

Mergers and Acquisitions and their effects on Firms objectives: African perspective

Mary Kavele Patrick

Post-graduate Student, Department of Accounting and Finance, Technical university of Mombasa

Yassin Opondo Makolo

Post-graduate Student, Department of Accounting and Finance, Technical university of Mombasa

Charles Guandaru Kamau

Senior Lecturer, Department of Accounting and Finance, Technical university of Mombasa

Abstract: *Mergers and acquisitions are widely seen as a long-term strategy for resolving financial problems in corporations. This research study that is primarily based on a desk review established that this commercial enterprise approach has given mixed findings, such as failing to establish that the stated factors led to the manner of mergers and acquisitions, nor has it published an increase in profitability of commercial enterprise financial performance due to mergers and acquisitions. However, all mergers and acquisitions are no longer unsuccessful due to some factors like monetary, advertising, and operational problems. Thus, there are other important factors that influence mergers and acquisitions, such as value creation, "cultural" integration, and profitability. According to the study's findings, mergers and acquisitions have a positive impact on financial institutions' net income in the form of increased wealth, decreased effective spending, and increased revenue growth.*

Keywords: Mergers, Acquisitions, Growth, Profitability, value creation, market coverage

1 Background of the study

The phrases "merger," "acquisition," and "consolidation" are commonly misunderstood. "A merger arises when one corporation purchases another corporation, or segments of it, and takes control of its assets and liabilities. When an individual company purchases another, or units of another, and proceeds to be the controller of its assets and liabilities, this is referred to as "amalgamation." "Amalgamation is a business grouping in which two or more firms amalgamate to form a new corporation, in contrast to an acquisition, which is a commercial merger in which one company purchases the equity of another." It is also stated that a merger

occurs when two companies of nearly comparable size join their resources to form a single company (Akinbuli & Feyi, 2013).

In the past, and in the future, mergers and acquisitions have dominated the news. They're being promoted and spoken about all around the world. Mergers and acquisitions have been reported in a range of industries, including banking and insurance, oil and gas, and power, to name a few. According to Joash (2015), the basic purpose of M&A is to increase the value of the company's owners. A lot of companies looking for mergers and acquisitions want to be the market leader in their principal business unit's product-market area. In the history of mergers and acquisitions, a lot has transpired for a number of reasons.

The financial and insurance industries have merged in Kenya. For instance, CFC STANBIC bank was formed after Credit Finance Corporation and STANBIC banks merged. As a result of the transaction, a subsidiary of the Standard Bank Group was created. The ICEA-LION group was established in the insurance industry as a result of the merger of ICEA and Lion Assurance Company. Some of these mergers are the result of companies attempting to comply with relevant statutory requirements, while others are the consequence of a competitive strategy. Additional mergers are anticipated in Kenya if management succeeds in resisting the Central Bank of Kenya's attempt to raise the credit obligation for profitable banks to Ksh5 billion (Deloitte, 2015). Several regulated institutions, particularly commercial banks, have been forced to merge due to changes in the operating environment, combining their operations under mutually agreed-upon frameworks in which one institution takes over the operations of another.

Mergers and acquisitions are occasionally justified to fulfill accumulative market demand and rivalry, diversification into international markets; exploitation of developing different and exclusive contemporary expertise; or meeting new liquidity needs, such as those mandated by banking laws (Njambi, 2018). Nonetheless, some studies reveal that not all mergers are effective because of reduced post-merger administration, raising the question of whether mergers are profitable. The government pushed for an increase in the minimum wage in 2008. By 2010, there were more mergers that were successfully integrated than ever before; by 2014, there were approximately 30 such situations (Ondieki, 2015). According to Jambiri (2018), increased competitiveness and the need for adequate capital are two major factors driving industry consolidation. Mergers and acquisitions are one of Kenya's most widely used growth methods. Economic mergers are becoming more common in Kenya, with international organizations achieving some limited projects or two local enterprises integrating through businesses.

