

**ADOPTION OF MERGERS AND ACQUISITIONS AS A STRATEGIC  
APPROACH BY CFC STANBIC HOLDINGS IN KENYA**

**BY**

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## DECLARATION

This research project is my original work and has not been presented for award of any degree in any university

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

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## **DEDICATION**

I dedicate this project to my family and also to all those who helped me economically, socially towards my achievement. God bless you all

## **ACKNOWLEDGEMENTS**

I thank the almighty God for good health, strength, resilience and grace to go through this program. It is by his grace that I have come this far.

Secondly, I acknowledge my family members who have been my pillar of strength and encouragement especially when the going was tough. Also my friends have been of great support throughout the program. I love you all.

I also appreciate my supervisor who patiently and competently guided me through this project, thank you for all your assistance.

## ABSTRACT

The objective of this study was to establish the factors influencing the performance of mergers and acquisitions of international companies in Kenya in the case of CFC Stanbic Holdings limited. The specific objectives of this study were; to determine the extent to which CFC Stanbic Holdings Ltd has adopted mergers and acquisitions as a strategic approach and to determine the factors that have influenced the adoption of such a strategic approach. The study was a case study since the unit of analysis was one organization. The population from which the primary data was collected was the top managers and functional heads. The primary data was collected using an interview guide. The data obtained from the interview guide was analyzed using content analysis. This study concludes that top management commitment and support is key towards the performance of mergers and acquisitions like CFC Stanbic holdings as the results explained. The results depict a conclusion that it's the duty of the top management to motivate employees with the necessary level of commitment, engagement, confidence and comfort to work through difficult transitions and that the top managers inspire a sense of purpose. The study concludes that CFC Stanbic holdings has adopted various communication channels which ranged from email, meetings, notice board, internal memos, phone calls, communication, text messages, letters, reports and submission of proposals. The study concludes that the various aspects of financial management in the CFC Stanbic merger are but not limited to the allocation of assets and liabilities over time under conditions of certainty and uncertainty, identifying sources of funds for the organization, ensuring there is adequate returns to shareholders, meeting regulation requirements, ensuring safety on investment and planning sound capital structure for the organization (merger). This study concludes that the employees in the organization have embraced culture to a great extent. The study concludes that the culture at CFC Stanbic Holdings had a deep impact on the performance of employees. The study concludes that there are various risks that influence the performance and the growth of CFC Stanbic holdings. It was due to good culture management that unity was created, openness was achieved and that opportunities were created as employees interact altogether at CFC Stanbic Holdings. The study recommends the adoption of a transformational type of leadership for it is the most effective in cases where two or more organizations merge to achieve a goal. There is need for the managers in the organization to ensure that the communication systems were monitored, right information reach the right people hence avoiding creating confusion and conflict. This study recommends that the management adopt even more new financial management aspects and processes that are key in promoting the growth and performance of CFC Stanbic holdings. The sole role of the management is to ensure that there is a harmonized culture.

## **TABLE OF CONTENTS**

<b>DECLARATION.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iv</b>
<b>ABSTRACT .....</b>	<b>v</b>
<b>TABLE OF CONTENTS .....</b>	<b>vi</b>
<b>LIST OF ABBREVIATIONS AND ACRONYMS .....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.1.1 Mergers and acquisitions .....	2
1.1.2 Financial Sector in Kenya.....	3
1.1.3 CFC Stanbic Holdings Limited.....	4
1.2 Research Problem .....	5
1.3 Research Objectives.....	7
1.4 Value of the Study .....	7
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>8</b>
2.1 Introduction.....	8
2.2 Mergers and Acquisitions .....	8
2.3 Types of mergers and acquisitions.....	11
2.4 Review of theories on mergers and acquisitions.....	12
2.5 Factors influencing the performance of mergers and acquisitions .....	14

2.5.1 Top management commitment .....	14
2.5.2 Communication as a factor .....	14
2.5.3 Financial Management.....	15
2.5.4 Culture as a factor .....	16
2.5.5 Risk Management .....	17
2.5.6 Technology as a factor .....	17
2.6 Effect of mergers and acquisition in the banking industry .....	18
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>22</b>
3.1 Introduction.....	22
3.2 Research Design.....	22
3.3 Data Collection .....	23
3.4 Data Analysis .....	23
<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION .....</b>	<b>24</b>
4.1 Introduction.....	24
4.2 General Information of the Respondents .....	24
4.2.1 Highest level of education and duration served in the organization.....	24
4.2.2 Position and role of respondents have in the organization .....	25
4.3 General perception and influence of the top managers towards the merger in the organization.....	25
4.4 Effect of communication on towards the merger in the organization.....	27
4.5 Influence of financial management on the merger in the organization .....	29

4.6 General Aspects and influence of Culture in the Organization .....	30
4.7 Influence and types of risk management in the organization .....	31
4.8 Types and effect of technologies and their influence in the organization .....	32
<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b>	<b>34</b>
5.1 Introduction.....	34
5.2 Discussion.....	34
5.2.1 Top Management and Merger & Acquisition in the organization.....	34
5.2.2 Communication and M&A in the organization .....	35
5.2.3 Financial Management and M&A in the organization .....	36
5.2.4 Aspects of Culture and effect on the M&A of the organization.....	38
5.2.5 Influence and types of risk management in the organization .....	39
5.2.6Types and effect of technologies and their influence in the organization .....	39
5.3 Conclusions.....	40
5.4 Recommendations.....	43
5.5 Recommendations for further studies .....	45
<b>REFERENCES.....</b>	<b>46</b>
<b>APPENDICES .....</b>	<b>51</b>
<b>Appendix I: Interview Guide .....</b>	<b>51</b>

## **LIST OF ABBREVIATIONS AND ACRONYMS**

CBK:	Central Bank of Kenya
KBA:	Kenya Bankers Association
M&A:	Merger(s) and Acquisitions
UNCTAD:	United Nations Conference on Trade and Development
USA:	United States of America

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

The developments in the global banking industry in the last two years have also been dominated by the sub-prime crisis and the liquidity problems that have followed from it. These problems have made financial institutions cautious about voluntary mergers and acquisitions; this year's focus is more likely to be more on minimising the impact of the sub-prime crisis on existing operations, as evidenced by the large write-downs announced by most of the world's major banks. Notable exceptions have been the mergers and acquisitions brought about as a result of financial distress such as the acquisition of Bear Sterns by JPMorgan in the USA, and that of SachsenLB by Landesbank Baden-Württemberg (LBBW) in Germany. Informed commentators are suggesting, however, that further consolidation leading to increased scale is likely to be the best long-term solution to problems such as those caused by the sub-prime crisis, so the trend is probably likely to continue as soon as the immediate problems have been overcome (Boston Consulting Group, 2008).

Most of the decline in the number of organisations was due to mergers and acquisitions (Jones and Critchfield, 2005). In the USA, mergers and acquisitions were the single largest contributor to the net decline in banking organisations in every year but one between 1984 and 2003. During the entire period, 8,122 individual bank and thrift organisations disappeared through mergers and holding company purchases. A large majority of these were domestic (86 percent), split approximately half-and-half between

horizontal (same product category-banks acquiring other banks) and diversifying (into new product areas such as insurance or stock-broking) (Berger et al., 1999).

Factors such as globalization, liberalization and information technology developments have contributed to the need for a more competitive, resilient and robust financial systems in the world. According to the United Nations Conference on Trade and Development (UNCTAD, 2008) the competitive financial industry requires that each organizations to reorganize its strategies in order to survive the circumstances.

