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EFFECT OF MERGERS ON FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA AT NAIROBI SECURITIES EXCHANGE

JAMES MWARABU MWATSUMA[1], BANAFA ALI[2] and IBUA MARY[3]

[1] Master student, Technical University of Mombasa – mwarashj@gmail.com
[2]Lecturer, School of Business, Technical University of Mombasa (PhD)
[3]Lecturer, School of Business, Technical University of Mombasa (PhD)

Abstract:
The purpose of this study was to examine the effect of Merger on the financial performance of listed commercial banks at Nairobi Security Exchange Kenya. The study seeks to address the following research hypothesis. The hypothesis used in this study were: -Merger Capital Adequacy does not have a positive effect on financial performance of listed commercial banks at Nairobi Security Exchange, Merger Liquidity Management does not have a positive effect on financial performance of listed commercial banks at Nairobi security Exchange, Merger Asset Structure does not have a positive effect on financial performance of listed commercial banks at Nairobi Security exchange, Merger Asset Quality does not have a positive effect on the financial performance of listed commercial banks at Nairobi security Exchange. A descriptive research design was used for a population of 13 merged commercial banks in Kenya from year 2010 to 2017. This design is appropriate for this research as it provides an accurate representation of situations and make inferences to the target population. This study targeted all the merged commercial banks in Kenya from 2010 to 2017. The study used Primary data through administered questionnaires and secondary data obtained from Nairobi security Exchange Handbook and Central Bank of Kenya's website. This study used a descriptive and inferential statistics to establish the relationship between the four independent variables:- Merger Capital adequacy, Merger Liquidity Management, Merger Asset Structure and Merger asset Quality and Financial Performance being the dependent variables measured by:- Return on Assets and Return on Equity. Regression and correlation analyses was used and based on the association between two variables. The Statistical Package for Social Sciences version 21.0 was applied. From the findings, the hypothesis that there was no improvement in financial performance after bank merger was therefore rejected. Thus the study found that there was improvement in financial performance after commercial banks merger. The study also found that there was general increase in the financial performance of the listed commercial banks after merger and also improvement on the Liquidity management policies, Asset Quality and merger capital adequacy. The study recommends that, those listed commercial banks in Kenya facing constraints on the market should consolidate their energies by resorting to merger so as to improve their financial performance as the merger is not just for the best interest of the managers but also shareholders. This generally leads to an increase in shareholders' value as opposed to each commercial bank operating as separate entities.

Keywords
Asset Quality, Capital Adequacy, Liquidity, Financial performance, Merger, Synergy

1.0 Background to the Study

The world's economy is facing a lot of challenges especially the key sectors, more so the tuff competition experienced by the banking industry. Michael, (2013) noted however that, due to these competitions, commercial banks are forced to strategically position themselves in the market for them to remain competitive. Commercial banks worldwide have developed a restructuring mechanism by combining resources in order to outwit their competitors (Kumar, 2009). In view of this, many commercial banks have resorted to merge in order to increase their customer base, wealth maximization, reduce operation cost and enjoy synergy effect (Khan 2011).Corporate Merger in the banking sector started in the 1980's in the USA and Western countries in the 1990s which have consistently and significantly improved the share value in the economy (Colombo & Turati, 2014).

It was viewed as a restructuring technique to consolidate assets and diversify operations. Mishra (2010) defined a Merger or consolidation or sometimes referred to as amalgamation as an act where by two or more entities combine their share values/resources to form a new entity, different from the two with an aim of diversifying resources and enjoy the synergy effect. Masud, (2015) asserted however that, Merger deals have been an inorganic strategy to expand its customer base, add value to the firm through diversifying operations and harvest the benefit of economies of scale. Globally, Bank Mergers have been proved to be the best strategy for corporate growth more so the banking sector. The success of a Merger deal in any economy solely depends on how well the two institutions integrate themselves in their daily operations (Daddikar & Shaikh, 2014).

Kouser, (2011) in his study on the effects of business combination on financial performance of Banks in Pakistan indicated a better operational and financial performance from the bigger size of the Merged Banks. This was attributed by a more efficient management, improved service delivery and exploitation of market power. This was as a result of the large pull of resources and an increase on the capital base of the entity besides technological advancement and well experienced personnel (Behr & Reid 2011).

A similar study conducted by Altunbas & Ibanez (2014) affirmed that most studies especially those conducted in the USA, UK and India have shown contradicting results. More analysis was done and concluded that some deals fail to reach value for some factors were not considered during the formation of the deals. Failure to incorporate both parties/stakeholders who are very conversant about the organization systems in place, government policies and other control bodies besides technology that is compactable to the organization attributes to a low financial performance for an entity. It was noted whoever that, during the fifth Merger wave noticed in the USA during the 1990s due to leverage, hostile takeovers and buyouts led to an increase in Banks Merger deals (Olinger et al., 2006).Generally today, Banks merger activities can be observed all over the world's but surprisingly not all the deals have been successful. Studies by Hubbard 2010:11;Eccles et al. 2010:68 concludes that, almost half of all the Merger deals fail to achieve their objectives. It was further noted however that, most Mergers fail due to many factors such as; cultural barriers as employees work in a new environment, mismatch between target and acquirer Banks in terms of size and different working practices or Bank's procedures (Hubbard, 2010:13)

Due to the fast growth of the world economy and the need by the World Bank and other regulatory bodies to retain its status core, the banking industry was restructured and supervisory bodies set (Altunbas & Ibanez, 2014). Khan, 2011 further contended that the financial crisis in 2008 led to the fall of the Lehman Brothers forcing banks globally, to issue directive to have a minimum amount of common equity and liquidity stipulated by Basel Accord. On that note therefore, those banks that could not meet the minimum requirement were either forced to quit the market or merge with another to meet the threshold set. The financial crisis of 2008 forced regulators to clump down on the banking industry, requiring banks to hold more capital to protect against losses.

Ahmed & Ahmed (2014) asserted that, changes in the global business environment have led into forcing organizations to change their operation strategy for them to remain competitive. Masud, (2014) argued that, technology and globalization advancements have changed business thinking in today's market, forcing them to rethink their strategies for them to remain competitive. Sharma, (2009) contended that, since two or more companies are better than one, organizations have to merge in order to improve on their general performance.Sharma2015, in his study on the corporate restructuring and on Does Merger create shareholders value on Liberia Commercial Banks gave contradicting results. Some showed a positive return on the Merged Banks, a period after the deal and some collapsed immediately while others operated on a breakeven point.

The narrative on this perspective is that, when organizations merge, it is presumed that the value of the shareholder shall be above that of the two separate firms. The premise that informs unification is that, the higher the firms' market share, revenues, taxation, synergy, geographical and economies of scale and other diversifications shall improve their value (Athanasoglou & Brissimis, 2004; Beck et al, 2010).

In the African contest basing on a study by Dwyer et al, (2012) on the impacts of Merger on Banks in Egypt, the results indicated that Merger deals did not have a clear effect on cost effectiveness of the banking industry in Egypt. The study further showed a 14% of the studied banks showed a greater improvement in their performance during the post-merger period. It further noted that the study had a positive return on credit risk. Similar studies done by Devos at el, (2009), Bemile & Banguess, (2011) and Dyer et al (2004) in South Africa, Ghana, Nigeria and Uganda focused on strategic discipline on capital market that positively affects management efficiency, utilizing private profits and public welfare. Merging of several financial institutions especially commercial banks was inevitable so as to retain its core competences and enjoy the competitive advantage to improve on their shareholder value (Sudarsanam, 2003).

Dunis (2005) further urged that, when consolidation occurs, there is basically a pool of resources from both ends with a view to improve on the financial performance compared to a single entity. Zollo (2004) contended that, all parties who might be affected by merger deals for instances government agencies, workers and managers must be taken into consideration before the deal is sealed and their concerns should be taken care of, so that any possible mismatch can be avoided and rule out the agency problems that may occur.

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Cartwright, 2010, affirmed that most Mergers deals result into overall performance improvement for the entity. Haspeslagh & Jemison, 2010; Hittet al., 2007 further contended that most organizations enter into merger deals with an aim of enjoying synergies, economies of scale (through diversification), increase supply chain pricing power, eliminate competitions and reduce costs. Synergism is about combining business activities which leads into increased performance and decrease in costs (Cartwright & Schoenberg, 2006). According to Sterman, 2012, the two conflicting goals namely diversification and sharpening business focus have been used to describe thousands of merger's transactions. This is basically done to reduce the effect of a distinct industry's financial performance merges to diversify by acquiring another firm in a different trade(Cartwright, 2010)Merging with firm's that have a deeper penetration of the market in a major area of operation is important for firm's searching to sharpen focus. With the right strategy focus and diversification can successfully coexist and can increase the benefits of the other company (Villalonga, 2013).

