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The Effect of Mergers and Acquisitions Strategies on Financial Performance of Commercial Banks in Kenya

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Abstract

The operating environment for commercial banks in Kenya has become very dynamic and highly competitive. The witnessed cases of bank failure and poor financial performance have made commercial banks develop strategies to improve their financial performance, remain competitive, and meet the regulator's compliance requirements. Mergers and Acquisitions Strategies are on the rise as a strategy aimed to alleviate the ailing sector. In light of this, the purpose of this study was to examine the impact on financial performance of commercial banks in Kenya as a result of mergers and acquisitions Strategies. Operating efficiency and market share impact on the financial performance of commercial banks in Kenya formed the specific objectives. The study objectives were supported by synergies theory, resource-based view theory and agency theory. The study adopted a correlational descriptive research design, including cross-sectional data analysis. By the year 2017, 30 commercial banks in Kenya had considered mergers and acquisitions strategies were considered as the population of this study. An average of three-year ratios was computed in both pre-merger and post - acquisition periods inorder to assess the impact financial performance. The years of the deal were excluded. The mean difference between the pre-Mergers and Acquisitions Strategies and post-Mergers and Acquisitions Strategies

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ratios was tested using the T-test.The findings were that Mergers and Acquisitions Strategies have a statically positive significant relationship with the dependent variable. Recommends from the study are that, the policymakers create policies that facilitate and encourage commercial banks to employ mergers and acquisition strategies to achieve better financial performance.

Keywords: Mergers and Acquisitions Strategies**,** operational efficiency, market share, financial performance, commercial banks and Kenya

Introduction

The terms Mergers and Acquisitions Strategies describe business consolidation distinguishing two terms, mergers, which refers to the integration of two firms to form one. In contrast, acquisition refers to a scenario where one firm takes over another firm (Machiraju,2007). Mergers and Acquisitions Strategies guide to a shift in shareholding, business integration, asset combination, and associations formation to improve financial performance (Pazarskis, 2006). Mergers also refer to a process where firms combine to form a new entity that either retains one entity's name or ultimately adopts a new name (Mishra & Chandra, 2010). Acquisitions have been referred to as a process where an entity acquires all or part of another companies assets, where both companies retain their legal entity, and the acquiring firm exercises control of the acquired firm (Nakamura, 2005). Separately, the term mergers refer to an integration of two firms where the end product is such that a new firm is formed out of the two (Gaughan, 2010). Acquisition refers to the complete absorption of ownership of one form by another, in such that the acquired firm is now managed by the acquirer (Sherman, 2010).

Vertical, horizontal, and conglomerate are the three main groupings of Mergers and Acquisitions Strategies (Gaughan,2010; Sherman,2010). Horizontal Mergers and Acquisitions Strategies involve a combination of businesses that are in the same line of business or are competitors within product lines. Horizontal Mergers and Acquisitions Strategies are considered a strategy for cost management by utilizing economies of scale and opportunities both at the plant and firm level (Finkelstein, 1997). Commercial banks mainly adopt horizontal Mergers and Acquisitions Strategies. This type of merger helps banks eliminate competitors, gain market share, and increase market power (Cowling, 1980; Green, 1990).

Globally, Mergers and Acquisitions Strategies strategies activities have been on the rise, with deals amounting to $ 688 billion being announced in the second half of the year 2020 compared to the sales closed in the previous year same period amounting to $266 billion (PWC, 2021). The second half of

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2021 shows a significant increase in the value and volume of Mergers and Acquisitions Strategies, indicating that the Covid-19 pandemic has passed. In the African context, the mergers and acquisition activities recorded an upward trend where for ten years from January 1, 2003, to December 2012, the deal value increased from $15 billion to $17.9 billion (Reuters, 2012). In the African context, the mergers and acquisition deals in the pipeline continue to rise. However, the execution has been delayed due to the uncertainties and economic slowdown brought about by the Covid-19 pandemic (Jooste, 2021). Regionally, mergers and acquisition activities are on the rise, with Kenya dominating the market with mega deals being closed in 2019, such as NIC and NBCA and National bank, and Kenya commercial bank (Mori, 2020). Access bank plc(Nigeria) completed the acquisition of Transnational bank plc effective February 1, 2020, international commercial bank (Egypt) acquired a 51% stake in Mayfair bank effective May 1, 2020, Imperial bank asset specific were acquired by KCB bank from June 2,2020, while cooperative bank acquired 90% shares of Jamii bora bank effective August 21, 2020 (CBK, 2020). Threats of looming global recessions trigger the observed trend; stock markets pull back and increase trade disputes, competition concerns, and other macro and microeconomic factors (Financier Worldwide Magazine, 2020).
Mergers and Acquisitions Strategies strategies are increasingly becoming a fundamental strategy for corporates to improve their financial performance. This is because Mergers and Acquisitions Strategies result in financial synergies, which lowers the cost of capital. The deal also results in managerial efficiency, which results in better utilization of the firm's resources to generate revenue. The agreement also results in operational efficiency, enabling the firms to reduce operating expenses and maximize revenue. The deal results in economies of scale as the combined entities cancan yield goods and services optimally. The combined firms can command a larger market share through dominance and control prices, resulting in higher revenues. The deals are also important as they help prevent agency problems and misuse of free cash flow. Mergers and Acquisitions Strategies also help the organization with risk management through diversification. Other importance of Mergers and Acquisitions Strategies includes tax considerations, technological change, growth acceleration, and gains from the undervalued target (EduPristine, 2015; Motis,2007; Mboroto, 2012).

