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

Justin Gachigo[*1], Herick Ondigo[2], Josiah Aduda[3] & Zipporah Onsomu[4]

[1]Department of Finance and Accounting, University of Nairobi

[2]Department of Finance and Accounting, University of Nairobi

[3] Department of Finance and Accounting, University of Nairobi

[4] Department of Finance and Accounting, University of Nairobi

***Email Address for the Corresponding author: gachigo.justin@gmail.com**

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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 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 of mergers and acquisitions on the financial performance of Kenyan commercial banks. Specifically, the study objectives were to assess the impact of operating efficiency, managerial efficiency and market share on the financial performance of commercial banks in Kenya. 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. The study population was 30 commercial banks in Kenya that had completed mergers and acquisitions by 2017. The study used secondary data collected through a secondary data collection template. An average of three-year ratios was computed in both pre-merger and acquisition periods to analyze the effect of mergers and acquisition strategies on financial performance. The years of the deal were excluded. The mean difference between the pre-mergers and acquisitions and post-mergers and acquisitions ratios was tested using the T-test. The mathematical relationship between the study variables in the two periods was determined using multiple regressions. F-Test was used to measure the predictive ability of the model. The coefficient of determination

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(R_2) was used to establish the model's goodness of fit. The findings were that mergers and acquisitions strategies have a statically significant relationship with the financial performance of commercial banks. The study recommends that 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, managerial efficiency, market share, financial performance, commercial banks and Kenya.*

1.1 Introduction

The terms mergers and acquisitions 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 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 (Gaughan,2010; Sherman,2010). Horizontal mergers and acquisitions involve a combination of businesses that are in the same line of business or are competitors within product lines. Horizontal mergers and acquisitions 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. This type of merger helps banks eliminate competitors, gain market share, and increase market power (Cowling, 1980; Green, 1990).

Globally, Mergers and acquisitions 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 2021 shows a significant increase in the value and volume of mergers and acquisitions, 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, KCB bank acquired certain assets of the imperial bank effective 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 are increasingly becoming a fundamental strategy for corporates to improve their financial performance. This is because mergers and acquisitions 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 also help the organization with risk management through diversification. Other importance of mergers and acquisitions includes tax considerations, technological change, growth acceleration, and gains from the undervalued target (EduPristine, 2015; Motis,2007; Mboroto, 2012).

M&As 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, 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. Kiessling and Harvey (2006) argue that there is no best method to measure the success of mergers and acquisitions 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; Ombaka and Jagongo, 2018; Wango'mbe, 2015; Sangmi and Nazir, 2010). Operational efficiency, market share, and managerial efficiency were measured using the operating efficiency ratio, managerial efficiency ratio, and market share ratio. 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.

1.2 Statement of the problem

Commercial banks operate in a highly dynamic legal and operating environment, necessitating them to develop strategies to deal with the industrial dynamism (Kumar & Bansal, 2008). Some commercial banks in Kenya have been placed under statutory management due to their inability to meet the minimum regulatory requirements. Other banks have been experiencing declining profits and deteriorating balance sheets (Kathali, 2014). Several commercial banks have adopted mergers and acquisitions strategies as a catalyst for revenue growth, elimination of inefficiencies, diversification, increased market share, increased customer base, and improved capitalization (Nguli & Kyule, 2020).

Kenya has witnessed a sudden wave of commercial banks considering mergers and acquisitions with mega-deals such as those of CBA and NIC, KCB, and NBK, among others which have stirred up increased interest from regulators, academicians, and professionals. At least 59 commercial bank mergers/acquisitions have been registered in Kenya since 1989. Analysts and the regulator predict more mergers/acquisitions will come shortly (Asokoinsight, 2020; Catton, 2019). Most mergers /acquisitions in Kenya are driven by market forces, with some cases being induced through regulatory influences, i.e., chase bank, Dubai bank, and imperial bank.

The studies reviewed on the mergers and acquisitions strategies and financial performance have revealed inconsistencies in the results. Some studies found that mergers/acquisitions result in the improved financial performance of commercial banks (Ibeji, 2015; Kathali, 2018; Korir, 2006; Ogada et al., 2016; Ombaka&Jagongo; 2018; Mwanza, 2016). In other studies, the researchers found that mergers and acquisitions strategies do not influence financial performance (Chesang, 2002; David, 2011; Ochieng, 2006; Marembo, 2012; Muya, 2006; Ndura, 2010). Harney (2011) explained that most recent mergers and acquisitions do not directly show financial performance improvement. The contradiction could have arisen due to variations in sample size, study context, methodological approaches, and population characteristics.

