IMPACT OF MERGERS AND ACQUISITION ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA (A SURVEY OF COMMERCIAL BANKS IN KENYA)

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ABSTRACT

The aim of this study was to analyze the impact of Mergers and acquisition on financial performance of commercial banks, a comparative study of pre and post-merger financial metrics. The study was guided by three specific research questions: What are the effect of mergers on liquidity of commercial banks; What is the market share of commercial banks after merger? What are the risk diversification on financial performance after merger? The descriptive research design was employed for this study and the target population for comprised of banks in Kenya that have undergone mergers and acquisitions (M&A). These banks form the foundation of the research focus, as their experiences provided valuable insights into the impact of M&A on financial performance. The chosen data collection tool for this study is a questionnaire, a widely adopted instrument aligning seamlessly with the research objectives and the unique characteristics of the target population. Descriptive statistical measures, including mean and standard deviation, was employed to provide a comprehensive overview of the central tendencies and variability within the data. Correlation analysis was conducted to explore the relationships between different variables. Multiple regression analysis was employed to assess the impact of mergers on financial performance. The paired sample t-test was employed to evaluate the impact of a merger on three vital financial indicators: liquidity, market share, and risk diversification. The statistical analysis revealed significant improvements in each domain after the merger, shedding light on the tangible effects of the consolidation. Starting with the Liquidity Assessment, the pre-merger mean liquidity score of 2.914 (SD = 0.3079) saw a notable increase to 3.937 (SD = 0.3059) post-merger. The paired t-test yielded a highly significant result (t = -13.022, df = 34, p = 0.000), indicating a substantial improvement in liquidity. This outcome emphasizes that the merger positively impacted the organization's ability to meet short-term obligations and manage cash flows more effectively. Moving on to the Market Share Evaluation, the pre-merger mean market share of 2.994 (SD = 0.3514) experienced a remarkable surge to 3.977 (SD = 0.2901) post-merger. The paired t-test result (t = -14.392, df = 34, p = 0.000) highlighted a significant and consistent improvement in market share. This suggests that the merger had a positive and meaningful influence on the organization's competitive standing within the industry. In terms of Risk Diversification Analysis, the pre-merger mean risk diversification score of 3.006 (SD = 0.4014) witnessed a robust advancement to 3.977 (SD = 0.3623) post-merger. The paired t-test (t = -9.574, df = 34, p = 0.000) indicated a significant enhancement in risk diversification, emphasizing the positive impact of the merger on the organization's ability to manage diverse risks effectively.
Keywords: Capital, Asset, Management, Earnings and Liquidity, Mergers and Acquisitions, Financial performance.

INTRODUCTION

Mergers and acquisitions involve the consolidation of companies, where two entities combine their operations to form a single, new organization. Alternatively, an acquisition occurs when one company takes control of another (Gaughan, 2010). The motives behind M&A activities are diverse, ranging from achieving economies of scale, accessing new markets, and gaining competitive advantages to synergy creation and shareholder value maximization.

M&A transactions can take various forms, including horizontal mergers where companies operating in the same industry combine forces, vertical mergers involving entities at different stages of the supply chain, and conglomerate mergers where companies in unrelated industries merge (Bruner, 2004). Acquisitions can be friendly or hostile, depending on the willingness of the target company.

M&A activities have a profound impact on various stakeholders, including employees, shareholders, customers, and the broader community (Sudarsanam, 2003). Employees may face uncertainty regarding job security and changes in workplace culture. Shareholders experience fluctuations in stock prices, and customers may witness shifts in product offerings and service quality. The local community may be affected by changes in employment patterns and corporate social responsibility initiatives.

Successful M&A transactions require careful planning, effective due diligence, and meticulous execution (Pablo & Javidan, 2004). Communication is crucial to managing expectations and reducing uncertainty among stakeholders. Aligning organizational cultures, identifying and realizing synergies, and having a comprehensive integration strategy are key success factors.

Examining notable case studies, such as the merger of Exxon and Mobil, or the acquisition of WhatsApp by Facebook, provides insights into the diverse strategies and outcomes associated with M&A activities (King, 2012). These cases highlight the importance of strategic vision, adaptability, and effective post-merger integration.

The landscape of M&A is continually evolving. Emerging trends include an increased focus on technology-driven acquisitions, cross-border M&A transactions, and a growing emphasis on sustainability and environmental considerations in M&A decision-making (Capron & Mitchell, 2010). The role of private equity firms and the impact of geopolitical factors also shape the future of M&A.

Mergers and acquisitions (M&A) play a pivotal role in shaping the ever-evolving landscape of the global financial industry (Sherman, 2016). These strategic transactions involve the consolidation of financial institutions, leading to the creation of larger entities with expanded market reach, increased operational efficiency, and enhanced competitiveness. This essay explores the dynamics, motives, challenges, and implications of mergers and acquisitions within the financial sector.

Mergers and acquisitions in the financial sector are often driven by the pursuit of market dominance. Through strategic combinations, institutions aim to strengthen their position in the market, capture a larger customer base, and diversify their product and service offerings (Gaughan, 2010). The financial industry is witnessing rapid technological advancements. M&A activities are frequently influenced by the need to acquire innovative technologies, fintech capabilities, and digital infrastructure. This allows financial institutions to stay competitive in the digital era and meet evolving customer expectations (King, 2012).

Achieving economies of scale is a primary motive in the financial sector. Larger institutions can spread fixed costs over a broader base, leading to cost efficiencies and improved profitability (Capron & Mitchell, 2010). Mergers and acquisitions enable financial institutions to enhance risk management capabilities. Diversification of risk across a broader portfolio and geographic footprint helps mitigate specific risks associated with individual markets (Pablo & Javidan, 2004). The regulatory landscape plays a crucial role in shaping M&A activities in the financial sector. Institutions may pursue mergers to meet regulatory requirements, ensure compliance, and navigate the complexities of evolving financial regulations (Sudarsanam, 2003).

Despite its obvious benefits, financial institutions often have distinct organizational cultures. Merging these cultures seamlessly is a significant challenge, as differences in management styles, employee practices, and corporate values can impede post-merger integration (Cartwright & Cooper, 1996). Regulatory approval is a critical aspect of financial sector M&A. The complex regulatory environment requires meticulous due diligence, and navigating the regulatory approval process can be time-consuming and challenging (Barkema & Schijven, 2008).

