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MERGER STRATEGIES AND THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

The main of this study was to analyze the influence of mergers on commercial bank performance in Kenya. The study examined following specific objectives; the Influence of vertical mergers and conglomerates mergers on the performance of commercial banks in Kenya. The study adopted a descriptive research design and targeted 11 merged commercial banks in Kenya between the period of 2017 and 2023. The sample size of 112 was determined using Yamane formula. The study used structured questionnaire to collect primary data and the Statistical Package for Social Sciences version 26 was used to analyze data. Descriptive and Inferential statistics was used to establish the relationships that existed between the variables. A pilot study was done to determine the reliability and validity of the research instruments. Descriptive results showed a strong and positive relationship between mergers and commercial banks. Inferential analysis showed a statically significant relationship between mergers and performance of commercial banks. Correlation analysis showed that Vertical(r=0.658,p=0.001), and Conglomerate (r=0.641p=0.001) have significant linear relationship with the dependent variable performance of Commercial banks. The ANOVA test showed that F-calculated 11.37 was greater than the F-critical 4,55 and hence linear relationship between the mergers and performance of Commercial banks in Kenya. Based on the R – Squared, the model is able to explain 45.3% of the changes in the dependent variable. The research concluded that commercial banks that have undertaken mergers and acquisitions have seen an improvement in the customer satisfaction and a growth in their market share. results indicate that vertical mergers comes with the benefits of reduced operations cost, efficient and streamlined operations leads to expanded market portfolio, reduced competition and aspects of monopoly benefits by consolidating small market players ,banks accessing new markets and new customer segments as a result of the conglomerate merger strategy. The study recommended that the bank executives are inclined with aligning their strategic goals to the choice of merger strategy to be implemented. The managers are encouraged to invest in deep research to find out the benefits accrued from each merger strategy. The managers are encouraged to invest more in activities of vertical mergers that align with the needs of the bank.

Key Words: Merger Strategies, Vertical Mergers, Conglomerates Mergers, Commercial Banks, Performance

Background of the Study

The Banking Act of 2012 defines banking as receiving deposits from the public and repaying them on demand, after a predetermined period, or after notice. Kenya's Banking Act governs mortgage financial institutions and banks. According to Gachanja (2013), analyzing Kenyan banks is critical for ensuring legal compliance. Kenya's banking industry is governed by three major acts of parliament: the Companies Act, the Banking Act, and the Central Bank of Kenya Act. Kenyan commercial banks must observe the regulations mentioned in these Acts. Commercial banks must adhere to other prudential standards specified by the central bank. The central bank of Kenya regulates the financial industry, ensuring that commercial banks adhere to the regulatory framework. The Kenya Bankers Association represents all of Kenya's commercial banks. Bank size impacts internal operations and is evaluated by net total assets, taking into account economies of scale and diseconomies of scale. Research suggests that expanding a bank's size can only slightly boost profitability. Large banks may face challenges due to bureaucracy and other constraints. The link between a bank's size and profitability should not be linear (Javaid, 2016).

According to Richard (2009), a firm's performance is measured by shareholder returns, product market performance, and financial performance. Shareholder returns include returns to investors and the organization's value, while product market performance includes sales and market share. Financial performance includes profits, return on investment, and assets. Performance refers to successfully achieving an objective. The process includes acting, executing, accomplishing, and achieving objectives. The goal is measured against predetermined standards for completeness, speed, cost, and accuracy. The success and compliance of an organization are measured by its performance. In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology, which tracks and measures performance in a variety of dimensions such as financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach), and employee stewardship, among others. Performance indicators for commercial banks include leverage ratios as well as non-financial variables.

Statement of the Problem

Kenya's commercial banks recently reported below-average performance (Osman and Muathe, 2021). Kiemo and Mugo (2021) discovered that the ratio of non-performing loans rose from 4.5% in 2012 to 12% in 2018.Deloitte's research in 2022 revealed that commercial banks are experiencing a decline in performance, as indicated by a rise in client complaints, sluggish service turnaround times, and concerns about their reputation. Instances of poor bank performance, such as insufficient bank capital, declining liquidity, slow response times, and dissatisfied clients, lead to bank runs and ultimately limit the banks' assets and customer base (Mwarabu & Abdulkadir, 2019). For instance, Imperial Bank and Chase Bank were placed under statutory administration by the Central Bank of Kenya in 2022 due to their poor performance, which was caused by customer attrition, capital inadequacy, and dwindling liquidity. The National Bank of Kenya (NBK) also closed several branches, including the Moi Avenue branch in Mombasa, which was later acquired by KCB (Kenga & Banafa, 2019).