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 understand the relationship between mergers and acquisitions strategies and the financial performance of commercial banks in Kenya. This research aimed to find out how mergers and acquisitions strategies influence the financial performance of commercial banks in Kenya.

1.3 Research Objectives

The main objective of this study was to look into the effects of mergers and acquisitions 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 evaluate the effect of managerial efficiency on the financial performance of commercial banks in Kenya.

iii. To determine the effect of market share on the financial performance of commercial banks in Kenya.

2.1 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 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 mergers and acquisitions and financial performance. The theory highlights that mergers and acquisitions 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 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).

2.2 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. 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 on the financial performance of banks in Pakistan. The 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.

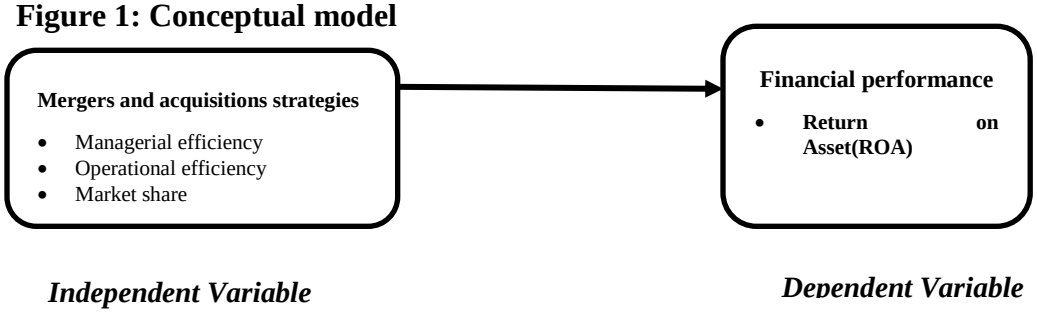
Muhammad, Waqas, and Migliori (2019) evaluated the effect of mergers and acquisitions on the bank's financial performance in Pakistani. The data for the analysis was done for the banks which merged between 2004 and 2015. The sample size was 15 banks out of a population of 30 banks

where the purposive sampling technique was employed. Panel data was used to empirically test the impact of mergers and acquisitions 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.

2.3 Conceptual Framework

Figure 1 below presents a conceptual framework model of relationships between mergers and acquisitions strategies and financial performance of commercial banks in Kenya. The model shows that mergers and acquisitions strategies can directly influence the financial performance of commercial banks.

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.

3.1 Research Methodology

Positivism research philosophy guided this study as it supports a quantitative approach to analyze a phenomenon, causality investigation and testing of measurable concepts (Orlikowski &Baroudi, 1991; Saunders et al., .2007). A correlational descriptive research design was adopted in this study as it supports a study examining relationships among the study variables. The study's participants were 30 Kenyan commercial banks that have undergone mergers or acquisitions between 1995 and 2017. Because the population is relatively tiny, a census was conducted instead of sampling. Secondary data was used in this study with the data collected from documents and records such as financial statements and the regulator's annual report. A diagnostic test was carried out to ensure no bias in the data arising from linear regression model assumptions. Specifically, the data will be tested for deductions such as linear relationship, normality, multicollinearity, auto-correlation and homoscedasticity. Mergers and acquisition strategies indicators were managerial efficiency, operational efficiency and market share. Managerial efficiency was measured using a total income

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and total assets; operational efficiency was measured using a proportion of operating expenses and total revenue.

In contrast, market share was measured using total revenue to industry revenue. In a similar study in Kenya, the measures and the indicators are identical to those (Ogada, Njuguna, & Achoki, 2016; Ombaka & Jagongo, 2018). The change in the financial performance between the pre-merger/acquisition and post-merger/acquisition period was determined using three techniques. First, ratios were computed by considering the average of 3 years before mergers and acquisition and three years after mergers and acquisition of banks. The second T-test was used to test for significant differences between the pre mergers and acquisition and post mergers and acquisition ratios individually (Abbas, 2014; Ong, Teo, & Tec, 2011).ROA was used as the indicator of the financial performance with its ratio as the measure. The year of merger/acquisition was excluded from the study. The mathematical relationship between the study variables in the two periods was determined using multiple regression. F-Test was used to measure the predictive ability of the model. The coefficient of determination (R_2) was used to establish the model's goodness of fit. The relationship between mergers and acquisitions strategies and financial performance was established by using a multiple regression model. The below numerous regression models will be used to test hypothesis one of the study.