2 Statement Problem

A study establishes that mergers and acquisitions (M & A) are a crucial tool for boosting firm growth and productivity. Many organizations are turning to mergers and acquisitions to

improve their competitiveness as a result of market globalization and rapid technological change. Many organizations are turning to mergers and acquisitions to improve their market competitiveness by acquiring market share relative to their competitors (Blomson, 2016). Businesses utilize mergers and acquisitions to broaden their product lines, get easier access to new markets through clever positioning, and benefit from economies of scale. Through planned interactions with new markets and support from sizable markets, mergers and acquisitions (M & A) enable businesses to expand.

In Kenya, there has been a lot of research into the link between acquisitions and company performance, and the results have been mixed (Joash, 2015). A poll of merger experiences revealed that mergers do not provide considerable value to merging businesses. Although research on the topic has produced varied results, bank shareholders and management have used mergers and acquisitions to shed light on business performance. Some researchers have established that integrated corporations outstrip self-regulating banks preceding the merger, whereas others have realized that there is no significant achievement in business performance as an outcome of the merger (Sinha, Kaushik, & Chaudhry, 2019).

According to Joash (2015), mergers do not result in better enactment when restrained by cost-effectiveness accustomed to the production average. Aside from metrics that comply with regulatory standards set by Kenya's central bank, merger restructuring has not improved the bulk of merging institutions' financial performance. Recent growth in mergers and acquisitions in the Kenyan business sector is luring receptivity, especially in the form of demands for understanding the numerous merger incentives and how they impact business performance and effective efficacy.

Recent growth in mergers and acquisitions in the Kenyan business sector is luring receptivity, especially in the form of demands for understanding the numerous merger incentives and how they impact business performance and effective efficacy. The purpose of this study (Ombaka, 2018) is to evaluate the financial performance of Kenyan banking institutions in relation to mergers and acquisitions and to spot performance differences. The lack of experimental data that demonstrates precisely how mergers and acquisitions affect profitable companies in Kenya is what spurred the study's inception. Ombaka (2018) conducted an additional study and found that corruption in both the public and commercial sectors causes additional harm. Since merger and acquisition agreements provide assurance and anticipation to stimulate consummation as indicated by their profitability, the necessity to stop and demoralize the prevalence of corrupt acts must be severely condemned.

3 Methodology

The primary approach used in this study was a critical analysis of the existing research on the variables affecting mergers and acquisitions as well as the productivity, expansion, and profitability of business organizations in the post-consolidated banking sector. This article

conducts a desk study and/or literature review in order to draw conclusions about the literature's views of the factors that influence mergers and acquisitions.

4 Literature Review

The frequency of mergers and acquisitions is rising across all business sectors, including non-financial ones (M & A). The experiential literature cites numerous pieces of research that have examined the banking industry's impact of mergers and acquisitions. Similar to the financial sector, there is a wealth of non-financial literature in many different countries. Research has been conducted in a variety of industries to assess how mergers and acquisitions affect the effectiveness of the resulting organizations.

From one business to the next, the results are different. Kimetto (2019) conducted research on the effects of mergers and acquisitions (M & A) on financial performance and evaluated seven corporations that represented the various industries: automobile, steel, agribusiness, aluminum, energy, wind turbines, and telecom. According to the study's findings, five out of the seven ROCEs dramatically decreased, while three of the companies' operating profits were declining. Earnings per share for the corporation remained flat. This is a sign that certain mergers did not produce the anticipated increase in profitability.

The primary goal of the study was to examine how mergers from 2006 to 2012 affected the performance of the bidding firm. The selected sample revealed a reduction in profitability, demonstrating that not all mergers and acquisitions boost performance and that other ways of expansion, such as consolidation and reorganization, should be explored (Bijoy Gupta, 2017). In his investigation into how mergers and acquisitions affect banks' financial health (a survey of commercial banks in Kenya), Bijoy Gupta (2017) found that the majority of firms merge in order to increase their effectiveness by increasing their market share.