Hillier (2010) argued that there are three major types of merger deals namely a horizontal merger which occurs when firms that produces and sells the same product merge. It occurs when two competing firms producing similar products whose cross elasticity of demand and supply is high, when firms operate at different stages of production and arises as a result of when there is a direct correlation between one firms' output and input for another firm at every successive level of production at a higher level, which is a functional link between their products, vertical merger occurs. Lastly, conglomerate merger occurs as a result of consolidation of two different firms operating at different levels of production (Cartwright, 2010).

According to Moctar & Xiaofang (2014), merger deals enables the acquirer gain a bigger share of the market in its product's market by eradicating competition in the future. Notwithstanding, the challenge being a huge premium needed for the shareholders of the target firm to accept the offer looms. It is rare for the shareholders of the bidder firm to alter the price negatively to the company paying too much for the target company and sell their shares. Altunbas & Marques (2007); Kemal (2011) in their studies showed a better financial performance of an entity is gained by merger deals. Contrary to this, a contradicting view that mergers improve performance was given by Gay &Airasian (2003). Access to bigger set of consumers which ensures higher profits due to synergy effect can be obtained by merging companies to group together their products (Dwyer et al, 2012).

Mergers are on an increasing trend in the Kenyan banking industry intensified after the financial crisis of 2008 as more regulatory bodies were formed to monitor Banks performance (Ogada & Achoki, 2016). Kimani Ichung'wah, vice chairman of the Public Investments Committee, added that more banks will merger to meet the depository threshold set by Central bank for them to meet expected returns. The ongoing negotiations deal between Commercial Bank of Africa and NIC Bank supports this. He further contended that some state owned banks are yet to merge as they fail to reach expected shareholders' value.

It was further noted that from year 2000 to 2017 only 13 Commercial Banks merged in Kenya (CBK website).According to Joash and Njangiru (2015), judgment by decision makers of the business strategists' results and activities in monetary value can be accomplished by assessing the financial performance of a business. It can be measured by use of financial ratios that depict the company's ability to generate economic value and improve its operations. Cytonn Investment Report 2015 asserted that the Kenya's banking industry is regulated by Central Bank of Kenya (CBK), Companies Act, Banking Act and Capital Market Authority (CMA) as oversight authorities. The Central Bank of Kenya was mandated to establish and implement monetary policies and fostering proper functioning of the financial system by nurturing its liquidity and solvency.

In the past 15 years 13 merged commercial banks have had to merge in Kenya. CFC Bank and Stanbic Bank merged to form CFC-Stanbic Bank, (CBK, 2008), Kenya Commercial Bank (KCB) and Savings and Loan (S&L) merged to form Kenya Commercial Bank (CBK, 2010); Jamii Bora Bank Ltd CBK (2010); was formed by merging City Finance Bank Ltd and Jamii Bora Ltd and finally Equatorial Commercial Bank was formed through a merger between Southern Credit Bank and Equatorial Commercial Bank Ltd (CBK, 2010) which was later acquired by Mwalimu Sacco Society ltd (CBK, 2015). It is also predicted that state owned commercial banks may soon restructure through merger deal as they fail to reach expected value (CBK 2015).

Managers in the merging firmsopting to take additional action in view to gain good returns face extreme pressure (Chatterjee, 2011). Managers in such conditions are forced to engage in riskier actions projects to reduce costs and increase cash flows through restructuring process to cumulate and sell off redundant assets (Olinger et al., 2006). It is further noted that, Commercial Banks' Merger in Kenya has led to some banks expand their operations in East Africa and beyond to diversify their operations and enjoy the synergy effect (KPMG Annual report 2016). The global trend is to converge and ensure financial services are offered under one roof for banks, insurance and stock brokerage in order to facilitate a "one stop shop" financial solution as per the Fiscal year 2012 / 2013 Republic of Kenya Budget Statement. In addition, commercial banks in Kenya to have 19 consolidated supervision to enhance oversight in this part of the financial sector and its players. Mugambi, (2014) asserted that to achieve this, commercial banks should opt to consolidate their businesses and operate through merger.

1.2 Statement of the Problem

Since the time the Central Bank of Kenya issued directives for all Kenya's commercial banks to rise their core capital to five billion by the year ending 2012. This move by the Central Bank of Kenya forced to begin discussions with each other (Think Business, 2011). As at the close of the year 2010, thirteen (13) banks had not reached the threshold stated above. With the intention of commercial banks to improve its financial operations, shareholders and managers turned to mergers. Mixed results have been realized by many researchers such as Altunbas & Marques, (2007); Kan (2011); Yusuf. (2016). Studies by Kenya & Konya (2015): Gathuku & Njeru (2015) looked at the ROA, ROE as a measurable dependent variables to measure performance. Sonenshine & Reynolds, (2014) in their studies used shareholder value, Asset Management and Financial stability as a measurable dependent variables to measure financial performance.

Little has been done on the merger dimensions that looked at the four most important aspects that affect its formation and continuous operations. There was need therefore to relate and connect some of the types of merger and their motive behind them. The Horizontal Merger looked at the market share and capital adequacy, Vertical merger looked at the synergy level and liquidity

management, Market extension merger based on similar products on separate markets and the firm's asset structure and forth the product extension merger focused on related product in the same market which improved on the asset quality on financial performance of listed Commercial Banks in Kenya that Merged between 2010 to 2017. Most studies done in the USA, UK, India, Nigeria and Ugandan have been comparing the performance of Merged Banks on Pre and Post deal basis only. This study analyzed the operational and financial performance trend from when the deal was effected to the study period. A trend analysis will be investigated to see the consistence in the listed commercial Banks' performance.

1.3 General objective
The general objective of this study was to assess the effects of Merger on the financial performance of listed Commercial Banks in Kenya at Nairobi securities exchange.

1.4 Specific objectives
The specific objectives of the study were:

i. To evaluate the effect of capital adequacy on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.
ii. To assess the effect of liquidity management on the financial performance of listed commercial banks in Kenya at Nairobi Securities exchange.
iii. To establish the effect of asset structure on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.
iv. To establish the effect of asset quality on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.

1.5 Research Hypotheses
The null hypothesis used in this study were-:

H_{o1}: Capital Adequacy does not have a significant effect on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.
H_{o2}: Liquidity Management does not have a significant effect on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.
H_{o3}: Asset Structure does not have a significant effect on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.
H_{o4}: Asset Quality does not have a significant effect on the financial performance of listed commercial banks in Kenya at Nairobi securities exchange.

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2.0 Literature Review

2.1 Theoretical Framework

There are various theories of Merger that explains the various motives for which organizations amalgamate (Dwyer, 2012).Morris (2004) further contended that Merger's theories revolve around Efficiency theory, Agency theory, Market power Theory and Synergies theory.

2.1.1 Efficiency Theory

Basing on the Michael Porters model for firms focusing on market share improvement, the theory supports that, inefficient firms are taken over and efficient ones survive (Beck, 2010; Bemile, 2011). Bank's capital is the base for growth and in practice, firm's need to strategize on proper investments that shall have positive returns. A bank is expected to have a minimum capital reserve with the central bank of Kenya, to protect the rights and interest of depositors. In this case therefore, efficient firms will operate at a fully production capacity at a minimum cost of production. To retain and have a bigger market share, commercial banks need to have a well skilled and experienced staff, well vast with market environment, improves the firm's value and performance (Sharma, 2009). New information regarding new entrance, bargaining power of both buyers and sellers and close product substitutes need to be controlled for effective market share resulting to improved capital to run operations.

In view of this, the market will contain the sum of all investors' views of the market, quickly reacted to by the stock market as stated by the efficient market theory (Beck, 2010). Hu (2009) contended that expectations are that, mergers yield enough unity to make the deal real to the two parties. For the firm to be sustainable, its products must be cost effective so as to improve the shareholders' value. Mishra (2010) asserted that, positive returns on the financial performance due to value creation of an entity, predicted by efficiency theory.

This is achieved through production within the production possibility frontier (PPF) that will neither under nor over utilize the available resources. Pike (2006) contended that managers who do not produce along the PPF curve to fully maximize profits would target their attention on objectives other than improvement on the financial performance contrary to the interest of the shareholders. It is noted however that, well informed opportunistic buyers, may observe the poorly performing companies with good discipline and assets and merge with the poorly performing organizations by consolidating it with an aim of improving on its market share. Thus, as new workforce becomes aware of the full potential of a target's assets by improving their performance through cost reduction (Sathye, 2005).

