

**INTERNATIONAL MERGERS AND ACQUISITIONS AS
A COMPETITIVE STRATEGY BY CFC STANBIC BANK
LIMITED IN KENYA**

BY:

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DECLARATION

This Research Project is my original work and it has not been submitted for examination in any other university.

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DEDICATION

To my Regretted Parents.

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ABSTRACT

This study addressed International Mergers and Acquisitions (IM&A) as a competitive strategy adapted by CfC Stanbic Bank Limited. International Mergers and Acquisitions (IM&A) are two broad types of restructuring through which today's managers seek economies of scale, enhanced market visibility and other efficiencies. Mergers and Acquisitions (M&As) are mechanisms to access critical resources, to increase firms' power relative to other organizations, and to reduce competitive uncertainty created by resource dependencies among firms.

The researcher used both Primary data collected with the aid of an interview guide and Secondary data was collected through review of the contents of various relevant publications and reports at the bank. The major findings of the study were based on the rationale for Merger and Acquisition by CfC Stanbic Bank Limited. These included; the merger was to provide CfC Bank with an investor recognized as a banking group with a substantial presence in Africa and other emerging markets, headquartered in Africa and which would have a major interest in securing the future of the various businesses of new entity; large corporate and institutional deals would be enabled through the improved technical support and the global market distribution capabilities of Standard Bank Group.

In conclusion, Mergers and Acquisitions are considered as corporate events which help an organization to create synergy and provide sustainable competitive advantage. This study was mainly concerned with a merger and an acquisition originating in a mature African bank. In contrast, it is clear that the biggest challenges of the future will come when acquiring firms come from emerging markets and the acquisition in mature markets providing room for further study.

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ABBREVIATIONS

CBA	-	Commercial Bank of Africa
CBD	-	Central Business District
CBK	-	Central Bank of Kenya
CFC	-	Controlled Foreign Corporation
EA	-	East Africa
FDI	-	Foreign Direct Investment
GSK	-	GlaxoSmithKline
IBM	-	International Business Machine
IM&A	-	International Mergers and Acquisitions
JSE	-	Johannesburg Stock Exchange
KBA	-	Kenya Bankers Association
KSH	-	Kenya Shilling
M&A	-	Mergers and Acquisitions
NSE	-	Nairobi Stock Exchange
PwC	-	PricewaterhouseCoopers
SBG	-	Standard Bank Group
SOA	-	State Of the Art
TQM	-	Total Quality Management
UK	-	United Kingdom
UON	-	University of Nairobi
USA	-	United States of America
USD	-	United States Dollar

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Today, business is acknowledged to be international and there is a general expectation that this will continue for the foreseeable future. Successful international businesses or global businesses seem to become free of their own national boundaries, they simply become very competent at navigating through the whole world market. International Mergers and Acquisitions (IM&A) are two broad types of restructuring through which managers seek economies of scale, enhanced market visibility and other efficiencies. International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier. In an ever changing global economy, Johnson and Sholes (2003), notes that organizations must find ways of operating by developing new competences as the old advantages and competences gained is quickly eroded owing to the environmental changes. Firms globally are competing in an ever changing, dynamic environment and it is therefore important that in order to survive and sustain competitive advantage, various competitive strategic options must be embraced.

A merger is the process by which two companies unite their businesses, often in order to perform at multinational level. A merger occurs when two companies decide to combine their assets and liabilities into one entity, or when one company purchases another. The term is often used to describe a merger of equals, such as that of Daimler-Benz and Chrysler, which was renamed DaimlerChrysler. More commonly, the idea of merger is used by companies with similar

businesses. However, a merger can be made between two totally different businesses. This is also known as a conglomeration. In general, mergers are proposed by large companies that want to expand their business and become transnational. Usually, the two companies will form a new company where their businesses will be transferred. The stockholders of the merged companies will swap their current stockholding for stock in the newly formed company.

Acquisition simply refers to one company's purchase of another, as when a smaller target firm is bought and absorbed into a larger acquiring firm. In commercial language, an acquisition means either the process of acquiring a business or shares in a company. By buying the whole of the shares in a company, a buyer will become the owner of the company including its business. By acquiring some reasonable large percentage, say 51% of the shares in a company, the buyer will become the major shareholder of a company with the capability of making important decisions as to the running of the business and future strategy of the company. In certain cases the acquisition of shares of a company may not be attractive and a buyer will only be interested in acquiring the business of a company. This will involve the acquisition of certain interesting assets of the company but not its liabilities. In each case, the acquisition will be made by signing an acquisition agreement which will stipulate in detail the conditions of the purchase. The parties will negotiate the purchase price based on the market value of the shares or assets and the vendor will be required to give certain warranties in respect of the business.

This study looked at the Merger and Acquisition, (M&A) between CfC Bank Ltd and Stanbic Bank Ltd, a member of the Standard Bank of South Africa Limited to form the current name CfC Stanbic Bank Limited as approved by Central Bank of Kenya on June 1st 2008. Companies are always trying to expand its business by entering foreign markets. Sobek (2000) claims that

during the second half of the 1990s, the most frequent words used in reports on banking were "merger" and "acquisition". This implies that Mergers and Acquisitions are still considered as international competitive strategic option applicable today and is therefore worth further exploration.

1.1.1 International Mergers and Acquisitions

International Mergers and Acquisitions are growing day by day. These mergers and acquisitions refer to those mergers and acquisitions that are taking place beyond the boundaries of a particular country. International mergers and acquisitions are also termed as global mergers and acquisitions or cross-border mergers and acquisitions. Globalization and worldwide financial reforms have collectively contributed towards the development of international mergers and acquisitions to a substantial extent. Mergers and acquisitions have been a very popular strategic movement for global businesses, attaining growth, diversification, or profitability (Fowler and Schmidt, 1988). In fact, the process of cross border Mergers and Acquisitions that started in the 1980s continued throughout the 1990s until the financial crisis and is still vigorous (Houghton et al., 2003). Cross-border merger and acquisition activity has continued to increase at a torrid pace during the past decade and a half, to the point that it has become a major strategic tool for growth of multinational corporations Cartwright and Cooper, (1993). During the phase of 1980s the number of cross border acquisitions occurring globally has almost tripled.

International mergers and acquisitions are taking place in different forms, for example horizontal mergers, vertical mergers, conglomerate mergers, concentric mergers, reverse mergers, dilutive

mergers, accretive mergers and others. International mergers and acquisitions are performed for the purpose of obtaining some strategic benefits in the markets of a particular country. Research evidence indicate that Mergers and Acquisitions existed as early as 1890 when some of the earliest antitrust cases involved acquisitions and consolidations, according to Hale and Hale (1962), early researchers on the subject. With the help of international mergers and acquisitions, multinational corporations can enjoy a number of advantages, which include economies of scale and market dominance. International mergers and acquisitions play an important role behind the growth of a company. These deals or transactions help a large number of companies penetrate into new markets fast and attain economies of scale. They also stimulate foreign direct investment (FDI).

The opening up of the European countries to international mergers and acquisitions and the economic reforms in developing countries provided major boost to international mergers and acquisitions since the 1990s. Foreign investment gets major impetus from international mergers and acquisitions. The adoption of economic reforms in many countries in the last two decades of the 20th century opened up opportunities of international mergers and acquisitions. With different countries opening up their economies to foreign investors, international mergers and acquisitions has received a major boost. For example, the European economy opened up to foreign mergers and acquisitions in the 1990s, which resulted in merger and acquisition activities of large volumes taking place across Europe. While USA has always been the pioneer in merger and acquisition activities, UK too has registered high levels of mergers and acquisitions; for example, on May 6, 1998, in London, Daimler-Benz of Germany signed a merger agreement

with Chrysler Corporation of the United States to form DaimlerChrysler; GlaxoSmithKline plc (GSK), PricewaterhouseCoopers (PwC) amongst others.

