EFFECT OF MERGERS AND ACQUISITION ON THE ORGANIZATIONAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KENYA

Mary Nyakarura Irungu & Dr. Lawrence Wainaina, PhD

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 10, Iss.3, pp 533 – 540. September 15, 2023. www.strategicjournals.com, ©Strategic Journals

EFFECT OF MERGERS AND ACQUISITION ON THE ORGANIZATIONAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KENYA

[1] Irungu, M. N., & [2] Wainaina, L.

[1] MBA Candidate, School of Business, Economics and Tourism, Kenyatta University [KU], Kenya
[2] Lecturer, School of Business, Economics and Tourism, Kenyatta University [KU], Kenya

Accepted: September 3, 2023

DOI: http://dx.doi.org/10.61426/sjbcm.v10i3.2724

ABSTRACT

Globalization and stiff competition propel commercial banks to embrace various survival mechanisms in order to remain relevant and post superior performance. In an attempt to alleviate the scenarios of inferior performance, commercial banks incorporated various transformative changes such as mergers and acquisition. This current study therefore investigated the effect of mergers and acquisition on organizational performance of selected commercial banks in Kenya. Synergy theory was reviewed so as to support this research project. The project embraced a descriptive research design whereas data collection was via primary means on the sample considered. The target population under consideration constituted of 195 top level managers. The study sample size comprised 131 units of analysis which were generated through the stratified random sampling techniques. This research employed primary data which was quantitative in nature and it was collected using questionnaires. Validity as well as reliability of the study tools was conducted through pilot testing before actual data collection and any adjustments made so as to warrant quality and reliable data collection process. Analysis of data was through SPSS. The test statistics results from the regression model indicated that merger and acquisition had a positive significant relationship with organizational performance. Finally, the researcher recommended that policy formulating bodies such as the central bank of Kenya should pass statutes as well as encourage commercial banks to embrace Merger and Acquisition.

Key Words: *Mergers and Acquisition, Commercial Banks*

CITATION: Irungu, M. N., & Wainaina, L. (2023). Effect of mergers and acquisition on the organizational performance of selected commercial banks in Kenya. *The Strategic Journal of Business & Change Management,* 10 (3), 533 – 540. DOI: http://dx.doi.org/10.61426/sjbcm.v10i3.2724

INTRODUCTION

Organizations seeking to outdo competition and maintain a competitive edge always seek to embrace transformative changes and view them as integral components of organizational success (Bryar, Cemil, & Akar, 2020). As a result of stiff competition, banks underwent significant revolution and transformative changes in the past decade such as merging, advancement in technology, diversification and restructuring in order to survive (Nakola & Harwood, 2016). This current study looked at these transformative changes; Mergers and Acquisition, organizational restructuring, technological advancement and diversification in order to unravel their consequence on the performance of Kenyan carefully chosen banks.

Merger is a voluntary fusion of two entities into one legal entity (Muhammad, Waqas, & Milgliori, 2019). Whereas acquisition denotes to when one firm procures more than 50% of the shares of another entity, hence attaining control over it (Muhammad, Waqas, & Milgliori, 2019). Merger and acquisitions deal aid companies in managing competition in the current dynamic world (Hassen, Fakhri, Bilel, Wassim, & Faozui, 2018).

It relates as well as demonstrates the capability of an entity to accomplish its undertaking and realize its goals by embracing comprehensive strategic administrative practices, robust governance as well as tenacious re-dedication of resources so as to achieve desired results (Okenda, Thuo, & Kithinji, 2017). Organizational performance can be determined through both monetary as well as no-financial parameters (Tayari & Mutinda, 2019). The fiscal parameters used in measuring organizational performance may include but not limited to asset turn over as well as debt to equity ratios (Kenga & Banafa, 2019).

They are firms authorized by régimes to accept deposits as well as act as intermediaries in financial transactions among other monetary amenities to its clients (Kenga & Banafa, 2019). The banking industry in Kenya has been evolving ever since independence, thus reflecting the country's development journey towards economic affluence (Kenga & Banafa, 2019). In totality Kenya has 44 banks, out of which 31 are indigenous banks while the other 13 are owned by oversee investors, out of the 31 local banks, 27 are commercial banks while 3 are government owned and 1 is a mortgage institution (Kenga & Banafa, 2019).

