



EFFECTS OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE: CASE STUDY OF COMMERCIAL BANKS

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Abstract: The objective of this research was to determine the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya. Theoretically it is assumed that mergers improve company performance as a result of synergies acquired, market power, enhanced profitability and risk diversification. The research focused on the financial performance of commercial banks in Kenya which merged between 1999 and 2005. Comparative analysis of the bank's performance pre and post-merger periods was conducted to establish whether mergers lead to improved financial performance before and after merging. Secondary data from financial statements was collected for 5 years before and after the merger and analyzed with the aid of statistical tools. Descriptive research design was used where banks' performance shall be analyzed before and after the merger to determine whether there is any effect on the financial performance. The population used in this study was all the 36 Kenyan commercial banks that have undergone mergers. The study comprised of 16 commercial banks that have undergone mergers between 1999 and 2005. The study used secondary data from the NSE, CBK, published facts and figures and reports for the period in study. The data was analyzed on the basis of the mean. The chi square test was computed to test the null hypothesis. The study focused on the financial performance of the merged Kenyan banks before and after the merger. The comparative analysis for the pre- and post-merger periods was carried out to establish whether mergers lead to improved financial performance. The study established that merger was influencing profitability of banks. The study found that there was an increase in the t- value from 20.582 to 23.249, an indication that there was an increase in the return on equity after merger. The study concludes that mergers and acquisitions influence capital adequacy ratio positively. The study found that there was an increase in the t value for capital adequacy ratio pre-merger to post –merger from 19.064 to 21.764. The study also concludes that mergers and acquisitions influence long-term solvency ratio positively. The study found that there was a general increase in solvency of the companies as there was an increase in the t-value from the pre-merger to post –merger from 34.194 to 39.351, there was an increase in the mean difference from 84.25 to 92.25. The study recommends that those firms facing constraints on the market should consolidate their energies by resorting to merger/acquisition so as to expand their profitability as the merger/acquisition is not just for the best interest of the managers but also shareholders as it leads to an increase in shareholders' wealth as opposed to each financial institution operating separately on its own.

Key Words: Profitability, Capital adequacy, Solvency, Solvency

Introduction

A merger is defined as a combination of two or more companies in which the resulting firm maintains the identity of the acquiring company. In a consolidation two or more companies are

combined to form a new entity. A consolidation might be utilized when the firms are of equal size and market power (Block et al, 2009). A merger means any combination that forms one economic unit from two or more previous ones (Brigham and Daves, 2010). An acquisition is the taking over by one company of the share capital of another in exchange for cash, ordinary shares, loan stock or a combination of this. This results in the identity of the target being absorbed into that of the acquirer, Pike and Neale (2003). The definition by Hill and Jones (2001), a takeover is when the acquiring company gains control of another without the cooperation of its existing management. The acquiring company usually joins forces with the key shareholders, purchase stock on the open market or by soliciting proxies.

The motives for mergers and consolidations are both financial and non-financial in nature. The financial motive is where a merger allows the acquiring firm to enjoy a potentially desirable portfolio effect by achieving risk reduction while perhaps maintaining the firm's rate of return. If two firms that benefit from opposite phases of the business cycle combine, their variability in performance may be reduced. Risk-averse investors may then discount the future performance of the merged firm at a lower rate and thus assign it a higher valuation than that assigned to the separate firms, (Block et al., 2009). The non-financial motives for mergers include the desire to expand management and marketing capabilities as well as the acquisition of new products. Mergers are often with companies in allied but not directly related fields. Perhaps the greatest management motive for a merger is the possible synergistic effect i.e. the whole is greater than the sum of the parts. This synergy is as a result of eliminating overlapping functions in production and marketing (Block et al., 2009). According to Brigham and Daves (2010), synergy exists when the whole is greater than the sum of the parts. Many managers today regard buying a company for access to markets, products, technology and resources as less risky and speedier than gaining the same objectives through organic growth (Jemison and Sitkin, 1986). Acquisitions and mergers are investment decisions that should be evaluated on essentially the same criteria as when new assets such as machinery and equipment are purchased. Indeed, the 'the make or buy' decision can be conceptually applied to the acquisition process (Pike and Neale, 2002). According to Hill and Jones (2001), most mergers and acquisitions will be pooled to attractiveness of the target in areas like product design, manufacturer's technology, good management, tight financial discipline and the market share.