The Central Bank of Kenya issued a regulation requiring banks to raise their core capital to one billion by the end of 2012. This decision motivated some banks to consider merging with other banks in order to achieve the requirement (Korir, 2016). To substantiate this notion, at the end of 2010, thirteen banks had not attained the specified level, prompting the management to undertake measures to meet the regulatory requirement (CBK, 2018). As a result of this action, economists and academicians have voiced concerns that the majority of banks would quickly attempt to achieve the level set by the CBK. However, they believe that doing so would not yield any financial advantages for the banks or their shareholders. According to Joash & Njangiru (2017), small and

medium banks suffer from high levels of inefficiency, a small number of customers, bankruptcy issues, financial distress incidents, and fragile management operations, all of which hinder their growth. These concerns have prompted some banks to consider the potential of mergers and acquisitions, with the goal of consolidating market share, reorienting strategy, and gaining broader technical and differential proficiency to improve performance. Furthermore, Yeboah and Asirifi (2016) claim that banks have rushed to implement mergers and acquisition plans in order to comply with the CBK rule, without sufficiently considering the non-financial ramifications of their actions.

Researchers investigated the influence of mergers and acquisitions on firms. Onotu and Yahaya (2016) conducted research in Nigeria, Yanan et al. (2016) in the United States, Ismail et al. (2014) in Egypt, and Mboroto (2013) in Kenya. All of these studies came to the same conclusion: mergers and acquisitions have a favorable link with company financial performance. Furthermore, research conducted by Gupta and Banerjee (2017) in India, Akben-Selcuk and Altiok-Yilmaz (2014) in Turkey, and Mulwa (2015) in Kenya revealed a detrimental correlation between mergers and acquisitions and the financial success of companies. Furthermore, research conducted by Mahesh and Prasad (2012) in India, Musyoki and Murungi (2015) in Kenya. This study intended to determine the performance of commercial banks in Kenya following mergers, thereby filling a key research gap.

Objectives of the study

The general objective of the study was to establish the relationship between merger strategies and performance of commercial banks in Kenya.

Specific Objectives

i. To determine the effect of vertical merger strategy on performance of commercial banks in Kenya
ii. To determine the effect of conglomerate strategy on performance of commercial banks in Kenya

LITERATURE REVIEW

Theoretical Review

Dynamic Capabilities Theory

Dynamic capability is a company's ability to "integrate, build, and reconfigure internal and external competencies to address rapidly changing environments." (David Teece et al., 1997). Dynamic capabilities place a special emphasis on how businesses might adapt their valuable resources over time. It is also believed that dynamic skills are linked to a company's motivation and enthusiasm for resource regeneration. This perspective is consistent with previous research by Teece and Pisano (1994) and Zollo and Winter (2002), who emphasized that in a changing external environment, firms needed to adapt and reconfigure internal resources, assets, operating routines, and competencies in order to increase their effectiveness and grow competitiveness, which is dependent on and accounts for superior business performance. M. Zollo and S. Winter (2002) defined dynamic capability as a learnt and stable pattern of collective activity in which an organization systematically generates and changes its operating routines in order to maximize its efficacy. Whereas capabilities are primarily concerned with what to produce and how and where to make, market, and distribute it, strategy assists in determining the timing of market entry and how to keep competitors at bay. The goal of strategy is to outmaneuver competitors by capitalizing on their mistakes and leveraging in-house strengths. Sensing capabilities refer to a firm's ability to identify opportunities, threats, changes, and competitors' potential responses to its actions (Li and Liu, 2014). This requires constant scanning of both internal and external capabilities (O'Reilly & Tushman, 2008; Panzda & Thorpe, 2009). Cao (2011) defines sensing capabilities as a company's

ability to manage products, services, processes, business models, and talent to effectively organize operations. To succeed, businesses must prioritize capturing capabilities. This requires a future-oriented mindset, strong management skills, and the willingness to strategize regularly (McGrath, 2001). Reconfiguration capabilities refer to a company's ability to create, acquire, and share knowledge (Cepeda & Vera, 2007; Easterby-Smith et al., 2009; Vivas Lopez, 2005; Zahra & George, 2002).