$ROA = \beta 0 + \beta_1 OF + \beta_2 MS + \beta_3 ME + \varepsilon i$….. (1)

Where:

ROA : Return on Asset

$\beta 0$: Regression constant or intercept,

βi : Regression coefficients of variable

OF : Operational Efficiency

MS : Market Share

ME :Managerial Efficiency

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

4.1 Data Analysis Findings and Discussion

4.2 Descriptive Statistics

The table 1 shows the result of the descriptive statitics of before and after mergers and acquistions.

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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
Managerial efficiency-post merger	87	.235	.888	.565	.167	.111	.258	-.747	.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
Managerial efficiency-pre merger	183	.006	.359	.171	.084	.173	.180	-.647	.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 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. 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. 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 were not optimal.

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 ratio of the total asset to total revenue depicted by managerial efficiency is 0.171, with a standard deviation of 0.084. The mean for return on asset (ROA) after mergers and acquisitions 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 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. 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 were not optimal though better than before mergers and acquisitions. 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

Table 2: Mean differences before and mergers and acquisitions

	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
Managerial efficiency	Pre-merger	183	.171	.084	.006
	Post-merger	87	.565	.167	.018
Market share	Pre-merger	183	1.526	.077	.006
	Post-merger	87	1.535	.076	.008

Source: Research Findings

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).

4.3 Diagnostics Tests

Independence Test

The data must have little or no autocorrelation to perform linear regression analysis.

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Table 3: Independence Test before mergers and acquisitions

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

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, Managerial efficiency 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 (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
Operational efficiency pre-merger	Between Groups	17.340	181	.096	29.841	.145
Managerial efficiency pre-merger	Between Groups	1.240	181	.007	.162	.986
Market share pre-merger	Between Groups	1.074	181	.006	5.190	.339

Table 6 Linearity test after mergers and acquisitions (ANOVA)

		Sum of Squares	df	Mean Square	F	Sig.
Operational efficiency post-merger	Between Groups	17.340	83	.096	29.841	.132
Managerial efficiency post-merger	Between Groups	1.240	83	.007	.162	.886
Market share post-merger	Between Groups	1.074	83	.006	5.190	.439

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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

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.729	.257		2.833	.005		
	Operational efficiency pre-merger	-.101	.043	-.141	-2.367	.019	.941	1.063
	Managerial efficiency pre-merger	-1.533	.157	-.582	-9.737	.000	.940	1.064
	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

Model		**Unstandardized Coefficients**		**Standardized Coefficients**			**Collinearity Statistics**	
		B	**Std. Error**	**Beta**	**t**	**Sig.**	**Tolerance**	**VIF**
1	(Constant)	1.568	.241		6.510	.000		
	Operational efficiency Post Merger	.052	.023	.216	2.281	.025	.991	1.009
	Managerial efficiency Post Merger	.316	.068	.439	4.643	.000	.992	1.008
	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

	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
Managerial efficiency pre-merger	.042	183	.200*	.983	183	.024
Market share pre-merger	.036	183	.200*	.996	183	.912

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

Table 10 Normality test result after mergers and acquisitions

	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
Managerial efficiency Post Merger	.062	87	.200*	.978	87	.139
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.

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4.4 Correlational analysis

Correlation analysis is used to measure the strength of a linear association between two variables.

Table 11:Correlational analysis for mergers and acquisition strategies before mergers and acquisitions

		ROA pre-merger	Operational efficiency pre-merger	Managerial efficiency pre-merger	Market share pre-merger
ROA pre-merger	r	1	-.283**	-.616**	.017
Operational efficiency pre-merger	r	-.283**	1	.244**	.002
Managerial efficiency pre-merger	r	-.616**	.244**	1	-.024
Market share pre-merger	r	.017	.002	-.024	1

**. Correlation is significant at the 0.01 level (2-tailed).

Table 11 indicates operational efficiency($r=-0.283$, $p<0.01$) is significantly negatively related to financial performance. The negative relationship is an indication that an increase in operational efficiency results in a decrease in financial performance as measured using ROA. This implies that, for a firm to achieve optimal operational efficiency, it has to employ operational cost-cutting measures, revenue enhancement strategies, and improvement of capital base, asset quality, and liquid assets (Musah et al., 2019). This outcome is similar to those of (Musah et al., 2019; Meseret & Getahun, 2017; Hongxing et al., 2018). However, the findings were inconsistent with those of Ranjan and Bishnu (2017), who found a significant positive relationship on ROA, and Rania and Warrad (2015), who found no association between operational efficiency and ROA.