The Kenya banking sector consists of 45 financial institutions. From the 45 financial institutions, 91% (41) are commercial banks 7% (3) are mortgage companies while the rest 4% represents a non-bank financial institution and building society as at December 2006, according to CBK annual reports. Gulf African banks Ltd was added to the financial institutions list in November 2007 increasing the number to 46 financial institutions. The foreign Banks comprised of 6 locally incorporated and 5 branches of foreign incorporate institutions (CBK, 2012). In terms of numbers, the Kenyan banking sector is dominated by locally owned banks which accounts for 48.2% of the assets in the sector. This is closely followed by foreign banks with 43% of the sectors assets.

Competition is protected by having many small, viable, locally owned competitors in each industry and cannot be created by passage of law. The antitrust laws will try to prevent actions that reduce the number of effective competitors. In Kenya a merger or an acquisition can best be seen against the background of Kenya competition law as contained in the Restrictive Trade Practices, Monopolies and Price Control Act (Cap 504 Laws of Kenya). This is the governing

law of all mergers and acquisitions in Kenya. This law was enacted to encourage competition in the economy by prohibiting restrictive trade practices, controlling monopolies, concentration of economic power and prices and for connected purposes Monopolies and Price Commission (MPC) (Annual Report, 2000). Section 22(1) of Cap 504 dealing with mergers and acquisitions, the emphasis is on control i.e. the power to make major decisions in respect of the conduct of the affairs of the enterprise after no more than minimal consultations with other persons whether directors or other officers of the enterprise. Section 27(1) (a) gives the Minister for Finance powers to approve all mergers and takeovers between two or more independent enterprises engaged in manufacturing and which distribute substantially similar services.

The law also sets up the necessary institutional framework for effective administration and enforcement. When documenting merger or takeover experience in Kenya, it is important to discuss the approval process. Firms will make an application to the Commissioner of Monopolies and Prices (CMP), who investigates, evaluates and makes a recommendation to the Minister for Finance. The Minister may authorize or reject and Gazette within reasonable time. There is a tribunal, the Restrictive Trade Practices Tribunal (RTPT) to which an aggrieved party may appeal and may overrule the Minister or uphold his decision. If at this stage the aggrieved party wants to appeal further, the only option is to file an appeal to the High Court for final determination.

Studies in mergers and acquisitions in Kenya indicate that firm performance differs from firm to firm and thus the findings are inconclusive. Korir (2006) conducted a research on the merger effects of companies listed on the Nairobi Stock Exchange (NSE) and concluded that mergers improve performance of companies listed at the NSE. Ochieng (2006) notes that when Commercial Bank of Africa (CBA) acquired First American Bank of Kenya (FABK), CBA's 2005 results indicated sharply reduced earnings and lower regulatory ratios compared to the stand alone CBA pre-acquisition. Chesang (2002) concluded that though some banks showed a decline in performance in the post-merger period, merger restructuring could still be considered as a recommended option to improve the overall financial performance of weak and ailing medium sized banks. She noted that merger restructuring is likely to positively affect financial performance due to renewed attention to new business growth strategies, improved management, accounting and reporting system, legal regulatory systems and reduced staffing levels. Marangu (2007) in a research on effects of mergers on financial performance of non-listed banks in Kenya concluded that there was significant improvement in performance for the banks after they merged.

Statement of the Problem

Many studies have been done on mergers and acquisition and the findings have not been consistent. Ulton (1974) examined 39 companies which had undertaken large and persistent mergers in the period 1954-1965. He concluded that the most that can be said there is no evidence from the sample that merger intensive firms have higher profitability than the coverage industry. Lichtenberg et al (1990) examined United Kingdom active acquirers and found some evidence that companies undertaking mergers earned a higher rate of returns than those that relied on internal growth. They were however unable to identify a positive relationship between the level of merger activity and profitability. From the above empirical studies, the lack of consistency in the results can be observed and therefore the necessity to carry out further research in the area. Few studies have been carried out in Kenya on mergers and acquisitions.

This study is set to find out if there is any effect on a banks's performance as a result of mergers and acquisition.

