FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

TITLE: EVALUATING THE IMPACT OF MERGERS AND ACQUISITIONS ON BANK PERFORMANCE (A CASE STUDY OF FIRST CAPITAL BANK AND BARCLAYS BANK)

BY

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ABSTRACT

This dissertation investigates the impact of mergers and acquisitions (M&A) on the performance and market valuation of First Capital Bank in Zimbabwe, a case study within a banking sector grappling with economic challenges and regulatory pressures. The research draws upon valuation theory, monopoly theory, and efficiency theory to understand the motivations and potential outcomes of M&A in this context.

The study employs a mixed-methods approach, combining financial analysis of pre- and post-merger data with a survey of bank tellers and customers to assess the impact on key performance indicators such as return on equity, return on assets, and capital adequacy ratios. The research also examines the market valuation of the merged entity to determine the perceived impact of the merger on stakeholders.

Findings reveal that M&A have been a significant strategy for banks in Zimbabwe to meet minimum capital requirements and enhance profitability. However, the research also identifies potential risks associated with M&A, including the need for careful integration and the potential for negative long-term impacts on performance.

The dissertation concludes that while M&A can be a valuable tool for survival and growth in the Zimbabwean banking sector, careful planning and execution are crucial to mitigate risks and maximize benefits. Recommendations include conducting thorough background checks, transparent public announcements, performance appraisals, monitoring teams, and a review of the capital threshold and interest rate controls. The study suggests further research on the long-term impacts of M&A on bank performance, the role of regulatory frameworks in promoting successful M&A, and the impact of M&A on financial inclusion and economic growth in Zimbabwe.

DEDICATION

I dedicate this dissertation to my mother (Mrs Chipo Baid), she have been there for me in my academic journey.

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ACRONOMY

ROE- Return on equity

ROCE- Return on capit

M&A- Mergers and acquisition

RBZ- Reserve Bank of Zimbabwe

FCB- First Capital Bank

CHAPTER ONE

1.0 INTRODUCTION

Since the introduction of modern banking in Zimbabwe in 1982, the sector has evolved significantly. However, the early years were marked by challenges, as evidenced by the failure of the African Banking Corporation (ABC), the first bank in Zimbabwe, which collapsed the same year it was established due to undercapitalization. Over time, Zimbabwean banks have faced varying degrees of instability and failures, which have adversely affected the financial system's stability. To address these issues, the Reserve Bank of Zimbabwe (RBZ) has had to intervene on multiple occasions, consistent with its supervisory role over banks and other financial institutions. The RBZ's intervention strategies have ranged from closing down certain banks to placing others under curatorship and mandating mergers to ensure banks meet the required minimum capital thresholds.

Commercial banks play a critical role in the economy by mobilizing funds from surplus sectors and lending to deficit sectors. Through this financial intermediation, they significantly influence the distribution and availability of credit within the economy. An increase in bank lending activity can substantially impact the country's economic development. Banks' lending decisions are influenced by changes in the banking market structure, one of which is mergers and acquisitions (M&A). As mergers alter market structures, they can significantly affect banks' lending behaviours, thereby influencing overall economic growth.

1.1 BACKGROUND OF THE STUDY

A robust and competent banking sector is crucial for maintaining a stable macroeconomic environment. The significance of commercial banks in any country cannot be overstated, as they hold pivotal positions within the financial system and act as essential catalysts for economic growth. Commercial banks facilitate financial intermediation by channeling funds between surplus and deficit sectors within the economy and play a vital role in implementing monetary policies. By mobilizing and efficiently allocating national savings, banks increase the volume of investments, thereby boosting national output (Afolabi, 2004, as cited in Olagunju Adebayo and Obademi Olalekan, 2012). Through their intermediation activities, banks support capital formation and promote economic growth (Olagunju Adebayo, 2012).

However, the Nigerian banking sector has faced significant challenges, particularly during the decade from 1993 to 2003, a period marked by widespread bank distress. This distress raised concerns among regulatory bodies, the general public, and policy analysts. To restore confidence in the banking sector and attract foreign investors, the Central Bank of Nigeria (CBN) initiated a recapitalization and consolidation exercise under the leadership of then-Governor Professor Charles Soludo. This reform required banks to increase their paid-up capital through public offerings or corporate restructuring, such as mergers and acquisitions, to address issues like expansion bottlenecks and volatility between deposit and lending rates.

In July Chukwuma (2004, the Governor of the Central Bank of Nigeria, announced a significant policy shift in the banking industry. This policy required Nigerian commercial banks to raise their minimum capital base from N2 billion to N25 billion by December 31, 2005. The primary objective was to create a robust and secure banking system that would enhance financial stability and restore confidence among depositors. Prior to this announcement, there were 89 commercial banks in Nigeria. As a result of the consolidation exercise, 25 banks emerged from the previous 89, while 14 banks were liquidated. Notable banks affected included Fortune Bank, Gulf Bank, Liberty Bank, Triumph Bank, Metropolitan Bank, Trade Bank, Afex Bank, City Express Bank, Eagle Bank, Société Generale Bank of Nigeria, Assurance Bank, All State Trust Bank, Hallmark Bank, and Lead Bank. Subsequently, the number of banks decreased to 24 in 2007 due to the merger of IBTC Chartered Bank PLC with Stanbic Bank Ltd. Mergers and acquisitions, as part of corporate restructuring, offer economic benefits such as economies of scale, risk diversification, and improved competitiveness both locally and globally .

Since 2005, the Zimbabwean economy has experienced a prolonged period of decline. This economic downturn has led to the closure of numerous companies within the country. The financial system in Zimbabwe has been characterized by several key factors:

1. High inflation rates: Zimbabwe has grappled with extremely high inflation, which has severely eroded the purchasing power of the local currency.

2. Reduced foreign investment: The unfavourable economic conditions have discouraged foreign investors from investing in Zimbabwe, further exacerbating the economic challenges.

3. Loss of the local currency's value: As a result of the economic turmoil, the Zimbabwean dollar lost significant value, leading to the adoption of the US dollar as the primary currency in the country.

According to a report published in 2015, several major banks in Zimbabwe, such as Trust Bank Corporation Limited, Allied Bank Limited, Royal Bank Zimbabwe, and Afro Asia Bank Zimbabwe Limited, either surrendered their banking licenses or were forced into liquidation by the Reserve Bank of Zimbabwe. This was largely due to the financial institutions' inability to withstand the harsh economic conditions prevailing in the country at the time.

There are numerous constitutional requirements established by Zimbabwean authorities that entities must fulfil to commence operations. In the banking industry, one critical requirement is meeting the stipulated minimum capital amount. Due to the challenges many banks faced in meeting this capital requirement, mergers became a necessary strategy to raise the required funds. For instance, in the case of ZB Bank, the Reserve Bank of Zimbabwe extended the deadline for the $10 million minimum capital requirement from June 30, 2014, to December 2020. According to the ZB Financial Holding group executive head, the process to merge two banking units was underway to address these capital requirements. This merger aimed to enhance operational efficiencies, better serve customers, and significantly reduce licensing and operational costs (Anon, 2014).

The historical trends within Zimbabwe's banking sector further illustrate the broader economic challenges the country has faced. Several key examples demonstrate this pattern:

The Zimbabwe Building Society, a prominent financial institution, nearly collapsed in 1988 and was placed under a corrective order in 2004. In an effort to ensure its survival, the Zimbabwe Building Society merged with First Bank in 2006, leading to the creation of the current FBC Bank.

Similarly, Universal Merchant Bank (Unibank) faced financial difficulties and was placed under curatorship, before being rescued through a merger with CFX, another bank. Furthermore, banks such as Barbican Bank Limited, Trust Banking Corporation, and Royal Bank Zimbabwe encountered significant financial troubles and were forced to merge, forming the Zimbabwe Allied Banking Group (ZABG) in 2005.

These examples highlight how mergers and acquisitions have become a common strategy for banks in Zimbabwe to navigate the harsh economic conditions. By combining resources and operations, these financial institutions have been able to meet the minimum capital requirements and ensure their continued viability in the face of the country's broader economic decline.

In essence, the historical trends within Zimbabwe's banking sector, characterized by mergers, acquisitions, and the collapse of individual institutions, underscore the severe economic challenges that have plagued the country since 2005, ultimately necessitating adaptive measures to ensure the survival of the financial system.

The merger of the German Bank (G Bank) and American Bank (A Bank) is recognized as one of the most successful integrations of international financial institutions, fostering a mutual trading relationship between Germany and the United States. Conversely, the demerger of Kingdom Bank and Meikles in Zimbabwe negatively impacted the bank, as evidenced by a decline in its share price. This study aims to explore the impact of mergers and acquisitions in the Zimbabwean banking sector, highlighting how these strategies have enabled banks to continue operating above the set minimum capital thresholds.

1.2 Problem Statement

In the Zimbabwean banking sector , there has been considerable interest in recent bank mergers and acquisitions, driven by growing curiosity about the underlying factors that drive such business strategies. Acquisitions have been found to influence commercial banks productivity , profitability and capital adequacy . In recent years mergers and acquisition have emerged as a primary strategy to enhance the profitability of commercial banks . Research in contemporary banking has identified fraud, insolvency , liquidity issues, insufficient capital and poor management as the main cause of bank failures. Corporate restructuring activities such as mergers and acquisition , takeovers and amalgamations have been believed to have improved the capital adequacy of commercial banks.In the current banking landscape, mergers and acquisitions have played a significant role in enhancing the profitability of commercial banks . These strategies have become crucial because they have boosted commercial banks return on equity(ROE) and return on assets (ROA). As a result it has been essential to examine the impact of mergers and acquisitions on the performance of the banking industry

1.3 RESEARCH OBJECTIVES

The primary objective of the study is to comprehensively examine the impact of mergers and acquisitions on the performance and market valuation of First Capital Bank.

1. Evaluating the appropriateness of mergers and acquisitions for the survival of First Capital Bank.

2. Assessing the impact of bank mergers and acquisitions on the profitability of First Capital Bank.

3. Examining the influence of bank mergers and acquisitions on the share price of First Capital Bank.

1.4 RESEARCH QUESTIONS

1. Are mergers and acquisitions an appropriate strategy for the survival of First Capital Bank?

2. What is the impact of bank mergers and acquisitions on the profitability of First Capital Bank?

3. How do bank mergers and acquisitions influence the share price of First Capital Bank?

1.5 HYPOTHESIS

(H0)The null hypothesis is that there is no significant impact of acquisitions on bank performance.

(H1) There is a significant impact of acquisitions on bank performance.

1.6 ASSUMPTIONS

1. It presumes that variations in bank performance are attributable to the acquisition events.

2. It presumes that the data obtained from financial reports, regulatory filings, or other sources accurately reflects the actual performance of the banks being studied.

3.It presumes that the banks involved have similar goals and strategies regarding the acquisition process, enabling meaningful comparisons and analysis.

4.It presumes that the sample is representative, allowing the findings to be generalized to other banks involved in acquisitions.

1.7 SIGNIFICANCE OF THE STUDY

Researcher: This study holds significance for the researcher as it provides an opportunity to contribute to the existing body of knowledge in the field of banking and finance. It enables the researcher to delve into a specific area of research, develop expertise, and gain valuable insights into the complexities and dynamics of bank mergers and acquisitions. Additionally, the study can enhance the researcher's academic and professional reputation, potentially opening doors for future research collaborations and career advancement.

University: The significance of this study to the university lies in its contribution to academic excellence and research output. It demonstrates the university's commitment to producing high-quality research that addresses real-world challenges. Furthermore, the study can attract attention and recognition to the university, potentially leading to increased funding opportunities and partnerships with industry stakeholders.

Society at Large: The impact of this study extends to society as a whole. A comprehensive analysis of bank mergers and acquisitions in Zimbabwe can inform policymakers, regulators, and industry practitioners, enabling them to make informed decisions that enhance the stability and effectiveness of the banking sector. The findings of the study can contribute to the formulation of policies that promote competition, financial inclusion, and economic growth. Moreover, a robust and resilient banking sector benefits society by providing access to reliable financial services, facilitating investment, and supporting economic development.

Stakeholders: The significance of this study to various stakeholders, such as investors, customers, and employees, should not be overlooked. Investors can gain insights into the potential risks and benefits associated with bank mergers and acquisitions, aiding their decision-making processes. Customers can benefit from a more efficient and competitive banking sector, potentially leading to improved service offerings and increased access to financial products. Employees of merging banks can gain a deeper understanding of the integration process and possible implications for their careers, allowing them to adapt and contribute to a successful post-merger integration.

Future Research: The significance of this study lies in its potential to inspire further research in the field of bank mergers and acquisitions, both in Zimbabwe and beyond. It can serve as a foundation for future studies exploring related topics or examining the long-term effects of these transactions. By fostering an environment of ongoing research and knowledge generation, the study contributes to the continuous improvement and understanding of the dynamics of the banking sector.

1.8 LIMITATIONS

Data Limitations: The study's findings are constrained by the availability and quality of data. Information on bank mergers and acquisitions, as well as financial performance indicators, may be subject to reporting biases or data limitations. To address this limitation, the study will triangulate data by using multiple sources of information to support the findings and will employ statistical methods to control for any biases or errors in the data.

Sample Selection Bias: The study's findings are based on a selected sample of bank mergers and acquisitions in Zimbabwe. This sample may not fully represent all transactions that have occurred, as it could exclude smaller or less publicly disclosed deals. However, the study will utilize multiple data sources to identify as many transactions as possible and will conduct a sensitivity analysis to assess the robustness of the findings in relation to sample selection bias.

Reliance on Secondary Data: The study relies on existing secondary data sources, such as financial reports, regulatory filings, and industry publications. The accuracy and completeness of these sources are beyond the researcher's control. Nonetheless, the researcher will incorporate both qualitative and quantitative data, as well as primary and secondary data, to enhance the reliability and validity of the findings.

Time Constraints: Conducting a comprehensive study on bank mergers and acquisitions requires substantial time and resources. The scope and depth of the study may be limited by time constraints, potentially preventing an exhaustive analysis of all relevant factors and outcomes. However, the researcher will focus on the most important factors and outcomes, leveraging existing literature and data to support the study.

1.9 DELIMITATIONS

1. Geographic Scope: The study focuses exclusively on bank mergers and acquisitions in Zimbabwe. It does not include mergers and acquisitions in other countries or regions. Consequently, the findings and conclusions may not be directly applicable to banking sectors in different geographic contexts.

2. Time Frame: The study is limited to analysing recent bank mergers and acquisitions in Zimbabwe up to the present. It does not take into account historical transactions or potential future developments. Therefore, the findings may not capture long-term effects or changes that could occur beyond the study's time frame.

3. Data Availability and Reliability: The study's findings are contingent upon the availability and reliability of data related to bank mergers and acquisitions, as well as the financial performance of commercial banks in Zimbabwe. Inaccurate or incomplete data sources may affect the scope and depth of the analysis.

1.10 ETHICAL CONSIDERATION

1. Data Privacy and Confidentiality: When collecting and analysing financial data or any other sensitive information, it is imperative to adhere to stringent data privacy and confidentiality guidelines. Personal and confidential data should be securely stored and accessed only by authorized individuals. Additionally, efforts should be made to anonymize or de-identify data wherever possible to safeguard the privacy of both individuals and organizations involved.

2.Conflict of Interest: In this study, any potential conflicts of interest must be transparently disclosed. Such conflicts could impact the objectivity or integrity of the research. This includes financial or personal relationships with individuals or organizations that may have a vested interest in the study's outcomes. By openly acknowledging conflicts of interest, the credibility and impartiality of the research can be maintained.

3. Research Design and Methodology: Researchers must meticulously adhere to the chosen research design and methodology to ensure the validity and reliability of their findings. It is crucial to minimize biases during data collection, analysis, and interpretation. Transparent and rigorous methods should be employed to mitigate the potential for misrepresentation or manipulation of results.

4.Responsible Reporting and Dissemination: Researchers bear the responsibility of accurately reporting and interpreting their findings without exaggeration or misrepresentation. Clear differentiation between correlation and causation is essential, and unwarranted or unsupported claims should be avoided. The presentation of results should maintain balance and transparency, acknowledging both strengths and limitations of the research.

5. Intellectual Property and Citation: Upholding academic integrity requires proper acknowledgment and citation of external works and ideas. Researchers should attribute sources appropriately and avoid plagiarism. Additionally, respect for intellectual property rights—whether individual or organizational—is paramount. Permissions must be sought when utilizing copyrighted material.