Significant changes have been witnessed in the banking industry as a whole ever since independence (Tayari & Mutinda, 2019). For instance, business process change, mobile banking came into place, turnaround time improved, some banks rebranded, while others were declared bankrupt and hence placed under receivership, even as others went into merger and acquisition deals (Tayari & Mutinda, 2019). This study narrowed down to selected commercial banks which have undergone significant transformative changes and examine their consequences on performance.

The banks which have undergone significant transformative changes in Kenya may include but not limited to CBA and NIC which merged into NCBA bank as well as Equity bank which diversified significantly to the extent of owning a telecommunication line called Equitel (CBK, 2022). The significant transformative change by NCBA bank through merger saw its asset base rising to 4 billion US Dollars as at September 2019 (CBK, 2022). The organization structure of NIC and CBA had to be scraped off and replaced with a new one of NCBA which reflects the current face of the bank after merger.

Kenya Commercial Bank (KCB) is also another bank which has undergone significant transformative changes such as owning several financial institutions which include the NBK, and today, KCB is the chief bank asset-wise in the country (CBK, 2022). The bank has also diversified into various frontiers and has existence in the eastern Africa countries such as Tanzania, Uganda, as well as Rwanda (CBK, 2022)

Equity bank which is viewed as a game changer in the market has diversified even into the telecommunication industry and has its own line called equitel (CBK, 2022). Equity bank also has also diversified and today it has its presence in the east African countries such as Tanzania and Rwanda (CBK, 2022). The selected commercial banks which underwent significant transformative changes in the recent past and were earmarked for investigation in this current study.

Statement of the Problem

Commercial banks in Kenya have recently been posting subpar results (Osman & Muathe, 2021). For instance, Kiemo and Mugo (2021) in their studies pinpointed that non-performing loans (NPL) rose from 4.5% in 2012 to 12% in 2018. Whereas Deloitte (2022) also found that commercial banks are performing poorly as evidenced by increased customer complaints, slow service turnaround times and reputational concern. These scenarios of poor bank performance such as Bank capital inadequacy, decreasing liquidity, poor turnaround times and unsatisfied customers instigates bank 'runs' and ultimately constricts the banks' assets and customer base (Mwarabu & Abdulkadir, 2019). Customer attrition, capital inadequacy and decreasing liquidity catapulted Imperial bank and Chase bank poor performance and consequently were put under statutory management (CBK, 2022). Whereas, poor performance made National Bank of Kenya (NBK) close most of their branches such as the Moi Avenue branch in Mombasa and later on it was acquired by KCB (Kenga & Banafa, 2019). In quest to record positive performance and manage stiff competition from local and international banks as well as rivalry from Non-Banking Financial Institutions (NBFI), banks in Kenya embraced significant transformative changes (Nakola & Harwood, 2016). For instance, CBA and NIC merged to form NCBA and Cooperative bank acquired Jamii Bora bank in an attempt to upsurge their customer base as well as asset base (CBK, 2022). Equity bank diversified into the telecommunication industry in order to capitalize on the rapid population growth and increase their client base. Whereas KCB, NCBA, and Equity banks diversified and ventured into the Uganda, South Sudan, Tanzania and Rwanda markets in an attempt to increase their customer and asset base. Other banks such as Cooperative banks and Stanbic bank embraced modern technologies in attempt to improve on efficiency and turnaround times. The transformative changes were engaged in attempt to counter inefficiencies in terms of turnaround times, increase customer base and income streams as well as customer and employees' satisfactions.

Global studies reveal that embracing transformative changes vastly enhances performance in terms of growing customer and capital bases, streamlining operations, ramping up turnaround times, increasing income streams and optimizing financial performance (Atieno & Kyongo, 2017). For instance, using causal correlation technique to analyze data, Batlolona, Ribka, and Notanubun (2019) found that organizational restructuring affects organizational performance in Indonesia.