M&A activities in the financial sector can impact employees through potential workforce reductions, changes in job roles, and alterations in organizational culture. Effective communication and transition strategies are vital to address employee concerns (Sherman, 2016). Customers may experience changes in product offerings, service quality, and accessibility as a result of M&A activities. Ensuring a smooth transition and maintaining customer satisfaction is essential to retain and attract clients (King, 2012).

The challenges encountered included intense regulatory scrutiny due to Wachovia's financial instability, emphasizing the paramount importance of regulatory compliance in financial sector transactions (Sudarsanam, 2003). Additionally, the integration of two institutions with distinct cultures posed challenges, requiring meticulous management to prevent disruptions in operations (Cartwright & Cooper, 1996). Effective stakeholder management, encompassing employees, customers, and regulators, emerged as a critical factor in navigating the complexities of the acquisition (Barkema & Schijven, 2008).

In 2020, DBS Bank, headquartered in Singapore, executed the acquisition of Lakshmi Vilas Bank (LVB), an Indian financial institution grappling with financial challenges and regulatory scrutiny. The Reserve Bank of India (RBI) intervened by announcing a moratorium on LVB, ultimately facilitating its amalgamation with DBS Bank (Reuters, 2020). This strategic move was characterized by key aspects aimed at fostering growth and resilience.

Statement of the Problem

The analysis of the impact of mergers and acquisitions on the financial performance of commercial banks in Kenya is a pressing concern with limited empirical research. Past studies in other contexts have shown diverse outcomes, warranting a focused investigation in the Kenyan banking sector.

Previous research has highlighted the complexity of assessing the impact of mergers and acquisitions on financial performance. For example, studies by Ismail and Ezeoha (2010) found that mergers in the banking sector can result in enhanced operational efficiency, leading to improved financial performance. Conversely, research by Berger and Humphrey (1997) demonstrated that the financial performance of merged banks may be adversely affected due to challenges in managing the integration process.

In the Kenyan context, where mergers and acquisitions have become more prevalent, there is a scarcity of comprehensive studies evaluating the specific impact on financial indicators such as return on assets, return on equity, and cost efficiency. A study by Nyamongo and Misati (2018) focused on the East African region but did not specifically delve into the Kenyan banking sector. This underscores the need for a dedicated investigation tailored to the unique characteristics of the Kenyan financial landscape.

The dynamics of the Kenyan banking sector, including regulatory changes and market fluctuations, further emphasize the necessity for context-specific research. While studies like those conducted by Muriu (2017) have explored general trends in the Kenyan banking sector, a focused analysis on the aftermath of mergers and acquisitions is essential for providing actionable insights for banks, regulators, and policymakers.

In conclusion, the existing literature and past studies offer valuable perspectives on the complexities surrounding the impact of mergers and acquisitions on financial performance. However, a dedicated study in the Kenyan context is imperative to fill the existing research gap and provide actionable insights for the sustainable growth and stability of commercial banks in Kenya.

Specific Objectives

The specific objectives were:

a) To determine the effect of mergers on liquidity of commercial banks
b) To analyze the market share of commercial banks after merger
c) To asses' risk diversification on financial performance after merger

LITERATURE REVIEW

Impact of Mergers and Acquisition on Financial Performance of Commercial Banks

Mergers and acquisition have had varied effects on the various metrics of performance measures in the banking sector, with some showing positive, negative or no effect. Musah, Abdulai and Baffour (2020) investigation were the repercussions of mergers and acquisitions on the performance of banks in Ghana. Specifically, this study delved into the impact of mergers and acquisitions on the net profit margin, return on assets, and return on equity of commercial banks operating in Ghana. The study utilized data extracted from the annual reports of eight commercial banks spanning a decade (2009-2018). The analysis employed descriptive statistics, correlation analysis, and regression analysis. The findings unveiled a noteworthy and adverse correlation between mergers and acquisitions and the net profit margin. Additionally, a positive relationship was observed, although it lacked statistical significance, between mergers and acquisitions and the return on assets of commercial banks in Ghana. Furthermore, a negative yet statistically insignificant relationship emerged between mergers and acquisitions and the return on equity. The outcomes, however, failed to provide conclusive evidence regarding the transformative impact of mergers and acquisitions on bank performance. This suggests that the adoption of mergers and acquisitions may not necessarily yield an improvement in the financial performance of banks.

Borodin, Sayabek, Islyam and Panaedova (2020) research delved into the impact of mergers and acquisitions (M&A) on the financial performance of companies in the United States and Europe. The study encompasses 138 M&A transactions conducted within these regions from 2014 to 2018. The examination focuses on the correlation between return on sales (ROS) and variables such as the equity-to-enterprise value ratio. Furthermore, the study investigates the repercussions of the financial crisis and industry-relatedness to M&A parties on the performance of merged entities. Despite the majority of corporations studied in both the USA and Europe being profitable both before and after M&A activities, the analysis of average values in the sample reveals a significant deterioration in ROS in both regions. Specifically, the change in the EBIT/Total Revenue ratio averaged –6.8% in the USA and –5.3% in European countries. Notably, regression analysis did not unveil a significant relationship between M&A transactions and company performance indicators. The observed differences in values between regions are attributed to the fact that the US entered the crisis at an earlier juncture. The significance and direction of the equity-to-enterprise value (EVEQ) coefficient indicated that, all else being equal, an augmentation in the "attractiveness" of target companies results in an increase in ROS. Nevertheless, the results do not signify any distinct impact of M&A activities on post-M&A performance in the companies under consideration.

Effect of Mergers and Acquisition on Liquidity of Commercial Banks

Nguyen, Ha and Nguyen (2021) study aimed to evaluate the factors influencing the liquidity of commercial banks engaged in mergers and acquisitions activities in Vietnam over the period from 2008 to 2018. The research utilized a 2-component dataset with cross-sectional and time-series data, sourced from the annual reports of the State Bank and the audited financial statements of nine commercial banks involved in mergers and acquisitions. Quantitative analysis was conducted using various models, including Pooled OLS, REM, FEM, and

GMM, to achieve the research objectives. The findings of the analysis reveal several key insights. First, bank liquidity is positively influenced by liquidity lagged, as well as by the return on equity (ROE). On the contrary, bank size, non-performing loans, and the short-run loan-to-deposit ratio have a negative impact on liquidity. The study, however, did not find sufficient evidence to draw conclusions regarding the relationship between net profit margin, equity-to-assets ratio, and inflation rate with bank liquidity. A notable discovery from the research is that, following mergers and acquisitions, the liquidity of Vietnamese commercial banks experienced a decrease. This implies that the consolidation activities in the banking sector had a discernible impact on the liquidity dynamics of the involved banks.