Synergistic mergers theory contends that, efficiency gains by firm managers can be achieved by unifying with competent target firms with their business and then improving their financial returns (Pandey, 2008; Pike, 2006). Therefore, by consolidating with the buyer firm due to the synergetic effect, it should improve on its performance even more (Pasiouras, 2007).

2.1.2 Agency Theory

The theory contents that there exist a contract between shareholders and Managers who act as Agents of the firm and between debt-holders and stockholders. The theory was developed by Jensen & Meckling in 1976 that focused on the conflicts between shareholders and Managers as agents of shareholders (Behr, 2011).Deficiency in the required knowledge, skills adorned with expertise and time to manage an entity may lead shareholders to appoint other parties as agents to run the company on their behalf.

The connectivity of this theory is to ensure, the shareholders interest are taken care of Invested capital in the business, should have a positive return. Decision made my managers must should be on the objective of wealth maximization to shareholders. Managers are in most cases wish to keep a legacy by making a decision to expand the entity without consulting the owners. Managers may tend to reduce the number of branches for an entity, consolidate entities or even sale off ideal resources.

This kind of act may rise to agency conflicts, or conflicts of interest between agents and principals, tending to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (e.g., offering management performance bonuses to encourage managers to act in the shareholders' interests. The desire for high rewards induces managers to manipulate, overestimate or underestimate indicators to make them more achievable in detriment of the value of the firm, e.g. low budgets, inefficient debt targets. Conflict arises because shareholders require payouts for their investment, reducing internal resources controlled by managers.

It must strategize her operations to gain competitive advantage and still maintains the shareholders wealth (Sterman, 2012). This attract a pool of investors, customers, through easy service delivery and transparency in operation (Odeck, 2008). Regulating all wasteful use of resources to the interest of the shareholders' value is needed so as to maintain and better on the liquidity level as daily expenses for the entities are met which enhances financial performance of a firm (Ayadi, 2013). It is contended however that, when proper strategy are lied down and the interest of both parties are considered, the organization always works at full capacity hence improves on its financial performance for the entity (Sterman, 2012).

2.1.3 Market Power Theory.

Market power theory is the Relative Market Power (RMP) hypothesis which suggests that firms with large market shares and well-differentiated products are more efficient and can earn supernormal profits (Daddikar& Shaikh, 2014).The composition of the asset in an organization really affects its financial performance. Does the firm have more current asset or fixed Assets? The narrative behind this theory is that, the asset structure or its composition will make a corporate to be more elastic towards its new entrants, its rivalries or easy to adapt a new technology. The size of the firm and its worthy is determined by the structure of its assets and its volume. Smita (2011) contended that as per the 5 porter model, an entity should have the capacity to maintain its values and outwit its competitors.

Athanasoglou (2009) however noted that, organization tend to increases their market share through innovation, strengthening customer relationships, smart hiring practices, and acquiring competitors. This is done through strategizing of the existing rivals, new entrants to the market, the power to sale and buys products and has unique products features especially for the close substitute products. Consolidation normally helps an entity to gather resources in a pool and improve the capital base of the entity. Khan (2011) affirmed that when an entity enjoys the economy of scale through restructuring by way of merging operation, it can easily diversify its operations and products. Yusuf (2016) further asserted that market penetration realized after diversification will improve the customer base, asset structure as a result of more transaction and powerful technology enjoyed by customers.

To win the market, an entity must be able to produce effectively (Kiplangat, 2006). The right quantity of products at the right time and at a lower cost without affecting its value. When the commercial bank's merger capital adequacy and the future cash flow is high an entity will be motivated to amalgamate (Marangu, 2007).

2.1.4 Synergies Theory

Santhye (2005) urged that the biggest motive behind Merger deal is the synergy level. It stipulated that, the value attached when two entities consolidate is much higher than separate entities altogether. It is also noted however that, the mode of financing an entity really determines the fate of its future operations i.e. Debt financing or through owners' equity. The Synergy level are largely affected firms leverage level. Mergers broadly occur as they generate 'synergies' between consolidated firms which in turn, improve the liquidity level (King, 2004). Behr (2010) contended that, it is the conducive merger being proposed and accepted due to the symmetric expectations of positive returns.

Amalgamation to take place one of the basic factors to be considered are the ability of the acquired firm to sustain its debts when due. Sharma, (2015) asserted that, any commercial bank shall be motivated to take the deal if the acquired firm has acquired the best mode of financing for its operation. It is advised that, entities to adapt and finance her operation through its own funds and not through debts. Sharma, (20150 further noted that, it is worthwhile to undertake the deal and still maintain the expected turn over and future cash flows.

Nasieku (2016) contended that, acceptance of the deal would only be as a result of the firm's generation of positive return, meeting all her obligations. It is noted however that when there is a negative gain to the bidder owner, the deal shall not be affected by the bidder (Morris, 2004). Cohesiveness creates power and control of the market. Nasieku (2016) argues that, merging firms improves on the asset quality and hence improves on the customerbase for the merged commercial bank. Nasieku (2016) further added that customers enjoy quality products, efficient services, and new innovations resulting to different products lines. Financial stability of most commercial banks is determined by the level of its asset quality owned by the entity which synergy describes (Sharma 2015).

Dunis & Klein (2005) argued that commercial banks should be in a position to facilitate her operations each time some funds are needed to cater for all expenses and all kinds of withdrawals and loan facilities when requested. The most vital and basic

asset a commercial bank relies are the loan portfolio it holds. Financial performance of a commercial bank is initiated by the quality of its primary assets. It is noted however that, a commercial bank to be more effective and financial fit it should have very minimal unpaid loan servicing. Surplus consumer values can be extracted from merger deals in an entity which differentiates it from operative synergies' or 'efficiency gains' achieved through economies of scale and scope and 'allocative synergies' or 'collusive synergies' as a result of adaptation of the best mode of financing an entity (Bemile & Baugess 2011).

2.2 Conceptual Frame work

This is a diagrammatic representation of the various variables used in this study, illustrating interrelationships between independent variables as Merger capital Adequacy, Merger Liquidity Management, Merger Asset structure and Merger Asset Quality, and financial performance being the dependent variable measured by return on assets (ROA) and return on equity (ROE) as measurable components for performance in this case.

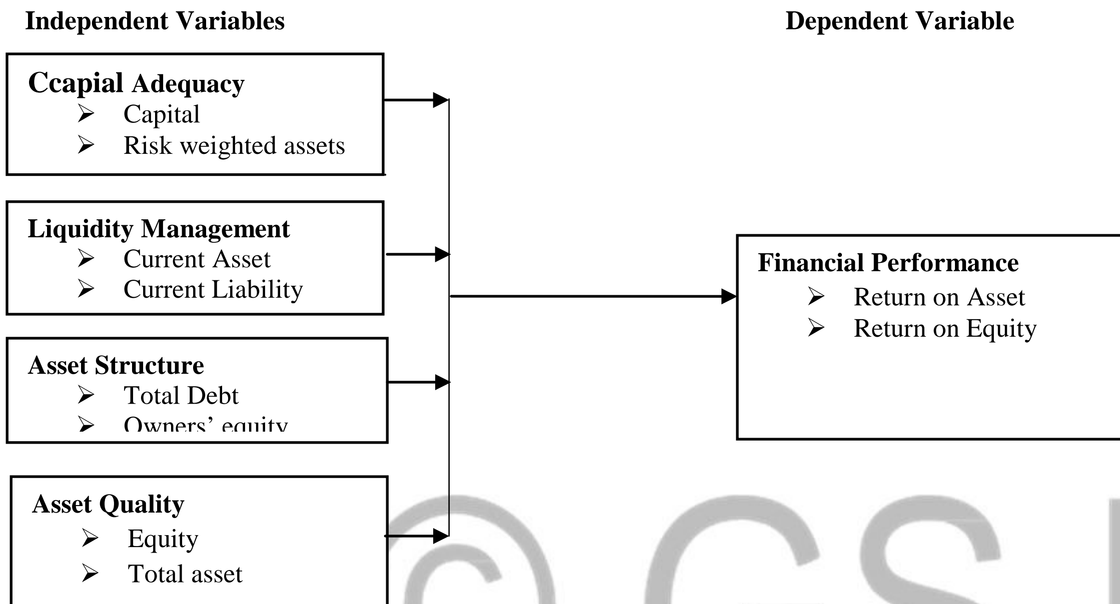

Figure 2.1: Conceptual Framework

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2.2.1 Financial Performance of Commercial Banks in Kenya

Pandey (2008) affirmed that financial performance is the ability of a firm to use its assets from their main mode of operations to generate revenues. The financial health position of a firm is always compared within a period of time to the same firms of the same industry or industries or sectors in totality. The best management strategy is by improving financial performance through mergers (Michael, 2013). Michael, (2013) further concluded that Merger deals are undertaken to improve organization performance due to the benefits they are believed to carry along.