Synergistic Mergers Theory

According to synergistic mergers theory, firm managers can improve efficiency by integrating an efficient aim into their own business and increasing its performance. Synergies may arise at the operational, financial, or management levels. Buyers see similarities between their businesses and those of the target. Combining the aim with the buyer firm can improve its performance even further. Economic Research Service (2010).Financial synergies can also drive mergers and acquisitions. According to Myers and Majluf's (1984) financial synergy theory, firms with limited liquid assets or financial slack may miss out on significant investment opportunities due to asymmetric information in financial markets. Merging with a slack-rich firm can boost a firm's value if there is less information asymmetry between the two firms than between the slack-poor firm and outside investors. Takeovers can effectively address information gaps and generate financial benefits. This idea suggests that financially distressed enterprises with favorable investment possibilities are more likely to engage in M&A activities, either as targets or acquirers.

Biao (2014) explains that managerial synergy can occur when acquiring firm managers have abilities and knowledge that the acquiring firm's management lacks. Financial synergy has come under examination, with some arguing that there is no evidence to support the benefits of internal capital markets or reduce systematic risks. Research shows that operational and managerial synergies do not increase enthusiasm for acquisitions.Mergers and acquisitions can boost cash flow and company value by leveraging operating and finance synergies, whether through expanded scale or unique combination benefits (Cherie, 2014). Mergers, whether horizontal, vertical, or conglomerate, can improve operational synergy within a business. This concept assumes that economies of scale exist in the business and that prior to a merger, enterprises are functioning at levels that do not fully realise their potential. There are four types of synergies: cost, revenue, market power, and intangible assets. There are two types of cost synergies: fixed and variable. Sharing central services like as accounting, finance, office, senior management, legal, sales promotion, and advertising can significantly reduce overhead costs. Yin (2003) found that lower variable costs lead to improved purchasing power and productivity.

Conceptual Framework

Mugenda (2013) define a conceptual framework as a diagram depicting the link between the independent and dependent variables in a study. The association between the two sets of study variables are represented in a diagram with lines joining and showing the nature and flow of the relation. In this study, vertical mergers, and conglomerate mergers are presented as the independent variables while performance will be presented as the dependent variable

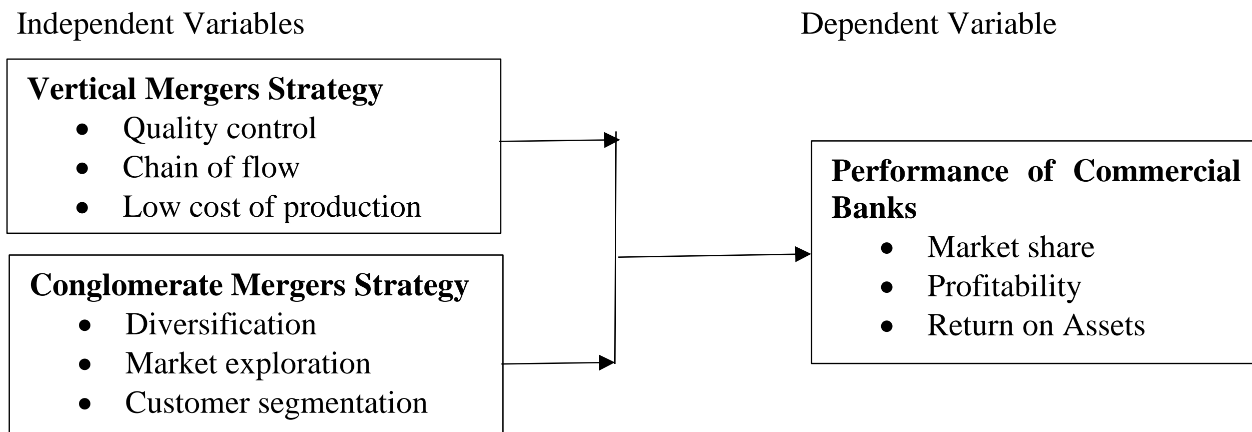

Figure 2.1 Conceptual framework.

