# EFFECTS OF MERGERS AND ACQUISITIONS ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

**BY**
**LAGAT SHARON JERUTO**

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# DECLARATION

This research project was created by me; it has not been presented for a degree or elsewhere in a college or university.

**Signature:** **Date: 08/11/2022**

**LAGAT SHARON JERUTO**
**D61/27606/2019**

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

**Signature:** **Date: 9/11/2022**

Dr. Joshua Wanjare
Senior Lecturer, Finance & Accounting Dpt.
University of Nairobi

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I want to acknowledge my mentor Dr. Joshua Wanjare for his assistance throughout my research period. Thanks For the inspiration and encouragement.

# DEDICATION

My mother and siblings deserve special thanks for their encouragement and support during my education period, thus I dedicate this creation to them.

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# LIST OF ABBREVIATIONS

M&A – Mergers and Acquisitions

ROA- Return on Assets

ROE- Return on Equity

ROCE-Return on Capital Employed

ROI-Return on Investment

KBA-Kenya Bankers Association

# ABSTRACT

Commercial bank mergers and acquisitions lead to improved financial performance by reduction in tax burden. The company that makes losses will not pay taxes and the taxes paid by the profit-making firm will be less if the two companies merge thus making their net profits less leading to a lower tax liability. This study sought to determine effects of M&As on the success and value of banks in Kenya. A descriptive research approach was used in this study, which focused on banks that have undergone mergers and acquisitions. Event study, three years before and one year after mergers and acquisitions, was adopted based on secondary information from NSE, CBK, but also publicized publications. Descriptive, correlation and regression methods were utilized. From the results, merger/acquisition showed a positive significant regression coefficient an indication that M&A has a positive effect on financial performance of Kenyan commercial banks. For the liquidity, the Kenyan commercial banks showed low levels of liquidity of 82%. Liquidity had a positive regression coefficient indicating that liquidity of Kenyan Commercial banks has a positive effect on their performance. The study recommends that banks get into Mergers and acquisitions for increased returns on their assets. The banks also need to raise their current assets and reduce their current liabilities which would improve their financial performance. Further research should be done based on other factors influencing financial performance, other measures of the variables, primary data and other institutions other than commercial banks.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Merger and acquisition have emerged as the recent strategy employed by financial institutions to outdo competition, better financial performance and keep with the market trends. Merger and acquisition help create a competitive position which gives competitive advantage to a financial institution leading to improved performance that through reduced operational costs, improved shareholders value and increased profitability (Kamutu, 2018). Mergers lowers the expense of creating commercial ventures which might enhance a company's advantages. Acquisition boosts the price advantage of the distribution network. Additionally, it might aid in removing potential rivals for the company (Njambi & Kariuki, 2018). Merger and acquisition improve the performance of those firms facing operational constraints (Njambi & Kariuki, 2018). According to (Njambi & Kariuki, 2018) institutions with inefficient and less productive capital base need to be put together through merger and acquisition. M&A should be undertaken to increase the financial performance and improve the asset base of a firm.

The underlying theories in this study include differential efficiency which argues that if a firm is performing below its potential, it would be wise that the stronger company acquires the inefficient one and form a merger to increase the efficiency level of that company (Milobo, 2016). Undervaluation theory is predicated on the idea that the market is inefficient and that a company's market prices do not accurately reflect its predicted future cash flows. When a firm has been acquired the bidding firm can earn more returns from the acquired firm in future. Agency problem and Managerialism argues that managers of a

company are aware that if a firm is merged or acquired, they will lose their positions; therefore, this will act as a motivation to work towards shareholders' interests and reduce the chances of the company being acquired (Zogning, 2017)

Firms have varied reasons for choosing or adopting M&A as a business strategy. Adoption of new accounting standards are believed to be the reason behind M&A of firms in financial industry in Kenya (Amolo, 2018). Changes in business environment have made commercial banks to undergo M&A. The reasons behind M&A include; increase the capital base, expansion of distribution channel and increase the market share among others (central bank of kenya, n.d.). Merger and acquisition in Kenya face challenges relating to the process of formalizing that is the formalization process takes a long time thus the process prove to be tiresome to the parties involved. The process also requires shareholders' approval and the process needs to follow the set standards and regulations (Amolo, 2018). When formalizing the process, the companies taking part in the process need to be open and give/share the required information and ensure due diligence is carried out. Mwalimu Sacco is currently struggling after acquiring Spire Bank and it's believed that due diligence on the financial status of spire bank was not done well. Spire bank financial health highly depended on customer deposits, one of the largest depositors went on withdrawing his deposits which it's believed that it made the bank go under (Nyakundi, 2021).

### 1.1.1 Merger and acquisition

A merger is the combination of two or more businesses that are roughly the same size and whose assets are combined into one corporate entity (Coyle, 2000). Firms prefer this

technique since the merged entity is often more productive compared to a company on its own. An acquisition involves one company is takings control of another firm through the purchase of all or majority of its shares. An acquisition is when one company merely purchases a share of another company. The purchase may take place to obtain property or a completely separate division of competing company (Muita, 2010).  This can be full, partial or purchase. Okwuosa (2005) defined acquisition as a commercial transaction that involves the assets and management of a separate firm are transferred to the administration that controls its operations. M&A are categorized into four. Horizontal mergers, which happen when two businesses in very similar sector combine at a similar point in its manufacturing process, producing identical goods or services and serving the similar marketplace, Conglomerate mergers, typically happen across businesses in diverse sectors, occur when two businesses in the similar sector merge vertically at separate phases of manufacturing that is the firms do not have a common business or market and cross-border or concentric mergers which takes place between two companies registered in different (Ganga , 2010).

