EFFECT OF SYNERGY THROUGH MERGERS AND ACQUISITIONS ON A FIRM'S FINANCIAL PERFORMANCE IN KENYA: A CASE OF SIDIAN BANK

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirements for the Degree of Masters of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SPRING 2019
STUDENT’S DECLARATION

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

Signature ______________________ Date __________________________

Maureen Kimetto (ID NO: 654072)

This project has been presented for examination with my approval as the appointed course supervisor.

Signature ______________________ Date __________________________

Mr. Kepha Oyaro

Signature ______________________ Date __________________________

Dean, Chandaria School of Business
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ABSTRACT

The general objective of the study was to evaluate the effect of synergy through mergers and acquisition on a firm’s financial performance, specifically it’s effect in Sidian Bank. The study used the following specific objectives, to determine how operating synergy affected the performance, to determine how financial synergy affected the performance, and to determine how managerial synergy affected the performance of Sidian Bank.

The study adopted the use of case study design. Case study method enables close examination of data within a specific context. The target population of the study was 590 employees. A sample size of 118 employees of the bank that were randomly picked to participate in the study. Questionnaires was used to collect primary data. Descriptive statistics was used in terms of mean, standard deviation, frequency, and percentages. Inferential statistics was used to draw conclusions about the effect of synergies on financial performance and Statistical Package for the Social Sciences version 25 used for the analysis.

The study findings indicated that operating synergy had a strong and positive and significant association with financial performance of the bank (r = 0.794, Sig = 0.000). The results of the regression analysis indicated that 62.6\% of changes in financial performance is explained by operating synergy. The results of the study showed that that financial synergy had a strong and positive and significant association with financial performance of the bank (r = 0.836, Sig = 0.000), while the results of the regression analysis showed that 69.9\% of changes in financial performance is explained by financial synergy. Lastly the findings of the study showed that managerial synergy had a strong and positive and significant association with financial performance of the bank (r = 0.698, Sig = 0.000), and the R-square of 48.7\% indicated that changes in financial performance is explained by managerial synergy.

The study concluded that operation synergy had a significant effect on the financial performance of bank due to reduced operating expenses, increased market share, consolidation of operations and synergies within the bank industry. Secondly, there was a significant relationship between financial synergy and financial performance of the bank. This was due to the improved financial performance in terms of profitability for the banks. This has enhanced the stability and effectiveness of operations of the bank. Lastly, there was better managerial of the bank which leads to increased financial performance of the bank. This led to certain degree of knowledge transfer which was necessary and the top management teams bring innovation by providing complementary resources for the bank.
It is therefore recommended that the bank should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term operation synergies. Secondly, Comparative analysis of the bank’s performance for the pre-merger and post-merger periods should be conducted to establish whether mergers lead to improved financial performance before and after merging. Thirdly, management of the bank should have competent personnel for running of the bank operations. This will lead to better financial performance of the bank. The study recommends that further study should be carried out on the effect of mergers and acquisitions on financial performance of non-financial firms such as insurance, manufacturing to enable in drawing a parallel with the effects in the banking sector.
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DEDICATION

This research project is dedicated to my husband Jonah, my son Kalya, Mother Jane, mother-in-law Virginia, father-in-law Patrick, brothers Brian, Ken, Dennis and Joe, sisters Caro and Joy for their immense love and support as I pursued my degree.
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### LIST OF ABBREVIATIONS AND ACRONYMS

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<td>M&amp;A</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

Synergies are synonymous with mergers and acquisitions, herein referred to as “M&A”. Mergers and acquisitions have been done for years by companies as a means to diversify, to grow, to combine their strengths, increase their market share and increase their competitive edge. It is a means of inorganic growth (Sherman, 2005). As seen, there are many reasons to select M&A as a growth strategy, but most common reason is creating synergy (DePamphilis, 2005). Many studies have been done to check the success or failure of M&A. According to Hitt, Harrison and Ireland (2001), though M&As are common company strategies they most often than not do not provide the financial gains expected.

The concept of synergy implies that the sum of the whole should be greater than the individual parts. In the case of mergers and acquisitions it is the expected that there will be an increase in cash flow as well as competitive advantage that the merged company has compared to if they were working independently (Sirower, 1997). Synergies provide financial gains hence the motivation for mergers and acquisitions. These synergies are obtained from operating, financial, managerial or revenue synergies. Operating synergies occurs due to reduction of costs. Financial synergies occur due to reduction in cost of capital through lowered risk, increase in firm’s size, increased cash flow and increased financial margins (Sevenius, 2003). Managerial synergies are derived from the managerial capabilities that the acquiring firm brings to the target company (Trautwein, 1990).

According to Seth (1990) and Gaughan (2002) synergy and value creation is synonymous and synergy is when the value of the M&A exceeds the value of the two separate firms put together. Synergy represents the additional value that is created by merging to firms together (Lees, 2003; Rao, Yu & Umashankar, 2016). Eccles et al. (1999), scholars from the finance and accounting field, have defined synergy as "the net present value of cash flows that will result from improvements made when companies are combined"(p.140). Synergy is defined by Gupta and Roos (2001) as the interaction of two or more intellectual capital resources from previously sovereign organizations, which enhances the combined effect of value creation and competitive performance, which effect is greater than the sum of the individual effects.

The most important objective of a business is to maximize shareholder value hence the need to assess the synergy got through M&A and this can be obtained through evaluation of the
financial performance of a firm from annual statements post the merger or acquisition (Khan & Jain, 2007). Numerous studies have been done on this issue to determine the value creation of M&A to the shareholders and efficiency gains to the business. One empirical study by Halkos and Tzeremes (2013) found that M&A between efficient banks does not ensure efficiency. While on the other hand a study done by Ogada, Njuguna and Achoki (2016) found a positive relationship between performance and synergy. The studies have been largely contradictory. The question here that we want answered is did Sidian bank as a case study get the synergy gains claimed by theoretical studies. This study is done to answer that question and contribute to the knowledge gap in academic research on the relationship between synergy and financial performance.

Synergy is the idea that when two organizations combine, the result is that they perform better than the sum of its parts. This implies that synergy creates value. This value has been argued to occur in mergers and acquisitions through reduction of costs of running the business, process improvements, increase in revenues, increase debt capacity and tax benefits. A recent empirical study done by Ombaka and Jagongo (2018) found that a unit improvement in operational synergy led to an increase in financial performance. Synergies are obtained in effective acquisitions in contrast to ineffective ones that may lead to financial distress and even bankruptcy (Bao & Edmans, 2011). Wealth creation for the shareholders is linked to synergy (Dennis & McConnel, 1986; Andrade et al., 2001). There are four types of synergy: operating, financial, managerial and revenue synergy.

Operating synergy refers to gains derived from operating economies gained from economies of scale, economies of scope and reduction in administrative costs. The sources of these gains include economies of scale that are a result of increase in size of operations, increase in specialized management and efficient use of capital equipment which result in lower cost per unit (Gaughan, 2002). A second source is the economy of scope which comes from reduction on average total costs as it is cheaper producing the same product from one firm than from two different firms (Depamhilis, 2013). Example of cost savings is when the same set of skills for example marketing are used to sell products or services. A third source is the economies of learning acquired through efficient workflow processes (Cooper & Finkelstein, 2013). To gain competitive edge in market, companies often merge to obtain economies of scale and scope (Hitt et al., 2001).

Financial synergy relates to how the cost of capital is influenced with a merger or acquisition. The belief is that the cost of capital should be become low post-merger or acquisition. This
synergy can occur when the cash flows from the merged firms are uncorrelated such that it realized cost saving from cheaper bonds or transaction costs, or gets better investment opportunities with internally generated funds (Depamhilis, 2013). This synergy affects cashflow in the business, reducing the chance of incurring bankruptcy costs (Scott, 1977). According to Weston and Lajoux (1998), the companies which have high internal cash flow and less investment opportunities will hold excess cash flow. The companies which have lower production capacity of internal capital and large number investment opportunities will need for additional financing. The merger of these two kinds of company may get the advantage which is lower cost of capital and accrue financial benefits from M&A (Knoll, 2008).

Managerial synergy is when additional value is created from the decision makers’ ability to integrate the two companies to create a competitive advantage. It is derived from companies having different management level combinations bringing efficiency improvements in the running of the operations of the company. It leverages the managerial resources of the acquiring firm with the capabilities of the target firm. (Hitt et al., 2001). A relatively efficient bidder may acquire a relatively low efficient target company, and value can be improved by improving the efficiency of the target company (Weston & Lajoux, 1998). This supports the managerial synergy hypothesis that states that a firm with greater management competency can acquire a firm with less competency and use its capabilities on the target firm's capital thus creating synergy (Bhat, 2008). Managerial synergy is the ability of diversified firms to develop and apply managerial talent and techniques to business units which could not independently secure such talent and techniques (Trautwein, 1990).

Revenue synergy is when, because of an acquisition, the combined company can generate more sales than the two companies would be able to separately. The indicative measure of revenue synergy is the positive present value of the net cash flows that result from revenue increases (Ficery, Herd & Pursche, 2007; Karenfort, 2011). Revenue synergies are obtained from enhanced sales growth because of mergers and acquisitions. An example of revenue synergy is the acquirer's ability to sell the target's products through its own distribution channels or leveraging its own market presence to expand the market for the acquired firm. Another example of revenue synergy is when the acquired company leverages the target company's market presence, know-how, technology or expertise to expand its existing product or service offering (Rosenbaum & Pearl, 2013).

A firm’s financial performance is determined by evaluating the relationship between various values in the financial statement. This is done through ratios (Warren, Reeve & Duchac, 2018).
Analysis and interpretation of financial statement is done through ratios as they give an overall picture of the financial position of the company such as profitability, leverage, efficiency and liquidity among others (Ryan, 2014). Financial performance is used to measure the financial health of a company over a period and can be used to compare its performance with other similar firms in the same industry or compare industries or sectors in aggregation (Pandey, 1995). There are 5 major pillars of financial analysis that determine a company’s performance: profitability ratios, liquidity ratios, efficiency ratios, leverage ratios and investor concerns.

Profitability ratios include ratios such as the gross profit margin, net profit margin, return on asset, return on capital, return on equity and return on investment (Chen & Wang, 2004). Liquidity ratios include current ratio, quick ratio, acid test ratio, free cash flow and cash conversion cycle. Efficiency ratios include days inventory held, receivable days of holding, payable days of holding, cash conversion cycle and equity multiplier. Leverage ratios show the capital structure of a company. These ratios include debt to equity ratio, total debt to equity, time interest earned ratio, degree of operating leverage, degree of financial leverage and combined degree of leverage. Investor concerns are ratios that include return on assets, basic earning power, return on investments, return on equity, earnings per share, dividend per share, EPS yield, price earnings ratio, dividend yield, investment recoup period and dividend cover (Wood & Sangster, 2008).