Managerial efficiency ($r=0.616$, $p>0.05$) is positively related to financial performance. This implies improvement in managerial efficiency results in the improvement in financial performance. Managerial efficiency results from inefficient utilization of resources and hence better financial performance. This outcome is similar to (Wangari 2017; Sakwa et al., 2019; Barus et al., 2017; Kaneza, 2016). Market share ($r=0.0179$, $p<0.01$) indicates an insignificant positive relationship with ROA. This infers that as the market share increases, the ROA increases, but with a smaller margin. This observation is because firms with high market share yield reduced performance as measured using ROA. The explanation given to this deviation from theoretical expectation is that companies with high market share tend to return low margins (Fraering & Minor, 1994). These results are similar to those of (Fraering & Minor, 1994; Hagigi et al., 1990; Mutshinyani, 2009). However, the results are inconsistent with other studies where the findings were that market share had a strong positive relationship with the ROA. The reasoning behind the observation is that a larger market share attracts economies of scale which comes with benefits

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such as low cost of production and higher returns (Etale et al., 2016; Leverty, 2001; Venkatraman & Prescott, 1990).

Table 12: Correlational analysis for mergers and acquisition strategies after mergers and acquisitions

		ROA Post Merger	Operational efficiency Post Merger	Managerial efficiency Post Merger	Market share Post Merger
ROA Post Merger	r	1	.253*	.459**	-.094
Operational efficiency Post Merger	r	.253*	1	.077	-.057
Managerial efficiency Post Merger	r	.459**	.077	1	-.046
Market share Post Merger	r	-.094	-.057	-.046	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Table 12 indicates operational efficiency(r=0.254, p>0.051) is significantly positively related to the financial performance as measured using ROA. The positive relationship is an indication that an increase in operational efficiency increases financial performance as measured using ROA. This implies that, after the mergers and acquisitions, the firms achieved optimal operating efficiency, enhanced revenue, improved capital base asset quality, and liquid asset. This outcome is similar to those of (Ranjan & Bishnu, 2017; Megeid et al., 2019; Natarajan et al., 2017). The findings were, however, inconsistent with other researchers who found an inverse relationship between operational efficiency and ROA (Musah et al., 2019; Meseret & Getahun, 2017; Hongxing et al., 2018) other found no connection at all (Rania & Warrad (2015).

Managerial efficiency (r=0.462, p>0.05) is significantly positively related to financial performance as measured using ROA. This implies improvement in organizational efficiency results in the improvement in financial performance. Managerial efficiency results from inefficient utilization of resources and hence better financial performance. This outcome is similar to (Wangari 2017; Sakwa et al., 2019; Barus et al., 2017; Kaneza, 2016). Market share (r=-0.095, p<0.05) indicates a significant negative relationship with financial performance measured using ROA. This infers that the ROA decreases as the market share increases and vice-versa. It may experience reduced profitability as the firm increases due to low margins. The findings were similar to those of (Fraering & Minor, 1994; Hagigi et al., 1990; Mutshinyani, 2009). The conclusions were inconsistent with those (Etale et al., 2016; Leverty, 2001; Venkatraman & Prescott, 1990). This author found that as the market share increases, ROA increases because firms with high market share enjoy economies of scale and efficient utilization of idle shared resources.

4.5 Hypothesis Testing and Discussions

The null hypothesis tested the effect of mergers and acquisition strategies on financial performance commercial bank in Kenya.

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The first hypothesis tested as stated below;

The relationship between mergers and acquisition 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
Managerial efficiency	Equal variances assumed	61.088	.000	-25.846	268	.000	-.394	.015	-.424	-.364
	Equal variances not assumed			-20.820	107.20	.000	-.394	.019	-.432	-.357
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

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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 (P=0.973=>0.05).

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. Shehzad and Fatima, 2014 found inconsistent results with the finding in the study, where mergers and acquisitions did not reveal a significant mean difference after mergers and acquisitions. Kouser and Saba, 2011 found that the financial ratios decreased after mergers and acquisitions.