Management considers consolidation as a means to reduce costs and expenses and maximize shareholder value. According to Athanasoglou (2009) successive operations of a company for a given period of time or level to which an organization is being efficient in its operations is denoted as showing its high level of profitability. The two measures of financial performance employed in this study are Return on Asset and Return on Equity.

Bemile (2011) contended that the ratio of income to its average assets that measures the ability of the company management to generate income by utilizing the company assets at their disposal is defined as return on asset .Generating in come by efficiently using the resources of a company is shown by return on asset (Hu (2009). This implies that a company is more efficient in using its resources when it has a higher ROA.

Nasieku (2016) urged that, return on equity basically shows how an entity can effectively manage its resources more, so that the shareholders' funds can generate profits. An enterprise with a higher return on equity has a higher capability of internal cash generating since return on equity refers to how much profit a company earns in relation to the total amount of shareholder equity invested or found on the balance sheet (Muia (2010).

Therefore, in terms of profit margin, the higher the ROE the better the company (Hillier 2010). Entrepreneurs or investors analyze on what margin of the return shall be realized after a merger deal and that is what investors look in return as they invest in a project. Thus, the more effective the management is in utilizing the shareholders' value culminating to a higher financial performance, the better the return on equity.

2.2.2 Capital Adequacy and financial performance

A horizontal merger usually enjoys the synergy effect as the potential gains in market share tend to be much greater (Moctar, 2014). Moctar, (2014) further argued that, this kind of merger usually occurs as a result of consolidation of firms in the same industries. The size of the bank and the capital adequacy are the most basic motive behind this type of merger as it concentrate on

merging on related firms in the same industry (Hitt et al, 2017). The Basel Committee on Banking supervision advocated for all commercial banks to increase their capital adequacy ratio to meet the threshold set by the committee. This is because the equity/capital of the bank is the first cushion for eventual stress period. To this effect therefore, leverage ratio was considered the best measure for capital adequacy level. It is also noted that, leverage is employed to reduce or avoid using too much equity to fund operations. Excessive financial leverage increases the risk of failure as it becomes difficult to repay debts as they fall due.

Behr, (2011) considered capital as one of the bank specific factors that influence the level of bank's financial performance. Behr, (2011) further examined that, equity is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation. Athanasoglou et al. (2005) argued that, Banks capital creates liquidity for the bank due to the fact that deposits are most fragile and prone to bank runs. Moreover, greater bank equity reduces the chance of distress (Ismail, 2011). It is noted however that, equity induces weak demand for liability and considered as the cheapest sources of fund. According to Javaidet (2011), capital adequacy is the level of capital required by the banks to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the bank's debtors. According to Olalekan (2012), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). The ratio usually shows the internal strength of the bank to withstand losses during crisis.

It was examined that, this ration is directly proportional to the resilience of the bank to crisis situations (Beck et al, 2010). It also has a direct effect on the financial performance of banks by determining its growth to risky but profitable ventures or areas (Pasiouras and Kosmidou, 2007).

2.2.3 Liquidity Management and financial performance

Vertical merger occurs between two companies producing different products operating at different level of production in the supply chain (Javaid, 2010). Javaid, (2010) further contended that, corporations have used liquidity level as a factor in their merger deal to attest the firm's synergy level. Liquidity has been defined as the ability of an entity to quickly convert its current assets to meet its current liabilities or obligations when fall due within a one year period mainly for depositors (Hillier et al, 2010). As a restructuring mechanism, firms merge with an intention of maximizing shareholders value.

Gakure (2010) contended that Bank Liquidity helps and protects the depositors and other interested parties to feel covered in their investments. Ferreira at el (2010), further argued that the basic principal behind liquidity management is to ensure that, the bank at any given point can be able to facilitate its daily operations eliminating the risk of a bank run. To this effect, commercial bank through the supervisory bodies, advocated that the ration to be lower than 100% to ensure at least the bank has the same level of customer deposits and loans.

It is also noted that, liquidity is a factor used to determine the level of commercial bank's financial performance. According to Yook (2004), adequate level of liquidity is positively correlated with commercial bank financial performance. Sharma, (2015) inferred that, the most commonly used financial ratios that reflect the liquidity position of a bank are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Masud (2015) used cash to deposit ratio to measure the liquidity level of commercial banks in Pakistan. However, the study conducted by Olalenkan, (2012) in Nigeria and Masud, (2015) in Pakistan found that liquidity level of commercial banks has no relationship with the financial performances of commercial banks.

2.2.4 Asset Structure and financial performance

Market extension merger takes into consideration the level and structure of the assets for an entity to consolidate. This usually occurs when firms dealing with the same products but in a total different market to get access to a bigger market and increase the client base Gakure et al, (2010). Mishra, (2010) further argued that, the firm's asset structure is representative of its strategy to earn from its asset base. Asset structure is a composition of both the fixed and current assets. Marangu, (2007) asserted that, firm's assets determine organizational ability to undertake projects and meet its obligations. The ability of a firm to sustain or survive in the tuff competition is determined by the level and quality of assets (Muia, 2010).

Devos, (2009) asserted that, cash as a current asset is very paramount for the growth of a firm. Daddikar at el (2014) further added that without cash, a company cannot pay its suppliers, salaries and wages and other administrative costs which motivates them to work to improve the welfare of the entity. Asset structure enhances efficiency in the organization thereby improving the production capacity. Behr, (2011) noted that, Commercial banks also accumulate assets to establish security used to acquire financial services such as loans and bid bonds for companies in the economy. Assets are used as securities to borrow money from creditors to finance business activities (Altunbacs and Margues, 2008).

Commercial bank's assets determine the future existence of an entity and its ability to meet current and future obligations. Odeck, (2008) contend that, most investors are very much concerned about the entity's assets to promise them the safety of their investment and likelihood of generating return. It is therefore noted that, the asset structure is measured using the financial analysis i.e. current asset turnover and fixed asset turnover (Christopoulos, 2008). Conversely, firms choose different levels of financial leverage to attain optimal capital structure that involves a tradeoff between risk and return.

Companies mostly prefer debt financing because it can be used to purchase securities from equity investors at a relatively cheaper price (Masud, 2015). Nasieku, (2016) argued that, firm's asset structure aim at generating cash required to undertake business venture. Cash generated usually serve as dividend to shareholders and retained earnings that are in viable investment vehicles to maximize capital gain.

2.2.5 Asset quality and financial performance

The asset quality of an entity has been an item of consideration when a merger deal takes place more so when two or more firms dealing in related products operate in the same market (Muia, 2010). In this regards, the merging companies group consolidates their products and access the big set of consumers, which helps them improve their financial performance. The commercial bank's asset is another bank specific variable that affects the financial performance of a bank. The bank asset includes among others current asset, credit portfolio, fixed asset, and other investments. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often than not the loan of a bank is the major asset that generates the major share of the banks income. Loan is the major asset of commercial banks from which they generate income. The quality of loan portfolio determines the financial performance of commercial banks. The loan portfolio quality has a direct relationship on Commercial bank financial performance. Christopoulos (2009) asserted that, the highest risk facing a bank is the losses derived from delinquent loans. It is noted however that, nonperforming loan ratios are the best proxies for asset quality.

Behr, (2011) affirmed that, there is a major concern of all commercial banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the financial performance of banks. Thus, low nonperforming loans to total loans shows a good health of the portfolio on Commercial Bank. The lower the ratio the better the bank financial performing (Ezazi et al, 2011).

2.3 Empirical Review

Several researches conducted on effects of mergers on financial performance on listed commercial banks at Nairobi Securities Exchange used different methodologies and reported mixed results. For instance a study by Ayadi *et al* (2013) on the effects of merger deals on the productivity of European banks between 1996 to 2003 that included 42 merged commercial banks and 587 non-merged banks. Their results depicted that, consolidated entities enjoyed quality management services beside good productivity gains and greater economic efficiency. This is due to a well-integrated management operations and employees. Sufian *et al.,* (2012) in Malaysia in their study on the effect of merger deal on the revenue efficiency on commercial banks. In their study a sample of 34 commercial banks were used in the pre-merger period during 1995- 1996 and post-merger in 2002 to 2009. Their results depicted that there was no significant positive impact on the revenue efficiency both pre and post-merger on commercial banks. A study by Amu & Chigbu (2015), Micheal (2013) on the performance of Nigerian Banks proved a significant improvement on their performance after merger and realized big share of dividend compared to the pre- merger period.

