EFFECTS OF MERGER AND ACQUISITION STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS: A CASE OF I&M BANK

BY
IGECHA ERIC KAMAMI

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Award of the Degree of Master in Business and Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

FALL 2018
STUDENT’S DECLARATION

I, the undersigned, declare that this research project is my original work and has not been submitted to any other institution or university other than United States International University –Africa in Nairobi for academic credit.

Signed: ____________________ Date: ____________________

Igecha Eric Kamami (Student ID: 650039)

This research project has been presented for examination with approvals as by the appointed supervisor.

Signed: ____________________ Date: ____________________

Dr. Caren Ouma, PhD

Signed: ____________________ Date: ____________________

Dean, Chandaria School of Business
ABSTRACT
This study examined the effects of merger and acquisition strategies on performance of I&M Bank. The study was guided by three specific objectives: To establish the effect of Merger and acquisition on customer portfolio; determine the effect of merger and acquisition on banks' market share; and determining the challenges facing I&M Merger and Acquisition.

A descriptive research design was also adopted which targeted the population of I&M Bank managers, officers, consultants and call center agents at the Kenyatta Avenue Branch. The target population for the study was 98 staff members and the sample size was 78 staff members, who engaged in the process of M&A. Simple random sampling technique was used to select the sample for the study. Structured self-administered questionnaires were used to collect the data, which was analyzed using descriptive and inferential statistics, and summarized using descriptive statistics which included mean and standard deviation. Correlation analysis measured association whereas regression analysis was used to determine effects of independent variables on the dependent variable. Data analyzed using SPSS was presented in charts and tables and supported by an interpretation by the researcher.

Descriptive results showed that I&M Bank held informal activities to enhance employees’ interaction after the acquisition, respondents’ were in agreement that M&A had increased the market share of I&M Bank, but culture clash was the major M&A challenge affecting I&M Bank post-merger. A positive and statistically significant association was seen between M&A and customer portfolio and this was confirmed by regression findings. The results from the correlation analysis indicated that there was a positive and statistically significant effect of M&As on the market share of I&M Bank and this was confirmed by the linear regression analysis results. The correlation findings indicate a positive and significant association between M&A and RoI of I&M Bank. The linear regression results show that the effect of M&A on RoI was the least among the three variables measured in this study.

The study concludes that M&As led to an increase in the customer base for I&M Bank and also offered convenience of services for customer of the merged institutions. That the acquiring of Giro Bank led to an increase in the market share of I&M Bank in the Kenyan
commercial banking sector. That culture clash is the most serious threat of M&As to I&M Bank’s.

The study recommends that management of I&M Bank should assess customer expectations post-merger in order to meet customer needs and enhance customer loyalty. That management of I&M Bank should integrate financial technologies and adopt customer relationship strategies to maintain the current market share. That the management of I&M bank should engage assessing the culture fit post-merger, educate staff on culture clash, and align human resources (HR) practices with the desired new culture.
ACKNOWLEDGEMENTS

My deepest and greatest gratitude goes to Dr. Caren Ouma who has been the essence of my support in the graduate program by being my advisor and mentor, providing me with encouragement, support, and true friendship in this educational journey. Special thanks to my family for the never-ending positive support, my colleagues at I&M bank to whom I could voice my ideas and who gladly proofread my work and to my employer Symon Phares for all the encouragement. Finally, I want to thank my dear Pamela Karugi for the endless patience, encouragement, support and help. Thank you.
DEDICATION

I dedicate this project to my parents Martin Igecha & Anne Igecha, my sister, Nyaikuru Igecha and my nephew, Ryan Igecha, for being the pillows, role models, slingshots, audience and cheerleading squad I have always needed.
TABLE OF CONTENTS

STUDENT'S DECLARATION ........................................................................................................... ii
COPYRIGHT ................................................................................................................................ iii
ABSTRACT ................................................................................................................................. iv
ACKNOWLEDGEMENTS ............................................................................................................. vi
DEDICATION .............................................................................................................................. vii
LIST OF TABLES ....................................................................................................................... vii
LIST OF FIGURES .................................................................................................................... xi
ABBREVIATIONS AND ACRONYMS ....................................................................................... xii

CHAPTER ONE ............................................................................................................................ 1
1.0 INTRODUCTION ................................................................................................................... 1
  1.1 Background .......................................................................................................................... 1
  1.2 Problem Statement .............................................................................................................. 5
  1.3 General Objective ................................................................................................................ 6
  1.4 Specific Objectives ............................................................................................................. 6
  1.5 Significance of the Study ................................................................................................... 7
  1.6 Scope of the Study .............................................................................................................. 8
  1.7 Definition of Terms .......................................................................................................... 8
  1.8 Chapter Summary ............................................................................................................. 10

CHAPTER TWO .......................................................................................................................... 11
2.0 LITERATURE REVIEW ....................................................................................................... 11
  2.1 Introduction ....................................................................................................................... 11
  2.2 Effects of Merger and Acquisition on Customer Portfolio .............................................. 11
  2.3 Effect of Merger and Acquisition on Banks' Market Share ............................................. 16
  2.4 Challenges Facing Implementation of M&As ................................................................. 20
  2.5 Chapter Summary .......................................................................................................... 24

CHAPTER THREE ...................................................................................................................... 25
3.0 RESEARCH METHODOLOGY ......................................................................................... 25
  3.1 Introduction ...................................................................................................................... 25
  3.2 Research Design ............................................................................................................... 25
  3.3 Population and Sampling Design ................................................................................... 25
  3.4 Data Collection Methods ............................................................................................... 27
  3.5 Research Procedure ........................................................................................................ 27
  3.6 Data Analysis Methods ................................................................................................. 27
  3.7 Chapter Summary .......................................................................................................... 28
LIST OF TABLES

Table 2.1: Annual Average TSR since Inception

Table 2.2: Average Annual TSR since Inception

Table 3.1: Target Population

Table 3.2: Departmental Distribution of Respondents

Table 4.1: Effect of Merger and Acquisition on Customer Portfolio

Table 4.2: M&A Challenges on Return on Investment

Table 4.3: Correlation coefficients

Table 4.4: M&A and I&M Customer Portfolio Model Summary

Table 4.5: M&A and I&M Customer Portfolio ANOVA

Table 4.6: M&A and I&M Customer Portfolio Coefficients

Table 4.7: M&A and I&M Market Share Model Summary

Table 4.8: M&A and I&M Market Share ANOVA

Table 4.9: M&A and I&M Market Share Coefficients

Table 4.10: Summary of challenges of M&A on Return on Investment

Table 4.11: M&A Challenges and I&M Return on Investment ANOVA

Table 4.12: M&A Challenges and I&M Return on Investment Coefficients

x
LIST OF FIGURES

Figure 4.1: Gender of Respondents.................................................................29
Figure 4.2: Respondents Highest Level of Education......................................30
Figure 4.3: Respondents’ Job Role .................................................................30
Figure 4.4: Respondents’ Years of Experience .............................................31
Figure 4.5: Respondents’ Current Position ....................................................31
Figure 4.6: Market Share after M&A ..............................................................34
Figure 4.7: Sales Volume after M&A ..............................................................34
Figure 4.8: Internal Profitability after M&A ....................................................35
Figure 4.9: Bank’s Profitability after M&A .......................................................35
Figure 4.10: General Performance after M&A .................................................36
**ABBREVIATIONS AND ACRONYMS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>EPS</td>
<td>Earnings Per Share</td>
</tr>
<tr>
<td>GCBL</td>
<td>Giro Commercial Bank Limited</td>
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<td>I&amp;M</td>
<td>Investments and Mortgages</td>
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<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
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<td>ROI</td>
<td>Return on Investment</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>U. S</td>
<td>United States</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>DEG</td>
<td>Deutsche Investitions – und Entwicklungsgesellschaft</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communications Technology</td>
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<tr>
<td>CFC</td>
<td>Credit Finance Corporation</td>
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<tr>
<td>TSR</td>
<td>Total Shareholder Return</td>
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<td>HR</td>
<td>Human Resources</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background
In regards to transformation opportunity, probability of reward and risk of danger, there are limited activities in a business environment that can be matched with Mergers and acquisition (M&A). An effective merger or acquisition enables a mid-tier organization to jump or climb to the top tier. The impact for the firm may be transformational; the rewards for that organization, its shareholders, workers and management may be in real sense wealthy. Economies of scale may increase margins, new boundaries may be created and new innovations embraced. On the contrary, in the event that a merge is unsuccessful, prior or after the deal is closed, the effect may be detrimental, leading to a mishap in credibility, value destruction and in other scenarios causing all parties destruction (Misigah, 2013).

As noted by Misigah (2013), whenever there is a discussion concerning M&As, it is basically about a collective explanation for various associated corporate activities with the goal of spearheading a single or several parts of, organizations to the change of control phase. A merger occurs when more than one organization come together (or merge) to form an improved organization. The assets, resources and liabilities become part of the new company. Also, ownership of the new merged business is apportioned among the shareholders. Actually, every person accepts to be a smaller fish within a larger pool. On the other hand, an acquisition happens in the event the ownership is shifted entirely or partially to the acquiring organization. In return, the acquiring organization rewards the shareholders of the enterprise acquired in the form of payments made in different ways, with the most common being shares (stock) or cash or both.

Kiarie (2014) pointed out that there are various probable reasons for enterprises to take part in M&As: expansion being the common one. Acquisition of a firm in a line business or particular location into which a firm may desire to expand may be faster unlike internal expansion. The acquisition of a certain firm has specific benefits for the acquiring company, for example, the two businesses complementing one another. Nonetheless, acquisition may be a constituent of a diversification plan aimed at allowing the firm to move to other lines of operation. With an objective to expand, companies taking part in M&As allude to possible synergistic as one of the rationale for the process.
Synergy takes place whenever the collection of the components is highly profitable and valuable unlike single components. For some M&As, financial aspects or benefits act as the primary motivator in the form of profits in the long term.

Misigah (2013) further states that other regions may comprise: maximization of shareholders’ wealth; venturing and acquisition of new markets, resources and technologies; and giving the firm the opportunity improve its management of cash-flows or capital. M&As started becoming prominent in the early 2000s after a slow growth in 2001. Recession and financial crisis in the U.S and other parts of the world in 2001 significantly affected mergers and acquisitions. The era was characterized by a significant and unrivalled capacity of mergers and acquisitions. It came after a record-setting merger wave—the fourth which was in the 1990s. Nonetheless, it was very unique from its counterpart in previous periods. In real sense, the fifth wave was global and it was characterized by a significant capacity of deals within Europe and to a certain level, Asia and the United States as well. Mergers that occurred in the years before were mostly in the United States. Upon the end of the fourth merger during the 1990/91 recession, people were assured that it would take some time for a similar one to take place.

Nevertheless, after quite a short recession and a slow recovery as well, the economy started picking up in 1993 and towards the end of 1994 most countries were on a proper recovery path to another period of record-setting merger. The wave featured deals that rendered the ones in 1980s appeared modest. There were a large number of mergers and cross-border agreements that involved buyers and sellers from the United States, though many substantial deals not incorporating companies in the United States. Globally, deal capacity in many regions followed European and United States region (Kiarie, 2014).

