that there was an increase in gaining profits, while using profit indicators that there was an increase as seen in the parameters used in measurements they include ROA/ROE, CAR, net interest margin. Conversely, using ratios loan to deposit, it was noted that merged banks had the inability to improve their intermediary function, indicated by declining in the ratio.

Khan (2012) stated that following an upsurge arising from competition due to increased globalization and internationalization of firm's customer growth has become a main challenge. Whereby due to the competitive nature the main concern of companies is to maintain loyal clients in order to boost profits in the end.

Murugan (2013) also stated that, for any company to succeed in the market, it is essential that it maintains customer loyalty at a high percentage, due to the basic fact that it's

expensive to develop a new relationship compared to maintain an already formed one. Strategies developed by most companies are to focus on long term relationship that would eventually lead to a large client base.

2.3 Summary

Table 0.1: Summary of Literature by other Scholars

Scholar	Study Title	Findings	Niche	Current study Focus
Joshua (2011)	Impacts of M&As on efficiency of a firm financial position case in point-Nigerian insurance companies.	Noted that firms formed after the event of the merger had a more advanced financial efficiency as compared to individual firms before the merger.	Research was done in Nigeria. Data collection was descriptive and analysis was through Inferential statistics.	This study was done in Kenya. Current study used secondary data and research design was an explanatory non-experimental design.
Harjeet and Jiayin (2013)	Impacts of M&As on performance of listed companies in shanghai and Shenzhen stock exchanges.	It was noted that abnormal positive trend was seen in the period of 3 years past the event of M&As.	Location of Study was in China. Study only focused on the listed firms	This study was done in Kenya. The study covered the banking market that is inclusive, (both listed and unlisted)

Scholar	Study Title	Findings	Niche	Current study Focus
Badreldin and Kalhoufer (2009)	Impacts of M&As in Banks based in Egypt.	A positive trend in returns was seen in some but not all, others did not improve.	Location of the study was in Egypt.	This study was done in Kenya.
Viverita (2008)	Impacts of M&A on Banks based in Indonesia.	Improvement of banks' ability to secure profits.	The study context was Commercial Banks in Indonesia	This study was conducted in Kenya.
Ndora (2010)	Effects on monetary execution practices after M&A in Insurance firms-based in Kenya	A positive trajectory in the execution of budgetary practices causing efficiency in firms that merged.	Study covered Insurance sector.	This study focused on the commercial Banks in Kenya.
Joseph (2012)	Effects of FP after M&A of commercial banks	Increase in capital after the merger hence a decrease in risk of facing insolvency in terms of	Study was undertaken in a period of trade liberalization.	The study was done during an interest capped period.

Scholar	Study Title	Findings	Niche	Current study Focus
		sudden shocks in the market		
Sibel and Ihsan (2012)	Effect of sectorial and geological diversification on performance of Banks- based in Turkey.	The results attained were no significant relationship amongst diversification and performance	Study context covered Turkish banks	Study covered banks in Kenya
Misigah (2013)	Impacts on Growth of Banks after occurrence of M&As-Based in Kenya	Conclusion: As a result of the benefits of synergy, there was a noticeable increase in financial position.	Research results were limited to Shareholders Value.	Study was specific on a number of variables giving it the pillar to a wider view on topic in discussion, plus multivariate regression to determine correlation(variables)

Scholar	Study Title	Findings	Niche	Current study Focus
Faridah (2015)	Profit analysis of M&As for commercial Banks based in Kenya.	Freshly formed firm profitability improves but at times falls below average rates of return of individual firm observed before the merger, noting that the third year exhibited more growth than the year the event took place.	Study limited itself to one profitability ratio i.e ROA	Study focused on a number of profitability ratios plus the multivariate regression to determine the correlation of the variables
Yanan and Hamza (2016)	Effects of M&A on U.S. based company profitability	The research found that mergers and acquisitions had an effect on company earnings and boosted share of the market.	The study was undertaken in US and the research design used was predicted statistics with Paired tests.	The study covered banks in Kenya, plus it used explanatory non experimenting research designs paired with a number of validity Test.

Scholar	Study Title	Findings	Niche	Current study Focus
Emy and sahibzada (2016)	Effect of M&As on FP of Companies US-based.	By raising the demand for dividends and market share, mergers and acquisitions increased the value for stakeholders.	Study was done in the US. the research design used was causal paired with T Test.	The study covered banks in Kenya plus it used explanatory non experimenting research designs paired with a number of validity Test.
Momodou and masazing (2017)	Impacts of M&As and its Statement in Position of listed companies in London Stock Exchange	Existence of positive correlation between M&A and ROE and Earnings per share.	The study was done in UK and it only covered firm listed in London Stock Exchange.	Study was done in Kenya and covered merged commercial banks.