Sidian Bank, which was formerly known as K-rep, was founded in 1984 as a non-governmental organization. It is a medium sized commercial bank, with its origins from K-rep Group, that mainly used to lend to small and medium enterprises through non-governmental organizations’ managed programs. In 1989, it changed its strategy from providing consultancy to the non-governmental organizations to lending to them and set itself up as a micro-financier. Later, in 1999, it became licensed as a bank lending to small and medium enterprises. In 2014, Centum, a listed investment firm, acquired controlling stake of 66% in the bank from existing shareholders bringing its total shareholding to 72.90%. Centum chose to acquire the bank to increase its investment in the financial services sector. In 2016, it rebranded to Sidian Bank to boost its image and awareness as well as change the perception held by many that they were only a micro-lender.
1.2 Statement of the Problem

Understanding the consequences of mergers and acquisitions on financial performance of a company is very important. The synergistic gains inferred from financial performance is an indicator to management, investors, government and other stakeholders on the position of the company. There has been extensive research done on mergers and acquisitions in the global market but there has been limited study in the region and particularly in the Kenyan market. The research has also been contradictory. There has also been limited research on thorough financial performance assessed against synergistic gains, and hence show and validate the advantages of mergers and acquisitions.

Shams and Gunasekarage (2016) investigated long-run operating performance of a sample of Australian private target and public target acquirers and found there was no significant difference in their operating performance during the post-acquisition period. From a study done by Voesenek (2014) of many mergers across the world between 2012 and 2013, he found that the performance is positive in at least the first five years post-merger. However, from a research done by Akinbuli and Kelilume (2013) on the effects of mergers and acquisitions on corporate growth and profitability of ten banks in Nigeria, they discovered that though there is a positive performance in growth and profitability post M&A and a negative effect on efficiency in the short-run. Mwangi (2014) studied the effect of mergers and acquisitions on financial performance of 14 banks that merged between 2004 and 2013 and concluded that liquidity and leverage improved post-merger. Investigations by Kithinji (2007) on a sample of non-listed backs that merged between 1994 and 2001 in Kenya using comparative analysis revealed that there was a significant improvement in performance of those banks compared to the non-listed banks that had not merged. From these studies, it is clear that there are contradictory findings and hence more research needs to be done to bridge the knowledge gap and shed lighter as relates to mergers and acquisitions.

This study sought to find out if the synergy from acquisition of Sidian Bank translated to real improved economic performance. Sidian Bank will be used as a case study. The study will use accounting data to analyse the financial performance of the bank post-acquisition.

1.3 General Objective

The general objective of the study was to evaluate the effect of synergy through mergers and acquisition on a firm’s financial performance, specifically it’s effect in Sidian Bank.
1.4 Specific Objectives
The specific objectives were as follows;

1.4.1 To determine how operating synergy affected the performance of Sidian Bank
1.4.2 To determine how financial synergy affected the performance of Sidian Bank
1.4.3 To determine how managerial synergy affected the performance of Sidian Bank

1.5 Significance of the Study
1.5.1 Researchers and Academicians
There has been a lot of studies on commercial bank mergers, but it has not been exhausted. Most of those studies have been on listed banks on the Nairobi Securities Exchange and on how mergers and acquisitions affect performance. This study will add to the literature on how synergies from mergers and acquisitions affect performance of a non-listed bank.

1.5.2 Policy Makers
The policy makers will be informed as to whether M&As policies take into consideration the effects as the number of stakeholders involved are many and it also has an influence on the economic development of the county.

1.5.3 Investors
The study informs the investors as well as the management of Sidian Bank on the position of the company. It is useful as well to potential companies that want to merge or acquire or those that have merged on the potential gains.

1.5.4 Employees
It is also useful to employees in understanding the company's position financially after the acquisition.

1.6 Scope of the Study
The study focused on one financial institution - Sidian Bank, a non-listed commercial bank in Kenya. The bank was acquired by Centum in 2014. The study was for the three years pre-acquisition (2011-2013) and three-years post-acquisition (2015-2017). The study focused on the employees of the bank on the impact of Merger and Acquisition they have heard in terms of operation synergy, financial synergy and managerial synergy. The total population of the study was 590 employees. The study was undertaken for the month of January to March 2019.
1.7 Definition of Terms

1.7.1 Acquisition

Refers to when a company obtains controlling interest in the target company or in its operations or assets (Coyle, 2000).

1.7.2 Efficiency

Refers to how well the company is using its assets vis-à-vis its liabilities (Brigham & Ehrhardt, 2017).

1.7.3 Financial synergy

Is the value obtained of lower cost of capital through mergers and acquisitions (Knoll, 2008).

1.7.4 Leverage

Is the extent to which debt and preferred stock are used in a firm's capital structure. It is the ratio between long-term debt and equity that is used to fund the business (Maynard, 2013).

1.7.5 Liquidity

Is the ability of a company to meet its short-term obligations when they due such as paying its creditors (Brigham & Ehrhardt, 2017).

1.7.6 Managerial synergy

Is the additional value created when greater management competency level in combination with the target’s organizational capital brings efficiency improvements in the running of the operations of the target company (Hitt et al., 2001).

1.7.7 Merger

Refers to combination of businesses as one entity (Coyle, 2000).

1.7.8 Merger and acquisition

Is the combination of companies either as a whole or in part (Coyle, 2000).

1.7.9 Operating synergy

Refers to gains derived from operating economies gained from economies of scale, economies of scope and reduction in administrative costs (Gaughan, 2002).
1.7.10 Profitability

Is the ability of a company to generate earnings relative to sales, assets and equity (Chen & Wang, 2004).

1.7.11 Revenue synergy

Is when synergy is obtained from enhanced sales growth because of mergers and acquisitions (Rosenbaum & Pearl, 2013).

1.7.12 Synergy

Is the additional value that is generated by combining firms, creating opportunities that would not have been available to these firms operating independently? (Damodaran 2006).

1.8 Chapter summary

This chapter starts by presenting a brief background on mergers and acquisitions, on the synergy types, how performance is measured and the context of the study - Sidian bank. It then goes ahead to describe the problem statement, the objectives of the study, its significance and the scope of the study. The following chapter two gives the literature review and then chapter three illustrates the research methodology that was in conducting the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

In this section, the documented literature on the effect of mergers and acquisitions on financial performance of companies is discussed. The chapter details the empirical literature relevant to this study. In this regard, it reviews the documented literature in terms of the various synergies: operating synergy, financial synergy and managerial synergy, and their effects on financial performance.

2.2 Effect of Operating Synergy on Financial Performance

Operating synergy can be obtained from cost reducing measures through economies of scale from reduction in per unit cost of production or from removal of redundancies in business functions. A study done by Yeh and Hoshino (2000) on the impact of mergers and acquisitions of 20 Taiwanese companies in the period 1987 and 1992 on stock prices and financial performance found that post-merger performance did not improve unlike in previous studies such as Healy et al. (1992) and Switzer (1996) that found significant increase in operating performance after the merger. Yeh and Hoshino (2002) performed the study again on a bigger sample of 86 acquisitions that happened between 1970 and 1994. Return on assets and return on equity were used as measurements for profitability. The results of the study indicated significant decrease in profitability and growth.

Several studies have been done on the effect of operating synergy on performance. In a research paper done by Junge (2014) on how different synergy types affect operating performance, he found that there was significant improvement post-merger. He used a sample of 420 mergers that occurred between 1988 and 2008 in the US. The companies were of different sizes to avoid bias caused by using only one size of company such as big companies as they benefit from economies of scale. He used regression-based approach to analyse the performance as used by Healy et al. (1992) as it considers cash flows in its calculation. He found that there was improvement in performance due to rise in cash flows. He attributed it to operating synergy from mergers that focused on efficiency. This contradicts Gugler et al. (2003) investigation of several mergers spanning over 15 years in different countries across the world. They compared the of the merged firms with control groups of non-merger firms and found that there was a significant increase in profits. They found similar results across the different countries considered. This indicates that the studies did not get the same results and also different approaches were used that could have led to the varying findings.
2.2.1 Profitability and Operating Synergy

Profitability is normally determined by the long run performance. Shams and Gunasekarage (2016) investigated long-run operating performance of a sample of Australian private target and public target acquirers and found there was no significant difference in their operating performance during the post-acquisition period. Similarly, Martynova, Oosting and Renneborg (2006), did a study of 155 mergers and acquisitions deals in Europe that occurred between 1997 and 2001. They measured the earnings before interest and tax less the working capital as opposed to measuring earnings before interest and tax which is normally the method used when calculation operating performance. They used that method to put in a measure of cash flow performance as it takes into account changes in receivables, payables and inventories. They found that there was insignificant improvement in profitability post-acquisition.

Return on assets and return on investments have been used by several scholars as measures of performance. Nash (2009) performed a study to find out the effect of mergers and acquisitions on the financial performance of 112 companies in India. The mergers occurred between 2001 and 2005. He used linear regression model to establish the degree of relationship between the M&A and return on investment and return on assets. His findings were that there was a significant positive relation between mergers and acquisitions and financial performance, unlike the study done by Gupta and Banerjee (2017). Similar, Viverita (2008) conducted a study on the impact of mergers and acquisitions on commercial banks in Indonesia. By comparing financial performance for 7 years before and after merger, the study revealed that mergers did increase bank’s ability to gain profits. This was indicated by the increase in performance indicators such as loans.

Other studies used data enveloped analysis technique. Kaur and Kaur (2010) study on commercial banks in India for the period 2007-2008 used non-parametric data enveloped analysis technique. Conclusions of the study showed that over the entire study period, the average cost efficiency resulted to 73.04% and the private banks resulted to 76.3%. The findings suggested that mergers have been a success in the Indian banking Industry. Kumar (2009) examined the post- merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period from 1999 to 2002 in India. The study attempted to identify synergies, if any, resulting from mergers. The study used accounting data to examine merger related gains to the acquiring firms. It was found that the post- merger profitability, assets turnover and solvency of the acquiring companies, on average show no improvement when compared with pre – merger values.
2.2.2 Liquidity and Operating Synergy

Liquidity has also been used as a measure operating synergy. Vanitha and Selvam (2010) argued that the liquidity, leverage and productivity ratios have an impact on company’s financial performance. In addition, the higher liquidity shows that the company is in good condition, while the higher leverage is a warning sign that the company is at risk. However, the rule of thumb is that the higher the risk, the higher the expected return. Moreover, they also agreed the higher profitability means that the company is highly efficient. Leepsa and Mishra (2012) found that merged firm’s show significant improvements in operating performance. They view that, to a large extend, firms engage in M&A to achieve economies of scale, reduced expenses, increased market share, consolidation of operations and synergies.