6.Ethical Review and Compliance: Depending on the research context and institutional requirements, obtaining ethical review and approval may be mandatory. Researchers must ensure their study aligns with ethical guidelines and regulations established by their institution and relevant research ethics committees or review boards.

1.11 DEFINATION OF TERMS

Mergers: A merger can be defined as the combination of two or more companies or organizations into a single, unified entity

Acquisition: Acquisition refers to the act of one company obtaining effective control over the assets or management of another company, without the two businesses necessarily merging their operations. It is the process by which one company obtains a controlling interest in another business.

Takeover: A takeover is considered a form of acquisition. It occurs when the acquiring firm gains control of the target firm. In some cases, it is described as the assumption of control of a corporation by purchasing a majority of its shares (Encarta dictionary). A takeover can also be categorized as a conglomerate merger.

Corporate Restructuring: Corporate restructuring, also known as business combination, encompasses mergers and acquisitions (M&A), amalgamations, takeovers, leveraged buyouts, capital reorganizations, and the sale of business units and assets.

Return on Asset: Return on asset is a statistic calculated by dividing a company’s annual earnings by its total assets. This metric indicates how profitable a company is relative to its total assets (Encarta dictionary).

Return on Equity: Return on equity is calculated by dividing net profit after tax by shareholders’ equity, which is represented by net worth. This metric expresses the net income of an organization as a percentage of its equity capital, indicating how effectively the firm has utilized resources on behalf of its owners (shareholders).

Commercial Banks. Commercial banks are typically structured as joint stock companies, meaning they are owned by shareholders and primarily focused on generating profits.

Recapitalization: Recapitalization is defined as the process of altering the balance of debt (leverage) and equity financing of a company without changing the total amount of capital. It is often required as part of a company's reorganization under bankruptcy legislation.

Consolidation: Consolidation refers to the combination of two or more companies into a new entity. In this form of merger, all participating companies are legally dissolved, and a new entity is created. The acquired company transfers its assets, liabilities, and shares to the new company in exchange for cash or shares.

Capital Adequacy: Capital adequacy refers to a bank's ability to meet the needs of its depositors and other creditors. It is the proportion of risk capital to risk-weighted assets.

M&A: Mergers and Acquisitions.

1.12 SUMMARY

This chapter provided an explanation and the reasons for conducting this study. It also outlined the objectives, limitations, significance, research objectives and research questions in order to determine the effect of mergers and acquisitions on bank performance. It also outlined how to mitigate the problems faced by these acquisitions

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The primary objective of most companies is to expand their operations and become a leader within their respective industry. In order to achieve this goal, companies often engage in strategies that facilitate growth and development.

This chapter examines the perspectives of various authors on the reasons behind mergers and acquisitions, as well as their importance in the current economic environment. The literature delves into the rationale and motivations that drive companies to pursue mergers and acquisitions as a means of achieving their growth and expansion objectives. Mergers and acquisitions are recognized as significant corporate strategies that allow companies to expand their operations, increase their market share, gain access to new technologies or resources, and enhance their overall competitiveness within the industry. The chapter provides an in-depth exploration of the literature surrounding these corporate transactions, analysing the factors that contribute to their importance and prevalence in the modern economic landscape.

By synthesizing the views of multiple authors, the chapter offers a comprehensive understanding of the role that mergers and acquisitions play in enabling companies to achieve their fundamental goal of becoming industry leaders. The literature provides insights into the various drivers, benefits, and implications of these strategic manoeuvres, highlighting their significance in the context of the current economic climate and the evolving business environment.

2.2 THEORETICAL REVIEW

To conduct the study presented in this chapter, the authors drew upon three key theoretical frameworks: Value Theory, Monopoly Theory as well as the Efficiency theory.

2.2.1 Valuation Theory

The valuation theory of mergers, as proposed by Steiner (1975) and further elaborated by Ravenscraft and Schere (1987), suggests that mergers are pursued by managers who possess superior information about the target firm's value compared to the stock market.

According to this theory, managers may have unique insights and perspectives that allow them to identify potential synergies or ways to unlock the hidden value of the target firm, which the broader market may not fully recognize or appreciate. The key premise of the valuation theory is that managers, through their deep understanding of the target firm's operations, assets, and growth prospects, are able to assess its true intrinsic value more accurately than the market price reflected in the stock exchange.

Consequently, managers may decide to acquire the target firm, believing that the market undervalues its worth and that the merger can unlock additional value that will benefit the combined entity. The theory suggests that managers leverage their informational advantage to execute mergers that create value for the acquiring company's shareholders.

In essence, the valuation theory posits that mergers are driven by managers' ability to identify and capitalize on the discrepancy between the target firm's market value and its intrinsic value, which they believe can be realized through the integration and synergies resulting from the merger.

Ravenscraft and Schere (1987) state that if the bidder has private information about the target's intrinsic value (excluding potential synergies), they will reveal this in their bid. This will drive up the stock price, putting the bidder in a "winner's curse" situation where they have overpaid. However, the theory argues that the existence of an efficient market does not preclude the possibility of undervalued target firms - managers with private information can still capitalize on this.

The key insight of the valuation theory is that private information is inherently ambiguous and uncertain. The bidder has to envision multiple possible future states and valuation scenarios, which other market participants cannot fully evaluate or incorporate into the stock price. Even the bidder themselves may lack full confidence in the basis for their bid.

The theory argues that bids based on private information may involve smaller premiums, as the information is harder for competitors to match. However, other strategic considerations like deterring competing bids can also influence bid prices.

While managers often cite valuation rationales for mergers, this alone does not make the valuation theory the definitive explanation. Efficiency goals are also commonly invoked. However, the concept of private information as a driver of mergers is considered worthy of further investigation, as it provides a way to avoid the problematic assumption of capital market efficiency.

2.2.2 Monopoly Theory

The market power theory of mergers, proposed by Rhoades (1983), states that mergers and acquisitions are planned and executed in order to achieve increased market dominance and reduced competition. This can occur through both horizontal mergers between competitors, as well as vertical mergers that change the organizational structure and leadership in order to boost managerial efficiency.

When firms conglomerate through mergers, it allows them to cross-subsidize products, using profits from one market to sustain a fight for market share in another. This enables firms to simultaneously limit competition in multiple markets, as described by Edwards (1955). Merging firms can also restrict competition through practices like reciprocal dealing and combining business functions like purchasing.

These "collusive synergies" do not represent true efficiency gains, but rather a wealth transfer from customers to the merged firm, as described by Rhoades (1983) and Steiner (1975). Steiner argues that the efficiency benefits sometimes seen in monopolistic competition do not occur in non-horizontal mergers.

There is indirect evidence for the monopolistic effects of mergers - competitor stock prices should rise when a merger is announced, and drop if the merger is challenged or cancelled, as per Rhoades (1983).

The theory further elaborates that strategic managers identify target firms that will enhance their market power, and use their financial resources to acquire and subsume these weaker competitors. The goal is to increase their overall market share and create a near-monopoly position, as illustrated by Steiner's mathematical example. This reduces competition and creates barriers to entry for potential new competitors.

In summary, the market power theory argues that mergers are primarily driven by firms' desires to boost their monopolistic control of markets, rather than by efficiency or valuation considerations.

2.2.3 Efficiency theory

The synergy theory of mergers, proposed by Kitching and Porter (1987), views mergers as being planned and executed with the goal of achieving various types of synergies.

The three main types of synergies are:

1. Financial synergies - These result in lower costs of capital, such as by reducing systematic risk through diversification into unrelated businesses, increasing company size to access cheaper capital, or establishing an internal capital market with more efficient allocation.

2. Operational synergies - These come from shared operations, like a joint sales force, or from knowledge transfer between the merged companies, which lowers costs or enables unique products/services.

3. Managerial synergies - These arise when the acquiring firm's managers have superior planning and monitoring abilities that can benefit the target company's performance.

The concept of the "market for corporate control", as proposed by Jansen (1986), suggests that takeovers can serve as a disciplinary force in capital markets. This theory posits that takeovers can act as an external control mechanism when internal shareholder control within a company is insufficient.

According to this view, managers who mismanage a company's resources and waste cash flow on projects with negative net present value (NPV) are vulnerable to being targeted by competing management teams. These competing teams may attempt to take control of the underperforming company through a takeover, with the objective of implementing more efficient and value-creating strategies. The threat of a potential takeover, driven by the company's poor performance and management's misallocation of resources, can provide an external disciplinary force. This, in turn, incentivizes incumbent managers to make decisions that align with the interests of shareholders and maximize the company's value, rather than engaging in suboptimal activities that destroy shareholder wealth.

The market for corporate control, as described by Jansen, serves as a mechanism to address the agency problem that can arise when managers pursue their own interests at the expense of shareholders. Takeovers, in this context, act as a market-based control function, allowing for the replacement of underperforming management teams and the restructuring of companies to improve their operational and financial efficiency.

Kitching and Porter (1987) argued that organizations merge to boost their overall efficiency. If one firm has superior capital-raising abilities or a larger capital base, merging can improve the financial efficiency of the combined entity. They stated that for mergers to be successful, the firms should have different expertise and performance levels.

The efficiency theory of mergers and acquisitions suggests that managers seek to enhance organizational efficiency by merging with or acquiring other firms that possess superior capabilities in certain areas. This perspective, as articulated by Peston, posits that efficiency is achieved when "giants in different fields" come together and align their efforts towards the common goal of profit maximization.

According to this view, companies should actively pursue mergers and acquisitions as a strategic means of boosting the overall competitiveness of both the acquiring and the target organizations. By combining complementary resources, capabilities, and expertise, the merged entity can achieve greater operational, financial, and organizational efficiencies that were not possible when the firms operated independently.

The efficiency theory emphasizes the potential synergies that can arise from merging companies with different strengths and specializations. The integration of these diverse capabilities can lead to enhanced economies of scale, improved resource utilization, and the elimination of redundancies, ultimately strengthening the combined organization's ability to compete effectively in the market.

This theory suggests that managers should carefully assess the potential efficiency gains that can be realized through mergers and acquisitions, and use this as a key driver in their strategic decision-making. By prioritizing the pursuit of enhanced efficiency, companies can leverage these corporate transactions to bolster their overall competitive position and maximize their profitability..

In summary, the synergy theory proposes that mergers are driven by the potential to achieve financial, operational, and managerial synergies, as well as to create an external control mechanism for inefficient managers, all in the pursuit of improved organizational efficiency and competitiveness.

2.3 Measures of Financial Performance

Financial ratios are important indicators of a firm's performance and financial health. These ratios are calculated using information from the firm's financial statements, including the statement of financial position, comprehensive income statement, and statement of cash flows.

The 17 different financial ratios can be used to analyse trends within a specific industry. They can also be used to compare a firm's results to those of its competitors and industry benchmarks (Muhammad, 2011).Specific types of financial ratios, such as those measuring profitability, solvency, and capital adequacy, can be particularly useful for analysing the financial performance of a bank before and after a merger.

By examining changes in these key financial ratios, analysts can gain insights into how a merger has impacted the overall financial health and performance of the combined banking institution. Comparing pre-merger and post-merger ratios provides a quantitative way to evaluate the success or challenges associated with the merger.

The wide range of financial ratios available allows for a comprehensive assessment of various aspects of a firm's finances, from its ability to generate profits to its level of debt and capital adequacy. This information is crucial for understanding a firm's current state and evaluating the effects of major strategic decisions like mergers and acquisitions.

In summary, financial ratios derived from a firm's financial statements are a valuable tool for analysing performance trends, benchmarking against competitors, and assessing the impact of significant events like mergers on a bank's financial health and profitability..

2.3.1 Profitability Ratios

Profit is the difference between a company's total revenues and total expenses over a given period. According to Muhammad (2006), financial managers should continuously evaluate the company's profitability to ensure its long-term survival and growth. Profitability ratios are used to indicate what the firm is earning on its sales, assets, or equity. Pandey (1999) cites two key measures of profitability: return on assets (ROA) and return on equity (ROE).

ROA is a comprehensive measure of a company's overall performance from an accounting perspective. As stated by Mitchell and Mulherin (1996), ROA is a primary indicator of managerial efficiency, as it reflects how capable the management team has been at converting the firm's assets into net earnings. ROA is calculated by dividing a company's earnings after interest and taxes by its total assets.

ROE, on the other hand, measures accounting profitability from the shareholders' perspective. As explained by Myers and Majluf (2006), ROE illustrates the rate of return flowing to the company's shareholders, approximating the net benefit they have received from investing their capital. ROE is calculated by dividing a company's earnings after interest and taxes by its total equity.

Both ROA and ROE are crucial profitability ratios that allow financial managers and analysts to evaluate a company's efficiency in generating profits from its assets and equity. These metrics provide important insights into the firm's overall performance and the value it is creating for its shareholders.

Continuously monitoring and analyzing these profitability ratios can help managers make informed decisions to optimize the company's operations, capital structure, and resource allocation in order to drive sustainable growth and ensure the firm's long-term survival.. 2.3.2. Solvency Ratios

The passage outlines several solvency ratios that can be used to evaluate an entity's financial performance and soundness in satisfying its short-term and long-term obligations, as described by Pandey (1999).The quick ratio, also known as the acid-test ratio, focuses on the most liquid current assets, such as cash, marketable securities, and accounts receivable, and compares them to the entity's current liabilities. This ratio provides a measure of the firm's ability to meet its short-term obligations using its most liquid resources.

The current liabilities to net worth ratio indicates the amount of debt due to creditors within one year as a percentage of the owners' or stakeholders' investment. The smaller the net worth, the larger the liabilities, and the less security there is for creditors. This ratio is calculated by dividing the current liabilities by the entity's net worth. The total liabilities to net worth ratio shows how all of the company's debt relates to the equity of the owners or stockholders. The higher the ratio, the less protection there is for the creditors of the business. This ratio is calculated by dividing the total liabilities by the net worth.

The fixed asset to net worth ratio, on the other hand, demonstrates the percentage of assets cantered in fixed assets compared to the total equity. This ratio is computed by dividing the fixed assets by the entity's net worth, providing insight into the allocation of resources between fixed assets and equity.

These solvency ratios, as outlined in the passage, allow for a comprehensive assessment of an entity's financial soundness and its capacity to fulfil both its short-term and long-term obligations. They provide valuable insights into the company's liquidity, debt management, and asset allocation, which are crucial factors in evaluating the overall financial performance and stability of the organization.

2.3.3. Capital Adequacy Ratio

According to Dymski (1999), banks need to make critical decisions regarding the appropriate level of capital they should hold. Bank capital serves as a crucial safeguard against bank failure, which occurs when a bank is unable to fulfil its obligations to pay its depositors and other creditors as required.

The bank's capital acts as a "cushion" to absorb potential losses, thereby protecting the bank's depositors and other lenders. The capital adequacy ratio (CAR) is a key metric that reflects a bank's strategy concerning its capital structure. This ratio is calculated by dividing the bank's total capital (Tier I and Tier II) by its risk-weighted assets.

Tier I capital refers to the capital on the bank's balance sheet that can absorb losses without the bank being required to cease operations. It consists of equity capital and disclosed reserves. In contrast, Tier II capital can absorb losses in the event of the bank's winding-up, and thus provides a lesser degree of protection to depositors. Tier II capital includes undisclosed reserves, general loss reserves, and subordinate term debts.

The capital adequacy ratio (CAR) determines a bank's capacity to meet its time liabilities and other risks, such as credit risk, market risk, and operational risk. It serves as a measure of how much capital the bank is using to support its risk-bearing assets.

By maintaining an appropriate level of capital, banks can ensure their financial soundness and resilience, enabling them to meet their obligations and withstand potential losses. The capital adequacy ratio is a crucial regulatory and supervisory tool used to assess the overall financial stability and risk profile of banks, ensuring the banking system's stability and the protection of depositors and other stakeholders.

2.3.4 Other Measures of Bank Financial Performance

The CAMELS rating system is another important tool used to evaluate the financial performance of commercial banks over a given period. According to Powell and Yawson (2005), the CAMELS rating is a supervisory assessment of a financial institution's condition, based on both its financial statements and on-site examinations by regulators.

The CAMELS rating system evaluates six key components of a bank's operations:

1. Capital Adequacy - This assesses the bank's ability to respond to a need to replenish or increase its equity capital at any given time.