There are various benefits that accrue to firms that undertake international mergers and acquisitions. Cross border mergers and acquisitions are effective in boosting Foreign Direct Investment (FDI). For international investors, it is easier to invest through a merger or an acquisition. International mergers and acquisitions provide access to infrastructure and customer base in a country which is quite difficult to build from the scratch. Moreover an existing brand name in a country provides strong business edge. Access to local markets of different countries is possible through international mergers and acquisitions. With the developing countries adopting liberal economic policies, the incentives of firms in the developed nations to indulge in mergers and acquisitions in these countries are huge. International mergers and acquisitions provide a way to tap the markets of these countries. On the other hand, for these developing countries international mergers and acquisitions provide them access to improved technologies and more productive operative mechanisms.

One would observe that both Mergers and Acquisitions typically involve the managers of one organization exerting strategic influence over the other, Johnson, Scholes & Whittington, (2010). Leung, Pouillet and Shaves (1993), state that forces driving merger booms are constantly evolving, have intensified and will hit with a vengeance. Leung et al, add that with mergers only the boldest players will seize this brief window of opportunity and become the new leaders. They observe that especially for Banks, Mergers and Acquisitions activity is surging as they need capital and they must turn to outside investors to find it.

1.1.2 The Banking Sector in Kenya

The Banking Industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was 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 September 2012, Kenya has forty three (43) banks and one (1) mortgage finance institution, Housing Finance. The Financial sector expanded by 4.6 percent in 2009 compared to 2.7 percent in 2008. This was mainly caused by increased profitability by banks.

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has continued to grow 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.

The Government has reformed banking to make it internationally competitive. In 2007, the Ministry of Finance proposed to raise bank capital from Ksh. 250 Million (\$3.1million) to Ksh. 1 billion (\$12.5 million) by 2010. This deadline however, has since been pushed to 2012.

Due to changes in the operating environment, several licensed institutions, mainly commercial banks, have had to merge (combine their operations in mutually agreed terms) or one institution takes over another's operations (acquisitions). According to Douglas D. Ross (2005), Mergers and Acquisitions lead to incremental growth options including introducing new products or services, enhancing existing services to grow top-line revenue, and entering into new markets. The significant Kenyan Mergers and Acquisitions activity of 2006 to 2008 has given way to a quieter period due in part to the effects of the international credit crisis and partly to the political uncertainties following the establishment of a coalition government after the disputed 2007 national elections. The government has begun a new phase in its privatization programme to include the banking, sugar, hotels, manufacturing and agri-business sectors, which is likely to stimulate Mergers and Acquisitions activity as investors take up these opportunities.

Amid significant global, regulatory reform, banks and securities firms are faced with numerous challenges and sweeping changes. How should banks' operating models evolve? Where are the greatest opportunities for growth? What is the most effective way to raise and manage capital? These are some of the questions banks are wrestling with as they seek to comply with new regulations while meeting the reasonable expectations of customers and shareholders. Competition in the banking industry has intensified in the recent past, with some players losing their market share. The banking sector in Kenya is no exemption, the industry is currently very volatile such that gaining and retaining market for firms and remaining profitable, are very unpredictable.

Mergers and Acquisitions are among the most powerful and flexible growth tool employed by companies of all sizes and in all industries. Whereas there is great potential for M&A, Makau,

(2008), says that the pace has been slow in Kenya and not only in Kenya but in Africa as a whole. Makau observes that in the recent past, the shifting focus to new markets has brought investors knocking on doors of Africa. The resource laden continent which is slowly emerging from decades of widespread instability and economic decline is now becoming the new playing field for the world's financial and industrial heavy weights. It is widely recognized that a well-timed purchase or a well-planned merger can boost both the immediate financial position and the long-term outlook for an organization. Examples of successful firms and financial institutions as a result of Merger and Acquisition with their presence in Kenya include: - GlaxoSmithKline plc (GSK), PricewaterhouseCoopers (PwC), CfC Stanbic Bank Ltd, Commercial Bank of Africa Ltd, Standard Chartered Bank (K) Ltd amongst others. The researcher selected to do a study on International Mergers and Acquisitions by CfC Stanbic Bank Ltd because this is the most current international banking merger.

1.1.3 CfC Stanbic Bank Limited

CfC Stanbic Bank Limited is a corporate and retail bank licensed by the Central Bank of Kenya to provide banking services in the Kenyan economy. The bank is part of the Standard Bank Group a leading African financial services organization, which was founded more than 150 years ago and today has operations in 18 African countries and across the globe. At the core of CfC Stanbic Bank's values is a commitment to offer relevant and first class financial services within both the corporate and retail banking segments. CfC Stanbic Bank has over the years built a formidable reputation in the corporate and investment banking space and has structured some of the East Africa Region's largest and most important financial transactions.

On January 25th, 2007, Standard Bank Group limited from South Africa announced that it had entered into negotiations with CFC Bank and certain of its major shareholders. These negotiations were to evaluate a possible merger transaction between Stanbic Bank Kenya (Standard Bank's subsidiary in Kenya) and CFC Bank. Following this announcement, CFC announced on June 22nd, 2007 that they had entered into a conditional agreement with Stanbic Africa Holdings and Gambit holdings to complete the merger of Stanbic Kenya and CFC Bank Limited. The Standard Bank of British South Africa was established in 1862. Operations commenced immediately in London and by January 1863 the bank's agents in Port Elizabeth were discounting bills. "British" was dropped from the name in 1883. In 1962 a subsidiary company was formed to carry on business in South Africa and South West Africa (now Namibia). The name Standard Bank Limited was adopted for the holding company in England (subsequently to become Standard Chartered Bank Plc). A holding company in South Africa was established in 1969 as Standard Bank Investment Corporation (now Standard Bank Group Limited); the holding company of The Standard Bank of South Africa Limited, and listed on the Johannesburg Stock Exchange (JSE) in 1970. Stanbic Bank is a division of Standard Bank, a member of the Standard Bank Group based in Johannesburg, South Africa.

Leveraging its regional, continental and global network, CFC Stanbic Bank is the premier service provider of international corporate and investment banking services and takes pride in providing innovative financial solutions for Kenya's growing retail banking population. CFC Stanbic Bank is listed on the Nairobi Stock Exchange (NSE) and currently has a market capitalization of Sh11.7 billion (USD 129 Million) at November 28th 2011, (Website, the Standard Bank of South Africa Limited, 2012).

1.2 Research Problem

In the recent past, the banking sector has witnessed intense competitive rivalry that has led to some players losing their market share. This has had serious implications on their profitability and competitiveness. In response to the fierce competition in business globally, companies have had to come up with new strategies to remain profitable and competitive. International Mergers and Acquisitions are two broad types of restructuring through which managers seek economies of scale, enhanced market visibility and other efficiencies.

International mergers and acquisitions are growing day by day. Research evidence indicates that Mergers and Acquisitions existed as early as 1890 when some of the earliest antitrust cases involved acquisitions and consolidations, according to Hale and Hale (1962), early researchers on the subject. Makau, (2008), states that Africa may still lag behind in the global M&A map, but with the world's appetite for key commodities showing no signs of abating, the need to control the sources of raw materials and the rapid penetration of financial services is set to spur mergers and acquisitions activities in the continent.