Quasi experimental design is another approach that has been used to in similar studies. Musvasva (2013) investigated 22 merger and acquisition deals in South Africa that occurred between 2003 and 2009. The scope of the study was limited to only the public listed financial companies and only related mergers were included. Quantitative approach followed by quasi experimental design using accounting data was applied. The limitation in this study is that only one-year pre-merger and one-year post merger performance was analyzed which may not be a true reflection of long-term performance. The results were that there was no significant improvement in inflation adjusted return on assets and return on equity, and similarly no statistically significant change in operating profit margin and return on capital employed.

There have been several regional studies on this. Abdulazeez and Yahaya (2016) investigated the effect of mergers and acquisitions on banks that merged between 2002 and 2008 in Nigeria. They selected four banks from a population of 25 using convenience and judgemental sampling. The financial performance of the bank was judged based on return of asset and return on equity. T-test statistical analysis was used to analyze the data. The study revealed that performance improved post-merger and synergy gains were realized as there was improved efficiency in the banks. In Egypt, Badreldin and Kalhoefer (2009) evaluated performance of 10 banks that had been merged or acquired between 2004 and 2007. Return on equity was used as the performance measure of profitability. Two years pre-merger and two-years post-merger accounting data was used. The results were that there was no significant increase in profitability. Ntuli (2017) performed a study on bank acquisition, a case of Amalgamated Bank of South Africa (ABSA) and Barclays Bank Plc. Barclays Bank Plc acquired 56.4% stake in ABSA in 2015 to expand its market in Africa. Time series was used to evaluate the performance of this acquisition. The findings were that return on assets and return on equity increased post-acquisitions.
Other regional studies showed positive results. Ismail, Abdou and Annis (2010) examined operating performance of a sample of Egyptian companies involved in Merger and Acquisitions (M&A) in the period from 1996 to 2003 in the construction and technology sectors. Empirical results reveal that some measures of corporate performance such as profitability suggest statistically significant gains in the years following M&A especially in the construction sector. Other performance measures as efficiency, liquidity, solvency and cash flow position do not show significant improvements after mergers in the short run in both sectors. They concluded that the analysis revealed different results than those of a sector level, where total sample analysis indicated in M&A did not affect the operating performance of the Egyptian merged companies. With respect to sector level, the finding suggests that M&A in the construction sector has contributed in improving firm’s profitability but failed to improve efficiency, liquidity, solvency and cash flow position. In the technology sector, no improvement was evidenced.

Some studies used Tobin’s Q to gauge performance. Alhenawi and Krishnaswami (2014) did a study of the impact of mergers and acquisition on performance using Tobin’s Q as a measure of performance. They used a sample of 316 merger events that had been done between 1998 and 2007. They performed the evaluation on the data for 5 years after the merger. The aim of the study was to find out whether and to what extent synergies affect Tobin’s Q and excess value in the post-merger period. They used Heckman two-stage self-selection model and a two-stage non-linear-instrumental variable model to account for potential endogeneities in the merger decision across related and unrelated mergers. The found that Q and excess value decrease in the first year following the merger, but then improve systematically each year in the four years after, but with a greater increase in unrelated compared to related mergers. Since they controlled for self-selection and endogeneity biases, they concluded that merger synergies due occur over time. The use of Tobin’s Q is good as it used present value of future cash flows in its calculation thus does not require any adjustments as compared to stock returns or accounting data as measures of performance. Cuypers, Cuypers and Martin (2016) got similar conclusions.

This contradicts Ndura’s (2013) study which analyzed the financial performance of six insurance companies’ post-merger. His scope was on the mergers in insurance companies that happened between 1995 and 2005 in Kenya. Comparative analysis was used to evaluate the financial performance. The findings of the study were that there was no significant increase in profitability post-merger, unlike Irungu’s (2017) and Musau’s (2016) studies that found a significant increase in performance.
According to Marembo (2012), conducted a study to establish the impacts of mergers and acquisitions on the overall financial performance of banks in Kenya. The study focused on the comparative analysis of 27 bank’s financial performance for the pre-merger acquisition period with the objective of getting an indication of the relative financial performance of the acquiring firm as well as the target firm. The study compared the premerger and post-merger financial ratios including earnings per share, return on equity, return on assets and capital adequacy ratio. The findings of the data analysis showed 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. With increased commercial bank’s stability and ability to lend the company in turn makes higher profits. The study also determined that the merger activity alone could not achieve efficiency in terms of performance since some other factors came into play in determining the financial performance of firms.

Tuni (2011) studied the impacts of M&A on profitability of financial institutions in Kenya. The study zeroed on two overriding objectives: To determine the profitability of merged institutions before and after the merger/acquisition and to determine the impact of M&A on the profitability of the financial institutions. A sample of 20 financial institutions was selected from the population of interest of 70 institutions that had merged. 10 years’ financial statements from the 20 financial institutions were used to calculate and analyze the performance indicators being earnings per share, ROA and ROE. It was found that before the merger, 7, 8 and 7 institutions had positive ROA, ROE and EPS respectively. On the year of the mergers and acquisitions, there was a change on the performance exhibited by these indicators. After the mergers and acquisitions, 6, 8 and 8 financial institutions posted an improvement in ROA, ROE and EPS respectively. Mmbone (2016) got a similar conclusion from her study.

Ndora (2010) studied the effects of mergers and acquisitions on the financial performance of insurance companies in Kenya. A sample of six insurance companies that had merged between the year 1995 and 2005 were used from a population of 42 registered insurance companies in the country as at that time. To measure financial performance, profitability ratios, solvency ratios as well as capital adequacy ratios were computed for the firms. ROA, operating profit, and ROE were analysed. The information for the five years before and after the merger was compared and the results tabulated. The findings indicated an improved post-merger financial performance of the firms compared to the pre-merger period financial performance of the merging firms. The study concluded that M&A resulted in increased financial performance of an insurance company unlike study done by Mwaniki (2011).
To determine the relationship between merger restructuring and financial performance of commercial banks in Kenya and using ratio analysis, Chesang (2002) concluded that, even though there was improved performance in some cases, the extent of the contribution was not significant. Korir (2006) carried out a study on Effects of Mergers on Financial Performance of Companies listed at the Nairobi Stock Exchange. The population used in this study was 48 companies listed on the Nairobi Stock Exchange. It was concluded that mergers improve financial performance of companies listed at the Nairobi Securities Exchange. On his conclusion on research carried out to determine the effect of mergers on financial performance of firms listed at the NSE, Kiarie (2012) observed that mergers have significant positive effect on DPS, where merging of listed companies lead to increase in DPS. The rise in DPS would be due to the need to create investor’s confidence and synergy related to mergers. The study also concludes that mergers have positive but significant effect on EPS which leads to positive but insignificant effect on return on equity. Further, empirical study done by Ogada, Achoki and Njuguna (2016) on the how cost efficiency changed from mergers and acquisitions in banks that had undergone mergers in Kenya, and they found that the cost efficiency improved post-merger significantly.

2.3 Effect of Financial Synergy on Financial Performance

According to Modigliani-Miller (1958) in a perfect market where there is information symmetry, there are no transaction costs, no agency costs, no taxes and no effect of debt then there is no financial synergy and the capital structure is irrelevant. However, we do not have a perfect market, therefore, taxes and all mentioned costs are incurred hence capital structure or leverage is important. This implies that changes in the capital structure from any kind of transaction such as a consolidation creates financial synergies (Nardo, 2006; Dringoli, 2016)

Mergers are said to induce financial synergy (Lewellen,1971). Financial synergy theory of mergers states that mergers or acquisitions from firms with different cash flow positions leads to low cost of internal financing as compared to external financing implying that there is a higher borrowing capacity gained (Bhat,2008). The theory also promulgates that if the acquiring firm has more cash flow than the target firm then it redirects some capital to the target firm thus leading to more investment opportunities. Leland (2007) posited that there is a lowering of risk when mergers or acquisitions take place between firms with cash flows that are inversely associated. The lower the risk, the lower the chance of defaulting on payment.

Businesses today consider mergers and acquisitions a new strategy for their company’s growth. Companies aim to grow through sales’ increase, assets purchase, profits’ accumulation and
market share gains (Basmah, & Rahatullah, 2013). The better way for achieving these targets is by getting into either a Merger or an Acquisition. As a matter of fact, growth through mergers and acquisitions has been a critical part of the success of many companies operating in the new economy. Mergers and Acquisitions are an important factor in building up market capitalization. Based on three detailed and in-depth structured interviews with major Saudi Arabian banks it has been found that, Mergers motivated by economies of scale should be approached cautiously. Companies should also approach vertical mergers cautiously because it is often difficult to gain synergy through a vertical merger and firms should also seek out mergers which allow the firm to acquire specialized knowledge. It has also been found that the firms should look for mergers that increase market power and avoid unrelated or conglomerate mergers (Bhat, 2008).

2.3.1 Leverage and Financial Synergy

In this section, leverage is used as a measure of financial synergy. In the paper by Sudarsanam et al. (1996) they looked at different sources of value creation and found that there is significant benefit to the shareholders of both the acquiring and the target firms when financially slack acquiring firms merge with high leverage, low cash target firms hence proving the financial synergy theory. To further validate this theory, an empirical study on how financial leverage changed post-merger of 239 mergers that occurred in the US between 1978 and 1987 was done by Ghosh and Jain (2000). They examined the book and market value of debt after the merger. They found that the mean financial leverage improved considerably compared to pre-merger figures. They postulated that this could have been due to additional debt taken by merged firm or increase in long-term debt consistent with increase in debt capacity. The improvement in financial leverage is attributed to unexploited debt capacity from either the target or the acquiring firm.

Lewellen (1971) posited that the debt capacity of a company would increase due to merger or acquisition. This implies that the company would have a better financial leverage position because of a merger or acquisition without the burden of increasing risk for the firm as there was less chance of them defaulting in the case of external financing. Bruner (1988) performed a study on the change capital structure of firms and the motives for mergers. He attempted to validate the theory of Myers and Majluf (1984) that financially slack acquiring firms merge with high financial leverage target firms to create value. He used ‘net debt ratio’ as opposed to traditional debt ratio as it considers the acquiring firm’s cash position. He found that the leverage ratio was significantly higher for the target firms than the acquiring firms and that there
was a correlation between the leverage of a firm and its creation of value as there was a significant impact on the share price of the firm.