Al-Hroot, Al-Qudah and Alkharabsha (2020) investigated the impact of mergers on the financial performance of the Jordanian banking sector, focusing on the merger between the Jordan Ahli Bank (AHLI Bank) and Philadelphia Bank in 2005. The financial approaches were applied to analyze the effects of the merger on Jordanian banks' performance over two periods: four years pre-merger and four years post-merger, covering the span from 2001 to 2009. Data normality was tested using the Shapiro-Wilk Test and Kolmogorov-Smirnov test. Financial ratios and the Mann-Whitney U test were employed to assess significant differences in the financial performance of the selected banks before and after the merger. The analysis considered various performance-related financial ratio groups, including leverage, liquidity, efficiency, and cash flow ratios. The results indicated that, apart from a significant improvement in leverage ratios, there was an overall insignificant improvement in AHLI Bank's ratios in the post-merger period. The study attributed the lack of significant improvement in financial ratios post-merger to the coinciding global financial crisis that commenced in 2007. This external economic downturn may have had a mitigating effect on the anticipated positive impacts of the merger on the financial performance of AHLI Bank during the specified period.

Effect of Mergers and Acquisition on Market Share of Commercial Banks

Alvarez-González and Otero-Neira (2020) examined employees' perspectives on customers' reactions to mergers and acquisitions (M&A), specifically in the banking sector. The focus was on understanding how M&A activities impact the relationship between customers and financial entities in real-life scenarios. Employing a case analysis methodology, the study delved into prominent cases of M&A involving 54 retail banks and saving banks in the Spanish market from 2009 to 2014. A total of 36 face-to-face exploratory interviews were conducted with employees, selected through purposive sampling. The findings, based on employees' perceptions, indicate that financial M&A had negative effects on prices, the location and proximity of branches, and the routines of financial activities. However, there was a positive impact on products and services offered after the M&A. This sheds light on the multifaceted outcomes of M&A in the banking sector, especially in terms of customer relationships, as perceived by the employees involved in the study.

Coccorese and Ferri (2020) studied the intense wave of mergers among Italian mutual cooperative banks (Banche di Credito Cooperativo, BCCs) trying to assess whether those mergers were efficiency-enhancing. Specifically, we employ a two-step procedure: first estimating bank-level cost efficiency scores over 1993–2013 via a stochastic frontier approach, then trying to explain the estimated BCCs' scores with a set of merger status dummies (never merged, before the first merger, merged once, merged twice, etc.) and a vector of control variables. The research found that mergers increase mutual banks' cost efficiency only in 5% of the mergers, precisely those in which a BCC has merged at least three successive times with other BCCs. Besides, the research conjectured that the serial mergers led those BCCs to reach remarkably large size and this could harm especially marginal borrowers (i.e. those likely served by smaller banks but neglected by bigger ones), with strong adverse impact on development and inequality and violating BCCs' ethics and mission.

Liquidity Risk Management Theory

The Liquidity Risk Management Theory is a comprehensive framework that delves into the intricate dynamics of managing liquidity in the banking sector. Originating from the works of influential theorists and researchers, this theory has evolved over time to encompass various dimensions of liquidity risk. Walter Bagehot, a seminal figure in banking literature, laid the groundwork for understanding liquidity challenges in his renowned work "Lombard Street." Bagehot's insights, particularly regarding the lender of last resort function, underscored the critical importance of maintaining liquidity, especially during times of financial crises.

Building on Bagehot's foundation, the theory gained further depth through the work of Diamond and Dybvig in 1983. Their exploration of bank runs highlighted how liquidity concerns, when not managed effectively, can lead to systemic issues. This seminal work emphasized the delicate balance required to address liquidity needs and maintain depositor confidence. Mark Flannery's contributions in 1996 delved into the role of liquidity in bank failures, especially during financial crises. His research, such as "Financial Crises, Payment System Problems, and Discount Window Lending," illuminated the interconnectedness of liquidity, payment systems, and the need for central bank interventions.

Market Power Theory

Market Power Theory, rooted in industrial organization economics, explores the intricate connections among market structure, firm behavior, and overall industry performance. Originating from the seminal structure-conduct-performance (SCP) paradigm, early economists like Joe Bain, Edward S. Mason, and Joan Robinson significantly contributed to its conceptual development, shaping the understanding of how competitive dynamics unfold in different markets.

Joe Bain's Structure-Conduct-Performance Paradigm laid the groundwork for Market Power Theory, introducing the SCP framework to underscore the interplay between market structure, firm conduct, and performance outcomes (Bain, 1959). Edward S. Mason expanded on this paradigm, delving into the dynamics of oligopolistic markets and the strategic decisions of a limited number of dominant firms (Mason, 1939). Joan Robinson further enriched the theory by examining the contrasts between monopoly and competitive markets (Robinson, 1933).

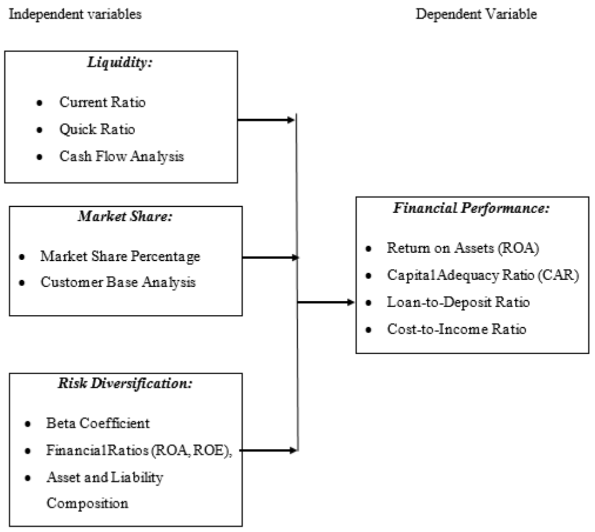
Risk Diversification Theory

Risk Diversification Theory, often referred to as Portfolio Diversification Theory, is a foundational principle in finance that underscores the importance of spreading investments across different assets to effectively manage and mitigate risk (Markowitz, 1952). This theory rests on several key principles, with the ultimate goal of achieving an optimal risk-return profile.