Empirical Review

Vertical Merger Strategy and Performance

A vertical merger happens when two companies produce different products at various levels of the supply chain (Javaid, 2010). Javaid (2010) also stated that companies have utilized liquidity levels as a component in merger deals to assess the firm's synergy level. Liquidity is described as an entity's capacity to quickly convert its current assets to cover its current liabilities or commitments when they become due within a one-year period, primarily for depositors (Hillier et al, 2010). Firms merge as a restructuring mechanism to maximize shareholder value. Baldauf, Cravens, and Piercy (2015) reviewed critical managerial and research questions concerning the consensus in conceptualizing control of sales management, the identification of relevant antecedents for controlling strategic choices, and the extent to which organizational consequences, salespeople, and managers are affected by strategic management control decisions. The findings revealed that there are numerous combinations of control approaches, both formal and informal. Formal controls are based on officially established rules, and most of the time they are implemented by the manager, whereas informal controls are based on conventions, and peers are usually the ones who enact them.

Kimani, Okello and Wagoki (2015) collected data from production managers and farm managers in Kenya to investigate the impact of integration strategies on the competitive performance of rabbit meat manufacturing enterprises. The study utilized descriptive analysis. Vertical mergers were found to have a statistically significant impact on competitive outcomes, allowing a firm to outperform its rivals. Prasad and Mahesh (2012) investigated the performance of Indian airline businesses following the industry's consolidation in 2007-08. The study's goal was to look at the profitability, leverage, liquidity, and capital market performance of Indian airlines after mergers and acquisitions. The researchers used semi-structured questionnaires and secondary data as the primary data collection tools. The results showed no difference in the remaining company's capital sufficiency, earnings per share, net profit margin, or dividend per share following the merger. It demonstrated that the association between mergers and acquisitions and financial performance is unfavorable for Indian aviation companies. However, the study was conducted in India and did not use the sample firms' return on assets as a financial success indicator. The study also looked at how airline companies consolidated within a single fiscal year.

Conglomerate Merger Strategy and Performance

Conglomerate Diversification Strategy occurs when a firm chooses a strategy that requires one or more of its subsidiaries to be defined in terms of their respective client categories, product roles, and alternative technologies (Manu, 2015). M&A transactions can be considered a kind of business

diversification. Most firms are constantly striving to reduce the risk and exposure to a variety of volatile parts in an industry by incorporating varied sectors into their corporate umbrella. Diversification is a company's expansion into new markets. An increase in the number of businesses an organization operates in terms of products, geographic markets, or knowledge (Chandler, 2012; Jarrell, Brickley, & Netter, 2014). Ogada, Achoki, and Njuguna (2016) evaluated the impact of diversification on the financial performance of Kenyan institutions that merge. The study utilized a mixed methods research approach. The research population included all 51 merged financial service institutions in Kenya. Purposive sampling was used. Questionnaires were used as primary data and templates as secondary data. The researcher assessed the data quantitatively. The study's descriptive analysis included means, frequencies, and percentages. Inferential statistics, such correlation analysis, were also used. Panel data analysis was also performed. Furthermore, a pre- and post-merger research was carried out. The study found no significant influence on the financial performance of merged institutions.

Mwanzi (2016) conducted a study to determine whether highly diverse firms outperformed less diverse firms. A questionnaire was utilized to gather primary data from insurance companies. The study's findings found that when firms were grouped according to product diversification, firms with medium diversity outperformed those with low or high diversity. When the firms were categorized based on geographical diversification, the highly diversified firms outperformed the other two groups. These findings may help to explain the weak but suggestive relationship found between the extent of diversification and performance, as measured by Return on Assets (ROA). This implies that performance responds to diversification. The analysis was undertaken for all enterprises in the economy rather than a specific company, highlighting conceptual and contextual inadequacies in the current study, which focuses on sugar producing firms in western Kenya. Ndora (2010) investigated the effects of M&As on the monetary performance of Kenyan insurance companies. He selected six of the 42 licensed insurance agencies that had participated in M&As between 1995 and 2005. To assess performance, the study looked at ROA, ROE, and working benefits. The study concluded that the amalgamated firms saw increased budgetary execution, demonstrating that mergers and acquisitions boost financial efficiency in insurance agencies. The current study focused on banks in Kenya.