With the increasing number of market players, firms that fail to reinvent themselves in the fast dynamic banking market are threatened by eminent collapse and only those that remain conscious of market dynamics and position themselves well will tighten their grip in the market, (The Standard Newspaper Supplement – Friday, August 5, 2005). This is because globalization has not spared the remotest village in the world with many firms entering the market both locally and internationally, meaning only innovative companies will survive. Kariuki Thande, the Head of Corporate Finance at CBA (Personal Communication, April 28th 2008 - investors come knocking on Africa's doors), feels that firms that fail to consider Mergers and Acquisitions as a

catalyst for growth may find their competitiveness declining especially with the entry of firms from South and Western Africa. M&A therefore remains a challenging yet an exciting notion for growth. This study sought to determine the how and why factors that make International Mergers and Acquisitions a better strategic option to deal with competition at CfC Stanbic Bank Ltd as approved by Central Bank of Kenya on June 1st 2008.

Locally, scholars have discussed extensively concerning the background, strategic responses, motives and effects of bank mergers and acquisitions. Derek (2010), conducted a study on strategic responses used by Equity Bank to Compete in the Kenyan Banking Industry; Oyuke (2009), conducted a study on Mergers and Acquisitions as a Competitive Strategic option within the Banking Industry: a case of CfC Stanbic Bank; Ndura, (2008), did a study on the effects of mergers on financial performance of insurance companies in Kenya; and they came up with many striking thoughts. However, given the existing local research results, there is still no known studies conducted on International Mergers and Acquisitions as a competitive strategy in the banking sector and this study sought to fill the gap by addressing the question; how has CfC Stanbic Bank Limited used International Merger and Acquisition as a competitive strategy in the banking Sector?

1.3 Research Objectives

The objective of this study was:-

To determine whether the International Merger and Acquisition by CfC Stanbic Bank Limited was competitive strategy.

1.4 Value of the Study

Today, business is acknowledged to be international and there is a general expectation that this will continue for the foreseeable future. The result of the study was intended to benefit CfC Stanbic Bank Limited, and the banking industry as a whole in identifying strategic options in response to market competition and international business strategies. Globalization and worldwide financial reforms have collectively contributed towards the development of international mergers and acquisitions to a substantial extent. The study is a source of information to organisations whose interests are in doing business across the global network.

The results of the study is also of importance to the government and other policy makers of various organisations in handling strategic options to deal with competition; it is also of value to managers who on a daily basis have to deal with issues of strategic response to threats and opportunities in the external environment and internal weaknesses and strengths. The findings from the study would also be of use to researchers and academicians as it forms a basis for further research.

1.5 Scope of the Study

The study was limited to the CfC Stanbic Bank Head Office, Kenyan Branch in Nairobi's Chiromo Road. As Mergers and Acquisitions is a major strategic management decision, the study targeted the various heads of department who play a major role in such strategic decision making.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other scholars who have carried out their research in the same field of study which are closely related to the theme and the objectives of the study. The specific areas covered here are the concept of mergers and acquisitions, mergers and acquisitions in the banking sector, international mergers and acquisitions, competitive strategy, integration planning and cultural factors in international mergers and acquisitions.

2.2 The Concept of Mergers and Acquisitions

Research evidence indicate that Mergers and Acquisitions existed as early as 1890 when some of the earliest antitrust cases involved acquisitions and consolidations – according to Hale and Hale, (1962), early researchers on the subject. The Great Merger Movement was a predominantly U.S. business phenomenon that happened from 1895 to 1905. During this time, small firms with little market share consolidated with similar firms to form large, powerful institutions that dominated their markets. It is estimated that, more than 1,800 of these firms disappeared into consolidations, many of which acquired substantial shares of the markets in which they operated.

Firms globally are competing in an ever changing, dynamic environment and it is therefore important that in order to survive and sustain competitive advantage, various competitive strategic options must be embraced. Mergers and Acquisitions is one of the fastest strategic options that companies choose to face the global competitive market. Kay, (1993), define Mergers and Acquisitions as the most common competitive strategy providing the means of

entry into new markets and that it plays a central role in all discussions and formulation of corporate strategy, mergers among banking institutions and merging of banks considered strong raise curiosity and lead to building of long term partnerships. According to Douglas D. Ross, (2005) Mergers and Acquisitions lead to incremental growth options including introducing new products or services, enhancing existing services to grow top-line revenue, and entering into new markets. There are different motives for developing through an acquisition or a merger. A major reason can be the need to keep up with a changing environment, (Johnson, Scholes & Whittington, 2010). Patrick A. Gaughan (2007), say two major motivations dominate the activity of merger or acquisition: the growth through taking advantage of the acquired company's resources and the synergy respecting the financial math equation that shows that "2 + 2 = 5"

Leung, Poulet and Shaves, (1993), state that forces driving merger booms are constantly evolving, have intensified and will hit with a vengeance. Leung et al, add that with mergers only the boldest players will seize this brief window of opportunity and become the new leaders. They observe that especially for Banks, Mergers and Acquisitions activity is surging as they need capital and the must turn to outside investors to find it. Akhavein, Berger, and Humphrey, (1997) analyze changes in profitability experienced in the same set of large mergers. They find that banking organizations significantly improved their profit efficiency ranking after mergers.

Sergio & Olalla (2008) finds that financial deregulation and technological progress has an important role in the process of mergers and acquisitions in the banking sector during the period 1995-2001. They used Multinomial Logit analysis to conclude the characteristics of continental European financial institutions and observed that size is an important factor in mergers and

acquisitions. Calpha, Tarba & Brock (2011), have reviewed Merger and Acquisition motives and success factors in their article such as entering a new market, gaining new scarce resources, achieving synergies and other managerial and organizational factors that are associated with Mergers and Acquisitions.

2.3 Mergers and Acquisitions in the Banking Sector

Mergers and Acquisitions in the banking sector have become familiar in the majority of all the countries in the world. A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale. With the help of mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations and minimize their expenses to a considerable extent.

Pillof and Santomero (1996) argue that mergers and acquisition activities can significantly reduce operating costs from the fact that large firms can be more efficient if redundant facilities are eliminated. On the other hand, DeYoung et al. (2009) argues that mergers and acquisitions can increase firm size. Firms with large size can increase market power n determining higher prices or generating profits. Another important advantage behind this kind of merger is that in this process, competition is reduced because merger eliminates competitors from the banking industry. Mergers and acquisitions in banking sector are forms of horizontal merger because the merging entities are involved in the same kind of business or commercial activities. Sometimes, non-banking financial institutions are also merged with other banks if they provide similar type of services. In the context of mergers and acquisitions in the banking sector, it can be reckoned that size does matter and growth in size can be achieved through mergers and acquisitions quite

easily. Both government banks and private sector banks are adopting policies for mergers and acquisitions.

In many countries, global or multinational banks are extending their operations through mergers and acquisitions with the regional banks in those countries. These mergers and acquisitions are named as cross-border mergers and acquisitions in the banking sector or international mergers and acquisitions in the banking sector. By doing this, global banking corporations are able to place themselves into a dominant position in the banking sector, achieve economies of scale, as well as garner market share. Mergers and acquisitions in the banking sector have the capacity to ensure efficiency, profitability and synergy. They also help to form and grow shareholder value in some cases, financially distressed banks are also subject to takeovers or mergers in the banking sector and this kind of merger may result in monopoly and job cuts.

Deregulation in the financial market, market liberalization, economic reforms, and a number of other factors have played an important function behind the growth of mergers and acquisitions in the banking sector. Nevertheless, there are many challenges that are still to be overcome through appropriate measures. Mergers and acquisitions in banking sector are controlled or regulated by the apex financial authority of a particular country. For example, the mergers and acquisitions in the banking sector of Kenya is overseen by Central of Kenya (CBK); in India it is overseen by the Reserve Bank of India (RBI). Mergers help banks with added money power, extended geographical reach with diversified branch network, improved product mix, and economies of scale of operations. Mergers also help banks to reduce their borrowing cost and to spread total

risk associated with the individual banks over the combined entity. Revenues of the combined entity are likely to shoot up due to more effective allocation of bank funds.