### **1.1.1 Mergers and acquisitions**

Mergers and acquisitions, nowadays, play significant roles for helping companies achieve certain objectives and financial strategies (Hopkins & Chaganti, 1999). According to (Chiplin & Wright, 1987) both the terms “merger” and “acquisition” mean a corporate combination of two separate companies to form one company and they are often used synonymously in practice but there are slightly different meanings between them. Several decades ago, mergers and acquisitions have seldom dominated the headlines as much as at present whereas, the pace and scale are remarkable in the world (Junnonen, 1998). For instance, academic research has shown substantial mergers and acquisitions activities in a wide range of sectors, such as banking, insurance, pharmaceuticals, electricity, oil, gas, automobile, steel etc. In the US, corporations spent more than \$1.7 trillion on mergers and acquisitions in 2000 (Brealey. et al., 2006). At the beginning of 2005, mergers and acquisitions market showed a strength return in many sectors (Kreitl, et.al, 2002). There is no more suspense, the merges and acquisitions “fever” reigns on the large world companies and became a phenomenon of the business world that cannot be ignored.

Mergers and acquisitions occur by waves and it is particularly the case of the banking sector, undergoing currently many changes. The mergers in the recent past have experienced challenges towards their aim in achieving their objectives. Various factors like leadership, culture, management support, and communication and organization structure influence the performance of mergers. The merger of CfC Stanbic Holdings Limited cannot therefore be overlooked.

### **1.1.2 Financial Sector in Kenya**

The financial sector in Kenya comprises of the banking and non-banking industry. The Banking industry in Kenya for examples, governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interest's .The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region. Automation of a large number of services and a move

towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market ([www.centralbank.go.ke](http://www.centralbank.go.ke)). This has so far forced unwanted mergers and acquisitions by financial institutions to avoid down falls or promote synergy. The main challenges facing the Banking sector today include; New regulations; For instance, the Finance Act 2008, which took effect on 1 January 2009 required banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement, its hoped, will help transform small banks into more stable organisations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. Global financial crisis experienced in late 2008 affected the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. Others included declining interest margins ([www.centralbank.go.ke](http://www.centralbank.go.ke)).

### **1.1.3 CFC Stanbic Holdings Limited**

CfC Stanbic Holdings Limited is a Kenya-based holding company, engaged in the provision of banking, insurance, financial and related products and services. It provides through its subsidiaries life assurance, general insurance, fund management, investment banking and stock broking services. Formerly, CFC Stanbic Bank Limited merged with the Kenyan American insurance company limited and a Kenyan-based bank, engaged in the provision of banking, insurance, financial and related services. The Bank is now both an operating, as well as holding company, providing through its subsidiaries; life

assurance, general insurance, fund management, investment banking and stock broking services. The Bank operates in two segments: banking and related services, which includes taking deposits, lending to customers and provision of financial, advisory and stock broking services, and insurance, which includes insuring risks for all classes of insurance business. The Bank's subsidiaries include CFC Financial Services Limited, CFC Holdings Limited, CFC Investments Limited, Equity Stock Brokers Limited, The Heritage AII Insurance Company Limited, Azali Limited, The Heritage AII Insurance Company (T) Limited and CFC Life Assurance Limited ([www.cfctanbicbank.co.ke](http://www.cfctanbicbank.co.ke)).

## **1.2 Research Problem**

Mergers in commercial banking industry operate on diverse segments and environment; they also formulate and implement strategy in a very competitive business world. The more popular the company's shares, the higher its market value and vice versa. These companies are now under pressure from the stakeholders to delivery superior year on year performance and return good dividends. Mergers are performed in the hopes of realizing an economic gain. For such a transaction to be justified, the two firms involved must be worth more together than they were apart (Straub, 2007). In principle, the decision to merge with or acquire another firm is a capital budgeting decision much like any other. But mergers differ from ordinary investment decisions in at least five ways. First, the value of a merger may depend on such things as strategic fits that are difficult to measure. Second, the accounting, tax, and legal aspects of a merger can be complex. Third, mergers often involve issues of corporate control and are a means of replacing

existing management. Fourth, mergers obviously affect the value of the firm, but they also affect the relative value of the stocks and bonds. Finally, mergers are often "unfriendly" (Straub, 2007).

Locally, various researchers have researched on the field of mergers and acquisitions. For example, Kiplagat (2006) researched on the effects of mergers on financial performance of companies listed at the NSE, Mukele (2006) conducted a survey of the factors that determine the choice of mergers & acquisition partners in Kenya, Nyagah (2007) studied doctor's perception of mergers & acquisitions in the pharmaceutical industry in Kenya, Njoroge (2007) did a survey of mergers & acquisitions experiences by commercial banks in Kenya while Muthiani (2008) researched on cross cultural perspective of mergers and acquisitions: the case of GlaxoSmithKline Kenya PLC. None of these local and international studies focused on the factors influencing the performance of mergers and acquisitions of local international organizations like for the CFC Stanbic Holdings limited. This study sought to fill the research gap by establishing the factors influencing the performance of mergers and acquisitions of international companies in Kenya in the case of CFC Stanbic Holdings limited. The study aimed to address the questions: what are the factors influencing the performance of mergers and acquisitions at CFC Stanbic holdings and to what extent do the factors influence performance of s and acquisitions at CFC Stanbic holdings?

### **1.3 Research Objectives**

The objectives of the study were:-

- i. To determine the extent to which CFC Stanbic Holdings Ltd has adopted mergers and acquisitions as a strategic approach.
- ii. To determine the factors that have influenced the adoption of such a strategic approach.

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

The study will help the management in the CFC Stanbic holdings limited understand the issues surrounding mergers and acquisitions in their organization set up. This may help them come up with new strategies towards effective management of their merger.

The study findings will contribute to the broadening of the knowledge base on the topical issue of the stockholder analysis. This will help widen the knowledge of the stakeholders when making decisions on mergers and acquisitions.

The study will therefore add to the body of knowledge to both future and past studies since most of the ones that have been done are from the west (King, et al., 2004; Galpin and Herndon, 2000) and cannot be generalized to the local situation since business environment is completely different.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presented the literature reviewed on mergers and acquisitions in organization from books and journals from various authors and academicians. The main areas presented in this chapter were; mergers and acquisitions concept, review of theories and models on mergers and acquisitions, effect of mergers and acquisition, conceptual framework and critique of the reviewed literature.

### **2.2 Mergers and Acquisitions**

Hax and Majluf (1996) defined mergers and acquisitions as a means of establishing the organizational purpose in terms of its long-term objectives, action programs and resource allocation. A major obstacle faced by organizations seeking to merge or acquire others has been that of identifying the business area in which a firm should participate in order to maximize its long-term profitability (Hill & Jones, 2001).

David (1997) explained a merger as a process that occurs when two organizations of about equal size unite to form one enterprise. Thus, mergers involve friendly restructuring of the assets and resources for the companies involved in the combination (David (1997). Majority of mergers are friendly and are recommended by the directors and shareholders of both companies (Hill & Jones, 2001).

The important factors that influence corporate strategy is the environment in which a company is operating. It is, in the search of suitable responses to that environment, that an organization realizes that it neither has the strengths needed, nor the time required to develop such strengths as the opportunity might get lost, that it seeks and identifies

another firm with which to merge or to acquire, that has appropriate capabilities and competences (Hubert and Edward, 2006).