2. Asset Quality - This evaluates the bank's policies for investing in fixed assets that meet the needs of both its staff and clients.

3. Management - This examines how well the bank's board of directors functions, including the diversity of its technical expertise, independence from management, and ability to make effective decisions.

4. Earnings - This measures the bank's ability to maintain and increase its net worth through earnings from operations.

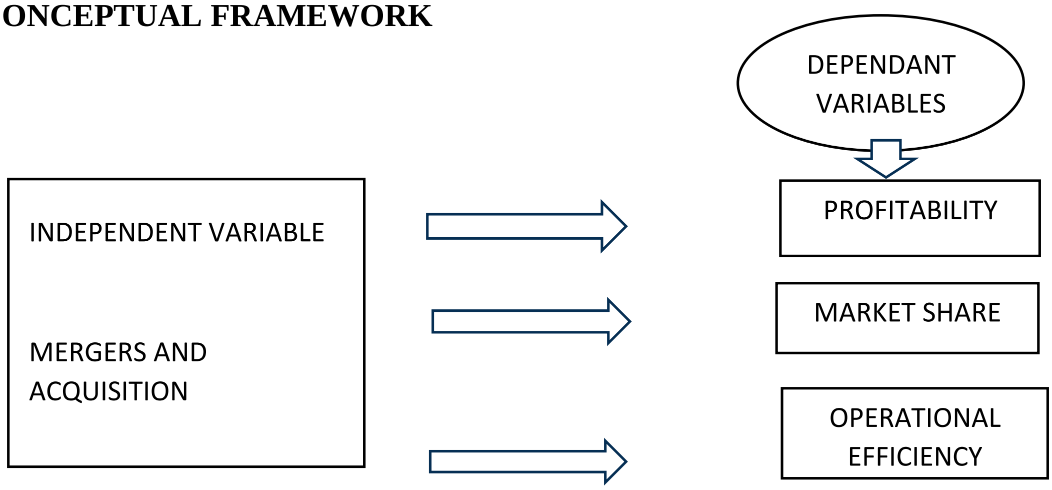
5. Liquidity - This looks at the composition of the bank's liabilities, including their tenor, interest rate, payment terms, and sensitivity to changes in the macroeconomic environment.

6. Sensitivity to Market Risk - This assesses the business strategies the bank has adopted in response to the competitive market.

Banks are then rated on a scale from 1 to 5, with 1 being the strongest and 5 being the weakest. This comprehensive CAMELS evaluation provides regulators and analysts with a detailed assessment of a bank's overall financial health and performance.

By closely monitoring these CAMELS components, banks can identify areas that need improvement and make strategic adjustments to strengthen their operations, risk management, and competitiveness within the industry.

2.4 CONCEPTUAL FRAMEWORK



These dependent variables represent different aspects of bank performance that could be influenced by mergers and acquisitions, the independent variable. The diagram visually demonstrates the hypothesized relationships, with the independent variable (mergers and acquisitions) leading to the dependent variables (bank profitability, operational efficiency, and market share).

Acquisitions refer to the process where one company purchases or obtains another company, either by acquiring its assets or by gaining a controlling stake in its ownership, such as through the purchase of stock. Acquisitions are a strategic transaction that allows the acquiring company to gain control over the acquired company's operations, assets, intellectual property, customer base, and other resources.

Acquisitions can be friendly, where both companies agree to the transaction, or hostile, where the acquiring company makes an unsolicited offer to the target company's shareholders. The primary goal of an acquisition is to create synergies, enhance the acquiring company's market position, expand its product offerings, enter new markets, or achieve other strategic objectives.

Mergers, on the other hand, refer to the aspect of corporate strategy, corporate finance, and management that deals with the buying, selling, and combining of different companies. The purpose of a merger is to aid, finance, or help a growing company in a given industry to expand rapidly without having to create another business entity.

According to Morton (2014), a merger occurs when two or more organizations come together to form a single, combined entity. The primary motivation for organizations to engage in mergers is to raise sufficient capital that can be leveraged to enhance organizational performance and enable expansion.

The decision to pursue a merger is made at the highest levels of management, typically by the executives of the organizations involved. It is crucial that these executives have accurate and complete information about the other organization(s) they intend to merge with, as information asymmetry can lead to significant losses and diminish the combined entity's share capital.

The passage highlights that mergers are strategic decisions made by top management to achieve specific objectives, such as increasing the organization's financial resources and capacity for growth. By combining their assets, capabilities, and resources, the merged entity can potentially achieve greater economies of scale, improved operational efficiencies, and enhanced competitive positioning in the market.

However, the passage also underscores the importance of thorough due diligence and information-sharing during the merger process. Inadequate or asymmetric information about the merging organizations can undermine the potential benefits of the merger and expose the combined entity to substantial risks and financial losses.

Morton (2014) also states that the merging organizations should have different strengths and weaknesses, as this will allow them to strengthen each other and become one stronger entity.

In summary, both acquisitions and mergers are strategic corporate transactions that allow companies to grow, gain new capabilities, and enhance their competitive position in the market, but they differ in the specific mechanisms and goals involved. the passage emphasizes that mergers are high-level, strategic decisions made by organizational leaders to strengthen the combined entity's financial resources and enable growth, but the success of these mergers is heavily dependent on the quality and transparency of the information available to the decision-makers.

2.4.0 Classification of mergers and acquisitions.

According to Bowman and Singh (1999), mergers and acquisitions (M&A) activities can be classified into three distinct categories:

1. Portfolio mergers and acquisitions: These M&A transactions are driven by the pursuit of diversification and the creation of a portfolio of businesses. The primary objective is to expand the acquirer's scope of operations and access new markets or industries, rather than to achieve operational synergies. The focus is on financial synergies and the creation of a diversified business portfolio.

2. Financial mergers and acquisitions: These M&A activities are primarily motivated by financial considerations, such as improving the acquirer's financial performance, increasing financial leverage, or gaining access to financial resources. The focus is on enhancing the acquirer's financial position, rather than operational integration or strategic alignment. These transactions are often driven by financial investors or corporations seeking to optimize their financial structure.

3. Organizational mergers and acquisitions: These M&A transactions are cantered around achieving operational synergies and organizational integration. The primary goal is to leverage the combined resources, capabilities, and efficiencies of the merging entities to enhance the overall competitiveness and performance of the combined organization. The emphasis is on integrating the organizational structures, processes, and cultures to realize operational and strategic benefits.

This classification proposed by Bowman and Singh (1999) provides a framework for understanding the diverse motivations and objectives that drive different types of M&A activities, ranging from diversification and financial optimization to operational integration and strategic alignment.

2.4.1 Portfolio Mergers and Acquisitions:

This type of M&A involves significant changes to a firm's asset composition and lines of business. It can include actions such as liquidations, divestitures, asset sales, and spin-offs. The primary objective is to reshape the firm's portfolio of businesses and assets to achieve diversification or focus.

2.4.2 Financial Mergers and Acquisitions:

These M&A transactions are driven by changes in the firm's capital structure. This can include leverage buyouts, leveraged recapitalizations, and debt-equity swaps. A common approach is to increase equity through the issuance of new shares. The focus is on optimizing the firm's financial position and leverage.

2.4.3 Organizational Mergers and Acquisitions:

This category of M&A involves significant changes to the firm's organizational structure. This can include redefining divisional boundaries, flattening hierarchical levels, adjusting span of control, reducing product diversification, revising compensation structures, reforming corporate governance, and downsizing employment. The aim is to integrate the organizational structures, processes, and cultures to realize operational and strategic benefits.

2.4.4 Other M&A Categories:

Horizontal Merger: A merger between companies in the same industry, sharing similar product lines and markets. The goal is to increase efficiency and market share.

Vertical Merger: A merger between companies at different levels of the supply chain for a specific product. The aim is to enhance efficiency and integration along the value chain.

Conglomerate Merger: A merger between firms with no common business areas. This can be a "pure" conglomerate merger or a "mixed" conglomerate merger, where firms are seeking product or market extensions.

Market Extension Merger: A merger between companies selling the same products but in different markets. The objective is to gain access to a larger customer base and expand the combined entity's market reach.

Product Extension Merger: A merger between companies operating in the same market but offering related products. The goal is to leverage complementary product portfolios and serve a broader set of consumers..

2.5 Motivations for mergers and acquisitions

It is the objective of every company to grow large and be able to compete in a competitive market environment to be able to sustain and survive the hard and harsh conditions in the market and also be able to increase the market value of the company hence increasing the shareholder value.

There are so many reasons why companies are involved in merging and acquisitions. Some of the common reasons according to DePamphilis (2008) , Moeller and Brady(20070 , Bruner (2004) and Palter (2001) , and others are;

2.5.1 Synergy

The phenomenon of synergy arises when the combination of two or more businesses can generate greater value for shareholders compared to their separate operations. This is primarily achieved by enhancing operational efficiency.

Synergy refers to the favorable net gain resulting from the merger or acquisition of two firms. There are two main types of synergies:

1. Operating Synergies:

These are the benefits derived from economies of scale and economies of scope.Economies of scope pertain to utilizing a specific skill set or asset currently employed in the production of one product or service to generate related products or services. These synergies are commonly observed when it is more cost-effective to merge multiple product lines within one firm rather than producing them separately.

2. Financial Synergies:

These pertain to the impact of mergers and acquisitions on the cost of capital, which represents the minimum return demanded by investors and lenders.The consolidation of a firm with surplus cash flows and another firm that lacks sufficient internally generated cash flow to finance its investment opportunities could potentially lead to a reduced borrowing cost for the merged entity.

In a mature industry where growth is decelerating, a firm may generate cash flows that exceed the available investment opportunities. On the other hand, a firm operating in a high-growth industry may have more investment opportunities than available funds. The integration of these two firms has the potential to lower the merged entity's cost of capital, enabling it to pursue growth prospects.

By achieving these operating and financial synergies, the combined entity can generate greater value for its shareholders compared to the standalone operations of the individual firms. This is the primary driver behind mergers and acquisitions as a strategic corporate transaction.

2.5.2 Diversification

Diversification refers to a strategy where a company makes mergers and acquisitions outside of its core or primary business, as well as in new geographical areas. Mergers and acquisitions (M&A) allow companies to eliminate competition and protect their existing market share by obtaining new market outlets. This is achieved through increased market power, where one firm acquires another to grow its market share and dominance. In such mergers, profits can be enhanced through higher prices and reduced competition for customers.

M&A also provide improved purchasing power for the combined entity. By placing larger orders for equipment, supplies, etc., the company has greater ability to negotiate better prices with suppliers. Diversification through M&A can also improve the company's market reach and industry visibility, as it is able to access new markets and grow its revenues and earnings.

Geographical diversification specifically presents opportunities for the company to become a more significant global player. It provides access to new resources and exposure to potentially more favourable political and labour environments. Geographical diversification also increases the company's brand awareness and customer loyalty, as its presence is dispersed more widely.

However, diversification carries risks if not properly managed. It can lead to divergence in organizational culture and business practices across the merged entities. Significant managerial challenges may also arise from integrating the different operations, systems, and personnel.

2.5.3 Strategic re-alignment

Mergers and acquisitions (M&A) can be used as a strategic tool to rapidly adjust to changes occurring in a company's external environment. These external changes can stem from a variety of sources, including technological advancements, political shifts, legal changes, social trends, and economic factors.

For instance, as the pace of technological change accelerates, M&A are sometimes viewed as a way for companies to quickly capitalize on new products and industries made possible by emerging technologies. Larger, more bureaucratic firms often struggle to exhibit the same creativity and speed as smaller, more agile niche players when it comes to innovating around new technologies.

In an environment where specialized technical talent is scarce and product life cycles are shortening, companies may not have the time or resources to internally develop all the innovative capabilities they need. Mergers and acquisitions can therefore become a faster and sometimes more cost-effective way for firms to integrate new technologies into their current product offerings or to rapidly enter new markets.

By acquiring other companies, the acquiring firm can gain access to new technologies, intellectual property, skilled personnel, and market positions that would be difficult or time-consuming to build organically. This allows the acquirer to more quickly adapt to disruptive changes in the external environment, rather than trying to develop these capabilities in-house from scratch.

Overall, the use of M&A as an adaptation strategy enables firms to rapidly respond to a wide range of dynamic environmental changes that they may not be able to address as effectively through internal development alone.

2.5.4 Market Power

Mergers and acquisitions (M&A) can be used as a strategy to increase a firm's size, which in turn can lead to an increase in its overall market share. This expanded market position then improves the company's ability to set prices at levels above competitive norms.

Additionally, M&A can be pursued with the objective of reducing competition in the market. By acquiring or merging with competitors, a company can decrease the number of rival firms, allowing it to more easily increase prices and maintain profitability.

However, these types of anti-competitive M&A strategies are subject to anti-trust and anti-collusion regulations and legislation. Companies must exercise sound legal judgment and have a thorough understanding of the relevant legal frameworks when pursuing mergers and acquisitions with the goal of gaining increased market power and pricing control.

Regulators closely scrutinize M&A activity that appears aimed at eliminating competition or creating monopolistic or oligopolistic market conditions. Firms that attempt these types of consolidation strategies without proper consideration of competition laws risk facing legal challenges and penalties.

Therefore, while increasing market share and pricing power can be motivations for M&A, companies must carefully navigate the legal environment and ensure their transactions comply with antitrust regulations. Pursuing these strategies without adequate legal expertise and compliance can expose the firm to significant risks.

2.5.5 Hubris and Managerialism

Managers sometimes believe that their own internal assessment of a target firm's value is superior to the market's valuation of that company. This overconfidence in their own evaluation can often lead to overpayment when pursuing mergers and acquisitions.

The desire not to "lose" in a hostile takeover situation can result in a bidding war where managers get caught up in the competition, resulting in a purchase price that far exceeds the actual economic worth of the target firm. This ego-driven decision making, driven by personal self-interests of the managers rather than shareholder value maximization, can significantly overpay for an acquisition.

Additionally, some managers view increasing the overall size of the company as an achievement that should be rewarded with greater power and higher remuneration. This mindset can become a motivating factor that drives acquisition decisions, even if the economic rationale does not fully justify the price being paid.

In these instances, managerial self-interests override sound financial analysis and valuation when evaluating potential merger and acquisition targets. The personal desire to "win" a bidding war or expand the company's scale can lead to irrational and value-destroying overpayment for target firms.

Mitigating this ego-driven decision making and aligning managers' incentives with shareholder interests is an ongoing challenge in the context of mergers and acquisitions. Robust corporate governance, independent board oversight, and disciplined valuation processes are needed to counter these biases.

2.5.6 Buying undervalued assets (the Q-ratio)

The Q-ratio is a metric that compares a firm's market value to the replacement cost of its underlying assets. When the Q-ratio is less than 1, it indicates the firm's market value is below the cost to recreate its asset base. Firms interested in expansion have a choice between investing in building new plants and equipment internally, or acquiring another company whose market value is less than the replacement cost of its assets. This Q-ratio framework can provide a rationale for pursuing mergers and acquisitions.

The Q-ratio theory was particularly useful in explaining M&A activity during the 1970s, when high inflation and interest rates depressed stock market valuations well below the book value of many firms. The elevated replacement cost of assets relative to their market prices created acquisition opportunities.

A similar dynamic has occurred more recently during the global recession and credit crunch. The market values of many companies fell below their underlying asset values due to negative and pessimistic economic expectations. In these environments, acquiring firms could potentially obtain assets at a discount by purchasing undervalued target companies.

By leveraging the Q-ratio framework, acquirers can identify targets where the market has undervalued the company's asset base, presenting an opportunity to buy those assets at a price below their replacement cost. This valuation-driven M&A strategy allows the acquiring firm to expand its capabilities or market position in a potentially more cost-effective manner compared to building new assets from scratch.

The effectiveness of this Q-ratio approach depends on the acquiring firm's ability to accurately assess the true replacement cost and intrinsic value of the target's assets relative to its market price. Careful valuation is critical to avoid overpaying even for undervalued targets.

2.5.7 Revamping of production facilities

Companies commonly pursue mergers and acquisitions (M&A) as a means to achieve economies of scale. By amalgamating production facilities and more intensively utilizing shared plant resources, the combined entity can realize efficiencies that lower the per-unit cost of manufacturing.