Kenyan banks are being merged/acquired with an aim of improving their performance (Ondieki & Mungai, 2015). Globally, the United States of America has the longest history on takeover, which dates back to 1890s. Many mergers movement has happened in the US and each was characterized by a certain category of merger and acquisition. Every merger movement happened when there was a high growth rate together with a certain development in the business environment (Ganga, 2012). Today's economy has widely adopted M&A to help improve the firm's competitive position and increase their performance level. This will happen through diversified product lines, increased market

share, costs and risks reduction and mobilization of resources among others (Nouwen, 2011).

Different methods have been used by researchers to evaluate mergers and acquisitions. Accounting-based measures of performance takes into consideration the long-term aspects of mergers and acquisitions that is event study but considers the pre and post returns of the acquisitions and mergers (Wang & Moini, 2012). These are justified by the facts that a company's corporate goal is to provide a respectable investment return, so any advantage through buyouts would eventually be seen in the organization's financial accounts (Papadakis & Thanos, 2012). Accounting metrics have a broad definition and include things like profit, applying earning-based metrics and cashflows metrics, productivity, innovative indicators, and assets or sales growth rates. Financial ratios are used mostly to measure the performance of banks. Wang & Moini (2012) did a comparison between the profits and sales ratios, Return on Equity and Return on Assets and they came to a conclusion that Return on Assets is a better ratio of determining the performance mergers and acquisitions performance.

### 1.1.2 Financial performance

Financial performance is the level the financial aims are achieved that is the general financial position during a certain period in terms of profits and costs reduction. (Verma, 2017). According to Gitonga (2015) this may be used to show case the strength of an organization over other firms in the same industry. Financial performance allows a firm to make the decisions about the changes required in the organization and helps in determining how effective organization policies are. It also helps in determining if the strategy adopted

by the firm is working or not (Bhasin, 2021). Once it pertains to achieving a firm's long-term objectives, purchasing a business or combining with some other could be a valuable decision. Although short-term financial success is equally important to determining if a programme that has been enacted is effective or otherwise, future financial performance is key to understanding the direction of the business. Accounting-based ratios has been used for long to measure financial performance though it is inadequate method of measuring financial performance of a firm, most organizations focus on maximising shareholder returns as their main goal (Kurui, 2014).

All measures of financial performance should be taken into consideration despite there being different methods of measuring it. The main/major goal of every business is to increase its profitability thus it is necessary to have the knowledge on how to measure the profits. Different forms of measuring performance include a gross profit which determines the amount of funds a firm has made after the sale, operating margin which falls between gross profits and net profits after the overheads have been taken into consideration that is profits before interest and taxes. Net profits not only take into account direct costs but all the costs this makes it a little shallow form of measuring profit. Interest, taxes and overheads are taken into consideration when calculating profits.

### 1.1.3 Merger and acquisition and financial performance

Firms merge with an aim of increasing its value and firms merge with the believe that the merged firm will be of value as compared to when the firms are operating as a separate entity (Mbae, 2014). M&A may bring about better or poor financial performance. Each entity would wish to have control or bigger market share over their competitors; they try

to achieve this through Merger and Acquisition. Merger and Acquisition brings about market diversification and growth of an entity. M&A leads to an increase in the production and provides financial stability in order to be stronger than the competitors in the same environment/market. M&A has gained popularity worldwide attributed by the economic conditions, advancement in technology, competition in the world of business and globalization (Bey, 2021).

Merger and acquisition improve financial performance of an organization by building synergy through improved management and increasing resource base. It can also lead to improved financial performance through enhanced competitive advantage as the merged firm expands its economies of scale, enters new markets and expands its market share hence reduction in financial risk due to diversified investment. M&A can also led to poor performance of a firm due to mismanagement or wrangles within the management which might end up destroying the value of the firm (Kamutu, 2018). Changes in the ownership and control system of a firm affects financial performance through redistribution of assets, efficient formulation of business strategies and redesigning the plan for operations after and M&A (Kurui, 2014).

### 1.1.4 Commercial banks

Kenyan commercial banks are guided by companies and banking Act and operates as per the regulations set by the (Mbae, 2014). The industry is ever changing and despite of economic challenges the sector is still flourishing. There are forty-four (44) banks in Kenya, thirty-one (31) which are owned locally and from this 31 the government is a

shareholder in three (3) of them; twenty-seven (27) are commercial banks and one (1) is a mortgage institution while twenty-three (23) are owned by foreigners (Juma, 2016).

CBK is charge of controlling, stabilizing and regulating monetary and banking sector. It formulates and implements monetary policies promote price stability, issue currency protects depositor's interest and a custodian of cash reserves. Banks fall under one umbrella of Kenya Bankers Associations, which takes care of the banking industry interests. Commercial banks have had to merge or acquired most recent one being Transnational bank being acquired by Access Bank. Access Bank declared a full 100% acquisition of Transnational Bank and its 28 branches (Instinct, 2020) and NIC bank being merged with Commercial Bank of Africa Ltd to form NCBA Bank (Central Bank Of Kenya, 2019). In 2019, National Bank was acquired (100%) by KCB. The most recent M&A was the 100% acquisition of Spire Bank by Equity bank in August 2022 to save it from collapsing.

## 1.2 Research Problem

M&A has been used for the expansion of a business entity. M&A leads to a larger market share and leads to a diversified business environment (Zogning, 2017). It leads to an increased production and more financial energy against the competitors in the same industry or business environment (Schlachter, 2011). M&A by commercial banks promote success of firms in Kenya and it help control the tax burden. The company that makes losses will not pay taxes and the taxes paid by the profit-making firm will be less if the two companies merge thus making their net profits less leading to a lower tax liability (Mboroto, 2013).