While incorporating ex-post-facto research design, Oladimeji and Udosen (2019) found that diversification significantly and positively influenced performance of listed companies at the Nigeria Stock Exchange. These studies brought out the contextual and the methodological gap, since this current research was undertaken in the banking sector of Kenya and it employed a descriptive research design. Finally, the reviewed studies also brought out the conceptual gap, because none of the scholars incorporated all the variables under inquiry in this study. These eventualities prompted the need for this current research so as to discourse the research gaps. This research therefore investigated mergers and acquisition in quest to ascertain their effect on the organizational performance of selected commercial banks in Kenya.

Objectives of the Study

This project investigated the effect of mergers and acquisition on the organizational performance of selected commercial banks in Kenya.

The research poised towards answering the ensuing question:

- What is the effect of merger and acquisition on the organizational performance of selected commercial banks in Kenya.

LITERATURE REVIEW

Synergy Theory

The synergy theory was first promulgated by Hergenhahn in the 1970s (Nasieku & Susan, 2016). The theory holds that the combined worth of combining entities will always be surpass the summation of the distinct entities (Mwarabu, Banafa, & Ibua, 2021). Nasieku and Susan (2016) adds that synergy is a term that is commonly used in the context of mergers as well as acquisitions. And it postulates that the combined value of an entity after merger and acquisition deals is always higher than the individual values before merger and acquisition (Nasieku & Susan, 2016). Mergers and acquisition broadly occur due to their inherent capabilities of generating 'synergies' amid consolidated companies which ultimately, upsurges the general performance of the entities (Mwarabu, Banafa, & Ibua, 2021). Synergy is always the motive behind two entities consolidating.

There are two types of synergies which can be achieved through the transformative changes of merger and acquisition (Feldman & Hernandez, 2022). The cost saving synergy or the operational synergy can be achieved when two entities combine with a view of cost cutting (Feldman & Hernandez, 2022). This can be achieved through the employment of one CEO instead of the previous two who were managing the entities before consolidation (Mwarabu, Banafa, & Ibua, 2021). It can also be realized when the combined firm has a command in the market due to its new big size and can negotiate better rates forts its factors of production (Nasieku & Susan, 2016).

The other type of synergy is the revenue enhancement, which can be achieved when the combined firm gets new powers and control the market through pricing and venturing into new frontiers (Feldman & Hernandez, 2022). Therefore, amalgamation normally occurs with the hope of increasing expected turn over future cash flows and cost reduction through economies of scale (Mwarabu, Banafa, & Ibua, 2021). Nasieku and Susan (2016) contended that, mergers are preferred due to their ability to generate positive return and cohesively create power and control of the market. Nasieku and Susan (2016) further argue that, merging establishments upsurges the asset quality, quantity as well as the customer-base for the merged entities, thus enabling customers to enjoy superior products, competent services, as well as modern inventions.

Recently in Kenya, for instance in 2019, CBA and NIC banks merged to form NCBA bank (CBK, 2022). I&M bank acquired Giro bank while CFC and Stanbic bank merged, and KCB acquired NBK (CBK, 2022). This study is geared towards investigating how these transformative changes through mergers and acquisition affect the performance of banks in Kenya. This theory supports the mergers and acquisition variables of this research.

Empirical Review

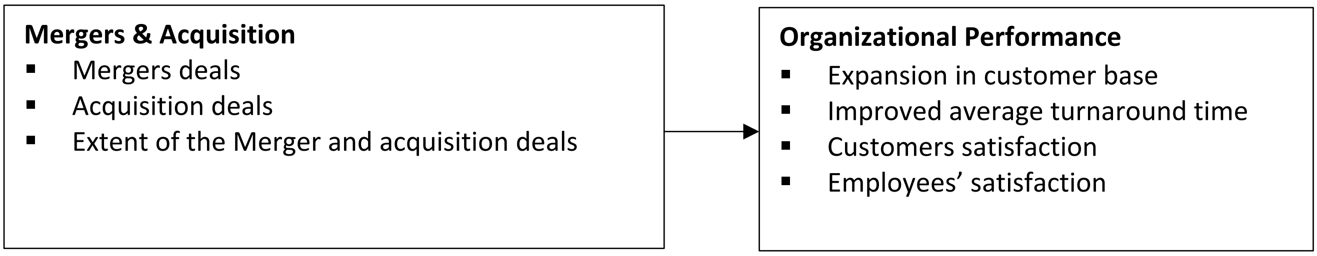
Mergers and Acquisition and Organizational Performance