According to Pike and Neale (2002) merger strategies are associated with the pooling of the interests of two companies into a new enterprise requiring the agreement by both sets of shareholders. Firms will thus seek that strategic position that will provide them with the maximum impact on the external environment, internal resources and competencies, and the expectations and influence of stakeholders (Johnson and Scholes, 2002). Mergers and acquisitions strategies are used by firms in strategic positioning.

A takeover or an acquisition, on the other hand, is defined as an acquisition by one company of the share capital of another in exchange for cash, ordinary shares, loan stock, or some mixture of the two: this directly results in the identity of the acquired being absorbed into that of the acquirer (Pike and Neale, 2002). Hill and Jones (2001) posit that a takeover is when the acquiring company gains control of another without the cooperation of its existing management. The acquirer gets control of majority of the stock and ousts the existing management. The acquiring company usually joins forces with the key shareholders, or purchase stock on open market or by soliciting proxies. Consequently, as highlighted by Pike and Neale (2002) many takeovers are hotly resisted by shareholders and the management of the entities.

Acquisitions and mergers of other companies are investment decisions that should be evaluated on essentially the same criteria as when new assets such as machinery and equipment are purchased. Indeed, the 'make or buy' decision process can be conceptually applied to the acquisition process (Pike and Neale, 2002). Competitive advantage, according to Porter (1980), results from a firm's ability to perform the required activities

either at lower costs than their rivals or differentiating products that create buyers value so as they command a premium price. A company seeking to merge or takeover another firm will evaluate all options so as to acquire these generic strategies. Gain may also emerge from a particular way of combining resources. Most mergers and acquisitions, therefore, will be pooled to the attractiveness of the target in areas like product design, manufacturer's technology, good management tight financial discipline and the market share (Hill and Jones, 2001).

Other instances refers takeover as acquisition. The operational definition in the researchers view prefers the merger definition as defined above but use takeover and acquisition interchangeably. If a merger or an acquisition is proposed in a market that is already dominated by a few firms or the merger decreases the number of firms in an expanding market, or a merger or an acquisition makes entry of other firms quite difficult, regulators may challenge such a merger or an acquisition (Hill and Jones, 2001). A number of scholars argue that mergers and acquisitions of companies are a common and important response to globalization and the changing market environment (Boateng and Bjørtuft, 2003). Despite the increasing popularity of mergers and acquisitions, it has been reported that, more than two-thirds of large merger deals fail to create value for shareholders in the medium term (Reshcke and Aldag, 2000). Reshcke and Aldag (2000) found that the profitability of target companies, on average declines after an acquisition. However, the effect of M&A on innovation performance has been discussed controversially. While mergers have been regarded an effective instrument for reaping benefits of both scale and scope, this is often taken for granted without any further specifications.

### **2.3 Types of mergers and acquisitions**

According to Gaughan (2005) there are four main categories of M & A: horizontal, vertical, conglomerate and cross-border. Horizontal M & A describes that one company merge with or acquires another one from the same business field. For example, the Vodafone Group (UK) acquired the German telecommunications giant-Mannesmann AG in 2000. Horizontal M & A may arise from the possible side effects on competition in the same industry, in that after horizontal M & A, companies may occupy a monopoly position by decreasing the number of firms in the same field (Weston et al., 2004). Vertical M & A refer to the vertical integration of two firms, which operate in the same production line. Specifically speaking, there are two major categories of vertical M & A, which are forward integration (i.e. the acquirer expands forward of the ultimate consumer) and backward integration (the buyer expands backward to suppliers of raw materials) (Brealey et al., 2006). The primary reasons for companies to be vertically integrated are “technological economies such as the avoidance of reheating and transportation costs in the case of an integrated iron and steel producer” and the reduction of transaction cost (i.e. “the cost of searching for prices, contracting, payment collecting, and advertising and also might reduce the costs of communicating and coordinating production”) (Weston et al., 2004). Conglomerate M & A refer to a combination of two firms which do business in diverse fields. This kind of M & A is the least popular nowadays (Brealey et al., 2006). There are three categories of conglomerate M & A: product extension mergers, geographic market extension mergers and the other conglomerate mergers (Weston et al., 2004; Sudarsanam, 2003). Cross-border M & A refer to M & A across national boundaries and involving substantial cash flow into other

countries (Sudarsanam, 1995). The typical example is the biggest cross-border M & A at the beginning of 21st century -Vodafone (UK) acquired Mannesmann AG (Germany) and it has a record of worth \$203 billion ([www.investopedia.com](http://www.investopedia.com)).

#### **2.4 Review of theories on mergers and acquisitions**

Porter's Generic strategies can be successfully linked to organizational performance through the use of key strategic practices. Porter's (1985) generic strategies of low cost, differentiation, focus and combination strategies are generally accepted as a strategic typology for organizations. Porter's, (Porter, 1985) view that low cost and differentiation are discrete ends of a continuum that may never be associated with one another has sparked much conceptual debate and empirical research. This debate may have been encouraged in part because of the absence of conceptual building blocks supporting his value system theory. Scholars have since developed theory to counter Porter's view, suggesting that low cost and differentiation may actually be independent dimensions that should be vigorously pursued simultaneously (Mather, 2000). Although many firms pursuing cost and differentiation simultaneously may become stuck in the middle, there is clear evidence to suggest that at least some firms have been successful in achieving superior economic performance by pursuing both advantages (Rockar, 2004).

This will provide senior management with a mechanism for assessing the organization's strategic position (Lackman et al., 2000), and should ensure that market driven strategies are formulated and implemented in order to deliver "superior customer value" (Cravens, 1998).

Pike and Neale (2002) have highlighted the fact that organizations have not only embraced competitive intelligence but that senior management has gone a step further and implemented counterintelligence measures. They suggest that corporate intelligence staffs need to remain open minded and critical about the appropriateness of existing organizational intelligence systems, and liaise closely with marketing staff to devise industry specific intelligence systems.

Different kinds of social processes, patterns and practices together determine the social capital of a social unit. Many investigators have demonstrated that social capital at various levels from individual to group, organization and national level foster the knowledge sharing, learning, reduced time and transaction costs, reduced redundancy, reduced probability of opportunism and cost of monitoring (David, 1997), encourage cooperative behavior, thereby facilitating the development of new forms of association and competitive organization (Ghosh, 2001).

Jo-Vnovic and Rousseau's (2002) Q-theory considers merger s as vehicles for technology transfer and capital reallocation, addressing the market valuations-merger waves link and incorporating a synergies. In this case they show that mergers and acquisitions (M&A) are a way of completing such transfers quickly and offer evidence that technological shocks underlie most of the merger waves experienced in the economy over the 20th century.

A key implication is that firms with high values of Tobin's Q (defined as the ratio of a firm's market value to the replacement cost of its assets), and therefore greater potential to raise the value of target assets, will use acquisitions more intensely than purchases of

more costly new capital. Indeed, using exchange-listed U.S. firms from Standard and Poor's Compustat database for 1970 to 2000, Jovanovic and Rousseau (2002) found that M&A investments are more sensitive by a factor of 2.6 to Tobin's Q than are direct investments. Since transactions costs (brokerage, legal, etc.) associated with M&A are considerable, however, firms must weigh these costs against the advantages of M&A over direct capital investment.

## **2.5 Factors influencing the performance of mergers and acquisitions**

The following section presents the literature reviewed on factors influencing the performance of mergers and acquisitions.

### **2.5.1 Top management commitment**

Inability of managers to adapt to the changes that were present in the organizations external environment called for the replacement of the poor management; subsequently, being a potential source of gain from acquisition (Mirvis and Marks, 1997). Changes in the environment that included; dynamism in innovation and technology and the ever changing competitor's strategies lead to a need for corporate restructuring.