In the last 2-3 years, there have been a couple of realignments in the financial service sector in Kenya through mergers and acquisitions. These include CfC Bank and Stanbic Bank to form CfC Stanbic Bank; Standard Chartered Bank acquired custody services of Barclays bank in Africa; (Ganesh 2010); a couple of acquisitions of other banks in the region are the acquisition of Uganda Microfinance Bank by Equity bank in 2008 (Equity Bank, 2006).

Other mergers in the banking industry include: - Equatorial Commercial Bank and Southern Credit Bank have already completed a merger to form Equatorial Commercial Bank Ltd this year, citing the need to enlarge their branch network and balance sheet, Savings and Loan (K) Limited Kenya Commercial Bank Limited to form Kenya Commercial Bank Limited; CFC Bank Ltd and Stanbic Bank Ltd to form CfC Stanbic Bank Ltd; First American Bank Ltd and Commercial Bank of Africa Ltd to form Commercial Bank of Africa Ltd; Standard Chartered Bank (K) Ltd and Standard Chartered Financial Services to form Standard Chartered Bank (K) Ltd; and CBA Financial Services and Commercial Bank of Africa Ltd to form Commercial Bank of Africa Ltd; the merger of Chase Manhattan Corporation with J.P. Morgan & Company, new company formed as a result of the merger is J.P. Morgan Chase & Company.

2.4 International Mergers and Acquisitions

Today, business is acknowledged to be international and there is a general expectation that this will continue for the foreseeable future. Successful international businesses or global businesses seem to become free of their own national boundaries, they simply become very competent at

navigating through the whole world market. International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier. Richard A. Farmer and Bary M. Richman (1996), International Business is generally business operations of any sort by one firm which take place within or between two or more independent countries. Arpan (1993), International business consists of transactions activities that occur between people or organizations from different countries, which take various forms.

Globalization and worldwide financial reforms have collectively contributed towards the development of international mergers and acquisitions to a substantial extent. International mergers and acquisitions are taking place in different forms, for example horizontal mergers, vertical mergers, conglomerate mergers, concentric mergers, reverse mergers, dilutive mergers, accretive mergers and others. International mergers and acquisitions are performed for the purpose of obtaining some strategic benefits in the markets of a particular country.

2.5 Competitive Strategy

Johnson G. Scholes, K., and Whittington R., (2006), describe competitive strategy as the basis which business units might attain competitive advantage in its markets. Porter (1985) on the other hand describes competitive strategy as the search for a favourable competitive position in the industry and aims at establishing a profitable and sustainable position against forces that determine industry competition. Firms globally are competing in an ever changing, dynamic environment and it is therefore important that in order to survive and sustain competitive advantage, various competitive strategic options must be embraced today to respond to the ever changing global business environment.

According to Jean Paul Depris (Director TQM), all over the world competition in business is getting fierce as globalization, regionalization and economic integration eliminate protectism and open up closed markets, hence firms have to become veritably competitive in order to achieve leadership position and remain profitable business. Industry analysts have warned that unless companies devise new strategies to respond to the current prevailing industry competition and governments interventions, they may not survive. In response to the fierce competition, companies have had to come up with new strategies to remain profitable and competitive.

Thompson (1997), points out that old competitive strategies of inventions and mass production can no longer work in an increasingly turbulent business environment. Competitive strategy according to Thompson, Strickland and Gamble (2007), is dealing exclusively with the specifics of management's game plan for competing successfully, its specifics to please customers and initiate responses that strengthen its market position and its approach to securing a competitive advantage. According Thompson et al (2007), a company achieves competitive advantage whenever it has some type of edge over rivals in attracting consumers and coping with competitive forces.

2.6 Integration Planning

A joint integration planning exercise ensures participation by all stakeholders and affected business units. The main objective is to examine all economic, social and environmental costs and benefits in order to determine the most appropriate option and plan a suitable course of action. For Mergers and Acquisitions, a successful transition and integration plan is key to success. Companies embarking on M&A should recognize that poor integration planning can

lead to harsh results, from weak decision making to a lost focus on everyday operations. Charles Knight and Ryan Brain (2011) offer four best practices for a profitable integration: -

It is essential for management to clearly define the vision for the integrated organization. Companies must identify each expected source of benefit, including accurate integration forecasts across a specified period of time. The expected synergies resulting from a merger or acquisition must be clearly identified and communicated if the company expects subsequent financial benefits once the deal is complete. It also helps to select strong sponsors and managers capable of achieving specific milestones set out in detailed integration work plans.

A smooth integration depends on identifying, prioritizing and measuring synergies long before the deal goes through; this requires the management to develop an effective integration plan. Companies that succeed in maximizing long-term value frequently plan for integration and synergy capture at the due diligence stage. This head-start allows them to plan for not only short-term issues, such as keeping the business running, but for long-term issues as well, such as how to transform the newly created entity. To ensure that the integration program does not divert attention from managing day-to-day operations, executives should allocate specific resources to managing the integration. By appointing a project manager and securing strong executive support, businesses are much better placed to quickly tackle risks and ensure a smooth transition following the merger. It may even be useful to provide key team members with incentives throughout the integration or until results are realized.

Companies should not overlook the effect that a merger can have on employees. Businesses that fail to quickly implement a new organizational structure risk increasing uncertainty, ambiguity

and fear among staff members. It is essential to prepare the human resources team to recognize and resolve potential cultural differences as early as possible. In addition to communicating the impact of the merger at every level of the organization, executives must be prepared to stay in front of management issues and provide quick answers to questions regarding people's ongoing roles and responsibilities. By starting early and structuring an effective integration plan, merging organizations can position themselves to maximize shareholder value and realize the anticipated synergies.

2.7 Cultural Factors in International Mergers and Acquisitions

Over the past two decades, cross-border or international mergers and acquisitions (IM&As) have become the preferred method of foreign direct investment (FDI). The trend shows that IM&As go both ways: toward developing countries and from them, reshaping the world's economic boundaries (Chapman, 2003). Trends notwithstanding, researchers suggest that, overall, the expected financial benefits of M&As are often not realized (Auster & Sirower, 2002). Bijlsma-Frankema (2001), says the high rate of failures has been associated mainly to the fact that M&As are still designed with business and financial fit as primary conditions, leaving psychological and cultural issues as secondary concerns. While as new countries enter the free-market economy, paying attention to cultural factors in IM&As is becoming crucial (Rondinelli & Black, 2000).

The wider cultural gap and the current trend of IM&As between developed and developing countries increases the urgency of understanding the effects of culture on the dynamics of IM&As and on issues such as corporate governance and local adaptation strategy. It is therefore important to examine the effects of culture on the outcome of IM&As and the variation of these

effects during the different phases of an IM&A. It is important to note that, there is no single way of managing across borders. People's perceptions and interpretations of their environment and therefore their rationality, are affected by cultural factors. Different perceptions and interpretations result in different decisions and behaviors. Cultural differences affect our view of business and management and consequently, the outcome of IM&As. When complementary to the objectives of an IM&A, cultural differences may be an asset. When in conflict, they will be a liability and a risk factor. Either way, national cultural differences should be accounted for and planned for so as to reduce the risk of failure and increase the chances of success.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used by the researcher to realize the research objectives. It includes a description of the research design; data collection method as well as how data was analyzed to aid in drawing conclusions and recommendations.

3.2 Research Design

The researcher adopted a case study design. A research design is the overall plan or strategy for conducting the research, Nachamias and Nachamias, (1996). The individual in-depth interviews were done on a one-on-one basis by the researcher herself. This was to help enhance the internal validity associated with the instrumentation.

Yin (1994), notes that the term case refers to an event, an entity, an individual or even a unit of analysis. Yin (2003), a case study design should be considered when; the focus of the study is to answer “how” and “why” questions; you cannot manipulate the behavior of those involved in the study; you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or the boundaries are not clear between the phenomenon and the context. It is an empirical inquiry that investigates a temporal phenomenon within its real life context using multiple sources of evidence.