Significant mergers happened in the U.S and Europe, for example, showed such a trend with the deal capacity beginning in 2003 but falling off in 2008 and 2009 for a similar reason it dropped in the U.S and Europe. The condition was relatively diverse in Hong Kong and China. The value deals in such economies had conventionally been quite below the U.S and Europe though had been steadily growing even in 2008, only drop sharply in 2009. Chinese economy has reached double-digit development for several years though still about a quarter the size of the United States economy. Nonetheless, there are a number of regulatory restrictions placed on M&As in China that bar deal volume from increasing to heights that would naturally take place in a less controlled environment.
Chinese regulatory authorities take measures to ascertain that China’s control of particular firms is maintained despite the economy moving to more free market condition. In Asian countries, deal volume mainly increased from 2003 and dropped during the 2008/09 recession. Such was a scenario in South Korea and India. In Japan, other elements assist in giving an explanation of the pattern in deal volume. Even though Japan is the second biggest national economy in the world, it endured the painful financial crisis in the 1990s that had lasting impacts, some of which are evident up to date. The government tried to deregulate the economy and disintegrate the myriad restrictive corporate inter-relations that sustained most enterprises that would have collapsed. It aided in the creation of various M&A opportunities in a span of 1999 – 2007. Deal volume declined after 2007 and other parts of the world as well (Kiarie, 2014).

In research carried out by the African Development Bank (2012), it was deduced that due to the global financial crisis that rocked economies, the proportion of M&A deals in value and volume has decreased globally and yet to recover. In spite of the pronounced reduction of M&A activities in 2011 especially in Africa, the market was expected to recover by 2012. M&A deals in Africa reached approximately $27bn in 2011 down from around $44bn in 2010 (Ndadza, 2014).

For the last one year, deals in South Africa represented 57 percent of the entire activity in Africa with the aggregate worth $12.2bn. Uganda was second and surpassed countries from North Africa with the overall values of deals reaching approximately $3.1bn, inclusive of a USD 2.9bn worth of transaction where Tullow (oil and Gas Company) bought out explorations from the government. During the very first quarter of 2012, approximately 30 deals of around $3.5bn for M&A were recorded (Ndadza, 2014).

Mumo (2016) stated that companies in Kenya are ahead when it comes to mergers and acquisitions transactions in COMESA. Also, COMESA’s competition commission raked in nearly Kshs 314 million ($3.1 million) in terms of transaction fees from Dec 2015 to October 2016, all from mergers. The transactions primarily captured the financial sector mergers that represented almost 70% of the entire deals at that time. Zambia and Kenya accounted for a large share of the merger deals due to the fact that they have relatively big economies and outward looking policies that necessitate a better environment for business.
A realization of the factors that impact the performance of companies via M&As is crucial to shareholders, analysts, stock markets, scholars, regulatory authorities, corporate executives and the overall growth of the economy of Kenya therefore the need to evaluate the determinants of growth of companies via M&As in Kenya. The primary laws regulating M&A in Kenya encompass Cap 504 Laws of Kenya (Restrictive Trade Practices, Monopolies and Price Control Act) that foster a competitive economy by restricting trade practices according to Aila and Muia (2011). As a result, of the changing operating environment in Kenya, various licensed institutions primarily commercial banks, were forced to merge or an institution takes over the other’s operations. The integration is properly positioned to the strategic ambitions of I&M Bank and targets at rendering the merged enterprise highly efficient and a robust bank. The tactical reason of the acquisition factors pursuing scale to enhance market penetration, completing portfolio gaps in operations and value creation by enhancing whole business performance and at the same time developing broader accessibility for products and service offerings.

The Central Bank of Kenya (CBK) announced the conclusion of the acquisition Friday 13th 2017, adding that Giro had now ceased operating as an independent licensed entity after its integration into I&M Holdings’ local unit I&M Bank (Juma, 2017).

“The Central Bank of Kenya announces that I&M Bank had acquired 100 per cent of Giro Commercial Bank, effective February 13, 2017,” the regulator said in a statement. “Consequently, effective February 13, 2017, GCBL has ceased to be a bank licensed by CBK, and its rights and obligations have been taken up by I&M Bank. All Giro stakeholders… depositors, employees, and creditors-continue their relationship with I&M Bank” (Juma, 2017).

I&M finished the takeover after a series of approvals from regulators including Treasury Secretary Henry Rotich on January 27 and the CBK on October 27, 2016. The deal saw I&M inherit seven Giro branches and the combined entity now gives the Nairobi Securities Exchange-listed firm a five per cent market share in Kenya (Juma, 2017). The agreement also facilitated for the merger of GCBL’s banking assets and liabilities with that of I&M Bank Limited. I&M Group also acquired GCBL’s branch network which supplemented I&M Bank’s existing network of 36 branches (Kamau, 2017).
1.2 Problem Statement
Globally, the impact of M&A among commercial banks has been increasing the shareholder’s value (Sharma V., 2009), obtain superior performance and profitability (Turkmen & Yigit, 2012), and competitive advantage (Kemal, 2011). Regionally, Umoren and Olokoyo (2007) found that M&A improved performance of commercial banks in Nigeria. A study done in Tanzania by Temu and Andilile (2011) found evidence to show that M&As strengthened the quality of assets of banks. Locally, Akoth (2016) reported failures of M&A especially in the banking sector. Misigah (2013) found that banks undertook mergers due to rise in stakeholders’ value and profitability growth. Therefore, mergers were significantly contributed to rise in profitability and synergy. Other effects were shareholders’ value and assets (Akenga & Olang, 2017).

Acquisitions are regarded as the sole feature of corporate advancement in the modern environment which is characterized by dynamic and international business economies. Acquisitions can be the solution to resource maturity and simplicity. The development of Tier 2 banks via acquisitions of Tier 1 financial institutions results in new queries on the limit of research as to the extent of how such institutions are able to attain synergy and create value at the same time through such an external growth. There is proof that illustrates that a lot of organizations fail to reach their acquisition target (DePamphilis, 2005). As a result, to presume that acquisitions indicate a company’s effective growth is a significant misconception.

Several studies on acquisition have mentioned the issue of M&As failure rate. Warter and Warter (2017) admit that the central issue in M&A remains the high rate of failure. Goyal and Joshi (2012) agree that the failure rates of mergers and acquisitions have remained consistently high. Puranam, Singh, and Chaudhuri (2009) reported failure rates of between 60% and 80%. Kovela and Skok (2012) mention M&A failure rates are generally far above 50% in the banking sector. Today’s M&A success rate hovers around 30 to 40% with clashing cultures cited as at least a contributing factor in most cases (Warter and Warter, 2017). Warter and Warter (2015) give an example of the world’s biggest bank takeover to date was a failure. in 2007, a consortium of the Royal Bank of Scotland Group (Scotland), Fortis (Belgium) and Banco Santander (Spain), known as RFS Holdings B.V. acquired the ABN AMRO Bank NV (Netherlands). Consequently, the bank was divided into three parts, each owned by one of the members of the consortium in order to avoid the critical integration processes. In spite of this, the result was the decline and fall of ABN Amro.
There is a significant lack of research done in understanding mergers and acquisitions in developed and developing countries particularly into the Kenyan market and the implications it has on a developing economy like ours, Kenya in particular reveals that most firms tend to keep off from pursuing M&A as reflected by the statistics of firms that have merged with or acquired other firms in Kenya during the period 1999 – 2009 hence missing out on the benefits of M&A growth strategy (Aila & Muia, 2011). This study will address the various gaps established by the past researchers. Past research it appears has not studied the effect mergers and acquisition in Kenyan banks. This is to scrutinize the banks overall performance after being subjected to mergers and acquisition.

Mailanyi (2014) study on effects of M&As on the financial performance of oil companies in kenya concluded that there is decrease of financial performance of oil companies in Kenya following a merger or acquisition process. Rotich, Toroitich, Lulia, and Omwono (2015) study on Effect of Mergers and Acquisitions on the Performance of Selected Banks that Had Undergone M&A found no conclusive evidence of increased performance post-merger. Kaol (2017) study on the effect of mergers and acquisitions on financial performance of commercial banks in Kenya found that five out of the ten banks under study had a decrease in return on assets after the merger or acquisition event. This could be an indication of failure by management to use its resources efficiently of the sampled banks. These studies Mailanyi, 2014; Rotich et al., 2015, Kaol, 2017) have focused on the performance of firms by using financial performance indicators and there is need for research on other performance indicators a gap that this study intends to fill.

1.3 General Objective
The general objective of the study was to explore the effect of Merger and Acquisition strategy within I&M Bank.

1.4 Specific Objectives
The specific objectives of the study were:
1.4.1 To establish the effect of merger and acquisition on customer portfolio within I&M Bank Limited
1.4.2 To determine effect of merger and acquisition on banks’ market share within I&M Bank Limited
1.4.3 To determine the challenges facing I&M Merger and Acquisition
1.5 Significance of the Study

1.5.1 The investor’s perspective

The study will be helpful to the present and forthcoming investors keen on investing in the financial business in Kenya. This study will empower them to commit capital with the expectation of financial returns.

1.5.2 The corporate client perspective

The study will be helpful to the present and forthcoming corporate clients/companies keen on establishing or penetrating their business into the Kenyan Market. This study will empower them to assess the value of the strategic partnership and the home away from home banking and finance experience. Banking solutions provider, I&M Bank secured a crucial deal to provide strategic services to German private sector companies “DEG – Deutsche Investitionen – und Entwicklungsgesellschaft mbH) (the German Development Finance Institution) and the Delegation of German Industry” who have established their operations in the East Africa region or plan to penetrate into this market (I & M Bank Limited, 2017).

1.5.3 The Management and Shareholders perspective

The administration and partners in the financial industry in Kenya will know more about money turnaround management. Managing in turbulent times is and will continue to be a challenge for managers. This research study will help corporate managers and board to develop better understanding of turnaround strategies, it will also provide information that will help the organization to successfully implement a turnaround strategy having in mind what factors or challenges to address in order to achieve normalcy within the shortest possible time.

The shareholders will also find this study important since more often than not they are the people called upon to inject money either through rights issue or selling assets owned by the company to boost their company, pay debts to suppliers and other vendors and increase cash flow whenever in crisis and making losses. From history, this will help shareholders through the board to streamline processes and avoid conflict of interest as well as gross misconduct among employees.
1.5.4 Researchers and Academicians

It is anticipated that other scholars and researchers will find this study useful and use it as a ground for further research that will add significant value to the growing body of knowledge on turnaround strategies in organizations. Conclusions made by the researcher provides a platform for corporate managers to reconsider their turnaround strategies benchmarking against I&M Bank but also consider that challenges are unique to different corporate entities as they steer towards bringing back the entities to profitability and improved organizational performance.

1.6 Scope of the Study

This study focused on the effect of M&As on performance of commercial banks in Kenya. There are 43 commercial banks in Kenya. However, this study focused on the effect of M&A on performance of I&M Bank. There are 42 I&M Branches in Kenya, this study, however focuses on the main I&M Bank branch along Kenyatta Avenue, Nairobi. The study focused on staff that was involved in the M&A process. The respondents of the study were ICT Officers, Call Center Agents, Consultants, Service Delivery Officers, Risk Officers, and Legal Officers. The study was limited to primary data and thus was not able to use secondary data, including financial performance ratios to determine the impact of M&A on I&M Bank.

1.7 Definition of Terms

1.7.1 Mergers

A merger is simply the coming together of two firms that initially operated as separate entities. The assets and resources of the two companies become one under the perception that the two companies are to some extent superior compared to when they operate as separate companies. Also, ownership is shared among the initial shareholders (Misigah, 2013).

1.7.2 Acquisition

Normally, acquisition is whereby one company takes over another and makes it part of its organization. The acquired company is basically bought or acquired at a premium over its ideal market value. The payment is in form of stock (shares), cash or other assets. Also, Misigah (2013) points out that the assets and liabilities of the firm acquired (unless agreed otherwise) are taken or absorbed by the acquiring company.
1.7.3 Growth
Among the main motives for the M&As is growth. Firms in search of expansion encounter the challenge of choosing between organic or internal growth and growth via M&As. In most cases, internal growth tends to be slow and uncertain. However, growth via M&As is very rapid despite resulting in various uncertainties. At times firms may expand within or outside their business class whereby expansion outside a firm’s industry indicates diversification as noted by (Junge, 2014).