### **2.5.2 Communication as a factor**

There was need to ensure there was adequate communication on the entire process and that the information was disseminated on regular basis to all the employees (Messmer, 2006). Communication influenced the employees' ability to adopt a new corporate culture, successfully go through the change process and effectively dealt with the stresses and strains involved in the combination process (Appelbaum, 2000). According to

Messmer (2006), organizations that pursued an M&A process may apply the following strategies that to address the anxiety that arise during the combination process amongst employees: early communication and staff involvement. Early communication included timely, honest and direct information and a realistic assessment of future opportunities and obstacles. Staff involvement ascertained the entire process had the employees' 'buy in', support and cooperation. On the other hand, staff involvement involved ensuring there was staff involvement and in the process and their concerns, proposals and feedbacks are collected and addressed. On a study conducted on the perception by employees affected or involved in a cross border M&A process the results indicated that on most occasions' management failed to keep employees informed about negotiations and changes that affected their jobs (Lazaridis, 2003). According to Lazaridis 2003, as far as communication was involved, it is important that timely and adequate information is provided on a regular basis.

### **2.5.3 Financial Management**

As the organisation moves through the pre-deal phase, the due diligence becomes a particularly important task and must be considered from two perspectives. The first is financial, where "deal breakers" are most likely to arise. The financial perspective includes such matters as the funding of pension plans, plan structures, and risks and liabilities that may be associated with workers compensation, collective agreement provisions and employment-related litigation. The variations in legal, accounting and reporting practices that exist from country to country have increased the complexity of conducting thorough financial due diligence. Inaccurate estimates of financial liabilities

for pensions or retiree medical benefits can potentially eliminate any financial gain from the transaction (Applebaum, 2000).

#### **2.5.4 Culture as a factor**

According to Chatterjee (1992) emphasized needs to be laid on that ensuring there exists a cultural fit amongst the organizations intending to combine in order to avert post merger challenges and conflict. In the event that the combining organizations have similar cultures and core values, they may, with some endeavor, be successfully coalesced; but, no amount of underhand measures such as dishonesty and coercion can be successfully applied to achieve a cultural fit. Culture and people issues have been cited as the most common factors for M&A failure in six major studies. The research has shown that 70% of mergers and acquisitions fail to achieve their anticipated synergies, and 50% suffer an overall drop-off in productivity in the first four to eight months. "People problems" were cited as the top integration failure factor in a sample of 45 CFOs from Fortune 500 companies that had recently merged or acquired. Brealey, Myers & Allen (2006) reported that cultural differences can be a source of confusion, hostility and distrust between the members of merging organizations and a major contributor to the high failure rates reported in M&A literature for meta-analyses of post acquisition performance research). In a survey of more than 200 chief executives of European companies conducted by Booz, Allen and Hamilton, respondents ranked the ability to integrate culturally as more important to the success of acquisitions than financial and strategic factors.

### **2.5.5 Risk Management**

Senior management should continually assess and review the issues around each of these risk factors. The advantage of using enterprise-wide integration as an approach to M&A is that the actions designed to mitigate risk can be incorporated into project planning and monitored on a company-wide basis throughout the integration process (Dyer et al., 2004).

### **2.5.6 Technology as a factor**

Managers in mergers and acquisition may face a challenge in that they are often required to develop and implement strategies to produce revenue and growth (Battey, 2000). Literature published between 1986 and 2011 is examined to identify the growing role of IT in the merger and acquisition process as a means of decreasing risk and project costs, and increasing corporate synergies and project success. Technology leaders must also assess the entire company through the IT lens, to determine how they can and must support the integration of business units and corporate functions—finance, HR, operations, administration—along with any rationalization of product lines and/or services in those functions. This involves working alongside business teams to understand their technology needs during and after the merger. As part of this understanding, CIOs must define how best to provide IT support for the company's long-term growth strategy, including hardware and software for new product and service initiatives, customer retention and acquisition, and entry or expansion into new markets. A common pitfall in merger integration planning is to place too much emphasis on the IT department itself specifically short-term cost savings from integrating IT resources—and not enough on the IT requirements or new business capabilities needed to bring the company's other functions together or to support future growth. This occurs when

executives from IT and the main business are not in alignment during the strategic framework, analysis, and design stages. Given that IT resources are likely to be stretched thin during merger integration, technology leaders must take a systematic approach to ensure that these resources get deployed in the most effective way. When IT is looped into the process of integration planning early on, it can work in conjunction with business teams to decide how best to prioritize projects.

## **2.6 Effect of mergers and acquisition in the banking industry**

One of the major motives is on shareholders gains which refer to the increase in the market value of the firm due to the merger. A firm may increase its market value by increasing its profits. Increasing profits, in turn, is possible by decreasing costs, operating more efficiently, implementing optimal incentives to managers or enhancing market power. Through mergers and acquisitions, a firm may increase its market value by increasing its profits. Increasing profits, in turn, is possible by decreasing costs, operating more efficiently, implementing optimal incentives to managers or enhancing market power. Farrell and Shapiro (1990 and 2001) distinguished efficiency gains in technical efficiencies and synergies. They defined technical efficiencies as those that could be obtained by other means than merging, in particular, by internal growth, joint ventures, specialization agreements, licensing, etc.

A firm is said to have economies of scale when its average cost decreases as total output increases. More strictly, economies of scale arrive when the higher the production, the lower the marginal cost. In the short run, when physical capital is held fixed economies of scale make production less expensive. In the long run, they may result from the

coordination of the merging firms' investments in physical capital. So, short-run economies of scale may result from mergers because joining two firms allows getting rid of double fixed costs, i.e., costs that involve administrative tasks, customer service, billing, etc.

Economies of scope are economies of scale generalized to multi-product firms or to firms related by a chain of supply normally reached if the average cost of producing two products separately falls when the products are produced jointly. More technically, economies of scope exist when the higher the production of say, A the lower the marginal cost of B, provided A and B are related in one way or another within the same firm (Motta, 2004).

Economies of vertical integration are revealed when the sum of the cost of separately owned stages of production falls when a single firm performs the two stages of production. These cost savings can be localized in the technical relationship between the two stages of production or in the market transactions costs (distribution costs). For instance, acquisitions of technical support, promotion, training, equipment and financing are often seen as factors generating efficiency gains from vertical integration. Vertical integration can also be seen as an instrument to prevent opportunistic behavior among firms that have common investment contracts (one firm abandoning the investment project before it ends) that would be possible otherwise (if firms remain separated). In this context, positive effects on specific investments that manufacturers and retailers may have together are also presented as an argument of efficiency gains in vertical mergers.

Synergies are generally associated with a shift on the production possibilities of the merging parties that go beyond technical efficiencies (associated with changes within the

joint production capabilities of the merging parties, i.e., economies of scale or scope). The diffusion of know-how, in turn, can be achieved when the merging firms exchange different R&D activities, patents, human skills, and organizational culture. Since these assets are in general non-tradable, firms can benefit from their combination uniquely by merging.

If the merging firms have different technological capabilities, human capital, organizational cultures, patents, or simply know-how and it turns out that they are complementary to each other; then, by putting them together, they will most probably achieve a technological progress. Such a technological progress can take the form of product or process innovation (Roller, Stennek and Verboven, 2006).

R&D is a very powerful non-tradable asset that combined in better ways (by merging with a complement) may allow for a technological progress and an increase in the firms' joint production possibilities. According to Roller, Stennek and Verboven (2006), an acquiring firm may see a high R&D target as a faster mean of investment on R&D than internally expending on it. Indeed, often merging firms claim that by integrating their R&Ds they will faster introduce new or better quality products and innovate in cost reducing processes.