In Kenya's banking industry, this important factor accounted for 76 percent of merger-related factors. The mergers increased the value of the stock held by the shareholders by increasing demand, price, and earnings per share. Through mergers and acquisitions, profitability increased. This significant component was responsible for 76% of the factors influencing mergers in Kenya's banking sector. The mergers also raised the price of shares by increasing demand, price, and earnings per share. Mergers and acquisitions increased profitability, but it is not clear if this resulted in an increase in profitability (Mmbone, 2016). It is necessary to replicate the research in the coverage industry because the research's framework was in the funding business. Research on the effects of mergers on the performance of companies: the case of CFC Stanbic Bank Limited was undertaken by Mmbone (2016) to ascertain the impact of the merger on the financial performance of CFC Stanbic Bank. The results showed that cash flow had a considerable impact, although profitability and share price were not much impacted.

4.1 Wealth/Growth

Using data on share price variations and changes in selected performance measures, Betzer (2015) conducted research on the study of wealth implications following mergers and acquisitions. Four groups were created out of the entire sample of transactions. The stock price and the observed financial statement measure or measures for the first and fourth groups of mergers and acquisitions either had positive changes on both occasions (group I) or experienced negative changes on both occasions (group II) (group IV). With Groups II and III M & A, the outcome was the opposite.

The mergers and acquisitions in Groups II and III had the opposite effect (positive share price movement concurrent with a negative change in financial statement measures, and vice versa, respectively). Compared with these categories, the researchers came to the conclusion that "cash" was the sample's largest overall source of financing. Another characteristic of Group I is the great anticipation of its related efficacy. Group II is a common set of transactions agreed upon to prevent the neighbors from committing similar acts. "Stock" funding ended up being more common than "cash" in the third group. Both Groups IV and III received "stock" money quite regularly. Group IV and Group III both frequently received "stock" funding. Researchers looked at the complete sample and found that the majority of the organizations had growing observable financial indicators after a merger or acquisition (Blomson, 2016).

4.2 Profitability of corporate organizations

According to a prior study on how mergers and acquisitions impact corporate financial performance, the nature of these transactions is exceedingly complex and appears to be inconsistent. Some of these studies (Kinatader, 2017) have established that some businesses are more economically efficient after mergers and acquisitions, while others are less effective (Ayadi, 2014), have proven that they are insignificant or have only had a negative influence. In the past, numerous economists and industry professionals looked at different merger and acquisition-related topics (M & A) transactions in an effort to draw a definitive conclusion about the effects of this phenomenon on readiness and economic efficiency, but no such conclusion has been reached.

4.3 Shareholder Value Creation

The numerous motivations behind mergers and acquisitions have an impact on the creation of shareholder value. Market share and achieving economies of scale are two characteristics that might determine how much value is created for shareholders in a company. Economic scales can be used to describe the drop in the average cost of manufacturing as a result of reduced collective output. (Campello, 2018). As market shares increase, suppliers' and

customers' purchasing power declines as well. The numerous motivations behind mergers and acquisitions have an impact on the creation of shareholder value. Market share and achieving economies of scale are two characteristics that might determine how much value is created for shareholders in a company. Economic scales can be used to describe the drop in the average cost of manufacturing as a result of reduced collective output (Njangiru, 2015).

With the advancement of technology, businesses may manage fee disputes as well as self-exploitation. Organizational problems can lead to mergers and acquisitions because the top executives decide to increase their own advantage at the expense of the shareholders'. Agency problems increase rivalry, but it is difficult to eliminate rivalry on its own. The organization's desire for intervention and unrestrained cash flow destroys shareholder value (Zhongming & Jingyun, 2022).