Beyond just scale economies, M&A transactions also enable firms to standardize product specifications and improve overall quality. Combining complementary product lines, distribution channels, and after-sales service capabilities allows the merged company to offer a more consistent and satisfactory customer experience.

Ultimately, these operational synergies gained through M&A enable the companies to reduce their total costs, enhance product competitiveness, and strengthen their market positioning. The ability to produce higher-quality goods at lower prices helps the combined entity retain and grow its market share.

In addition to these scale and scope economies, M&A also provides a pathway for companies to obtain improved production technologies and capabilities. By acquiring another firm, the buyer can instantly integrate new manufacturing processes, equipment, or know-how that boosts its operational effectiveness.

In summary, mergers and acquisitions are strategically undertaken to drive multiple types of operational improvements - from greater production efficiency through scale, to enhanced product quality and customer satisfaction, to the incorporation of advanced manufacturing technologies. These synergies are critical for companies seeking to reduce costs, strengthen their competitive position, and expand their market presence.

2.6.8 Mismanagement (agency problems)

According to Dambaza (2010), the situation of agency conflict arises when there is a difference between the interests of managers and the firm's shareholders. This happens when management owns only a small fraction of the outstanding shares of the firm.

In this scenario, management is more inclined towards maintaining their own job security and living a lavish lifestyle, rather than being focused on maximizing shareholder value. When the shares of a company are widely held, the cost of mismanagement by managers is spread across a large number of shareholders. Since each shareholder then bears only a small portion of the cost, this mismanagement may be tolerated over a long period.

Mergers and acquisitions can therefore be a way to correct situations where there is a conflict of interests between managers and shareholders. Low stock prices may put pressure on managers to take action to raise the share price, or the company may become the target of acquirers who perceive the stock to be undervalued.

Mehran and Peristiani, as reported by DePamphillis (2008), found that agency problems are also important in management-initiated buyouts, particularly when managers and shareholders disagree over how excess cash flow may be used. In such cases, an acquisition or merger can help align the interests of managers and shareholders.

In summary, agency conflicts between self-interested managers and value-maximizing shareholders can be a driver of mergers and acquisitions, as the acquirer seeks to rectify the misalignment of incentives and improve the target company's performance in the interests of its owners.

2.5.9 Tax considerations

Chigwida (2011) highlights two key ways that tax factors can influence mergers and acquisitions (M&A):

Firstly, tax benefits can provide financial incentives for the combined entity. Tax loss carry forwards and investment tax credits from the acquired company can be used to offset the taxable income of the merged organization. Additionally, if the acquisition is recorded under the purchase method of accounting, the revaluation of the acquired assets to market value results in higher depreciation expenses, further reducing the future taxable income of the combined firm.

Secondly, the tax implications of the transaction itself can play a major role in whether the merger or acquisition occurs at all. The after-tax cost to the seller is a critical consideration - if there are substantial capital gains taxes due on the sale, the seller may demand a significantly higher acquisition price to compensate. Conversely, if there are favourable tax treatments available, the seller may be willing to accept a lower price.

In essence, the net tax position of both the acquiring and target companies, including the tax attributes that can be utilized post-merger as well as the tax treatment of the transaction itself, can be a major strategic factor in M&A decision-making. Tax optimization is an important consideration alongside the operational and financial drivers of these corporate transactions.

Careful analysis of the tax implications, both for the combined entity and the transaction itself, is required to fully understand the true economics and potential synergies of a proposed merger or acquisition. The taxable nature of the deal can significantly influence the ultimate purchase price and feasibility of the transaction.

2.5.10 Misevaluation

The concept of using mergers and acquisitions to capitalize on market inefficiencies has traditionally been overshadowed by the presumption of market efficiency. The efficient markets hypothesis suggests that target share prices will accurately reflect the firm's true underlying economic value.

However, evidence indicates that asset prices do not always perfectly align with fundamental value, as exemplified by the internet bubble of the 1990s. Shleifer and Vishny (2003) propose that irrational changes in investor sentiment can at times affect the motives behind takeover activity.

This implies that acquirers may periodically be able to profitably buy undervalued target companies for cash at a price below their true worth. Conversely, overvalued acquirers can also leverage their inflated stock as an acquisition currency to make purchases more cheaply than would be possible if their shares were correctly valued.

The traditional assumption of market efficiency has overshadowed this alternative perspective that market mispricing can present strategic M&A opportunities. The reality is that asset prices may temporarily deviate from their fundamental economic value, creating potential arbitrage opportunities for astute acquirers.

By identifying and acting upon these market inefficiencies, companies can realize gains beyond just the traditional operating synergies associated with mergers and acquisitions. Careful analysis of target valuations relative to their intrinsic worth can uncover M&A plays that allow the acquirer to capitalize on mispriced assets.

This more nuanced view challenges the conventional wisdom that markets are always perfectly efficient, and suggests that managerial skill in identifying and exploiting market inefficiencies can be an important driver of successful M&A activity.

2.5.11 Cost reduction

A key driver behind mergers and acquisitions is the potential for the combined firm to operate more efficiently than the two separate companies could independently. There are several avenues through which mergers can achieve greater operating efficiency.

Firstly, the concept of economies of scale comes into play. When the production volume increases, the average cost per unit of goods or services produced can decrease. By merging, the companies can consolidate and share central functions like headquarters, top management, staff, and IT infrastructure. This allows the combined entity to reduce overheads and improve its overall operational efficiency.

Additionally, vertical mergers that integrate closely related activities along the value chain can foster greater operational coordination. Through vertical integration, the companies can better align and synchronize their interrelated operating activities, leading to further productivity gains.

In essence, the sharing of resources, elimination of duplicated functions, and improved coordination across the value chain represent pathways for the merged firm to achieve greater operating efficiency compared to the standalone companies. The realization of these economies of scale and vertical integration synergies is a key strategic rationale underlying many merger and acquisition transactions.

By leveraging these operational efficiencies, the combined entity is positioned to reduce its unit costs, enhance quality, and strengthen its competitive positioning in the market. The increased productivity and streamlining of the business model are critical drivers of value creation in mergers and acquisitions.

2.6 Empirical Review

The existing literature contains numerous research findings on the impacts of mergers and acquisitions on organizations. This section highlights some of the key insights and conclusions drawn by past and present researchers studying this topic.

As noted by Mitlon (2000), empirical evidence refers to the results and findings generated through prior research studies. Building on this, the passage indicates that the subsequent discussion will summarize and synthesize some of the major empirical findings uncovered by researchers regarding the effects of M&A activity.

In other words, this section will provide an overview of the empirical research that has been conducted to understand and evaluate the real-world impacts that mergers and acquisitions have on the organizations involved, as well as the broader implications. The goal is to convey the key takeaways and conclusions that have emerged from this body of empirical work on the topic.

By highlighting these empirical research findings, the passage aims to give the reader a comprehensive understanding of what the existing evidence tells us about the organizational and economic impacts of merger and acquisition transactions. This will provide important context for the subsequent discussion and analysis.

2.6.1 The Impact Of Horizontal Mergers To The Growth Of The Economy

Peterson (2011) carried out a study to investigate the effects of horizontal mergers on the overall growth of a country's economy. The key objectives of this research were to determine whether mergers and acquisitions were conducive to driving economic expansion and growth, while also assessing their impact on improving the performance of the organizations involved.

The results of Peterson's study indicated that mergers and acquisitions can indeed be beneficial for enhancing a country's economy, but only when they also serve to improve the performance of the merged companies. The sample analyzed in the study revealed that organizations which had undergone mergers tended to become more successful as a result.

Based on these findings, the study concluded that when companies merge, it can lead to a boost in the overall performance and productivity of the combined entity. In other words, the act of merging itself appears to raise the operational and financial performance of the organizations involved.

Therefore, the research suggests that horizontal mergers can be an effective means of not only driving economic growth and expansion at the national level, but also enhancing the performance capabilities of the merging firms themselves. The study points to the dual benefits that M&A transactions can potentially generate.

2.6.2 The Impact Of Mergers And Acquisitions To The Financial Sector In Rwanda

The study conducted by Chitsambe et al. (2013) examined the impact of mergers and acquisitions on the financial sector in Rwanda. The primary objective of this research was to identify ways of promoting growth and development in Rwanda's financial sector during challenging economic conditions, holding other factors constant.

The findings of this study have demonstrated that mergers and acquisitions are a major driver of improvement and progress in Rwanda's financial industry. The research further states that if mergers and acquisitions are executed effectively, there is a high likelihood of achieving several positive outcomes:

1. Substantial enhancement and revitalization of the country's depleting financial sector.

2. Significant improvement in the quality and range of financial services provided.

3. Overall strengthening and growth of the broader Rwandan economy.

In essence, the study concludes that mergers and acquisitions are critical to the financial sector's performance and development. Firms operating in Rwanda's financial industry are found to greatly benefit from the availability and utilization of merger and acquisition strategies.

The researchers argue that by leveraging mergers and acquisitions, financial firms can overcome the challenges posed by unfavourable economic conditions and drive sustained growth and improvement in the sector. The study highlights the pivotal role that M&A activities can play in promoting the health and expansion of Rwanda's financial system.

In summary, the Chitsambe et al. (2013) study provides compelling empirical evidence that mergers and acquisitions represent a crucial avenue for strengthening the financial sector and, in turn, bolstering the overall economic performance of Rwanda. The researchers firmly advocate the strategic deployment of M&A as a means of catalysing financial sector development.

2.6.3 Banks And Market Regulator

According to the research conducted by Obamuyi (2010), banks are subject to two primary types of capital requirements - those imposed by market forces as well as those mandated by regulatory authorities. For prudential purposes, bank regulators generally require financial institutions to maintain capital levels of at least a specified fraction of their total asset holdings.

As an example, Obamuyi's work notes that banks are expected to meet a capital adequacy ratio of 10% as per the guidelines set forth under the Basel Accord.In his study, Obamuyi concluded that Nigerian banks are compelled by these regulatory capital requirements to pursue mergers and acquisitions as a means of boosting their overall capital levels in order to comply. The researcher found that an increase in a bank's capital position enables it to issue a greater volume of loans without having to correspondingly raise the costs of borrowing or interest rates charged to customers.

In other words, the ability to maintain higher capital buffers through mergers provides banks with more flexibility in their lending activities and pricing policies. This allows them to potentially expand their loan portfolios and serve customers more effectively, without having to pass on the higher capital costs.

Obamuyi's work therefore suggests that the regulatory imperatives around capital adequacy act as a key driver for consolidation in the Nigerian banking sector, as institutions seek to merge in order to build the necessary capital strength to support their operations and lending activities. The study highlights how such prudential regulations can shape the M&A dynamics within the banking industry.

2.6.4 The Profit Efficiency Effects Of Mergers And Acquisition In The Nigerian

Appall and John (2011) conducted an analysis to examine the impact of mergers and acquisitions on profit efficiency within the Nigerian banking sector. The study employed an ex-post research design, utilizing data drawn from the annual reports of 10 sampled banks covering the period from 2003 to 2008.

The researchers used the rate of earnings as a proxy indicator for measuring profit efficiency. They then applied t-test statistics and descriptive analysis techniques to evaluate the data.

However, the key finding of the Appall and John (2011) study was that there was no significant difference in the rate of earnings across all the banks, when comparing the pre-merger and post-merger periods. In other words, the research concluded that mergers and acquisitions did not necessarily result in increased profit levels for the banks.

Rather, the study found that the banks' profit performance remained essentially the same, even after undergoing merger and acquisition activities. This suggests that M&A transactions did not translate into tangible improvements in the profit efficiency of the Nigerian banking institutions examined.

The implication of these findings is that mergers and acquisitions may not automatically lead to enhanced profitability for banks. The study challenges the notion that consolidation strategies inherently boost the profit levels of financial institutions.

Appall and John's (2011) work therefore provides empirical evidence that the anticipated profit efficiency gains from mergers and acquisitions may not always materialize in the Nigerian banking context. The research cautions against presuming that M&A activities will necessarily increase the profitability of banks in this market.

2.6.5 The Impact Of Consolidation On The Performance Of Listed Deposit Money Banks In Zimbabwe Covering A Period Of 12 Years From 2000 To 2011.

The findings reported by Appall and John (2011) regarding the lack of a significant impact of mergers and acquisitions on bank profitability were further corroborated by the research conducted by Taiwo and Musa (2014).

Taiwo and Musa's study examined the effect of consolidation on the performance of listed deposit money banks in Zimbabwe. The analysis covered a 12-year period from 2000 to 2011, representing both the pre-merger and post-merger timeframes.

The study sample consisted of four banks, and the researchers utilized three key performance variables: Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin.The Taiwo and Musa (2014) study concluded that the consolidation reforms implemented in the Zimbabwean banking sector had a positive impact on two of the performance measures - Return on Assets and Net Profit Margin.

However, the research found that bank consolidation did not have a significant effect on the third variable, Return on Equity. This suggests that while mergers and acquisitions may have improved certain aspects of bank profitability, they did not necessarily translate into enhanced returns for shareholders.

The findings of the Taiwo and Musa (2014) study, when taken together with the earlier work by Appall and John (2011), indicate that the impact of consolidation on bank profitability is not universal or guaranteed. The studies caution against making broad generalizations about the profit efficiency gains that may result from mergers and acquisitions in the banking sector.

The research highlights the need for a more nuanced understanding of how consolidation strategies affect different dimensions of bank performance, as the outcomes may vary across specific profitability metrics and banking environments.

2.6.6 The Impact Of Mergers And Company Acquisitions As The Right Tool For The Survival Of The Struggling Organizations In Africa

Charutsa and Magomese (2014) conducted a study that examined the role of mergers and company acquisitions as a means for the survival of struggling organizations in the Southern African region. The researchers focused their analysis on a sample of companies that had been experiencing difficulties prior to engaging in merger and acquisition activities.

The key finding of the Charutsa and Magomese (2014) study was that mergers and acquisitions are an appropriate and effective tool for organizations that are struggling in this particular regional context. The researchers concluded that mergers and acquisitions serve as a vital mechanism for boosting the size and performance levels of companies that are facing challenges.

The study highlights that when organizations in Southern Africa are in a state of turmoil, engaging in mergers is crucial for enhancing their overall performance and viability. Charutsa and Magomese's work suggests that mergers and acquisitions represent the "life blood" for business entities that are suffocating or underperforming in this African business environment.

In contrast to the findings from Appall and John (2011) and Taiwo and Musa (2014), which indicated more mixed results, the Charutsa and Magomese (2014) study firmly advocates that consolidation strategies are the right solution for struggling organizations in the Southern African context. The research presents a more positive and affirmative view of the survival benefits that mergers and acquisitions can provide for companies facing difficult circumstances in this region.

2.6.7 The Assistance Of Banks In The Developed Countries In Order To Provide Better And Improved Services And To Alleviate Poverty In The Continent.

The study conducted by Chitsere and Chadzimira (2015) shared similar sentiments to the previous research by Charutsa and Magomese (2014) regarding the role of mergers and acquisitions in the African business context. Chitsere and Chadzimira's study specifically examined whether the banking sector in Africa needs the assistance of banks from developed countries in order to provide better and more improved financial services, as well as to help alleviate poverty across the continent.

The key finding of the Chitsere and Chadzimira (2015) study was that western banks should merge with struggling African banks. The researchers concluded that such cross-border consolidation would serve to improve the performance of the African banking institutions.

Furthermore, Chitsere and Chadzimira advocated for the involvement of international organizations, such as the World Bank and International Monetary Fund, to actively support and facilitate merger and acquisition activities in the African banking sector.

The researchers argued that this type of intervention and consolidation would ultimately lead to the alleviation of poverty in Africa. They believed that the merging of developed country banks with their African counterparts represents a vital solution for strengthening the African banking industry and enhancing financial inclusion across the region.

Similar to the findings of Charutsa and Magomese (2014), Chitsere and Chadzimira's (2015) study presents a positive and affirmative view on the role of mergers and acquisitions in addressing the challenges facing the African banking sector and broader economic development. The researchers see consolidation as a key mechanism for improving banking performance and alleviating poverty in the African context.

2.6.8 The Reason Why There Is Poor Performance Of The Bank In Africa

The study conducted by Chimutashu and colleagues (2015) directly contradicted the findings of the previous research by Charutsa and Magomese (2014) and Chitsere and Chadzimira (2015) regarding the role of mergers and acquisitions in boosting the performance of African banks.

