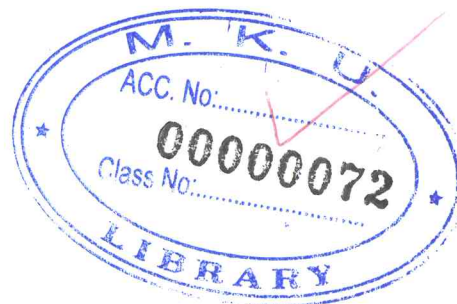


TO ANALYSE THE EFFECTS OF MERGERS ON FINANCIAL
PERFORMANCE: THE CASE OF SELECTED COMMERCIAL BANKS IN
KENYA

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ABSTRACT

Mergers are explained as modes of establishing inter-organizational linkages whereby companies buy a part of or a controlling interest in another company. Commercial banks have embraced merger strategies as a way of improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies, and capitalizing on economies of scale. This study sought to determine the effects of mergers on the financial performance of the commercial banks. The specific objectives were to determine the effects of mergers on market share, profitability and risk management. The study used a descriptive survey approach with the population of interest being all the 36 commercial banks that have undertaken mergers and are operating in Kenya. The study adopted a purposive random sampling to select 10 commercial banks that had merged and had been in operation for 5 years since merging took place. Primary data was collected using structured questionnaires while secondary data was collected from the journals, magazines and companies books of accounts through documentary analysis. Data was analyzed through the statistical package for social sciences (SPSS version 17) package. Inferential statistic, regression analysis and a post-merger performance was compared with the pre-merger performance and tested for significant differences, using paired t- test. Findings from the study revealed that merger positively affected both risk management and market share with market share being the highest factor that was affected with a Beta of 0.654 followed by risk management with a beta value of 0.569. Regression data on profitability was not computed since the variable was way too large as compared to the other variables but data from the paired sample t-test revealed a significant difference between the pre-merger and post-merger profitability with most banks recording a higher post-merger profit as compared to pre merging. The study concluded that a merger has a significant effect on the financial performance of banks in Kenya as it affected profitability and the market shares of the banks. The study recommends that each firm needs to conduct a scenario planning to diagnose its pattern of future challenges, threats and opportunities, and their design and implement its unique response to these challenges before it decides to partake any merger. Further research should be conducted to establish why unsuccessful bid increases the profits of the target but reduce the profits of the bidding firm relative to the profits of the firms before the merger deal.