1.7.4 Synergy
The term is mostly linked with physical sciences instead of finance or economics. It alludes to the form of reactions that take place whenever two elements or substances come together to result in a bigger impact together unlike when apart (Ombaka & Jagongo, 2018).

1.7.5 Commercial Banks
They are financial institutions that provide their customers with various financial products and services like loans and deposits (Mbwaya, 2012).

1.7.6 Acquisition Strategy
The concept entails locating a new strategy for the acquisition of the intended organizations that creates value for the acquiring company. The application of an acquisition strategy may prevent a management team from acquiring businesses with unclear directions or path to attaining profitable outcomes (Malik, Anuar, Khan, & Khan, 2014).

1.7.7 Merger Strategy
A merger approach normally alludes to the long run strategic holding of the acquired company. Such a type of M&A process seeks to create synergies in the long term via increased market share, wider clientele and corporate strength. A tactical acquirer may as well be ready to part with a premium offer to the target company in the outlook of the synergy value generated after the M&A process (Malik, Anuar, Khan, & Khan, 2014).

1.7.8 Performance
It the processes of quantifying the success of an action plan after implementation. In business, performance is realized by comparing the value created by an organization utilizing its productive assets with that expected by the owners (Qureshi & Hassan, 2013).
1.8 Chapter Summary
This chapter has introduced the study on the effect of mergers and acquisitions on Tier 2 banks in Kenya. The background discusses the acquisition growth strategy of two banks (I&M Bank Kenya and Giro Bank) which have grown into a single entity, that is, I&M bank, and the emerging issues that arose during the process. Specific research objectives, the significance and scope of the study were also included. The next chapter of the study presents the literature review of the study. Chapter two of the study presents the literature review of the study which is presented in line with the study research objectives. The third chapter of the study presents and justifies the research methods and techniques used to conduct the study. Chapter four of the study presents the data analysis and interpretation. Chapter five presents a summary of the study, discussion, conclusion, recommendations for policy and recommendations for further study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of literature of this study. The chapter is presented in three sections consisting of the study research objectives. In each of these sections, there are subsections that are presented which show evidence of past studies on the relationship between independent and dependent variables. The chapter concludes with a chapter summary and introduction of the next chapter.

2.2 Effects of Merger and Acquisition on Customer Portfolio

A customer portfolio is the collection of mutually exclusive customer groups that comprise a business’s entire customer base. The term portfolio is often used in the context of investments to describe the collection of assets owned by an individual or institution. Each asset is managed differently according to its role in the owner’s investment strategy. Portfolio has a parallel meaning in the context of customers. In other words, a company’s customer portfolio is made up of customers clustered on the basis of one or more strategically important variables. Each customer is assigned to just one cluster in the portfolio. At one extreme, all customers can be treated as identical; at the other, each customer is treated as unique. Most companies are positioned somewhere between these extremes (Terho & Halinen, 2007).

Carney (2009) asserts that mergers and acquisitions in the banking sector are driven by different factors. Banks merge in order to get higher income by selling more services to a greater set of customers whereas acquisitions are made for the purpose of ‘improving the quality of portfolio of acquired banks.’ Banks merge in order to increase non-interest income, sell more services and increase efficient use of capital. Acquisitions typically occur to increase the quality of loan portfolio of acquired banks (Carney, 2009).

Companies can build economies of scale, reduce costs, provide new products, and expand their customer base after M&As. A merger or an acquisition not only allows the resulting company to widen its customers’ portfolio but it also leads to a more diversified range of services and offers scope economies by optimizing the synergies between the merged activities. Here, the main objective is to increase revenues, rather than to obtain economies of scale. Through mergers and acquisitions financial institutions gets an expanded client
base and acquired company gets additional lifeline in the form of capital invested by the purchasing company (Njoroge, 2012).

Most of the M&As do not sufficiently maximize shareholders’ wealth. Nonetheless, there is enough proof to show that a significant proportion show that there are advantages or benefits especially when the overvalued firms utilize their equity to get promising targets. AOL acquiring Time Warner is a perfect example of how AOL used its overvalued stocks to acquire Time Warner and its valuable assets. Junge (2014) investigated this scenario which was problematic to research since the bigger the overvaluation the higher the chances of an eventual correction.

Nonetheless, a higher overvaluation leads to a bigger incentive to merge. Hence, instead of looking at deals that were indeed finalized, he actually compared them to those that failed and evaluated if the share price effects were more adverse for the unsuccessful acquirers, which indeed they were. He discovered that the abnormal returns for the unsuccessful acquirers performed poorly unlike their counterparts by approximately 13.6 percent one year out, nearly 22.2 percent for a 2-year horizon and 31.2% for 3 years. The failed acquirers were encountered weak abnormal returns once the bid collapsed since the market appeared to voice its recognition that the share was overvalued and the company lost the chance to utilize its overvalued “currency” to garner value via M&As (Junge, 2014).

Creation of value for the client is among the primary reasons for firms to take part in the M&A process. Management of your clientele in a way that optimizes performance and renders cash flow stable is crucial to marketing or sales team. For the GCBL clients, the merger intends to give extra benefits in the form of improved access to their accounts from around 42 I&M Bank branches countrywide and alternate means such as Kenswitch, Visa, Mobile Banking, PesaLink and Internet Banking. The merger further seeks to make payment via credit, debit and Master Cards enjoyable. Also, the corporate customers will able to access Trade Services, Corporate Internet Banking suite and I&M Cash Management Services.

Ombaka & Jagongo (2018) study revealed that a bank’s financial performance improves with the mergers/acquisition. This is because the merger/acquisition brings about higher capital and customer base which are important ingredients in firm performance. However, this is not always the case. For example, in 1996, Wells Fargo acquired First Interstate Bank, expecting to increase their customer base and service lines. Due to customer data
loss, system problems on the front line, and labor issues in the back office, lost customers. Its stock price dropped, and the company experienced a $180 million operational loss in one quarter (Yao, Shang, & Yu, 2016).

Mergers and Acquisitions are important as they lead to combining corporate resources, but only if it results in a competitive advantage. One of the benefits is rapid access to an extended customer base, companies which choose to grow, normally try to take an additional market share, reach new customer base, create economic profits, and provide returns for their stakeholders. Customer base influences the merger company to maintain customer relationships. If a target company’s customer base were too small, the merger company would not spend resources to maintain relationships (Yao, Shang, & Yu, 2016).

A major driver of M&As is obtaining and exploiting synergies between the value chains of the firms involved that would not be captured otherwise. These synergies may emerge from different sources, as decrease dependency on a set of consumers or to increase prices for consumers. The company selected a strategy of external development and an agreement was formalized through fusion by absorption (the target company lost its legal identity and integrated 100 percent of its Human Resources in the parent company). This method made it possible to choose the right time to enter the country, and once the agreement was signed, to gain quick access to new facilities, HR, and customer portfolios (Rodríguez-Sánchez, Mora-Valentín, & Ortiz-de-Urbina-Criado, 2018).

2.2.1 Total Shareholder Return Defined

The Actual total shareholder return (TSR) determines the actual returns on the performance of an investment to the investors from a recent valuation date back to the period of the initial investment. Prospective TSR determines the forecasted performance from the future back to the present. The TSR determines the outcomes of the quantity returned to the investor during the measurement session in form of realized and unrealized gains from the distribution of dividends or capital returns, exit proceeds or loan repayments against the amount of equity invested (Emott, 2011).

The TSR is expressed as a yearly average return since formation, the IRR (Internal rate of return). The acquiring business must monitor the TSR since foundation on an acquired business the prescribed methods. TSR for the acquired venture assumes the presence of a market value measure of equity value, I_E, during the measurement period. The TSR is normally expressed on a pre-tax basis to the shareholder. TSR realized from a business
acquired is comparable to the expected forward-looking returns where the acquisition was justified by the stockholder: \( C_L \), the levered opportunity cost of the investor. TSR is expected to be bigger or equal to \( C_L \) (Emott, 2011).

### 2.2.2 Calculation of Total Shareholder Return

The annual TSR is equated to the rate \( r \) which discounts the realized and unrealized income from an investment to a value similar to the initial investment, \( I_B \). The average yearly TSR is the time-weighted return rate \( r \) (equal to the IRR) that meets the next equality \{where the present value (PR) of the returns at the discount rate (equal to the TSR)}\, equal to the initial investment and compared to \( C_L \) as stated by Sharma (2013).

\[
I_B = \left[ \sum_{i=1}^{n} \frac{D_i}{(1+r)^i} - \frac{N_{I_i}}{(1+r)^i} \right]^{1/n} + \frac{I_{En}}{(1+r)^n}
\]

Where \( I_B \) = initial equity investment = $1 million

\( D \) = dividends (for example, recapitalization proceeds) paid in period \( n \) (see illustration)

\( r \) = return rate, TSR, that meets the equality

\( i \) = each annual period \( n \) since inception

\( I_{En} \) = market value of the equity investment (enterprise value less debt and exit fees) at the \( n \) measurement date = $1,800,000

\( n \) = number of annual periods since inception = 5

\( N_{I_i} \) = new cash investments made in each period since inception = $0

Table 2.1 shows the data set needed to compute TSR. Also, table 2.2 illustrates the computation of TSR per the information (data) contained in Table 2.1 that highlights the average yearly TSR since introduction of the M&A. The TSR on an equity investment of $1 million (\( I_B \)) made five years ago with returns received at the end of each year following the year of investment (time 0) as shown in Table 2.1 and Table 2.2.

### Table 2.1: Annual Average TSR since Inception

<table>
<thead>
<tr>
<th>Year after Investment</th>
<th>Dividends</th>
<th>( I_E )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>1,100,000</td>
</tr>
<tr>
<td>2</td>
<td>10,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>3</td>
<td>20,000</td>
<td>1,400,000</td>
</tr>
<tr>
<td>4</td>
<td>10,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>5</td>
<td>40,000</td>
<td>1,800,000</td>
</tr>
</tbody>
</table>

Via iteration, Table 2.2 show annual average TSR equals approximately 13.5995%: Simply put, no new cash investments are illustrated. That is, for the last 5 years of investment, the
IRR on the shareholder’s equity invested equals nearly 13.5995% before tax (on an end-year basis). TSR is likened to CL. A spread between CL and TSR, the greater the rise in the wealth of investors (Sharma R., 2013).

Table 2.2: Average Annual TSR since Inception

<table>
<thead>
<tr>
<th>Year</th>
<th>1 Year</th>
<th>2 Year</th>
<th>3 Year</th>
<th>4 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000,000 =</td>
<td>0 + 10,000 + 20,000 + 10,000 + 40,000</td>
<td>(1.136)^2 + (1.136)^3 + (1.136)^4 + (1.136)^5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000,000 =</td>
<td>7,749 + 13,643 + 6,005 + 21,143 + 951,460</td>
<td>1,000,000 = 1,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.2.3 Types of Shareholders

We can categorize shareholders into two parts: The shareholders of the acquiring firm and the shareholders of the targeting firm. The shareholders of the acquired company are the biggest gainers. Reason being, in most cases the acquiring firm normally parts with an excess than it ought to. Unless one lives in a house he just bought recently, he will be unable to determine its setbacks. Hence, for the shareholders to disregard their shares, the company needs to give more money than the actual price, which is basically in the prevailing market.

Acquisition of a business at a higher cost can in real sense come out as beneficial to the local economy (Rajput & Joshi, 2015). They are the highly affected. In case we determine the advantages accrued to shareholders of the acquired firms in degrees, the extent to which they were benefited, by the similar level, these shareholders are negatively affected. It can be due to high debts which come with the acquisition (Rajput & Joshi, 2015).