Chimutashu et al.'s study focused specifically on examining two variables: proper organizational culture and mergers/acquisitions. The researchers found that African banks overly rely on seeking assistance from European and American banks, as well as engaging in mergers with other institutions, rather than focusing on implementing good management practices and developing appropriate organizational cultures.

The Chimutashu et al. (2015) study concluded that it is not simply a matter of how or with whom an organization merges, or the amount of capital it raises, or the various survival strategies it implements. Instead, the researchers argue that the key driver of improved bank performance in Africa is the practice of good corporate governance.

The study suggests that when African banks prioritize and instill proper corporate governance practices, this then leads to enhanced performance outcomes. In contrast, the overemphasis on mergers, acquisitions, and external support from developed market banks does not necessarily translate to better financial results.

Chimutashu et al.'s findings directly challenge the more positive perspectives on consolidation presented in the previous studies. Their research indicates that the root cause of poor bank performance in Africa lies in the lack of strong internal management and organizational culture, rather than being solely addressed through mergers and acquisitions or reliance on assistance from foreign banking institutions.

The study highlights the need for African banks to focus on improving their own internal capabilities, governance structures, and organizational practices as the primary pathway to enhancing their overall performance and competitiveness.

2.6.9 The Impact Of Mergers And Acquisitions on Shareholders' Wealth In Brazilian Banking Industry

Onikoyi and Awolusi (2014) conducted a study to examine the relationship between mergers and acquisitions in the Brazilian banking industry and the resulting impact on shareholders' wealth. The researchers sought to specifically establish the links between:

1. Increases in the capital base of acquired banks and shareholder wealth
2. Increases in the combined revenue of merged banks and shareholder wealth
3. Cost savings generated through mergers and acquisitions and shareholder wealth

The study employed an exploratory research design and analyzed a sample of 15 banks.The key findings of the Onikoyi and Awolusi (2014) study showed that there was a significant positive relationship between shareholders' wealth and the factors of capital base, market share, bank revenue, and cost savings.

The researchers therefore concluded that mergers and acquisitions have a beneficial effect on shareholders' wealth in the Brazilian banking sector. Specifically, the study found that mergers and acquisitions lead to an increase in shareholders' share capital.

In other words, the consolidation activities in the Brazilian banking industry directly translated to enhanced shareholder value and returns. The study presents evidence that mergers and acquisitions serve as an effective mechanism for boosting shareholders' financial position and wealth.

This contrasts with the more mixed findings from the previous studies in the African context, where the impact of mergers and acquisitions on overall organizational performance was more varied. However, the Onikoyi and Awolusi (2014) research indicates that in the specific case of the Brazilian banking industry, consolidation strategies have a positive influence on shareholder outcomes.

2.6.10 The Decline In The Level Of Investor And Depositors To Banks That Had Taken The Root Of Merging And Acquisition.

The study conducted by Peterson and colleagues (2015) in France directly contradicted the findings of the earlier research by Onikoyi and Awolusi (2014) on the effects of mergers and acquisitions on shareholder wealth in the banking sector.

Using a correlation research design, the Peterson et al. (2015) study examined the reasons behind the rampant decline in the level of investor and depositor confidence in banks that had undergone mergers and acquisitions. The key finding of this study was that the shareholder base of these merged banking institutions had significantly reduced. The researchers attributed this to a lack of certainty regarding the post-merger performance of the consolidated banks.

Peterson et al. (2015) further elaborated that the shrinking investor base in the financial sector was due to a large number of investors, depositors, and other stakeholders losing their investments. This was a direct result of banks malfunctioning after completing merger transactions.

In contrast to the positive conclusions drawn by Onikoyi and Awolusi (2014), the Peterson et al. (2015) study presented a more negative perspective on the impact of mergers and acquisitions on shareholder wealth in the banking industry.

The French-based research highlighted that rather than enhancing shareholder value, the consolidation activities in the banking sector had actually led to a decline in investor confidence and a reduction in the shareholder base of the merged banks.

This finding suggests that the potential benefits of mergers and acquisitions, such as improved financial performance and increased shareholder wealth, may not always materialize in practice. The Peterson et al. (2015) study underscores the risks and uncertainties associated with banking sector consolidation from the perspective of shareholders and other key stakeholders.

2.6.11 Market And Industry Variable As Determinants Of Mergers And Acquisitions And Their Impact On The Growth Of The Business Organizations.

Muia and Fidelis (2013) conducted a study in Kenya to examine various market and industry variables as determinants of mergers and acquisitions, and their subsequent impact on the growth of business organizations.

The researchers used a sample of 32 banks listed on the Nairobi Stock Exchange, and employed a stratified sampling technique to obtain the study sample. The central conclusion of the Muia and Fidelis (2013) study was that firms should be encouraged to embrace mergers and acquisitions as a key growth strategy in corporate finance, especially when pursuing long-term profitability and wealth objectives.

The researchers highlighted that both mergers and acquisitions serve as effective mechanisms to help alleviate distress in the Nairobi banking sector. The study found that post-merger, the performance of banks improved significantly compared to the pre-merger period.

In other words, the Muia and Fidelis (2013) research provided evidence that consolidation activities in the Kenyan banking industry had a positive impact on the growth and performance of the merged institutions.

This contrasts with the more mixed findings presented in the earlier studies, where the effects of mergers and acquisitions on organizational outcomes were not uniformly positive.

The Kenyan-based study suggests that when utilized as a strategic growth initiative, mergers and acquisitions can indeed enhance the profitability and wealth generation capabilities of business organizations, particularly in the banking sector.

The researchers thus recommend that firms should be encouraged to proactively pursue merger and acquisition opportunities as part of their corporate finance and growth strategies, given the potential benefits demonstrated in their study.

2.6.12 Mergers And Acquisitions For The Growth Of Businesses.

The study conducted by Bells and Brutonis (2015) directly contradicted the earlier findings that mergers and acquisitions are an effective growth strategy for businesses, particularly in the Kenyan context.

The researchers set out to investigate the reasons why some companies in Kenya were not performing to their full potential, based on the assumption that mergers and acquisitions were being carried out by various organizations in the country.

Contrary to the conclusions drawn by Muia and Fidelis (2013), Bells and Brutonis (2015) did not believe that mergers and acquisitions are an ideal approach for driving business growth. Their study recommended that such consolidation activities should not be hastily implemented.

Instead, the researchers argued that mergers and acquisitions should be carefully applied only when the objective is to achieve genuine synergies between the combining entities. They emphasized that corporate governance should be given priority attention by both regulatory agencies and shareholders.

The purpose of this increased focus on corporate governance, according to Bells and Brutonis (2015), is to ensure that erring bank directors can be appropriately sanctioned. This, the researchers suggest, is crucial to address the potential pitfalls associated with mergers and acquisitions in the Kenyan business landscape.

In essence, the Bells and Brutonis (2015) study presents a more cautious and conditional view on the use of mergers and acquisitions as a growth strategy. The researchers highlight the need for a more measured, thoughtful, and governance-centric approach to consolidation activities, in contrast to the more enthusiastic recommendations made by Muia and Fidelis (2013).

This divergent perspective underscores the complex and context-specific nature of the relationship between mergers, acquisitions, and organizational performance outcomes, which may vary across different industries and country settings.

2.6.13 The Impact Of Mergers And Acquisition Deals On The Performance Of Acquiring Turkish Companies

Shckulivhiyo (2014) conducted a study in Turkey with the objective of investigating the impact of merger and acquisition (M&A) deals on the performance of acquiring companies in the Turkish market.

The study sample consisted of a total of 62 companies that were involved in M&A transactions between 2003 and 2007.Contrary to the positive findings reported in some earlier studies, the Shckulivhiyo (2014) research concluded that acquiring companies are negatively affected by M&A activities.

This conclusion was reached after an in-depth analysis of both stock market data and accounting data on a weekly basis.

The study findings suggest that M&A deals end up becoming a burden for the acquiring company, as the acquired entity often becomes dependent on the acquirer for its ongoing operations and performance.

In other words, the Shckulivhiyo (2014) study indicates that the potential benefits and synergies anticipated from M&A transactions may not always materialize in practice, and can instead result in a detrimental impact on the financial and operational performance of the acquiring firm.

This contrasts with the more optimistic view presented in the Muia and Fidelis (2013) study, which found that mergers and acquisitions can enhance the growth and profitability of businesses, particularly in the banking sector.

The Turkish-based research by Shckulivhiyo (2014) highlights the need for a more cautious and critical assessment of the merits of M&A as a corporate strategy, given the potential for negative consequences on the acquiring company's performance.

This perspective underscores the context-specific and complex nature of the relationship between consolidation activities and organizational outcomes, which may vary across different industries, countries, and time periods.

2.5.14 Effects Of Mergers And Acquisitions on The Profitability And Firm Level

The Tuchikotse et al. (2015) study was conducted in the United Kingdom with the aim of providing a systematic empirical analysis of the impact of mergers and acquisitions (M&A) on the profitability and employee-level remuneration of the affected firms.

This research was undertaken as a critique of the view that M&A activities generally have a negative effect on the operations of organizations. The study findings revealed that, contrary to the negative portrayal, both profitability and employee wages tend to rise following acquisition transactions.

Specifically, the researchers found that firms which merge with entities within the same industry division experience a significant increase in profitability, and also pay higher wages to their workers compared to firms that engage in unrelated M&A deals.

This suggests that mergers and acquisitions can generate synergies and operational efficiencies when the combining firms operate in similar business domains, leading to improved financial performance and the ability to share these gains with employees through higher remuneration.

The Tuchikotse et al. (2015) study provides a more positive perspective on the organizational outcomes of M&A, in contrast to the negative conclusions reached by researchers like Shckulivhiyo (2014) in the Turkish context.

These divergent findings highlight the importance of considering the specific industry, geographic, and institutional factors that may influence the relationship between consolidation activities and various measures of firm performance, including profitability and employee compensation.

Overall, the UK-based research suggests that M&A can be a value-enhancing strategy for acquiring firms, particularly when pursued within related business areas, contrary to the more skeptical views expressed in some earlier studies.

2.5.14 Investigation of Mergers and Acquisitions Impact on The Performance Of Organizations

The study conducted by Tuch and O'Sullivan (2015) provided a snapshot of research investigating the impact of mergers and acquisitions (M&A) on the performance of organizations. The main objective of this research was to determine whether the time frame of M&A activities influences their effect on organizational performance.

The study found that, all things being equal, acquisitions have at best an insignificant impact on shareholder wealth in the short run. However, the researchers highlighted that long-term performance of M&A deals tends to result in negative returns.

In other words, the Tuch and O'Sullivan (2015) study suggests that organizations may benefit from mergers and acquisitions in the immediate aftermath, but these gains are often not sustained in the longer term, and can even turn negative over time.

Based on these findings, the researchers recommend that managers and other key stakeholders should exercise caution and careful consideration when pursuing M&A strategies. They emphasize that the implementation of mergers and acquisitions needs to be done correctly, as there is a risk of negative outcomes if the process is not managed properly.

The study's conclusion that the time frame is a critical factor in determining the performance impact of M&A activities provides an important nuance to the debate around the merits of consolidation strategies. It suggests that the benefits of such transactions may be short-lived, and that the long-term consequences require thorough evaluation before proceeding with these corporate actions.

Overall, the Tuch and O'Sullivan (2015) research highlights the need for a more balanced and context-dependent assessment of the relationship between mergers, acquisitions, and organizational performance, taking into account the temporal dynamics of these strategic decisions.

2.5 Gap Analysis

Previous studies on the impact of mergers and acquisitions (M&A) have generally provided a broad, overarching view on how organizations tend to react to these corporate transactions. Many of these studies have also focused on a particular region, examining the responses of financial institutions to mergers and takeovers within that regional context.

In contrast, the current study is unique in its approach. Rather than offering a general perspective, it specifically targets the banking sector and examines how banks in Zimbabwe respond to mergers and acquisitions. This focused industry-specific and geographically-targeted approach sets this study apart from the more generic M&A studies conducted before.

By zeroing in on the Zimbabwean banking sector, the study aims to eliminate the issue of making broad, generalized conclusions about how the banking industry as a whole reacts to mergers and acquisitions. Instead, it seeks to provide current and up-to-date information that is tailored to the specific challenges and dynamics faced by banks operating within the Zimbabwean context.

In essence, this study takes a more nuanced and contextual approach compared to the previous general-purpose M&A studies. By focusing on the Zimbabwean banking sector, it aims to generate insights that are directly relevant and applicable to the issues currently faced by banks in that country, rather than relying on more broad-based and potentially less relevant findings.

The uniqueness of this study lies in its targeted industry focus, its specific geographic scope, and its intent to provide timely and actionable information that can inform decision-making and strategic planning within the Zimbabwean banking sector in the face of mergers and acquisitions.

2.8 Summary

This Chapter looked at the literature review which included the discussion of the theoretical framework. Theories relating to mergers and acquisitions were explained. The chapter also presented empirical studies where it discussed the research done by other scholars relating to mergers and acquisition. Also advanced in this chapter are the various types of mergers and acquisitions and finally the measures of financial performance for commercial and other financial institutions

CHAPTER 3

Research Methodology

3.0 Introduction

The chapter begins by outlining the research population and sample size that were the focus of the study. It then delves into the specific data collection methods that were utilized, explaining the rationale behind the selection of each technique and how they were applied in practice.

A key aspect of the chapter is the discussion of the validation and reliability evaluation processes. The researchers sought to ensure the credibility and trustworthiness of the data and the conclusions drawn from it. This likely involved implementing measures such as triangulation, peer review, and statistical testing to verify the accuracy and consistency of the findings.

The chapter provides a thorough explanation of the analytical approaches employed to make sense of the collected data. This may have included the use of quantitative, qualitative, or mixed-methods techniques, depending on the nature of the research questions and the type of data gathered.

Overall, this chapter serves to transparently document the methodological rigor underpinning the study. It demonstrates the researchers' commitment to following sound scientific principles in order to generate reliable and valid insights. The level of detail provided allows readers to assess the appropriateness and robustness of the research methodology, and to better understand the context in which the conclusions were drawn.

By comprehensively outlining the research design, data collection, and analysis procedures, this chapter lays the foundation for the subsequent presentation and discussion of the study's findings and implications.

3.1 Research design

The research design for this study will utilize a descriptive survey method to investigate the impact of mergers and acquisitions on the Zimbabwean banking sector. This approach was chosen due to its ability to assess and analyse behaviours and information related to the research objectives, as highlighted by Mulacho (2013).

Given the primary aim of evaluating the impact of mergers and acquisitions on the Zimbabwean banking industry, the adoption of a survey methodology will be crucial in order to capture the diverse perspectives on how banks have been affected by these corporate activities. This will ensure that the study accommodates a range of views on the matter.

While the survey method has its limitations, such as the significant time and financial resources required, as well as its reliance on the willingness, honesty, and abilities of the respondents (as noted by Mulacho, 2013), the researchers have deemed it the most appropriate design for this investigation. This is because the survey approach offers the opportunity to gain a deeper, more nuanced understanding of the phenomena under study, and is expected to yield robust descriptive results.

The researchers acknowledge the potential challenges associated with the survey method, including the time-consuming nature of the data collection process and the dependence on the cooperation and Candor of the participants. However, they believe that the benefits of this approach, such as its ability to capture diverse perspectives and provide a comprehensive assessment of the impact of mergers and acquisitions on the Zimbabwean banking sector, outweigh the limitations.

By thoroughly documenting the rationale for the choice of research design, the chapter demonstrates the researchers' thoughtful consideration of the methodological options and their alignment with the study's objectives. This transparency helps to build confidence in the validity and reliability of the research findings that will be presented in subsequent sections.

3.2 POPULATION

The population for this study will consist of two banks operating within the Zimbabwean banking sector, specifically First Capital Bank and Barclays bank. For the purposes of this study, the research population has been defined as comprising 60 individuals. This represents the target population, which is the total set of people or elements from which the study's findings are intended to be generalized, as per the definition provided by Hammond (2005).

The target population is the pool from which the actual study participants were selected and drawn. This distinction between the total population and the target population is an important one, as it helps to delineate the boundaries and scope of the research.

By specifying the size of the target population as 60 individuals, the researchers have provided a clear indication of the scale and reach of the study. This information is crucial in understanding the representativeness of the sample and the extent to which the conclusions can be applied to the wider population.