Kenya as a region is associated with various mergers capacities in the last five years. More than 70% of the mergers in Kenya have happened in the banking sector. The majority of the mergers within banking have taken place from 2017 to 2021 (KBA, 2021). This is because the period has shown high fluctuation in the economy which has created challenges for the banking firms. The banks have also shown increased financial woes. The sector has been experiencing reducing performance levels in terms of profits and loans advances (CBK, 2021). This has led to some banks like Chase bank closing doors or selling their stake to save themselves.

Empirically, Researchers have had varied conclusions on M&A making it inconclusive. Kainika (2017) investigated Sanlam Kenya and reached the conclusion that M&As had a considerable impact on the organizational performance. Akenga & Olang (2017) discovered that M&A produced a favorable effect upon its assets & investor worth of amalgamated or purchased firms. Majority of the studies on M&A were limited on financial institutions or organizations for a certain period and focused on a certain number of institutions. For instance, Akenga & Olang (2017) studied years 2010 through to 2017; Kainika (2017) investigated period around 2011 and 2016; Ondieki & Mungai (2015) revolved around 2000 and 2015. Kaol (2017) analyzed the data for 2008 through to 2016. Despite the involvement of Kenyan commercial banks in M&A, most researchers limited their studies to a certain period of time and a few numbers of commercial banks. The research question was; what is the effect of M&A on the financial performance of financial institutions in Kenya?

## 1.3 Research objectives

To determine effects of M&A on financial performance of commercial banks in Kenya

## 1.4 Value of the study

This research will also give basis for researchers interested in developing their empirical research on M&A. The research findings will be of value to academicians by contributing to the existing knowledge on M&A. It will guide other researchers in their future research whereby they will seek to fill the research gaps existing within the area of M&As.

This study will be of value to managers and firms as it will provide a further analysis and since the business environment is ever changing, the management players will be updated on the respective industry best practices needed. The managers may also use the study as a basis for strategies to improve financial performance

This investigation will be of importance for companies to know the value of M&A and its effects on firms' performance and what can be accomplished through them. The inquiry will help policy developers to look for a different method or way of determining the appropriate level of M&As. It will be used to devise an appropriate method of managing firms' liquidity levels. It will add knowledge and understanding of merger and acquisitions in analysis of performance by the customers, competitors and investors.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

The second chapter explored the theoretical underpinnings and empirical research on merger and acquisitions and financial performance. There are five elements in this paragraph: an introduction, a theoretical framework, and three empirical studies..

## 2.2 Theoretical literature review

This section reviewed models that were relevant to M&A and its influence on financial performance. The theories included; efficiency theory, undervaluation theory and agency and managerialism theory.

### 2.2.1 Differential Efficiency Theory

Differential Efficiency theory is an implementation of mergers concept which argues that if a firm is performing below its potential, it would be wise that the stronger company acquires the inefficient one and form a merger to increase the efficiency level of that company. It argues that there are two categories of an entity; efficient and the inefficient entity one. It argues that the well performing firm will acquire the less performing one in order to increase or improve its efficiency levels (Milobo, 2016).It argues that if there is a higher efficiency in managers of a company in comparison to another, then the more efficient firm acquires the less efficient one in order to increase the level of efficiency for the less efficient/performing firm. It also argues that the management of a firm cannot be perfect thus probability that a firm will be acquired by other firms. This theory was of

importance when a firm takes over a company operating in the same industry because a firm can expand its operations with less cost as there will be optimum utilization of resources (Parikh, 2010).

### 2.2.2 Undervaluation theory

Undervaluation is one of the reasons why firms resort to mergers and acquisitions. Undervaluation refers to a firm being priced at a cost which is believed to below the investment value or cost. A firm might be undervalued because the management is not operating up to its full potential (Ganga s., 2009). Withholding of some information by the management which the general public is not aware of may lead to a firm being undervalued. Managers may price the shares of a company to be high as compared to the current market prices. Sometimes it can be cheap to acquire assets of a firm by buying the shares of a firm that still exists as compared to buying or constructing a new structure (Ganga S. , 2010). This argues that the market is inefficient, and a company's market prices do not accurately reflect its predicted future cash flows. When a firm has already been acquired the bidding firm can earn more returns from the acquired firm in future.

### 2.2.3 Agency problem and Managerialism

Mergers are seen by managerialism hypothesis as a symptom of instead of a remedy for agency issues. Agency problems can be brought about by conflicting interest around management and owners. It can happen once the managers only possess certain share of shares in the firm. Partial ownership can make the managers not work and perform as they are expected too (Styhre, 2016). Mueller (1969) argues that what the managers earn depends on the firm’s size in that a manager is motivated to expand company size. He

contends that company size affects the reward for management and also believes management should choose a smaller investments constraint rate.

Diversification increases the return on investment thus managers choose to diversify their portfolios in order to increase their compensations, have a job security and increase their power and prestige. Managers of a company are aware that if a firm is merged or acquired, they will lose their positions; therefore, this will act as a motivation to work towards shareholders’ interests and reduce the chances of the company being acquired (Zogning, 2017). This theory assumed that companies are merged to help deal with a conflict of interest when the manager works to further the interests of the shareholders and shareholders’ interest if they have a significant ownership interest in the organization.

## 2.3 Empirical studies

The effect of m&as deals on Kenyan banking institutions' performance was studied by Ondieki & Mungai in 2015. Researchers sought to determine if the amalgamation would have any impact on overall performance of said institutions. The investigation focused on selected banks which has merged or bought one another between 2000 and 2015. Data was gathered using surveys. Utilizing SPSS, the info that was gathered was examined. They concluded that banks were merged or acquired in order to raise their profitability.