Kaol (2017) agrees that performance and growth of banks in Kenya can be explained due to their response to the desires of the Kenyan consumers for efficiency via optional banking means like internet, mobile and agency banking. Various studies have uncovered that M&As have had a positive influence on the customer base of banks that have merged. In India, Jayadev and Sensarma (2007) analysis on mergers in Indian banking found that in all the investigated scenarios, the acquiring banks have garnered the benefit of branch network and clientele of the acquired institution. Ullah, Ali, Azam, and Mahmood, (2016) found that one of the Benefits of M&As in Pakistan Banking Industry was expanding firm’s infrastructure activities and customer base. Gwaya and Mungai (2015) research the effect of mergers and acquisitions on financial performance of banks in Kenya found that 77
percent of the financial institutions rose their clients due to the M&A and only 23 percent of them never rose in the proportion of their clients.

Östlund and Pernilla (2008) research on cross-border mergers and acquisitions in the banking sector found that various clients are ready to pay extra for shopping convenience for various services and products at a single place. Bonaccorsi and Gobbi (2007) discovered that bank mergers have an adverse impact on credit, especially in case the lending relation ends after the merger. In the United States, Degryse, Masschelein, and Mitchell (2011) found that the impact of bank mergers was negative for smaller and single relationship borrowers.

2.3 Effect of Merger and Acquisition on Banks’ Market Share
The main question to be asked is for what reason a firm would acquire another firm when the acquiring firm could enter the business by building up its own particular item and profitable facilities. Acquisition is substantially quicker and some of the time more secure than "doing it without anyone else's help." Management has its own explanations behind needing fast development. Development through merger and acquisition implies more power and renown and in addition the potential for higher compensations and rewards (Bierman, 2014).

Size matters: many, if not most, bargains are driven at any rate to a limited extent by the desire of administration to acquire market control. These acquisitions are intended to build impact through size and market share, tempered by barriers of monopoly policies and controls. For instance, the CEO of Publicis, said in 2013 while reporting the previously mentioned merger with Omnicom, accordingly making the biggest promoting organization globally (Moeller & Chris, 2014). The globalization of markets and rapid technological changes has seen many firms face intense competition and are therefore resorting to M&A’s to improve their competitiveness in the market by increasing market share relative to their competitors. Through mergers and acquisitions, the financial institutions will be able to expand their market share and revenue base increasing their profitability (Njambi & Kariuki, 2018).

Organizations trying to extend are faced with a decision between inward or natural development and development through M&As. Inside development might be a moderate and unverifiable process. Development through M&As might be substantially more quick, despite the fact that it carries with it its own vulnerabilities. Organizations may develop
inside their own industry or they may grow outside their business class. Development outside one's industry implies enhancement. On the off chance that an organization looks to extend inside its own industry it might reason that inner development isn't an adequate means (Moeller & Chris, 2014).

For instance, if an organization has a window of chance that will stay open for just a constrained timeframe, moderate interior development may not do the trick. As the organization becomes gradually through inward development, contenders may react rapidly and take piece of the pie. Preferences that an organization may have can disperse after some time or be whittled away by the activities of contenders. The main arrangement might be to get another organization that has set up workplaces and offices, administration, and different assets, set up. There are numerous open doors that must be followed up on quickly for fear that they vanish (Junge, 2014).

2.3.1 Types of M&As and Market Share

In the United States, the first Merger movement that happened in between 1890 and 1905 was predominantly a US business phenomenon. During this period small firms with little market share consolidated with similar firms to form large powerful institutions. Many of the corporate giants in the US, like General Electric, Eastman Kodak, American Tobacco, DuPont etc. were formed during this period. Mergers during this period led to emergence of strong competitors in industries which were previously dominated by one giant firm. The public utilities and banking industry were involved in the merger activity to a greater extent during this period (Beavers, 2017).

M&As have been found to be beneficial in the sense that companies grew in size, and attain better market share. Horizontal mergers happen when an organization merge or takeover another company that gives constant or similar product lines and services to the ultimate shoppers, which suggests that it's within the same trade and at constant stage of production. The advantage of this type of merger is that it eliminates competition that helps the corporate to extend its market share. As the market share increases, the force of the suppliers and buyers reduces. Companies are able to overcome price wars as well as utilizing technological advancements (Subhashree & Kannappan, 2018).

Horizontal M&As cartels two parallel firms in the same industrial sector (Beavers, 2017). Usually, horizontal mergers and acquisitions are driven by the desire to increase the strength of the market. Major Lebanese banks sought to expand domestically and outside
to improve their profitability, expand their sources of profits and assets and intensify the scope of their products. Companies and banks want to rapidly grow their market, share or diversify their products (Sujud & Hachem, 2018). Moreover, strong companies act to gain a greater market share or achieve greater efficiency.

Another case of utilizing M&As to encourage development is the point at which an organization needs to extend to another geographical location. It may be the case that the organization's market is in a single part of the nation however it needs to venture into different areas. Then again, maybe it is now a national organization yet tries to tap the business sectors of different countries, for example, a United States firm needing to venture into Europe. In numerous cases, it might be faster and less hazardous to extend geographically through acquisitions than through internal advancement. This might be especially valid for universal development, where numerous attributes are required to fruitful in another geographic market (Sherman, 2011).

The organization has to know the greater part of the subtleties of the new market and evade numerous different obstacles, for example, dialect and custom obstructions. Internal growth might be much slower and troublesome. Mergers, acquisitions, joint ventures, and key organizations together might be the quickest and safest options (Junge, 2014). A good example is Bank of America getting Countrywide Financial, an organization that was extremely hit by the subprime mortgage crisis, and Merrill Lynch as an approach to offer a substantially more extensive range of financial services (Sherman, 2011).

### 2.3.2 Market Share and Concentration

The range of companies within the marketplace and their respective market stocks determine marketplace awareness. Such ratios degree how much of the total output of an industry is produced by using the “n” biggest companies in the enterprise. To account for the distribution of company size in the enterprise, the FTC (Federal alternate commission) measures attention using the Herfindahl-Hirschman Index (HHI), which is calculated by summing the squares of the market shares for every firm competing in the marketplace. as an instance a market together with five companies with marketplace shares of 30, 25, 20, 15, and 10%, respectively, would have an HHI of 2,250 (30^2+25^2+20^2+15^2+10^2). word that an enterprise which includes 5 competitors with market shares of 70, 10, 5, 5 and five%, respectively, may have a miles higher HHI rating of 5075, due to the fact the procedure of
squaring the market shares gives the finest weight to the firm with the biggest market shares (DePamphilis, 2014).

Avulala (2015) argues that M&A can create price in the event that they increase company market strength, allowing the submit-merger entity to earn better economic returns. But, this cause for marketplace price gain is questionable in a few industries which include America private strains coverage industry. The study of B.P & M.A (2005) did no longer support the structure conduct overall performance hypothesis and concentration of huge length company lead to market poor and anti-aggressive situations. While a horizontal merger takes location, the lack of a competitor in the market creates advantages for companies which have merged, whilst at the equal time serves to drive expenses up for the customers. Sometimes M&A will lead to value maximization. Evidence exists that actual world managers no longer act inside the best interest of shareholders but as an alternative tend to pursue their own pursuits to various degrees (Avulala, 2015).

Rather than taking moves to maximize firm cost, managers might also act to maximize their personal net worth and earning, engage in excessive perquisite consumption and take other movements no longer regular with price maximization. Moreover, and of unique relevance to M&A, managers might also interact in tasks of questionable price that boom the scale of the company to growth their compensation and status (Avulala, 2015).

Gwaya and Mungai (2015) alluded that enlargement of the market share is largely to raise the income and eventually the profitability of an organization. This therefore means that the main agenda of merging and acquiring in this case was to raise their profits. Robust firms will act to acquire others to foste competitiveness and make the company cost-efficient. The organizations will merge to attarct more consumers and increase its presence in the market and attain higher efficiency. Öberg and Anderson (2002) stated that the market share of an acquired company can not automatically be transferred to the buyer without loosing some part of the market. This study finding disagree with past studies that have found no effect of M&As on market share of banks. Ghosh and Sarboni (2014) study on M&As in the indian telecom sector found that M&A did not perk up the market share of the companies in the post merger period.

Globally, the banking industry is one of the most active markets for mergers and acquisitions. Many banks decide to merge due to the adjustments in law and technology. In some different cases, those institutions choose to merge so that you can gain greater
performance or to create a greater competitive company or to call for marketplace proportion (Zisi, 2014). Kithitu, Cheluget, Keraro, and Mokamba (2012) report that some mergers in Kenya were occasioned by using the need to fulfill the increasing minimum center capital requirements and to raise the bank’s market proportion in the nearby banking surroundings.

Kainika (2017) assessed the effects of mergers and acquisitions on organizational performance of insurance industry in Kenya at Sanlam. Market share values indicate that, in general, the market share of Sanlam Kenya was in a positive trajectory in both the pre and post merger/acquisition periods. However, the market share values of Sanlam Kenya were higher in the postmerger/acquisition period compared to the premerger/acquisition period. The study also established that there was an overall positive change in the market share of Sanlam Kenya the post merger/acquisition period as reflected by the increase in in the company’s market share values from 6.6% in year 2014 to 8.0% in year 2016.

2.4 Challenges Facing Implementation of M&As
For the past thirty years, literature on management has been aiming to give an explanation for the prominent paradox of the significant failure rates of mergers and acquisitions against the M&A volume. Researchers have since shown that the results of the predictors of M&A success are unreliable and invalid. A likely response to such a paradox is that the existing research on M&A poses restricted and insufficient data of this vital phenomenon, particularly concerning the post-merger integration process (Bachar, Yaakov, & Shlomo, 2011).

Few researchers have attempted to target specific issues like integration processes. Their studies emphasized on the theoretical challenges based entirely on literature evaluation (Weber & Tarba, 2011) or on case studies (Schweizer, 2006) instead of empirical systematic studies based wholly on relatively significant samples. Although this study diagnosed different integration approaches with particular typologies, they stressed that the fit between the suggested integration strategy and the method actually implemented is pivotal for the success of the integration and overall performance of the M&A. Nonetheless, such claims are yet to be empirically validated. The Return on Investment (ROI) as a profitability performance measure is used by bankers, investors, and business analysts to assess a company management’s efficiency in using available resources and financial strength or to compare the efficiency of a number of different investments. It is one of those
important ways of making judgements as to where to direct new investment funds as they become available. The concept ROI can be applied to a number of situations such as divisions, product lines, or product centers (Nwude, 2012).

Njoroge (2012) study on the effect of mergers and acquisitions on the financial performance of financial institutions in Kenya found that Return on Asset and Return on Investment indicate an insignificant difference while Return on Equity and Debt Equity Ratio indicate significant difference between measures of performance before and after merger. Kotnal (2016) investigated the influence of the economic impact of merger and acquisition on profitability of SBI and found that the study indicates that the banks have been positively affected by the event of merger.

Reddy and Mantravadi (2007) evaluated that the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. The study found some of the industries had a significant decline both in terms of profitability and return on investment and assets after merger. Saibu (2013) conducted an empirical investigation on the impact of merger and acquisition on financial intermediation in the Nigerian banking industry and found that the cost of borrowing and the return on investment in the banking industry are also crucial factors that have been affected by the merger and action exercise. Olokoyo (2013) reviewed bank reforms if they have been able to achieve predetermined goals and set objectives in Nigeria and found that despite the M&As, post consolidation challenges like challenges of increased return on investment still exist.