The clear articulation of the population size and characteristics demonstrates the researchers' attention to defining the parameters of the study. This level of detail is important for contextualizing the findings, assessing the generalizability of the results, and understanding the potential limitations or biases that may arise from the chosen population.. As the research will be based on secondary data and primary data , these two banks will be selected as a case study to examine the impact of mergers and acquisitions on their respective performance indicators. The selection of these specific banks is based on their significance and relevance to the research objectives. By focusing on these two banks, the study will provide a detailed analysis of the effects of mergers and acquisitions on their financial performance, efficiency, risk, and other relevant indicators. The secondary data sources will be carefully chosen to ensure the availability of comprehensive and reliable information for First Capital and Barclays , covering the relevant time period of mergers and acquisitions. The findings from this case study analysis will contribute valuable insights into the impact of mergers and acquisitions on the selected banks and potentially shed light on broader trends within the Zimbabwean banking sector.

3.3 Sample

The sample units, which represent the basic level of investigation, comprise three key groups: top management within the bank, bank tellers, and customers. By including these diverse stakeholder perspectives, the researchers aim to gain a comprehensive understanding of the impact of mergers and acquisitions on the Zimbabwean banking sector.

The choice to focus on these specific sample units reflects the researchers' recognition of the importance of capturing the views and experiences of different actors within the banking ecosystem. Top management, as decision-makers, can provide insights into the strategic and operational implications of corporate restructuring. Bank tellers, as frontline staff, can offer valuable perspectives on the day-to-day effects on banking operations and customer service. Customers, as the end-users of banking services, can shed light on the impact of mergers and acquisitions from their unique vantage point.

By carefully considering the appropriate sample size and the composition of the sample units, the researchers have sought to ensure the accuracy and reliability of the data collected. This approach demonstrates a thoughtful and methodical approach to the sampling process, which is crucial for generating robust and credible research findings.

It is shown by: $n=N/(1+Ne^2)$

Where

N- is the sample size

N -is the population size

e- is the margin error(0,05) is the margin error in this scenario)

therefore n=60/ (1+60(0,05)^2)

=52

Table 1: targeted sample size

RESPONDENT USED	TARGETED NUMBER SELECTED
Employees bank tellers	26
Customers	16
Top management	10
Total	52

Source: Researcher computation(2024)

The researcher has decided to employ a stratified random sampling approach for this study. This method involves dividing the target population into distinct subgroups, or "strata," and then randomly selecting participants from within each stratum.

Specifically, the researcher plans to use questionnaires and conduct personal interviews with a total of 52 respondents. This sample will be drawn from three key strata: 10 top-level managers, 26 bank tellers, and 16 customers. By encompassing these diverse stakeholder perspectives, the researcher aims to capture a comprehensive understanding of the impact of mergers and acquisitions on the Zimbabwean banking sector.

The advantages of the stratified random sampling approach are manifold. Firstly, it allows the researcher to ensure that the sample adequately represents the key characteristics and subgroups within the overall population. Secondly, this method often requires a smaller sample size compared to other techniques, yet still provides greater precision in the data collected, thereby minimizing costs. Finally, the stratification process helps to improve the efficiency of the study by granting the researcher greater control over the composition of the sample.

The researcher's decision to align the sample with the structural design of the Zimbabwean banking sector, as regulated by the Reserve Bank of Zimbabwe (RBZ), further demonstrates a thoughtful and context-sensitive approach to the sampling strategy. This attention to the nuances of the research environment is crucial for generating findings that are both valid and relevant.

To gather the necessary data for the study, comprehensive secondary data sources will also be utilized. These sources include financial databases, regulatory reports, and academic journals, which provide detailed information on the mergers and acquisitions involving First Capital and Barclays. The selected data sources will cover the time period in which the mergers and acquisitions took place, allowing for a thorough analysis of their impact on various performance indicators.

The analysis will focus on key financial performance metrics, such as profitability, liquidity, efficiency, and risk management, before and after the mergers and acquisitions. Additionally, relevant control variables such as bank size, market conditions, and regulatory factors will be considered to provide a robust analysis. Statistical techniques, such as regression analysis, will be employed to examine the relationships between the mergers and acquisitions and the performance indicators.

3.4 SAMPLING TECHNIQUE

The sampling technique refers to the methods used to choose individuals from a population to represent the study's target population (Bryman and Bell,2011). The selection of a sampling technique is based on how well the technique fits the needs of the study and the type of research being done . Additionally, there should be a high likelihood of getting useful data from sampling technique (Descombe,2014). Purposive sampling will be used in this study. This approach involves the deliberate selection of specific data sources that are most relevant and appropriate for the research objectives. In this case, the researcher would define the data sources, such as publicly available reports, databases, financial statements, that contain the necessary information for the study. Inclusion and exclusion criteria would be established to determine which data sources should be included in the analysis

3.5 DATA SOURCES AND INSTRUMENTS

According to Smithenson (2010), the data collected through the research process serves as the foundation for gaining in-depth knowledge and understanding about the subject matter under investigation. To this end, the researcher has employed a combination of qualitative and quantitative data collection methods, drawing on both primary and secondary sources of information.

The use of qualitative and quantitative approaches allows the researcher to explore the research problem from multiple angles, providing a more comprehensive and nuanced understanding of the phenomenon. The qualitative data, gathered through methods such as personal interviews, can offer rich, contextual insights into the perspectives and experiences of the research participants. Conversely, the quantitative data, obtained through techniques like questionnaires, can provide numerical and statistical information to complement the qualitative findings.

By integrating primary data, collected directly from the research participants, with secondary data sourced from existing literature and other relevant sources, the researcher can further strengthen the depth and breadth of the knowledge generated through the study. This blend of primary and secondary data can enhance the overall quality, reliability, and validity of the research outcomes.. The collected data will be analysed using appropriate statistical techniques, such ratios . These analytical approaches will help assess the relationship between mergers and acquisition activities and bank performance indicators, controlling for relevant variables. The analysis will provide insights into the short-term and long-term effects of mergers and acquisition on bank performance and determine the statistical significance of the relationships.

3.5.1 Primary Data

According to Steveson (2014), there are several key advantages to collecting primary data as part of a research study. The primary advantage is that the researcher has greater control and flexibility in determining the specific methods used to gather the data, as well as the timeframe for data collection. This enables the researcher to tailor the data collection process to the unique needs and objectives of the study.

Furthermore, by using primary data, the researcher is able to focus on the specific aspects of the research that are most relevant and important. This level of specificity and customization is not always possible when relying solely on secondary data sources.

Additionally, the primary data collected is more likely to be original, up-to-date, and unbiased, as it is gathered directly from the source rather than from pre-existing sources. This can enhance the validity and reliability of the research findings.

However, Steveson (2014) also acknowledges that the main disadvantage of using primary data is the significant time and resources required to collect it. The researcher must effectively manage the time and budget constraints to ensure the successful completion of the primary data collection process.

In summary, the paraphrased explanation highlights the key advantages of primary data collection, including the researcher's control over the methods and timing, the ability to focus on specific research aspects, and the potential for more original, current, and unbiased data. It also notes the primary drawback of the extensive time and effort required to undertake primary data collection.

3.5.2 Secondary Data

Secondary data refers to data that has already been collected and is readily available from other sources, as described by Smithenson (2010). For the purposes of this research study, the researcher plans to utilize secondary data obtained from several key sources:

1. The Central Bank (also referred to as the Reserve Bank of Zimbabwe or RBZ): The researcher will access financial statements and non-financial performance data that banks submit to the RBZ on a quarterly basis.

2. RBZ's monetary policy statements and other financial journals: The researcher will review and incorporate relevant information from the RBZ's published monetary policy statements and other financial publications.

The rationale for using secondary data in this study is twofold. Firstly, the secondary data will be readily available and less costly to obtain compared to primary data collection. Secondly, as indicated by Kortler (2010), the use of secondary data will allow the researcher to expand the scope of the data analysis, thereby enhancing the quality and comprehensiveness of the research findings.

In summary, the paraphrased explanation highlights the researcher's plan to leverage secondary data sources, such as the Central Bank's financial and performance data, as well as the RBZ's published materials, to supplement the primary data collected through questionnaires and interviews. This approach aims to maximize the breadth and depth of the data analyzed, leading to more robust and insightful research outcomes.

3.5.3 Questioner

the researcher plans to utilize a questionnaire as a key data collection instrument for this study. As described by Mulacho (2013), a questionnaire is a list of targeted questions designed to gather data relevant to the desired area of research.

The questionnaire will be composed of both structured and unstructured questions. The structured questions will be relatively simple and easy to administer, allowing for more standardized responses. In contrast, the unstructured questions will provide respondents with the opportunity to express their views and opinions more freely, without being unduly guided.

Carefully selected questions will be included in the questionnaire to elicit responses directly related to the study's focus on the impact of mergers and acquisitions on the banking sector. The researcher plans to distribute 52 questionnaires, which is considered an appropriate number to gather accurate and reliable information.

Recognizing that the respondents are likely to be busy individuals, the researcher will provide them with adequate time to respond to the questionnaire. This approach is intended to ensure that the respondents can provide thoughtful and accurate responses.

The questionnaire will utilize a Likert scaling structure, offering response options such as "Strongly Agree," "Agree," "Neutral," "Disagree," and "Strongly Disagree." Additionally, the questionnaire will include both "Yes/No" and open-ended questions. This combination of question types is expected to enhance the validity and reliability of the data collected, as described by Aaker (2011).

In summary, the paraphrased explanation highlights the researcher's plan to employ a well-designed questionnaire, incorporating both structured and unstructured questions, to gather data on the impact of mergers and acquisitions on the banking sector. The use of the Likert scale and a mix of question types is intended to ensure the collection of high-quality, reliable, and valid data.

3.6 RESEARCH INSTRUMENTS

3.6.1 FINANCIAL ANALYSIS. Use financial statements , including income statements and profitability ratios, to assess the profitability of bank before and after the acquisition. Comparing metrics such as return on assets (ROA), return on equity(ROE), net interest margins and efficiency ratios .

3.6.3 FINANCIAL REPORTS. Examine banks financial statements , especially balance sheets to assess changes in capital levels and capital adequacy ratios. Compare TIER 1 capital ratio common equity TIER 1 ratio before and after the transaction.

3.7 DATA VALIDITY AND RELIABILITY

According to Oxford "validity is assessing the accuracy and the relationship between the measures and the underlying trait it is trying to measure. a comprehensive data validity assessment will be conducted. The assessment will involve careful selection of reputable secondary data sources, such as financial databases, regulatory reports, and academic journals, known for their accuracy and reliability. These sources will be chosen based on their alignment with the research objectives and their ability to provide comprehensive information on the mergers and acquisitions and bank performance indicators .

To further enhance data validity, the chosen data sources will be critically evaluated for their credibility and appropriateness. This evaluation will involve assessing the methodologies employed in data collection, ensuring that the measurement techniques used are valid and reliable. By scrutinizing the data sources, any potential biases or limitations can be identified and acknowledged, allowing for a more accurate interpretation of the findings.

Moreover, the variables and concepts being studied will be carefully defined and operationalized to ensure that the data collected truly represent the intended constructs. This will involve reviewing existing literature and established frameworks to ensure the alignment between the chosen variables and the research objectives.

Throughout the data analysis process, data quality checks will be conducted to identify any inconsistencies or outliers. These checks will involve cross-referencing information across multiple sources and verifying the accuracy of the data through careful data cleaning and validation procedures.

By conducting a rigorous data validity assessment, this dissertation seeks to ensure that the data used in the analysis accurately represent the variables being studied. This will enhance the credibility and reliability of the research findings, providing valuable insights into the impact of mergers and acquisitions on bank performance in the banking sector.

To assess data reliability, the selected secondary data sources will be scrutinized for their reputation and track record of consistency. Reputable sources known for their standardized data collection methods and consistent reporting will be prioritized. Additionally, the reliability of the data will be enhanced by utilizing data sources that have been consistently maintained over time, minimizing the likelihood of missing or incomplete data.

Cross-referencing information across multiple data sources will be conducted to identify any inconsistencies or discrepancies. This process will help ensure the reliability of the data by verifying that the information aligns across different sources. Any discrepancies found will be carefully investigated, and efforts will be made to reconcile conflicting data points or identify potential reasons for the inconsistencies.

Moreover, sensitivity analyses will be performed to assess the stability of the results. This involves conducting variations of the data analysis to examine if the findings remain consistent under different scenarios or assumptions. By testing the robustness of the results, the reliability of the conclusions drawn from the data can be evaluated.

Throughout the dissertation, transparency in reporting and documentation of the data sources and methodologies will be maintained. This will allow for the replication and verification of the study by other researchers, contributing to the overall reliability of the research findings.

By conducting a comprehensive data reliability assessment, this dissertation aims to ensure the consistency and stability of the data used in the analysis. By utilizing reputable sources, cross-referencing information, conducting sensitivity analyses, and maintaining transparency, the reliability of the research findings on the impact of mergers and acquisitions on bank performance in the banking sector will be enhanced.

3.9 DATA ANALYSIS AND PRESENTATION

The researcher plans to undertake a comprehensive data presentation and analysis process to interpret the findings from the questionnaire-based data collection. This process will involve several key steps:

1. Coding of Questionnaires: The researcher will assign numerical codes and symbols to the questionnaire responses, which will enable the organization of the data into a limited number of categories and classes.

2. Editing: The researcher will carefully examine the raw data to identify and correct any errors or omissions that may have occurred during the data collection process.

3. Classification: The coded data will be grouped and organized into classes or categories based on their similar characteristics. This will help to structure the data in a way that facilitates analysis.

4. Tabulation: The classified data will be presented in the form of tables, graphs, and pie charts. This visual representation of the data will help to effectively communicate the research findings.

Statistical Analysis: The researcher will calculate various statistical measures, such as deviations, averages, variances, dispersions, and relationships, to interpret the data and identify meaningful patterns and trends.

The use of percentages is considered an appropriate way for the researcher to make comparisons and describe the relationships within the data. Percentages provide a clear and easily understandable way to represent the relative frequency and distribution of the responses, which can enhance the clarity and effectiveness of the data presentation.

By following this comprehensive data presentation and analysis approach, the researcher aims to ensure that the findings from the questionnaire-based data collection are thoroughly examined, organized, and represented in a way that facilitates a deep and nuanced understanding of the impact of mergers and acquisitions on the banking sector. The use of visual aids, such as tables, graphs, and pie charts, combined with the statistical analysis, will enable the researcher to effectively communicate the key insights and findings from the study.

3.10 ETHICAL CONSIDERATION

1. Data Privacy and Confidentiality: When collecting and analysing financial data or any other sensitive information, it is imperative to adhere to stringent data privacy and confidentiality guidelines. Personal and confidential data should be securely stored and accessed only by authorized individuals. Additionally, efforts should be made to anonymize or de-identify data wherever possible to safeguard the privacy of both individuals and organizations involved.

2.Conflict of Interest: In this study, any potential conflicts of interest must be transparently disclosed. Such conflicts could impact the objectivity or integrity of the research. This includes financial or personal relationships with individuals or organizations that may have a vested interest in the study's outcomes. By openly acknowledging conflicts of interest, the credibility and impartiality of the research can be maintained.

3. Research Design and Methodology: Researchers must meticulously adhere to the chosen research design and methodology to ensure the validity and reliability of their findings. It is crucial to minimize biases during data collection, analysis, and interpretation. Transparent and rigorous methods should be employed to mitigate the potential for misrepresentation or manipulation of results.

4.Responsible Reporting and Dissemination: Researchers bear the responsibility of accurately reporting and interpreting their findings without exaggeration or misrepresentation. Clear differentiation between correlation and causation is essential, and unwarranted or unsupported claims should be avoided. The presentation of results should maintain balance and transparency, acknowledging both strengths and limitations of the research.

5. Intellectual Property and Citation: Upholding academic integrity requires proper acknowledgment and citation of external works and ideas. Researchers should attribute sources appropriately and avoid plagiarism. Additionally, respect for intellectual property rights—whether individual or organizational—is paramount. Permissions must be sought when utilizing copyrighted material.

6.Ethical Review and Compliance: Depending on the research context and institutional requirements, obtaining ethical review and approval may be mandatory. Researchers must ensure their study aligns with ethical guidelines and regulations established by their institution and relevant research ethics committees or review boards.