2.4 Conceptual Framework

It shades more understanding in the objectives by defining the variables and additionally demonstrates how the research variables are correlated, for this research shows how the independent variables which are customer portfolio, Market share, shareholders value and income diversification relate to dependent variable which is the Financial Performance.

Independent Variables

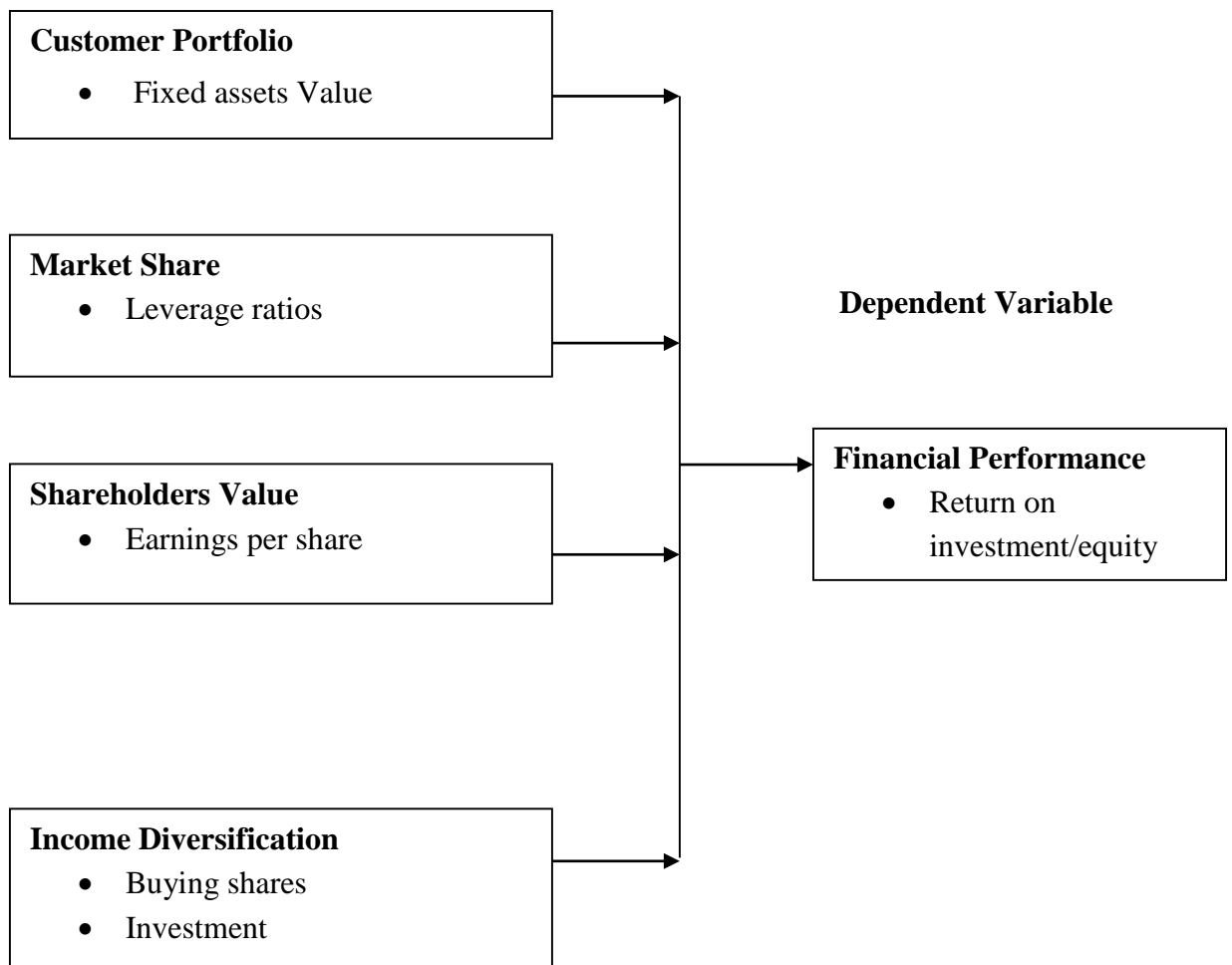


Figure 2.1: Conceptual Framework (sources-student)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section deduces the methods for testing assumptions contributing to achieving the predetermined objectives. Its structure is as follows: research design, population targeted, collection of data tools, and finally, data analysis and presentation methods.