2.4.1 The Synergy Assumption
The finance and strategy scholarly work or literature has mainly emphasized on pre-merger elements to establish the effectiveness of M&A. The implicit hypothesis in these explorations is that the practices and activities of the acquiring company during the pre-merger phase are the primary determinants of value. Therefore, studies either view how the management of the acquiring company looks for options or research the content of their approaches, focusing less on implementation. For instance, strategic theories, particularly the concept of tactical fit, imply that the connection between the buying and target companies determines the synergy possibility, and as such is the primary factor of value creation. Nonetheless, the empirical proof obtained from previous studies on M&A show the correlation is mixed at best. Essentially, synergy potential was thought of as being based
on the signs of relatedness vs. unrelatedness; it was not measured directly as indicated by Bachar, Yaakov and Shlomo (2011).

Literature on finance implies that on average M&A does not add value to the acquiring company. The findings of a recent meta-analytical research on the impacts of strategy and finance variables on the performance of M&A (King, Dalton, Daily & Covin, 2004) forced the authors to deduce that researchers may not be simply reviewing the proper set of variables as indicators of post-acquisition performance. Hence, Bachar, Yaakov and Shlomo (2011) asserted that conventional finance and strategy variables that emphasize on the pre-merger phase can forecast only the possibility of integration success, based on the presumption that synergy exists and management is aware of how to harness it.

The inability to locate a constant association between the signs of synergy on the basis of relatedness and the M&A effectiveness may originate from the excessive emphasis on the pre-merger phase at the cost of the negotiation process and post-merger phase, which includes the integration technique utilized during the integration processes. With the exception of a few, finance and strategic literature has not factored the probability that the management of a merger creates problematic relations between the target and buying firm (because of cultural variations) or impaired coordination and cooperation between the management (due to cultural clash during and after the merger) may be instrumental in the success of M&A.

2.4.2 Inconsistent Effects of Culture Clash on M&A performance

To explain the difference in the performance of M&A, students have utilized ‘cultural fit’ ideas that aimed on the unfavorable connection between pre-merger cultural differences (both company and country-wide) and post-merger integration success (for current reviews, see (Weber et al., 2009). Nonetheless, in regards to strategic fit, the empirical proof of the influence of cultural compatibility on the performance of M&A is unclear and confusing. Organizational cultural variations have negative impacts on diverse accounting measures and the market share value following M&A. Other studies also uncovered this adverse impact under conditions of low and high integration levels whereas autonomy is eliminated from the acquired management as indicated by (Ananda, 2017). Studies have recently pointed out that cultural differences do not continuously have a negative influence on M&A entire performance. In reality, few have illustrated that cultural variations can as well positively affect performance during post-acquisition (Reus & Lamont, 2009).
Dorai and Patolahti (2010) found a significant moderating effect of autonomy elimination on fiscal performance. He associated this result with improved coordination between the merging firms, which allowed superior synergy awareness. Various viable reasons were postulated for the absence of consistency which permeates recent studies on the link between cultural variations and the overall performance of M&A. For example, Teerikangas and Very (2006) focused on the origins of complexity located in these relationships. Others implied that different types of performance measurement (Zollo & Reuer, 2010), disregarding negotiation approach (Weber & Tarba, 2011), or macro or micro-levels of analysis precisely, and both pre and post-merger elements are not enough to establish solid relationships (Dorai & Patolahti, 2010).

Despite of such criticisms, the study of cultural differences entirely need not be disregarded. As a replacement, the implication is that additional elaboration is desired in the cultural assessment of the different techniques and involved processes. For example, students have reviewed the attractiveness of a single agency is as likened with any other and the varieties of integration approach used by the acquiring firms (Nahavandi and Malekzadeh, 1988). Veiga et al. (2000) researched on adjustments in cultural compatibility and established that positive performances were in scenarios whereby pre-merger cultural ends up being cultural compatible after the merger. Larsson and Lubatkin (2001) found that effective acculturation is possible even in situations of significant variances in culture, so long as the acquiring company uses formal and informal social management approaches.

**2.4.3 Diversification strategy and bank performance**

Mostly, a firm opts for diversification in the event that the gains from this type of strategy surpass the costs. Notwithstanding the reality that it can in real sense adversely affect the value of the organization, diversification is a key goal for managers. Financial institutions are allowed to raise the scope in their practices past the traditional roles of intermediation. They are therefore able to reduce the average financing expense via a collection of various diverse funds. Diversification has the potential of harming of the value of a firm. However, the diversifications costs can at times outweigh the benefits. The poor effect of diversification on firm performance may be explained via the agency costs associated with debt (Belkhaoui, Lassaad, Faten, & Hellara, 2014).
2.4.4 Risk-taking strategy and bank performance

Through the adoption of Bowman’s approach (1980, 1982), a number of studies in the fields of economics, finance and strategic management try to create a link between risk-taking and performance (Beck et al., 2006). The authors note that with time, the relationship weakens and differs across industries. Scholars such as Shrives and Dahl (1992) and Jacques and Nigro (1997) argued that financial institutions tackle risk-taking from diverse angles: the total economic perspective which shows that risk is based on the asset portfolio of a bank; and financial credits perspective where risk is analyzed on the basis of shareholders’ opinions and measured with the help of the bank capitalization ratio. On the other hand, Brewer et al. (2009) points out that a decline in the returns of a bank is mainly due to heightened credit risk.

Epure & Lafuente (2013) highlight that credit risk has an adverse effect on the performance of financial institutions. Nevertheless, the bankruptcy cost theory postulates that banks tends to reduce the risk in line the unit rise in capital. Likewise, the fallen risk of portfolio assets and the rise in capital may have comparable outcomes on bank profitability when you consider that both techniques decrease the expected price of bankruptcy (Belkhaoui, Lassaad, Faten, & Hellara, 2014).

2.5 Chapter Summary

This chapter presented the literature review of the study. The various subtopics and concepts introduced in this chapter captured the specific objectives of the study formulated in the first chapter of the study. The next chapter of the study presents the research methods and techniques that the study adopted for this research.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section deals with identifying the procedures that were followed while conducting this study. The key tenets involved in this chapter are research design, population and sampling, research process, data collection and data analysis respectively.

3.2 Research Design

According to Saunders Thornhill, Lewis, and Fisher (2007), the research design is the blueprint for fulfilling objectives and answering questions. The study adopted a descriptive research design which is focused on determining the relationship between mergers and acquisitions on customer portfolio, market share, and return on investment. Descriptive research attempts to describe characteristics of a sample and relationships between phenomena, situations and events observed by the researcher (Thyer, 2010).

3.3 Population and Sampling Design

3.3.1 Population

Weiss (2012) defines a population as the collection of all individuals or items under consideration in a statistical study. In this study, the population was I&M Bank managers, officers, consultants and call center agents at the Kenyatta Avenue branch which is also the Head Quarters, who have been involved in the integration of the systems during the merger. The eligibility criteria in this study are that the participants have to be I&M bank employees or consultants and have been directly involved in the integration process either in a technical or non-technical aspect.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT Officers</td>
<td>40</td>
<td>40.8</td>
</tr>
<tr>
<td>Call Center Agents</td>
<td>20</td>
<td>20.4</td>
</tr>
<tr>
<td>Consultants</td>
<td>16</td>
<td>16.3</td>
</tr>
<tr>
<td>Service Delivery Officers</td>
<td>6</td>
<td>6.1</td>
</tr>
<tr>
<td>Risk Officers</td>
<td>8</td>
<td>9.2</td>
</tr>
<tr>
<td>Legal Officers</td>
<td>8</td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
3.3.2 Sample Design

3.3.2.1 Sampling Frame
Zina (2017) describes a sample frame as a list that includes every member of the population from which a sample is to be taken; it is essential to all sampling processes. Gatara (2010) simply puts it as the listing of units such that a sample may be picked from such a listing. In this study, the sampling frame was drawn from the current ICT Officers, Call Center Agents, Consultants, Service Delivery Officers, Risk Officers, and Legal Officers at I&M Bank Kenyatta Avenue. This was used so as to ensure that the sampling frame is current, complete and relevant for the attainment of the study objective.

3.3.2.2 Sampling Technique
According to Zina (2017), a sampling technique is the approach used by a researcher to collect a sample. In the study, employees from I&M Bank were randomly chosen. A lot of resources (time and money) may be saved if a sample to be studied is selected instead of trying to study the whole population of the employees involved in the integration. Getting the much-needed data from the staff population and at the same time analyze and interpret it will be difficult due to the constraints of time and finance. The research used a probability sampling approach where every person in the entire population stands an equal chance of selection. Nonetheless, random sampling requires that all the factors or attributes of the population are accessible and known and that all of them will accept to take part in the study willingly.

3.3.2.3 Sample Size
A sample is the part of the population from which information is obtained (Weiss, 2012). The study adopted Yamane (1967) sampling formula to determine the sample size. The sample size is thus determined as 78 respondents as shown in Table 3.2.

\[
n = \frac{N}{1 + N \times (e^2)}
\]

Where:
- \(n\) = sample size
- \(N\) = study population
- \(e\) = tolerance at the preferred level of confidence, take \(\alpha = 0.05\) at 95% confidence level.

\[
n = \frac{98}{1 + 98 \times (0.05)^2}
\]

\[
n = \frac{98}{1.245}
\]
Table 3.2: Departmental Distribution of Respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample Size</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT Officers</td>
<td>40</td>
<td>32</td>
<td>41.0</td>
</tr>
<tr>
<td>Call Center Agents</td>
<td>20</td>
<td>16</td>
<td>20.5</td>
</tr>
<tr>
<td>Consultants</td>
<td>16</td>
<td>13</td>
<td>16.7</td>
</tr>
<tr>
<td>Service Delivery Officers</td>
<td>6</td>
<td>5</td>
<td>6.4</td>
</tr>
<tr>
<td>Risk Officers</td>
<td>8</td>
<td>6</td>
<td>7.7</td>
</tr>
<tr>
<td>Legal Officers</td>
<td>8</td>
<td>6</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>78</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

Nalzaro (2012) stated that the procedure used by a researcher to gather data to respond to the research problem, his strategy entails systematic mechanisms that are conducted to obtain a reliable knowledge. The strategies are described as the range of techniques utilized in research to collect data which are to be utilized to make deductions and interpreting the explanation and prediction. Nonetheless, data are categorized as primary or secondary. This research adopted primary sources of data utilizing a structured questionnaire to collect data from the respondents. The questionnaire had four sections, the demographic information of the respondents, sections on customer portfolio, market share, and challenges of M&As on Return on Investment (ROI). The questionnaire was designed using Likert scale items. Likert scale items allow respondents to indicate their level of agreement with statements on the study variables.

3.5 Research Procedure

The researcher sought a letter of authorization from the university to introduce the researcher to the respondents. A research permit was also sought from the National Commission for Science, Technology, and Innovation (NACOSTI) to conduct the study. The researcher then followed to conduct a pre-test of the instrument to determine its reliability. The researcher piloted the instrument to five (5) I&M staff that participated in the M&A process and whom were not included in the final sample size. The researcher then corrected and modified the instrument according to the results and experiences of the pilot study. The data was collected using the drop and pick method and respondents were given a week to respond to the questionnaire.

3.6 Data Analysis Methods

The collected data was analyzed using the Statistical Package for the Social Sciences (SPSS) Version 23. The study used descriptive statistics to summarize the data and observe trends. Frequencies and percentages were used to analyze the demographic information of
the respondents. Mean and standard deviation were used to analyze the Likert scale items for each of the study variables. The study also adopted correlation analysis and linear regression analysis as the inferential statistical tools. The data was presented in figures for the demographic information and tables were used for the variables information.

3.7 Chapter Summary

The chapter addressed the research design that was used in the study and further addressed the population, sampling approach, instruments of collecting data and procedure of data collection. The next chapter shows the analysis and discussion of the information collected from carrying 78 self-administered questionnaires with bank staff involved in facilitating the M&A process. Descriptive and inferential (correlation and linear regression) analysis were used to analyze the data.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of the study. The chapter consists of sub-sections of the study, which include, respondents’ profiles, descriptive statistics, and inferential statistical analysis. In the descriptive and inferential statistics sections, the study presents the findings for each of the objectives. The data is presented in tables and figures and supported by an interpretation.