Mergers and Acquisition Strategies have spared financially troubled banks on the verge of collapse, which would have resulted in systemic risk in the industry otherwise. However, this does not guarantee that the ensuing merger entity would perform better. While some banks profit from the synergy created by mergers, others see their performance metrics drop. The majority of such failures have been attributed to a lack of strategic alignment between the merging firms. Their disparities in goals and methods may cause friction,

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jeopardizing the newly established entity's performance. On other occasions, the acquirer's lack of due diligence has been blamed for the conglomerate's downfall (Kyule & Nguli, 2020).

Scholars from different disciplines have used various methods to measure the success of Mergers and Acquisitions Strategies. Kiessling and Harvey (2006) argue that there is no best method to measure the success of Mergers and Acquisitions Strategies as different studies employ different strategies. Finance scholars are generally biased toward empirical criteria such as accounting return and stock market-based measures. Managerial scholars are typically biased toward subjective measurements such as personal judgments and qualitative assessments (Schoenberg, 2006). Accounting-based criteria are widely used due to ratios, which enable comparability (Hassan et al., 2017; Sethi & Krishnakumar, 2012). Most of the reviewed studies have used accounting-based measures with ratios as the indicators. The ratio includes profitability, liquidity, solvency, and turnover ratios (Demirgu C-Kunt et al., 2003, Judy and Kekara, 2015; Kainika, 2017;Sangmi and Nazir, 2010). operating efficiency ratio, managerial efficiency ratio, and market share ratio. Operational efficiency ratio, and market share ratio were used as a measure of the independent variables. The above measure will be considered appropriate as they are widely used as well as the information regarding them is readily available in the published financial statement.

Statement of the problem

The operating and legal environment of commercial banks is ever evolving and this put pressure on banks executive to explore strategies which will enable the bank to thrive within the set conditions. Bank's executive is seen to be biased toward mergers and acquisitions strategies to enable them to be compliant with the legal pronouncement as well as remain competitive (Kumar & Bansal, 2008). The regulator has set minimum requirements for commercial banks to remain operations as a means to safeguard the interests of the depositors. Some commercial banks have been unable to meet these minimum requirements and hence put under the regulator watch and some face the chopping board by having their license suspended or put under statutory management. Commercial bank's performance is into extremes where some record very attractive yield on investments while others are experiencing negative returns on investments (Kathali, 2014). In the interest of maximizing the shareholder's wealth and remain compliant commercial banks are seen to embrace mergers and acquisitions strategies (Nguli & Kyule, 2020).

In the recent past, the Central Bank of Kenya has been encouraging commercial banks to consider mergers and acquisitions adept the underlying benefits. With the aforementioned persuasion from the regulator, Kenya has witnessed ground breaking and historic mergers and acquisition amongst the

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industrial players which included but not limited to those of NIC and CBA to form NCBA and KCB managing some assets for struggling NBK. Since 1989 to date, there have been more than 59 institutions under central bank regulations having undergone some form of mergers and acquisitions. The deals in this sector and future prospects by investment analyst and the regulators which will see the number and volume of the deals rise have equally attracted academicians and other professionals to undertake more study in this area (Asokoinsight, 2020; Catton, 2019).

The researcher has submitted to review literature on the independent and dependent variables, where results from various scholars are not congruent. Scholars whose findings were that deals in the nature of M&A do not significantly drive the financial performance included but not limited to (Chesang, 2002; David, 2011; Ochieng, 2006; Marembo, 2012; Muya, 2006; Ndura, 2010). Scholar whose findings were that the deal consideration is a major driver of financial performance of commercial banks included but not limited to (Ibeji, 2015; Kathali, 2018; Korir, 2006; Ogada et al., 2016; Ombaka&Jagongo; 2018; Mwanza, 2016). The dissimilitude in the results from various scholars whose study has been reviewed can be attributed to variation in contextual, conceptual and methodological parameters

The above discussions present two gaps: a conceptual gap where various reviewed studies yielded contradictory results on the relationships among the study variables. The second one is the methodological gaps where most of the studies have used smaller sample sizes, resulting in a high margin of error and unreliable results. The research gaps identified above form this study's motivation, as more empirical research is required to explore association amongst the independent and dependent variables in Kenyan context. The researcher's main objective is to unearth if and to what extent the independent variables impact the dependent variable in Kenyan context.