Joash and Njangiru (2015) in their study on mergers on profitability and shareholders' value in banking sectors in Kenya and their implication during the period 2000-2015. The conclusive results were shareholders' value increased on acquiring firms after merger. Nasikeu and Susan (2016), on their study on effect of financial restructuring on the financial performance of firms in Kenya revealed a good return to shareholders, ensured by optimum and appropriate financing mix or proper balance of equity & debt fund.

2.4 Critiques of relevant existing literature

Typical concerns expressed about effects of mergers on financial performance on listed commercial banks at Nairobi Securities Exchange have become very difficult to have consistent results in their performance (Susan, 2016). Merger deals have become technically difficult and most studies have realized a mixed result. Studies by Smita, (2011), Khan, (2011) and Sufian, (2012) on the studies on effect of merger on financial performance have generally focused only on pre and post- merger deals for a specific period. Something to note is that, most of the deals were effected long time and it becomes very difficult to compare these period due to economic and technological advancement which have charged over time. It will be very realistic to look at the post-merger financial performance trend on the post deal analysis. Some entities reduced in value immediately the deal was affected and later improved on their value, some never improved, some operated at break- even point and others sky rocked immediately the deal was sealed.

Another critique or concern on this area of study is that, the deals are not cutting across industries. It is realized that, most studies on merger were mostly entities consolidating from the same industries. There is need to consolidate entities from across sectors of the economy so as to diversify operations. The deal to be successful, it should consider the interest of both parties that are involved in the merger deal. This will make all the stakeholders both for the acquired and acquiring firm feel valued and they will operate at full capacity.

2.5 Research Gaps

Successful merger deals improve the financial performance of the merged firms which according to Khan, (2011), may be attributed to improved monopoly or an increase in efficiency. In addition, merger deals do not significantly impact the financial performance of corporate firms. In this regard therefore, there is a mixed result on both on the pre and post-merger deals on the effect of mergers on financial performance of commercial banks in Kenya.

Sharma (2014); Devarajappa (2012); Smita (2011) & Khan (2011) in their studies realized an improvement on the shareholders' value after the merger while others did not. Though most studies have been conducted on effects of merger on financial performance on non- financial entities but little has been done on financial entities in Kenya. There is need for a comprehensive study to be conducted, especially in the banking sector on the evaluation of the effect of mergers on financial performance of commercial banks in Kenya.

3.0 Research Methodology

3.1 Research Design

Research design is a strategy, a plan or structure of performing a study (Michael, 2008). In this regard, the researcher employed a survey research design which used a selected portion of the population from which the findings could later be generalized

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back to the population was applied. During the period 2010 - 2017, only 13 Commercial Banks in Kenya had undergone a Merger deal for which data for all Commercial Banks in Kenya are readily available and complete. Consequently, the researcher considered a survey research design as ideal as at that present time.

3.2 Target Population

A target population is described as the total group of individuals from which the sample might be drawn (Mugenda and Mugenda, 2009). In this study, the population of the study included all the 13 listed Merged Commercial Banks at Nairobi Securities Exchange. During the research period, Kenya had a total of 42 Commercial Banks both private and public owned banks, both listed and non-listed at the Nairobi Securities Exchange. In an effort to improve on the financial performance and maximize shareholder value, mergers have been conducted by some of the banks in this sector. Commercial Banks that have engaged in merger activities in Kenya between the years 2010-2017 was the main focus.

3.3 Sampling Techniques and Sample Size.

In this research purposive sampling technique was used. This technique was vital in that it focused on particular characteristics of the population of interest (Kothari, 2003). The population of interest included all the listed Commercial Banks which underwent merger processes in Kenya between 2010 to 2017. A period that saved as the sample selected for this study. One staff at the levels of the Branch Manager, Operations manager, Relationship manager and Customer care executive was picked from each Bank randomly. This gave a sample size of 52 individuals.

3.4 Data Collection Instruments

Useful information or any variables of interest in a standardized manner helped the research test the hypothesis for the study (Michael, 2008). Mugenda and Mugenda, (2009) further noted that, provision of information on medium and long-term effect of mergers on financial performance on listed Commercial banks at Nairobi Securities exchange was good fit for the study. A post-merger period of 7 years where applicable was applied.

Data collection instruments adapted for this study were primary and secondary data. Questionnaires were administered to the bank Branch Managers, Operation Managers, Relationship Managers and Customer care executives. Secondary panel data were obtained from Nairobi Securities Exchange handbook and CBK Website, to analyze the financial statements. The financial reports helped in analyze the current assets, current liabilities, Net Income, Total Owners Equity, Shareholders Value, Average Asset and total Debt to compute the ROA and ROE and Capital adequacy, Liquidity Level, asset Structure and Asset Quality for the listed merged commercial banks. To enhance quality and quantity of data adequacy, a combination of both time series and cross section was used. This type of data was readily available thus very useful for current studies as well as for future studies.

3.5 Data collection procedure

Data is basically collected by use of various methods such as interviews, observation, and questionnaires (Mugenda and Mugenda, 2009). This study employed self-administered coded questionnaires to all the respondents at their place of work. This was the best method as it does not affect the normal operations of the listed merged Commercial Banks. The filled in questionnaire were basically picked at an agreed period between the researcher and the respondents. Financial statements of the listed merged commercial banks at the Nairobi Securities Exchange handbook were used to collect secondary data.

3.6 Pilot Study

This is a pre-testing of a particular research instrument for this case a questionnaire for a small scale perspective to a future larger targeted population (Michael, 2008). Michael, (2008) further contended that, the purpose of this is to examine the feasibility of an approach intended to be used in future large scale study. The questionnaires were taken to some top managers, senior staff and middle level staffs in all the listed merged 13 commercial banks at Nairobi Securities Exchange to pre-test the tools of data collection.

3.6.1 Reliability

Reliability in research is a technique to test the quality of an instrument when exposed in a similar condition to a test in more than one times to give a stable and consistent outcome (Smita, 2011). To measure the internal consistency of the data collection instruments the Cronbach alpha, was used. The higher the score, the more reliable the generated scale is, which was considered adequate for this study. The questionnaires were modified and a final one developed as per the feedback obtained from the pilot test.

3.6.2 Validity

Kothari, (2003) illustrates that; the extent to which a test measures what it purports to measure is validity. This study adopted an external validity principle to generalize the findings to the population. Asking series of questions, and often looking for the answers in the research of others such as supervisors, statisticians and colleagues determined the validity of this study.

3.7 Data Processing, Analysis and Presentation.

The explanation of the financial performance depending on the evolution of main financial indicators available at the level of firms informed the analysis. The research used the multiple linear regression method to carry out the analysis. The multiple linear regressions' aim was to point out the relationship between a dependent variable and independent variables. Evaluation of the effect of mergers on financial performance of commercial banks in Kenya were illustrated by multiple linear regressions. Below is the general form of the equation of the multiple linear regression model utilized. Tables were used to present the analyzed data.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i \quad (3.1)$$

Where: *Y*–Dependent variable's financial performance
β_0- is a constant term, while the coefficient β_ii= 1,2,3……4 measures the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, X_2, $X_3$and X_4
X_i- Firm's Capital Adequacy
X_2- Firms Liquidity Management
X_3-Firms Asset Structure and
X_4- Firm's Asset Quality as the independent variables and
ε – Error term of equation.

4.0 Research Findings

4.1 Response Rate

The overall objective of this study was to assess the effect of Mergers on the financial performance of listed Commercial Banks in Kenya at Nairobi Securities Exchange. Out of the targeted sample of fifty two (52) respondents, 48 (92.31%) responded to the questionnaire. This was considered adequate for the objectives of this study.

4.2 Reliability Analysis

Reliability of the questionnaire was analyzed using a Cronbach's alpha coefficient. This helped to determine the level of accuracy and reliability of the obtained data from the pilot study. Cronbach's alpha was considered appropriate since it is a coefficient of reliability that gives an estimation of data generalization without any bias. Table 4.1 indicates that the data was reliable since the coefficient values obtained on all the research variables were between 0.78 and 0.92. These were above 0.70 and an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondents' opinions on the study problem.