3.3 Data Collection

This study made use of both primary and secondary data. Primary data was collected through an in-depth interview with the aid of an interview guide in the Appendix II. Secondary data was collected through review of the contents of various relevant publications and reports at the bank; these included; the bank's Strategic Plans, Financial Reports and other relevant materials. The interview guide developed helped to answer the research questions informing the study on use of Mergers and Acquisitions as competitive strategy by CfC Stanbic Bank Ltd.

A purposive sampling was used. Patton (1990) argues that the purpose of purposive sampling is to choose a set of people or objects (artifacts) that may not be the most representative of the overall population but will be the best or most appropriate to provide the data needed for the study. CfC Stanbic Bank Ltd has a total population of about seven hundred and four (704) employees; the respondents of the study comprised five (5) managers drawn from the bank's business units as guided by their extent of involvement either in decision making or execution of the bank's strategic plans.

The information provided by the managers was believed to be of help in assisting to obtain data required to meet the objectives of the study. A cover letter accompanying the interview guide introducing the researcher and explaining the purpose and significance of study and confidentiality assurance of the respondents was attached Appendix III.

3.4 Data Analysis

Content analysis was adopted as the main tool for analyzing collected data. It is the technique for making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to established trends. Nachamias and Nachamias (1996), define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Kothari (2004) explains content analysis as the analysis of the contents of documentary and verbal material and describe it as qualitative analysis concerning the general import of messages of the existing documents and measure pervasiveness. Qualitative data analysis seeks to make general statements on how categories or themes of data are related.

Content analysis of the responses collected is preferred given the required information is qualitative in nature and requires in depth analytical understanding in ascertaining whether at all Mergers and Acquisitions strategy adopted by CfC Stanbic Bank Ltd has influenced competitiveness in the volatile banking industry and any challenges encountered in implementing such strategies.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the findings established while undertaking the study conducted through in-depth interviews. The managers selected represented the bank's key business units including Human Resources, Corporate and Retail Sales, Marketing and Communication, Customer Experience and Finance and Accounts. All the five managers selected were interviewed. The study established that majority of the staff at CfC Stanbic Bank were relatively young with most aged just under the age of forty five (45) years. Another finding revealed was that CfC Stanbic Bank is an equal opportunity employer as members of staff in the management positions comprised both genders. Most managers interviewed had served from as recent as three years to more than Ten years but the average number of years of service of most of the managers was six years and above and this information was useful as it confirmed that the findings would be as objective as possible since they would give feedback based on experiences before and after the merger.

4.2 Rationale for Selecting IM&A as a Competitive Strategic Option by CfC Stanbic Bank

The study established that the term Mergers and Acquisitions was used interchangeably but the process was more of an acquisition and what merged were the cultures to ensure that the members of staff from both banks worked well together. Stanbic Bank Limited has its whose

Headquarters is in Johannesburg, South Africa had major plans to expand its market share in order to compete with their main competitor, the Standard Chartered Bank.

The study established that, Craig Bond; the Head of Stanbic Africa, is recorded to have said that “they got lucky in Kenya as the first bank they identified turned out to be the right partner offering great synergies. It begun by carrying out due diligence to seek a strategic partner who would assist with its expansion plans in cross borders and the target was a bank already operating as a full financial institution hence the selection of CfC Bank Limited as best partner”.

The study also established that CfC Stanbic Bank Limited is now engaged in the provision of banking, insurance, financial and related services. The Bank is 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 (merger) and related services (acquisition), which includes taking deposits, lending to customers and provision of financial, advisory and stock broking services and insurance. The insurance segment 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.

The study also established that the acquisition was done in line with the strategy of the Stanbic Bank Group, which is “To build a leading emerging markets financial services organization using our competitive advantages to the full. We focus on delivering superior sustainable

shareholder value by serving the needs of our customers and where appropriate connecting them globally. The key differentiator in achieving our strategy is our people”.

4.3 Key Success Factors Considered by CfC Stanbic Bank During M & A Process

4.3.1 Strategic Planning

Four out of the five interviewees mentioned that the first step was to develop a cogent business strategy to engage in a merger or acquisition of another entity with a clear value-creating plan aligned to the company’s business objectives as opposed to launching a merger or acquiring a business when an opportunity arises without having a clear strategy. The Human Resources Manager said that there must be a purpose behind every business strategy with clear and achievable deliverables. The manager further said that Mergers and Acquisitions exercises that are undertaken merely to fulfill management’s self-serving desire to build an empire or on herd instincts are doomed to fail. The managers were all in agreement that even if an M&A strategy exists, the underlying business objectives and the interests of the shareholders must prevail. The interviewees also said that it was imperative that having laid down the business strategy the key criteria for the selection of the target should be determined. The managers all agreed that selection of the suitable target is a critical issue when considering the integration process.

4.3.2 Due Diligence

The study established that Standard Bank group having identified a target partner, they conducted a thorough due diligence exercise of the target, that was CfC Bank in Kenya

covering its financial statements, strategies, business plans, resources and operations to ensure the compatibility of the target bank and an assessment of any risks associated with the deal. It was mentioned that the intended acquirer also assessed the business connections of the principles and any political risks in making the acquisition especially since it was a cross-border acquisitions in an emerging economy.

The study also found out that the due diligence exercise included the financial dimensions of the merger, the human related issues, target company culture, leadership models, organization structure, compensation plans, performance management systems and career development approaches in both banks. Proper strategic planning was therefore necessary to deal with the issues and to assess the real integration costs.

4.3.3 Integration Planning

The study found out that having done the deal, the integration process needed to run smoothly for the merger to take place and to reap the benefits from the synergy. Thus prior planning was made even before the completion of the merger with clear timelines and milestones to ensure the successful implementation of the deal. This plan was spearheaded by senior management with the representatives from both entities sitting together to thrash out the strategic issues which included;- finalizing a common strategy for the new organization; consolidating duplicative services such as human resources, finance, legal; consolidating compensation plans, corporate policies and other operating procedures; deciding on who was to govern the new organization and what authority people would have; preventing the flight of key personnel; retention of customers and to

ensure there was no disruption in service provision; adopting the best practices from the merged entities and developing or adopting a common work culture for the resultant entity.

4.3.4 Implementing Mergers and Acquisitions

This involved the implementation of the developed plan. The study found out that decisions had to be made fast to speed the integration process and for the momentum to be maintained to prevent any distraction within the workforce in implementing the integration. The interviewees mentioned that a special project management team was formed to monitor the progress of the implementation plan with sufficient authority to make decisions to address arising problems from the merger.

The study also noted that one of the areas which deserved special mention in international Merger and Acquisition exercise was to exercise care in dealing with the people issues and aligning the employees and the leadership with the new culture. Therefore there was need for communication strategy to be developed to address the rumors and questions that were likely to arise within the post merger integration. Proper communication was needed to go to the group who were likely going to be most affected by the exercise which included the shareholders, staff, customers, and competitors. It was also found out that resistance was likely to arise and this needed to be lowered and detractors persuaded to buy-in to the merger. This could only be achieved with open, consistent and constant communication with feedback encouraged.

4.3.5 Evaluation of Mergers and Acquisitions

The study found out that it was necessary to review the performance of the new bank to ensure that a successful integration had been completed and that the objectives of the merger and acquisition were being achieved. This involved assessing the performance of the new bank against the original objectives determined in strategic planning stage. Targets used in assessing the success of the merger included; growth in market share; enhanced brand strength or reputation; reduced operating costs; gain in market share; access to new technologies and product expansion; which all seemed to be showing greater improvement.