Earnings per share is a variable that is used to assess the relationship between the value of shareholders in a company and the rate of return on invested capital. They also realized that there was a correlation between economic value-added and earnings per share in different industries. Earnings per share are used to forecast currency fluctuations, evaluate corporate actions, and determine the impact of issuing corporate shares. According to the study's findings, organizations' daily operations were responsive in terms of value creation and risk reduction (Ayako & Murungi, 2015), also enabling businesses to actively participate in future growth, generate stakeholders important to future revolutions, and successfully produce the goods and infrastructure of the future.

4.4. Culture integration and performance.

The blending of cultures is one factor that impacts mergers and acquisitions. From a mergers and acquisitions (M & A) perspective, culture integration (CI) is not essentially concerned with describing a throwaway innovative culture or inciting cultural change (M & A). In order to achieve business objectives and define what we propose to occur in the near future, culture integration is said to involve appropriately taking into account culture. This helps to ensure that we are developing the appropriate success plans and involvement to prevent compact falls in the initial phases of two businesses cooperating (Hernandez-Carrion, Camarero-Izquierdo, & Gutierrez-Cillan, 2017). Depending on whether it was a merger or purchase, integration was highly informal when a poorly performing corporation established an additional group with equal power.

This is said to support Alga's (2016) assertion that multiculturalism and the incorporation principle are encouraged by cultural integration (CI). The findings suggest that the issue of whether cultural integration affects how mergers and acquisitions are implemented in the banking industry has made a successful comeback. Culture integration (CI) was strongly correlated with mergers and acquisitions performance in (Yanan & Basit, 2016) study, proving that CI is a factor in M&A performance. Values cannot be ignored when making decisions,

and in cases when culture does not mandate the action, organizations need to develop their social intelligence in order to contribute to this transformation.

Achieving broad goals and ensuring that the guiding principles are consistently implemented throughout all activities are central to methods for organizing a culture, whether they are used to create a new culture for a corporation or to improve an existing one. Therefore, it is imperative that the business trail comprehend both the culture that already exists inside the company and the one that was introduced following the merger acquisition and work to successfully mix the two (Wachira & Memba, 2015). Culture change strategies, analyses of the current culture and the degree to which goals can be met, and lastly, the culture cooperation method are a few of the organizational upland strategies. Njangiru, (2015) established a strong link between the success of mergers and acquisitions (M & A) and culture integration (CI), showing that CI has a role in M & A success.

4.5. Market Coverage

Market coverage is the assessment of the overall market and the strength that justifies how much one would protect with their marketing strategy for a good or company. Businesses must take into account factors including economics, morals, and customer behavior. Once you are aware of how your product is related to the general marketplace, you will be able to choose the best market coverage plan. Numerous small, subsidiary enterprises were established in Kenya's commercial sector following mergers and acquisitions in order to provide market coverage (Rashid & Naeem, 2017). According to the study, numerous small, subsidiary enterprises were established in Kenya's commercial sector following mergers and acquisitions in order to provide market coverage (Azhagaiah & Sathishkumar, 2014).

The researcher discovered further that the market coverage was sensitive to the recognition of profit certainty and danger compelling, policy and marketplace entrance, expertise and business pellucidity, and subjects registered by the flexible interrogation (Vennet, 2019). Additionally, he noticed that market coverage was a factor in calculating the market while using an undistinguishable form of advertising. After taking market coverage and performance into account, non-finance came to the conclusion that there was a close correlation between the two. According to studies and developments in the industry, the market coverage and performance of Kenya's financial sector mergers and acquisitions are insufficient. The idea of incubators, proposed by Vennet (2019), increased analysis of factors affecting market performance and strategy. This demonstrates that market coverage is a management technique that reduces output.

5.0 Conclusion

This study examines the motivations that drive financial institutions to merge and acquire (M&A) in order to strengthen their financial positions as well as the need to conform to macro

components such as economic, legal, and political systems, government, and technology (Oghuvwu & Omoye, 2016). The research also shown that culture integration has a favorable and significant impact on performance in mergers and acquisitions, taking into account the degree to which CI has an impact on productivity in such situations (Kumar & Bansal, 2020). According to the research, culture integration has a positive and considerable impact on performance in mergers and acquisitions, taking into account how much CI affects performance in those transactions . The research revealed that how culture integration is handled when a workforce adopts a different ideology, such as attitudes and ceremonials, affects the success of mergers and acquisitions. This study examines the motivations that drive financial institutions to merge and acquire (M&A) in order to strengthen their financial positions as well as the need to conform to macro components such as economic, legal, and political systems, government, and technology (Campello, 2018).