Studies carried out in the banking industry have shown most experience improved performance after carrying out a merger, Marangu (2007). It is therefore expected that a company shall experience better performance upon merging. Brigham and Daves (2010) used a hypothetical merger to test the income statement effects of a merged firm before and after the merger. The merged company's EPS was \$2.33 whereas the pre-merger EPS for both companies was \$2.40 respectively. Korir (2006) conducted a research of effects of mergers and acquisitions focusing on companies listed at the Nairobi Stock Exchange (NSE). He used data which was limited to 3 years. He suggested further research using data drawn from a longer time frame. This study will use 5 year data (pre and post-merger). Studies in mergers and acquisitions in Kenya are in their nascent stages and the findings are inconclusive, Marangu (2007). The general objective of the study was to determine the effects of mergers on the financial performance of commercial banks in Kenya. The specific objectives were as follows;

- i. To determine the effects of mergers on profitability on the financial performance of commercial banks
- ii. To assess the effects of mergers on capital adequacy on the financial performance of commercial banks
- iii. To establish the effects of merger on commercial banks solvency on the financial performance

Literature Review

Profitability Ratios

Mergers and acquisition influence the profitability ratio like return on assets and return on equity in an organisation. Profit is the difference between revenues and expenses over a period of time. According to Muhammad (2006), financial managers should continuously evaluate the efficiency of the company in terms of profit to ensure its survival and growth. Profitability ratios indicate what the firm is earning on its sales, assets or equity. Pandey (1999) cites return on asset (ROA) and return on equity (ROE) as the measures of profitability. Return on assets (ROA) is a comprehensive measure of overall performance of an entity from an accounting perspective. According to Mitchell and Mulherin (1996), ROA is a primary indicator of managerial efficiency as it indicates how capable the management of an entity has been converting the entity's assets into net earnings. It is computed by dividing the Earning after interest and taxes over the total assets of an entity.

According to Myers and Majluf (2006), Return on equity (ROE) measures accounting profitability from the shareholder's perspective. It actually illustrates the rate of return flowing to the entity's shareholders as it approximates the net benefit that the stockholders have received from investing their capital. It is computed by dividing the earnings after interest and taxes over equity. According to Altunbas & Ibanez (2004) pfofitability can be measured by use of ratio of net income to assets (ROA) and ratio of net income to equity (ROE). The former is a good overall indicator of a banking organization's performance illustrating the ability of a firm to

generate profits from the assets at its disposal. It is the most used ratio to compare the profitability of banks since it indicates incomes generated by assets financed by the bank. It is, however, biased upward for some firms due to profits generated from off-balance sheet operations. The latter is used as an alternative measure of profitability and is designed to reflect the return to owners' investment. The balance sheet ratios are used to determine whether major balance sheet items change from before to after merger and might be responsible for expenses or other performance changes unrelated to efficiency changes. Indeed, the equity to total assets (EQTA) measures the weight of the capital of the bank. It determines the distribution of financing sources of the bank between debt and equity. Thus, a high ratio EQTA is a weak indebtedness indicator and therefore of a weaker solvency risk. However, the relation between risk and profitability implies a negative tie between this ratio and the banking performance. The loans on assets ratio (TL/TA) is a ratio of the balance structure (Burki & Ahmad, 2008). Loans normally constitute the main source of incomes of the institution. This ratio judges therefore of the effort of the bank to optimize its balance in order to generate sufficient incomes. A bank having a very weak ratio doesn't contribute to the achievement of its mission. The ratio also gives an indication on the risk of the institution. Indeed, a high ratio means that the majority of assets are risky (Badreldin & Kalhoefer, 2009).

All ratios were analyzed for three years preceding the year of the merger and three years following the consolidation year. The three-year time period was used because of the almost unanimous agreement among the experts and academics that about half of the efficiency gains should be apparent after one year and all gains should be realized within three years (Vander, 1996).

Capital Adequacy Ratio

Mergers and acquisitions influence the capital adequacy ratio in an organisation. Capital requirement (also known as dancing Regulatory capital or Capital adequacy) is the amount of capital a bank or other financial institution has to hold as required by its financial regulator. This is in the context of fractional reserve banking and is usually expressed as a capital adequacy ratio of liquid assets that must be held compared to the amount of money that is lent out (Vander, 1996). These requirements are put into place to ensure that these institutions are not participating or holding investments that increase the risk of default and that they have enough capital to sustain operating losses while still honoring withdrawals.