Cost savings is a very general concept that may be attained in many distinct ways. Fixed costs are those that do not vary with production but that are necessary to produce. They include for instance administrative support, public relationships, maintenance of property plant and equipment, salaries, advertising, etc. Average costs vary with production, by definition they are total costs divided by total production. More often employed in the

economic literature is the concept of marginal costs which stands for the increase in costs with one extra unit of production.

Financial costs refer to those costs that only affect the distribution of costs within the firm's administration but not the cost of production. According to Roller, Stennek and Verboven (2006) financial costs savings do not generate real cost savings (savings in production costs); instead, they involve redistributive cost savings. That is, financial costs do not necessarily imply a value increase in the merging entity; they only reflect a redistribution of wealth from shareholders to debt-holders.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter set out various stages and phases that will be followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This section was an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions was about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identified the procedures and techniques that were used in the collection, processing and analysis of data; the research design, target population, sampling technique, data collection and data analysis and presentation.

### **3.2 Research Design**

The study was a case study since the unit of analysis was one organization which is the CFC Stanbic holdings Kenya limited. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The primary purpose of a case study is to determine factors that have resulted in the behavior under study. It enables a researcher to get an in-depth investigation that considers underlying issues. Since this study sought to gather in-depth information regarding the factors influencing the performance of mergers and acquisitions of at CFC Stanbic holdings limited. This is because the case study design therefore deemed the best approach to fulfill the objectives of the study.

### **3.3 Data Collection**

The population from which the primary data was collected was the top managers and functional heads in charge of finance, risk management, information technology and operations, human resources, marketing and research division, and public affairs and communication division. In this case, only the CFC Stanbic bank staffs in Nairobi CBDA were targeted. The primary data was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). It made it possible to obtain data required to meet specific objectives of the study. The researcher will get an authorization letter from the university explaining the reasons of undertaking the study.

### **3.4 Data Analysis**

The data obtained from the interview guide was analyzed using content analysis. Content analysis is a method for summarizing any form of content by counting various aspects of the content. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). The themes (variables) that are to be used in the analysis were broadly classified into the factors influencing the performance of mergers and acquisitions at CFC Stanbic holdings and to establish the extent to which the factors influence performance of mergers and acquisitions at CFC Stanbic holdings.

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

### **4.1 Introduction**

This chapter presents the data analysis and presentation on the adoption of mergers and acquisitions at CFC Stanbic holdings limited. The data analysis has been based on various aspects on mergers and acquisitions and also relative to the research questions that were attached to them. The primary data used in the analysis was exclusively collected from top managers and functional heads in charge of finance, risk management, information technology and operations, human resources, marketing and research division, and public affairs and communication division.

### **4.2 General Information of the Respondents**

#### **4.2.1 Highest level of education and duration served in the organization**

The study required the respondents to indicate their highest level of education. According to the data findings, most of the respondents indicated that they had a bachelor's degree certificate, master's degree certificates, higher diploma certificates and diploma certificates respectively. On the duration the respondents had worked in their current position at CFC Stanbic bank Kenya limited, the study established that most of the respondents had served in their current positions for durations of 5 years, 2 year, 1 year and 3 years respectively. A few of the respondents also indicated that they had served in their current positions for periods of one year while some also said that they had served in their current positions for a period of between 10- 15 years. This is an implication that

majority of the respondents targeted by the study were experienced and understood well on the issues related to the adoption of mergers and acquisition in the organization.

#### **4.2.2 Position and role of respondents have in the organization**

The study required the respondents to indicate their positions in the organization. According to the data responses from the field, the study established that most of the respondents at CFC Stanbic held various positions which ranged from risk managers, operations staff, branch managers, assistant managers, public relations managers, marketing officers from marketing departments and audit or accounting managers and staff as well.

The study required the respondents to also indicate their roles in the various positions held in the organization. According to the responses obtained from the field, the study found out that most of the respondents sampled by the study had various roles which ranged from marketing activities, budgeting, staff management or human resources alignment, driving of sales, risk management based activities and other operational activities.

#### **4.3 General perception and influence of the top managers towards the merger in the organization**

The study required the sampled respondents to indicate the top managers' general perception towards the merger and acquisition in their organization. On this question, most of the respondents termed the top managers' perception towards the merger and acquisition in the organization as positive or very positive respectively. Some of the

respondents were also of the view that only time would tell on the top management's perception towards the merger and acquisition at CFC Stanbic holdings Kenya limited.

The research study requested the respondents to indicate general influences of top management support and commitment towards the merger and acquisition in the organization. On this question, most of the respondents had this to say; that the top managers have the sole role of conducting due diligence and drawing up agreements for the merger, top management is always there to align organizational cultures that may be very different between the merging organizations and that the top management sets the right priorities and create positive business momentum and discipline. Respondents also indicated in their responses that it's the duty of the top management to motivate employees with the necessary level of commitment, engagement, confidence and comfort to work through difficult transitions. Most of them said that the top managers inspire a sense of purpose, coherence, community and trust that allows employees to remain focused and highly engaged on the job.

The study responses also indicated that the success of the merger was measured by the core competences generated to create value or enhance value. Towards this respondents added that the influence of the top management influence towards the merger of CFC Stanbic holdings was measured using the parameters such as market attractiveness and competitive positioning as a result of cost leadership and product differentiation which finally resulted in the long term profit sustainability and the creation of shareholders wealth.

Most of the respondents added that good top management influence was behind the reasons that the new firm benefits from economies of scale and synergies drawn from the

combinations which have led to reduced operating costs and/or capital investments, thus improving cash flow.

The study required the respondents to indicate what challenges were faced by the top management towards the merger in the organization. Respondents in this question indicated that most of the challenges faced were the failure to bring transformational change, the experience of management leakages which are negative and other related challenges emanating from managing employees operating with different cultures. Other challenges by top managers in the merger as indicated by the respondents were unusual manager's compensation which influences growth of the firm, poor leadership styles and a suspected struggle for power between member organizations.

#### **4.4 Effect of communication on towards the merger in the organization**

The researcher required the respondents to state and comment on the types of communication that were normally used in the organization. According to the results obtained from the interviewees, several types of communication channels were used at CFC Stanbic holdings which ranged from email, meetings, notice board, internal memos, phone calls, communication, text messages, letters, reports and submission of proposals.

On the question of the influence has each type of communication process towards the merger in the organization, respondents indicated that the presence of good communication in the organization was essential towards the successful merger and acquisitions at CFC Stanbic holdings. Respondents also added that its due to effective communications channels used such as meetings which act as open field type communication where issues are well addressed. Most of the respondents also noted that

notice board is where open information is put for all to see, and those concerned can take action, internal memos are mostly used in and by the corporate section, phone calls or short messaging services were used when there is no time to post emails or meeting.

The researcher required the interviewees to indicate whether communication system is so effective towards the merger in CFC Stanbic. On this question, it was commented by the interviewees that effective employee communication is the first or second most important issue in the merger and acquisition at CFC Stanbic holdings Kenya limited however they suggested for that some more forms of communication can be adopted.

Most of the respondents said that the communication in the merger at CFC Stanbic was effective in that it helps the employees to accept the changes and be informed about impacts on their jobs and their future with the company. They also noted that its through effective communication that even before a formal merger or acquisition is underway, employees often become aware from indirect information or by chance that something is in the air. It is human nature to want to know what is happening. If they feel management is keeping information from them, quite understandably they start to feel anxious. Managers need to inform employees or the staff in advance.