Yang, Qu and Kim (2009) examined 412 listed firms in the US and found that target firms tended to have higher leverage ratio than the acquiring firms. The financially risky position of the target firms had the potential of being business opportunities for acquiring firms that had lower leverage and hence a merger would assist in optimizing their capital structure. This optimization uses the trade-off theory by Modigliani-Miller (1958) that states that there are gains in using leverage from capital structure up to the point at which the optimal capital structure is gotten. The result from the study was that the acquiring firms attain their target leverage ratios after the acquisitions and their leverage position also changes. Few of the prospective advantages of mergers and acquisitions include achieving economies of scale, combining complementary resources, garnering tax advantages, and eliminating inefficiencies. Other reasons for considering growth through acquisitions contain obtaining proprietary rights to products or services, increasing market power by purchasing competitors, shoring up weaknesses in key business areas, penetrating new geographic regions, or providing managers with new opportunities for career growth and advancement (Basmah, & Rahatullah, 2013). Many firms choose M &A as a tool to expand into a new market or new area of expertise since it is quicker and cheaper than taking the risk alone. Furthermore, M&A happen when senior executives feel enthusiastic and excited about a deal that can take place, the idea of chasing and taking over another company is successful before other competitors do. Competition in a growing industry drives firms to acquire others. In fact, merging with other companies increases benefits for the entire corporation.

Agliardi, Amel-Zadeh and Koussis (2016) found that there was a significant positive relation between leverage and growth of merged firms. On the contrary to the researches cited previously, Bouraoui and Li (2013) did a research paper on how changes in the capital structure of companies that have undergone mergers or acquisition affect the performance. They measured change in leverage and leverage deficit against return on equity and return on assets to obtain post-merger performance. They used a sample of 850 merger and acquisition deals in public listed companies in the US that had occurred between 2003 and 2006. They found that change in leverage performance had a negative impact on performance in both the long and short run.

A lot of research done on mergers and acquisitions and leverage also support that increase in a firm’s leverage position leads to increase in share price or stock price value. Gugler, Mueller
and Weichselbaumer (2012) found a significant correlation between the stock price and leverage of acquired firms. This supports previous academic researches done on the positive relationship between stock prices on announcement and financial leverage (Brunner, 1988; Ghosh & Jain, 2000). Maloney, McCormick and Mitchell (1993) investigated 428 acquisitions that had occurred between 1978 and 1990 which had significantly increased in terms of leverage and found that performance increased after acquisition. They also investigated 428 mergers that occurred between 1962 and 1882 and found a positive leverage and abnormal stock price returns during merger notices.

Travlos and Papaioannou (1991), however, did not find evidence to support the positive effect on leverage performance due to change in capital structure on stock returns triggered by merger and acquisitions after its notice. Similarly, Ong and Ng (2012) examined seven banks that underwent mergers and acquisition in Malaysia between 1999 and 2006. They compared the leverage ratios 5 years pre-merger and 5 years post-merger to identify the effect of the merger or acquisition. They found that there was no significant increase in leverage of the banks. Bouraoui and Li (2013) studied the effect of change in capital structure on 850 firms’ financial performance after acquisition. They examined leverage changes and leverage deficit five years post-acquisition vis a vi return on assets and return on equity. They found that the financial performance both in the long run and in the short run was negatively impacted by change in leverage. The results also indicated that acquiring firms that move towards the target leverage ratio have better financial performance, but it is not significant in the long run. The conclusion therefore was that the financial synergies are not realized as expected.

Likewise, Fatima and Shehzad (2014) studied effect of merger acquisition on performance of 10 banks. The acquisitions or mergers had occurred between 2007 and 2010 in Pakistan. They used financial data from 3 years pre-merger and 3 years post-merger. They used root testing to test for normality assumption. They then applied Wilcoxon sign rank test to compare the values before and the value after the merger. They found that neither financial synergies nor operating synergies were realized. The impact of mergers on corporate financial performance in Pakistan using data on the deals occurred during the period 1995–2012 was done in a research paper. Ordinary least squares (OLS) and empirical Bayesian estimation methods were applied to carry out empirical analysis. The finding indicated that the merger deals had a negative and statistically significant impact on quick ratio of merged/acquirer firms (Rashid & Naeem, 2017). Devos, Kadapakkam and Krishnamurthy (2009) studied a sample of 264 large mergers.
and found that merger gains accounted for a significant percentage of the combined equity value of the merging firms in India.

2.3.2 Profitability and Financial Synergy
Joshua (2011) evaluated the impact of merger and acquisition on financial efficiency of insurance companies in Nigeria. In his study, he used operating profits, net income and net assets of sample companies to determine financial. The study established that there was higher post-merger financial efficiency compared to the pre-merger periods. Viverita (2008) studied the impact of M&As on banks in Indonesia. From a comparison of seven-year pre-merger and post-merger financial performance data, the study revealed that mergers increased a bank’s performance. The study results indicated improvements in return on asset, return on equity, net interest margin, capital adequacy ratio and non-performing loans after the mergers and acquisitions.

Marangu (2007) studied the effects of mergers and acquisition on financial performance of non-listed commercial banks in Kenya. The research focused on the profitability of non-listed banks which merged from 1994 to 2001 and used four measures of performance: profit, return on assets, shareholders equity/total assets, and total liabilities/total assets. Comparative analysis of the bank’s performance for the pre-merger and post-merger periods was conducted to establish whether mergers lead to improved financial performance before and after merging. The results of the data analysis showed that three measures of performance had values above the significance level of 0.05. His results concluded that there was significant improvement in performance. This confirms the theoretical claim that firms obtain more synergies by merging than by operating as individual outfits (Schade, 2014; Depamphilis, 2013)

2.4 Effect of Managerial Synergy on Financial Performance
2.4.1 Market for Corporate Control
The market for corporate control theory states that the more efficient acquiring firms take over the management of poor managed or underperforming target firms (Teall, 2014). When a firm is underperforming, the acquiring firm takes over though an acquisition and replaces the inefficient firm’s management with the aim or revitalising and improving its performance (Bebenroth, 2015). Manne (1965) assessed the role of market corporate control in mergers and found that it had numerous benefits such as reduction on bankruptcy cases, efficient management of firms, better allocation of resources and increase in the apportionment of capital.
A merger may allow for the replacement of underperforming managers with more successful managers, which may serve as the origin of merger synergy through either improved efficiency or a reduction in internal inefficiency (Camesasca, 2000). According to De la Mano (2002), European merger control often does not consider arguments of managerial efficiencies as part of an efficiency defence. The reasoning includes measurement difficulties and the argument that managerial skill is freely available through contract and is seldom unique to a specific buyer. According to the differential efficiency theory of mergers, a firm with better management efficiency may take over a firm with lower management efficiency and run the organization and thereby increasing the target’s firm efficiency. The acquiring firms likely have better managerial ability which leads to increased performance of the target firm. Managerial synergy is an example of efficiency theory. It entails using the competence, skills and knowledge of the management of the acquiring firm to improve performance. (Bhat, 2008)

Limited or partial studies of mergers have been done by researchers as they only focus on one part or a few parts of the effects of mergers and acquisitions by focusing only on the finance, economics, human resources or organizational development part. Larsson and Finkelstein (1999) created a conceptual framework that assimilated various points of view of finance, economics, human resources and organizational development to give a much wider perspective of the effects of mergers and acquisitions. The combination model shows how the different functions and capabilities of the firms complement each other at times or are similar. It also describes how the collaboration and management of the firms and the employee attitudes leads to the realization of synergy. This approach was better as it gave the overall assessment of mergers and acquisitions as opposed to only looking at it from a financial or economic point of view.

Larsson and Finkelstein (1999) also looked at how functions are similar as well as the how complementary they were to each other. The framework was applied to 61 firms that had undergone mergers and acquisitions and found that when there were complementary functions synergy was realized. They also found that organizational integration was highly significant to the realization of synergies from mergers and acquisitions. This implies that managerial synergy is key to the success of mergers and acquisitions. The theoretical assertion that managerial synergy is realized by transferring of these intangible capabilities from one firm to another was realized (Clay, 2012). Holl and Kyriazis (1997) examined the causes of creation of shareholder value through takeovers from a sample of 178 successful acquisitions that had occurred in the UK between 1963 and 1965. They used event study approach to test their hypothesis. They
hypothesised that synergy was obtained from managerial capabilities and the existence of corporate governance. They found existence of managerial as well as financial synergy. Managerial synergy occurs when the higher planning and management skills are used to improve the performance of the target firm (Trautwein, 1990).

2.4.2 Differential Efficiency of Mergers and Acquisitions

Saboo and Gopi (2007) investigated how differential efficiency of mergers impacted the operating and financial performance of acquiring firms in India by comparing financial ratios before and after merger. They determined the pre-merger and post-merger differences in financial ratios for the firms that had restructured through domestic acquisitions and those that had gone for international/cross-border acquisitions. The results showed variations in how financial performance was impacted depending on acquisition type. According to the findings of the study, mergers impacted positively on the financial performance of firms that had acquired domestic targets and a slight negative impact on firms involved in cross-border acquisitions. A conclusion from this study the knowledge of the local market could have assisted on the positive performance of domestic acquisitions.

Kivindu (2013) conducted a study to determine the effects of M&A efficiency on bank Financial performance for 24 banks that had undergone through M&As in Kenya. The study employed a descriptive research design and the population of interest comprised the 24 banks that merged or had been acquired in Kenya during the study period. The study analysed ROA, ROE equity, profit before tax and capital adequacy ratio. The study results revealed that institutions with weak capital base consolidated to achieve synergies and thus enjoy economies of scale that would improve their financial performance as opposed to listing in stock exchanges that attracted substantial costs. In addition, M&As improved the financial performance of the post-merger firms through improved capital base, efficiency and competitiveness.

Feroz, Kim and Raab (2005) took a different approach from existing studies of mergers and acquisitions that had relied on stock price reactions to evaluate the impact of these events. In their research, they analysed the performance of the Healy et al. (1992) sample over a ten-year period using a managerially controlled efficiency measure, data envelopment analysis (DEA). The individual firm-level year-by-year analyses results indicated that the managerial performance of the merged firms generally improved in the post-merger period as predicted in the earlier theoretical studies of mergers and acquisitions. However, there were also a
significant number of cases where we could not observe improved managerial efficiency using this less aggregated approach.