According to Resti (1998) capital adequacy ratios (CARs) are a measure of the amount of a bank's core capital expressed as a percentage of its risk-weighted asset. Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system (Rifaat & Abdel, 1996). CAR is similar to leverage; in the most basic formulation, it is comparable to the inverse of debt-to-equity leverage formulations (although CAR uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). Unlike traditional leverage, however, CAR recognizes that assets can have different levels of risk.

According to Dymski (1999), banks have to make decisions about the amount of capital they need to hold. Bank capital helps prevent bank failure, a situation in which the bank cannot satisfy its obligations to pay its depositors and other creditors as and when necessary. A bank's capital is the "cushion" for potential losses, which protect the bank's depositors and other lenders. Capital adequacy ratio shows a bank's strategy regarding its capital structure and is measured as the Capital (Tier I+ Tier II) divided by the Risk weighted assets. Two types of capital are measured for this calculation. Tier one capital is the capital in the bank's balance sheet that can absorb losses without a bank being required to cease trading. It consists of equity capital and disclosed reserves. Tier two capital can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. Tier two capital comprises of undisclosed reserves, general loss reserves and subordinate term debts. CAR determines the capacity of a bank in terms of meeting the time liabilities and other risk such as credit risk, market risk, operational risk, and others. It is a measure of how much capital is used to support the banks' risk assets (Yi-Ping, 2013).

Solvency Ratios

Acquisitions and mergers influence solvency ratios like current ratio and acid-test ratio in an organization. In order to survive, firms must be able to meet their short-term obligations to pay their creditors and repay their short-term debts. Thus, the solvency of the firm is one measure of a firm's financial health. Two measures of liquidity are in common: current ratio and quick ratio. The main difference between the current ratio and the quick ratio is that the latter does not include inventories, while the former does (Barth, Caprio & Levine, 2004). Which ratio is a better measure of a firm's short-term position? In some ways, the quick ratio is a more conservative standard. If the quick ratio is greater than one, there would seem to be no danger that the firm would not be able to meet its current obligations. If the quick ratio is less than one, but the current ratio is considerably above one, the status of the firm is more complex. In this case, the valuation of inventories and the inventory turnover are obviously critical (Berger et al., 2008).

Wang and Chang (2008) argue that a number of problems with inventory valuation can contaminate the current ratio. An obvious accounting problem occurs because organizations value inventories using either of two methods, last in, first out (LIFO) or first in, first out (FIFO). Under the LIFO method, inventories are valued at their old costs. If the organization has a substantial quantity of inventory, some of it may be carried at relatively low cost, assuming some inflation in overall prices. On the other hand, if there has been technical progress in a market and prices have been falling, the LIFO method will lead to an overvalued inventory. Under the FIFO method of inventory valuation, inventories are valued at close to their current replacement cost. Clearly, if there are firms that differ in their accounting methods, and hold substantial inventories, comparisons of current ratios will not be very helpful in measuring their relative strength, unless accounting differences are adjusted for in the computations (Lepetit et al., 2008).

A second problem with including inventories in the current ratio derives from the difference between the inventory's accounting value, however calculated, and its economic value. A simple example is a firm subject to business-cycle fluctuations. For a firm of this sort, inventories will typically build during a downturn. The posted market price for the inventoried product will often

not fall very much during this period; nevertheless, the firm finds it cannot sell very much of its inventoried product at the so-called market price (Wang & Chang, 2008). The growing inventory is carried at the posted price, but there really is no way that the firm could liquidate that inventory in order to meet current obligations. Thus, including inventories in current assets will tend to understate the precarious financial position of firms suffering inventory buildup during downturns.

Research Methodology

Descriptive research design was used where banks' performance was analysed before and after the merger to determine whether there was any effect on the financial performance. The population of this study was all the 36 Kenyan commercial banks that had undergone mergers between the year 1999 and 2005. The sampling frame of this study comprised of all the commercial banks in Kenya that had undergone merger. According to CBK (2012), there were 36 commercial banks that have undergone merger in Kenya. The study sample was the 16 commercial banks that have undergone mergers between 1999 and 2005. Mugenda and Mugenda (2003) contend that an ideal sample size should be at least 10% of the entire population. A sample size of 16 is large than 10% of the entire population of commercial banks that have undergone mergers.