The study requested the interviewees to indicate the communication related challenges in the merger of CFC Stanbic. According to the findings, respondents said that communication system in the organization need to be monitored even though its effective, right information to reach the right people to avoid confusion and conflict, managers to use the right communication channels for effective communication, the staff to avoid misusing communication tools to avoid expenses and that sometimes the quality of the communication with employees was poor.

#### **4.5 Influence of financial management on the merger in the organization**

The study required the interviewees to indicate the general aspects of the financial management in their organization. On this question, some respondents initiated by saying that the financial management aspects are well defined by its process as a method by which costs (or expenses) incurred on the project is formally identified, approved and paid. Respondents indicated various aspects not limited to the allocation of assets and liabilities over time under conditions of certainty and uncertainty, identifying sources of funds for the organization, ensuring there is adequate returns to shareholders, meeting regulation requirements, ensuring safety on investment and planning sound capital structure for the organization (merger). Other aspects indicated by the interviewees were sales driving and activities related to tax and planning and budgeting.

On the same question, respondents were requested by the study to give comments on any new financial management process at CFC Stanbic holdings merger and acquisition. On this question, respondents comfortably indicated that the financial process in the organization was effective enough and have so far ensured economies of scale, achieved synergy, better reporting and effective taxation activities. Respondents also indicated that effective financial management process in the merger of CFC Stanbic holdings has enabled increase market capital, leverage, high liquidity and asset returns which effect on the firms' profitability, have enabled an efficient assessment of the current resource position, linking resources to service, planning and in the determination of budget. According to the study findings, respondents also indicated that the financial management process in the merger has helped group grow geographically; have enabled integration of similar units, enabled the setting of targets for revenue and expenditure,

setting targets for efficiency and equity, allocating resources across district services, ensuring that funds are spent and revenue collected according to the financial plan and according to the norms and standards set by the Treasury, making sure that there are good internal control measures and monitoring that these are applied. Due to the financial process effectiveness, linking expenditures to service outputs and analyzing with respect to equity, sustainability, drawing up an annual report and identifying key strategic issues for the next fiscal year has been well enhanced in the organization.

Most of the respondents indicated that the influence of the new financial management process towards the merger and acquisition in the organization have led to improved financial performance of the group and the diversification in terms of geography and shareholders.

#### **4.6 General Aspects and influence of Culture in the Organization**

The study sought the respondent's views on the general aspects and influence of culture in the organization. On this question the study also sought the respondents views on the extent the employees in the organization have embraced culture towards effective running of the organization. According to the responses gathered, respondents indicated that the five general aspects of culture which were food, language, art, customs, and religion and can vary a lot from culture to culture.

According to the results on the responses from the field, most of the respondents indicated that the organization culture has enabled an understanding even though every person or employee in the organization has own different values and beliefs that he/she works with. The organization culture as indicated by most of the respondents a deep

impact on the performance of employees that usually cause them to improve in the productivity and enhance the organizational performance and that it brings the employee's commitment and group efficiency. Some respondents also said that the organizational culture experienced plays a very crucial role to adopt the value and beliefs of the organization in enhancing the performance of the merger of CFC Stanbic holdings limited. Most of the interviewees added that every individual in the organization has different culture and he/she first try to adjust him with the norms and values of the organization.

The role of the management in ensuring there is a harmonized culture in the organization has been to unite employees and other senior staff, motivate employees on the main goal, mission and vision of the organization keeping self interests away. At the same time, disciplining those on the wrong in terms of not promoting or rewarding them was indicated by the respondents as one of the key aspect in maintaining a culture full of harmony. Some respondents indicated that it was due to good culture management that unity was created, openness was achieved and that opportunities were created as employees interact altogether.

#### **4.7 Influence and types of risk management in the organization**

The interviewees in the organization were required to indicate the types of risks the organization have faced since the merger/acquisition. According to the study findings, majority of the respondents, the main risks experienced in the organization and listed were operational risks, staff management risks, shareholders risks, financial management risks and technological risks.

Respondents were required by the study to explain their view regarding the risks relating to the following with regard to their organization. On this question, majority of the respondents were of the view that the effect of risks often experienced and that mitigation measures upon each risk type has been put up by the management. Respondents said that some of the risks that went unrealized contributed to losses either in terms of assets, interest or expected outputs in every fiscal year and could sometimes lead to retrenching of the staff to compensate for the experienced losses.

#### **4.8 Types and effect of technologies and their influence in the organization**

Interviewees were also requested to mention whether there any new technologies adopted since the merger/acquisition at CFC Stanbic holdings limited. According to the study findings, most of the respondents indicated that the new technologies currently in use were; innovative financial solutions technologies, internet banking technologies, mobile banking technologies, customer management technologies, new risk management technologies and cash management technologies as well as world-class risk and capital management systems technologies.

Interviewees had to comment on the influences of new technology adoption since the merger of CFC Stanbic. Most of the respondents indicated that new technologies have led to creation of more services to the clients, have led to easy serving of customers, and have led to the provision of various banking options for clients to choose from and have increased international and local investments. According to the sampled respondents, the new technologies adoption have also led to speeding of transactions, driving of sales

through customized technologies and improved customer care services which have definitely led to high profits and shareholder values respectively.

Respondents also noted that there were challenges faced in the adoption or improvement of the technologies at CFC Stanbic holdings limited. Among the challenges listed were that; personnel skills were not always in balance with new technologies, managers are sometimes not able to monitor and report on the new technologies, capacity in terms of space required is not enough and that most of the technological equipments are very costly while others are not easy to use. Some respondents also indicated that there is poor handling of the technological equipments leading to damages and this can lead to poor outcomes in profits and share values.

Finally, the interviewees were required to comment on the general trend on performance of the organization in terms of profitability, customer base and other determinants. On this question, majority of the respondents indicated that the general trend of the performance of the CFC Stanbic merger was a positive one in the recent years since profits have moved up, no of customers have increased tremendously, many more bank branches have been created, new products have been introduced so far, new management trends based on new technologies have been adopted, new processes have been achieved and that it has become very easy for the managers to monitor the growth of the merger in terms of the capital structure of the organization. These the respondents maintained when interviewed that these remain the general effects of the merger and acquisition of CFC Stanbic Holdings limited.

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

### **5.1 Introduction**

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objective of the study. The research study sought to establish on the adoption of mergers and acquisition as a strategic approach by CFC Stanbic holdings in Kenya.

### **5.2 Summary**

#### **5.2.1 Top Management and Merger & Acquisition in the organization**

The study revealed that most of the respondents termed the top managers' perception towards the merger and acquisition in the organization as positive. The study also established that that the top managers have the sole role of conducting due diligence and drawing up agreements for the merger, top management is always there to align organizational cultures that may be very different between the merging organizations and that the top management sets the right priorities and create positive business momentum and discipline. It was also established from the data from the responses that it's the duty of the top management to motivate employees with the necessary level of commitment, engagement, confidence and comfort to work through difficult transitions and that the top managers inspire a sense of purpose, coherence, community and trust that allows employees to remain focused and highly engaged on the job.

The study found out that the influence of the top management towards the merger of CFC Stanbic holdings was measured using the parameters such as market attractiveness and

competitive positioning as a result of cost leadership and product differentiation which finally resulted in the long term profit sustainability and the creation of shareholders wealth. The results also showed that the availability of the influence of the top management influence towards the merger of CFC Stanbic holdings was measured using the parameters such as market attractiveness and competitive positioning as a result of cost leadership and product differentiation which finally resulted in the long term profit sustainability and the creation of shareholders wealth.