Table 4.1: Reliability Analysis

Variables	Cronbach's Alpha Results
Capital adequacy	0.92
Liquidity Management	0.79
Asset Structure	0.84
Asset Quality	0.78

Source: Research data (2019)

4.3 Demographic Results

4.3.1 Gender of Respondents

The study sought to find out the gender composition of the respondents. The results obtained are presented on Table 4.2.

Table 4.2: Gender of Respondents

Range	Frequency	Percentage (%)
Male	30	62.50
Female	18	37.50
Total	**48**	**100.00**

From Table 4.2 the findings indicate that 30 (63%) out of the 48 respondents that participated in the study were male while 18 (37%) were female. The results show that the study covered both male and female respondents. The findings also imply that majority of those surveyed were male.

4.3.2 Highest Education Qualification

The study also sought to establish the highest level of education attained by the respondents. The findings are presented on Table 4.3.

Table 4.3: Highest Education Qualification

Range	Frequency	Percentage (%)
Diploma	26	54.17
Degree	22	45. 83
Total	**48**	**100.00**

From Table 4.3 the results show that 26(54.17%) of the respondents have a diploma, 22 (45.83%) have a degree. This implies that majority of the respondents have at least attained post-secondary education which is considered basic in Kenya.

4.4.3 Respondents Department

The study further sought to know which department the respondents managed. Findings are shown on Table 4.4

Table 4.4: Respondents Department

Department	Frequency	Percentage (%)
Finance	17	35.00
Operations	10	21.00
Information Technology	7	15.00
Human Resources	14	29.00
Total	**48**	**100.00**

Table 4.4 indicates that 17 (35%) out of the 35 respondents were from the finance department, 10 (21%) operations department, 7 (15%) information technology department while 14 (29%) human resources department. The results therefore indicate that finance department had the largest number followed by HR then operations. IT department had least number of respondents.

4.3.4 Years of Service

The study also went further to find out how long the respondents had worked in the organisation. The results obtained are presented on Table 4.5.

Table 4.5: Years of Service

Years	Frequency	Percentage (%)
1 – 5 years	5	10.40
6 – 10 years	14	29.20
11 – 15 years	21	43.80
16 – 21 years	8	16.60
Total	**48**	**100.00**

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Table 4.5 above indicates that out of the 48 respondents 5 (10.40%) had worked for 1 to 5 years, 14 (29.20%) between 6 and 10 years, 21 (43.80%) 11 to 15 years, while 8 (16.60%) 16 to 21 years. The results show that most respondents had worked for more than 5 years hence more experienced and knowledgeable in the company operations.

4.4 Descriptive Results

4.4.1 Merger capital Adequacy

The study investigated the extent to which the respondents agreed or disagreed with statements on merger capital adequacy after the merger. The study also investigated the effect of merger capital adequacy on financial performance of listed commercial banks in Kenya. The data obtained was analyzed using mean scores and standard deviations. A mean score of less than 1.5 implies that the respondents strongly disagreed with the statement, 1.5 to 2.5 implies respondents disagreed while 2.5 to 3.5 implies the respondents were neutral. A mean score of 3.5 to 4.5 implies respondents agreed while a score of more than 4.5 implies strongly agreed. A standard deviation of less than 1 means that there were no significant variations in responses while greater than 1 implies that there were significant variations in the responses. Results obtained are shown on table 4.6 below.

Table 4.6: Merger capital Adequacy

Statement	MEAN	STDEV
Has the bank's capital adequacy increased as a result of Merger?	4.6	0.8
The capital increment resulting from merging has helped in increasing the market share?	4.5	0.6
The bank has been able to meet the core capital requirement as per the Central bank requirement?	4.7	0.5
The merger deal has afforded more assets for other bank branches seeing its growth and profitability?	4.5	0.8
Overall	**4.6**	**0.7**

The above results show that the respondents strongly agreed that listed Commercial Bank's Capital adequacy increased over the years after the merger (4.6) surpassing the minimal capital risk weighted asset of 0.08(8% under Basel II).This implies that, the commercial banks are more capitalized and have enough capital reserves to take care of any loss and depositors interest. It's further noted that, the increase in the listed commercial bank's capital adequacy has led to an increase in the bank's market share (4.5). This has improved attractiveness on the commercial bank merger thus increasing customer deposits reducing the lending rates. The findings also indicate that the respondents agreed that the merger deal has made it easier for the listed merged commercial banks to meet their core capital requirement after merger (4.7). The findings also indicates that there is an increase in the number of branches all across the country making services easily accessible to the customers (4.5) and that the merger deal had afforded the bank more loan products to different clients and easy excess to other related services. The overall mean score of 4.6 implies that in general Merger Capital Adequacy which is above the minimal threshold under Basel II and II implies that, the Commercial bank is safe and likely to meet its obligations. Basing on the analysis above, in generally there is a positive influence on the financial performance of merged listed commercial banks in Kenya. The overall standard deviation of 0.7 indicates that there were no significant variations in the responses.

4.4.2 Liquidity Management

The study further investigated the extent to which the respondents agreed or disagreed with statements on liquidity management after the merger. The study also investigated the effect of liquidity management on financial performance of listed commercial banks in Kenya. The data obtained was analyzed using mean scores and standard deviations. A mean score of less than 1.5 implies that the respondents strongly disagreed with the statement, 1.5 to 2.5 implies respondents disagreed while 2.5 to 3.5 implies the respondents were neutral. A mean score of 3.5 to 4.5 implies respondents agreed while a score of more than 4.5 implies strongly agreed. A standard deviation of less than 1 means that there were no significant variations in responses while greater than 1 implies that there were significant variations in the responses. Results obtained are shown on table 4.7 below.

Table 4.7: Liquidity Management

Statement	MEAN	STDEV
Does this Bank have a strategy for liquidity risk management? And does this Bank use stress tests on liquidity?	4.4	0.9
Does this bank continuously monitor bid-ask spreads for financial instruments (i.e. liquidity indicator on securities)?	3.8	0.8
Do you use internal liquidity indicators? (i.e. ratio of liquidity assets against total deposits?	4.6	0.7
Overall	**4.3**	**0.8**

Table 4.7 indicates that the respondents agreed that the banks have attracted a rich, pool of skilled and efficient professionals who apply strategies for liquidity risk management and use stress test on liquidity (4.4). This implies that, the listed commercial banks under merger have developed some synergetic power to protect themselves on critical financial crisis when they arise. In this regard therefore, the applied strategies and stress test were monitored to ensure all the policies and rules set are adhered on liquidity indicators on securities (3.8). The results also show that they strongly agreed that the listed Commercial banks apply internal liquidity

indicators to ensure depositors and shareholders emerging demands are factored (4.6). The overall mean score of 4.3 implies that Liquidity Management influences financial performance of listed commercial banks in Kenya that underwent Merger. This also illustrates that, the commercial bank's working capital is stable and efficient. The overall standard deviation of 0.8 implies that there were no significant variations in the responses.

4.4.3 Asset Structure

The study investigated the extent to which the respondents agreed or disagreed with statements on asset structure after the merger. The study further investigated the effect of asset structure on financial performance of listed commercial banks in Kenya. The data obtained was analyzed using mean scores and standard deviations. A mean score of less than 1.5 implies that the respondents strongly disagreed with the statement, 1.5 to 2.5 implies respondents disagreed while 2.5 to 3.5 implies the respondents were neutral. A mean score of 3.5 to 4.5 implies respondents agreed while a score of more than 4.5 implies strongly agreed. A standard deviation of less than 1 means that there were no significant variations in responses while greater than 1 implies that there were significant variations in the responses. Results obtained are shown on table 4.8 below.

Table 4.8: Asset Structure

Statement	MEAN	STDEV
The number of product lines has increased over the years after the merger?	3.32	.888
The merger deal has increased the number of branches all across the country making services easily accessible to the customers?	4.13	.686
The merger deal has been able to capture a great number of customer groups?	3.80	.939
The merger deal has been afforded the bank more loan products to different clients.	3.74	.760
The attractiveness of the bank merger has increased customer deposits reducing the lending rates?	4.13	.883
Overall	**3.82**	**0.831**

Table 4.8 indicates that the respondents agreed that there is an increase in the level of product line and more branches within the country have been formed. It is noted that, the commercial banks due to more product lines in the market (3.32) and creation of more branches across the country (4.13) which has increased the customer base from different customer groups (3.80). This implies that, depositors have confidence and less risky factor on bank run exposure. In the same note, due to various products line and more branches across the country, commercial banks have reduced the lending rates and more flexible and friendly to most customers making them to secure loans (3.74). The results also shows that they agreed more customers have been attracted increasing the deposits (4.13) which acts as cushions for stability and liquidity. The overall mean score of (3.82) implies that asset structure influences financial performance of listed commercial banks in Kenya that merged. This clearly indicates that, commercial banks are greatly financed by debt. The overall standard deviation of 0.83 implies that there were no significant variations in the responses.