Tuni (2011) explored how mergers and acquisitions affected the financial performance of Kenyan financial institutions. The study had two main goals: assessing the financial performance of merged institutions before and after the merger/acquisition, and determining the impact of M&A on the financial performance of financial institutions. A sample of 20 financial institutions was chosen from a total of 70 merged organizations. Profits per share, ROA, and ROE were calculated and examined using 10-year financial statements from 20 financial businesses. Before the merger, 7, 8, and 7 institutions had positive ROA, ROE, and EPS, respectively. The performance of these metrics changed during the year of mergers and acquisitions. After the M&As, 6, 8 and 8 financial institutions posted an improvement in ROA, ROE and EPS respectively. Gwaya (2015) investigated the impact of mergers and acquisitions on the financial performance of commercial banks in Kenya. The study focused on banks that conducted M&A in Kenya between 2000 and 2014. The study used a census technique to include all 14 banks that merged or bought others over the specified period. Data were gathered using 22 questionnaires. The acquired data was analyzed using descriptive statistics with the assistance of SPSS. The study discovered that mergers and acquisitions increased the market share performance of the merged/acquiring banks in Kenya. The report also identified a desire to enhance market share as one of the primary reasons Kenyan banks merged or acquired others.

RESEARCH METHODOLOGY

The study adopted descriptive research design to investigate the relationship between mergers strategies and commercial bank performance in Kenya. A descriptive research design defines a phenomenon or qualities connected with a subject population, estimates the proportion of the population that has these characteristics, and identifies connections between variables (Creswell, 2018). The population of this study consisted of all 11 licensed commercial banks in Kenya that have either merged or been acquired. The average main departments in Kenyan commercial banks are 7 from the 11 commercial banks. Each department had two respondents giving a total sample frame of 154. The respondents were from 11 mergers and acquisitions that occurred in the industry between 2017 and 2022.

Table 1 Target Population

Departments	Target Population	Sample size
Banking Section	22	16
Sales and marketing	22	16
Credit section	22	16
Risk and compliance	22	16
HR and Admin	22	16
Procurement	22	16
Operations	22	16
	154	112

Stratified purposive sampling was used.

The Yamane formula is a statistical technique for determining sample size for a survey or research study. The following is the formula:

n=N/(1+N(e^2)) $n = \frac{N}{1+N(e)2}$

Where n=sample size, N=population size, e=margin of error

Using a margin error of 0.05 we can calculate the required sample size using the Yamane formula:

$$n = \frac{154}{1+154(0.05)2} = 112$$

Therefore, the sample size required for a target population of 154 respondents assuming a margin of error of 0.05, is approximately 112 respondents.

This study employed the use of a structured questionnaire to collect data. The questionnaire was used to collect primary data from chosen staff at Kenyan commercial banks. A questionnaire was utilized since it can collect vast amounts of information from a big number of people at a low cost and in a short period of time.

According to Connelly (2008), an acceptable study sample should be at least 10% of the sample size of 112. The instruments went through a pilot test to determine their goodness. Item analysis was performed to confirm that the items are in their proper place in the instruments. The researcher employed the validity and reliability tests to attain these objectives. The respondents that participate in the pilot study were not be part of the final study.

Data processing was conducted whereby the primary data from the questionnaires were edited for completeness and consistency after the collection, they were then coded and analyzed using SPSS. The data from financial statements was also extracted from the sampled firms' yearly financial reports and entered into statistical software. The initial level of analysis involved a descriptive examination of the data. The nominal data, demographic information was analyzed using

frequencies and percentages. The mean and standard deviation was used to evaluate interval data from Likert scale questions. The study used ANOVA analysis to assess the financial performance of companies after mergers. Inferential statistics hypothesis testing was used to generalize the results from samples to population. Diagnostic tests was performed prior to the regression analysis. Specifically, normality tests, multicollinearity tests. The data was analyzed using the Statistical Package for the Social Sciences (SPSS) Version 23. After analysis, the data results was presented in forms of tables. Multiple linear regression analysis was used to determine how much change the predictor factors have on the response variable.