It was also revealed from the study that most of the challenges faced were the failure to bring transformational change, the experience of management leakages which are negative and other related challenges emanating from managing employees operating with different cultures. Other challenges by top managers in the merger as established from the findings were unusual manager's compensation which influences growth of the firm, poor leadership styles and a suspected struggle for power between member organizations.

### **5.2.2 Communication and M&A in the organization**

It was revealed from the study that several channels of communication channels were used at CFC Stanbic holdings which ranged from email, meetings, notice board, internal memos, phone calls, communication, text messages, letters, reports and submission of proposals.

The study found out that respondents indicated that the presence of good communication in the organization was essential towards the successful merger and acquisitions at CFC Stanbic holdings and that its due to effective communications channels used such as

meetings which act as open field type communication where issues were well addressed. It was also revealed from the study that notice board was where open information is put for all to see, and those concerned can take action, internal memos are mostly used in and by the corporate section, phone calls or text sms were used when there is no time to post emails or meeting.

The study established that the communication in the merger of CFC Stanbic was effective in that it helps the employees to accept the changes and be informed about impacts on their jobs and their futures with the company. They also noted that its through effective communication that even before a formal merger or acquisition is underway, employees often become aware from indirect information or by chance that something is in the air. It is human nature to want to know what is happening. If they feel management is keeping information from them, quite understandably they start to feel anxious and that managers need to inform employees or the staff in advance.

The results from the study also showed that communication related challenges in the organization were that the communication systems were not monitored, right information did not reach the right people hence creating confusion and conflict, sometimes managers use the wrong communication channels for effective communication, the staff misuse the communication tools to leading to unnecessary expenses and that sometimes the quality of the communication with employees was poor.

### **5.2.3 Financial Management and M&A in the organization**

The study established that the various aspects of financial management in the CFC Stanbic merger are but not limited to the allocation of assets and liabilities over time

under conditions of certainty and uncertainty, identifying sources of funds for the organization, ensuring there is adequate returns to shareholders, meeting regulation requirements, ensuring safety on investment and planning sound capital structure for the organization (merger). It was also revealed that other financial aspects in the organization under study were aspects sales drive, tax and planning and budgeting.

The results from the analysis also showed that the financial process in the organization was effective enough and have so far ensured economies of scale, achieved synergy, better reporting and effective taxation activities. The study revealed that the effective financial management process at CFC Stanbic Holdings has enabled increase market capital, leverage, high liquidity and asset returns which effect on the firms' profitability, have enabled an efficient assessment of the current resource position, linking resources to service, planning and in the determination of budget. the results revealed that the financial management process in the merger has helped group grow geographically; have enabled integration of similar units, enabled; the setting of targets for revenue and expenditure, setting targets for efficiency and equity, allocating resources across district services, ensuring that funds are spent and revenue collected according to the financial plan and according to the norms and standards set by the Treasury, making sure that there are good internal control measures and monitoring that these are applied. The results also found out that the influence of the new financial management process towards the merger and acquisition in the organization have was improved financial performance of the group and the diversification in terms of geography and shareholders.

#### **5.2.4 Aspects of Culture and effect on the M&A of the organization**

The study revealed that the employees in the organization have embraced culture to a great extent and that five general aspects of culture were food, language, art, customs, and religion and which vary a lot dependent on where one come from. The study also found out that most of the respondents indicated that the organization culture has enabled an understanding even though every person or employee in the organization has own different values and beliefs that he/she works with. It was revealed from the results analyzed that the culture at CFC Stanbic Holdings had a deep impact on the performance of employees that usually cause them to improve in the productivity and enhance the organizational performance and that it brings the employee's commitment and group efficiency. Some respondents also said that the organizational culture experienced plays a very crucial role to adopt the value and beliefs of the organization in enhancing the performance of the merger of CFC Stanbic Holdings limited.

The study established that the role of the management is to ensure that there is a harmonized culture in the organization which has so far united employees and other senior staff, motivate employees on the main goal, mission and vision of the organization keeping self interests away. The research findings revealed that disciplining those on the wrong in terms of not promoting or rewarding them was indicated by the respondents as one of the key aspect in maintaining a culture full of harmony. It was also established from the findings that it was due to good culture management that unity was created, openness was achieved and that opportunities were created as employees interact altogether at CFC Stanbic Holdings limited.

### **5.2.5 Influence and types of risk management in the organization**

The study found out that risk management was important to a great extent on the merger of CFC Stanbic holdings and that the main risks experienced in the organization and listed were operational risks, staff management risks, shareholders risks, financial management risks and technological risks. The study revealed that some of the risks that went unrealized contributed to losses either in terms of assets, interest or expected outputs in every fiscal year and could sometimes lead to retrenching of the staff to compensate for the experienced losses.

### **5.2.6 Types and effect of technologies and their influence in the organization**

The study found out that CFC Stanbic holdings have adopted new technologies and that the new technologies currently in use were; innovative financial solutions technologies, internet banking technologies, mobile banking technologies, customer management technologies, new risk management technologies and cash management technologies as well as world-class risk and capital management systems technologies. The data revealed that the influence of new technology adoption since the merger of CFC Stanbic were the creation of more services to the clients, have led to easy serving of customers, and have led to the provision of various banking options for clients to choose from and have increased international and local investments. According the findings, it was established that the new technologies adoption have also led to speeding of transactions, driving of sales through customized technologies and improved customer care services which have definitely led to high profits and shareholder values respectively.

The study established that there were challenges faced in the adoption or improvement of the technologies at CFC Stanbic holdings some of which were that; personnel skills were not always in balance with new technologies, managers are sometimes not able to monitor and report on the new technologies, capacity in terms of space required is not enough and that most of the technological equipments are very costly while others are not easy to use. Some respondents also indicated that there is poor handling of the technological equipments leading to damages and this can lead to poor outcomes in profits and share values.

Overall, the study established that the respondents who took part in the study valued the adoption of good management, communication, culture, new technologies, risk management practices which have so far influenced its performance and hence the growth. The study further found out that the general trend of the performance of the CFC Stanbic merger was positive in the recent years since profits had moved up, no of customers had increased tremendously, many more bank branches have been created, new products have been introduced so far, new management trends based on new technologies have been adopted, new processes have been achieved and that it has become very easy for the managers to monitor the growth of the merger in terms of the capital structure of the organization.

### **5.3 Conclusions**

This study concludes that top management commitment and support is key towards the performance of mergers and acquisitions like CFC Stanbic holdings as the results explained. The study concludes that the top managers at CFC Stanbic holdings have the

sole role of conducting due diligence and drawing up agreements for the merger, top management is always there to align organizational cultures that may be very different between the merging organizations and that the top management sets the right priorities and create positive business momentum and discipline. The results depicts a conclusion that it's the duty of the top management to motivate employees with the necessary level of commitment, engagement, confidence and comfort to work through difficult transitions and that the top managers inspire a sense of purpose, coherence, community and trust that allows employees to remain focused and highly engaged on the job. Measuring the kind of leadership adopted by the merger in terms of useful parameters resulted on the sustainability of the merger on CFC Stanbic holdings Kenya limited.