One of the primary objectives of Risk Diversification Theory is to reduce the overall risk associated with a portfolio. By diversifying investments and holding a variety of assets, the theory aims to minimize the impact of poor-performing investments on the entire portfolio (Markowitz, 1952). The effectiveness of this risk reduction strategy hinges on the correlation between the returns of different assets. Ideally, these assets should exhibit low positive correlation or, even better, negative correlation, indicating that they move in opposite directions under different market conditions.

While risk reduction is paramount, the theory recognizes the need to optimize returns. Striking a balance between risk and return is crucial, and a well-diversified portfolio seeks to achieve the highest possible return for a given level of risk. Strategic asset allocation plays a pivotal role in this process, emphasizing the selection of an appropriate mix of assets based on individual investment goals, risk tolerance, and time horizon.

The Conceptual Framework



METHODOLOGY

Research Design: In this study, the adoption of a descriptive research design serves as a valuable strategy for methodically exploring and illustrating the characteristics, behaviors, and patterns associated with the influence of Mergers and Acquisitions (M&A) on the financial performance of commercial banks. Bloomfield and Fisher (2019) admits that this design is specifically well-suited for effectively addressing the stipulated research questions and attaining the study's objectives. Descriptive research inherently focuses on furnishing an accurate account of prevailing conditions or phenomena. In the context of this study, the descriptive research design allows for a comprehensive portrayal of various elements linked to M&A transactions and their subsequent impact on financial performance metrics in commercial banks. This encompasses the documentation of changes in liquidity, market share, and risk diversification throughout the pre and post-merger periods.

Target Population: The target population for this study comprised of banks in Kenya that have undergone mergers and acquisitions (M&A). These banks form the foundation of the research focus, as their experiences will provide valuable insights into the impact of M&A on financial performance. Attaining employees from these banks involved a systematic and ethical approach to ensure representative sampling. Table 3.1 includes a comprehensive list of the banks that have undergone M&A in Kenya. The study targeted 2 managers from the 21 banks giving a population size of 42 respondents

Table 3.1: Population

	Acquirer	Bank Acquired	Transaction Stake	Date
1	KCB Group	Banque Populaire du Rwanda	100.0%	August-21
2	I&M Holdings PLC	Orient Bank Limited Uganda	90.0%	April-21
3	KCB Group**	ABC Tanzania	100%	Nov-20*
4	Co-operative Bank	Jamii Bora Bank	90.0%	Aug-20
5	Commercial International Bank	Mayfair Bank Limited	51.0%	May-20*
6	Access Bank PLC (Nigeria)	Transnational Bank PLC.	100.0%	Feb-20*
7	Equity Group **	Banque Commerciale Du Congo	66.5%	Nov-19*
8	KCB Group	National Bank of Kenya	100.0%	Sep-19
9	CBA Group	NIC Group	53%:47%	Sep-19
10	Oiko Credit	Credit Bank	22.8%	Aug-19
11	CBA Group**	Jamii Bora Bank	100.0%	Jan-19
12	AfricInvest Azure	Prime Bank	24.2%	Jan-18
13	KCB Group	Imperial Bank	Undisclosed	Dec-18

	Acquirer	Bank Acquired	Transaction Stake	Date
14	SBM Bank Kenya	Chase Bank Ltd	75.0%	Aug-18
15	DTBK	Habib Bank Kenya	100.0%	Mar-17
16	SBM Holdings	Fidelity Commercial Bank	100.0%	Nov-16
17	M Bank	Oriental Commercial Bank	51.0%	Jun-16
18	I&M Holdings	Giro Commercial Bank	100.0%	Jun-16
19	Mwalimu SACCO	Equatorial Commercial Bank	75.0%	Mar-15
20	Centum	K-Rep Bank	66.0%	Jul-14
21	GT Bank	Fina Bank Group	70.0%	Nov-13

Sampling Frame & Size: A total of 42 individuals were sampled. A census approach were used in this study. One key advantage is the small and manageable population size of 21 banks that have undergone mergers and acquisitions in Kenya. Conducting a census is practical and feasible, ensuring that the research team can gather data comprehensively from every individual within the specified banks. This approach facilitates the acquisition of comprehensive insights into the impact of mergers and acquisitions on financial performance. By including all relevant managers within each bank, the study aimed to capture a holistic view of managerial perspectives, enriching the depth and breadth of the research findings. The study specifically targeted managerial perspectives, recognizing their significance in understanding how M&A activities affect financial performance.

RESULTS AND DISCUSSION

Table 4.1: Bank Size (Total Assets)

		Frequency	Percent
Valid	Medium (KES 50 billion - KES 200 billion)	17	48.6
	Large (over KES 200 billion)	18	51.4
	Total	35	100.0

Table 4.1 outlines the distribution of respondents based on the size of the banks they are associated with, categorized by total assets. This information provides insights into the composition of the workforce within different tiers of the banking industry in terms of financial magnitude.

DESCRIPTIVE STATISTICS

The data for both independent and dependent variables were characterized using descriptive statistics, specifically the mean and standard deviation. The mean values were calculated based on responses provided on a 5-point Likert scale, where each point represents a different level of extent and the results were as follows:

Effect of mergers on liquidity of commercial banks Pre-Merger

In examining the effect of mergers on the liquidity of commercial banks during the pre-merger period, respondents provided insights through a series of statements rated on a 5-point Likert scale. The mean values and standard deviations were calculated, shedding light on the perceived stability and management of liquidity within the organization before the merger. Respondents indicated a moderate extent of stability in the liquidity position of the bank during the pre-merger period (Mean: 3.00, SD: 0.804). This suggests that, on average, there was a perceived balance in managing liquidity challenges, providing a foundation for financial stability. The mean value of 2.80, SD: 0.719 for the management of Short-Term Obligations indicated a lower extent in how well the bank managed its short-term obligations before the merger. This suggests a potential area for improvement in ensuring smooth liquidity operations leading up to the merger.