Mailanyi (2013) carried out research on m&a deals and performance of oil businesses in Kenya. He adopted causal methodology. Secondary data between years 2003-2013 was utilized. Accounting ratios were used to compare the 3 years prior to m&a deals and three years following the event. Info stood analyzed using SPSS software. The study concluded a decrease in financial performance of oil companies following a m&a deal.

In their 2017 study, Akenga & Olang intended to determine impact of m&as on the financial performance of Kenyan commercial banks. The causal research approach was used. Six merging banks were included in the study, which ran from 2010 to 2017. Information were gathered through secondary sources, including publicly available financial statements and yearly statements on prudential regulation. To examine the data, percentages and frequencies were utilised. They came to the conclusion that m&as in Kenya had a favourable effect on the assets and investor worth of the amalgamated or obtained institutions.

In a case study of Sanlam Kenya, Kainika (2017) investigated the impacts of m&a deals on organisational performance within insurance market. The association around parameters were determined using an explanatory study approach. Secondary data from the annual financial and management reports were used to collect data. The study covered a period of 6 years; 2011 to 2013 was taken as a pre-merger/acquisition period while and 2014 to 2016 was taken as post-merger/acquisition period. The research came to conclusion that marketing strategy possessed a considerable impact on organisational performance of Sanlam Kenya in post M&A period, whereas management efficiency & human resources reduction had a negligible impact.

Kaol (2017) made use of a descriptive methods to study M&A in banking. Banks that had been merged/acquired from 2008 to 2016 were studied. Purposive sampling was used to come up with the sample size. Research involved 3 years before and 3 years after the merger or acquisition. Secondary data was utilized and analyzed via descriptive figures,

correlation and regression. Research showed that there was a substantial connection around M&A and return on assets, irrelevant connection around and return on equity and financial stability of institutions that had merged or acquired.

The impact of M&A upon this success and value of banks within U.K. was studied by Sailou, Masazing, and Basit (2017). The survey focused on 40 London Stock Exchange-listed businesses. 5 years pre and post merger and acquisition was taken into consideration. Descriptive statistics and Convenience sampling were used in sampling. It revealed that net profit was not affected by mergers.

Khan (2018) investigated how mergers influence the success of banks in Pakistan. T-test was used. 9 banks that that had undergone merger or acquisition from the year 1996-201 were studied. The study utilized purposive sampling technique and secondary data was used to collect data. The researcher recommended that banks need to reduce the gross profit margin in order to improve their financial performance and efficiency.

Sujud and Hachem (2018) examined the financial performances of Audi-Saradar Corporation before and after the amalgamation. Ratios were utilised to examine the company's performance, but a t-test were applied to identify any notable variations between financial performance. The analysis examined the years 2000 to 2007, including the pre-merger years 2000 to 2003 and the post-merger years 2004 to 2007. They discovered that ROA and ROE very slightly increased. They came to a conclusion that while the merger's effects on owners' wealth and returns on asset were unfavourable, its effects on EPS were notably positive.

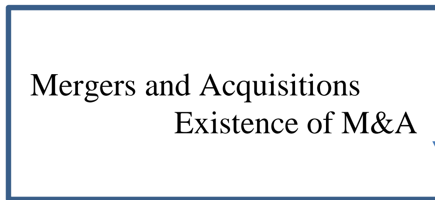
Marc & Kule (2015) analyzed how mergers is important in managing firm mergers with the aim of promoting success of banks in Rwanda. They targeted 59 banks in Rwanda and descriptive research design was adopted. The researchers used secondary and primary sources to collect the data needed for the study. Data was analyzed using SPSS. The researchers established a direct connection.

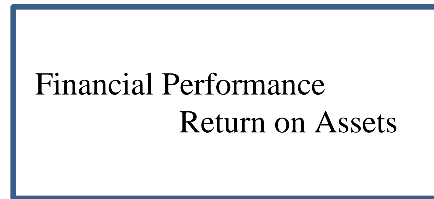
## 2.4 Summary of literature review

Theories relating to M&A which include; efficiency theory, undervaluation theory and agency and managerialism theories are reviewed. According to the theories, the effect could either be value-increasing or value-decreasing. Other determinants of financial performance other than mergers and acquisitions have also been analyzed. The chapter also reviewed empirical studies both globally and locally on firm performance. The empirical studies were based on the firms that have either been merged or acquired. The studies on M&A were done in other economies other than Kenya indicating differing contextual focus. For example, Khan ( 2018) in Pakistan and Marc & Kule ( 2015) in Rwanda. Others adopted differing research methodologies. For instance, Akenga & Olang (2017) studied years 2010 through to 2017; Kainika (2017) investigated period around 2011 and 2016; Ondieki & Mungai (2015) revolved around 2000 and 2015. Kaol (2017) analyzed the data for 2008 through to 2016. This paper seeks to fill the research gaps existing in the area.

## 2.5 Conceptual Framework

Explanatory Factor                                        Outcome Variable




Control Variable

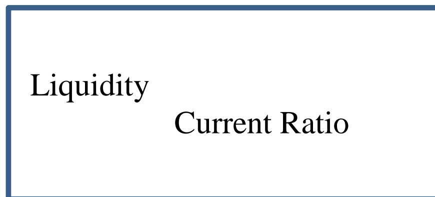



Figure 2.1: Conceptual Model

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

Chapter three of current proposal highlighted methodology adopted. It had five sections namely; researching designs, populace, sample design, data collection and data analysis.

## 3.2 Research design

The inquiry adopted descriptive models. Descriptive research design is a design that describes the variables as they are-without manipulating the outcomes (Zikmund, Babin, Carr & Griffin, 2003). The design also enables the researcher to use statistics to show how variable affect another (Farah, 2015). This research strategy was chosen because it allowed the researcher to establish the link connecting the main variables as well as characterize M&A and their performance.