3.2 Research Design

To look into the effects of the independent factors on financial results, a longitudinal survey design coupled with an explanatory non-experimental design was adopted. It also sought to identify the effect in practices and processes and measured the hypotheses aligned to the research Objectives outlined (Caroline, 2012).

Due to the fact that data were collected over many periods and on the basis that different banks provided data at different times, the longitudinal survey design was used and cross section on the basis that data was collected from different banks at a defined period. This analysis was suitable in the sense that data would be critically and systematically be evaluated thereby ensuring a high level of validity which no other research design could undertake.

3.3 Target Population

In total the banks that merged are 10 within the period 2013 to 2021 hence formed the population of study/ target population. The study focused on banks that merged, to

provide an insight that would be vital for the future. This study relied on secondary data that is, official CBK supervisory submissions and audited statements of financial position of the commercial banks under review (CBK, 2021)

3.4 Data Collection Instruments

This research project was guided by the secondary collecting-data sheet and used reports of accounts audited under study as per the target population. Income statement, balance sheets and cash-flow statements were used; Ten (10) banks that merged were subjected to census. As Lavrakas (2008) defines census being a procedure which is systematic and involves the acquisition information relating to a particular place and people and recording it for reference. Document review guide (Appendix III) was used in the collection of numerical data from to analyze the hypotheses.

3.5 Data collection procedure and Diagnostic Tests

Validity refers to having both the accuracy and meaningfulness in interferences as remarked by (Mugenda and Mugenda, 2003), based clearly on the results of the research. A letter of proposal approval was sought for by the researcher from the graduate school and an application done seeking for permission to do the research from National Commission for Science and Technology (NACOSTI) in doing introduction. Results or findings gathered were the actual representation of the study. In order to make sure that results obtain are not biased, inefficient and inconsistent, diagnostic test were done to ensure proper credibility: stationarity test, Autocorrelation, Heteroskedasticity.

3.5.1 Stationarity Test

The data used was both cross sectional and longitudinal, therefore it is quintessential to carry out a stationarity test. It used data that is time bound and predictively state variables are stationary (Gujarati, 2003).He further remarks what would lead to untrue results is failure to estimate models without putting into consideration non-stationary nature of the time series. It used unit root fisher type test.

This technique incorporates the factors and gaps brought by panels that are unbalanced and for each panel a dicker fuller test shall be conducted, findings submissions made thereafter.

3.5.2 Autocorrelation

Auto correlation is cross relationship of a signal at points that are different with itself (Verbeek, 2012).it shows patterns that occur repeatedly, for autocorrelation wool ridge test was used.

3.5.3 Heteroskedasticity Tests

When a parameter's standard deviation is inconsistent after being closely monitored for a while, heteroskedasticity occurs. It is a variational error that occurs in an independent variable in the provided sample. These could be used to calculate the margin of error between different sets of data, such as real findings and hypothetical data.

This is due to the fact that it provides the degree of divergence between the data points and mean values. Heteroskedasticity was tested using the Breusch-Pagan (BP) method.

It was assumed that heteroskedasticity in a model is a function of the linearity of the variables which are independent.

3.6 Data Analysis and Presentation of Data

Financial performance of the 10 banks under study was analyzed through accounting ratios. For before M&A, ratios for both the target and acquirers was examined separately to determine the performance of each entity before the merger transaction, this was collected from CBKs official submissions and annual reports showing financial positions of the Banks to be reviewed. For post-M&A the focus would be for the combined entity. Indicators to be used ROA/ROE, Profitability ratios (EPS) and CAR. A multivariate regression analysis was used to show how dependent variables which in this study is financial performance and independent variables (market share, shareholders value, customer portfolio & income diversification) relate.

In the analysis of data in quantitative nature, descriptive statistics was applied. In analysis and presentation, study used excel and Package for statistical analysis and for Social Sciences (latest version- 20) and presentation through figures and tables.

The multivariate regression equation to be used will follow the form below:

$$Y = a + bX_1 + cX_2 + dX_3 + eX_4 + \epsilon$$

Where Y= Financial Performance.

X₁=Customer portfolio

X₂=Market Share

X₃=shareholders Value

X₄= Income diversification

A=Constant term

b, c ,d, e=Beta coefficients,

ε=Error term

3.7 Ethical Considerations

To address the issues of ensuring adherence to standards that are ethical, a letter of proposal approval was sought for by the researcher and an application done seeking for a permission to do the research from National Commission for Science and Technology (NACOSTI) in doing introduction. Secondary data, audited and gazetted data from the CBK to ensure accurate findings. Data obtained was presented in a way to conform to CBK Prudential's and Banking act cap 488 of the Kenyan Laws.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This study discusses general objective as to determine the effects of M&A on the FP of Commercial banks in Kenya. The chapter discusses results of each specific objective as follows: effects of market share, effect of shareholder's value, effect of income diversification and customer portfolio on financial performance of merged Commercial banks in Kenya.