In regards to Adequacy of Liquid Assets (Mean: 2.83, SD: 0.785): Respondents moderately rated the adequacy of the bank's liquid assets to cover potential funding needs and unforeseen circumstances. This implies a perceived balance, but with room for enhancement in ensuring optimal liquidity coverage. In line with the Effectiveness in Optimizing Liquidity (Mean: 3.00, SD: 0.874): The mean value of 3.00 indicates a moderate extent of effectiveness in optimizing liquidity through strategic management practices. This suggests a perceived competency in strategic liquidity management during the pre-merger period. Lastly on Liquidity Challenges Impacting Operations (Mean: 2.94, SD: 0.838). Respondents perceived a moderate extent to which the bank faced liquidity challenges before the merger, impacting day-to-day operations and financial activities. This highlights the acknowledgment of challenges that may have influenced operational dynamics.

Table 4.2: Effect of mergers on liquidity of commercial banks Pre-Merger

Statement	*Mean*	*SD*
To what extent did the pre-merger period witness stability in the liquidity position of our bank?	3.00	.804
In the period leading up to the merger, how well did our bank manage its short-term obligations, ensuring smooth liquidity operations?	2.80	.719
Before the merger, how would you rate the adequacy of our bank's liquid assets to cover potential funding needs and unforeseen circumstances?	2.83	.785
How effective was our bank in optimizing liquidity through strategic management practices prior to the merger?	3.00	.874
To what extent did the bank face liquidity challenges before the merger, affecting day-to-day operations and financial activities?	2.94	.838

Effect of mergers on liquidity of commercial banks Post-Merger

Examining the ramifications of mergers on the liquidity of commercial banks post-merger reveals a comprehensive narrative based on respondents' evaluations, measured on a 5-point Likert scale. Mean values and standard deviations were employed to quantify the perceived changes and adaptations in liquidity dynamics following the merger. The evolution of the liquidity position post-merger garnered a mean value of 3.69, indicative of a moderate-to-large extent of positive transformation in terms of stability and resilience. This suggests that, on average, the liquidity dynamics have undergone favorable changes, aligning with the bank's objectives in the aftermath of the merger.

A particularly notable finding is the high rating for the adaptation of liquidity management strategies post-merger, with a mean value of 4.06. This substantial mean implies a large extent of effectiveness in adjusting liquidity approaches to suit the intricacies of the new operational landscape, showcasing the bank's agility and responsiveness to post-merger challenges. The adequacy of liquid assets in meeting current and future funding requirements received a commendable mean value of 4.09, indicating a large extent of perceived strength in the bank's liquidity coverage. This suggests that the post-merger period has seen the bank maintain robust liquidity reserves, instilling confidence in its ability to meet financial obligations.

In terms of leveraging liquidity for strategic financial advantages, the mean value of 3.94 suggests a moderate-to-large extent of effectiveness post-merger. This implies that the bank has successfully harnessed its liquidity resources to attain strategic financial benefits, showcasing a positive impact on the overall financial positioning.

The assessment of overcoming liquidity challenges post-merger received a mean value of 3.91, indicating a moderate-to-large extent of success in ensuring smooth operational and financial activities despite potential challenges. This underscores the bank's resilience in addressing and mitigating liquidity-related obstacles in the post-merger landscape. In essence, the mean values collectively present a narrative of positive shifts in liquidity dynamics post-merger. The bank has demonstrated adaptability, maintained strong liquidity positions, effectively leveraged resources for strategic advantages, and exhibited resilience in overcoming challenges. These insights provide a foundation for strategic decision-making, affirming areas of success and highlighting potential avenues for continuous improvement in post-merger liquidity management.

Table 4.3: Effect of mergers on liquidity of commercial banks Post-Merger

Statement	*Mean*	*SD*
Since the merger, how has the liquidity position of our bank evolved in terms of stability and resilience?	3.69	.718
Considering the post-merger period, how well has our bank adapted its liquidity management strategies to the new operational landscape?	4.06	.838
Post-merger, how would you rate the adequacy of our bank's liquid assets in meeting current and future funding requirements?	4.09	.702
In the aftermath of the merger, how effective has our bank been in leveraging liquidity for strategic financial advantages?	3.94	.906
Since the merger, to what extent has the bank overcome liquidity challenges, ensuring smooth operational and financial activities?	3.91	.702

The market share of commercial banks Pre-Merger

In the examination of the market share of commercial banks during the pre-merger period, respondents provided their insights through a series of statements, each assessed on a 5-point Likert scale. Mean values and standard deviations were calculated, offering a quantitative perspective on how the decision to engage in the merger process influenced market share and related considerations. Respondents, on average, indicated a mean value of 2.97, suggesting a moderate extent of belief that the decision to engage in the merger process influenced the market share of the bank. This implies a perceived connection between the merger decision and its impact on market share. The mean value of 2.86 indicates a moderate extent in respondents' opinions on how well the bank communicated potential changes in market share before the merger. This suggests a neutral perception regarding the clarity of communication surrounding market share dynamics. Respondents moderately rated the degree to which the pre-merger market share accurately reflected the bank's competitive position in the industry, with a mean value of 2.86. This implies a balanced view on the alignment of market share with competitive standing. The mean value of 3.11 suggests a moderate-to-large extent of confidence in the strategies employed by the bank to maintain or enhance market share before the merger occurred. This indicates a level of trust in the effectiveness of the pre-merger market share strategies. Respondents, on average, rated the effectiveness of the bank's efforts to adapt to changing market conditions in preserving market share with a mean value of 3.17. This suggests a moderate-to-large extent of perceived effectiveness in adapting to market dynamics.

Table 4.4: The market share of commercial banks Pre-Merger

Statement	*Mean*	*SD*
To what extent do you believe that the market share of our bank was influenced by the decision to engage in the merger process?	2.97	.785

In your opinion, how well did our bank communicate the potential changes in market share that might result from the merger before it took place?	2.86	.733
To what degree do you think the pre-merger market share accurately reflected our bank's competitive position in the industry?	2.86	.879
How confident were you in the strategies employed by our bank to maintain or enhance market share before the merger occurred?	3.11	.932
Considering the pre-merger period, please rate the effectiveness of our bank's efforts to adapt to changing market conditions in preserving market share.	3.17	.747

Market share of commercial banks Post-Merger

In the assessment of the market share of commercial banks post-merger, respondents shared their opinions through a set of statements, each evaluated on a 5-point Likert scale. The mean values and standard deviations were computed, providing a quantitative understanding of how the merger impacted the bank's market share and related considerations. Respondents, on average, perceived a mean value of 4.11, indicating a large extent of positive impact on the overall market share of the bank compared to competitors post-merger. This suggests a favorable assessment of the merger's influence on the bank's market standing. The mean value of 3.71 suggests a moderate-to-large extent of belief that the strategies implemented post-merger have positively influenced the bank's market share. This indicates a positive perception of the effectiveness of post-merger strategies.