## 3.3 Population

There have been 45 mergers or acquisitions of banking sector, per the CBK. The 45 will form the populace in the current investigation. The performance for three years before and three years after mergers and acquisitions was studied. Sampling frame was commercial banks as shown in appendix 1. This study samples the firms involved in M&A without replication of the firms involved in M&A. Hence, the study sampled 11 firms involved in M&A.

### 3.4 Data collection

For the timeframe under research, the investigation employed secondary information from NSE, CBK, but also publicized publications. This paper utilized an event study methodology to collect data. It analysed the impacts of pre and post treatments periods in research (Sun, 2020). Event study involves coming up with the time to be studied, evaluating the returns in relation to the event and testing its importance. It helps in analyzing the importance of firm policies on the value of the firm. It usually attempts to determine if an unanticipated event will have any effects on the prices of stock and how much the prices will be affected (Sitthipongpanich, 2010).

This methodology was preferred because the M&As are events that happen at a certain point in the existence of commercial banks. The methodology will enable the bank to differentiate the banks performance before the events and after the events. This will enable the researcher to understand how the M&E influence success in the banks in the region. Data will be collected 3 years before and 1 year after. Financial performance ratios were calculated and compared before and after merger. This was because, between 2010 and 2021, majority happened in 2017 with the last one happened in 2020. To include the 2020 one, the researcher adopted 1 year after and 3 years before to touch on larger group of 2017.

### 3.5 Data analysis

Data analysis was done three years prior to the merger and one year thereafter. As shown in figure 3.2 beneath, the financial data from the financial statements of 2 autonomous banks was combined, assessed three years prior to the merger or acquisition, and contrasted one years thereafter. After being calculated, examined, and assessed, the resultant ratios

enabled the investigator to gauge how mergers and acquisitions might affect financial performance. The descriptive and inferential analysis employed the pooled ratios.

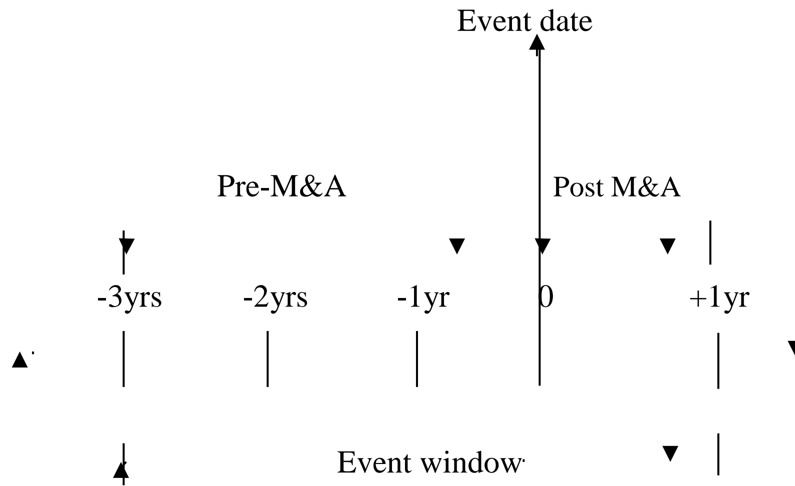



Figure 3.2: Event Study Graph

The event date in the figure above denotes the date of M&A transaction, and the event window, in this case 5 years, represents the time frame in which investigation was examined to determine the impact of M&A on the financial performance of Kenyan commercial banks. Descriptive, Correlation and regression methods was utilized. A SPSS statistical software generated the statistics. To ascertain the impact of M&As upon bank performing levels, regression technique was employed. This helped determine the degree to which the concepts relate. The goal of multiple linear regression is to illustrate the link between independent and dependent variables. Regression model:

$$Y = a + \beta 1X1 + \beta 2X2 + \varepsilon$$

Where: -

Y- Financial Performance

$a$ – regression constant

$X_1$-Mergers and Acquisitions

$X_2$-Liquidity measured by current ratio

$\beta$- Regression coefficient (1, 2)

$\varepsilon$-error term

# CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

## 4.1 Introduction

This study sought to determine effects of M&A on financial performance of commercial banks in Kenya. This was done via descriptive together with regression analysis. This involved banks that had merged or acquired other banking institutions within the period. The researcher got data from 11 banking institutions involved in mergers and acquisitions. This gave a total of 55 data points.

## 4.2 Descriptive Statistics

The analysis was supported by the mean values as well as the SD values. This was done to help achieve the study aims and to explain the variables.

Table 4.1: Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Financial performance | 55 | -31.442 | 12.904 | 0.777 | 6.308 |
| Merger/Acquisition | 55 | 0 | 1 | 0.40 | 0.494 |
| Liquidity | 55 | 0.950 | 427.449 | 82.336 | 59.210 |

From the descriptive statistics, financial performance showed a mean value of 0.777. This indicates that banks that undertook Mergers and Acquisitions had low return on assets. Financial performance showed a standard deviation of 6.308. This proves that, the return on assets among merged and acquired banks varied so much from the mean. Some banks had high returns while others showed low returns on their assets.

For the mergers and acquisitions, the mean was 0.4 with a standard deviation of 0.494. This indicates that most of the data was for the period before the merger and acquisition. This

was due to the consideration that the researcher ought to adopt the most current data to avoid the study being obsolete. This was done to include the last bank that was involved in mergers/acquisitions in 2020.

For the liquidity, the study found that the banks showed an average ratio of 82.336%. This proves that the current assets of the banks covered 82% of the current liabilities of the banks. This indicates low levels of liquidity among the selected banks as it was below 100%.