4.4.4 Asset Quality

The study investigated the extent to which the respondents agreed or disagreed with statements on asset quality after merger deal. The study further investigated the effect of asset quality on financial performance of listed commercial banks in Kenya. The obtained data was analyzed using mean scores and standard deviations. A mean score of less than 1.5 implies that the respondents strongly disagreed with the statement, 1.5 to 2.5 implies respondents disagreed while 2.5 to 3.5 implies the respondents were neutral. A mean score of 3.5 to 4.5 implies respondents agreed while a score above 4.5 implies they strongly agreed. A standard deviation of less than 1 indicates that there were no significant variations in responses while greater than 1 shows that there were significant variations in the responses. Results obtained are shown on table 4.9 below.

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Table 4.9: Asset Quality

Statement	MEAN	STDEV
Banks service delivery has improved over time after the merger deal?	3.18	.813
After consolidation, more product lines have opened up, and easy to secure?	4.13	.853
Overall	**3.66**	**0.83**

The above results depicts that, the respondents were neutral on the issue of services delivery (3.18). This is because service delivery always varies with the current economic status of a country besides her technological advancement. It was agreed that, after consolidation, more products lines open up and easily to secure (4.13). This depicts that, after consolidation, the poll of resources enabled the commercial bank to diversify her operations reaching more customers thus improving the customer base and confidence to shareholders and depositors. In generally, the overall mean score of 3.66 implied that, asset quality has a positive influence on the financial performance of listed commercial banks in Kenya. It is further noted that, the overall standard deviation of 0.83 indicates that, there were no significant variations in the responses.

4.4.5 Financial Performance

The respondents were asked to indicate the extent to which they agreed or disagreed with some statements on financial performance after merger. The study analyzed the financial performance trend for the commercial banks in Kenya. A mean score and standard deviation workings were employed to analyze the obtained data. A mean score of less than 1.5 implies that the respondents strongly disagreed with the statement, 1.5 to 2.5 implies respondents disagreed while 2.5 to 3.5 implies the respondents were neutral. A mean score of 3.5 to 4.5 implies respondents agreed while a score above 4.5 implies they strongly agreed. A standard deviation of less than 1 indicates that there were no significant variations in responses while greater than 1 shows that there were significant variations in the responses. Table 4.10 shows the result.

Table 4.10: Financial performance

Statement	MEAN	STDEV
Has Performance score card been implemented to monitor and evaluate bank activities on both financial and non-financial measures?	4.11	.894
Have commercial banks in Kenya introduced financial performance measurement systems?	4.32	.656
Have the introduction of of E-banking i.e The ATM,RTGS, ECS, EFT and Internet banking reduced transaction time?	3.70	.939
Are you contended with the current financial performance measurement systems in your commercial bank in this competitive era?	4.41	.677
Has the current market competition affected employee turnover rate?	3.00	.816
Overall	**3.91**	**0.796**

The results on Table 4.10 shows that the respondents agreed that, commercial banks had introduced and implemented a financial performance score card to monitor and evaluate bank activities on both financial and non- financial measures (4.11) and that commercial banks have introduced a financial performance measurement system (4.32). The results further shows that, the introduction of the E-banking has greatly helped and facilitated easy and timely transaction (3.70). Due to consolidation, respondents agreed that the financial performance measurement system is much satisfactory in this competitive world (4.4) and that it can't be concluded with certainty that the employee turnover rate is nether positive or negative (3.00). The overall mean of 3.91 implies that, in general the respondents agreed with the statements, which determined there was an improvement on the financial performance on listed Merged Commercial Banks in Kenya after merger. The Overall standard deviation of 0.796 implies that there were no

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significant variations in the responses. On performance, there was no significant performance on responses as indicated by overall results.

4.5 Correlation Matrix Results

Correlation analysis was done to measure the strength of the linear relationship between the independent variables and the dependent variable. Pearson Correlation Coefficient was determined and results presented in table 4.11 below.

Table 4.11: Correlation Results

Correlations Matrix

		1	2	3	4	5
Capital adequacy (1)	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	48				
Liquidity Management (2)	Pearson Correlation	.526**	1			
	Sig. (2-tailed)	.000				
	N	48	48			
Asset Structure (3)	Pearson Correlation	-.148**	-.099	1		
	Sig. (2-tailed)	.006	.068			
	N	48	48	48		
Asset Quality (4)	Pearson Correlation	-.104	-.058	.293**	1	
	Sig. (2-tailed)	.056	.285	.000		
	N	48	48	48	48	
Financial Performance (5)	Pearson Correlation	.803**	.549**	-.102	.437**	1
	Sig. (2-tailed)	.000	.000	.159	.000	
	N	48	48	48	48	48

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

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Results show that there was significant positive relationship between financial performance and all the independent variables apart from asset structure. This means when one variable increases, the other also increases. It is further noted that, each variable is perfectly correlating with itself. In summery therefore, Capital Adequacy, Liquidity management and Asset Quality have a direct relation/effect on financial performance. The higher the reserves kept by the commercial bank (Capital Adequacy), the easy at which an asset can be converted into liquid cash and the rate at which the commercial bank can pay out its obligation when due without delay (Liquidity), and the level at which a loan facility can be repaid back on time (Asset quality) has a direct relationship with its financial performance.

4.6. Regression Results

In order to assess the influence of Merger of listed Commercial Banks in Kenya at Nairobi Securities exchange, regression analysis was used. The dependent variable was financial performance of commercial banks while the independent variables were Merger Capital Adequacy, Liquidity Management, Asset Structure and Asset Quality. The results obtained are given by Tables 4.12, 4.13 and 4.14.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.863[a]	.744	.672	.15146

a. Predictors: (Constant), Capital adequacy, Liquidity management, Asset Structure, Asset Quality.

Table 4.12 shows that the combined coefficient of correlation (R) is positive 0.863. This means that there is a positive correlation between listed commercial banks' merger on its financial performance. The coefficient of determination (R Square) indicates that 74.4% of the listed commercial banks financial performance is influenced by mergers deal.

Table 4.13: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2.618	4	.655	31.555	0.000
1	Residual	0.903	43	.021		
	Total	**3.521**	**47**			

a. Dependent Variable: ROA
b. Predictors: (Constant), Capital adequacy, Liquidity management, Asset Structure, Asset Quality.

Table 4.13 shows the analysis of variance (ANOVA). The p-value is 0.000 (ANOVA table) which is < 0.05. Implying that, the independent variables are predictors of the dependent variable.

Table 4.14: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std Error	Beta		
(Constant)	.641	.144		4.459	.000
Capital Adequacy	.630	.032	.720	19.585	.000
Liquidity Management	.169	.035	.175	4.809	.000
Asset Structure	-.005	.023	-.007	-.200	.842
Asset Quality	.062	.021	.097	2.975	.003

a. Dependent Variable: Financial Performance

Table 4.14 presents the results of regression coefficient and it shows that all the independent variables had a significant influence on financial performance. This is summarized by equation 4.1 as

$$Y_i = 0.641 + 0.630X_1 + 0.169X_2 + 0.062X_4 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(4.1)}$$

Where X_1 is the capital adequacy, X_2 is liquidity management and X_4 is the asset quality. For every one unit change in capital adequacy, performance increases by 63% keeping other factors constant. For every one unit change in liquidity management performance increases by 16.9% keeping other factors constant while for every unit change in asset quality, performance increases by 6.2% holding other predictors in the model.

This implies that, for every 1-unit increase in the predictor variable, i.e. capital adequacy, Liquidity management and asset quality, the financial performance increases by the Beta Coefficient value (0.720, 0.175 and 0.97 respectively). On the same note, for every 1 unit change in asset structure, performance decreases by -0.007. It is further noted that, there is a general positive effect on merged commercial banks as Nairobi Security Exchange.

4.7 Hypothesis Test

H_{o1}: Merger capital Adequacy does not have a significant influence on financial performance of listed Commercial Banks in Kenya at Nairobi Securities Exchange.

The P-value of 0.000 < 0.05 (Table 4.10) hence we reject the null hypothesis and conclude that merger capital adequacy had a significant effect on financial performance.

H_{o2}: Liquidity Management does not have a significant influence on financial performance of listed Commercial Banks in Kenya at Nairobi Securities exchange.