Respondents highly rated the effectiveness of the bank in communicating changes in market share resulting from the merger to internal stakeholders, with a mean value of 4.17. This implies a large extent of clarity and transparency in internal communication post-merger. The mean value of 4.00 indicates a large extent of confidence in the bank's ability to sustain or improve its market share in the industry post-merger. This suggests a high level of optimism regarding the bank's future market positioning. Respondents, on average, rated the effectiveness of the bank's post-merger strategies in responding to market dynamics and maintaining or enhancing market share with a mean value of 3.89. This indicates a positive assessment of the adaptability and effectiveness of strategies post-merger.

Table 4.4: Market share of commercial banks Post-Merger

Statement	***Mean***	***SD***
In your opinion, how has the merger impacted the overall market share of our bank compared to our competitors?	4.11	.758
To what extent do you believe that the strategies implemented post-merger have positively influenced our bank's market share?	3.71	.667
How well do you think our bank has communicated the changes in market share resulting from the merger to internal stakeholders?	4.17	.891
Considering the post-merger period, how confident are you in our bank's ability to sustain or improve its market share in the industry?	4.00	.874
Please rate the effectiveness of our bank's post-merger strategies in responding to market dynamics and maintaining or enhancing market share.	3.89	.758

Risk diversification on financial performance pre-merger

The assessment of risk diversification on financial performance pre-merger involved respondents providing their opinions through a set of statements, each evaluated on a 5-point Likert scale. The mean values and standard deviations were calculated to quantify the perceived effectiveness of risk management practices and strategies related to diversification. On average, respondents perceived a mean value of 3.14, indicating a moderate-to-large extent of effectiveness in managing risks across diverse sectors before the merger. This suggests a positive assessment of the bank's ability to handle risks in various segments. The mean value of 2.91 suggests a moderate extent of belief that risk diversification strategies were well-structured and optimized before the merger. This indicates a balanced perception of the effectiveness of specific strategies in place.

Respondents, on average, rated the existence of a comprehensive plan to mitigate potential financial risks before the merger with a mean value of 3.03. This implies a moderate-to-large extent of assurance in the bank's proactive measures to address financial risks. The mean value of 3.00 suggests a moderate extent of belief that the bank had a balanced portfolio contributing to stable financial performance before the merger. This implies a perceived equilibrium in the contribution of different elements to overall financial stability. Respondents, on average, rated the pre-merger risk management practices as proactive and effective, with a mean value of 2.94. This indicates a moderate extent of confidence in the bank's ability to anticipate and address risks effectively.

Table 4.5: Risk diversification on financial performance pre-merger

Statement	***Mean***	***SD***
The bank effectively managed risks across diverse sectors before the merger.	3.14	.879
Our risk diversification strategies were well-structured and optimized prior to the merger.	2.91	.781
The bank had a comprehensive plan in place to mitigate potential financial risks before the merger.	3.03	.857
We had a balanced portfolio that contributed to stable financial performance prior to the merger.	3.00	.840
The risk management practices in the bank were proactive and effective in the period leading up to the merger.	2.94	.765

Risk Diversification on Financial Performance Post-Merger

The evaluation of risk diversification on financial performance post-merger involved respondents expressing their opinions through a series of statements, each assessed on a 5-point Likert scale. Mean values and standard deviations were calculated to quantify the perceived effectiveness of risk management practices and strategies related to diversification in the post-merger period. Respondents, on average, indicated a mean value of 4.03, suggesting a large extent of belief that the bank's risk diversification efforts have improved since the merger. This implies a positive transformation in the bank's ability to handle risks in diverse areas. The mean value of 4.03 indicates a large extent of belief that current risk diversification strategies are better aligned with the challenges of the merged entity. This suggests a positive adaptation of strategies to the specific dynamics brought about by the merger. Respondents, on average, rated the post-merger risk management plan as effectively addressing potential financial risks with a mean value of 4.00. This implies a large extent of confidence in the bank's proactive measures post-merger.

The mean value of 3.83 suggests a large extent of belief that the merged entity has achieved a more diversified and resilient financial portfolio. This implies a positive impact on the overall stability and diversity of the financial assets. Lastly, respondents, on average, rated the post-merger adaptation of risk management practices as successful, with a mean value of 4.00. This suggests a large extent of confidence in the bank's ability to adapt to changes brought about by the merger.

Table 4.6: Risk Diversification on Financial Performance Post-Merger

Statement	***Mean***	***SD***
The bank's risk diversification efforts have improved since the merger.	4.03	.822
Our current risk diversification strategies are better aligned with the challenges of the merged entity.	4.03	.785
The post-merger risk management plan effectively addresses potential financial risks.	4.00	.907
The merged entity has achieved a more diversified and resilient financial portfolio.	3.83	.857
The bank's risk management practices have adapted successfully to the changes brought about by the merger.	4.00	.686

4.3.7 Financial Performance

The assessment of financial performance involved respondents providing their opinions through a set of statements, each evaluated on a 5-point Likert scale. The mean values and standard deviations were calculated to quantify the perceived financial performance of the bank before and after the merger. On average, respondents rated the bank's Return on Assets (ROA) before the merger with a mean value of 2.77. This suggests a moderate extent of satisfaction with the bank's ROA during the pre-merger period. The mean value of 4.20 indicates a large extent of positive assessment when comparing the bank's ROA after the merger to the pre-merger period. This suggests a perceived significant improvement in ROA post-merger.

Respondents, also on average, evaluated the bank's Capital Adequacy Ratio (CAR) before the merger with a mean value of 3.03. This implies a moderate extent of satisfaction with the bank's CAR in the pre-merger state. The mean value of 4.26 suggests a large extent of positive assessment when comparing the bank's CAR after the merger to the pre-merger state. This implies a perceived significant improvement in CAR post-merger.