RESEARCH FINDINGS AND DISCUSSIONS

The study administered 100 questionnaires for the purpose of collecting data. From that,85 were dully filled and returned giving a response rate of 85% Mugenda and Mugenda (2018) suggested that 50% response rate is adequate to give viable results,60% is good while 70% and above is very good response rate therefore 85% was excellent for analysis and giving reliable results for the study.

Descriptive statistics

Influence of merger strategies were measured using mean and standard deviation to gauge the level of agreement or disagreement from respondents.

Vertical Merger Strategy

The first objective of the study was to determine the effect of vertical merger strategy on performance of commercial banks in Kenya, the respondents were presented with 5 items. A Likert scale was used where the responses were coded as follows1=Disagree, 2= Slightly Agree, 3= Moderately Agree, 4= Agree, 5 = Strongly Agree.

Statements	Mean	SD
The firm experiences reduced cost of production of services due to the merger	4.651	0.747
The operations have been more efficient due to the management change after acquisition	4.216	0.831
Additional resources have been availed to develop new products or markets	4.183	0.736
Lower costs of operation have been realized through streamlined operations.	4.361	0.734
There has been increased revenue opportunities since the acquisition	4.103	0.616
Aggregate	4.303	0.733

The total aggregate mean score of this section was found to be 4.303 with a standard deviation of 0.733signifying that on average, managers agreed that vertical mergers affected performance. From the results majority of the respondents agreed with the statements of vertical integration to a great extent. The firm experiences reduced cost of production of services due to the merger(Mean=4.651: SD=0.747), The operations have been more efficient due to the management change after acquisition(Mean=4.216: SD=0.831), Additional resources have been availed to develop new products or markets(Mean=4.183: SD=0.736), Lower costs of operation have been realized through streamlined operations(Mean=4.361: SD=0.734), There has been increased revenue opportunities since the acquisition(Mean=4.103: SD=0.616).The results indicate reduced costs and efficient production, additional resources, streamlined operations and increased revenue opportunities as some of the benefits accrued as a result of mergers.

The findings agree with the findings of Kimani, Okello & Wagoki (2015) who found that Vertical mergers were found to have a statistically significant impact on competitive outcomes, allowing a firm to outperform its rivals. Javaid (2015) Firms merge as a restructuring mechanism to maximize shareholder value.

Conglomerate Merger Strategy

The second objective of the study was to determine the effect of conglomerate merger strategy on performance of commercial banks in Kenya, the respondents were presented with 5 items. A Likert scale was used where the responses were coded as follows: 1=Disagree, 2= Slightly Agree, 3= Moderately Agree, 4= Agree, 5 = Strongly Agree.

Statements	Mean	SD
The brands have gained market favors since the merger and acquisition	4.367	0.653
Mergers and acquisitions have improved the banks image in the eyes of the customers?	3.233	0.753
The bank has acquired new customer segment through the merger	4.413	0.762
There are better priced products/services created since the acquisition	3.671	0.781
There has been ease entering into new markets and launching new products	3.856	0.648
Aggregate	3.908	0.719

The total aggregate mean score of this section was found to be 3.908 with a standard deviation of 0.719 signifying that on average, managers confirmed that conglomerate mergers moderately affected performance. The respondent agreed to a great extent with the statements, The brands have gained market favors since the merger and acquisition, The bank has acquired new customer segment through the merger with a mean and SD of (Mean 4.367; SD =0.653, Mean 4.413;SD=0.762)respectively. Majority of the respondents moderately agreed with the statements, Mergers and acquisitions have improved the banks image in the eyes of the customers, (Mean=4.216: SD=0.831), There are better priced products/services created since the acquisition, (Mean=671: SD=0.781), There has been ease entering into new markets and launching new products (Mean=3.856: SD=0.648), The findings indicate that not much changes occur as a result of conglomerate merger.

The findings are in agreement with the findings of Mwanzi (2016) who found weak but suggestive relationship found between the extent of diversification and performance, as measured by Return on Assets (ROA). This implies that performance responds to diversification.