The P-value of 0.000 < 0.05 (Table 4.10) hence we reject the null hypothesis and conclude that liquidity management had a significant effect on financial performance

H_{o3}: Asset Structure does not have a significant influence on financial performance of listed Commercial Banks in Kenya at Nairobi Securities exchange.

The P-value of 0.842 > 0.05 (Table 4.10) hence we fail to reject the null hypothesis and conclude that, commercial banks' asset structure does not have significant influence on financial performance.

H_{o4}: Asset Quality does not have a significant influence on financial performance of listed Commercial Banks in Kenya at Nairobi Securities Exchange.

The P-value of 0.003< 0.05 (Table 4.10), hence we reject the null hypothesis and conclude that commercial bank's asset quality had a significant influence on financial performance.

A summary of the decision rule on the hypotheses tested is shown on table 4.15 highlighting the results of the model outputs.

Table 4.15

Hypothesis	P-values	Decision
H_{o1} There is no significant influence of capital adequacy on financial performance.	0.000	Rejected H_{01}
H_{o2} There is no significant influence of liquidity management on financial performance.	0.000	Rejected H_{02}
H_{o3} There is significant influence of asset structure on financial performance.	0.842	Accept H_{o3}
H_{o4} There is no significant influence of asset quality on financial performance.	0.000	Rejected H_{04}

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5.0 Discussions, Conclusion and Recommendations

5.1 Summary of Findings

5.1.1 To evaluate the effect of Capital Adequacy on the Financial Performance

The study sought to establish the effect of merger on financial performance of listed commercial banks in Kenya at Nairobi securities exchange and began with investigating the effect of several factors that influenced merger on the financial performance of listed commercial banks in Kenya at Nairobi security exchange which in this case was brought about by the capital adequacy. A regression summary between the independent variable and dependent variable established an Adjusted R Square value of 0.672, implying that 67.2% of the variations of listed merged commercial bank's financial performance at Nairobi securities exchange were influenced by the effect of capital adequacy. The results indicates that, there is a positive influence on the financial performance of listed merged commercial banks in Kenya. This implies that, commercial banks is safe and likely to meet its short term financial obligations. The results further depicts that, there is no significant variation on the despondence. The findings also show that merger capital adequacy is significant in the regression equation. From the findings, it further shows that, for every 1 unit increase in capital adequacy there is an increase in its financial performance.

5.1.2 To assess the effect of Liquidity Management on the Financial Performance.

The findings indicated that liquidity management has an influence on the financial performance of listed commercial banks in Kenya. Liquidity Management was the second most influential variable in the regression equation. This implies that, the working capital of the merged listed commercial banks is stable and efficient and thus can meet its short term obligation. The results also depicts that, the working capital can easily and quickly be converted into cash within a short period of time. The variable was also significant in explaining the relationship between commercial bank mergers on the financial performance. The findings further show that liquidity management is significant in the regression equation, indicating for every 1 unit increase in liquidity management there is an increase in its financial performance by Beta 0.72.

5.1.3 To establish the effect of Asset Structure on the Financial Performance

The Results indicate that asset structure had no effect on the financial performance and the third most influential variable. The results shows that, the merged commercial banks are financed by debt and not owners' equity. It was noted that, there was no significant variation on the despondences.

5.1.4 To establish the effects of Asset Quality on the financial performance

The fourth and last specific objective was to establish the effects of Asset Quality on the financial performance. Findings show that asset quality had an effect on the financial performance. The respondents agreed that merger had improved the asset quality which in turn had a positive effect on the financial performance of the listed merged commercial banks. Loans and other products lines are serviced well and on time. In the regression equation asset quality was found to be significant. From the findings merger asset quality is significant in the regression equation. The findings further shows that, for every 1 unit increase in asset quality there is an increase in its financial performance.

In general, the study further established that there was a positive correlation between listed commercial banks mergers on their financial performance. The coefficient of determination (R Square) indicated that 67.6% of the listed commercial banks financial performance is influenced by merger deals. The adjusted R^2 however, indicated that 67.2% of the financial performance of commercial banks that have merged in Kenya is influenced by capital adequacy, liquidity management, asset structure and asset quality leaving 32.8% to be influenced by other factors.

5.2 Conclusions

This study concludes that, merger on commercial banks in general is an important strategic tool used to enhance growth in an entity. Merger deal promotes synergy principal and thus improves on the resource mobilization. To be financial stable and have good market share in the economy, there is great need to consolidate resources and produce unique brands that can easily be accessed by a bigger market. The study denotes that, the effect of merger on financial performance of listed commercial banks in Kenya at Nairobi Securities exchange is solely dependent on four factors namely; Capital Adequacy, Liquidity Management, Asset structure and Asset Quality on financial performance. Capital adequacy (Mean 4.6) was the most influential factor on a merger deal on the financial performance. Thus, more emphasis should be placed on this variable by managers when putting in place when fruitful consolidation is to take place.

The study also concludes that, liquidity management is of a paramount factor to be considered in merger. This is because; shareholder/investors and depositors of a commercial bank solely monitor these ratios. For instance a Beta of 0.175 indicated that, for each 1 unit increase in growth for this variable there is equally an increase in its financial performance when other factors are held constant. When liquidity management has improved, the extent at which an entity can meet its daily obligation also improves. The level of influence on mean 4.30 shows how this predictor variable is much influential to the financial performance.

From the study and results, it was concluded that asset structure was not influential to performance. This is depicted on the results that, ceteris Paribas, for every 1 unit change of the variable, performance decrease by -0.5%. This implies that, composition of assets in an entity in this case commercial bank of Kenya, does not affect its financial performance.

It was further concluded that, asset quality is very important when merger decision are to be undertaken. It is depicted from the results that, there is stability and consistence in monitoring the loan facilities. Customers/depositors and shareholders have great trust in commercial banks and at any time bank run risk is taken care off. This variable was very influential in financial performance depiction. It further concludes that when commercial banks merge they enhance their competitiveness in the industry resulting in improved financial performance. It is evident overall that, mergers have a positive effect on the financial performance of listed commercial banks in Kenya.

5.3 Recommendations

Based on the findings discussed above, the study recommends that people involved in merger decision should be considerate to have an all-inclusive idea that captures all stakeholders. This implies that, shareholders and employee of such a merged commercial bank will feel to own such an idea and hence work effectively.

It is also recommended that, central bank of Kenya to increase the threshold on capital reserves or capital adequacy so that more are forced to merge and customers to enjoy variety of products at a lower competitive rate. This implies that, small banks will be eliminated in the market which might be misleading and have a bad motive of benefiting themselves. Thus commercial banks in Kenya should be encouraged to merge as there are a lot of synergistic benefits. The management of the commercial banks should assess the possibility of merging with their peers who are key competitors so as they can strengthen their position in the market and improve their financial performance.

The study also recommends that, more control to be put in place and close monitoring done on its internal control systems more so on the liquidity management policies. No commercial bank shall have a smooth operation if it fails to meet its short term obligation when fall due. There is therefore need, to ensure proper strategy are put in place to control and monitor this policy. Many commercial banks have failed forcing them to experience a bank run. On the same note, commercial bank to weigh the best mode of financing her operation as this may really have an impact on its operation.

A further recommendation is on the asset structure. Commercial bank makes a lot revenue on corporate business and business treasuries. Management of such commercial banks should look at the composition of her asset. How fast can they be converted into cash. Banks are not like other industries i.e. Manufacturing that deals with long term asset. Due to conflict of interest and the agency theory, managers should not invest on projects that will affect the working capital.

It is recommended that, central bank to put regulation that will support merged commercial bank on their asset quality. Loans advanced to customers are the biggest asset accounted by the commercial bank. Tight policies should be put in place that shall protect commercial banks when customers default on loan repayment. This is the reason as to why most commercial banks after merger fails to realize positive return and hence becomes solvent. Managers of commercial banks should also put measures to ensure all loans are serviced well and only advanced to known customers. Finally, central bank of Kenya should put regulations in place to control the possibility of monopolies emerging in the banking industry.

5.5 Suggestions for Further Research

The study was conducted on listed commercial banks with branches in the Coastal region of Kenya only. The findings can be verified by conducting the same study in other regions in Kenya to identify if the results will be similar or different. The findings of this study were according to the views of managers of the merged commercial banks. The study could be extended to cover other stakeholders such as the CBK, CMA, NSE and many others. This will help to understand if the government's views are similar or different from those of the commercial banks' managers. A similar study could also be carried out in other countries other than Kenya and in different sectors such as insurance.

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