Table 4.2: Financial Performance Before and After M&A

| | Mean | Std. Deviation |
|---|---|---|
| Pre-M&A ROA | 0.598 | 7.153 |
| Post- M&A ROA | 2.259 | 1.456 |

The findings displayed that the mean financial performance for the period before the merger was a ROA value of 0.598%. This shows that the banks made 0.6 shillings for every 100-shilling worth of assets before the M/A. The mean financial performance (ROA) was 2.259%. This shows that the banks made 2 shillings for every 100-shilling worth of assets after M/A.

## 4.3 Diagnostic Tests

This was done to validate the variables and concepts presumptions. Heteroscedasticity, multicollinearity, and normalcy were all implicated.

Table 4.3: Normality Test

| | Shapiro-Wilk | | |
|---|---|---|---|
| | Statistic | df | Sig. |
| Financial performance | .633 | 55 | .000 |
| Merger/Acquisition | .871 | 55 | .000 |
| Liquidity | .740 | 55 | .000 |

From the Shapiro Wilk statistics, financial performance, mergers/acquisitions and liquidity showed pvalues of less than 0.05. as such, the normal distribution pattern is not valued by the data. Therefore, we can conclude that the data for financial performance, mergers/acquisitions and liquidity is not normally distributed.

Table 4.4: Multicollinearity

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | Merger/Acquisition | .940 | 1.064 |
| | Liquidity | .717 | 1.395 |

From the collinearity statistics, merger/acquisition and liquidity had VIF values that were less than 5. This is an indication that there is no linearity existing among the predicting factors in this research. Therefore, the research does not have any multicollinearity issues in the data adopted for analysis.

Table 4.5: Heteroskedasticity

| | LM | Sig |
|---|---|---|
| BP | 7.422 | 0.098 |

From the Breusch Pagan test, the findings showed a statistic (7.422) with a significance value of 0.098. The significance value was greater than 0.05. This is an indication that the

null hypothesis that the data has the error terms being constant over time is not rejected. Therefore, the researcher concludes that no heteroskedasticity issues exist in the data adopted for analysis.

## 4.4 Regression Analysis

To determine the impact of M&A on the success and output of the firms, especially the banks in the country, regression analysis was used. The model summary, ANOVA, and regression coefficients were produced as a result.

Table 4.6: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .558[a] | .312 | .285 | 1.21001 |

a. Predictors: (Constant), Liquidity, Merger/Acquisition

The model summary indicated that the regression had a R of 0.558. This suggested that the financial performance of commercial banks in Kenya has a strong association with merger/acquisition activity and liquidity. The findings revealed a R squared of 0.312 This shows that liquidity and merger/acquisition activity account for 31.2% of the banks' financial performance. 69.8% of the banks' financial success is attributable to other factors. Therefore, the researcher draws the conclusion that there are important elements other than M&As that have a significant value on the success of the banks.

Table 4.7: Analysis of Variance

| ANOVA[a] |
|---|

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 143.531 | 2 | 71.766 | 3.654 | .033[b] |
| | Residual | 1021.340 | 52 | 19.641 | | |
| | Total | 1164.871 | 54 | | | |

a. Dependent Variable: performance values
b. Predictors: (Constant), Liquidity, Merger/Acquisition

The computed F-statistics (3.654) was higher than the threshold value of 3.175 based on the Anova results. This demonstrates that the regression model, which is the optimal model to utilize for analysis, matches the data. The F-statistics additionally displayed a significance value of 0.033. Given that this was less than 0.05, the regression model was significant. As a result, inferences can be drawn from the model results.

Table 4.8: Regression coefficient

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -1.682 | .610 | | -2.758 | .008 |
| | Merger/Acquisition | .528 | .210 | .491 | 2.516 | .015 |
| | Liquidity | .273 | .134 | .256 | 2.032 | .047 |

a. Dependent Variable: Financial performance

From the regression coefficients, the study found that the model had a constant term of -1.682. This indicates that the value of success in terms of return on assets would stand at -1.682 where the predicting factors (M&A and liquidity) are held constant. Merger/acquisition showed a regression coefficient of 0.528 (pvalue=0.015) indicating that

M&A had a significant and positive effect on performance output of the selected banks. Liquidity had a regression coefficient of 0.273 (pvalue=0.047). This shows that liquidity had a significant effect on the success of the selected banks. From the regression analysis,

$$Y = a + \beta 1X1 + \beta 2X2 + \varepsilon$$

was fitted to;

$$Y = a + 0.528X1 + 0.273X2$$

## 4.5 Discussion of Findings

From the regression analysis, M&A had a significant positive regression coefficient. This indicated that M&A had a significant and positive effect on financial performance of the selected banks. Increased involvement in M&A among the banks would improve their financial performance due to increased returns on their assets. The findings are the same as those of Akenga and Olang (2017) who found that m&as had a favourable effect on returns ob assets. They are different from those of Kamutu (2018) who found that M&A led to poor performance. They also differed with those of Sujud and Hachem (2018) who found a negative correlation; Mailanyi ( 2013) who found that perfromance decreased following a m&a deal; and Sailou, Masazing, and Basit (2017) who found an insignificant effect of M&A on returns on assets.

Liquidity had a positive significant regression coefficient. It indicated that liquidity is important in managing firm success, especially among banks in Kenya.  Where the banks increase their liquidity levels, they would experience an increase in the returns related to their assets. This would mean an increased the firm value and it should be noted that the

findings are the same as those of Adusei (2022) who noted that firm success largely depend on cash at hand. They are also similar to Alim, Ali and Metla (2021) who found that liquidity had a positive effect on firm success in the long run. They however differ with those of Nguyen et al (2021) who found a negative relationship.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

The findings as well as the results and output achieved are well documented in this section. This is based on the study's goal. It also includes findings, suggestions, limitations, and areas that require more study

## .5.2 Summary of Findings

From the data values, financial performance showed a mean value of 0.777. This indicates that banks that undertook Mergers and Acquisitions had low return on assets. Financial performance showed a standard deviation of 6.308. This indicates that the return on assets among merged and acquired banks varied so much from the mean. Some banks had high returns while others showed low returns on their assets.