On the adopting of effective communication, the study concludes that CFC Stanbic holdings have adopted various communication channels were used at CFC Stanbic holdings which ranged from email, meetings, notice board, internal memos, phone calls, communication, text messages, letters, reports and submission of proposals. The study also concludes that the presence of good communication in the organization was essential towards the successful merger and acquisitions at CFC Stanbic holdings and that its due to effective communications channels used such as meetings which act as open field type communication where issues were well addressed. It can also be concluded that there were communication related challenges in the organization where communication systems were not monitored, right information did not reach the right people hence creating confusion and conflict, sometimes managers use the wrong communication channels for effective communication, the staff misuse the communication tools to

leading to unnecessary expenses and that sometimes the quality of the communication with employees was poor.

On financial management adoption, the study concludes that the various aspects of financial management in the CFC Stanbic merger are but not limited to the allocation of assets and liabilities over time under conditions of certainty and uncertainty, identifying sources of funds for the organization, ensuring there is adequate returns to shareholders, meeting regulation requirements, ensuring safety on investment and planning sound capital structure for the organization (merger). The study also concludes that the financial processes in the organization was effective enough and have so far ensured economies of scale, achieved synergy, better reporting and effective taxation activities. The effective financial management process at CFC Stanbic Holdings has enabled increase market capital, leverage, high liquidity and asset returns which effect on the firms' profitability, have enabled an efficient assessment of the current resource position, linking resources to service, planning and in the determination of budget. The study further concludes that the influence of the new financial management process towards the merger and acquisition in the organization was improved financial performance of the group and the diversification in terms of geography and shareholders. This study concludes that the employees in the organization have embraced culture to a great extent and that five general aspects of culture were food, language, art, customs, and religion and which vary a lot dependent on where one come from. The results also lead to a conclusion that culture has enabled an understanding even though every person or employee in the organization has own different values and beliefs that he/she works with. The study concludes that the culture at CFC Stanbic Holdings had a deep impact on

the performance of employees that usually cause them to improve in the productivity and enhance the organizational performance and that it brings the employee's commitment and group efficiency.

The study concludes that there are various risks that influence the performance and the growth of CFC Stanbic holdings. The study also concludes that various mitigation measures have been put forth by the management to avoid eating into the organizations performance measures.

Further, the study concludes that it's the sole role of the management in to ensure that there is a harmonized culture in the organization which has so far united employees and other senior staff, motivate employees on the main goal, mission and vision of the organization keeping self interests away. It can also be concluded from the findings that it was due to good culture management that unity was created, openness was achieved and that opportunities were created as employees interact altogether at CFC Stanbic Holdings.

#### **5.4 Recommendations**

This study recommends that the management continue adopting good leadership styles for they are important to the general performance of the merger of CFC Stanbic holdings Kenya limited. The study recommends the adoption of a transformational type of leadership for it is the most effective in cases where two or more organizations merge to achieve a goal. The management should use parameters like market share, shareholders status, staff turnovers and profitability to check on whether their commitment is enough in the organization.

This study recommends that the management embrace the use of effective communication and the communication channels at the same time eliminate challenges emanating from their use or damage. In this case there is a need for the managers in the organization to ensure that the communication systems were monitored, right information reach the right people hence avoiding creating confusion and conflict, the staff take good care of the communication tools to avoid unnecessary expenses and that the quality of the communication with employees be good enough.

This study recommends that the management adopt even more new financial management aspects and processes that are key in promoting the growth and performance of CFC Stanbic holdings limited at all times. This can be done by engaging a high learned team in R&D where those concerned will be in a position to learn new approaches essential in financial management. The aspects learned will include good auditing skills, accounting skills, management of cash skills, investment skills and many more to enhance the profitability levels in the life of the merger.

This study recommends that the disciplining be enhanced so as to get those on the wrong in terms of not promoting or rewarding them was indicated by the respondents as one of the key aspect in maintaining a culture full of harmony. There is a need to streamline the use of language, and approaches to management to ensure that some form of one culture is achieved from the merging companies' employees.

This study recommends that effective risk management practices based on current technologies be adopted besides the old ones so as to litigate on any occurrences that may lead to the failure of the merger of CFC Stanbic holdings. More risk areas need to be

established besides the ones listed in this study and their mitigation approaches recorded and followed to the latter.

Finally, innovation strategies in the adoption and use of technologies at CFC Stanbic need to be enhanced making sure that effective monitoring approaches are used so as to avoid incurring losses or unwanted costs which may lead to the failure of the merger. New technologies and many more upcoming ones need to be adopted with caution to avoid budget stress. The strategic approach towards the adoption means a critical analysis before an action is taken, advantages and disadvantages of a given technology type addressed.

### **5.5 Recommendations for further studies**

The same study should be carried out in other firms to find out if the same results would be obtained. This study was carried out in CFC Stanbic holdings Kenya, it would be interesting to find out if the same results will be obtained by use of the same approach.

There are many challenges facing the formation of mergers as established in this study. A study should be carried to find out the extent to which the challenges influence on formation of mergers and why many firms' banks or commercial institutions have not formed mergers despite the advantages got from formation of the mergers.

In the Kenyan market a research comparing the effectiveness strategic approaches in mergers and acquisition within financial institutions would also an interesting topic to be undertaken on the different banks that have undertaken these strategies.

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**APPENDICES**

**Appendix I: Interview Guide**

I am an MBA student from the University of Nairobi. As a requirement, I am supposed to undertake a research study on 'factors influencing the performance of mergers and acquisitions of at CFC Stanbic holdings limited'. This is in partial fulfillment of requirements for a degree in Master of Business Administration, University of Nairobi. The information given here will only be used for purposes of this study and will be treated with utmost confidence.

**PART A: GENERAL INFORMATION**

1. What is your highest level of education?
  
  
2. How long have you worked in your current position?
  
  
3. Kindly indicate your position and the various roles you have in the organization?  
.....  
.....

**PART B: MAIN INFORMATION**

1. What is the general perception of the top managers towards the merger in your organization?  
.....  
.....
  
2. What are the general influences of top management commitment towards the merger in your organization?

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.....

What challenges are faced by your organization in regards to top management support towards the merger in your organization?

.....  
.....

3. Which types of communication are normally used in the organization? Comment

.....  
.....

What influence has each type of communication process towards the merger in the organization?

4. Do you think the communication system is so effective towards the merger in cfc Stanbic? .....

5. If no, what are the reasons?

.....  
.....

6. What are the general aspects of the financial management in your organization

.....  
.....

7. What are your comments on the new financial management process at CFC

Stanbic holdings merger and acquisition

.....  
.....

8. What has been the general influence of the new financial management process towards the merger and acquisition in your organization?

.....  
.....

9. What are the general aspects of culture in your organization

.....  
.....

10. To what extent have the employees in your organization embraced culture towards effective running of the organization?.....

11. Comment

.....  
.....

12. What has the management done to ensure there is harmony in the merger at CFC Stanbic holdings?

.....  
.....

13. What are the general influences of culture towards effective running in your organization?

.....  
.....

14. Kindly indicate the types of risks the organization have faced since the merger/acquisition?

.....  
.....

15. What is your view regarding the risks relating to the following with regard to your organization?

I. Operational risks

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.....

II. Staff management risks

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.....

III. Shareholders risks

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IV. Financial management risks

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V. Staff management risks

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VI. Technological risks

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16. Are there any new technologies adopted since the merger/acquisition at CFC Stanbic holdings limited?

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17. What are the influences of technology adoption towards the merger and acquisition in your organization?

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18. What challenges have been faced in the adoption or improvement of the technologies at CFC Stanbic holdings?

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19. Comment the general trend on performance of the organization in terms of profitability, customer base etc

.....  
.....

What has been the general effect of the merger towards the performance in your organization?

.....  
.....

**THANKS FOR YOUR CONTRIBUTION**