4.2 Results of Descriptive Analysis

Return equity was used to examine the effects of mergers and acquisition on the financial performance of commercial banks before and after the mergers. The study analyzed the effects market share, shareholders value, income diversification and customer portfolio before mergers and acquisition and the results were presented in table 4.1 below

Table 4.1 Pre-Merger

	Mean (M)		Std. Deviation (SD)	Variance (V)	Skewness (S)	Kurtosis (K)
	Statistic	Std. Error	Statistic	Statistic	Statistic	Statistic
Market share	1.3188	0.58175	3.3419	11.168	-3.627	16.868
Shareholders Value	17.0548	2.48373	14.26795	203.574	0.358	-0.276
Income Diversification	23.2258	3.49101	20.05432	402.176	2.726	23.2258
Customer Portfolio	17.0548	2.48373	14.26795	203.574	0.358	-0.276

According to the study findings market share had a mean of 1.3188 and standard deviation of 3.3419; Shareholders value had a mean of 17.054 and standard deviation of 14.26795; Income diversification had a mean of 23.2258 and standard. deviation of 20.05432 and finally Customer Portfolio had a mean of 17.0548 and standard deviation of 14.26795.This means income diversification had more effects followed by shareholders value and customer portfolio.

The same statistics were run after the mergers and acquisition for comparison and the results were presented in table 4.2 below

Table 4.2 Post-Merger

	Mean (M)	Std. Deviation (SD)	Variance (V)	Skewness (S)	Kurtosis (K)	
	Statistic	Std. Error	Statistic	Statistic	Statistic	
Market share	1.3758	0.57985	2.84065	8.069	-1.348	3.027
Shareholders Value	9.6146	4.92379	24.12155	581.849	-3.255	13.704
Income Diversification	26.1963	4.64439	22.75275	517.688	3.101	26.1963
Customer Portfolio	9.6146	4.92379	24.12155	581.849	-3.255	13.704

The study findings post mergers indicated that there was a slight rise in the Mean (M) for return on Equity from 1.3188 pre-merger to 1.3758 post-merger,(as shown on table below-table 4.2) The Standard Deviation (SD) slightly fell from 3.34190 to 2.84065 after the merger. The return’s variance on equity went down

from 11.168 pre M&A to 8.069 post M&A for the sampled bank. The findings are supported by Yanan and Hamza(2016) study on effects of M&A on businesses in USA. The objective of the study was to evaluate the impact that M&A had on businesses by looking at how the acquiring firm changed before and after an acquisition. They established that M&A had an effect on business profitability and boosted market share

Further, the findings indicated that when shareholders' equity was calculated using return on equity after the mergers, the mean ROE values decreased from 17.0548 before the merger to 9.6146 after the mergers, standard deviation increased from 14.26795 to 24.12155, while the variation in return on assets for the tested banks increased from 203.574 before the merger to 581.849 after the merger. The findings are supported by a study of Momodou and Masazing (2017) effects of M&As and their financial status on companies listed on the London Stock Exchange the findings indicated that when published data sources were examined using regression analysis and descriptive statistics, it was discovered that M&A, ROE, and revenues on shares were positively correlated and increased the value of shareholders equity.

Diversification of income before and after the merger period was compared and the findings reveal that after merger, the mean values for income diversification increased from 23.2258 to 26.1963. Additionally, after the merger, the standard deviation increased from 20.05432 to 22.75275. Additionally, the gap's trend made an upward shift from 402.176 before event of merger to 517.688 following the transaction of merger. The findings are supported by Harjeet & Jiayin, (2013) study on effects of income diversification on listed companies in shanghai and Shenzhen stock exchanges (137 Firms), year between 1997 and 2007 which established that an

abnormal positive trajectory on return in stock was felt in the three years after the occurrence of mergers and acquisition.

Customer Portfolio was computed and compared before and after mergers and acquisition in order to ascertain whether there were any changes and how this affected the financial performance of commercial banks that had undergone M&As. The findings indicated that the average ROE values decreased from 17.0548 before the merger to 9.6146 after the merger. After the merger, the standard deviation increased from 14.26795 to 24.12155. For the sampled banks, the return on asset variance increased from 203.574 before the merger to 581.849 after the merger, as explained in table 4.2. The findings are supported by study of Viverita (2008) conducted a seven years performance pre and post-merger and established that firm's customer growth has become a main challenge. Whereby due to the competitive nature the main concern of companies is to maintain loyal customer portfolio to improve their financial performance and boost profit.