Mwarabu, Banafa, and Ibua (2021) considered merger and acquisition in their research on merger and financial performance. Mwarabu, Banafa, and Ibua (2021) employed a descriptive design, primary as well as secondary data. The researchers employed several diagnostic statistics and the regression statistics from the regression model guiding their research study were used testing their hypothesis. The researchers found that merger positively as well as significantly affect financial performance. This current study used primary data and it also employed research questions.

Musa, Abdulai, and Baffour (2020) studied the effect of merger and acquisition on Ghanaian banks' performance. The researchers employed a descriptive research design whereas the secondary data analysis was via correlation as well as regression. The scholars resolved that merger as well as acquisition positively affected bank performance in Ghana. This present research was conducted in Kenya and it used primary data as well.

Ombaka and Jagongo (2018) studied the effect of mergers as well as acquisition on Kenyan banks' financial performance. The researchers employed quantitative data and the collected data was analyzed descriptively via SPSS. The researchers resolved that mergers as well as acquisition significantly affect the performance. This current research also used quantitative data.

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

The research project embraced a descriptive research design in carrying out this research. This project employed quantitative approaches in quest to enhance data collection, evaluation and problem understanding. The target population of this research was constructed from a pool of one hundred and fifty top level management staffs from each of the selected commercial banks. The Stratified random sampling techniques was espoused in deciding on the sample size. The sample size which was 131 respondents. Matrix inquiry forms were embraced in amassing the primary data for this research. The Likert type scale was used in rating the matrix questions. The Cronbach's Alpha which is conducted using SPSS and which determines the internal constancy was employed in assessing the reliability of the research tools. Cross-examination of the raw data in the inquiry forms was done so as to ensure that it was complete and correct.

FINDINGS AND DISCUSSIONS

Descriptive Statistics Results

The descriptive statistics results from this study were given below.

Merger and Acquisition

The research sought to ascertain how the occurrences of merger as well as acquisition have affected the organizational performance of the banks under inquiry. The outcomes in table 1 showed that merger deals have occurred in the recent past in the banks under inquiry as showcased by the mean of 2.147 and standard deviation of 1.4690. The same table also depicted that aacquisitions deals had occurred in the banks under investigation as depicted by the mean of 4.527 and standard deviation of 0.9277. Lastly, table 1 revealed that both merger and acquisition deals had occurred in the investigated banks as showcased by the mean of 3.178 and a standard deviation of 1.5332.

Table 1: Merger and Acquisition Descriptive Statistics results

	N	Mean	Std. Deviation
Merger deals have occurred in the recent past in this bank	129	2.147	1.4690
Acquisitions deals have occurred in this bank in the recent past	129	4.527	.9277
Both merger and acquisition deals have occurred in this bank	129	3.178	1.5332
Valid N (listwise)	129		

Source: Author

Organizational Performance

The project endeavored to establish whether the transformative changes adopted by the selected commercial banks in form of merger and acquisition affected the organizational performance of the selected banks under inquiry. The outcomes in table 2 revealed that there was expansion in customer base (accounts opened and loan book expansion) in the banks under investigation as depicted by the mean of 4.667 and standard deviation of .5052. The same table reported that the banks had experienced enhanced improved average turnaround time (efficiency) in the current times as showcased by the mean of 4.566 and standard deviation of .6355. Again, table 2 results revealed that the employees of the banks under investigation were happy and satisfied as presented by the mean of 4.186 and standard deviation of .9582. Lastly, the outcomes in table 2 revealed that the customers of the banks under study were are happy and satisfied as showcased by the mean of 4.450 and standard deviation of .6245.