Performance of Commercial Banks

Table 4 performance

Organization; Banking sector					
	2017	**2018**	**2019**	**2020**	**2021**
ROA	**12.3**	**10.14**	**16.6**	**16.8**	**28.2**
profitability	**5.5**	**14.6**	**17.2**	**15.3**	**26.2**
Market share Index	**16.86**	**21.22**	**17.10**	**17.8**	**38.19**

Source Central Bank of Kenya.

The sector was shaken in 2020 due to Covid 19 pandemic which later the sector recovered and has been experiencing an upward trajectory. Return on Assets has been on upward trajectory since 2019 with an increase of 0.2% in 2020 and 11.4% increase in 2021. Market share increased due to mobilization of agency banking and mobile phone platforms.

Correlation test results

The statistical relationship between two variables is referred to as their correlation. A correlation could be positive, meaning both variables move in the same direction, or negative, meaning that when one variable's value increases, the other variables' values decrease. The significance level (or p-value) is the probability of obtaining results as extreme as the one observed. If the significance level is very small (less than 0.05) then the correlation is significant and the two variables are linearly related. To determine whether there existed a relationship between the study variables involved, a correlational analysis was carried out.

Table 4 correlation coefficients

c		Vertical	Conglomerate	Performance
Vertical Mergers	Pearson Correlation	1		
	Sig. (2-tailed)			
Conglomerate mergers	Pearson Correlation	.504**	1	
	Sig. (2-tailed)	.000		
Performance	Pearson Correlation	.658*	.641**	1
	Sig. (2-tailed)	.000	.000	

The results show positive, significant correlation between Vertical merger strategy (r=0.658, P=0.001), Conglomerate merger strategy (r=0.641, P=0.001). This indicates that merger strategies is positively correlated with performance of commercial banks. The independent variables were positively correlated with each other independent variables indicating that an increase in one of these variables could therefore associated with an increase in the others variable.

Multiple Linear Regression Analysis

The study conducted a multiple regression analysis so as to determine the significance of the relationship between the dependent and the independent variables. Coefficient of determination in the present study describes the extent to which variations in among the independent variables explain changes in the dependent variable or the percentage of disparity in the outcome variable. The model shows that there is a positive influence between Vertical Mergers Conglomerate Mergers on performance of commercial banks in Kenya.

Analysis of Variance

The analysis of variance was used to examine whether the regression model was a good fit for the data. The F-critical (4, 55) the F-calculated was 11.37 as shown in Table below. This shows that F-calculated was greater than the F-critical and hence linear relationship between the mergers and performance of Commercial banks in Kenya. In addition, the p-value was 0.000, was less than the significance level (0.05). Therefore, the model can be considered to be a good fit for the data and hence it is appropriate in predicting the influence of the four independent variables on the dependent variable.

Table 5 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.234	4	1.809	11.37	.002[b]
Residual	8.749	55	.159		
Total	15.983	59			

a. Dependent Variable: Performance

b. Predictors: (Constant), Vertical, Conglomerate,

Model Summary

Table 6 model summary

Model	R	R squared	Adjusted R square	Standard error of the estimate
1	.673	.453	.413	.3988

a. Dependent Variable: Performance

b. Predictors: (Constant), Vertical, Conglomerate

The table above shows the R – Squared and also the significance level of the model. The model is significant at a confidence level of 95% since the P – Value is 0.00 and hence >0.05. There is a considerable positive correlation between the dependent and independent variables. The R value of 0.673 indicates a perfect link between the dependent and independent variables. Based on the R – Squared, the model is able to explain 45.3% of the changes in the dependent variable. The other 54.7% of changes in organizational performance of maybe clarified by other independent variables that were not used in the current study model.

Regression Coefficients

Table 7 Regression Coefficients

Coefficients[a]	Unstandardized		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.617	0.482		3.351	0.001
Vertical Mergers	0.332	.192	.366	1.731	0.009
Conglomerate mergers	0.154	.224	.173	.687	0.002

a. Dependent Variable: Performance
b. Predictors: (Constant), Vertical, Conglomerate

$Y = 1.617 + .332X_1 + .154X_2$

The equation established that considering all other independent variables constant at zero, Performance of Commercial banks in Kenya, will be at an index of 1.617. Taking all other independent variables to zero, for every unit improvement in Vertical merger the Performance of Commercial banks in Kenya improves by 0.332 points. A unit increase in Conglomerate merger corresponds to a 0.154 rise in Performance of Commercial banks in Kenya

Hypothesis Testing.