2.4.3 Knowledge transfer and innovation

For M&A to lead to innovation for the acquirers, a certain degree of knowledge transfer is necessary (Birkinshaw, Bresman & Hakanson, 2010; Valentini & Di Guardo, 2012), and the top management teams facilitate innovation success by providing complementary resources (King et al., 2003; Cassiman & Colombo, 2006) to achieve sustainable post-acquisition gains. Certo et al. (2006) studied the effects of top management team on performance of the firm. They found that the top management team is not only responsible for setting the direction of the company; it is also responsible for allocating the resources of the organization toward its objectives. Adapting to and exploiting change is essentially a creative and entrepreneurial effort and carries with it significant risks of failure (Rosenbusch, Brinckmann & Bausch, 2011).

An extensive body of research supports that firms acquire other firms in order to innovate and/or become more sustainable. Existing theory posits that power in top management teams is among many determinants of success of acquisitions (Valentini & Di Guardo, 2012). Parl et. al (2017) empirically investigated the relationship between power in top management teams and post-acquisition performance. Their results showed that expert power and prestige power in the combined top management team are positively related to post-acquisition performance in both related and unrelated acquisitions. The validates the assumption the theory that managerial synergy is obtained in mergers and acquisitions. Palepu (1986) found strong evidence consistent with the free cash flow theory of mergers. He studied a sample of 163 firms acquired in the period 1971-79 and a random sample of 256 firms that were not acquired. Both samples were in mining and manufacturing and were listed on either the New York or the American Stock Exchange. He found that target firms were characterized by significantly lower growth and lower leverage than the non-target firms, although there was no significant difference in their holdings of liquid assets.

He also found that poor prior performance (measured by the net of market returns in the four years before the acquisition) was significantly related to the probability of takeover and, interestingly, that accounting measures of past performance such as return on equity are unrelated to the probability of takeover. He also found that firms with a mismatch between growth and resources are more likely to be taken over. These are firms with high growth (measured by average sales growth), low liquidity (measured by the ratio of liquid assets to total
assets), and high leverage, and firms with low growth, high liquidity, and low leverage. Finally, Palepu’s evidence rejects the hypothesis that takeovers are due to the undervaluation of a firm’s assets as measured by the market-to-book ratio.

Ombaka and Jagongo (2018) performed a study on the influence of mergers and acquisitions on financial performance of commercial banks in Kenya. The study was anchored on three theories which include differential efficiency theory, financial synergy theory and hubris theory. They studied a sample of 9 banks that had undergone mergers and acquisitions between 2007 and 2010. They found that a unit improvement in differential efficiency led to a 0.886 increase in financial performance of the bank. This implies that managerial synergy was realized in the study.

2.5 Chapter Summary

This chapter has shown the different value maximizing theories of mergers that have been used, that is the efficiency and differential efficiency theories. It also elaborated the various synergies and reviewed the various literature and studies as related to managerial, operational, financial and revenue synergies. The literature reviewed has shown various methods have been used to gauge performance against the synergies. A lot of literature has been obtained from developing countries as opposed to Africa implying that much needs to be done to bridge this knowledge gap.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter explains the various stages and phases that will be followed in researching study. It is a blueprint for the design, collection, measurement and analysis of data. It gives the plan and structure envisaged to aid in answering the research questions. Specifically, research design, target population, data collection instruments, data collection procedures and finally data analysis and presentation.

3.2 Research Design
The study adopted the use of a case study design. Case study method enables close examination of data within a specific context. Case studies are good as they give in-depth analysis of the outcome of a phenomenon for case under investigation (Tellis, 1997). It has a detailed and complete examination of a unit, group or community and considers depth instead or breadth of study (Mugenda & Mugenda, 2003). The merits of using case study is that the data is investigated within the its own context. Secondly, both quantitative and qualitative data can be analysed. Lastly, detailed information is obtained that can be used to describe the phenomenon unlike in survey research (Yin, 1984). A case study is preferred because it enables the researcher to have an in-depth understanding of the single instance; in this case the instance is the effect of synergies from the acquisition of Sidian Bank. Deeper insights to synergistic advantages of mergers and acquisitions are expected.

3.3 Population and Sampling Design
3.3.1 Study Population
Population refers to the total collection of elements about which one wish to make some inferences (Cooper & Schindler, 2003). Target population is defined as a universal set of the study of all members; real set of people, events or objects to which an investigator wishes to generalize the result (Frederic, 2010). The accessible population is the population in research to which the researchers can apply their conclusions (Saunders, Lewis & Thornhill, 2012). This population is a subset of the target population and is also known as the study population. It is from the accessible population that researchers draw their samples. (Kothari, 2009) suggests that for descriptive studies ten percent of the accessible population is enough. As this is a case study of Sidian Bank, the top and middle-level management of the bank will be considered. The population of this study was 590 employees at Sidian Bank.
3.3.2 Sample Size

According to Mugenda and Mugenda (2003), a sample size of 10% or 30% of the study population is considered adequate for descriptive study. Therefore, the researcher chose 20% of the population which is 118 employees of the Sidian bank that were randomly picked to participate in the study. The Table 3.1 shows the sample distribution.

Table 3.1: Sample Distribution

<table>
<thead>
<tr>
<th>Target Population</th>
<th>Sample Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level</td>
<td>25</td>
</tr>
<tr>
<td>Senior level</td>
<td>70</td>
</tr>
<tr>
<td>Middle-level</td>
<td>135</td>
</tr>
<tr>
<td>Supervisors</td>
<td>150</td>
</tr>
<tr>
<td>Other Staff</td>
<td>210</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>590</strong></td>
</tr>
<tr>
<td></td>
<td><strong>118</strong></td>
</tr>
</tbody>
</table>

3.4. Data Collection Methods

According to Creswell (2003), distinguishes four basic sources of data: observations, interviews, documents and audio-visual materials. The study used primary data. Questionnaires were used to collect primary data. Questionnaires are more appropriate because they give respondents liberty in expressing their definition of a situation that has been presented to them. This method is free from bias of the interviewer. Structured information was obtained from the questionnaires. Individuals in the top management and middle management team was contacted as they have more knowledge on the running of the business and the impact of the acquisition.

3.5 Research Procedures

The questionnaire was administered through the drop and pick method and email method where appropriate. The target respondents were people who makes strategic decisions within the bank, senior managers and middle level managers in the bank were asked to fill the questionnaire. Follow up was done via personal visits, telephone calls and e-mail to facilitate responses and to enhance faster response rate.

3.6. Data Analysis Methods

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda&Mugenda, 2003). The data was collected, coded and input to SPSS (Statistical Package for the Social Sciences) for analysis. Descriptive statistics was used in terms
of mean, standard deviation, frequency, and percentages. Inferential statistics was used to draw conclusions about the effect of synergies on financial performance of Sidian Bank using a regression model. The three-year pre-acquisition (2011-2013) and post-acquisition (2015-2017) data points was analysed for all the financial and operating variables. The analysed data was presented by use of percentages, frequency tables, graphs and pie charts. This is to show the trend pre- and post-merger. The presented data was used to make conclusions which were in turn form the basis for recommendations.

\[ Y_{it} = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + e \]

Where:
- \( Y \) = Financial Performance (Gross Profit Margin)
- \( \beta_0 \) = constant
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) = Regression coefficients.
- \( X_{1t} \) = Operating synergies
- \( X_{2t} \) = Financial synergies
- \( X_{3t} \) = Managerial synergies
- \( e \) = Error term.

### 3.7 Chapter Summary

This chapter has illustrated the research design, the population, the sample size, the data collection methods that will be used in the study, the research procedure and the data analysis method that will be employed. The next chapter will describe the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter focuses on data analysis, results presentation and discussion of the findings. The general objective of the study was to evaluate the effect of synergy through mergers and acquisition on a firm’s financial performance, specifically it’s effect in Sidian Bank. The first section gives the general information, followed by how operating synergy affected the performance, how financial synergy affected the performance, and how managerial synergy affected the performance of Sidian Bank. The study presents both descriptive and inferential statistics.

4.1.1 Response Rate

From Figure 4.1, the sample size of this study was 118 respondents out of which 77 filled and returned their questionnaires, which represents a response rate of 65%. This is line with Mugenda and Mugenda (2003) recommendation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This indicates that the response rate from this study is excellent.

Figure 4.1: Response Rate
4.2 General Information
This section contains results on demographic analysis which include; gender, highest level of education, experience in the bank and the overall bank performance. It shows the general characteristics of the respondents.

4.2.1 Gender of Respondents
The study sought to establish the gender of the respondents. The results are as shown in Figure 4.2 below. Results shows that majority of the respondent, 56%, were male while female were 44%. This indicates that the number of females in the banking industry is also high and they are able to take the responsibilities within the bank.

![Gender of Respondents](image)

**Figure 4.2: Gender of Respondents**

4.2.2 Highest Education Level
The study sought to establish the level of education of the respondents. The results are as indicated in the Figure 4.3 below. Results shows that majority of the respondent, 18% had a post-graduate degree while 61% had bachelor’s degrees. Only 21% had a tertiary level of education. The findings imply that the respondents were literate in giving the results of the study. This indicates that they could easily read and understand the questions in the questionnaire and respond as required. This hence contributed to a higher reliability of the results.
4.2.3 Experience in the Bank

The study sought to establish the experience of the employees in the bank. The results are as indicated in the Figure 4.4 below. Results shows that majority of the respondent, had experience of below 3 year at 33%, 21% had experience of between 3 to 7 years, 18% had experience of 7 to 10 years, and 28% had above 10 years of experience.

4.2.4 Overall Bank Performance

The study sought to understand the overall bank performance as viewed by the employees. Most of the respondents indicated that the overall performance was excellent with a representation of
61%, 30% indicated very good, 4% indicated as good, while only 5% showed that the performance was poor. The Figure 4.5 below shows the findings of the study.

![Overall Bank Performance Graph](image)

**Figure 4.5: Overall Bank Performance**

### 4.3 Effect of Operating Synergy on Financial Performance

#### 4.3.1 Operating Synergy and Financial Performance

The study sought to understand the effects of operating synergy on financial performance. The summary of responses is as shown in Table 4.1 below. The respondents agreed that operating costs have reduced since the acquisition with a mean of 3.416 and standard deviation of 1.080, they also agreed that the size of operations has increased since the acquisition with a mean of 3.558 and standard deviation of 1.208. They also agreed that reductions in costs has led to increase in company performance with a mean of 3.169 and standard deviation of 1.292, and that there has been specialised skill transfer from Centum leading to increased performance with a mean of 3.805 and standard deviation of 1.193.