Table 2: Organizational Performance Descriptive Statistics results

	N	Mean	Std. Deviation
There has been expansion in customer base (accounts opened and loan book expansion) in this bank	129	4.667	.5052
The bank has experienced enhanced improved average turnaround time (efficiency) in the recent past	129	4.566	.6355
Employees of this bank are happy and satisfied	129	4.186	.9582
Customers of this bank are happy and satisfied	129	4.450	.6245
Valid N (listwise)	129		

Source: Author

Inferential Statistic Results

The Pearson's correlation analysis outcomes reported a significant positive association amid merger and acquisition and organizational performance. The results indicated that merger and acquisition had a momentous positive association with the performance of the selected banks in Kenya. These outcomes were in congruence with the outcomes of Mwarabu, Banafa, and Ibua (2021) who reported a positive and noteworthy effect of merger and acquisition on financial performance of commercial banks at the NSE. The same findings were also reported by Musa, Abdulai, and Baffour (2020) in Ghana who established that merger and acquisition positively affected bank performance in Ghana.

CONCLUSIONS AND RECOMMENDATIONS

The Pearson's correlation outcomes showcased that Merger and Acquisition had a positive and momentous relationship with the organizational performance of the selected banks in Kenya. The regression statistics from the multiple linear regression analysis model showcased that a unit upsurge in Merger and Acquisition would lead to rise in the organizational performance of the banks under inquiry. The researcher founded on the outcomes of the research data analysis, resolved that Merger and Acquisition significantly and positively affect organizational performance of the banks under inquiry.

The researcher recommended that companies especially the banking sector ought to take advantage of Merger and Acquisition because the positively affect their organizational performance. On the same note, also the researcher recommends other sectors to embrace merger and acquisition deals.

Suggestions for Further Studies

For subsequent researches, the scholar suggested that another study be undertaken covering a wide area such as the entire commercial banks in Kenya. The researcher also suggests that subsequent studies may employ different research designs as well as tools of analysis in attempt to upsurge reliability and generalization of the research outcomes. Ultimately the researcher also suggested that a similar research may be undertaken in various segments of the economy such as the manufacturing and the fast-moving consumer goods industries.

REFERENCE

Atieno, L. A., & Kyongo, J. K. (2017). Effect of strategic change on organizational performance. *International Journal of Economics, Commerce and Management, Vol 5*(7), 596-606. doi:ISSN 2348 0386

Batlolona, J. R., Ribka, L. R., & Notanubun, Z. (2019). The effect of organization restructuring on organization performance viewed from employee performance and leadership effectiveness at maluku provincial education office. *Journal of Education and Learning (EduLearn), Vol 13*(1), 118-124. doi:10.11591/edulearn.v13i1.11222

Bryar, M., Cemil, T., & Akar, F. (2020). Transformational Leadership Impact on Employees Performance. *Eurasian Journal of Management & Social Sciences*, 49-59. doi:10.23918/ejmss.v1i1p49

Cooper, D. R., & schindler, P. S. (2013). *Business Research Methods* (11th Edition ed.). (1. Edn, Ed.) New York, United States: McGraw-Hill Publication.

Feldman, E. R., & Hernandez, E. (2022). Synergy in Mergers and Acquisitions: Typology, Lifecycles, and Value. *Academy of Management Review, Vol 47*(4). doi:https://doi.org/10.5465/amr.2018.0345

Kenga, S. D., & Banafa, A. (2019). Effect of macroeconomic variables volatility on the financial performance of commercial banks listed at the Nairobi Securities Exchange. *Global Scientific Journals, Vol 7*(10). doi:ISSN: 2320-9186

Kiemo, S., & Mugo, C. (2021). Banking Sector Consolidation and Stability in Kenya. *Journal of Applied Finance & Banking, Vol 11*(3), 129-159. doi:https://doi.org/10.47260/jafb/1136

Kivunja, C. (2018). Distinguishing between Theory, Theoretical Framework, and Conceptual framework:. *A systematic Review of Lessons from the Field. International Journal of Higher Education, Vol 7*(6), Pages 44-53.