Table 1: Sample Size

	Bank
1	Diamond Trust Bank (K) Ltd.
2	National Bank of Kenya Ltd.
3	Standard Chartered Bank (K) Ltd.
4	Barclays Bank of Kenya Ltd.
5	Habib Bank A.G. Zurich
6	Guardian Bank Ltd.
7	Paramount Universal Bank
8	Kenya Commercial Bank Ltd.
9	Citibank NA
10	Southern Credit Banking Corp. Ltd.
11	Co-operative Bank of Kenya ltd
12	Investment & Mortgage Bank Ltd.
13	Commercial Bank of Africa ltd
14	EABS Bank ltd
15	Dubai Bank Ltd.
16	Bank of Africa Bank Ltd.

Secondary data used in this study were obtained from the scheme of merger, financial statements of all Kenyan commercial banks involved in mergers between 1999 and 2005. The study used secondary sources of data from published audited annual reports of accounts for the population of interest, CBK, NSE, CMA, and bank supervision annual reports from CBK. Financial data from Balance Sheets, Profit and Loss Accounts, and Cash Flow Statements were used in

calculating and analysing the accounting ratios, also known as performance indicator (profitability ratio, capital adequacy ratio and long-term solvency).

The study focused on the financial performance of the merged Kenyan banks before and after the merger. The comparative analysis for the pre- and post-merger periods was carried out to establish whether mergers lead to improved financial performance. The Chi-square which is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis was used.

Results and Findings

Data was analysed using excel and summarized using tables and percentages. The research covered all Kenyan commercial banks involved in mergers between 1999 and 2005. Financial data for five years before and after the merger was used with a view to testing the following hypothesis.

Profitability Ratio

Mergers and acquisition influence the profitability ratio like return on assets and return on equity in an organisation. The study sought to determine the effects of mergers on profitability on the financial performance of commercial banks. In order to determine the profitability of the company before merger, the data on return on equity before merger and post-merger was tested for significance, using t- test, return on equity was used to measure the financial performance since profitability is the most important measure of financial performance to the management and shareholders as it cushions them against adverse conditions such as losses due huge claims or unexpected adverse changes to the investment portfolio. From the data shown in the above table, the findings shows that there was an increase in the t- value from 20.582 to 23.249 an indication that there was an increase in the return on equity after merger , there was also notable increase in the mean difference from 14.375 to 17.0625 which is a clear indication of increase in return on equity , from the above findings the study found that there was an increase in the return on equity which was found to be statistically significance since the significance value was found to be 0.000 which was less than 0.05.

Table 2: Return on Equity

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre –merger	20.582	15	.000	14.37500	.61830
Post –merger	23.249	15	.000	17.06250	.82900

The study also conducted a t-test and chi-square test for the data on return on assets before and after merger, from the results it was found that there was an increase in t value from 6.351 to 11.271 which is an indication on the increase in the return on assets , this was also evident on the notable increase in the mean difference from 0.40013 to 0.71013 , all the increase were found to be statistically significance as their p-value were found to be less than 0.005.

Table 3: Return on Assets

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
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Pre –merger	6.351	15	.000	.40013	.06300
Post –merger	11.271	15	.000	.71013	.06300

Capital Adequacy

Mergers and acquisitions influence the capital adequacy ratio in an organisation. The study also sought to assess the effects of mergers on capital adequacy on the financial performance of commercial banks. Capital adequacy ratio relate to a company's overall use of financial leverage, companies with high financial leverage experience more volatile earnings behaviour, the ratios indicate the extent to which a company's base covers the risks inherent in its operations. From the result presented in the above table, the study found that there was an increase in the t value for capital adequacy ratio from 19.064 to 21.764 which is an indication that there was notable increase in company financial leverage; this was also found to be statistically significant.