The employees were in agreement that the workflow process has become very efficient with a mean of 3.818 and standard deviation of 1.211 and that there are better priced products/services created since the acquisition a mean of 3.662 and standard deviation of 1.231 was realized, the capabilities of the staff have improved with a mean of 3.870 and standard deviation of 1.140. They further agreed that high levels of growth in terms of customer base has been observed with a mean of 4.013 and standard deviation of 1.14 and removal of redundancies e.g. reduction in head count has increased company performance with a mean of 4.169 and standard deviation...
of 0.801. There has been increased revenue opportunities since the acquisition where most of them agreed and this was demonstrated with a mean of 3.987 and standard deviation of 1.045.

### Table 4.1: Effect of Operating Synergy on Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The operating costs have reduced since the acquisition</td>
<td>3.416</td>
<td>1.080</td>
</tr>
<tr>
<td>The size of operations has increased since the acquisition</td>
<td>3.558</td>
<td>1.208</td>
</tr>
<tr>
<td>The reductions in costs has led to increase in company performance</td>
<td>3.169</td>
<td>1.292</td>
</tr>
<tr>
<td>There has been specialized skill transfer from Centum leading to increased performance</td>
<td>3.805</td>
<td>1.193</td>
</tr>
<tr>
<td>The workflow process has become very efficient</td>
<td>3.818</td>
<td>1.211</td>
</tr>
<tr>
<td>There are better priced products/services created since the acquisition</td>
<td>3.662</td>
<td>1.231</td>
</tr>
<tr>
<td>The capabilities of the staff have improved</td>
<td>3.870</td>
<td>1.140</td>
</tr>
<tr>
<td>High levels of growth in terms of customer base has been observed</td>
<td>4.013</td>
<td>1.141</td>
</tr>
<tr>
<td>Removal of redundancies e.g. reduction in head count has increased company performance</td>
<td>4.169</td>
<td>0.801</td>
</tr>
<tr>
<td>There has been increased revenue opportunities since the acquisition</td>
<td>3.987</td>
<td>1.045</td>
</tr>
</tbody>
</table>

4.3.2 Correlation Between Operating Synergy and Financial Performance

The association among the variables used in the study was examined using the correlation analysis whose results are presented in Table 4.2 below. Correlation coefficient is a measure of linear association between two variables. The findings indicated that operating synergy had a strong and positive and significant association with financial performance of the bank (r = 0.794, Sig = 0.000).

### Table 4.2: Correlation Between Operating Synergy and Financial Performance

<table>
<thead>
<tr>
<th>Performance</th>
<th>Performance</th>
<th>Operating synergy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pearson Correlation</td>
<td>.794**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>Operating synergy</td>
<td>Pearson Correlation</td>
<td>.794**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>77</td>
<td>77</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
4.4.1 Regression Analysis for Operating Synergy

The researcher conducted linear regression analysis. The Table 4.3 below indicates the model summary. From the findings, R was 0.794, R square was 0.631 and adjusted R squared was 0.626. The R-square of 0.626 implies that 62.6% of changes in financial performance is explained by operating synergy. There are however other factors that influence financial performance in the bank that are not included in the model which account for 37.4%. An R of 0.794 on the other hand signifies strong positive correlation between the variables of the study.

Table 4.3: Model Summary

<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>.794a</td>
<td>.631</td>
<td>.626</td>
<td>.42807</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Operating synergy

From the ANOVA Table 4.4 below, the value of $F_{\text{calculated}}$ is 128.134 while $F_{\text{critical}}$ is 4.055 from the f-table. Since the value of $F$-calculated is greater than $F$-critical, the overall regression model is significant and therefore a reliable indicator of the study findings. In terms of $p$-values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant.

Table 4.4: Analysis of Variance (ANOVA) for Operating Synergy

ANOVAa

<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</td>
<td>Regression</td>
<td>23.480</td>
<td>1</td>
<td>23.480</td>
<td>128.134</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>13.744</td>
<td>75</td>
<td>.183</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>37.224</td>
<td>76</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Operating synergy

The regression coefficient implies that when the independent variable is held constant, financial performance will be at the intercept which is 1.241. A unit improvement in operating strategy results in 0.799 increase in financial performance of the bank. The resultant regression equation becomes; Financial Performance ($Y$) = 1.241 + 0.799 Operating Synergy
Table 4.5: Regression Coefficients for Operating Synergy

<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></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.241</td>
<td>.235</td>
<td></td>
<td>5.278</td>
</tr>
<tr>
<td>Operating</td>
<td>.799</td>
<td>.071</td>
<td>.794</td>
<td>11.320</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

4.4 Effect of Financial Synergy on Financial Performance

4.4.1 Financial Synergy on Financial Performance

The study sought to understand the effects of financial synergy on financial performance. The summary of responses is as shown in Table 4.6 below. The cash flow of the business has improved this was demonstrated by a mean of 3.974 and standard deviation of 0.959, that debt capacity of the bank has increased where a mean of 3.792 and standard deviation of 1.116 was reported. The respondents agreed that the cost of capital of the bank has decreased with a mean of 3.805 and standard deviation of 1.039, and that tax benefits since the acquisition has been realized with a mean of 4.143 and standard deviation of 1.097. They further agreed that the liquidity of the bank has improved with a mean of 3.675 and standard deviation of 1.019 and the revenue of the bank has increased and can be attributed to the acquisition with a mean of 3.597 and standard deviation of 1.042.

The respondents indicated that the shareholder value has increased since the acquisition with a mean of 3.766 and standard deviation of 1.157, and that lower costs of operation have been realized through streamlined operations with a mean of 4.169 and standard deviation of 4.827 was realized they further agreed that technology harmonization increased performance since the acquisition with a mean of 3.909 and standard deviation of 0.976.
Table 4.6: Effect of Financial Synergy on Financial Performance

<table>
<thead>
<tr>
<th>Effect of Financial Synergy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The cash flow of the business has improved</td>
<td>3.974</td>
<td>0.959</td>
</tr>
<tr>
<td>The debt capacity of the bank has increased</td>
<td>3.792</td>
<td>1.116</td>
</tr>
<tr>
<td>The cost of capital of the bank has decreased</td>
<td>3.805</td>
<td>1.039</td>
</tr>
<tr>
<td>Tax benefits since the acquisition has been realized</td>
<td>4.143</td>
<td>1.097</td>
</tr>
<tr>
<td>The liquidity of the bank has improved</td>
<td>3.675</td>
<td>1.019</td>
</tr>
<tr>
<td>The revenue of the bank has increased and can be attributed to the acquisition</td>
<td>3.597</td>
<td>1.042</td>
</tr>
<tr>
<td>Shareholder value has increased since the acquisition</td>
<td>3.766</td>
<td>1.157</td>
</tr>
<tr>
<td>Lower costs of operation have been realized through streamlined operations.</td>
<td>4.169</td>
<td>4.827</td>
</tr>
<tr>
<td>Technology harmonization increased performance since the acquisition</td>
<td>3.909</td>
<td>0.976</td>
</tr>
</tbody>
</table>

4.4.2 Correlation Between Financial Synergy and Financial Performance

The association among the variables used in the study was examined using the correlation analysis whose results are presented in Table 4.7 below. Correlation coefficient is a measure of linear association between two variables. The findings indicated that financial synergy had a strong and positive and significant association with financial performance of the bank (r = 0.836, Sig = 0.000).

Table 4.7: Correlation between Financial Synergy and Financial Performance

<table>
<thead>
<tr>
<th>Performance</th>
<th>Pearson Correlation</th>
<th>Mean</th>
<th>Financial synergy</th>
<th>Pearson Correlation</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td>N</td>
<td>77</td>
</tr>
<tr>
<td>Financial</td>
<td>Pearson Correlation</td>
<td>.836**</td>
<td>1</td>
<td>Pearson Correlation</td>
<td>.836**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td></td>
<td></td>
<td>N</td>
<td>77</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
4.4.3 Regression Analysis for Financial Synergy

The researcher conducted linear regression analysis. The Table below indicates the model summary. From the findings, R was 0.836, R square was 0.699 and adjusted R squared is 0.695. The R-square of 0.699 implies that 69.9% of changes in financial performance is explained by financial synergy. There are however other factors that influence financial performance in the bank that are not included in the model which account for 30.1%. An R of 0.836 on the other hand signifies strong positive correlation between the variables of the study.

Table 4.8: Model Summary for Financial Synergy

<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>.836a</td>
<td>.699</td>
<td>.695</td>
<td>.38681</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Financial synergy

From the ANOVA Table 4.9 below, the value of F calculated is 173.785 while F critical is 4.055 from the f-table. Since the value of F-calculated is greater than F-critical, the overall regression model is significant and therefore a reliable indicator of the study findings. In terms of p-values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant in predicting the financial performance.

Table 4.9: Analysis of Variance (ANOVA) for Financial Synergy

ANOVAa

<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</td>
<td>Regression</td>
<td>26.002</td>
<td>1</td>
<td>26.002</td>
<td>173.785</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>11.222</td>
<td>75</td>
<td>.150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>37.224</td>
<td>76</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Financial synergy

The regression coefficient implies that when the independent variable is held constant, financial performance will be at the intercept which is 0.778. A unit improvement in financial strategy results in 0.791 increase in financial performance of the bank. The resultant regression equation becomes; Financial Performance (Y) = 0.778 + 0.791 Financial Synergy
4.5 Effect of Managerial Synergy on Financial Performance

4.5.1 Managerial Synergy on Financial Performance

The study sought to understand the effects of managerial synergy on financial performance. The summary of responses is as shown in Table 4.11 below. The respondents agreed that the change in management has improved the bank’s performance with a mean of 3.805 and standard deviation of 1.136, and that operations have been more efficient due to the management change after acquisition with a mean of 3.961 and standard deviation of 1.032. They also agreed that the level of the bank's innovation has improved since the acquisition with a mean of 4.039 and standard deviation of 1.019, and there has been increased creativity in marketing since the acquisitions with a mean of 4.091 and standard deviation of 1.054. They further agreed that additional resources have been availed to develop new products or markets with a mean of 3.662 and standard deviation of 0.982, and that there has been an integration of sales forces between Sidian bank and Centum with a mean of 3.974 and standard deviation of 0.959.

The employees of the bank agreed that there has been increased interest in the bank owed to the dynamism brought in by diversity and experience from the acquisition with a mean of 3.753 and standard deviation of 0.948, and they disagreed that the bank has gone into or created new markets since the acquisition with a mean of 1.091 and standard deviation of 0.289. Respondents agreed that there has been a consolidation of vendors and negotiation of better terms with them made with a mean of 3.662 and standard deviation of 0.912. Employees showed that redundancies in the banking process has been removed and hence better workflow this was demonstrated by a mean of 3.974 and standard deviation of 0.873.