4.3 Diagnostic tests

To deduce the statistical link for both variables (dependent and independent), a multiple regression model was used in the study. However, the model made a number of assumptions that, if they were not met, may lead to skewed outcomes. To establish that the presumptions of the regression model were achieved, it performed tests for diagnosis on sample adequacy, normality, multicollinearity, homoscedasticity, and autocorrelation test.

4.3.1 Normality Test

The assumption of normalcy is examined for the proper application of inferential statistics' parameters. It's done to make sure that the data's kurtosis and skewness are evaluated. This is merely a validation that the study's data is distributed equally. To examine whether the data was normal 2 test were used; Kolmogorov-Smirnov test and the Shapiro-Wilk. The second strategy works well when there is a tiny sample of data, say less than fifty. It's far more trustworthy, particularly for establishing the data's kurtosis and skewness. If the Finding is less than 0.05, it narrowly departs from the normal distribution of the information. Table 4.3 displays the normality test results.

Table 0.3. Shapiro-Wilk Test of Normality

Variables	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Market share	0.216	307	.057	0.725	307	.059
Shareholders Value	0.348	307	.086	0.675	307	.051
Income Diversification	0.316	307	.161	0.726	307	.217
Customer Portfolio	0.326	307	.328	0.743	307	.774

Kolmogorov-Smirnov and Shapiro Wilkinson test were used in this investigation to verify or refute the assumption of normality. Normal distribution was followed by the residuals as illustrated by shapiro Wilkinson and Kolmogorov smirnov test, thereby rejecting null-

hypothesis as being less than 0.05. Since all of the variables in Table 4.3 above have Shapiro-Wilkinson p-values over 0.05, the null hypothesis data was distributed regularly and could not be rejected. Kolmogorov-Smirnov test also revealed that the data was equally regularly distributed because all of the study's variables had p-values above 0.05. Inferred from this was that the remaining values have a normal distribution with a mean of 0.

4.3.2 Multicollinearity Test

Multicollinearity, the undesired scenario when the correlations between the independent variables are large, is a statistical scenario in which two or more predictor variables in a multiple model of regression are significantly associated. If there are one or more precise linear relationships between some of the variables in a set of variables, the set is perfectly multicollinear. Values greater than 0.2 for the variable's tolerance and less than 10 for the VIF value indicate that multicollinearity does not exist. Before using a model based on multiple linear regression, it is vital to test for any evidence of multicollinearity because it inflates the standard errors and produces erroneous findings. To check for multicollinearity in this study, the Variance Inflation Factor (VIF) approach was employed. Table 4.4 displays the results of the multicollinearity test.

Table 0.4 Multicollinearity Test

	Collinearity Tolerance	Statistics	VIF
Market share	0.478		2.091
Shareholders Value	0.360		2.781
Income Diversification	0.548		1.826
Customer Portfolio	0.333		3.005

Since all of the VIF values fell between 1 and 10, the results in Table 4.4 showed that multicollinearity was not present. This suggests that it was appropriate to estimate the effects of M&As on the FP of Commercial banks in Kenya using regression analysis.

4.3.3 Heteroscedasticity Test

When the variance of the error terms varies between observations, heteroscedasticity is present. According to Godfrey (1996), heteroscedasticity can be used to determine whether the residual variation of one observation period differs from that of another. The test was carried out in the study utilizing Glejser's (1969) regression residue number as the variable that was considered independent. There is a presumption in the scenario that there is no heteroscedasticity issue if the Sig. value is greater than 0.05. The outcomes of the heteroscedasticity tests are shown in Table 4.5.

Table 0.1 Test for Heteroscedasticity

Model		Coefficients ^a			T	Sig.
		Unstandardized Coefficients	Standardized Coefficients			
		B	Std. Error	Beta		
1	(Constant)	1.125	0.012		3.856	0.000
	Market Share	0.198	0.045	0.186	0.156	0.269
	Shareholders' equity	0.096	0.056	0.112	0.258	0.148
	shareholders value	0.256	0.089	0.349	0.481	0.086
	Income Diversification	0.174	0.07	0.145	0.463	0.089

a. Dependent Variable: FP

b. Predictor variables: Market share, shareholders equity, shareholders value, income diversification

There is no heteroscedasticity issue because, according to the resultant coefficients, and the obtained Sig. values are more than 0.05. Therefore, the remainder of the variation of both the dependent and independent variables examined is the same.