4.4 Merger and Acquisition Process

The respondents all agreed that Merger and Acquisition process is the most challenging and most critical one when it comes to corporate restructuring. One wrong decision or one wrong move can actually reverse the effects in an unimaginable manner. It is therefore necessary that the process be followed in a way that a company can gain maximum benefits with the deal. Some of the most important steps in the M&A process mentioned by the interviewees included: - Business valuation or assessment as the first process of merger and acquisition; this step they said includes examination and evaluation of both the present and future market value of the target company. A thorough research is done on the history of the company with regards to capital gains, organizational structure, market share, distribution outlets, corporate culture, specific business strengths, and credibility in the market.

The other aspects mentioned for consideration was to ensure that the proposed company is right or not for a successful merger; this was done by sending a non-binding offer document for a merger and acquisition with complete details of the deal including the strategies, amount, and the commitments. Also considered was the company's exit plan. The management had to make firm decision as to when and how to make the exit in an organized, gradual and profitable manner through evaluating all financial and other business issues like decision of full sale or partial sale and also evaluating on various options of reinvestments.

The study also established that after finalizing the merger and the exit plans, the new entity had to take initiatives for marketing and create innovative strategies to enhance business and its credibility in order to compete well in a globalized market. This was then followed by the integration stage, which included both firms coming together with their own parameters; which included the entire process of preparing the document, signing the agreement, and negotiating the deal which the study has found out was not very smooth with much opposition from share holders.

The respondents said that after signing the agreement and entering into the venture, it was equally important to operate the venture. This operation they said was attributed to meet the said and pre-defined expectations of both banks involved in the process. The transactions after the deal included all the essential measures and activities that were to work towards fulfilling the requirements and desires of both banks involved.

4.5 Motives for Mergers and Acquisition

The study established that there were different motives for developing through an acquisition and merger by the bank. A major reason was the need to keep up with a changing environment. The managers arguments for the merger and acquisition, was the belief that the existing synergy would allow the two banks to work more efficiently together than either would separately. Such synergies would result from the banks' combined ability to exploit economies of scale, decreasing competition, eliminate duplicated functions, share managerial expertise, and raise larger amounts of capital. For CfC Stanbic Bank this went well with the Central Bank requirement that all banks trading in Kenya must increase their collateral to Kshs. 5billion by the year 2015. In the case of economy of scale, the study established that the fact that the combined bank would reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

The other finding was that CfC Stanbic Bank pursued mergers and acquisitions as part of a deliberate strategy of diversification, allowing the bank to exploit new markets and spread its risks. In the case of CfC Bank, the merger with Stanbic Bank and affiliation with Standard Bank Group gave the bank an advantage to reach wider business network globally. The study also established that through the acquisition and cultural merger, CfC Stanbic Bank has acquired a stronger brand with wider coverage across borders that would compete effectively.

In addition to the expansion, the study also found out that the highest motivating factor for the acquisition was to increase shareholders worth. The decision was arrived at very high profile meetings with the shareholders who felt that it would be better to expand through acquisition

rather than expanding organically by opening more branches worldwide. It was also established through the study that other motives for Mergers and Acquisitions beneficial included, entry into a new market; in the case of Cfc Stanbic Bank they gained a financial edge to enter markets like Tanzania, as well as for the Standard Bank group entering Kenya and East African Markets.

Secondly, the major findings of the study were based on the rationale for Merger and Acquisition by Cfc Stanbic Bank Limited. These included; the merger was to provide Cfc Bank with an investor recognized as a banking group with a substantial presence in Africa and other emerging markets, headquartered in Africa and which would have a major interest in securing the future of the various businesses of new entity; large corporate and institutional deals would be enabled through the improved technical support and the global market distribution capabilities of Standard Bank Group, which would be sustained by the larger balance sheet of the merged businesses; the merged banks would benefit from economies of scale and synergies resulting in improved returns and a lower risk profile through earnings diversity and capital deployment; the merged banks would have enhanced earnings capacity to fund further capital expenditure and growth; and that the combined businesses of CFC Bank and SBK would provide a sound platform for rapid organic growth which was to lead to more employment opportunities in Kenya and elsewhere. Last but not least, was Cfc Stanbic's intention to gain higher competitiveness.

4.6 Benefits of Mergers & Acquisition to Cfc Stanbic Bank and Its Shareholders

While carrying out the study, it was established that Merger and Acquisition by Cfc Stanbic Bank had benefited the bank in the following ways:-

4.6.1 Building a Strong Brand

According to Head of Operations, the study established that through the acquisition and cultural merger, Cfc Stanbic Bank has acquired a stronger brand with wider coverage across borders that would compete effectively. The manager said that Ego can drive brand choice just as well as rational factors such as brand value and costs involved with changing brands. From the case study of Cfc Stanbic bank, they chose to continue with its entire brand configuration.

4.6.2 Market Expansion

Rooted in Africa and with strategic representation in key Sub-Saharan markets, Standard Bank is a regional banking force with a global reach. The study established that the group operates in a range of banking and related financial services and has a wide representation which spans nineteen (19) African countries and twenty one (21) countries outside of Africa, with an emerging market focus. It was established that improved market reach and industry visibility has contributed to the bank's expansion to reach new markets giving them new sales opportunities thus revenue growth and earnings. The respondents also revealed that the merger has also improved the bank's standing in the investment community; Cfc Stanbic Bank is a member of the Standard Bank Group which is Africa's largest banking group by market capitalization and assets.

The bank is now placed as the fifth largest bank in Africa as a result of the expansion through the acquisition. The bank's most current market expansion is into Southern Sudan which the respondents say is in line with their strategic plan to diversify into other

markets in the region and proof of their leadership position as the largest financial services organization in Africa.

In addition to the expansion, the study also found out that the highest motivating factor for the acquisition was to increase shareholders worth. The decision was arrived at very high profile meetings with the shareholders who felt that it would be better to expand through acquisition rather than expanding organically by opening more branches worldwide.

4.6.3 Increased Customer Base

The study established that Corporate & Investment Banking at CfC Stanbic Bank Kenya provides financial services to local and multinational businesses and organizations. The Head of TPS and Corporate Banking revealed that the bank's Kenyan team combine their deep understanding of local market conditions and drivers with Standard Bank's experience in emerging markets globally to develop a client-focused solutions enabling the bank to provide a comprehensive range of cross-border solutions customized to each client's unique requirements. The study also found out that as a result of the banks synergy, the consolidation of existing products, and introduction of new ones and rebranding of other products had contributed towards enhanced product offering from what was to be Kenya's most integrated financial services group. Thus serving and meeting their clients' needs and giving the bank an edge to staying ahead of competition. The study revealed that the bank literally offers a one stop shop for the client's needs because of its wide range of services offered.

4.6.4 Acquisition of New Technology

The study further found out that the IM&A enabled the bank to acquire new technology. The interviewees said that, CFC Stanbic Bank offers a wide range of services including transactional banking, wealth management and lending and the bank is now one of the seventeen Kenyan financial institutions currently running Temenos software. The study also established that prior to the merger; CFC Bank Kenya ran different systems with Stanbic Bank using Bankmaster. The respondents revealed that it was recognised that running separate systems with fragmented processes would create challenges a cross service delivery, transactional integrity, financial consolidation, costs and operational risk and thus impact on the success of the new business. In addition, it was also established that in order to stay competitive, the bank needed to stay on top of technological development and their business applications.

The study also noted that the bank's ambitious growth objectives were a strong driver behind its decision to implement T24 Model Bank, which provides a functionally rich, state of the art (SOA) architecture to deliver the flexibility and scalability required to progress the business on a single, cost efficient platform. The decision was made to partner with a team of Temenos professional services staff to consolidate the two businesses onto the T24 Model Bank platform, which runs on IBM servers with an Oracle database. This development has given the bank a competitive edge.