Research Objectives

The overarching objective of this study was to look into the effects of Mergers and Acquisitions Strategies on the financial performance of Kenyan commercial banks. The following are the primary objectives:

i. To establish the effect of operational efficiency on the financial performance of commercial banks in Kenya.
ii. To determine the effect of market share on the financial performance of commercial banks in Kenya.

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Literature review

Theoretical review

Synergies theory

The concept behind synergy is that the aggregate is better than segments. Synergies describe the aftermath of integration of two firms where the performance of the combined firms is better than that of the isolated firm (Gaughan, 2010; Sherman, 2010). The by-product of value addition is realized when two ventures integrate so that 2+2=5. Referencing Mergers and Acquisitions Strategies means when two firms combine, they are destined for more excellent performance. The deduction from this analogy is that the combined firm reports more profit than an isolated firm, i.e., NPV firm XY>NPV X+NVP Y (Hasen, 2015).

Financial, operational, and managerial synergies are the three categories of synergies. Financial synergies are because of lower cost of capital due to increase in size and risk diversification. Operational synergies improve the firm operations that can take the form of economies of scale through the spread of ongoing expenses and cost efficiencies emanating from the large size of transactions, economies of scope achieved through utilization of shared resources, and market power achieved through price leadership. Managerial efficiencies are derived from a new set of skills brought on board from the management of both firms (Hitchner, 2003). The synergies theory anchors this study to support the relationship between independent and dependent variable. The theory highlights that Mergers and Acquisitions Strategies result in operational, managerial, and financial efficiencies.

Resource-based View Theory

According to RBV, the fundamental forces that influence and affect competitive advantage and how well an organization succeeds are generated from characteristics of the company's talents and resources that are difficult to mimic and value (Barney, 1991). Firms can use RBV to build and implement their firm strategy by examining their competencies and internal resources (Sheehan & Foss, 2007). The model is essential for this research because it recognizes that a company can grow its market share by sharing distribution channels, expand its financial capacity by focusing on customers, and improve operational efficiency by sharing manufacturing and raw materials.

Agency Theory

The agency theory is widely used in several areas. Mergers and acquisition have been one of them where it is argued that managers usually resists consolidation as they fear the loss of their jobs (Eisenhardt,1989; Shapiro,2005; Heracleous et al., 2010). According to Carpenter et al. (2009), consolidation enhances organizational efficiency by disciplining the

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ineffective manager, a concept under this study. A consolidation strategy can also be used to mop up excess cash flow at the manager's disposal, who may utilize the cash in an opportunistic manager. The reduction of the cash flow tames managers' behaviour, enhancing their efficiencies (Berger et al., 2011; Aggarwal et al., 2010).

Empirical review

Umoren and Olokoyo (2007) evaluated the financial performance of commercial banks after the mega-mergers and acquisition in Nigeria. The sample size was 13 bank mergers and acquisition cases whose financial performance was analyzed two years before mergers and acquisition and two years after mergers and acquisition using Return on equity (ROE). The study results observed incremental post-merger financial performance as appraised using variation of ROE after Mergers and Acquisitions Strategies. The study was used in a different context and smaller sample size. The study will be conducted in a local context with a larger sample size. The study used ROA, which indicates earnings ability.

Haruna *et al.* (2017) evaluated the influence of Mergers and Acquisitions Strategies on the financial performance of commercials in Ghana. The study findings were that the consolidated bank yielded higher financial performance. There was moderate growth in NPM and ROCE compared to revenue and asset, a scenario in which the over-expenditure may have been caused during the consolidation process. The study did not incorporate any moderating or intervening variable, and therefore the results may not be overall informative. The study also used two banks only, which may not be appropriate for regression analysis and representation. This study will test the effect of moderating and intervening variables on the relationship between consolidation and financial performance. This study used the census method instead of sampling as the population is not many.

Rashid and Naeem (2017) examined the influence of consolidation among corporates in Pakistan. The sample included 25 corporates that consolidated in the years 1995-2012. The profitability ratio and liquidity ratio were computed. The study results were that consolidations do not have any significant impact financial performance of a firm. The result of the above study is contradictory to those of Awdeh and EL-Moussaw (2011), whose findings were that consolidation results in a slight improvement in profitability, Inoti *et al.* (2014), whose determination was that consolidation does not affect financial performance and finally those of Kimotho (2018) whose study finding were that consolidation result to improved financial performance.

Fatima and Shehzad (2014) examined the effect of Mergers and Acquisitions Strategies on the financial performance of banks in Pakistan. The

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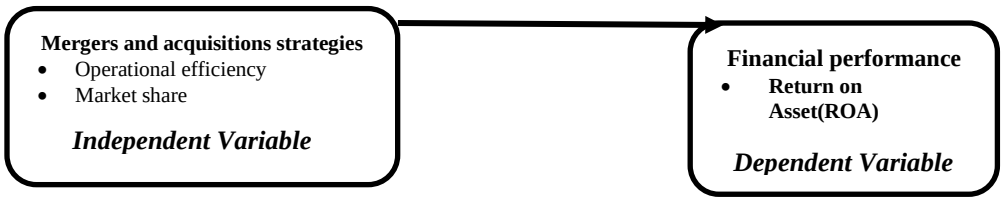
sample for the study was drawn from 10 banks that had merged between 2007 and 2010. The analysis was done to evaluate the effect of mergers for three years pre-merger and three years' post-merger. The financial ratios used to measure the financial performance were Return on the asset, return on equity, debt to equity ratio, deposit to equity ratio, and earnings per share. The study found that all ratios indicated a normal distribution except ROE, resulting in non-normal distribution. The study concluded that mergers do not improve financial performance.

