Mergers and Acquisitions in the Kenyan Banking Sector: Do Shareholders Stand to Benefit?

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ABSTRACT

The pace of mergers and acquisitions has increased since the 1990s, particularly in the banking sector in Kenya. Policy makers indicate this is due to regulatory measures for increased capital base aimed at stemming out financial crisis. However, increased competition arising from globalization has made both local and global companies find it difficult to remain relevant and have a competitive advantage over their peers. Managers then, have had to be creative and innovative in order to ensure that their firms remain competitive by forming alliances that will benefit both parties involved. Mergers and acquisitions are arguably the most popular strategy among firms that seek to establish a competitive advantage over their rivals in an ever changing global environment (Kumar & Bansal, 2008; Gupta, 2012). But, who benefits whenever there is a merger or acquisition?

It has been argued that the main purpose of carrying out mergers and acquisitions is to increase shareholders' value (Sudarsanam, 2003; Lambkin & Muzellec, 2008; Sharma, 2009; Koller, Goedhart, & Wessels, 2010; Mboroto, 2013). Despite mergers and acquisitions (M&A) being, a priori, associated with the strengthening of a firm's financial position and increasing firm value; evidence has shown that majority have failed to improve performance and failed to achieve anticipated strategic and financial objectives set forth in the premerger planning phase. Thus, the question of whether or not bank mergers actually achieve the expected performance gains still remains inconclusive as various empirical studies on the value effect of bank mergers and acquisitions indicate no significant statistical gain in value or performance (Yook, 2004; Yeh & Hoshino, 2002; King, Dalton, Daily, & Covin, 2004; Ismail, Abdou & Annis, 2010).

A number of researchers in this area agree that the vast majority of M&A transactions do not lead to the desired increase in value and hence cannot be seen as successful. In view of the constant

rise in M&A activity in the Kenyan banking sector over recent decades, this unfavorable finding leads to a paradox and consequently raises key research questions: If M&A transactions in general are not successful, then why do companies continue to engage in M&A? And in particular, do M&A transactions in the banking industry create real economic gains to their shareholders?

These open questions regarding the success and the valuation effects of M&A transactions in the banking sector don't seem to have clear answers given that corporate mergers and acquisitions' (M&A) are subject to a number of regulatory and other approvals and authorizations, including:-shareholders negotiations to evaluate the transaction, Minister of Finance under and pursuant to, inter alia, (a) the Banking Act, chapter 488 of the Laws of Kenya and (b) (acting through the Monopolies and Prices Commissioner) the Restrictive Trade Practices, Monopolies and Price Control Act, chapter 504 of the Laws of Kenya; and the Central Bank of Kenya. One wonders why after all this process including firm managers pursuing policies of shareholder wealth maximization, shareholders should suffer wealth decrease after a merger or acquisition.

This study therefore seeks to test and perhaps clarify the effect M &A have on the combined banks' financial performance and efficiency in Kenya's banking sector. It is expected that the findings will inform key questions on shareholders' minds on rationale for mergers and acquisitions as proposed by managers