The other outcome of the study is that CfC Stanbic Bank resorted to M&A to take in considerable growth and expansion objectives. This has helped them become accustomed to the rapidly changing conditions in the industry both internally and externally.

The study found out that the M&A also benefited staff as a result of streamlining and realignment of the bank's structure. The changes in job realignments was seen when the South African model was applied in restructuring terms of reference and reporting lines for the purposes of a successful partnership.

4.7 International Mergers and Acquisitions as a Competitive Strategy and its Effects

According to the findings of the study, the acquisition of CfC in Kenya by Stanbic Bank, a member of the Standard Bank Group in South Africa enabled the bank to maintain its broad strategy which was to continue building a portfolio of growth options in the financial services in developing economies, concentrating on retail banking in Africa and other emerging markets. Since the bank is rooted in Africa, the study found out that this meant that it understood commodity – driven economies in which access to finance was limited and therefore development a priority.

The study also found out that because banking services are becoming globally competitive, the IM&A was a better strategic option to give the bank a strategic competitive edge and be able to compete with banks from Tier I such as Standard Chartered bank Limited, Barclays Bank Limited amongst others. The bank is now placed as the fifth largest bank in Africa as a result of the expansion through the acquisition.

The findings also revealed that the bank's option for M&A as a competitive strategy, has had varied effects on management and staff of the bank. Management has incurred both planned and unplanned costs especially in having to take staff for regular trainings both locally and across borders particularly South Africa to equip the staff with necessary skills for better service delivery. The staff have had to make major adjustments in order to fit in and be able to work with colleagues and also serve customers from different backgrounds and cultures.

The findings also showed that another major effect of the M&A was the standardization of procedures and processes requiring additional staff with the expertise, realignment and reshuffling of staff to match their skills and knowledge. This however was contrary to the belief that there was going to be retrenchment.

4.8 Key Challenges Faced by CfC Stanbic Bank Ltd as a Result of IM&A

The study established various challenges as experienced by the bank during the IM&A process. All the five managers were in agreement that the M&A process was not easy and very many expectations were not met both at individual and organizational level. The findings established that the merger adversely affected policies, procedures, tactical and operational plans, resource allocation thus the need to realign the internal mechanisms of the bank.

The second finding also identified external forces such as power and politics as having posed a challenge to the implementation of the strategic plan. The respondents revealed that although the agreement was finally sealed, there were a number of regulatory approvals and formal authorizations from stakeholders. These included the Ministry of Finance, Central Bank of Kenya, Capital Markets Authority and Monopolies Commissioner.

The study also established legal battles that almost tripped up CfC-Stanbic union in 2008. This involved a series of drawn out court battles that threatened to scuttle the M&A process. The respondents mentioned two major court cases that had financial implications and which had negative publicity on the bank. This included the case by Industrial Plant (EA), a company in receivership which was demanding over Kshs. 25 billion from Stanbic Bank, for what it claimed to be losses incurred and assets sold at throw away prices after the bank withdrew a funding lifeline that it had promised the firm. The other court case was the suit filed by retirees of Stanbic in year 2005, commonly known as the “Kavilu Case” where fifteen (15) retirees wanted to have the merger postponed until a case with the pension trustees was settled and Kshs. 1.1billion deposited pending the hearing. This temporary stopped the merger in May 8th 2008.

The third key challenge experienced during the M&A process was loss of customers due to standardization of procedures and practices that brought about drastic changes in the bank’s operations. For example, a new dividend policy and the practice of paying bonuses to members of staff was carried forward from Stanbic Bank Limited but they also did away with the practice of paying cheques even when there were no funds in the account based on the lending parameters.

The bank was also faced with operational challenges such as fragmented views of the customers, inconsistent business process which customers considered very rigid and inconsistent though beneficial to the bank over time. The findings established that there was a general feeling especially by former CfC Bank customers that Stanbic Bank was running a one-man’s show and this drove many customers into the arms of competitors’ alternative banking.

The fourth challenge from the findings was transition process related. Although there was no retrenchment affecting the banks staff and management, tolerance for uncertainty in the International Merger and Acquisition caused many senior managers from CfC Bank either deciding to walk out or feeling short changed. This was cited as having been caused by duplication of roles and responsibilities of senior managers and key players on client relationships. The various business units could only be headed by one individual at a time, the study revealed that a lot of negotiations had to be reached and this affected performance of parties involved.

Another challenge was signing of performance contract which was new to CfC Bank staff. This brought resistance as they felt they were being targeted for retrenchment and doubted the real motive of the merger. The study established that the management realized that a lot of rumours had been passed to the staff which misconstrued the whole meaning of performance contract. Thus there had to be constant communication to deal with by assuring and convincing the members of staff that there was no hidden agenda and that it was purely to enhance performance.

The study also revealed a fifth challenge that before the M&A, the two banks operated on different banking platforms and different banking systems. The study established that prior to the merger; CfC Bank ran different systems with Stanbic Bank using Bankmaster. The respondents revealed that it was recognized that running separate systems with fragmented processes would create challenges a cross service delivery, transactional integrity, financial consolidation, costs and operational risk and thus impact on the success of the new business. There was therefore an agreement to adopt T24 in totality and this was to be done in phases. This change of systems was

also identified as a major challenge as it slowed down processes and huge financial costs incurred in training staff on the new system.

The final challenge mentioned by all the five respondents and which still remains a major problem is that of cultural integration. As with any merger and acquisition, especially international M&A, the respondents admitted that the complexity of the M&A process can be compounded by the difference in national cultures. People living and working in different countries react to the same situations or events in very different ways. Due to this cultural difference, it has taken longer than expected to try and bring the two different groups of people from different backgrounds together and this clash of cultures of partners has led to lack of trust between the partners and control for dominance within the new entity. Due to the slow cultural integration, the study revealed that there were still feelings that there was no preparation process and no proper consideration on the operating models that were adopted.

The respondents said that despite the challenges, there were synergistic benefits seen in a step change in the product offering and distribution of services for customers and enhanced opportunities for staff. From the M&A, the study revealed that wide gaps in salary scales, staff welfare, retirement benefits, medical schemes and human resource policies have since been harmonized and improved significantly. The respondents also agreed that non monetary benefits are now better than prior to the M&A. The study also established that the staff were equally happy with the relocation of the prestigious Head Office from the congested Central Business District (CBD) to the lush Chiromo Centre, Chiromo Road offices in Westland, Nairobi.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter sets out a summary of the research findings, discussions, limitations of the study and suggestions for further research. The respondents of the study comprised five (5) managers drawn from the bank's business units as guided by their extent of involvement either in decision making or execution of the bank's strategic plans. All the five selected managers were interviewed thus achieving a response rate of 100% acceptable for this study.

5.2 Discussion

The main objective of the study was to determine whether the International Merger and Acquisition by CFC Stanbic Bank Limited was a competitive strategy. In the new knowledge economy, the principles of business strategy are being transformed. Businesses increasingly need to develop and manage complex partnerships around themselves so as to succeed. The selection of who to partner with is now becoming a life or death issue for most firms. Synergy is the power behind business partnerships. In a business partnership, two parties leverage their assets (resources, capabilities, expertise, client base, etc) for mutual benefit of both.

The researcher's first recommendation is that in any international merger and acquisition, the executives should give serious considerations to the level of experience that they bring to the table in any deal that they consider. The study has revealed that many forms of experience are

relevant in a cross-border merger; general M&A experience, general global experience, industry experience and firms involved. A serious assessment of the relevant experience and capability of the leadership teams on both sides of the deal are essential to success.

A second recommendation concerns one of the key aspects of organizational and leadership capability. There is need for capacity to deal with levels of multiple complexities. A keen understanding that even the best rational business logic in the world is filtered through the sensibilities of a multitude of social identities before it motivates anyone to action or consensus must guide the decision making process at every step in a cross-border merger.