According to the research, it has also been discovered that culture integration has a good and significant impact on mergers and acquisitions performance. The research also found that the performance of mergers and acquisitions is positively and significantly impacted by culture assimilation. This is because of how much culture integration (CI) affects performance in mergers and acquisitions (Mishra & Chandra, 2017). The findings revealed that the management of culture integration—the process by which a workforce from one culture acquires the attitudes and rituals of another while maintaining their unique cultural identity determines the success of mergers and acquisitions . Further investigation demonstrated that there is no association between market coverage, value creation for shareholders, and cultural integration; nevertheless, it was found that there is a positive and very significant correlation between these three factors in the Kenyan business sector (Rotich, Toroitich, Lulia, & Omwono, 2015).

The main factors in creating shareholder value in a company, according to Zhongming & Jingyun, (2022) include earnings per share, cash flow return on investment, return on asset, and others in 2022. Shareholder Value creation significantly increases the wealth of the company and its stakeholders, and market coverage is a sign of achieving and extending growth. As a result, the company strikes a balance between wealth and profitability, demonstrating the significant impact mergers and acquisitions have on wealth/growth and profitability. Effective market share management boosts productivity, promoting business growth and profitability. Most often, market analysis is used to estimate markets and evaluate how it would fit into a company's marketing strategy, presenting on a panel the idea of targeted promotion, segregated promotion, and homogeneous promotion (Yanan, Hamza, & Basit, 2015) It was discovered that there is a surprisingly substantial association between performance and market share by looking at market share in contrast to organizational profitability and shareholder wealth. Finally, Campello, (2018) concluded that there is a significant correlation amongst pre and post mergers and acquisition shareholder value creation, wealth and level of profitability. Net income of financial organizations improved as an

effect of merger or acquisition in form of wealth, decline of effective expenditures and developed revenue expansion.