Table 4: Shareholder Equity

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre –merger	19.064	15	.000	7.06250	.37046
Post –merger	21.764	15	.000	8.06250	.37046

Acquisitions and mergers can negatively or positively influence solvency ratios in an organization. The study further sought to establish the effects of merger on commercial banks solvency on the financial performance. Long term solvency ratio refers to the ability of a company to survive over a long period of time. It's the same concept as liquidity except that it is for long term rather than short term. Long term solvency ratios measure the riskiness of a company and include Total Liabilities to Total Assets which measures the proportion of assets financed by creditors, Shareholders Equity to Total Assets which indicates the proportion of assets financed by the owners of funds and Shareholders' Equity to Total Loans which gives an indication of the proportion of loans covered by the owners of the funds. The findings in the above table indicated that there was an general increase in solvency of the companies as there was an increase in the t-value from the pre-merger to post –merger from 34.194 to 39.351, there was an increase in the mean difference from 84.25 to 92.25 an indication that there was an increase in solvency of banks after merge.

Table 4. 1: Total Liabilities to Total Assets

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Mean
Pre –merger	34.194	15	.000	84.25000	2.46391
Post –merger	39.531	15	.000	92.25000	2.33363

Hypothesis Testing

Hypothesis 1:

Ho₁: There was no improvement in financial performance after bank merger.

The data on various aspects of financial performance and merger of commercial banks was

subjected to Anova test using statistical package for social science to help to test the hypothesis that there was no improvement in financial performance after bank merger. The calculated values were compared with critical value to establish whether to reject or accept hypothesis. The Anova results are summarized in Table below

Ho: There was no improvement in financial performance after bank merger.

H1: There was an improvement in financial performance after bank merger.

Critical value from student distribution table is 1.753

From the results the calculated value was greater than the critical value ($F_o = 19.553 > F_c = 1.753$; and $\alpha_o = .05 > \alpha_c = .016$). This means that there is a significant difference banks financial performance and various aspect of merger. The hypothesis that there was no improvement in financial performance after bank merger was therefore rejected.

Table 4. 2: Anova Table

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1290.500	12	107.542	19.553	.016
Within Groups	16.500	3	5.500		
Total	1307.000	15			

Conclusion

The study established that merger was influencing profitability of banks. The study found that there was an increase in the t- value from 20.582 to 23.249, an indication that there was an increase in the return on equity after merger. The study also found that there was an increase in t value from 6.351 to 11.271 in return on assets, which is an indication on the increase in the return on assets, this was also evident on the notable increase in the mean difference from 0.40013 to 0.71013.

The study also concludes that mergers and acquisitions influence capital adequacy ratio positively. From the findings, the study found that there was an increase in the t value for capital adequacy ratio from 19.064 to 21.764 which is an indication that there was notable increase in company financial leverage; this was also found to be statistically significant.

The study also concludes that mergers and acquisitions influence long-term solvency ratio positively. The study found that there was a general increase in solvency of the companies as there was an increase in the t-value from the pre-merger to post –merger from 34.194 to 39.351, there was an increase in the mean difference from 84.25 to 92.25 an indication that there was an increase in solvency of banks after merge.

Recommendations

The study also recommends that those firms facing constraints on the market should consolidate their energies by resorting to merger/acquisition so as to expand their profitability as the merger/acquisition is not just for the best interest of the managers but also shareholders as it

leads to an increase in shareholders' wealth as opposed to each financial institution operating separately on its own.

Following the findings from the analysis of the selected ratios of the financial institutions that have undergone mergers/acquisition in Kenya, the study recommends that institutions having weak capital base consolidate to create synergies so as to enjoy economies of scale as this will improve their profitability instead of going public by listing on the Nairobi Stock Exchange as this may be an expensive venture as it requires much funds for listing.

The study also concludes that mergers and acquisitions influence long-term solvency ratio positively for banks facing challenges in their solvency, this study recommends that they should create synergies so as to improve their solvency.

Areas for Further Studies

Further research should be carried out on the performance of merged banks before and after the merger but include other variables in the study such as size of the bank, market share and the performance of the economy. The study was restricted to Kenyan banks and studies should be carried out on the effects on financial performance of companies as a result of cross border mergers and acquisition.

As the research covered duration of 5 years pre and post-merger, a study should be carried out on the effects of mergers and acquisitions on the financial performance of commercial banks in Kenya but covering a longer period say 10 years pre and post-merger for purposes of getting more representative results.

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