The third recommendation is need for quality integration process which is a clear indication of the likelihood of success. Quality integration includes the dynamics of the integration process, cultural factors and adopting best practices for the integration process. IM&A can add value on return on investment only if well managed hence the need to select the right person to lead the operation; someone who understands both the strategic objectives of the IM&A.

Finally, International Mergers and Acquisition can improve operational efficiency enabling a company to compete more effectively against the backdrop of increased globalization. The success of IM&A requires open and regular communication with all the stakeholders about the integration activities and their effects on especially the employees. It is also important to preserve the IM&A's standard global image, brand and reputation, but learn how to communicate them to the local market.

5.3 Summary

In today's highly competitive business environment and the fierce struggle for customers, most firms are becoming more creative and flexible in their dealings. Major business objective is to reach out to more clients and new business. Innovative firms have found a way to deliver what their customers want faster. This has seen most firms including banks form partnerships around themselves so as to succeed. Synergy is the power behind business partnership.

The main aspect of Merger and Acquisition by CfC Stanbic Bank was for considerable growth and expansion objectives. This has helped the bank become accustomed to the rapidly changing conditions in the industry both internally and externally. The merger and acquisition has enabled CfC Stanbic Bank to provide a wider bouquet of tailor made products and services in a more efficient and timely manner for all its customers across the board. CfC Stanbic Bank provides its clients with an all-encompassing international banking service, ranging from the facilitation of cross border transactions and settlements, exchange control advice and cross border risk management to the structuring and execution of foreign exchange hedging solutions. This has given the bank a competitive edge against its key competitors.

5.4 Conclusion

As per the above discussion, it can be said that Mergers and Acquisitions are considered as corporate events which help an organization to create synergy and provide sustainable competitive advantage, but at the same time if not well managed can create problems for both the individuals and the organizations involved in it, especially the International Mergers and Acquisitions. Post merger integration process can be a difficult and complex task and requires

the attention and support of all stakeholders. The process comes with activities and tasks to be fulfilled within a short time and partly with incomplete information such as formation of new teams and departments. There are also many opportunities to exploit and many decisions to make.

The study established that the bank had invested heavily to ensure that the process was a success. This included extensive training especially on product knowledge and service delivery in order to stay competitive. Findings revealed that CfC Stanbic Bank limited was voted the top financial brand in South Africa based on loyalty, awareness and attraction thus giving the bank a competitive edge.

M&A process come with many challenges and it is not always easy and very many expectations may not be met both at individual and organizational level. The findings established that the merger by CfC Stanbic Bank adversely affected policies, procedures, tactical and operational plans, resource allocation thus the need to realign the internal mechanisms of the bank.

Some of the respondents interviewed said that M&A process can be frustrating and lengthy before full benefits are realized. This requires patience and the support of all those who are involved.

5.5 Limitations of the Study

The main limitation of this study was that only a small number of interviewees participated, perfect interviewees would have been all those who were involved in the whole integration process from the beginning. The other limitation was the time factor; I had to schedule

appointments with the interviewees at different periods due to the fact that they were busy. The interviewees were also very difficult on volunteering information to the researcher given the nature of confidentiality of the bank issues. The small sample of only the five top management respondents may have affected the research outcome as this does not really represent the lower cadre of staff's view on the effects of the strategy adopted by the bank.

The choice of a case study research design, while giving an opportunity of an in-depth and detailed analysis of the subject limits the units of study to one entity. This means that there is no opportunity for a comparative study on International Mergers and Acquisitions as a competitive strategy and its effect on markets of other industries.

5.6 Recommendations for Further Study

This study was mainly concerned with a Merger and an Acquisition originating in a mature African Bank. In contrast, it is clear that the biggest challenges of the future will come when acquiring firms come from emerging markets and the acquisition in mature markets providing room for further study.

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APPENDIX I

INTERVIEW GUIDE

This interview guide seeks to collect information on International Mergers and Acquisitions (IM&A) in the Banking Sector and how it has been used as a Competitive Strategic option by CFC Stanbic Bank Limited in Kenya. Completion is voluntary and all responses will be treated with utmost confidence and used only for academic purposes. Please provide the information with accuracy and honesty.

SECTION A: RESPONDENT'S PROFILE

1. Name of respondent (optional)
2. Gender Male [] Female []
3. Current position held
4. Number of years worked in current position

SECTION B:

INFORMATION ON INTERNATIONAL MERGERS AND ACQUISITIONS [IM&A] AS A COMPETITIVE STRATEGY AT CFC STANBIC BANK LIMITED

1. List three motivational factors behind the Merger and Acquisition with regards to global competition in the banking industry?

2. What are two major international forces faced by the bank as a result of the Merger and Acquisition?
3. Name three external environmental factors that have challenged the bank's ability to implement the Merger and Acquisition process.
4. How did your staff's react towards the Merger and Acquisition plans by the two banks?
5. How has your bank benefited from the Merger and Acquisition as a competitive strategic option?
6. Who are the bank's main competitors?
7. How has the Merger and Acquisition impacted on the bank's performance compared to previous performances before Merger and Acquisition?
8. Has the bank experienced an improved client base since the Merger and Acquisition, and if yes to what extent?
9. What are some of the implications experienced by your bank as a result of Merger and Acquisition?
10. Which three areas in the banking process do you think has been strengthened by Merger and Acquisition if any?
11. How would you compare customer satisfaction levels for CFC Stanbic Bank Ltd before and after the merger?

12. Was there pre-training or any other preparations for your staff prior to the Merger and Acquisition?
13. What was your experience during the transition?
14. Give at least three major challenges that you have experienced during and after M&A
15. How has the decision making process changed since the Merger and Acquisition?
16. What were your expectations as a result of M&A and have they been met?
17. What are the specific changes in terms of product offer / service delivery after the Merger and Acquisition?
18. What benefits have you realized as a result of the Merger and Acquisition?
19. Does the bank have a substantial presence in Africa and other emerging markets, if yes which specific markets?
20. Give any other comment (s) on Merger and Acquisition at your Bank.

END OF INTERVIEW: THANK YOU

APPENDIX II



UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE..... JULY 19TH 2012.....

TO WHOM IT MAY CONCERN

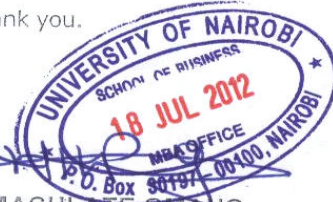
The bearer of this letter..... ODIDI A. SARAH.....
Registration No..... Δ61/63198/2010.....

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

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

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

Thank you.


IMMACULATE OMIANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

APPENDIX III

August 7th 2012

Sarah Anyango Odidi

University of Nairobi

P.O. Box 15815, GPO - 00100, Nairobi

Cell: 0722 784249

Manager / Human Resources

CfC Stanbic Bank Limited

CFC Stanbic Centre, Chiromo Road

Nairobi

Dear Sir / Madam

RE: MBA RESEARCH PROJECT DATA COLLECTION

I am continuing student in the Master of Business Administration (MBA) degree program at the University of Nairobi, School of Business. My area of specialization is International Business and I would like to conduct a research study on **International Mergers and Acquisitions as a Competitive Strategy: Case Study – CfC Stanbic Bank Limited, Kenya.**

This letter is therefore to request for your authority to allow me to conduct a one-on one interview with five (5) managers or heads of business units as guided by their extent of involvement in either decision making or execution of the bank's strategic plans. A sample of interview guide is as attached please.

I look forward to your positive response.

Yours faithfully,

Sarah Odidi

Student/D61/63198/2010

Dr. John Yabs

Lecturer/University of Nairobi