---

**Table 4.10: Regression Coefficients for Financial Synergy**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>(Constant)</td>
<td>.778</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial synergy</td>
<td>.791</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
Table 4.11: Effect of Managerial Synergy on Financial Performance

<table>
<thead>
<tr>
<th>Effect of Managerial Synergy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The change in management has improved the bank’s performance</td>
<td>3.805</td>
<td>1.136</td>
</tr>
<tr>
<td>The operations have been more efficient due to the management change after acquisition</td>
<td>3.961</td>
<td>1.032</td>
</tr>
<tr>
<td>The level of the bank's innovation has improved since the acquisition</td>
<td>4.039</td>
<td>1.019</td>
</tr>
<tr>
<td>The has been increased creativity in marketing since the acquisitions</td>
<td>4.091</td>
<td>1.054</td>
</tr>
<tr>
<td>Additional resources have been availed to develop new products or markets</td>
<td>3.662</td>
<td>0.982</td>
</tr>
<tr>
<td>There has been an integration of sales forces between Sidian and Centum</td>
<td>3.974</td>
<td>0.959</td>
</tr>
<tr>
<td>There has been increased interest in the bank owed to the dynamism brought in by diversity and experience from the acquisition</td>
<td>3.753</td>
<td>0.948</td>
</tr>
<tr>
<td>The bank has gone into or created new markets since the acquisition</td>
<td>1.091</td>
<td>0.289</td>
</tr>
<tr>
<td>There has been a consolidation of vendors and negotiation of better terms with them made</td>
<td>3.662</td>
<td>0.912</td>
</tr>
<tr>
<td>Redundancies in the banking process has been removed and hence better workflow</td>
<td>3.974</td>
<td>0.873</td>
</tr>
</tbody>
</table>

4.5.2 Correlation between Managerial Synergy and Financial Performance

The association among the variables used in the study was examined using the correlation analysis whose results are presented in Table 4.12 below. Correlation coefficient is a measure of linear association between two variables. The findings indicated that managerial synergy had a strong and positive and significant association with financial performance of the bank (r = 0.698, Sig = 0.000).

Table 4.12: Correlation between Managerial Synergy and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>Managerial synergy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.698**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>77</td>
<td>77</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
4.5.3 Regression Analysis between Managerial Synergy and Financial Performance

The researcher conducted linear regression analysis. The Table 4.13 below indicates the model summary. From the findings, R was 0.698, R square was 0.487 and adjusted R squared is 0.480. The R-square of 0.487 implies that 48.7% of changes in financial performance is explained by managerial synergy. There are however other factors that influence financial performance in the bank that are not included in the model which account for 51.3%. An R of 0.698 on the other hand signifies strong positive correlation between the variables of the study.

Table 4.13: Model Summary for Managerial Synergy

<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>.698(^a)</td>
<td>.487</td>
<td>.480</td>
<td>.50443</td>
</tr>
</tbody>
</table>

\(^{a}\) Predictors: (Constant), Managerial synergy

From the ANOVA Table 4.14 below, the value of \(F\) calculated is 71.291 while \(F\)-critical is 4.055 from the f-table. Since the value of \(F\)-calculated is greater than \(F\)-critical, the overall regression model is significant and therefore a reliable indicator of the study findings. In terms of p-values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant in predicting the financial performance.

Table 4.14: Analysis of Variance (ANOVA) for Managerial Synergy

<table>
<thead>
<tr>
<th>ANOVA(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

\(^{a}\) Dependent Variable: Performance

\(^{b}\) Predictors: (Constant), Managerial synergy

The regression coefficient implies that when the independent variable is held constant, financial performance will be at the intercept which is 1.873. A unit improvement in managerial strategy results in 0.502 increase in financial performance of the bank. The resultant regression equation becomes; Financial Performance (Y) = 1.873 + 0.502 Managerial Synergy
Table 4.15: Regression Coefficients for Managerial Synergy

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.873</td>
<td>.240</td>
</tr>
<tr>
<td>Managerial</td>
<td>.502</td>
<td>.059</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

4.6 Chapter Summary

The study presented the results of the study on the effect of synergy through mergers and acquisition on a firm’s financial performance, specifically it’s effect in Sidian Bank. The study shows a strong and positive relationship between financial performance and operating synergy, financial synergy and financial performance, and effects of managerial synergy and financial performance.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction
This chapter deals with the summary of the findings, the conclusion and recommendations. This was done in line with the specific objective of the study. Areas of improvement also suggested. The summary of findings presented the inferential findings of correlation and regression. This guided the formulation of the study conclusions and from the conclusions, recommendations are made.

5.2 Summary of the Study
The general objective of the study was to evaluate the effect of synergy through mergers and acquisition on a firm’s financial performance, specifically it’s effect in Sidian Bank. The study used the following specific objectives, to determine how operating synergy affected the performance, to determine how financial synergy affected the performance, and to determine how managerial synergy affected the performance of Sidian Bank.

The study adopted the use of case study design. Case study method enables close examination of data within a specific context. The target population of the study was the top and middle-level management of the bank were considered and there 590 employees. A sample size of 118 employees of the Sidian bank that were randomly picked to participate in the study. Questionnaires was used to collect primary data. Questionnaires are more appropriate because they give respondents liberty in expressing their definition of a situation that has been presented to them. The data was collected, coded and input to SPSS (Statistical Package for the Social Sciences version 25) for the analysis. Descriptive statistics was used in terms of mean, standard deviation, frequency, and percentages. Inferential statistics was used to draw conclusions about the effect of synergies on financial performance of Sidian Bank using a regression model.

The study findings indicated that that operating synergy had a strong and positive and significant association with financial performance of the bank (r = 0.794, Sig = 0.000). The results of the regression analysis indicated that 62.6% of changes in financial performance is explained by operating synergy. The R signifies strong positive correlation between the variables of the study. Operation synergy had a significant effect on the financial performance of bank due to enjoying reduced expenses, increased market share, consolidation of operations and synergies within the bank industry.
The results of the study showed that financial synergy had a strong and positive and significant association with financial performance of the bank ($r = 0.836$, $\text{Sig} = 0.000$). While the results of the regression analysis showed that 69.9% of changes in financial performance is explained by financial synergy. There is improved financial performance in terms of profitability for the banks. This has enhanced the stability and effectiveness of operations of the bank. The financing cost of the bank decreased after a merger and acquisition, and this eventually led to better financial performance of the bank.

The findings of the study showed that managerial synergy had a strong and positive and significant association with financial performance of the bank ($r = 0.698$, $\text{Sig} = 0.000$). The R-square of 48.7% of changes in financial performance is explained by managerial synergy. The R of 0.698 signified strong positive correlation between the variables of the study. Merger of the bank led to shared human resource talents, merger activity led to shared managerial capacity and efforts, merger activity led to shared marketing efforts, merger activity led to shared source of long term finance, merger activity led to shared source of overdraft finance, merger activity led to improved liquidity arising from the cash and cash equivalents of the merged firms and merger activity led to shared working capital.

5.3 Discussion
5.3.1 Effect of Operating Synergy on Financial Performance
The findings of the study indicated that operating costs have reduced since the acquisition of the bank, they also agreed that the size of operations has increased since the acquisition. The employees of the bank agreed that reductions in costs has led to increase in company performance and that there has been specialised skill transfer from Centum leading to increased performance. The results of the study disagree with that of Yeh and Hoshino (2000) who investigated the impact of mergers and acquisitions of 20 Taiwanese companies in the period 1987 and 1992 on stock prices and financial performance found that post-merger performance did not improve unlike in previous studies such as that Healy et al. (1992) and Switzer (1996) that found significant increase in operating performance after the merger. The findings also disagree with that of Yeh and Hoshino (2002) in which their findings showed that significant decrease in profitability and growth.

The findings of the study were in agreement with the results of Junge (2014) who identified the different synergy types that affect operating performance and found that there was significant improvement post-merger. Another one by Healy et al. (1992) to analyse the performance as it
considers cash flows in its calculation. He indicated that there was improvement in performance due to rise in cash flows. He attributed it to operating synergy from mergers that focused on efficiency.

The employees were in agreement that the workflow process has become very efficient and that there are better priced products/services created since the acquisition, the capabilities of the staff have improved since the merger process. They further agreed that high levels of growth in terms of customer base has been observed and removal of redundancies e.g. reduction in head count has increased company performance. There has been increased revenue opportunities since the acquisition where most of them agreed and this was demonstrated. The results were in agreement with that of Abdulazeez and Yahaya (2016) who investigated the effect of mergers and acquisitions on banks that merged between 2002 and 2008. The study revealed that performance improved post-merger and synergy gains were realized as there was improved efficiency in the banks.

The results also indicated that operating synergy had a strong and positive and significant association with financial performance of the bank ($r = 0.794$, $\text{Sig} = 0.000$). From the findings, $R$ was 0.794, $R$ square was 0.631 and adjusted $R$ squared was 0.626. The R-square of 0.626 implies that 62.6% of changes in financial performance is explained by operating synergy. The findings of the study are in line with that of Nash (2009) who performed the effect of mergers and acquisitions on the financial performance. The findings showed that there was a significant positive relation between mergers and acquisitions and financial performance. The results of the study disagreed with that of Viverita (2008) who conducted a study on the impact of mergers and acquisitions on commercial banks in Indonesia. By comparing financial performance for 7 years before and after merger, the study revealed that mergers did increase bank’s ability to gain profits. This was indicated by the increase in performance indicators such as loans. The results of the study disagreed with that of Badreldin and Kalhoefer (2009) who evaluated performance of 10 banks that had been merged or acquired between 2004 and 2007. The results were that there was no significant increase in profitability.

5.3.2 Effect of Financial Synergy on Financial Performance

The study findings indicated that cash flow of the business has improved this was demonstrated and that debt capacity of the bank has increased. This is in line with the findings of Marangu (2007) whose results showed that there was significant improvement in performance. This
confirms the theoretical claim that firms obtain more synergies by merging than by operating as individual outfits.

The respondents agreed that the cost of capital of the bank has decreased and that tax benefits since the acquisition has been realized. They further agreed that the liquidity of the bank has improved, and the revenue of the bank has increased and can be attributed to the acquisition. The respondents indicated that the shareholder value has increased since the acquisition, and that lower costs of operation have been realized through streamlined operations and further agreed that technology harmonization increased performance since the acquisition. The findings of the study disagree with that of Bouraoui and Li (2013) who examined leverage changes and leverage deficit five years post-acquisition vis a vi return on assets and return on equity. They found that the financial performance both in the long run and in the short run was negatively impacted by change in leverage. The results also indicated that acquiring firms that move towards the target leverage ratio have better financial performance, but it is not significant in the long run.