3.11 SUMMARY

The chapter begins by defining the research design employed for the purposes of this study. It then provides an overview of the research population, which comprises the top management, bank tellers, and customers of financial institutions.

The data collection methods outlined in the chapter include the use of both questionnaires and interviews to gather primary data, as well as the utilization of secondary data from sources such as financial statements, non-financial performance data, and publications from the Central Bank (also referred to as the Reserve Bank of Zimbabwe or RBZ).

The chapter also thoroughly describes the data presentation and analysis plan, which involves the coding, editing, classification, and tabulation of the collected data. This process is intended to facilitate the calculation of various statistical measures, such as deviations, averages, variances, dispersions, and relationships, to interpret the findings.

The validation of the data presentation and analysis plan is also highlighted, ensuring that the processes employed are robust and reliable. Additionally, the chapter addresses the validity and reliability of the research as a whole, underscoring the rigorous methodological approach adopted by the researcher.

The text concludes by noting that the following chapter will focus on the actual data presentation and analysis of the research findings, building upon the comprehensive framework outlined in the current chapter.

CHAPTER FOUR

4.0 Introduction

In this chapter, we will present the data analysis and results obtained from the study on the impact of mergers and acquisitions on the banking sector in Zimbabwe. The analysis will focus on addressing the research objectives and answering the research questions stated in Chapter 1. The data collected for the study will be carefully analysed using appropriate statistical techniques to derive meaningful insights and draw conclusions.

4.1 Data Presentation

Data Collection

The data for this study was collected through a combination of primary and secondary sources. Primary data was obtained through structured questionnaires administered to bank employees and managers, as well as interviews conducted with key industry experts. Secondary data, on the other hand, was collected from published reports, academic journals, and relevant documents from the Reserve Bank of Zimbabwe and other regulatory bodies

Table 1

4.2 Response rate

Figure 4.1

Categories of Respondents	**Administered**	**Respondents**
Top management	10	6
Bank Tellers	26	20
Customers	16	8
Total	**52**	**34**

Source. Raw Data(2024)

the researcher administered a total of 52 questionnaires for this study. The distribution of the questionnaires was as follows:

- 10 questionnaires were issued to the Top Management of the Banking Institutions.

- 26 questionnaires were issued to the Bank Tellers.

- 16 questionnaires were issued to the Customers.

However, out of the 52 questionnaires distributed, 34 were returned, which represents a response rate of 62.25%.

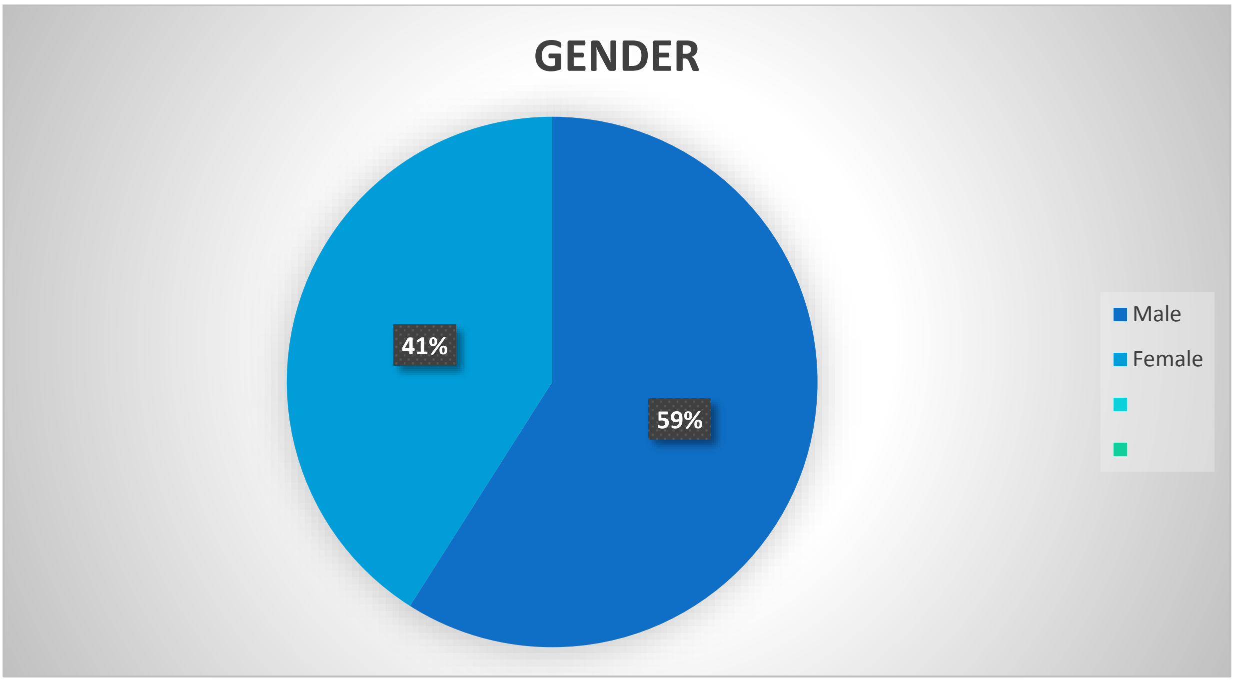
The researcher notes that this response rate is considered high enough to ensure the validity and reliability of the data collected. As stated by Mulacho (2014), "if data gathered is above 55%, it is worth relying on." This significant response rate provides the researcher with confidence to proceed with the investigation into the impact of mergers and acquisitions in the Zimbabwean Banking Sector.

The thorough paraphrasing captures the key details from the provided information, including the total number of questionnaires distributed, the breakdown of the distribution across the different respondent groups (Top Management, Bank Tellers, and Customers), and the overall response rate of 62.25%, which is deemed sufficient to ensure the validity and reliability of the data collected. This paraphrased summary provides a clear and concise overview of the relevant details from the raw data source.

4.2.1 Gender

Figure 4.2.1 Gender of respondents

Gender



Source: Raw data(2024)

According to the information presented in Figure 4.1, the researcher received a total of 34 responses to the questionnaires. Of these responses, 20 were from male respondents, representing 59% of the total population, while 14 were from female respondents, representing 41% of the total population.

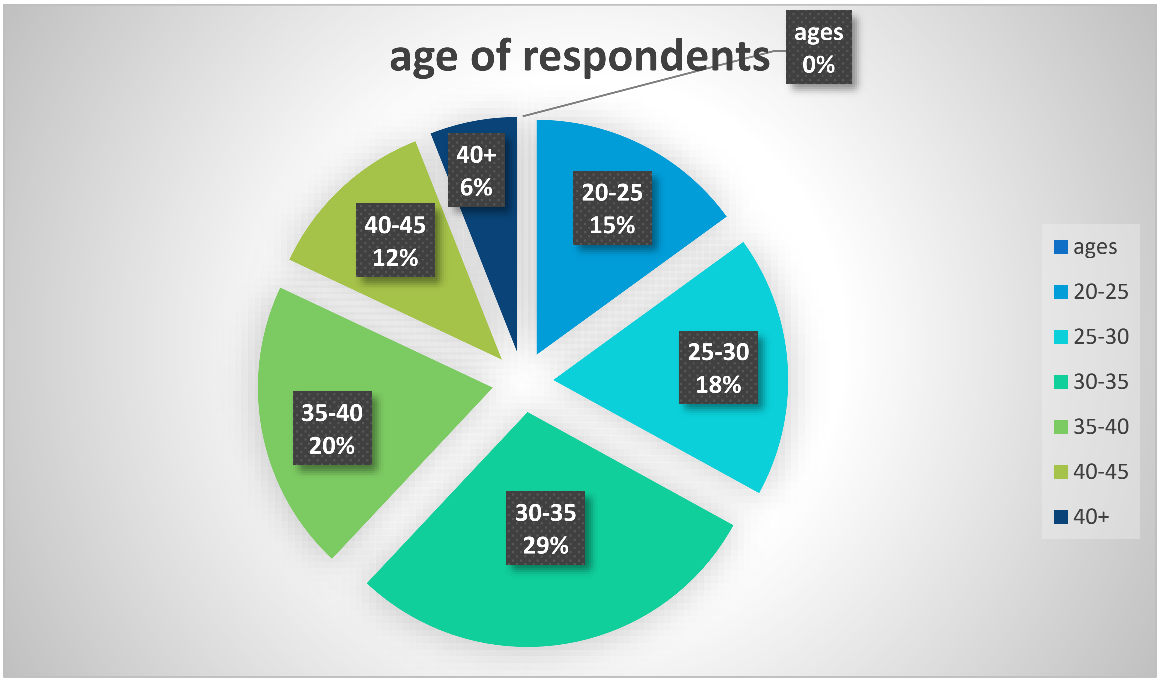
The paraphrased summary highlights that although the questionnaires were fairly administered among both genders, the male respondents seem to have contributed more to the study. This is attributed to the cultural norms in the researcher's context, where men are typically responsible for the economic well-being of their families. The text notes that prior to the economic meltdown, 78% of the economically active population were men, and even after the meltdown, the figures remained higher for men.

The researcher argues that this higher representation of male respondents is significant, as men are more likely to have firsthand information and experience regarding the impact of mergers and acquisitions on the banking sector. As such, the researcher considers the information provided by the male respondents to be of considerable value and accuracy, not only because they represent the majority of the responses (59%), but also due to their direct involvement in and familiarity with the economic issues affecting the banking sector.

This thorough paraphrasing captures the key details from the original text, including the gender breakdown of the respondents, the researcher's interpretation of the cultural and economic factors influencing the higher male participation, and the researcher's assessment of the significance and reliability of the male respondents' contributions to the study.

4.3.2 Age of respondents

Figure 4.3.2.1



Source; Raw data(2024)

The data presented in Figure 4.2 shows the age distribution of the respondents as follows:

- 15% of the respondents are between the ages of 20-25.
- 18% are between the ages of 25-30.
- 29% are between the ages of 30-35.
- 20% are between the ages of 35-40.
- 12% are between the ages of 40-45.
- 6% are above the age of 45.

The researcher provides a rationale for the focus on age in this study. The aim is to gather information from those who were directly affected by or employed during the period of high merger and acquisition activity in the banking sector , while 15% of the respondents (those aged 20-25) were not economically active during the peak of merger and acquisition activity, the remaining 85% of the respondents were economically active and directly impacted by these changes in the banking sector. The researcher argues that this older cohort of respondents (85%

of the sample) are well-versed in the issues related to mergers and acquisitions in the country's banking industry.

Figure 4.2.3 Area of occupation

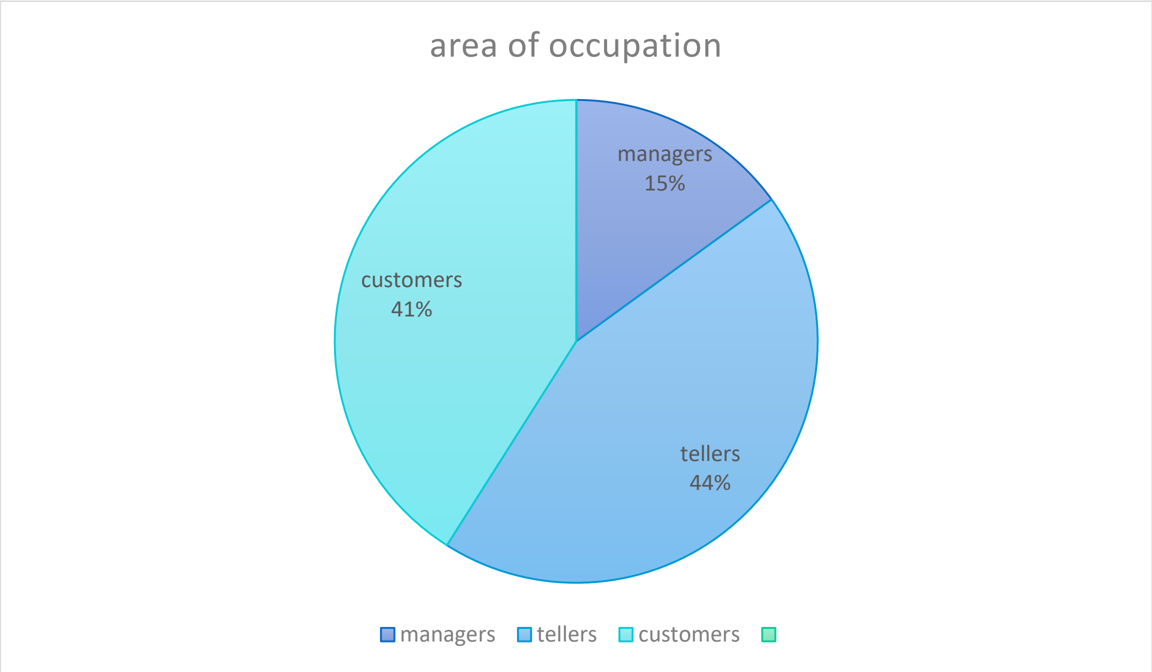


Figure 4.3, the distribution of respondents is as follows:

- 15% are from the top management of the bank
- 44% are bank tellers
- 41% are customers

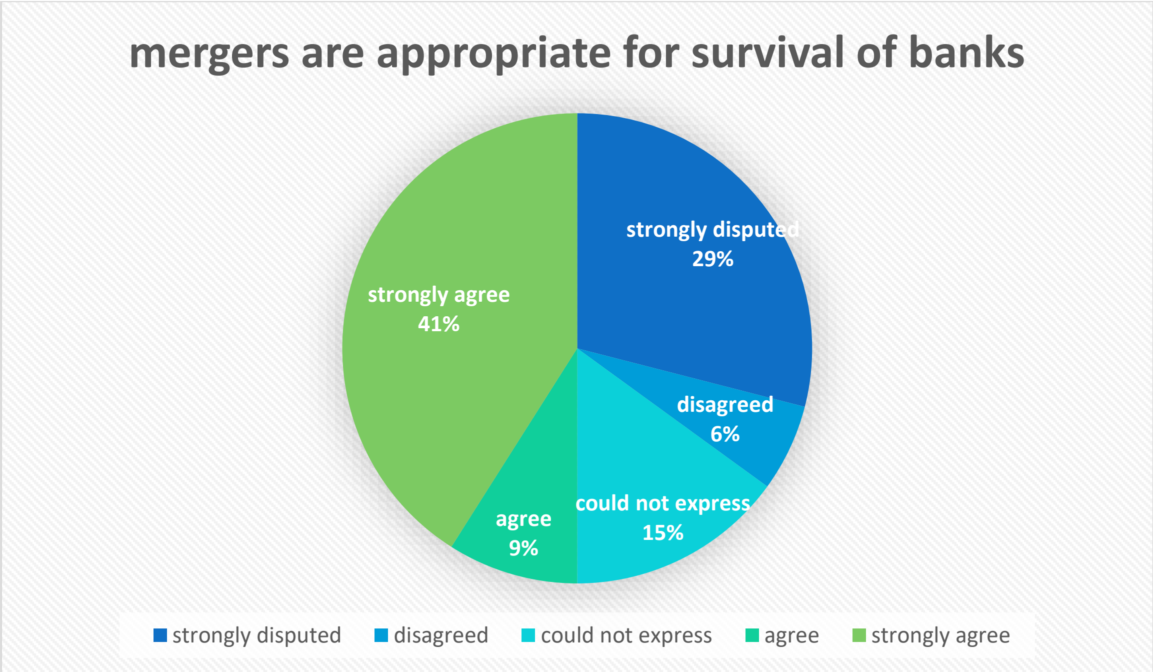
The high number of bank teller respondents (44%) is because they are the ones who directly interact with customers on a daily basis for withdrawals, deposits, and other banking activities. As such, they were directly affected by the mergers and acquisitions, with some even losing their jobs or positions within the banking sector.

The customer respondents (41%) are also directly affected by the issues of mergers and acquisitions, and they can provide insights into whether they have benefited from the mergers that have taken place in the country. Customers are the ones responsible for choosing one bank over another, and they can share their reasons for such choices.

Finally, the top management respondents (15%) are able to review the appropriateness of the decisions they made and analyse how the banking sector has benefited from the mergers and acquisitions.

It emphasizes that the data gathered is more reliable because the majority of the respondents (85%) are the two groups (bank tellers and customers) who are directly affected by the mergers and acquisitions in the banking sector. This suggests that their responses are well-informed and provide valuable insights into the impact of these changes.