Muhammad, Waqas, and Migliori (2019) evaluated the effect of Mergers and Acquisitions Strategies on the bank's financial performance in Pakistani. The data for the analysis was done for the banks which merged between 2004 and 2015. The sample size was 15 banks out of a population of 30 banks where the purposive sampling technique was employed. Panel data was used to empirically test the impact of Mergers and Acquisitions Strategies on a bank's financial performance. Advance to deposit ratio, cash to asset ratio, current ratio, return on asset, and return on equity, net profit margin, and gross profit margin were used as financial performance indicators. The study result showed that liquidity, investment, and profitability ratios showed incremental trends while the solvency declined, showing negative relationship post-merger time series.

Conceptual Framework

Below model is a visualization of the direct relationship between Mergers and Acquisitions Strategies and financial performance of commercial banks in Kenya.

Figure 1. Conceptual model



Source :Reseacher 2021

The research hypothesis tested in this study was:

There is no significant effect of Mergers and Acquisitions Strategies on financial performance of commercial banks in Kenya.

Research Methodology

This study involves quantitative approach to analyze a phenomenon, causality investigation and testing of measurable concepts, aspects are supported by Positivism research philosophy (Orlikowski &Baroudi, 1991; Saunders et al.,

.2007). The study examines the relationships between independent and dependent variable which is guided by correlational descriptive research design. The study has limited itself to M&A deals which occurred between the year 1995 and 2017 which totals to 30 commercial banks and hence forms the population of the study. The characteristics of the population only supports census and hence no sampling in this study. The data used in this study was obtained from audited financial statements using secondary data collection template. The data was tested for linearity assumption, hence subjected to diagnostic test which included independence test, normality, multicollinearity, auto-correlation and homoscedasticity. The independent variables proxies were operational efficiency and market share. The indicators were measured using operational efficiency ratio and market share ratios respectively with operational efficiency ratio represented by operating expenses and total revenue and market share ratio by total revenue to industry revenue. The measures applied are similar to those of (Ogada, Njuguna, & Achoki, 2016; Ombaka & Jagongo, 2018). To determine the relative change in the pre and post mergers and acquisitions, the research obtained a three year average ratios in the two periods. The ratios were then subjected to T-test to assess the significance spread in the two periods (Abbas, 2014; Ong, Teo, & Tec, 2011). Financial performance was measured using return on Asset (ROA).The deal year was not factored in the study as any observation may be due to the immediate impact ,but do not represent the reality in the long run. Multiple regressions were applied to obtain the statistical relationship among the independent and dependent variables. The predictive ability of the model was determined using F-test. Goodness of fit was determined using coefficient of determination was used to determine on (R_2). Multiple regression models were used to determine the relationship among the independent variable and the dependent variable.

The below numerous regression models will be used to test hypothesis one of the study.

$ROA=\beta 0 + \beta_1 OF + \beta_2 MS + \varepsilon i$….....(i)

Where:

ROA : Return on Asset
β0 : Regression constant or intercept,
βi : Regression coefficients of variable
OF : Operational Efficiency
MS : Market Share

εi : is a random error term that accounts for the unexplained variations.

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Data analysis and discusion

Descriptive Statistics

The table below shows the result of the descriptive statitics of before and after mergers and acquistions

Table 1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
ROA -post merger	87	1.398	2.031	1.707	.120	.298	.258	-.110	.511
Operational efficiency-post merger	87	1.158	3.395	2.081	.500	.360	.258	-.171	.511
Market share-post merger	87	1.331	1.722	1.535	.076	-.266	.258	-.013	.511
ROA -pre merger	183	.000	.864	.422	.221	-.025	.180	-.919	.357
Operational efficiency-pre merger	183	.001	1.417	.570	.309	.141	.180	-.724	.357
Market share-pre merger	183	1.315	1.721	1.526	.077	-.141	.180	-.032	.357

Source: Research Findings

The mean for return on asset (ROA) is 0.422 with a standard deviation of 0.221. The mean of 0.422 indicates that the average financial performance of the commercial bank before Mergers and Acquisitions Strategies as measured using ROA was 40.2%. The standard deviation of 0.221 is very close to the mean, indicating that the data is concentrated around the mean, i.e., no wide variability or likelihood of random variables. The positive mean and standard deviation is an indication that most of the banks were profitable before the mergers and acquisition. Both minima, i.e., 0.000 and maximum 0.864, are positive, cementing that most banks were good before Mergers and Acquisitions Strategies. The minimum 0f 0.000 represents the few banks either in a loss position or were making minimal returns before mergers and acquisition strategies. The negative Skewness is an indication of low performance before Mergers and Acquisitions Strategies. The study finding is that the Kurtosis is less than one, i.e., -0.919, commonly referred to as platykurtic. This kind of distribution is risker and indicates the financial performance before Mergers and Acquisitions Strategies were not optimal.