The hypotheses formulated in the chapter one of the study were tested for acceptance and rejection. This was done using t-statistical tool. The coefficients of the t test statistical analysis are presented below.

Hypothesis one

H_0 Vertical merger strategy has no significant influence on performance of commercial banks in Kenya.

H_1 Vertical merger strategy has a significant influence on performance of commercial banks in Kenya.

Based on t- statistics of 0.731 and p value 0.009 Vertical merger strategy were found to have a significant influence on the performance of commercial banks in Kenya, therefore, the null hypothesis was rejected and the alternative hypothesis accepted. We then conclude that vertical mergers have a significant influence on the performance of commercial banks in Kenya.

Hypothesis Two

H_0 Conglomerate strategy has no significant value on performance of commercial banks in Kenya.

H_1 Conglomerate strategy has a significant value on performance of commercial banks in Kenya.

Based on t- statistics of 0.678 and p value 0.002 Conglomerate merger strategy were found to have a significant influence on the performance of commercial banks in Kenya, therefore, the null hypothesis was rejected and the alternative hypothesis accepted. We then conclude that Conglomerate mergers have a significant influence on the performance of commercial banks in Kenya.

Discussion of Key Findings

The results found that Vertical Mergers affect performance to a greater extent where the mergers lowered the cost of operation, increased efficiency and most importantly outperform competitors. The merger also presents additional sources of revenue of the banks as a result of tow bans coming together. The findings agree with the findings of Kimani, Okello and Wagoki (2015) who found that Vertical mergers were found to have a statistically significant impact on competitive outcomes, allowing a firm to outperform its rivals. Javaid (2015) Firms merge as a restructuring mechanism to maximize shareholder value.

The results found that Conglomerate Mergers affect performance to an extent where the mergers leads improved brand image of the banks which in turn leads to acquisition of different customer segments and entrants into new markets and launching of different products that were not initially part of the merging bank. The findings are in agreement with the findings of Mwanzi (2016) who found weak but suggestive relationship found between the extent of diversification and performance, as measured by Return on Assets (ROA). This implies that performance responds to diversification. The findings however conglomerate merger is nor very popular within the commercial banks

Conclusion of the study

Based on the findings, the study concludes that Vertical merger strategy positively and significantly affect the performance of commercial banks. The coefficients of vertical mergers indicates that a positive link exists between organizational performance of banking sector and vertical merger strategy. Vertical mergers comes with the benefits of reduced operations cost, efficient and streamlined operations, this merger should be a consideration for bank managers experiencing operation challenges

The objective conglomerate strategy positively and significantly affect the performance of commercial banks. However, other than accessing new markets and new customer segments as a result of the merger strategy, the strategy does not present a lot of changes. Therefore bank managers should do further research and align their goals before executing the strategy.

Recommendations

From the conclusions the study recommends that:

1. Banks should implement merger strategies in commercial banks so as to increase the banks performance. The banks are inclined with aligning their strategic goals to the choice of merger strategy to be implemented.

2. The managers are encouraged to invest in deep research to find out the benefits accrued from each merger strategy, their operational challenges and the areas that they would want to improve so as to accurately align their resources with the right merger strategy.

Vertical mergers derive the most operational and cost benefits for the banking sector. Therefore, the managers are encouraged to invest more in activities of vertical mergers that align with the needs of the bank.

Areas for further research

Further research can be carried out on the specific objectives each as a main variable of the study. Since the variables of the study only account for 45.3% of the dependent variable, further research can also be carried out using other variables that were not included in the study which accounts for 54.7%. In addition, researchers could also study challenges faced in the implementations of the strategies, the effect that the mergers have on the employees of the respective banks

Despite the large number of studies that have been documented on M&A action, surprisingly, there are a relatively small number of studies carried out to examine M&A action that focus on the role of MA on post-company performance for short- and long-term periods. The study can also be carried out in a different geographical scope. Similarly the study can also be carried out in a different sector like insurance industry or manufacturing sector.

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