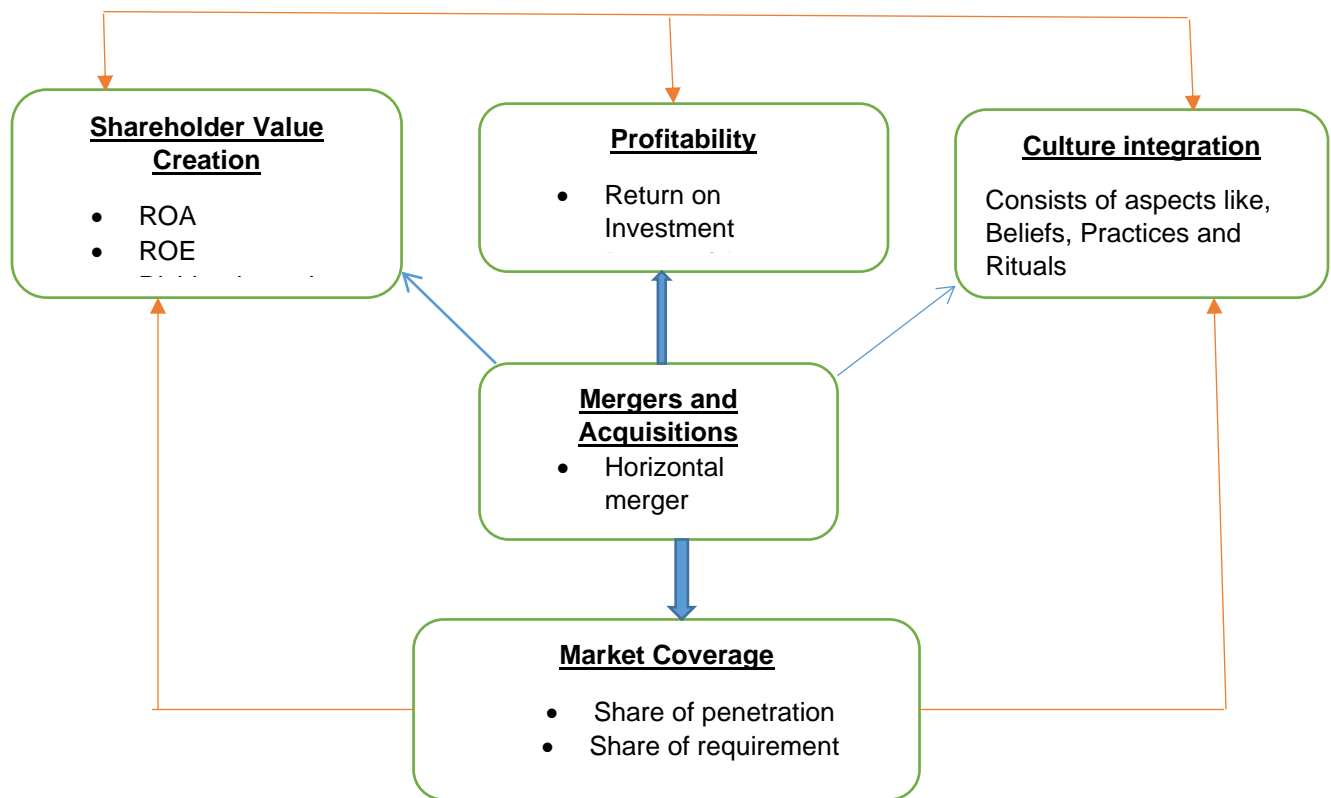


Figure1: Relationship between variables

References

- Akinbuli, & Feyi, S. (2013). The effects of mergers and acquisition on corporate growth and profitability: evidence from Nigeria. *Global Journal of Business Research*, 7(2), 101-129.
- Ayako, A., D, M., & Murungi. (2015). Post merger and acquisition performance of commercial banks listed at the Nairobi Securities Exchange. *Research Journal of Finance and Accounting*, 6(10), 65-79.
- Azhagaiah, & Sathishkumar. (2014). Impact of mergers and acquisitions on operating performance. *Evidence from manufacturing firms in India*, 12(2), 121–139.
- Betzer, A. D. (2015). Disentangling the link between stock and accounting performance in acquisitions. *The European Journal of Finance*, 21(9).

- Bijoy Gupta, D. P. (2017). Impact of merger and acquisitions on financial performance: Evidence from selected companies in. *MS Business School Presents Doctoral Colloquium*.
- Blomson, D. M. (2016). Caveat Emptor: The Accountabilities and Required Actions of Directors in Securing Value When Merging or Acquiring Companies. *Paper 1 of 4: Review of Commercial or Practitioner M&A Literature to See What Guidance this Provides Directors Involved in Transactions*.
- Campello, M. M. (2018). The rise of the equity lending market: implications for corporate policies. 5(2), 110-213.
- Deloitte. (2015). *Mergers and acquisitions: Success starts Mergers and acquisition :success starts with transparency: How to increase business value, speed integration, and make better decisions*.
- Gwaya Ondieki, M. J. (2015). The Effect of Mergers and Acquisitions on Financial Performance of Banks (A Survey of Commercial Banks in Kenya). *International journal of innovative research and development*.
- Hernandez-Carrion, Camarero-Izquierdo, & Gutierrez-Cillan. (2017). Entrepreneurs' social capital and the economic performance of small business: The moderating role of competitie intensityy and entrepreneurs' experience. *Strategic Entrepreneurship Journal*, 11(1), 61-89.
- Jambi. (2018). Effects of mergers and acquisitions on the financial performance of financial Institutions in Kenya. *International Academic Journal of Economic and Finance*, 3(1), 64-79.
- Joash, G. O. (2015). The Effect of Mergers and Acquisitions on Financial Performance of. *International Journal of Innovative Research & Development*, Vol.4(8).
- Kimetto, M. (2019). Effect of Synergy Through Mergers and Acquisitions on a Firm Financial Performance. *erepo.usiu.ac.ke*.
- Kinateder, H. F. (2017). Domestic mergers and acquisitions in BRICS countries: Acquirersand targets. *Emerging Markets Review*, 32, 190-199.
- Kumar, & Bansal. (2020). The impact of mergers and acquisitions on corporate performance in India. *Management Decision Journal*, 46(10), 1531-1543.
- Mishra, & Chandra. (2017). Mergers, acquisitions and firm performance: Experience of Indian pharmaceutical industry. *Eurasian Journal of Business and Economics*, 3(5), 111-126.
- Mmbone, S. (2016). The effects of merer on the performance of companies: a case of CFC Sanbic Lited. *Eargerton University*.
- Njambi, F. N. (25th April 2018). Effect of mergers and acquisitions on the financial performance of financial institutions in Kenya. *International Academic Journal of Economics and Finance*, Volume 3,(Issue 1,), pp. 64-79.