4.4 Results of Inferential Analysis

The purpose of the study was to determine whether the study variables were associated.

The outcomes are shown in table 4.6.

Table 0.2 Correlation Analysis

			Performance			
			Mkt share	Shard. Value	Inc Divern	Cust. Portf
Performance	Pearson	1				
	Sig. (2-Tailed)					
	N	10				
Mkt share	Pearson	.748**	1			
	Sig. (2-Tailed)	.000				
	N	10	10			
Shard value	Pearson	.837**	.821**	1		
	Sig. (2-Tailed)	.000	.000			
	N	10	10	10		
Inc Divern	Pearson	.628**	.620**	.619**	1	
	Sig. (2-Tailed)	.000	.000	.000		
	N	10	10	10	10	
Cust. Portf	Pearson	.799**	.782**	.778**	.772**	1
	Sig. (2-Tailed)	.000	.000	.000	.000	
	N	10	10	10	10	10

Table 4.6 displays the correlation coefficient for the four research variables. The table shows that under the two-tailed test, all correlation coefficients are statistically significant at the level of 0.01. The factors have a significant positive linear association, as indicated by the correlation coefficients for organizational operating synergy, bank size, risk diversification, and profitability versus strategy execution, which were determined to be 0.7411, 0.853, and 0.606 correspondingly.

These results are consistent with those of Davidson, Frank, and Ismail (2009) who questioned whether M&A was particularly important in predicting the performance of European banks based on data collected over a five-year period. It was discovered through an event study that the key performance indicator had not significantly improved despite the merger. The results back up Chesang's (2015) investigation of whether M&A enhanced the financial standing of the companies involved. Although the study controlled for firm size, it nevertheless showed that commercial banks performed as they did whether or not they merged since they operate in similar environments and are subject to the same prudential regulations.

4.4.1 Regression Analysis

The effect of one variable on the other was determined using regression analysis. This was realized by regressing market share, shareholders value, income diversification and customers portfolio on financial results.

Table 0.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.636	0.805	0.772	0.454

Table 4.7 summarizes details of the retrospective linear capability for the entire range of dependent variables. When the variables that are dependent as well as independent are tightly related, the ratio R, which is represented by a factor of 0.636, is nearly 1. The strengths measure between the independent and dependent variable depicts R while R² referred to as the determination coefficient it calculates and shows data semblance to it's

embedded downtime. The model and the study data are better the larger the square root of R.

The findings in Table 4.7 also demonstrate that the adjusted R square value, which includes market share, shareholder value, income diversification, and customer portfolio, is 0.805 (80.5%), indicating the degree to which the independent variables studied influenced the FP of merged Kenyan banks. Remainder sample (19.5%) therefore represented other factors that were examined.

Table 0.4 Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F.	Sig.
1	Regression	10.387	1	10.387	12.572	0.000 ^a
	Residual	15.284	9	1.6982		
	Total	25.671	10			

Depending on how the independent variables evaluated have affected the FP of combined commercial banks, the model is statistically significant if its value is less than 0.05 and the value level is less than 0.000a. The computed value of F (12.572) is higher at 5% than the value given in table F (2.597), indicating the model is valid.

Table 0.5 Coefficients

Model		Unstandardized Coefficient		Standardized Coefficient	t.	Sig.
		B	Std-Error	Beta		
1	(Constant)	0.539	.490		6.610	.000
	Market share	0.729	.046	4.256	2.781	.001
	Shareholders value	0.692	.098	1.417	2.980	.001
	Income diversification	0.539	.125	2.040	3.313	.000
	Customers portfolio	0.642	0.392	2.413	3.241	.000

It was found that the net profit of combined commercial banks in Kenya would be at 0.539 factor when independent factors (market share, shareholders value, income diversification, and client portfolio) were held equal to a constant zero. The FP of Commercial banks in Kenya will increase by 0.729 units for every unit gain in market share. The FP of Kenya's commercial banks is expected to improve by 0.692 units for every unit increase in shareholders' value.

A one-unit rise in diversification of income would result in a factor increase of 0.539 in the financial performance of commercial banks in Kenya, whereas an increase of one unit in customer portfolio would result in a factor increase of 0.642 in the same bank's financial results. The equation that resulted was;

$$Y = 0.539 + 0.729X_1 + 0.692X_2 + 0.539X_3 + \varepsilon$$

Y = Financial Performance

$X_1 =$ Market Share

$X_2 =$ Shareholders Value

$X_3 =$ Income diversification

$X_4 =$ Customers Portfolio

$\varepsilon =$ Error term

CHAPTER FIVE

5SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The section provides an overview of the study and discussion of the results, and draws conclusions. Additionally, suggestions for enhancement and future research have been explored.