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The mean for the total revenue ratio to total expenses as depicted with operational efficiency is 0.570 with a standard deviation of 0.039. This infers that the data is concentrated around the mean, which reduces the outliers in the data. The minimum value is 0.001, and the maximum value is 14.17, of which both are positive. This indicates that the banks could generate enough revenue to cover the expenses. The mean for return on asset (ROA) after Mergers and Acquisitions Strategies is 1.707 with a standard deviation of 0.120. The mean of 1.707 indicates that the commercial bank's average financial performance after Mergers and Acquisitions Strategies as measured using ROA was170.7percentage. The standard deviation of 0.221 is very close to the mean, indicating that the data is concentrated around the mean, i.e., no wide variability or likelihood of random variables. The positive mean and standard deviation is an indication that most of the bank was profitable before the mergers and acquisition. The minimum value is 1.398, and the maximum value is 2.031, both positive, meaning all the banks were good after Mergers and Acquisitions Strategies. The positive Skewness is an indication of better performance after Mergers and Acquisitions Strategies. The study finding is that the Kurtosis is less than 0.5, i.e., -0.110, commonly referred to as platykurtic. This kind of distribution is risker and indicates the financial performance after Mergers and Acquisitions Strategies were not optimal though better than before Mergers and Acquisitions Strategies. The mean for the total revenue ratio to total expenses as depicted with operational efficiency is 2.081 with a standard deviation of 0.500. This infers that the data is concentrated around the mean, which reduces the outliers in the data. The minimum value is 1.158, and the maximum value is 3.395, of which both are positive. This indicates that the banks could generate enough revenue to cover the expenses. The mean ratio of the total asset to total revenue depicted by managerial efficiency is 0.565, with a standard deviation of 0.167.

Mean differences among the variables

The Table below presents the mean differences before and Mergers and Acquisitions Strategies

Table 2. Mean differences for financial ratios before and after Mergers and Acquisitions Strategies

	Phase	N	Mean	Std. Deviation	Std. Error Mean
ROA	Pre-merger	183	.422	.221	.016
	Post-merger	87	1.707	.120	.013
Operational efficiency	Pre-merger	183	.570	.309	.023
	Post-merger	87	2.081	.500	.054
Market share	Pre-merger	183	1.526	.077	.006
	Post-merger	87	1.535	.076	.008

Source: Research Findings

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Table 2 shows the results of the t-test that show that the mean difference between ROA before and after the mergers was 1.285. This means a statistically significant difference between pre-merger and post-merger financial performance (ROA).

Diagnostics Tests

Independence Test

Linear regression pre condition is such that, the data should have little or no autocorrelation to perform linear regression analysis.

Table 3. Independence Test before Mergers and Acquisitions Strategies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.632[a]	.399	.389	.1728	.399	39.591	3	179	.000	1.802

a. Predictors: (Constant), Market share pre-merger, Operational efficiency pre-merger, Managerial efficiency pre-merger
b. Dependent Variable: ROA pre-merger

Table 4. Independence Test after Mergers and Acquisitions Strategies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.512[a]	.262	.235	.104	.262	9.828	3	83	.000	1.536

Predictors: (Constant), Market share Post Merger, Operational efficiency Post Merger
Dependent Variable: ROA Post Merger

The Durbin-Watson statistic is = 1.802 and 1.536 for pre and post-merger respectively, which is in the middle of the two essential values of 1.5 d 2.5, indicating that the data has no first-order linear auto-correlation

Linearity test

Table 5. Linearity test before Mergers and Acquisitions Strategies (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
Operational efficiency pre-merger	Between Groups	17.340	181	.096	29.841	.145
Market share pre-merger	Between Groups	1.074	181	.006	5.190	.339

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Table 6. Linearity test after Mergers and Acquisitions Strategies (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
Operational efficiency post-merger	Between Groups	17.340	83	.096	29.841	.132
Market share post-merger	Between Groups	1.074	83	.006	5.190	.439

Source: Research findings

Based on the significance from linearity the P values of all variables are greater than 0.05 which means variables has a linear connection.

Multicollinearity test

Linear regression requires that there should be little or no multicollinearity. Variance Inflation Factor (VIF) was used where a VIF>5 indicates that multicollinearity may be present while a VIF >10 is a certainty that multicollinearity is present.