4.2 Respondent’s Profile

The study was interested in finding out the respondents’ profile in terms of their gender, highest level of education, their job roles at I&M Bank, years of experience in the banking sector, and experience (in years) in their current occupation at I&M Bank. The findings of staff demographic information are presented in this section.

4.2.1 Gender

In regards to their gender, the study findings show that the majority of the respondents were female and accounted for 57.6 % and male respondents accounted for 42.4 % as shown in Figure 4.1. The majority of staff at I&M staff are female and this is attributed to the customer service staff and officers a profession which is dominated by female staff.

![Gender of Respondents](image)

Figure 4.1: Gender of Respondents
4.2.2 Highest Level of Education

The results show that the highest education level among respondents was Bachelor’s Degree as cited by 44.6% of staff, 39.1% had a Masters level of education, 9.8% had Diploma level of education, and 6.5% had a Doctorate as shown in Figure 4.2. The finding is attributed to the entry level of a bank officer as a bachelor degree, this was followed by a master’s degree where most of the employees had continued for further postgraduate studies.

![Figure 4.2: Respondents Highest Level of Education](image)

4.2.3 Job Role

Figure 4.3 shows the job roles among the staff of I&M Bank. The findings revealed that 35.9% were clerks, 31.5% were bank officers, 21.7% were managers, and 10.9% were executives at I&M Bank. Most of the respondents were managers and this was attributed to the sample selection of staff who was involved in the integration process. Majority of these staff were management level employees.

![Figure 4.3: Respondents’ Job Role](image)
4.2.4 Years of Experience

In terms of respondents’ years of experience, the findings show that 43.5 % had 11-15 years, 29.3 % had above 16 years’ experience, 20.7 % had 6-10 years’ experience, and 6.5 % had less than 5 years’ experience as shown in Figure 4.4.

Figure 4.4: Respondents’ Years of Experience

4.2.5 Current Position

The respondents’ years in current position was 4-5 years among 39.5 %, 33.7 % were in 2-3 years’ experience, those working in their current position for less than one year accounted for 25.0 %, and 5.4 % had over six years’ experience in their current position at I&M Bank as shown in Figure 4.5.

Figure 4.5: Respondents’ Current Position
4.3 Effect of Merger and acquisition on I&M Bank customer portfolio

The first objective of the study was to determine the effects of M&A on customer portfolio at I&M Bank. The results indicate the greatest effect of M&A was after the acquisition, the bank held informal activities to enhance employees’ interaction with a mean score of 4.32 and a standard deviation of 0.797. This was followed by after the acquisition, the bank branches increased and provided customers with convenient services (M=4.28, SD=0.834) and I believe there has since been a rise in the percentage of customers after the acquisition (M=4.26, SD=0.837). The least effects of M&A on customer portfolio was After the acquisition, some employees of the acquired bank were not familiar with the new operations and needed to work harder than before the acquisition to understand it with a mean score of 4.02 and a standard deviation of 1.204 as shown in Table 4.1.

Table 4.1: Effect of Merger and Acquisition on Customer Portfolio

<table>
<thead>
<tr>
<th>Customer portfolio statements</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>I believe there has been a rise in the proportion of customers after the acquisition</td>
<td>78</td>
<td>4.26</td>
<td>0.837</td>
</tr>
<tr>
<td>I feel that the financial products have been enhanced after the acquisition</td>
<td>78</td>
<td>4.18</td>
<td>0.811</td>
</tr>
<tr>
<td>After the acquisition, the bank stressed customer service and CRM. They grouped customers and gave diverse communication modes. They visited valuable clients and emailed general clients.</td>
<td>78</td>
<td>4.14</td>
<td>0.909</td>
</tr>
<tr>
<td>After the acquisition, customers held a few complaints.</td>
<td>78</td>
<td>4.17</td>
<td>0.933</td>
</tr>
<tr>
<td>After the acquisition, the bank branches improved and provided customers with easily accessible services</td>
<td>78</td>
<td>4.28</td>
<td>0.843</td>
</tr>
<tr>
<td>After the acquisition, the bank held informal activities to enhance employees’ interaction</td>
<td>78</td>
<td>4.32</td>
<td>0.797</td>
</tr>
<tr>
<td>As a result of the changed work load after the acquisition, various workers pointed out that they unfairly treated.</td>
<td>78</td>
<td>4.12</td>
<td>0.936</td>
</tr>
<tr>
<td>After the acquisition, some workers of the acquired financial institution were unfamiliar with the latest operations and were expected to work harder than before to comprehend it.</td>
<td>78</td>
<td>4.02</td>
<td>1.204</td>
</tr>
</tbody>
</table>
4.3.1 Correlation Results

The results show that M&A and customer portfolio had a correlation coefficient of 0.638 and this was significant with a p value of less than 0.05 as shown in Table 4.2. this means that an increase in M&A resulted in a linear increase of I&M customer portfolio.

Table 4.2: M&A and customer portfolio correlations

<table>
<thead>
<tr>
<th>Mergers &amp; Acquisitions</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.638**</td>
<td>.000</td>
</tr>
</tbody>
</table>

4.3.2 Regression Results

A regression was conducted to determine the effect of M&A on customer portfolio at I&M Bank. The findings indicate that the coefficient of determination ($R^2$) was 0.407 which means that M&A explained 40.7 % of variation on customer portfolio. ANOVA results indicated that the value of F statistic was 61.657 and p value for the model was 0.000 which means that the relationship was significant. The regression coefficients indicate that an increase in M&A resulted to a 0.576 increase in customer portfolio at I&M Bank. This means that a unit increase in market share resulted to 0.576 increase in customer portfolio and this was statistically significant (p< 0.05).

Table 4.3: M&A and customer portfolio regression results

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.638a</td>
<td>.407</td>
<td>.400</td>
<td>.41146</td>
</tr>
<tr>
<td></td>
<td>a. Predictors: (Constant), Mergers &amp; Acquisitions</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Model | Sum of Squares | df | Mean Square | F         | Sig. |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10.438</td>
<td>1</td>
<td>10.438</td>
<td>61.657</td>
<td>.000b</td>
</tr>
<tr>
<td></td>
<td>15.237</td>
<td>76</td>
<td>.169</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25.675</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Model | Unstandardized Coefficients | Standardized Coefficients | t     | Sig. |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.550</td>
<td>.314</td>
<td>4.942</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Mergers &amp; Acquisitions</td>
<td>.576</td>
<td>.073</td>
<td>7.852</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.638</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4 Effect of merger and acquisition on banks' market share

4.4.1 Market Share

The results show that respondents agreed that there was an increase in the market share of I&M following the M&A. The findings show 46.7% cited increase in market share, 27.2% indicated neutral, and those who answered decrease were represented at 26.1% as shown in Figure 4.6.

![Figure 4.6: Market Share after M&A](image)

4.4.2 Sales Volumes

Figure 4.7 shows the study findings in regard to the sales volumes of I&M Bank after undergoing the M&A which indicate that sales volumes increased as cited by 38.0%, 35.9% indicated sales volumes to be neutral after the M&A and 26.1% indicated a decrease in sales volumes.

![Figure 4.7: Sales Volume after M&A](image)
4.4.3 Internal Profitability (Profit/capital employed)
The study findings show that there was an increase in internal profitability of I&M Bank after M&A as shown by 53.3 % of the sample, 23.9 % indicated that internal profitability was neutral, and those who answered that internal profitability had decreased accounted for 22.8 % of the sample as presented in Figure 4.8.

Figure 4.8: Internal Profitability after M&A

4.4.4 Bank’s Profitability
The study sought staff perceptions on bank’s profitability after the M&A relative to the industry average. The results indicate that 51.1 % responded that there was an increase in I&M Bank profitability, 28.3 % cited a neutral effect of profitability, and 20.7 % indicated a decrease in profitability after the M&A as shown in Figure 4.9.

Figure 4.9: Bank’s Profitability after M&A
4.4.5 General Performance

Figure 4.10 shows the findings in terms of general performance of I&M Bank after M&A which shows that there was an increase in the general performance according to 52.2 % of respondents, 33.7 % indicated that the performance was neutral, and 14.1 % cited a decrease in general performance of I&M Bank after M&A.

![Figure 4.10: General Performance after M&A](image)

4.4.6 Correlation results

The results show that there was a positive linear association between M&A and market share with a correlation coefficient of 0.645 and this was significant with a $p$ value of less than 0.05 as illustrated in Table 4.4.

<table>
<thead>
<tr>
<th>Mergers &amp; Acquisitions</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.645**</td>
<td>.000</td>
</tr>
</tbody>
</table>

4.4.7 Regression results

Table 4.5 shows that the coefficient of determination (R2) was 0.416 which means that M&A explained 41.6 % of variation on I&M Bank market share. ANOVA results indicate the F statistics value of 64.016 and $p$ value for the model was 0.000 which means that the relationship was significant. The regression coefficients between M&A and market share indicate that an increase in M&A resulted to a 0.550 increase in market share at I&M Bank and this is statistically significant ($p < 0.05$).
Table 4.5: M&A and market share regression results

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.645&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.416</td>
<td>.409</td>
<td>.38600</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Mergers & Acquisitions

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>9.538</td>
<td>1</td>
<td>9.538</td>
<td>64.016</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>13.410</td>
<td>76</td>
<td>.149</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>22.948</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.030</td>
<td>.294</td>
<td>6.898</td>
<td>.000</td>
</tr>
<tr>
<td>Mergers &amp; Acquisitions</td>
<td>.550</td>
<td>.069</td>
<td>.645</td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Market Share

4.5 Challenges facing I&M Bank M&As

The study aimed to establish the influence of M&A challenges on I&M Bank RoI. Table 4.6 shows that the highest mean score was culture clashes with a mean score of 4.14 and standard deviation of 0.956. This was followed by integrating systems (M=4.05, SD=0.803), Management transition (M=4.05, SD=0.843), Staffing issues/layoffs (M=3.99, SD=0.955), Lack of control over acquisition (M=3.96, SD=0.960), and Financing the institution (M=2.17, SD=1.228).

Table 4.6: M&A Challenges on Return on Investment

<table>
<thead>
<tr>
<th>M&amp;As challenges</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture clashes</td>
<td>78</td>
<td>4.14</td>
<td>0.956</td>
</tr>
<tr>
<td>Management transition</td>
<td>78</td>
<td>4.05</td>
<td>0.843</td>
</tr>
<tr>
<td>Integrating systems</td>
<td>78</td>
<td>4.05</td>
<td>0.803</td>
</tr>
<tr>
<td>Lack of control over acquisition</td>
<td>78</td>
<td>3.96</td>
<td>0.960</td>
</tr>
<tr>
<td>Staffing issues/layoffs</td>
<td>78</td>
<td>3.99</td>
<td>0.955</td>
</tr>
<tr>
<td>Financing the institution</td>
<td>78</td>
<td>2.17</td>
<td>1.228</td>
</tr>
<tr>
<td>Overall mean score</td>
<td></td>
<td>3.73</td>
<td>0.958</td>
</tr>
</tbody>
</table>
4.5 Chapter Summary
This chapter provided the effects and findings of the research. The chapter had sections of demographic information, descriptive and inferential statistics for each of the research independent variables. The findings display effective and statistically huge association between M&A, market share, consumer portfolio, and ROI (return on investment). The linear regression analysis illustrates positive results of M&As on marketplace share, customer portfolio, and return on investment of I&M bank. Chapter five of the research provides the discussion, conclusions and study recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the discussion, conclusion, and recommendations of this study. The chapter consists of a section that gives a summary of the study from chapters one to four. Sections on discussion, conclusion, and recommendations are presented in line with the study research objectives.