According to the model summary, the regression demonstrated a significant correlation between merger/acquisition activity and liquidity and the output of the firms. The findings also indicated that liquidity and merger/acquisition activity were responsible for 31.2% of the change in the productivity of the firms. According to the Anova data, liquidity and M&A had a substantial impact on value and synergy of the firms.

From the regression coefficients, the performance measures in terms of return on assets would stand at -1.682% where the predicting factors (M&A and liquidity) were held constant indicating that they produce a positive significant effect success and value of the

banks. Merger/acquisition had a positive and significant regression coefficient indicating a significant and positive effect on success of the banks. For the liquidity, the study found that the banks showed an average ratio of 82.336% indicating that current assets covered 82% of the current liabilities of the banks. Liquidity had a significant and positive regression coefficient. This indicates that liquidity had a significant and positive effect on output of the selected banks.

## 5.3 Conclusions

From the descriptive statistics, the study found that banks had an average return on assets of 0.777% indicating that the banks produced 0.78 shillings for every 100 shillings worth of assets. This leads to the conclusion that the commercial banks in Kenya have low return on assets indicating poor financial performance. Some banks had high returns while others showed low returns on their assets as shown by the high standard deviation compared to the mean. The commercial banks in Kenya are performing differently with some doing well while others are performing poorly.

For the mergers and acquisitions, there has not been a high number of M&As among commercial banks in the recent years. Merger/acquisition showed a positive significant regression coefficient. This was a sign of a positive effect of M&A on financial performance. This study concludes that M&A has a positive effect on financial performance of commercial banks in Kenya. The banks which have merged or got into an acquisition have experienced improved financial performance.

According to the analysis, the banks' current assets were sufficient to satisfy 82% of their current liabilities. The study's findings indicate that Kenya's commercial banks have low

levels of liquidity—below 100%. Liquidity exhibited a positive regression coefficient that, at the 95% confidence level, was significant. Thus, the study concludes that Kenyan commercial banks' liquidity affects their performance favourably. Banks with strong liquidity levels exhibit high levels of financial performance.

## 5.4 Policy Recommendations

According to the study's findings, M&A improved the value as well as output measures of the banks. This means that commercial banks that get into M&A show increased financial performance metrics. This creates the need for Kenyan commercial banks to get into mergers and acquisitions. This would enable them to pool their resources and expertise together which would in turn increase their return on assets reflecting improved success. The inquiry indicates that the banks that are having negative return on assets seek for M& As from other banks should be well managed. This would enable the banks to increase their returns and hence move away from the negative financial performance.

The analysis confirmed that having cash is important in promoting success of the banks. . This creates the picture where banks that have high liquidity levels find themselves performing better financially compared to their pears with low liquidity levels. The leadership and top echelons of banks should find ways of increasing cash flow in their operations in order to improve their success and value through increased returns on their assets. This can be done by increasing the level of current assets within their bank's asset portfolio. This can also be done by reducing the current liabilities within the banks.

## 5.5 Limitations of the Study

This inquiry was associated with some challenges. The study faced the limitation of data credibility. It was hard to determine the credibility of the data adopted in the study. The study, however, adopted data from annual reports got from CBK which is mandated to publish some of the bank's reports in the region. The investigation was also faced by the limitation of variable measures. The measures of variables like return on assets created a limitation. This is because the variables can be measured in different ways which may give different results. The scope also created a limitation where the researcher could not investigate other variables other than M&A and financial performance.

The researcher also limited his study to commercial banks which created a limitation in the survey. This study was faced by a limitation related to historical nature of data where the use of very old data may give outdated results. To overcome this, the researcher used the most recent data focusing on the period between 2010 and 2021. The study involved the most recent mergers/acquisitions which saw the study adopt the 3 pre and 1 post period event methodology. The study was also faced with the limitation of the banks being involved in M&A for more than once. To overcome this, the researcher used the most recent M&A for such firms which led to 11 firms studied by the researcher.

## 5.6 Areas for Further Research

The inquiry concludes from the study that additional study is necessary to determine whether other factors affect the capital output of banks in the country. Similar research is also needed based on other firms other than commercial banks. This would enable the

researchers to compare results. Similar research is needed based on other measures of the variables other than dummies for M&A or return on assets for financial performance. Other researchers can undertake similar research based on primary data and analytical techniques.

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# APPENDICES

## Appendix 1: Banks That Have Undergone Merger or Acquisition

Mergers

| Bank | Merged With | Current Name | Year |
|---|---|---|---|
| Indosuez Merchant Finance | Banque Indosuez | Credit Agricole Indosuez | 10.11.1994 |
| Transnational Finance Ltd | Transnational Bank Ltd | Transnational Bank Ltd | 28.11.1994 |
| Ken Baroda Finance Ltd | Bank of Baroda (K) Ltd | Bank of Baroda (K) Ltd | 02.12.1994 |
| First American Finance Ltd | First American Bank Ltd | First American Bank (K) Ltd | 05.09.1995 |
| Bank of India | Bank of India Finance Ltd | Bank of India (Africa) Ltd | 15.11.1995 |
| Stanbic Bank (K) Ltd | Stanbic Finance (K) Ltd | Stanbic Bank Kenya Ltd | 05.01.1996 |
| Mercantile Finance Ltd | Ambank Ltd | Ambank Ltd | 15.01.1996 |
| Delphis Finance Ltd | Delphis Bank Ltd | Delphis Bank Ltd | 17.01.1996 |
| Commercial Bank of Africa Financial Services | Commercial Bank of Africa ltd | Commercial Bank of Africa ltd | 26.01.1996 |
| Trust Finance Ltd | Trust Bank (K) Ltd | Trust Bank (K) Ltd | 07.01.1997 |
| National Industrial Credit Bank Ltd | African Mercantile Banking Corp | NIC Bank Ltd | 14.06.1997 |
| Giro Bank Ltd | Commerce Bank Ltd | Giro Commercial Bank Ltd | 24.11.1998 |