Table 7. Multicollinearity test result before Mergers and Acquisitions Strategies

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.729	.257		2.833	.005		
	Operational efficiency pre-merger	-.101	.043	-.141	-2.367	.019	.941	1.063
	Market share pre-merger	.009	.167	.003	.053	.958	.999	1.001

a. Dependent Variable: ROA pre-merger

Table 8. Multicollinearity test result after Mergers and Acquisitions Strategies

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.568	.241		6.510	.000		
	Operational efficiency Post Merger	.052	.023	.216	2.281	.025	.991	1.009
	Market share Post Merger	-.096	.149	-.061	-.646	.520	.995	1.005

a. Dependent Variable: ROA Post Merger

The VIF in all the variables is less than five, which is an indication that there is no Multicollinearity among the variables.

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Normality Test

Linear regression analysis assumes that all variables should be multivariate normal

Table 9 Normality test result before Mergers and Acquisitions Strategies

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA pre-merger	.051	183	.200*	.976	183	.003
Operational efficiency pre-merger	.054	183	.200*	.982	183	.017
Market share pre-merger	.036	183	.200*	.996	183	.912

*. This is a lower bound of the true significance.
Lilliefors Significance Correction

Table 10 Normality test result after Mergers and Acquisitions Strategies

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA Post Merger	.065	87	.200*	.985	87	.395
Operational efficiency Post Merger	.080	87	.200*	.982	87	.267
Market share Post Merger	.064	87	.200*	.990	87	.746

*. This is a lower bound of the true significance.
a. Lilliefors Significance Correction

The result above indicates that the data is normally distributed as the P-value for all the variables is greater than 0.05.

Correlational analysis

		ROA pre-merger	Operational efficiency pre-merger	Market share pre-merger
ROA pre-merger	r	1	-.283**	.017
Operational efficiency pre-merger	r	-.283**	1	.002
Market share pre-merger	r	.017	.002	1

According to Table 11, the relationship between operational efficiency and financial performance is strongly inverse (r=-0.283, p0.01). The inverse relationship suggests that as operational effectiveness rises, financial performance as measured by ROA declines. This suggests that in order for a company to attain the highest level of operational efficiency, it must implement strategies to increase revenue, reduce operational costs, and strengthen its capital base, asset quality, and liquid assets (Musah et al., 2019). This result is comparable to that of (Musah et al., 2019; Meseret & Getahun, 2017; Hongxing et al., 2018). The results were in contrast to those of Rania

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and Warrad (2015), who found no correlation between operational efficiency and ROA, and Ranjan and Bishnu (2017), who showed a substantial positive relationship on ROA.

Table 12. Correlational analysis for Mergers and Acquisitions Strategies after Mergers and Acquisitions Strategies

		ROA post-merger	Operational efficiency post-merger	Market share post-merger
ROA post-merger	r	1.000	.382	-.200
Operational efficiency post-merger	r	.382	1.000	-.054
Market share post-merger	r	-.200	-.054	1.000

According to Table 12, operational effectiveness is highly positively correlated with financial performance as evaluated by ROA (r=0.382, p>0.05). The correlation is positive, which suggests that improving operational effectiveness also improves financial performance as assessed by ROA. This suggests that the firms' optimal operating efficiency, increased revenue, improved capital base asset quality, and liquid assets were attained after the mergers and acquisitions. This result is comparable to those reported by Ranjan and Bishnu (2017) and Megeid et al. (2019); (Natarajan et al., 2017). The results were, however, at odds with those of other studies that revealed no correlation at all (Rania & Warrad) or an adverse link between operational efficiency and ROA (Musah et al., 2019; Meseret & Getahun, 2017; Hongxing et al., 2018).

Market share and financial performance as evaluated by ROA are significantly inversely correlated (r=-0.200, p0.05). This implies that the ROA declines as market share rises and vice versa. As the company grows, poor margins could result in decreased profitability. The results concurred with those of (Fraering & Minor, 1994; Hagigi et al., 1990; Mutshinyani, 2009). The findings did not align with those (Etale et al., 2016; Leverty, 2001; Venkatraman & Prescott, 1990). Because companies with significant market shares benefit from economies of scale and effective usage of available shared resources, this author discovered that ROA grows as market share increases.

Hypotesis testing and discussions

The null hypothesis tested the effect of mergers and acquisition strategies on financial performance commercial bank in Kenya.
The first hypothesis tested as stated below;

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The relationship between Mergers and Acquisitions Strategies and financial performance of commercial banks in Kenya is not significant.

The first step was to conduct an Independent t-test for the mean difference in financial ratios before and after merger/acquisition to test the hypothesis that there was no significant difference in financial ratios before and after merger/acquisition.

Table 13. Independent t-tests for mean difference in financial ratios before and after merger/acquisition

		Lavene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
ROA	Equal variances assumed	42.484	.000	-50.727	268	.000	-1.285	.025	-1.334	-1.235
	Equal variances not assumed			-61.769	263.43	.000	-1.285	.021	-1.326	-1.244
Operational efficiency	Equal variances assumed	21.400	.000	-30.459	268	.000	-1.511	.050	-1.608	-1.413
	Equal variances not assumed			-25.914	118.10	.000	-1.511	.058	-1.626	-1.395
Market share	Equal variances assumed	.001	.973	-.882	268	.379	-.009	.010	-.028	.011
	Equal variances not assumed			-.886	171.09	.377	-.009	.010	-.028	.011

Table 13 indicates a significant difference in ROA after Mergers and Acquisitions Strategies (P=0.000<0.05). There was a significant difference in operational efficiency after Mergers and Acquisitions Strategies (P=0.000<0.05). There was a considerable difference in managerial efficiency after Mergers and Acquisitions Strategies (P=0.000<0.05). There was an insignificant difference in market share after Mergers and Acquisitions Strategies (P=0.973=>0.05).