5.2 Summary
The study examined the effects of mergers and acquisition strategy on performance of I&M Bank. The study was guided by three specific objectives: To establish the effect of Merger and acquisition on customer portfolio; determine the effect of merger and acquisition on banks' market share; and establish the challenges of mergers and acquisitions on Return on Investment.

The study adopted a descriptive research design which targeted the population of I&M Bank managers, officers, consultants and call center agents at the Kenyatta Avenue Branch. The target population for the study was 98 staff and the sample size was established as 78 staff engaged in the process of M&A. Simple random sampling technique was used to select the sample for the study. The study used structured self-administered questionnaires to collect the data. The data was analyzed using descriptive and inferential statistics. The data was summarized using descriptive statistics which included mean and standard deviation. Correlation analysis measured association whereas regression analysis was used to determine effects of independent variables on the dependent variable. Data analyzed using SPSS was presented in charts and tables and supported by an interpretation by the researcher.

The first objective of the study was to establish the effect of Merger and acquisition on customer portfolio. The descriptive results showed that respondents agreed that there was an increase in the number of clients (customers) after the acquisition as shown by a mean score of 4.26 and standard deviation of 0.837. The staff was very aware that the bank held informal activities to enhance employees’ interaction after the acquisition as shown by a mean score of 4.32 and standard deviation of 0.797. A positive and statistically significant association was seen between M&A and customer portfolio and this was confirmed by regression findings.
The second objective of the study was to determine the effect of merger and acquisition on banks' market share. The findings from the descriptive analysis indicated that there was a positive effect of M&A on market share of I&M bank. The results for each of the sub-variables of market share (market share, sales volumes, internal profitability, bank’s profitability, and general performance. The results from the correlation analysis indicated that there was a positive and statistically significant effect of M&As on market share of I&M Bank and this was confirmed by the linear regression analysis results.

The third objective of the study was to establish the effect of mergers and acquisitions on Return on Investment. The results from the descriptive analysis show that culture clashes were a main concern for M&A effect on I&M Bank’s Return on Investment (RoI). Other factors that were a concern included Management transition and integrating systems of the merging organizations. The correlation findings indicate a positive and significant association between M&A and RoI of I&M Bank. The linear regression results show that the effect of M&A on RoI was the least among the three variables measured in this study.

5.3 Discussion

5.3.1 Effect of Merger and Acquisition on Customer Portfolio

The first objective of the study was to establish the effect of Merger and acquisition on customer portfolio. The descriptive results showed that respondents agreed that there was an increase in the number of clients (customers) after the acquisition as shown by a mean score of 4.26 and standard deviation of 0.837. The staff was very aware that the bank held informal activities to enhance employees’ interaction after the acquisition as shown by a mean score of 4.32 and standard deviation of 0.797. A positive and statistically significant association was seen between M&A and customer portfolio and this was confirmed by regression findings.

The literature on M&As indicates that increasing th customer base is one of the major motivations for firms choosing to undergo M&As. Elumilade (2010) opined that mergers may also decorate value through raising the extent of financial institution diversification. Consolidation may raise diversification through both broadening the geographical presence of an organization and range of the goods and services provided. Furthermore, the simple addition of newly acquired assets and deposits allows diversification by raising the quantity of bank clients.
Kaol (2017) agrees that performance and growth of banks in Kenya can be explained due to their response to the desires of the Kenyan consumers for efficiency via optional banking means like internet, mobile and agency banking. Various studies have uncovered that M&As have had a positive influence on the customer base of banks that have merged. In India, Jayadev and Sensarma (2007) analysis on mergers in Indian banking found that in all the investigated scenarios, the acquiring banks have garnered the benefit of branch network and clientel of the acquired institution. Ullah, Ali, Azam, and Mahmood (2016) found that one of the Benefits of M&As in Pakistan Banking Industry was expanding firm’s infrastructure activities and customer base. Gwaya and Mungai (2015) research, on the effect of mergers and acquisitions on financial performance of banks in Kenya found that 77 percent of the financial institutions rose their client base due to the M&A and only 23 percent of them never rose.

The findings of the study also indicate that the merged bank increased services to their customer base after the acquisition for convenience. This finding supports earlier findings by Mungai (2016) study on the effect of M&As on service delivery at CFC Stanbic Bank Kenya Limited which found that a positive and significant effect of M&As on convenience of services provided to customers. The statements from respondents idnciated that the bank has alternatives of banking such as the agents. This was also evident in Sweden, where Östlund and Pernilla (2008) research on cross-border mergers and acquisitions in the banking sector which found that various clients are ready to oay extra for shopping convience for various services and products at a single place.

The findings of the study suggest that M&As have a positive effect on customers of the merging insitutions. However, various authors deduce that mergers for banks may adversely impact borrowers, notably in case they are SMs (Small and Medium-Sized Enterprises), reliant on bank financing and with a restricted proportion of the bank relations. In Italy, for example, Bonaccorsi and Gobbi (2007) discovered that bank mergers have andverse impact on credit, especially in case the lending relation ends after the merger.

In the United States, Degryse, Masschelein, and Mitchell (2011) found that the impact of bank mergers was more negative for smaller borrowers and for single relationship borrowers. A major driver of M&As is obtaining and exploiting synergies between the value chains of the firms involved that would not be captured otherwise. These synergies may emerge from different sources, as decrease dependency on a set of consumers or to
increase prices for consumers. The company selected a strategy of external development and an agreement was formalized through fusion by absorption (the target company lost its legal identity and integrated 100 percent of its Human Resources in the parent company). This method made it possible to choose the right time to enter the country, and once the agreement was signed, to gain quick access to new facilities, HR, and customer portfolios (Rodríguez-Sánchez, Mora-Valentín, & Ortiz-de-Urbina-Criado, 2018).

Globally, the banking industry is one of the most active markets for mergers and acquisitions. Many banks decide to merge due to the adjustments in law and technology. In some different cases, those institutions choose to merge so that you can gain greater performance or to create a greater competitive company or to call for marketplace proportion (Zisi, 2014). Kithitu, Cheluget, Keraro, and Mokamba (2012) report that some mergers in Kenya were occasioned by using the need to fulfill the increasing minimum center capital requirements and to raise the bank’s market proportion in the nearby banking surroundings.

5.3.2 Effect of Merger and Acquisition on I&M Bank Market Share

The second objective of the study was to determine the effect of merger and acquisition on banks’ market share. The findings from the descriptive analysis indicated that there was a positive effect of M&A on market share of I&M bank. The results for each of the sub-variables of market share (market share, sales volumes, internal profitability, bank’s profitability, and general performance. the results from the correlation analysis indicated that there was a positive and statistically significant effect of M&As on market share of I&M Bank and this was confirmed by the linear regression analysis results. One of the motivations for firms to engage in M&As is to create a greater market share. Rigid firms will act to acquire other firms will merge with the hope of gaining a significant market share or attain bigger efficiency (Maditinos, Theriou, & Efstathios, 2009). M&As are continuously occurring world over because they improve competition by gaining greater market share and reducing business risk (Kemal, 2011). Ogada, Njuguna, and Achoki (2016) found that gaining market share was a major driver behind M&As.

Gwaya & Mungai (2015) alluded that enlargement of the market share is largely to raise the income and eventually the profitability of an organization. This therefore means that the main agenda of merging and acquiring in this case was to raise their profits. Robust firms will act to acquire others to foste competitiveness and make the company cost-
efficient. The organizations will merge to attract more consumers and increase its presence in the market and attain higher efficiency. Öberg and Anderson (2002) stated that the market share of an acquired company can not automatically be transferred to the buyer without losing some part of the market. This study finding disagree with past studies that have found no effect of M&As on market share of banks. Ghosh and Sarboni (2014) study on M&As in the Indian telecom sector found that M&A did not perk up the market share of the companies in the post merger period.

This finding agrees with Ombaka and Jagongo (2018) study on M&As on financial performance among selected commercial banks which established that M&As have increased market share for those banks involved a very great extent. This finding also support Nyagah (2007) findings which revealed that there is significant relationship between growth and increase in market share and the occurrence of M&As. Kimotho (2018) study on influence of M&As on financial performance of sectors in NSE found that M&As had the greatest effect on market share of firms. Gwaya and Mungai (2015) study found that most of the financial institutions were able to increase their market share.

Globally, the banking industry is one of the most active markets for mergers and acquisitions. Many banks decide to merge due to the adjustments in law and technology. In some different cases, those institutions choose to merge so that you can gain greater performance or to create a greater competitive company or to call for marketplace proportion (Zisi, 2014). Kithitu, Cheluget, Keraro, and Mokamba (2012) report that some mergers in Kenya were occasioned by using the need to fulfill the increasing minimum center capital requirements and to raise the bank’s market proportion in the nearby banking surroundings.

The findings also agree with Kainika (2017) study which assessed the effects of mergers and acquisitions on organizational performance of insurance industry in Kenya at Sanlam. Market share values indicate that, in general, the market share of Sanlam Kenya was in a positive trajectory in both the pre and post merger/acquisition periods. However, the market share values of Sanlam Kenya were higher in the post merger/acquisition period compared to the pre merger/acquisition period. The study also established that there was an overall positive change in the market share of Sanlam Kenya the post merger/acquisition period as reflected by the increase in in the company’s market share values from 6.6% in year 2014 to 8.0% in year 2016.
There are several studies that have not found a positive relationship between M&As and market share of financial institutions. Kioko, Kiweu, and Nzioki (2018) study on effects of capital base on shareholders’ wealth of Kenyan listed companies involved in mergers and acquisitions which found that the market share before and after M&A was on average 0.26 and 0.26 respectively, indicating the market share did not change following the M&A. Khan, Kayani, and Javid (2011) noted that market power increases with rise in market share that enable the banks to control and increase spreads, which affect negatively its customers.

Pong and Burnett (2016) study on The implications of merger for market share, audit pricing and non-audit fee income at PriceWaterHouseCoopers found that an increase in audit services market concentration as a result of the merger has not led to an increase in audit prices. Although the merger has enabled PricewaterhouseCoopers to increase its market leadership in regions and in industrial sectors, neither industry leadership nor city leadership generated a premium in audit pricing. The study concluded that M&A did not have an influence in the market share.

5.3.3 Challenges facing I&M Mergers and Acquisitions

The third objective of the study was to establish the effects of M&A challenges facing I&M Bank’s M&A. The results from the descriptive analysis show that culture clashes were a main concern for I&M Bank’s M&A. Other factors that were a concern included Management transition and integrating systems of the merging organizations. The correlation findings indicate a positive and significant association between M&A and ROI of I&M Bank. The linear regression results show that the effect of M&A on ROI was the least among the three variables measured in this study. The stream of research looking at the cultural encounter occurring in M&A has established that culture clashes occur during domestic and cross-border transactions alike.

Weber and Camerer (2003) experiment on clashing of cultures in mergers and found that both firms’ performance decreases following the merger. A cultural conflict will be the most powerful with intensive contact between the advocates of the opposing cultures, in which the desires, strategic selections and different operation for the acquired corporation are decided. The literature on M&As suggests that lifestyle conflict impacts the effectiveness of the post-merger integration method, the combination of information systems, and the economic performance and shareholder value of the obtaining firm. Merging firms have to face the difficulty of cultural variations that is one of the popular
reasons of M&A failure, supported in relation to moving borders combinations (Makhlouk & Shevchuk, 2008). However, this study finding disagrees with previous and earlier studies that found no association between M&E cultural clashes with ROI post-merger.