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 Acquisition Strategies as the predictor variable and Financial Performance of Commercial Banks as the outcome variable

a)Model Summary

					Change Statistics					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**R Square Change**	**F Change**	**df1**	**df2**	**Sig. F Change**	
1	.512	.262	.235	.105	.262	9.828	3	83	.000	

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	.324	3	.108	9.828	.000
	Residual	.913	83	.011		
	Total	1.237	86			

c)Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	1.568	.241		6.510	.000
Operational efficiency post-merger	.052	.023	.216	2.281	.025
Managerial efficiency post-merger	.316	.068	.439	4.643	.000
Market share post-merger	-.096	.149	-.061	-.646	.520

a. Dependent Variable: ROA post-merger

Source: Research Findings

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Table 14 (a) reveals a statistically significant relationship between mergers and acquisition strategies and financial performance (P=0.000=<0.05). The multiple regression model had an Adjusted R^2 = 0.235, F (3, 83) =9.828 and a standard error of 0.105. This infers that the combination of operational efficiency, managerial efficiency and market share accounts for 23.5% of the variation in financial performance. This further reveals that other factors could influence the financial performance accounting for 76.5% of the variation. Therefore, it can be concluded that the different aspects can improve the predictive model of mergers and acquisitions strategies on bank financial performance.

Table 14 (b), the ANOVA of regression model provided the regression sum square of 0.324 and a model residual's of 0.913 with a mean square of 0.108 for the regression and 0.011 for the residuals. The Analysis of Variance (ANOVA) results produced an F- significance value of 9.828 and a p < 0.000. This indicates that the probability of this model giving a false prediction is 0.0%. According to Ramsey, 1997 *p-value* is a number between 0 and 1. The number is interpreted as follows: a small *p-value* (typically ≤ 0.05) indicates strong evidence against the null hypothesis. A significant *p-value* (> 0.05) indicates weak evidence against the null hypothesis. In the case, the p-value is =<0.05, the null hypothesis is rejected, while when the p-value is (=>0.05), we fail to reject the null hypothesis. In this study, the p-value is less than (p=0.000). Therefore, we reject the null idea that mergers and acquisitions strategies do not significantly influence commercial banks' financial performance.

Table 14(c) the regression model further gives the results of coefficients of independent variables used in the model, which indicate that these variables have a variance related to the dependent variable. The model provided a constant value of 1.568 (*t* – value = 6.510) with a *p-value* of 0.000. Managerial efficiency and operational efficiency were major determinants of financial performance. Managerial efficiency had a significant positive coefficient of 0.316 with a value of 4.643 and a *p-value* of 0.000. In contrast, operational efficiency had a significant positive of 0.052, with a t-value of 2.281 and a p-value of 0.025. Market share, however, has a significant negative effect on the financial performance of banks as denoted by the coefficient of -0.096 (*t* – value = - .646) and *p-value* of 0.520.

The analytical model which was: $ROAit = \beta 0 + \beta_1 OF + \beta_2 MS + \beta_3 ME + \varepsilon i$, is

Therefore specified as:

$ROAit = 1.568 + 0.052OFi + 0.316MEi - 0.096MSi + \varepsilon i$

ROI is the return on asset i, α1 is intercept, OFi is operational efficiency, MSI is the market share, MEi is the managerial efficiency, and εi is the error term.

Since the regression coefficients of market share had a constant (p>0.05) are not statistically significant. Therefore their beta regression coefficients were not different from zero; the regression model can then be simplified to:

$ROAit = 1.568 + 0.052OFi - + 0.316MEi + \varepsilon i$

From this model output, only operational and managerial efficiency are significant in influencing the financial performance of commercial banks in Kenya without mediating and moderating effects.

4.6 Discussions

The study's objective was to determine the effect of mergers and acquisitions strategies on the financial performance of commercial banks in Kenya. This study used three attributes of mergers and acquisitions strategies: operational efficiency, managerial efficiency, and market share. The indicator of financial performance was return on assets. The findings revealed that managerial efficiency was a significant determinant of the financial performance of commercial banks in Kenya. Operational efficiency was found to have an insignificant positive effect on bank financial performance in Kenya. Market share was found not to impact bank financial performance significantly.