5.2 Summary

This study's main goal was to ascertain how M&As affected the condition of Kenya's commercial banks in terms of their economic status. The study's particular goals were to ascertain how market share, shareholder value, client portfolio, and revenue diversification impacted the merged bank's financial success. To confirm the association between the the number of acquisitions and mergers and the health of commercial banks in performance between 2013 to 2021, this study used an explanatory non-experimental research methodology. The research target was made up of Kenyan monetary firms that have been purchased or merged between 2013 and 2021 with Central Bank of Kenya approval. Return on equity was used to evaluate the merged institutions' financial health.

5.3 Discussion of the Results Findings

5.3.1 Market share value influence on FP of Merged Commercial Banks

However, descriptive data showed that the average values for the ROE increased from 1.3188 pro-amalgamation to 1.3758 following the combination. The post-merger ANOVA regression A highly probable connection between market popularity (size) and

outcomes (FP) was found as assessed using earnings from capital, with a value of P being less than 0.05. Only 60.2% of the changes in performance were explained by market share, according to an R² of 0.602. Since the estimated value of p value was below threshold of 0.05, regression findings showed null hypothesis was disregarded.

Regression analysis revealed that merged banks experienced an increase in earnings from capital following the M&A, while correlation analysis revealed an important connection between market share and the financial performance of institutions that had either undergone mergers or acquisitions as measured by earnings from capital (ROE).

5.3.2 Shareholders value influence on FP of Merged Commercial Banks

However, descriptive data depicted that the mean values for the return on equity increased from 17.0548 pre the merger to 9.6146 post the merger. The post-merger ANOVA regression analysis showed a statistically significant regression between shareholder value and FP as assessed by ROE, with the value P value of less than 0.05. Only 65.2% of the performance fluctuations were explained by return on equity, according to an R² of 0.652. Since the estimated value of p was below threshold of 0.05, regression findings showed null hypothesis disregarded.

5.3.3 Income diversification influence on FP of Merged Commercial Banks

According to the descriptive data, the values averaging for ROE increased from 23.2258 pre the merger to 26.1963 post the merger. A bank with income diversity typically has substantial revenue and is more likely to service their obligations. Performance with income diversification showed a strong upward trend in correlation findings. This indicated, according to the study, that the institution's financial performance would increase with a higher income diversity. The significance of the post-merger ANOVA's

regression findings was 0.0005. Only 68.2% of the performance fluctuations could account for the diversification of revenue following the merger or acquisition event, according to an R2 of 0.682.

5.3.4 Customer Portfolio influence on FP on Merged Commercial Banks

The average figures for ROE increased somewhat from 17.0548 in advance to the M&A and 9.6146 after it, according to the descriptive statistics. This indicated that following the merger or acquisition, the companies were able to generate more earnings relative to their total resources. The findings through the analysis showed a strong association between client portfolio and performance. As a result, a rise in the customer portfolio increased market share, which in turn increased financial performance. The post-merger ANOVA's regression findings showed a P value that was below the 0.05 threshold for significance.

5.4 Conclusion

5.4.1 Market share value Influence on FP of Merged Commercial Banks

Regression analysis revealed that merged banks experienced an upward trend in ROE following the M&A, while correlation analysis(CA) revealed a strong relationship and connection when market share and the financial performance of institutions are matched that had either undergone mergers or acquisitions as assessed by ROE.

5.4.2 Shareholders value Influence on FP of Merged Commercial Banks

Regression analysis revealed that merged banks' return on equity increased following the merger or acquisition, while CA revealed a revealed a strong relationship when shareholder's value with the financial performance of institutions are paired during the

process of M&A as determined by ROE.

5.4.3 Income diversification Influence on FP of Merged Commercial Banks

According to descriptive findings, after a merger or acquisition, merged banks reported an upward trend in ROE, attributed to income diversification. After the merger or acquisition event in the study, the regression findings indicated that there were variances in performance that explained income diversification. Findings of the CA revealed a strong link between income diversification and the financial success of combined institutions.

5.4.4 Customer portfolio Influence on FP of Merged Commercial Banks

According to descriptive findings, merged banks reported higher returns on equity following the merger or acquisition, which was explained by the growth in their client base. As determined by findings to analysis of regression, the performance fluctuations contributed to the study's increased client portfolio following merger or acquisition events. Findings to CA revealed a strong link between income diversification and the financial success of combined institutions.