Kothari, C. R. (2011). *Research methodology: Methods and techniques.* New Delhi: New Age International (P) Limited Publishers.

Mugenda, O. M., & Mugenda, A. G. (2013). *Research methods: Quantitative and qualitative approaches.* Nairobi Kenya: Act Press.

Muhammad, H., Waqas, M., & Milgliori, S. (2019). The Impact of merger and Acquisition on Banks' financial performance: evidence from emerging economy. *Corporate Ownership & Control,, Vol 16*(3), 52-63. Obtenido de http://doi.org/10.22495/cocv16i3art5

Musa, A., Abdulai, M., & Baffour, H. (2020). The Effect of Mergers and Acquisitions on Bank Performance in Ghana. *Asian Journal of Economics and Empirical Research, Vol 7*(1), 36-45. doi:DOI: 10.20448/journal.501.2020.71.36.45

Mwarabu, M. J., Banafa, A. A., & Ibua, M. (2021). Effect of mergers on Financial Performance of Listed Commercial Banks in Kenya at Nairobi Securities Exchange. *Global scientific Journals, Vol 5*(8), 591-611.

Nakola, O. J., & Harwood, I. K. (2016). Effect of organizational restructuting on frim performance: A case of National bank of kenya. *Global journal of advanced research, Vol 3*(1), 43-49. doi:ISSN: 2394-5788

Nasieku, T., & Susan, K. J. (2016). Effects of financial restricting on financial performance firms in Kenya. *International Journal of Management and Economics Investigation, Vol 2*(1), 487-495. doi:ISSN: 23957220

Ngiri, M. W. (November de 2016). Strategic management practices, organizational culture and organizational perfomance: a case study of pz cussons East Africa. *University of Nairobi Research Archive*. Obtenido de University of Nairobi Research Archive: http://erepository.uonbi.ac.ke/

Okenda, R., Thuo, A., & Kithinji, M. (2017). Effect of chnage on organizational performance: A case study of the ministry of environment, water and natural resources. *International Academic Journal of Human Resource and Business Administration, Vol 2*(3), 501-520.

Oladimeji, M. S., & Udosen, I. (2019). The Effect of Diversification Strategy on Organizational Performance. *Journal of Competitiveness, Vol 11*(4), 120-131. Obtenido de https://doi.org/10.7441/joc.2019.04.08

Olalekan, A. U., Ngozi, N. E., & Abiodun, O. T. (2021). Change Management and Organisational Performance: A Review of Literature. *International Journal of Advances in Engineering and Management (IJAEM), 3*(5), 67-79. doi:DOI: 10.35629/525203056779

Ombaka, C., & Jagongo, A. (2018). MERGERS AND ACQUISITIONS ON FINANCIAL PERFORMANCE AMONG SELECTED COMMERCIAL BANKS, KENYA. *International Academic Journal of Economics and Finance, Vol 3*(1), 1-23. Obtenido de http://www.iajournals.org/articles/iajef_v3_i1_1_23.pdf

Osman, O., & Muathe, M. (2021). Performance of Commercial Banks in Kenya:Does Market Entry Strategies Matter? *Journal of Business and Management Sciences, Vol 9*(3), 123129. doi:DOI:10.12691/jbms-9-3-4

Schommer, M., Richter, A., & Karna, A. (2019). Does the Diversification–Firm Performance Relationship Change Over Time? A Meta-Analytical Review. *Journal of Management Studies, Vol 56*(1), 270-298. doi:doi: 10.1111/joms.12393

Tayari, A., & Mutinda, B. (2019). Change management practices and organizational performance: A survey of commercial banks in Kenya. *International Academic Journal of Human Resource and Business Administration, Vol 3*(7), 346-362. Obtenido de http://www.iajournals.org/articles/iajhrba_v3_i7_346_362.pdf

Zheng, J. C., & Tsai, H. (2019). Diversification and performance in the hotel industry: do board size and family representation matter? *International Journal of Contemporary Hospitality Management, Vol 31*(8), pp. 3306-3324. DOI: https://doi.org/10.1108/ijchm-06-20180465