| | | | |
|---|---|---|---|
| Guardian Bank Ltd | First National Finance Bank Ltd | Guardian Bank Ltd | 24.11.1998 |
| Diamond Trust Bank (K) Ltd | Premier Savings & Finance Ltd | Diamond Trust Bank (K) Ltd | 12.02.1999 |
| National Bank of Kenya Ltd | Kenya National Capital Corp | National Bank of Kenya Ltd | 24.05.1999 |
| Standard Chartered Bank (K) Ltd | Standard Chartered Financial Service | Standard Chartered Bank (K) Ltd | 17.11.1999 |
| Barclays Bank of Kenya Ltd | Barclays Merchant Finance Ltd | Barclays Bank of Kenya Ltd | 22.11.1999 |
| Habib A.G. Zurich | Habib Africa Bank Ltd | Habib Bank A.G. Zurich | 30.11.1999 |
| Guilders Inter. Bank Ltd | Guardian Bank Ltd | Guardian Bank Ltd | 03.12.1999 |
| Universal Bank Ltd | Paramount Bank Ltd | Paramount Universal Bank | 11.01.2000 |
| Kenya Commercial Bank | Kenya Commercial Finance Co | Kenya Commercial Bank Ltd | 21.03.2001 |
| Citibank NA | ABN Amro Bank Ltd | Citibank NA | 16.10.2001 |
| Bullion Bank Ltd | Southern Credit Banking Corp. Ltd | Southern Credit Banking Corp. Ltd | 07.12.2001 |
| Co-operative Merchant Bank ltd | Co-operative Bank ltd | Co-operative Bank of Kenya ltd | 28.05.2002 |
| Biashara Bank Ltd | Investment & Mortgage Bank Ltd | Investment & Mortgage Bank Ltd | 01.12.2002 |
| First American Bank ltd | Commercial Bank of Africa ltd | Commercial Bank of Africa ltd | 01.07.2005 |
| East African Building Society | Akiba Bank ltd | EABS Bank ltd | 31.10.2005 |

| Prime Capital & Credit Ltd | Prime Bank Ltd | Prime Bank Ltd | 01.01.2008 |
|---|---|---|---|
| CFC Bank Ltd | Stanbic Bank Ltd | CFC Stanbic Bank Ltd | 01.06.2008 |
| Savings and Loan (K) Limited | Kenya Commercial Bank Limited | Kenya Commercial Bank Limited | 01.02.2010 |
| City Finance Bank Ltd | Jamii Bora Kenya Ltd | Jamii Bora Bank Ltd | 11.02.2010 |
| Equatorial Commercial Bank Ltd | Southern Credit Banking Corporation Ltd | Equatorial Commercial Bank Ltd | 01.06.2010 |
| NIC Group PLC | Commercial Bank of Africa Ltd | NCBA Bank Kenya PLC | 30.09.2019 |

**Acquisitions**

| **Institution** | **Acquired by** | **Current Name** | **Date approved** |
|---|---|---|---|
| Transnational Bank | Access Bank | Access Bank (Kenya) | 2020 |
| National Bank of Kenya Limited (NBK) | KCB Group PLC | Operations continued under respective brand names. | 02.09.2019 |
| Faulu Kenya Deposit Taking Microfinance Ltd | Old Mutual Holdings Ltd | Faulu Kenya Microfinance Bank Ltd | 25.11.2013 |
| Mashreq Bank Ltd | Dubai Kenya Ltd | Dubai Bank Ltd | 01.04.2000 |
| Credit Agricole Indosuez (K) Ltd | Bank of Africa Kenya Ltd | Bank of Africa Bank Ltd | 30.04.2004 |
| EABS Bank Ltd | Ecobank Kenya Ltd | Ecobank Bank Ltd | 16.06.2008 |
| Fina Bank Ltd | Guaranty Trust Bank Plc | Guaranty Trust Bank (Kenya) Ltd | 08.11.2013 |

| | | | |
|---|---|---|---|
| K-Rep Bank Ltd | Centum Ltd | K-Rep Bank Ltd | 29.10.2014 |
| Equatorial Commercial Bank Ltd | Mwalimu Sacco Society Ltd | Equatorial Commercial Bank Ltd | 31.12.2014 |
| Giro Commercial Bank Ltd | I&M Bank Ltd | I&M Bank Ltd | 13.02.2017 |
| Fidelity Commercial Bank Ltd | SBM Bank Kenya Ltd | SBM Bank Kenya Ltd | 10.05.2017 |
| Habib Bank Kenya Ltd | Diamond Trust Bank Kenya Ltd | Diamond Trust Bank Kenya Ltd | 01.08.2017 |

***Cited Source: CBK (2022)***

**Appendix II: Data Collection Schedule**

| Year | Merged/acquired | Current Assets | Current Liabilities | Profit before tax | Total assets |
|---|---|---|---|---|---|
| -3 | | | | | |
| -2 | | | | | |
| -1 | | | | | |
| 0 | | | | | |
| 1 | | | | | |