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The above findings are consistent with those of Njambi and Kariuki, 2018 who found a significant difference in means financial ratios using t-test after Mergers and Acquisitions Strategies. Shehzad and Fatima, 2014 found inconsistent results with the finding in the study, where Mergers and Acquisitions Strategies did not reveal a significant mean difference after Mergers and Acquisitions Strategies. Kouser and Saba, 2011 found that the financial ratios decreased after Mergers and Acquisitions Strategies.

The second step carried out the multiple regressions involving regressing the financial performance against operational efficiency, managerial efficiency, and market share.

Table 14. Regression result for Mergers and Acquisitions Strategies the predictor variable and Financial Performance of Commercial Banks as the outcome variable

a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.266	.071	.048	.117	.071	3.186	2	84	.046

a. Dependent Variable: financial performance

b. Predictors: (Constant), Market sharer, Operational efficiency , Managerial efficiency

b) Goodness of fit-ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.087	2	.044	3.186	.046
	Residual	1.150	84	.014		
	Total	1.237	86			

a. Dependent Variable: financial performance

b. Predictors: (Constant), Market sharer, Operational efficiency

c) **Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.775	.264		6.719	.000
	Operational efficiency post-merger	.0420	.025	.249	2.362	.020
	Market share post-merger	-.125	.167	-.079	-.753	.454

a. Dependent Variable: ROA post-merger

Source: Research Findings

A statistically significant correlation between merger and acquisition tactics and financial performance is seen in Table 14 (a) (P=0.046=0.05). The adjusted R2 value for the multiple regression model was 0.048, the F (2, 84) value was 3.186, and the standard error was 0.117. This suggests that 4.8 percent of the variation in financial performance can be attributed to the interaction between operational effectiveness and market share. Further evidence suggests that the remaining 95,2 percent of the variation in financial performance of Kenya's commercial banks may be due to other variables. Therefore, it can be inferred that the addition of other elements can enhance the model that predicts the financial success of commercial banks using merger and acquisition techniques.

The regression sum square in Table 5.2(b) was 0.087 and the model residuals were 1.150, with a mean square for the regression being 0.044 and the residuals being 0.014. ANOVA findings showed an F- significance value of 3.128 and a p value of 0.046. This shows that there is a 0.04 percent chance that this model will make a mistaken forecast. The 1997 p-value, according to Ramsey, is a number between 0 and 1. The regression sum square in Table 5.2(b) was 0.087 and the model residuals were 1.150, with a mean square for the regression being 0.044 and the residuals being 0.014. ANOVA findings showed an F- significance value of 3.128 and a p value of 0.046. This shows that there is a 0.04 percent chance that this model will make a mistaken forecast. The 1997 p-value, according to Ramsey, is a number between 0 and 1.

The findings of the coefficients of the independent variables utilized in the regression model are also provided in Table 5.2(c), which shows that these variables have a variance relationship with the dependent variable. The model produced a constant value of 1.775 with a p-value of 0.046 (t-value = 6.719). Financial success was found to be significantly influenced by operational efficiency. With a t-value of 2.362 and a p-value of 0.020, operational efficiency had a significant positive of 0.060. However, as indicated by the coefficient of -0.125 (t-value = -.753) and p-value of 0.454, market share had a substantial adverse impact on the financial performance of banks.

The analytical model which was: $ROAit = \beta 0 + \beta_1 OF + \beta_2 MS + \varepsilon i$, is Therefore specified as:

$$ROAit = 1.775 + 0.0420OFi - 0.125MSi + \varepsilon i$$

Where ROAi is return on asset i, α1 is intercept, OFi is operational efficiency, MSi is the market share and εi is error term.

Since the regression coefficients of market share had a constant ($p>0.05$) are not statistically significant and therefore their beta regression

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coefficients were not different from zero, the regression model can then be simplified to:

$$ROAit = 1.775 + 0.0420OFi + \varepsilon i$$

From this model output, only operational efficiency is significant in influencing finance performance of commercial banks in Kenya in the absence of the mediating and moderation effects.

Discussions

The goal of the study was to ascertain how merger and acquisition strategies affected Kenya's commercial banks' financial performance. Operational effectiveness and market share were two M&A strategy characteristics used in this analysis. The return on assets served as a measure of financial performance. According to the research, operational effectiveness was a key factor in determining the financial success of Kenya's commercial banks. It was discovered that market share has no effect on the financial performance of banks.