The results of the study also indicated that financial synergy had a strong and positive and significant association with financial performance of the bank \( r = 0.836, \text{ Sig} = 0.000 \). From the findings, \( R \) was 0.836, \( R \) square was 0.699 and adjusted \( R \) squared is 0.695. The \( R \)-square of 0.699 implies that 69.9% of changes in financial performance is explained by financial synergy. The findings of the study were in agreement with that of Agliardi, Amel-Zadeh and Koussis (2016) who found that there was a significant positive relation between leverage and growth of merged firms. The results also disagree with the finding of Bouraoui and Li (2013) who did a research paper on how changes in the capital structure of companies that have undergone mergers or acquisition affect the performance. They found that change in leverage performance had a negative impact on performance in both the long and short run.

The findings of the study showed that the results of study are the same as that of Weichselbaumer (2012) who found a significant correlation between the stock price and leverage of acquired firms. This supports previous academic researches done on the positive relationship between stock prices on announcement and financial leverage. The findings of the study disagree with that of Ong and Ng (2012) who examined seven banks that underwent mergers and acquisition in Malaysia between 1999 and 2006. They compared the leverage ratios 5 years pre-merger and 5 years post-merger to identify the effect of the merger or acquisition. They found that there was no significant increase in leverage of the banks.
5.3.3 Effect of Managerial Synergy on Financial Performance

The results of the on the effects of managerial synergy on financial performance showed that respondents agreed that the change in management has improved the bank’s performance and that operations have been more efficient due to the management change after acquisition. This is in line with the assertions of Teall, (2014), who argued that more efficient acquiring firms take over the management of poor managed or underperforming target firms. The acquiring firms likely have better managerial ability which leads to increased performance of the target firm. It entails using the competence, skills and knowledge of the management of the acquiring firm to improve performance.

The results of the study showed that that the level of the bank's innovation has improved since the acquisition and there has been increased creativity in marketing since the acquisitions. They further agreed that additional resources have been availed to develop new products or markets and that there has been an integration of sales forces between the bank and Centum. This is in agrees with the findings of Birkinshaw, Bresman & Hakanson, (2010), who noted that for mergers and acquisition to lead to innovation for the acquirers, a certain degree of knowledge transfer is necessary and the top management teams facilitate innovation success by providing complementary resources. This is also in line with the finding of Certo et al. (2006) who studied the effects of top management team on performance of the firm. They found that the top management team is not only responsible for setting the direction of the company; it is also responsible for allocating the resources of the organization toward its objectives. Adapting to and exploiting change is essentially a creative and entrepreneurial effort and carries with it significant risks of failure.

The findings showed that employees of the bank agreed that there has been increased interest in the bank owed to the dynamism brought in by diversity and experience from the acquisition, and they disagreed that the bank has gone into or created new markets since the acquisition. Respondents agreed that there has been a consolidation of vendors and negotiation of better terms with them made. Employees showed that redundancies in the banking process has been removed and hence better workflow.

The findings of the study showed that managerial synergy had a strong and positive and significant association with financial performance of the bank (r = 0.698, Sig = 0.000). From the findings, 48.7% of changes in financial performance is explained by managerial synergy. The results of the study were in agreement with that of Ombaka and Jagongo (2018) who
performed a study on the influence of mergers and acquisitions on financial performance of commercial banks in Kenya. The findings showed that a unit improvement in differential efficiency led to a 0.886 increase in financial performance of the bank. This implies that managerial synergy was realized in the study. The findings is supported by that of Kivindu (2013) who conducted a study to determine the effects of M&A efficiency on bank Financial performance for 24 banks that had undergone through M&As in Kenya. The study results revealed that institutions with weak capital base consolidated to achieve synergies and thus enjoy economies of scale that would improve their financial performance as opposed to listing in stock exchanges that attracted substantial costs. Merger and Acquisition improves the financial performance of the post-merger firms through improved capital base, efficiency and competitiveness.

5.4 Conclusions

5.4.1 Effect of Operating Synergy on Financial Performance
The study concluded that operation synergy had a significant effect on the financial performance of bank due to reduced operating expenses, increased market share, consolidation of operations and synergies within the bank industry. After merger and acquisition the bank increased their financial performance.

5.4.2 Effect of Financial Synergy on Financial Performance
There is significant relationship between financial synergy and financial performance of the bank. There is improved financial performance in terms of profitability for the banks. This has enhanced the stability and effectiveness of operations of the bank. The financing cost of the bank decreased after a merger and acquisition, and this eventually led to better financial performance of the bank. In return, the profits may rise in the short and medium term while the bank increases its chances of growth and expansion in the long term.

5.4.3 Effect of Managerial Synergy on Financial Performance
The study concluded that there was better managerial ability which leads to increased financial performance of the bank. Managerial synergy entails using the competence, skills and knowledge of the management of the acquiring firm to improve performance, this led to certain degree of knowledge transfer which is necessary and the top management teams bring innovation by providing complementary resources for the bank. Managerial synergy led to shared human resource, shared managerial capacity and efforts, shared marketing efforts, source of long-term finance, shared source of overdraft finance, merger activity led to improved
liquidity arising from the cash and cash equivalents of the merged firms and merger activity led to shared working capital.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Effect of Operating Synergy on Financial Performance

It is therefore recommended that the bank should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term operation synergies. They should increase their scope to create high performing supply chains with significant long-term upside that provide sustained value for customers and stakeholders.

5.5.1.2 Effect of Financial Synergy on Financial Performance

The study recommends that the management of the bank should critically evaluate the overall business and financial compatibility of the merging bank and focus on capturing long-term financial synergies. Comparative analysis of the bank’s performance for the pre-merger and post-merger periods should be conducted to establish whether mergers lead to improved financial performance before and after merging.

5.5.1.3 Effect of Managerial Synergy on Financial Performance

The study recommends that the management of the bank should have competent personnel for running of the bank operations. This will lead to better financial performance of the bank. Having human personnel that are able to execute the operations of the bank enhances better financial performance.

5.5.2 Recommendations for Further Studies

The study recommends that further study should be carried out on the effect of mergers and acquisitions on financial performance of non-financial firms such as insurance, manufacturing to enable in drawing a parallel with the effects in the banking sector. Key factors that determine success in mergers and acquisitions should also be established in order to provide critical insight to the merging and acquiring organizations before, during and after the process.
REFERENCES


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APPENDICES

APPENDIX 1: INTRODUCTION LETTER

United States International University – Africa,
P. O. Box 14634 - 00800,
Nairobi, Kenya.

14th January 2019

Dear Respondent,

RE: RESEARCH STUDY BY MAUREEN KIMETTO

I am a post-graduate student studying for a Master of Business Administration degree at the Chandaria School of Business, United States International University - Africa. I am currently conducting research on “Effect of synergy through merger and acquisition on a firm's financial performance: a case study of Sidian bank”. The purpose of this letter is to kindly request you to spare time to complete the attached questionnaire.

All information provided will be used purely for academic purposes and will be treated with confidence. A copy of the final report will be issued to your esteemed organization on request.

Thank you very much for your cooperation.

In case of any queries or clarifications please do not hesitate to contact me.

Kind regards,

------------------------------------------
Maureen Kimetto
MBA student - researcher
United States International University - Africa
Tel: 0702945957 // Email: mkimetto@usiu.ac.ke
APPENDIX 2: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

1. Gender: Male [ ] Female [ ]
2. Position in the organization ________________________________

What is your highest level of education

- Post-graduate
- Graduate
- Tertiary college
- Secondary

How long have you worked with the bank?

- Below 3 years
- 3-7 years
- 7-10 years
- Above 10 years

How do you rate your overall bank’s performance after acquisition by Centum?

- Excellent
- Very good
- Good
- Poor

SECTION B: EFFECT OF OPERATING SYNERGY ON FINANCIAL PERFORMANCE

3. Kindly indicate the extent to which you agree with the following statements on the effect of operating synergy on financial performance of the bank since the acquisition of Sidian Bank by Centum. Please tick (×) accordingly on a scale of 1-5 where:

1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent, 5-Very great extent

<table>
<thead>
<tr>
<th>Operating synergies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>1. The operating costs have reduced since the acquisition</td>
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</table>
2. The size of operations has increased since the acquisition

3. The reductions in costs has led to increase in company performance

4. There has been specialised skill transfer from Centum leading to increased performance

5. The workflow process has become very efficient

6. There are better priced products/services created since the acquisition

7. The capabilities of the staff have improved

8. High levels of growth in terms of customer base has been observed

9. Removal of redundancies e.g. reduction in head count has increased company performance

10. There has been increased revenue opportunities since the acquisition

SECTION C: EFFECT OF FINANCIAL SYNERGY ON FINANCIAL PERFORMANCE

4. Kindly indicate the extent to which you agree with the following statements on the effect of financial synergy has contributed to the performance of the bank since the acquisition of Sidian Bank by Centum. Please tick (×) accordingly on a scale of 1-5 where:

1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent, 5-Very great extent

<table>
<thead>
<tr>
<th>Financial synergy</th>
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<th>2</th>
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<tbody>
<tr>
<td>1 The cash flow of the business has improved</td>
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<td>2 The debt capacity of the bank has increased</td>
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<td>3 The cost of capital of the bank has decreased</td>
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<td>4 Tax benefits since the acquisition has been realized</td>
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<td>5 The liquidity of the bank has improved</td>
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<td>6 The revenue of the bank has increased and can be attributed to the acquisition</td>
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Shareholder value has increased since the acquisition

Lower costs of operation have been realized through streamlined operations.

Has technology harmonization increased performance since the acquisition

**SECTION D: EFFECT OF MANAGERIAL SYNERGY ON FINANCIAL PERFORMANCE**

5. Kindly indicate the level to which you agree with the following statements on the effect of managerial synergy on performance of the bank since the acquisition of Sidian Bank by Centum. Please indicate (x) the level to which you agree with these statements on a scale of 1-5 where:

1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly agree

<table>
<thead>
<tr>
<th>Managerial synergy</th>
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<th>2</th>
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<tbody>
<tr>
<td>1 The change in management has improved the bank’s performance</td>
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<td>2 The operations have been more efficient due to the management change after acquisition</td>
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<td>3 The level of the bank's innovation has improved since the acquisition</td>
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<td>4 The has been increased creativity in marketing since the acquisitions</td>
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<td>5 Additional resources have been availed to develop new products or markets</td>
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<td>6 There has been an integration of sales forces between Sidian and Centum</td>
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<td>7 There has been increased interest in the bank owed to the dynamism brought in by diversity and experience from the acquisition</td>
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<td>8 The bank has gone into new markets since the acquisition</td>
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