5.5 Recommendations

5.5.1 Market share influence on FP of Merged Commercial Banks

By actively engaging in innovation to develop new products and services for the shareholders to invest in and thus increase market share, management should try to broaden or penetrate new markets. Due to the additional offerings, this will motivate the shareholder to increase their investment in the bank. By expanding their product and service offerings, entering new markets, and improving their overall financial results,

banks can boost their return on equity.

5.5.2 Shareholder's value Influence on FP of Merged Commercial Banks

By expanding the resources at their disposal and the investment prospects, management should work to raise the value of the shareholders. This will motivate the shareholder to increase their bank investment. By raising shareholders' value in relation to a wide range of new investment opportunities, banks can improve return on equity. In the long run, this will improve overall bank financial performance and increase shareholders returns when presented in dividends pay out.

5.5.3 Income diversification Influence on FP of Merged Commercial Banks

The bank's mandate to honor bills and other commitments as they become due and its capacity to withstand additional losses in the event that a customer defaults on a loan are both confirmed by an increase in income diversification. Banks may think about providing new products or actively updating the current ones in order to increase income diversity. They should also consider investing in new markets and the securities of other service-related businesses, as well as issuing new equity to current shareholders through an issue of rights. Finally, they should consider substituting riskier or more costly borrowings with safer loans or government-issued securities.

5.5.4 Customer portfolio influence on FP of Merged Commercial Banks

A corporation with a low return on equity lacks a sufficient client portfolio for customers to diversify their investments, which leads to customers overinvesting in the few unprofitable assets that are accessible. Management can increase the bank's investment opportunities to make a wider range of assets available, allowing consumers to expand

their horizons and build large, accessible, and inexpensive portfolios.

5.6 Recommendations for Further Studies

It is of essence to periodically do more research on the M&A on FP and its influence in order to develop trends over longer time frames and to seize new opportunities that have recently arisen in Kenya. Since the study can measure productivity using a variety of variables, it is important to include qualitative as well as quantitative data in order to draw findings that are more thorough.

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APPENDICES

Appendix 1: List of All Merged Commercial Banks

Bank	Merged/acquired	Modified Name	Approved Date
1.NIC PLC	CBA- Commercial Bank of Africa LTD.	NCBA BANK	30.09.2019
2.Jamii Bora Bank Ltd	Co-operative Bank of Kenya LTD.	Kingdom Bank of Kenya Limited	21.08.2020
3.Fina Bank Ltd.	Guaranty Trust Bank Plc	Guaranty Trust Bank(k)Ltd.	08.11.2013
4. K-rep Bank Ltd.	Centum Ltd	Sidian Bank Ltd	29.10.2014
5.Equatorial Commercial Bank Ltd.	Mwalimu Sacco Society Ltd.	Equatorial Commercial Bank Ltd.	31.12.2014
6.Giro Commercial Bank Ltd.	I&M Bank Ltd.	I&M Bank	13.02.2017
7.Fidelity Commercial Bank Ltd.	SBM Bank Kenya Ltd.	SBM Bank Kenya Ltd.	10.05.2017
8.Habib Bank Kenya Ltd.	Diamond trust Bank Kenya Ltd.	Diamond Trust Bank Kenya Ltd.	01.08.2017
9.National Bank of Kenya Ltd.	KCB Group Plc	National Bank of Kenya Ltd.	02.09.2019
10.TNB- Transnational Bank Plc	ABK-Access Bank Plc	Access Bank Kenya Plc	01.02.2020

Merged (1) Acquired (2-10)

Source: Central Bank of Kenya, 2021

Appendix II: Document Review Guide

SOURCE DOCUMENTS	VARIABLE Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Statement of financial position	FIXED ASSETS									
	CURRENT ASSETS									
	CURRENT LIABILITIES									
CBK Bank Reports	MARKET SHARE									
	KBRR- ANNUAL									

Appendix III: Kenyatta University Graduate School Letter



KENYATTA UNIVERSITY
GRADUATE SCHOOL

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Internal Memo

FROM: Executive Dean, Graduate School

DATE: 11th April, 2023

TO: Chengo Fadhili Dennis
C/o Accounting and Finance Dept.

REF: D53/MSA/PT/25015/2018

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 18th January, 2023 entitled "Mergers Acquisition and Financial Performance of Commercial Banks in Kenya."

You may now proceed with your Data Collection, Subject to Clearance with the Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School Completed Supervision Tracking and Progress Report Forms per semester. The forms are available at the university's website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.


ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL


C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Peter Ng'ang'a
C/o Department of Accounting and Finance
Kenyatta University

AM/mo

Appendix IV: Nacosti Permit



REPUBLIC OF KENYA

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