- Njangiru, M. J. (2015). The Effect of Mergers and Acquisitions on Financial Performance of Banks. *International journal of Innovative Research and Development.*, 4(8), 101-113.
- Oghuvwu, M. E., & Omoje, A. S. (2016). Mergers, acquisitions and corporate performance: The balanced scorecard approach. *Accounting and Finance Research*, 5(4), 63-75.
- Ombaka, C. (2018). MERGEMERGERS AND ACQUISITIONS ON FINANCIAL PERFORMANCE AMONG SELECTED COMMERCIAL BANKS, KENYA. *International Academic Journal of Economics and Finance*, 3(1), 1-23.
- Rashid, & Naeem, N. (2017). Effects of mergers on corporate performance. *An empirical evaluation using OLS and the empirical Bayesian method*, 17(1), 10-24.
doi:org/10.1016/j.bir.2016.09.004
- Rotich, Toroitich, Lulia, & Omwono. (2015). Effect of mergers and acquisitions on the pEffects of mergers and acquisition on the financial performance of commercial banks in Kenya: A case of selected banks that have undergone M&A in Kenya. *Research Journal of Finance and Accounting*, 6(24), 37-52.
- Sinha, Kaushik, & Chaudhry. (2019). Measuring post merger and acquisition performance: An investigation of select financial sector organizations in India. *International Journal of Economics and Finance*, 2(4), 190-200.
- Tang, A. C. (2015). Mergers and Acquisitions and its effects on firm Performance: A New Look. In Proceedings of the DLSU Research Congress.
- Vennet, R. V. (2019). The effect of mergers and acquisitions on the efficiency and profitability of EC credit institution. *Journal of Banking & Finance*, 20(9), 1531–1558.
doi:10.1016/s0378-4266(96)00014-3
- Wachira, S. N., & Memba, F. (2015). Factors of mergers and acquisition on the financial performance of dairy processing industry in Keny. *International Journal of Management and Commerce Innovations.*, 3(2), 105-134. doi:ISSN 2348-7585
- Yanan, E. M., & Basit, A. (2016). Impact of Merger and Acquisitions on Firms Financial Performance. *International Journal of Accounting & Business Management*, 4(2).
doi:10.24924/ijabm/2016.11/v4.iss2/159.16
- Yanan, Hamza, S. M., & Basit, A. (2015). Impact of Impacts of mergers and acquisitions on firms' financial performance: A study on United States of America. *International Journal of Accountancy, Business and Management.*, 4(2), 188-198.
- Zhongming, T., & Jingyun, L. (2022). The Impact of Overseas Mergers and Acquisitions on Corporate Business Risk. *International Journal of Scientific Engineering and Science*, 6(1), 56-61.