Ananda (2017) found an adverse effect on post-acquisition overall performance index (based totally on accounting variables ROI, EPS, inventory price, cash flow, and sales growth). Dorai and Patolahti (2010) studied corporate cultural fit and overall performance in mergers and acquisitions did not discover a direct relationship among cultural differences and M&A financial performance. Otterspeer (2016) studied the effect of cultural variations at the overall performance of mergers and acquisitions which observed that taking into account the cultural variations in the integration procedure, M&A performances not always suffered from cultural differences.

The study findings agree with past studies that have found a relationship between organizational cultures post-merger. Vedd and Liu (2017) conducted a study on the effect of cultural integration on financial performance post-merger. The findings concluded that the chance of a development or decline of monetary performance after a merger is 0.5 relying on the fulfillment or failure in combining corporate cultures. The findings from this observe indicated that when Google received Motorola in 2012, the year-end share price, net earnings, and earnings per share (EPS) all display a nice trend that started out in 2010 and endured after the merger till 2014.

This finding also support Alexandridis, Hoepner, Huang, and Ioannis (2015) examination on the effect of corporate cultural distance between acquirers and targets on M&As using a sample of 220 domestic and cross-border international deals. These findings offer proof for the “cultural clashes” theory illustrated in the past literature and imply that market considers corporate cultural distance as an impediment in the post-acquisition integration process. Barker (2012) qualitative study on the function of culture in post-merger performance in South Africa also found proof to guide the idea that cultural integration performs a key function in post-merger overall performance and presents key factors toward a successful integration.

Reddy and Mantravadi (2007) evaluated that the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. The study found some of the industries had a significant decline both in terms of profitability and return on investment and assets after
merger. Saibu (2013) conducted an empirical investigation on the impact of merger and acquisition on financial intermediation in the Nigerian banking industry and found that the cost of borrowing and the return on investment in the banking industry are also crucial factors that have been affected by the merger and action exercise.

Olokoyo (2013) reviewed bank reforms if they have been able to achieve predetermined goals and set objectives in Nigeria and found that despite the M&As, post consolidation challenges like challenges of increased return on investment still exist. The reason why few companies failed after merger was because there was a mismatch of culture. Rasiah, Ming, and Hamid (2014) agreed and suggested that incompatible cultures were the main causes of merger and acquisition failure. Furthermore, studies on the impact of cultural differences on merger and acquisition performance had yielded mixed results and did not provide framework for managing cultural integration. Bank Bumiputra Commerce merges with Southern Bank. Southern Bank is a Malaysia's ninth-largest banking group, were pursued by CIMB; it is part of the Bumiputra-Commerce Group and Malaysia's second largest bank.

5.4 Conclusion

5.4.1 Effect of Merger and acquisition on customer portfolio
The first objective of the study was to determine the effect of M&As on customer portfolio of I&M Bank. The study found that there was a positive association between M&As and customer portfolio and this was statistically significant. The study, therefore concludes that M&As led to an increase in the customer base for I&M Bank and also offered convenience of services for customer of the merged institutions.

5.4.2 Effect of Merger and Acquisition on Banks' Market Share
The second objective of the study was to determine the effect of M&As on I&M Bank’s market share. The findings show a positive and statistically significant association and effect of M&As and market share of the acquiring bank. This study, therefore, concludes that the acquiring of Giro Bank led to an increase in the market share of I&M Bank in the Kenyan commercial banking sector.

5.4.3 Challenges of Mergers and Acquisitions on Return on Investment
The third objective of the study was to determine the effects of M&As challenges on return on investment of I&M Bank. the findings show that culture clash was the most significant challenge of M&As that affected the Retrun on investment of I&M Bank. The study,
therefore, concludes that culture clash is the most serious threat of M&As to I&M Bank’s return on investment.

5.5 Recommendations

5.5.1 Recommendations For Improvements

5.5.1.1 Effect of Merger and Acquisition on Customer Portfolio

The study found positive and significant relationship between M&A and customer portfolio at I&M Bank. The respondents indicated that there was an increase in the customer base and also on convenience of services. Management of I&M Bank should assess customer expectations post-merger in order to meet customer needs and enhance customer loyalty. The study further recommends for I&M Bank should expand business operations in providing customers with superior quality products and services which can be done by refining and maintaining the existing products and services. The study also recommends that I&M bank should plan for the removal of bad-quality customers and the retention of good-quality customers. This evaluation will provide the opportunity for understanding customer characteristics and planning for customer communication and promotion.

5.5.1.2 Effect of Merger and Acquisition on Banks’ Market Share

The study found a positive and significant effect of M&A on market share of I&M Bank. The respondents cited an increase in the market presence of I&M Bank in the Kenyan financial sector after the acquisition. The study therefore recommends that management of I&M Bank should integrate financial technologies and adopt customer relationship strategies to maintain the current market share. This study recommends that financial institutions an unstable and weak capital base should aim to combine their institutions through mergers and acquisitions. Through mergers and acquisitions, the financial institutions can contribute to their expansion of their revenue base and market share thereby growing their profitability.

5.5.1.3 Challenges facing I&M Merger and Acquisition

The study found that culture clash was the most impactful M&E challenge to I&M Bank’s M&A. The study therefore recommends that the management of I&M bank should engage assessing the culture fit post-merger, educate staff on culture clash, and align human resources (HR) practices with the desired new culture. The study recommends that effective communication is a crucial way to influence employee buy-in. Staffs need to understand why the merger or acquisition is happening so they can hop on board with the change. The
study recommends that I&M should build an entire new culture from the ground up by considering the organizational strategy, behavioral norms, and organizational structure. The study further recommends that team building events such as volunteering, happy hours, or catered lunches should be conducted so that employees feel connected throughout the transition, leading to stronger cultural integration efforts.

5.5.2 Recommendations for Further Research

The study focused on the effects of M&As on customer portfolio and market share, and the M&As challenges facing I&M Bank. There is need for future studies to be done on the same but use secondary data as this study was limited to primary data. The study also recommends for future study on the same M&As of I&M Bank, three years after the merger to observe significant changes in performance variables. Such a study would look at the difference in performance three years before and after M&A. I&M Bank has other branches in other countries and there is need therefore for further research on M&As in other countries to compare with the M&As with Kenya’s Giro Bank. The target population of the study were ICT Officers, call Center Agents, Consultants, Service Delivery Officers, Risk Officers, and Legal Officers. There is need for future research to collect information from management level staff from I&M Bank. This population should consist of top level, middle level, and low level management staff of I&M Bank.
REFERENCES


APPENDICES

APPENDIX A: RESEARCH INTRODUCTION LETTER

TO WHOM IT MAY CONCERN.

20th August, 2018

Dear Sir/Madam,

REF: PERMISSION TO CONDUCT RESEARCH – ERIC KAMAMI IGECHA
STUDENT ID. NO. 650039

The bearer of this letter is a student of United States International University (USIU) -Africa pursuing a Master of Business Administration.

As part of the program, the student is required to undertake a dissertation on “Effects of Mergers and Acquisition Strategies on Performance of Commercial Banks: A Case of I&M Bank” which requires him to collect data.

Please note that information provided will be treated with utmost confidentiality and will only be used for academic purposes.

Kindly assist the student get the appropriate data and should you have any queries contact the undersigned.

Yours Sincerely,

[Signature]

Prof. Amos Njuguna,
Dean – School of Graduate Studies, Research and Extension
Tel: 730 116 442
Email: amnjuguna@usu.ac.ke
APPENDIX B: COVER LETTER

Dear Mr. /Mrs.…

I am a Masters student at the United States International University - Africa pursuing a Master’s in Business Administration (MBA). I have designed a questionnaire to gather information on “Effects of Merger and Acquisition Strategies on the performance of commercial banks: A Case of I&M Bank”, I request you to assist me by answering the questions in the questionnaire as accurately as you can.

Kindly note that any information provided will be treated with utmost confidentiality and at no time will it be used for any other purpose other than for this project. Your name will also not be used in this research but rather the research number given to you by the researcher. Your assistance is highly appreciated. I look forward to your favorable response. Please tick as appropriate.

Yours Faithfully,

Igecha Eric Kamami

ID. 650039
APPENDIX C: RESEARCH QUESTIONNAIRE

Kindly respond to the following questions by ticking on the appropriate box (√) or filling the answers in the blank spaces

PART A – DEMOGRAPHIC INFORMATION

1) What is your gender?

☐ Male  ☐ Female

2) What is the highest level of education you have completed?

☐ Diploma  ☐ Bachelor Degree  ☐ Master Degree  ☐ Doctorate

☐ Other

3) What is your job role?

☐ Executive  ☐ Manager  ☐ Officer  ☐ Clerk

☐ Other (Please Specify) _________________

4) Years of Experience

☐ Less than 5 years  ☐ 6 to 10 years  ☐ 11 to 15 years  ☐ Above 16 years

5) About how many years have you been in your current position?

☐ Below 1 year  ☐ 2 - 3 Years  ☐ 4 - 5 Years  ☐ Above 6 Years

PART B – The effect of Merger and acquisition on customer portfolio

6) To what extent do you agree with these statements?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I believe there has been an increase in the number of clients (customers) after the acquisition</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>I feel that the bank products have improved after the acquisition</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
7) How can you rate the trend of the following aspects of customer retention in your bank after the acquisition?

<table>
<thead>
<tr>
<th>aspect</th>
<th>Not at all aware</th>
<th>Slightly aware</th>
<th>Moderately aware</th>
<th>Very aware</th>
<th>Extremely aware</th>
</tr>
</thead>
<tbody>
<tr>
<td>After the acquisition, the bank emphasized customer service and CRM. They categorized customers and provided different modes of communication. They visited or called valuable customers and emailed general customers.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>After the acquisition, customers had few complaints.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>After the acquisition, the bank branches increased and provided customers with convenient services.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

8) Indicate the extent to which various aspects of culture and human factors in the acquisition affected internal client portfolio in your institution.

<table>
<thead>
<tr>
<th>aspect</th>
<th>Not at all aware</th>
<th>Slightly aware</th>
<th>Moderately aware</th>
<th>Very aware</th>
<th>Extremely aware</th>
</tr>
</thead>
<tbody>
<tr>
<td>After the acquisition, the bank held informal activities to enhance employees’ interaction</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
Due to changed workload after the acquisition, some employees felt they had been treated unfairly

<table>
<thead>
<tr>
<th>Option</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>

After the acquisition, some employees of the acquired bank were not familiar with the new operations and needed to work harder than before the acquisition to understand it.

<table>
<thead>
<tr>
<th>Option</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>

**NB:** Please state whether there has been an Increase, Decline or Neutral to the following statements.

**PART C – The effect of the acquisition on the bank’s market share**

9) After the acquisition, how has I & M bank’s market share changed?

[ ] Increase [ ] Decline [ ] Neutral

10) How has the acquisition affected the sales volumes of the bank?

[ ] Increase [ ] Decline [ ] Neutral

11) How has the bank’s internal profitability (Profit/capital employed) changed?

[ ] Increase [ ] Decline [ ] Neutral

12) How has the bank’s profitability relative to industry average changed?

[ ] Increase [ ] Decline [ ] Neutral

13) In your view, what is the general performance of I&M bank after the merger and acquisition?

[ ] Increase [ ] Decline [ ] Neutral
PART D – The challenges of the acquisition on Return on Investment

14) In order of importance, rank any concerns you have regarding the acquisition:

<table>
<thead>
<tr>
<th>Concern</th>
<th>Not a concern</th>
<th>Minor concern</th>
<th>Neutral</th>
<th>Concern</th>
<th>Major concern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture clashes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management transition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrating systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of control over acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staffing issues/layoffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing the acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15) Post-acquisition activities when not well planned are the main cause of failures in most mergers and acquisitions in the areas detailed below.

<table>
<thead>
<tr>
<th>Area</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of strategic fit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of organizational fit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of Finance</td>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>