Sporta et al, 2017 and Natarajan et al, 2013 support the findings on operational efficiency having a positive relationship with financial performance who aruged that management should focus to improve operational efficiency for financially distressed banks inroder to improve their financial perofrmance. The findings of the study is however inconsistent with that of Alkhatib and Harsheh, 2012 who found that operational efficiency has an insigingicant relationship with financial performance.The reason for the the statitistacal insgificance was due to other factors that influence financial performance other than operational efficiency.Buchory,2015 and Oktaviantari, 2013, found that,operational efficency had a negative significant effect on ROA. The reason behind the negative financial performance is due to other inefficiencies which results may result to underutilization of bank's asset.

The study finds are that market share has a postive insignificant relationship with financial perofrmance as measured using return on asset (ROA). The study findings are interdem with those Fazlzadeh and Sabbaghi, 2010,Varadajaran, 1993 whose findings were that,market share has no significant direct relationship with financial performance. The explanation behind insignifcant relationship is such other factor moderates the raltionship between market share and financial performance.Other studies decerns from the findings of this study includes; Buzzell, 2004 whose findings were that market share result to a signficant positive effect on the financial performance. This is because an increase in marker share results to an increase in market power where the business is able to dictate on indsutrial margins.

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Summary of findings

The purpose of the study was to determine how merger and acquisition strategies affected Kenya's commercial banks' financial performance. The results showed that operational effectiveness significantly improved the financial performance of Kenya's commercial banks. It was discovered that market share has a negligible favorable effect on the financial health of commercial banks.

Conclusion

The study comes to the conclusion that mergers and acquisitions have an impact on Kenya's commercial banks' financial performance. Operational effectiveness is the primary factor that has a substantial impact on financial performance. This implies that raising operational standards can boost financial results. Additionally, there was a negligible positive correlation between market share and financial success, indicating that while a larger market share may improve financial performance, it does not necessarily do so more significantly. If the objective is to improve financial performance, the bank may need to develop a strategy that enhances operational including mergers and acquisitions. When banks combine, there is a reduction in operational overheads resulting from duplication of efforts. The study observes that mergers and acquisitions mainly involve a well-performing and struggling bank. This makes it possible for the well-performing banks to integrate their expertise and turn around the fortunes of the struggling bank by improving its operations for optimal productivity. Operational efficiencies result from sharing services such as finance, marketing, human resources, IT, and research and development. It can result from sharing an expensive infrastructure, which overall results in cost savings. It is significant to note that operational efficiency alone cannot influence financial performance, and hence other factors play a critical role and need to be factored in.

The market share had an insignificant positive relationship with financial performance. This implies an increase in market share results in less than on unit increase in financial performance. An expanded market may result in wastage of resources, diseconomies, and other associated inefficiencies. Significant market share may create monopolies. Therefore, this kind of bank may face a challenge that comes with the resultant market, such as poor quality, overpricing, poor customer services, and allocative inefficiencies, productivity inefficiencies, among others, which may even make a negative impact on financial performance. Therefore, banks should lay well-structured to ensure they manage an expanded market well to avoid undesirable aftermath. Other factors also play a crucial role in ensuring an expanded market contributes positively to financial performance.

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Contribution to knowledge

The findings of this study add to the existing body of knowledge on Mergers and Acquisitions Strategies and bank financial performance. The significant contribution of the study is that Mergers and Acquisitions Strategies predict bank financial performance.

Recommendation and contribution to policy and practice

In the Kenyan banking industry, mergers and acquisitions are a common activity. However, bank merger and acquisition strategies are anticipated to boost financial performance while increasing the amount of outreach. The anticipated advantages from bank mergers and acquisitions strategies are weakened if banks place more emphasis on outreach than financial success. Therefore, banks must balance improving operations through operational efficiency with increasing profits by concentrating on factors that have a direct favorable impact on profitability.

Limitatio of the study

The study collected data time series for the period 1995-2017. The study limited itself to the said period, which may generalize to another period not covered in the survey. The data was collected for three years before Mergers and Acquisitions Strategies and three years after Mergers and Acquisitions Strategies. The three-year period might not be sufficient to realize the gains of Mergers and Acquisitions Strategies, and therefore a more extended period may give a better view. The study adopted secondary historical data, which may not necessarily, present the current situation. The use of secondary data offers a limitation on its own as it lacks managerial inputs. The study setting was primarily in Kenya, and a study incorporating the six East African Countries may be necessary.

Suggestions for futher research

A study with longitudinal data, maybe spanning more than five years, is preferred given the limitations mentioned above. The study made use of secondary data from the past, which may already be obsolete. Therefore, it may not be possible to avoid conducting a similar study utilizing primary data or a combination of primary and secondary data. The inclusion of management opinions regarding the relationship between financial success and mergers and acquisitions strategies will also be ensured by preliminary data. Kenyan commercial banks serve as the study's context, while other businesses including insurance, manufacturing, pharmaceuticals, etc. were also covered in a related study. Future academics and researchers have received strong recommendations in East African nations.

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