For the Characterization of Loan-to-Deposit Ratio before the Merger, the mean value of 1.83 indicates a moderate extent of characterization of the bank's Loan-to-Deposit Ratio before the merger. This suggests a perceived moderate efficiency in managing this ratio during the pre-merger period. Respondents, on average, provided a large extent of positive assessment when comparing the bank's Loan-to-Deposit Ratio after the merger to the pre-merger period, with a mean value of 4.23. This implies a perceived significant improvement in this ratio post-merger. Lastly, the mean value of 2.06 suggests a moderate extent of efficiency in the bank's cost management relative to income before the merger. This implies a perceived moderate efficiency in cost management during the pre-merger period. Also, respondents, on average, provided a large extent of positive assessment when comparing the bank's efficiency in cost management relative to income after the merger to the pre-merger state, with a mean value of 3.83. This suggests a perceived significant improvement in efficiency post-merger.

Table 4.7: Financial Performance

Statement	**Mean**	**SD**
How would you rate the bank's Return on Assets (ROA) in the period before the merger?	2.77	.770
Assess the bank's Return on Assets (ROA) after the merger in comparison to the pre-merger period.	4.20	.797
How well did the bank maintain its Capital Adequacy Ratio (CAR) before the merger?	3.03	.822
Evaluate the bank's Capital Adequacy Ratio (CAR) post-merger in comparison to the pre-merger state.	4.26	.817

How would you characterize the bank's Loan-to-Deposit Ratio before the merger?	1.83	.785
Assess the bank's Loan-to-Deposit Ratio post-merger compared to the pre-merger period.	4.23	.843
How efficient was the bank in managing its costs relative to income before the merger?	2.06	.838
Evaluate the efficiency of the bank's cost management in relation to income post-merger compared to the pre-merger state.	3.83	.822

Risk Diversification Analysis

In examining the domain of risk diversification, the pre-merger period showcased a mean score of 3.006, reflecting a moderately favorable status along with a standard deviation of 0.4014. Subsequent to the merger, the post-merger risk diversification displayed a notable advancement, registering a higher mean score of 3.977 and a reduced standard deviation of 0.3623. The statistical scrutiny through a paired t-test accentuated the considerable impact of the merger on risk diversification. The calculated t-value of -9.574, with 34 degrees of freedom, resulted in an exceedingly low p-value of 0.000. This significant difference underscores a substantial and consistent improvement in risk diversification after the merger. The negative t-value indicates that the pre-merger risk diversification mean score was lower than the post-merger score, emphasizing the positive and statistically significant impact of the merger on enhancing risk diversification practices. These findings strongly suggest that the merger played a pivotal role in bolstering the institution's risk diversification strategies, signifying a successful outcome in this crucial aspect of financial performance.

Table 4.8: Paired T test

Paired Samples	**Mean**	**N**	**Std. Deviation**	**Std. Error Mean**	**t**	**df**	**Sig. (2-tailed)**
Pre-merger liquidity	2.914	35	.3079	.05204	-13.022	34	.000
Post-merger liquidity	3.937	35	.3059	.05171			
Pre-merger market share	2.994	35	.3514	.05940	-14.392	34	.000
Post-merger market share	3.977	35	.2901	.04904			
Pre-merger risk diversification	3.006	35	.4014	.06785	-9.574	34	.000

Post-merger risk diversification	3.977	35	.3623	.06123

CORRELATION ANALYSIS

The examination of financial performance post-merger revealed robust correlations among post-merger liquidity, post-merger market share, and post-merger risk diversification, as indicated by Pearson correlation coefficients.

The analysis revealed a noteworthy and robust positive correlation (r = .663**, p = .000) between post-merger liquidity and financial performance. This signifies that as post-merger liquidity improves, there is a concurrent enhancement in financial performance. The statistical significance of this correlation, based on data from 35 observations, underscores the substantial impact of effective liquidity management on the overall financial success of the institution post-merger.

The analysis uncovered a highly significant and robust positive correlation (r = .627**, p = .000) between post-merger market share and financial performance. This indicates that as post-merger market share experiences an uptick, there is a corresponding improvement in financial performance.

The analysis also brought to light a robust and highly significant positive correlation (r = .631**, p = .000) between post-merger risk diversification and financial performance. This underscores a strong positive association, indicating that improvements in post-merger risk diversification coincide with enhancements in financial performance. The statistical significance of this correlation emphasizes the noteworthy impact of effective risk diversification strategies on the overall financial success of the institution post-merger.

Table 4.91: Correlation Analysis

		Post-merger Liquidity	Post-merger Market Share	Post-merge Risk diversification
Financial Performance	Pearson Correlation	.663**	.627**	.631**
	Sig. (2-tailed)	.000	.000	.000
	N	35	35	35

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

REGRESSION ANALYSIS

To determine the influence of post-merger liquidity, market share and risk diversification on financial performance, the regression model summary indicates a robust fit for the model, with an overall R-square of .987. This suggests that approximately 98.7% of the variability in financial performance can be explained by the combined influence of post-merger liquidity, market share, and risk diversification. The adjusted R-square, which accounts for the number of predictors in the model, is .985, indicating a high level of explanatory power while considering model complexity.

The standard error of the estimate is .02446, signifying the average distance between observed and predicted values. The model's effectiveness is further supported by the Change Statistics, showing a significant R-square change of .987. The F Change statistic is 760.942, with associated degrees of freedom (df1 = 3, df2 = 31) and a highly significant p-value of .000. The model demonstrates a strong explanatory capability, suggesting that post-merger liquidity, market share, and risk diversification collectively exert a substantial influence on financial performance.

Table 4.10: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.993[a]	.987	.985	.02446	.987	760.942	3	31	.000

a. Predictors: (Constant), Post-merger Liquidity, Post-merger Market Share, Post-merge Risk diversification

The ANOVA table 4.11 presents the results of the analysis of variance for the regression model predicting financial performance based on post-merger liquidity, market share, and risk diversification. The regression model shows a significant overall effect on financial performance, as evidenced by a highly significant F-statistic of 760.942 ($p < .001$). This suggests that the model as a whole significantly explains the variance in financial performance.