Sports et al., 2017 and Natarajan et al., 2013 support the findings on operational efficiency having a positive relationship with financial performance. Management should focus on improving operational efficiency for financially distressed banks to improve their financial performance. However, the findings of the study are inconsistent with that of Alkhatib and Harsheh, 2012 who found that operational efficiency has an insignificant relationship with financial performance. The statistical insignificance was due to other factors that influence financial performance other than operational efficiency. Banchory, 2015 and Oktaviantari, 2013, found that operational efficiency had a significant adverse effect on ROA. The negative financial performance is due to other inefficiencies, which may result in the underutilization of the bank's assets.

The study findings are that managerial efficiency has a significant positive relationship with financial performance. The results agree with Festus et al., 2019 and Jakada & Aliyu, 2015 who argued that managerial efficiency is a crucial driver toward better financial performance. Managerial ability enhances cost controls, financial capabilities in controlling short term and long term capital liquidity. Failure to efficiently and maximum deploy organization resources for optimal output may result in liquidity problems or even bankruptcy (Ejike & Agha, 2018). However, the study results from conflict with those of Barus et al., 2017 whose findings were that managerial efficiency has no significant relationship with financial performance. This meant that an improvement in managerial efficiency would not lead to an improvement in financial performance. The management must improve other factors such as asset quality and capital adequacy to influence economic performance.

The study finds are that market share has an insignificant positive relationship with financial performance as measured using return on asset (ROA). The study findings are interim with those of Fazlzadeh and Sabbagh, 2010, Varadajaran, 1993 whose findings were that market share has no significant direct relationship with financial performance. The explanation behind the insignificant relationship is another factor that moderates the relationship between market share and financial performance. Other studies decern from the findings of this study include; Buzzell, 2004 whose findings were that market share result in a significant positive effect on financial performance. This is because an increase in market share increases market power where the business can dictate industrial margins.

4.7 Summary of Findings

The study objective was to establish the effect of Mergers and acquisitions strategies financial performance of commercial banks in Kenya. The findings were that, generally, operational efficiency and managerial efficiency were the only attributes that had a significant positive effect

on the financial performance of commercial banks in Kenya. Market share was found to have an insignificant positive impact on the financial performance of commercial banks.

5.1 Conclusions

The study concludes that mergers and acquisitions strategies affect the financial performance of commercial banks in Kenya. The main aspects that significantly affect financial performance are operational and managerial efficiency. This means that improving operational and managerial efficiency can enhance financial performance. Market share also had an insignificant positive relationship with financial performance, meaning that an increase in market share may improve financial performance, but not to a greater extent. If the objective is to improve financial performance, the bank may need to develop a strategy that enhances operational and managerial efficiencies, 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 strategies 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, resulting 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.

Managerial efficiencies result from differentiated synergies. If bank A is well efficient than bank B, then bank A acquires bank B, then bank A improves the efficiency of bank B. It is then better said, if a bank is operating sub-optimally, it can consider mergers and acquisition strategies to alleviate the sub-optimality problem. Management of a poorly run company threatens being taken over by a well-run company. The decision for takeover is best made around companies operating within the same industry. This ensures that managers will not require any training, and expertise has already been built up. This further enhances efficient utilization of resources hence avoiding duplication of budgets on the same production unit.

The market had an insignificant positive relationship with financial performance. This implies that an increase in market share results in a less than the unit increase in economic performance. An expanded market may waste 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 strategies to ensure they manage an expanded market well to avoid undesirable aftermath. Other factors also play a crucial role in providing an expanded market that contributes positively to financial performance.

6.1 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.

6.2 Recommendation and Contribution to Policy and Practice

Mergers and acquisition strategies is a current practice in the Kenya banking sector. However, bank mergers and acquisitions strategies are expected to increase the level of outreach while contributing to financial performance. If banks concentrate more on outreach at the expense of financial performance, then the anticipated benefits from bank mergers and acquisitions are compromised. Banks, therefore, need to strike a balance between enhancing their operations through operational efficiency and improving profits by focusing on aspects that have a direct positive effect on profits.

7.1 Limitations 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. 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.

7.2 Suggestions for Further Research

From the limitation described above, a study with longitudinal data, maybe more than five years, is desirable. The study used historical secondary data, which may be overtaken by even. Therefore, a similar study using primary data or a mix of primary and secondary data may not be evitable. Preliminary data will also ensure the inclusion of management views on the effect of Mergers and acquisitions strategies and financial performance. The study context is commercial banks in Kenya, with a similar study covering other industries like insurance, manufacturing, pharmaceutical, etc. In East African countries been highly recommended to future researchers and academicians.

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