Table 4.11: Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.365	3	.455	760.942	.000[b]
	Residual	.019	31	.001		
	Total	1.384	34			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Post-merger Liquidity, Post-merger Market Share, Post-merge Risk diversification

CONCLUSION AND RECOMMENDATIONS

Summary

Firstly, the liquidity analysis revealed a noticeable improvement post-merger, as indicated by the mean liquidity score escalating from 2.914 to 3.937. This significant positive shift implies enhanced financial fluidity for the organization. The reduction in the standard deviation from 0.3079 to 0.3059 further underscores the increased consistency in liquidity levels after the merger. The correlation analysis revealed a noteworthy and robust positive correlation ($r = .663^{**}$, $p = .000$) between post-merger liquidity and financial performance. This signifies that as post-merger liquidity improves, there is a concurrent enhancement in financial performance. The statistical significance of this correlation, based on data from 35 observations, underscores the substantial impact of effective liquidity management on the overall financial success of the institution post-merger

Secondly, the examination of market share demonstrated a marked positive transformation. The mean market share surged from 2.994 pre-merger to 3.977 post-merger, indicating a substantial boost in the organization's competitive position in the industry. The decreased standard deviation from 0.3514 to 0.2901 signifies greater stability and uniformity in market share post-merger. The correlation analysis uncovered a highly significant and robust positive correlation ($r = .627^{**}$, $p = .000$) between post-merger market share and financial performance. This indicates that as post-merger market share experiences an uptick, there is a corresponding improvement in financial performance.

Lastly, the evaluation of risk diversification revealed a robust improvement following the merger. The mean score climbed from 3.006 to 3.977, signifying a more effective and diversified risk management approach. The reduced standard deviation from 0.4014 to 0.3623 reflects a greater consistency in risk diversification strategies post-merger. The correlation analysis also brought to light a robust and highly significant positive correlation ($r = .631^{**}$, $p = .000$) between post-merger risk diversification and financial performance. This underscores a strong positive association, indicating that improvements in post-merger risk diversification coincide with enhancements in financial performance. The statistical significance of this correlation emphasizes the noteworthy impact of effective risk diversification strategies on the overall financial success of the institution post-merger.

To determine the influence of post-merger liquidity, market share and risk diversification on financial performance, the regression model summary indicates a robust fit for the model, with an overall R-square of .987. This suggests that approximately 98.7% of the variability in financial performance can be explained by the combined influence of post-merger liquidity, market share, and risk diversification. Examining the individual predictors, post-merger liquidity, market share, and risk diversification all show substantial positive relationships with financial performance. Specifically, a one-unit increase in post-merger liquidity is associated with a 0.343 unit increase in financial performance ($t = 24.377$, $p < .001$), a one-unit increase in post-merger market share is associated with a 0.323 unit increase in financial performance ($t = 21.744$, $p < .001$), and a one-unit increase in post-merger risk diversification is associated with a 0.309 unit increase in financial performance ($t = 26.538$, $p < .001$).

Conclusion

The observed enhancement in liquidity following the merger is more than just a numerical change; it signifies a strategic accomplishment. It mirrors the effectiveness of managerial choices, operational adaptations, and financial strategies applied during and after the merger. This positive shift in liquidity holds paramount importance for the day-to-day financial activities of the organization, ensuring its capability to meet immediate obligations, manage cash flows efficiently, and navigate unexpected financial challenges. The decrease in standard deviation accompanying the rise in mean liquidity post-merger indicates a financial environment that is more controlled and foreseeable. A lower standard deviation suggests that the organization has achieved a more uniform and stable liquidity position, mitigating fluctuations and uncertainties in its short-term financial standing. The strong positive correlation between post-merger liquidity and financial performance underscores the strategic significance of liquidity management in influencing the overall financial well-being of the organization. This correlation is not only statistically noteworthy but also practically significant. It highlights that the improvements in liquidity are not isolated but translate into tangible enhancements in the organization's financial performance. Ultimately, the merger process, along with subsequent adjustments and strategic decisions, has effectively contributed to raising the liquidity levels of the organization. This accomplishment holds profound implications for the financial resilience, stability, and overall success of the institution. The positive correlation provides evidence that effective liquidity management post-merger is a driving force behind the improved financial performance, demonstrating the success and effectiveness of the merger process.

In conclusion, the analysis of market share highlights a remarkable positive transformation post-merger. The surge in mean market share reflects a substantial enhancement in the organization's competitive standing within the industry. The reduced standard deviation suggests increased stability and uniformity in market share post-merger, indicating a more consistent performance. Moreover, the observed positive correlation between post-merger market share and financial performance emphasizes the close association between an increase in market share and an improvement in financial performance. This correlation underscores the strategic significance of bolstering market share during and after the merger, as it directly contributes to the overall financial health and success of the organization. In essence, the positive changes in market share post-merger substantiate the positive impacts of the merger process on the organization's competitive position and financial performance.

Recommendations

The analysis of post-merger improvements in liquidity, market share, and risk diversification unveils strategic recommendations for the organization's continued success.

Firstly, the organization should focus on fortifying its liquidity management practices based on the positive changes observed post-merger. This involves not only maintaining the current effective strategies but also continuously monitoring and assessing liquidity levels to ensure their alignment with the organization's financial operations. Efforts should be directed towards implementing additional strategies that further reduce standard deviation, thereby fostering a financial environment that is more controlled and predictable.

Building on the substantial boost in market share post-merger, the organization should leverage this competitive advantage. This entails developing and executing strategic plans aimed at not only maintaining but also further increasing market share. Effective communication with both internal and external stakeholders is crucial to highlight the positive changes in market share and reinforce the organization's enhanced competitive position.

To sustain and improve risk diversification, the organization should continue refining its risk management strategies. It is imperative to maintain a diversified and resilient approach to handling potential risks. Consistency and stability in risk diversification practices should be prioritized to mitigate uncertainties in the evolving financial landscape.

An integrated approach aligning liquidity management, market share growth, and risk diversification is recommended. This approach aims to maximize synergies and overall impact on financial performance. Collaboration across departments should be fostered to ensure a holistic and coordinated strategy in addressing financial challenges and opportunities.

Further Research Recommendations

This current study was limited to influence of mergers on performance of banks in Kenya. further research can be done by conducting a longitudinal study to assess the extended impact of mergers on financial performance provides an opportunity to uncover trends and patterns that may not be immediately apparent. Investigating financial indicators over a more extended period beyond the immediate post-merger phase can offer a more comprehensive understanding of the lasting effects and the evolution of financial dynamics.

Delving into the nuances of post-merger financial dynamics within specific industries offers a focused and tailored approach. Different sectors may present unique challenges and opportunities, and a targeted investigation can yield insights that are more applicable and actionable within specific industry contexts. This approach allows for a deeper understanding of industry-specific factors influencing financial outcomes.

DECLARATION

We (Caroline & Dr. Wesley) confirm that this is my sole research and hasn't been submitted for any examination. We did self-funding and data collected are available.

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