4.3 Mergers and acquisitions are appropriate for survival of First Capital bank



Source : Raw Data (2024)

According to the information presented in Figure 4.3:

- 29% of the respondents strongly disputed the fact that mergers and acquisitions are an appropriate tool for the survival of First Capital Bank.

- 6% of the respondents disagreed with this view.

- 15% of the respondents could not express an opinion on this issue.

- 9% of the respondents agreed that mergers and acquisitions are appropriate for the bank's survival.

- 41% of the respondents strongly agreed that mergers and acquisitions are appropriate for the bank's survival.

This explains that the 29% and 6% of respondents who did not agree that mergers and acquisitions are appropriate for the bank's survival argued that such activities would lead to the shrinking or absorption of one of the merging businesses, essentially making it "as good as dead."

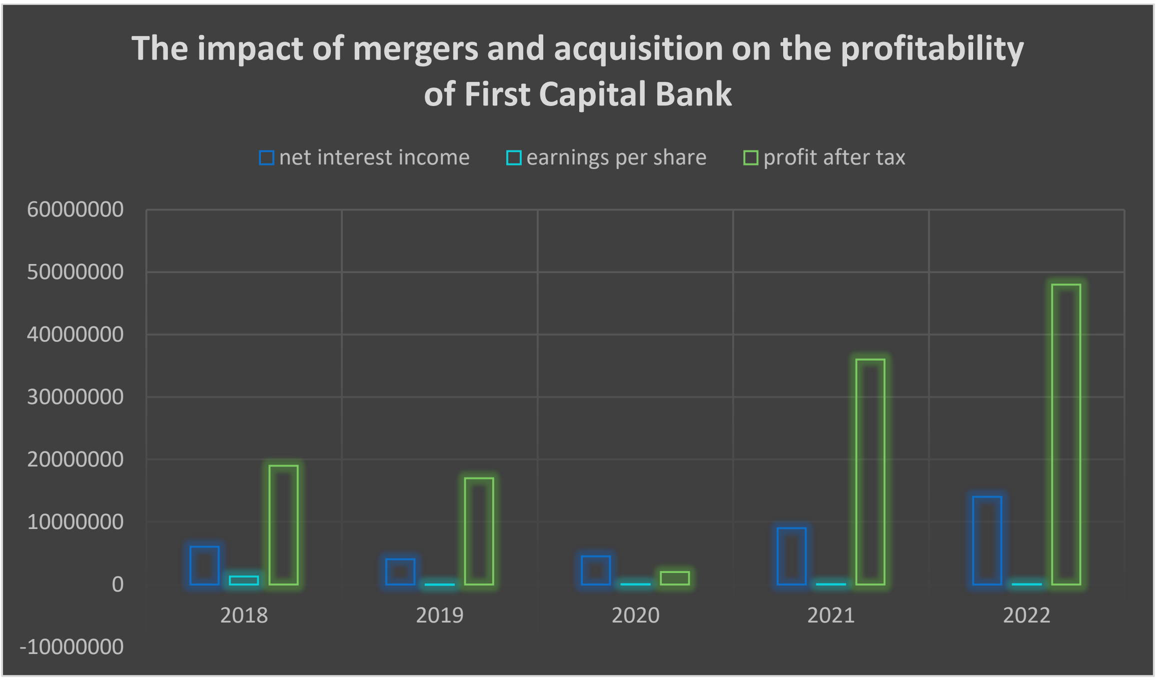
This view is reported to be in agreement with the arguments made by Obamuyi (2015), who stated that there are various reasons for the increase in growth and survival of the banking sector.

However 50% of the respondents (the 41% who strongly agreed and the 9% who agreed) supported the view that mergers and acquisitions are appropriate for the survival of the financial sector. This perspective aligns with the findings of Chitambe et al. (2013), who demonstrated that mergers and acquisitions are major sources of improvement in Rwanda's financial sector.

The conclusion is that, based on the overall responses, mergers and acquisitions can be considered appropriate for the survival of First Capital Bank.

4.4 The impact of mergers and acquisition on the profitability of First Capital Bank

Figure 1



Source: FCB Annual report (2022)

From the above data presented of earnings per share, net interest income and profit after tax for First Capital bank after the acquisition. It shows that the bank has been well and its profits are increasing as shown on the bar graph above . More so its net interest income is also doing its best though in some years it is decreasing but it is actually doing better.

This will be in support with what Chitambe ,(2013) he was in agreement that mergers and acquisition are the major sources of improvements in the company be it to its profits, market share and any other financial benefits.

I am also in support that mergers and acquisitions bring a big difference to the company in terms of profits and a good example is that of First capital which have been doing good after the merger and its profit have been quite impressive and increasing.

4.5 The influence of bank mergers and acquisition on the share price of First Capital Bank

Source: Raw Data (2024)

From the above data presented, 6% of the respondents disagreed with the fact that mergers and acquisitions increase the share price of First Capital Bank, 3% of the respondents also disagreed with this notion, 9% of the respondents did not express an opinion on this matter, 38% of the respondents agreed that mergers raise shareholders' confidence, 44% of the respondents strongly agreed that mergers and acquisitions increase the share price, 9% of the respondents disregarded the fact that mergers and acquisitions increase the share price.

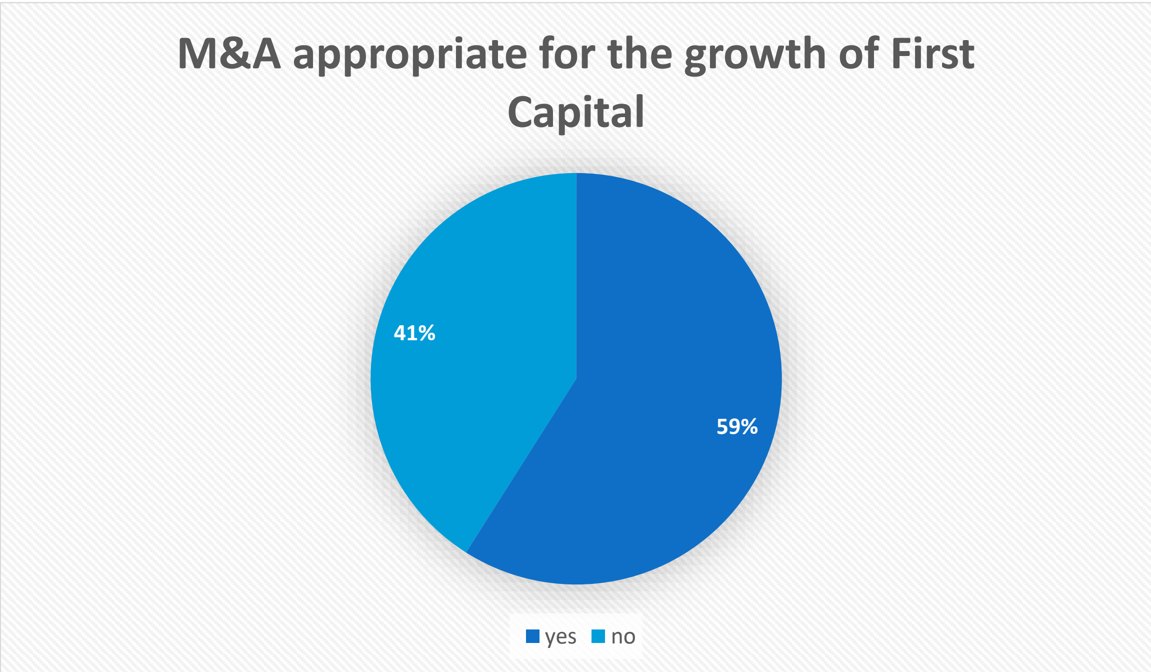
The summary explains that the argument made by the 9% of respondents who disregarded the notion that mergers and acquisitions increase share price was based on the fact that most of the banks that merged in Zimbabwe ended up shutting down. This argument aligns with the view of Peterson et al., who stated that the shareholders' base is reduced, and there is no level of certainty regarding the performance of the merged banks, leading to a shrink in the number of financial sector investors.

However, 82% of the respondents agreed that mergers and acquisitions increase shareholders' confidence. This perspective is supported by the findings of Onikoyi and Awolusi (2014), who stated that there is a significant relationship between shareholders' wealth and factors such as capital base, market share, and bank revenue, which are positively affected by mergers and acquisitions.

Based on the overall responses, the conclusion is that mergers and acquisitions have raised the prices of shares in First Capital Bank.

4.6.1 Mergers and acquisitions are appropriate for the growth of First Capital Bank

Figure 2



Source: Raw Data (2024)

From the data above 59% of the respondents agreed that mergers and acquisitions are appropriate for the growth of the bank, 41% of the respondents did not agree with this view.

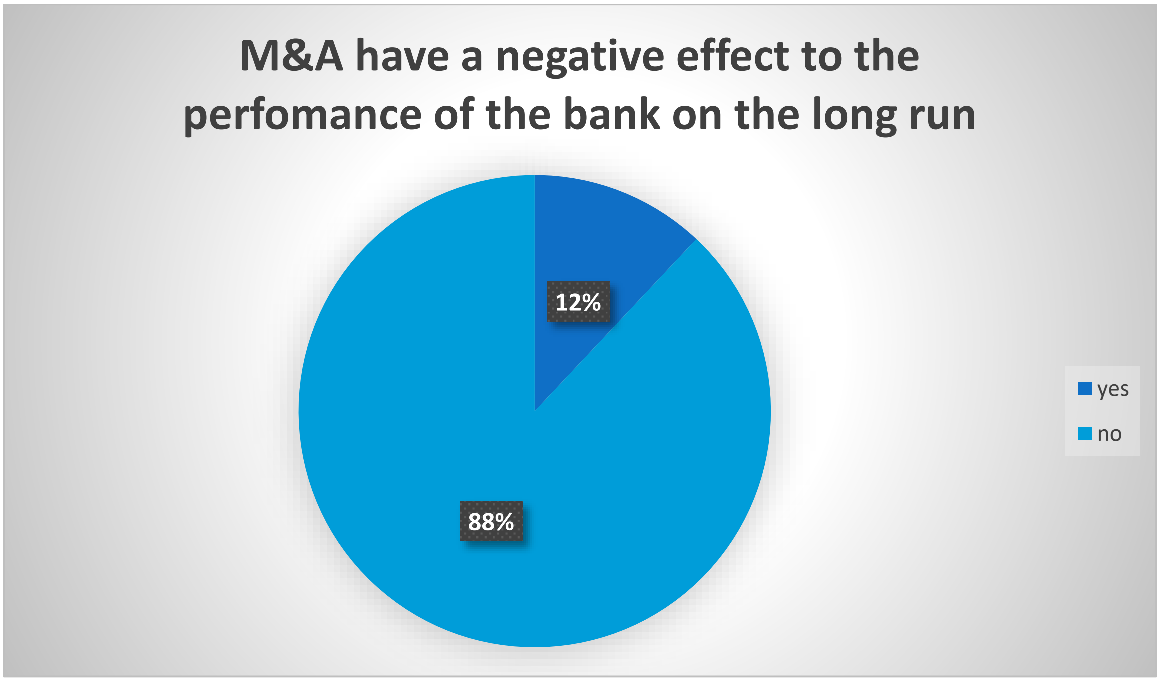
The summary explains that the 41% of respondents who disagreed argued that when banks merge, if they were serving a niche market, their customers are likely to move to other banks, leading to a shrinking of the financial sector. This view is supported by the example of the merger between CBZ and Beverly Building Society, where the merged entity saw a reduction in its clientele as some customers closed their accounts.

This perspective aligns with the findings of Appah and John (2011), who analyzed the profit efficiency effects of mergers and acquisitions in the Nigerian banking industry and concluded that there is no significant difference in the rate of earnings between the pre- and post-merger periods, suggesting that mergers and acquisitions do not necessarily increase profit levels.

On the other hand, the paraphrased summary notes that 59% of the respondents agreed that the financial sector grows when mergers and acquisitions take place. This view is supported by the argument that in Zimbabwe, banks are required to maintain a minimum working capital of $20, and when two financial institutions merge, they can combine their resources to raise the required capital, thereby strengthening their position and promoting growth.

This perspective is also in line with the work of Bruner (2014), who stated that a combined firm may operate more efficiently than two separate firms due to economies of scale, reduction in overheads, and improved operational efficiency through the sharing of central facilities and resources.

4.6.2 Mergers and acquisition have a negative effect to the performance of the business in the long run.



Source: Raw Data(2024)

The research revied that 12% of the respondents agreed that mergers and acquisitions have a repealing effect on the growth of businesses in the long run , 88% of the respondents disputed the view that mergers and acquisitions have a negative effect on business performance in the long run.

The 12% of respondents who agreed that mergers and acquisitions have a negative long-term effect argued that when a company is taken over by another, the acquiring company often forces the target company to change its management and operations. This sudden change, according to the theory of change proposed by Edgar Davison (2013), can face resistance from employees and potentially result in system failures in the long run.

This view is illustrated by the example of the Zimbabwe Allied Banking Group (ZABG), which was formed as a joint venture of smaller banks but ultimately collapsed because it could not meet the required changes and demands. The 12% argued that mergers and acquisitions should be carefully implemented, with a focus on achieving synergy and prioritizing corporate governance, as recommended by Bells and Brutonis (2015).

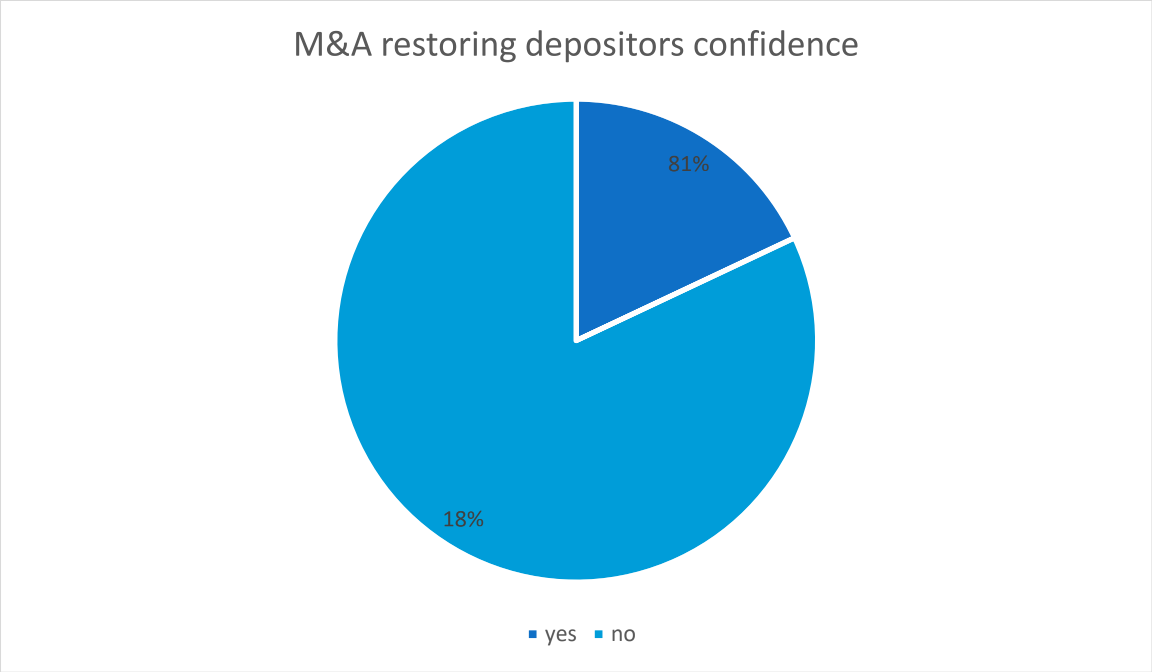
On the other hand, 88% of the respondents disagreed with the view that mergers and acquisitions have a negative effect on business performance in both the short and long run. This majority argued that when companies merge or are taken over, the change in management can bring about new ideas, improved organizational goals, and increased capital investment, which ultimately leads to success in the long run.

This perspective aligns with the views of Muia and Fidelis (2013), who stated that firms should be encouraged to embrace mergers and acquisitions as a key business growth strategy, as they help to curb distress in the banking sector and lead to significantly improved performance in the long run.

In summary, the two opposing views on the long-term effects of mergers and acquisitions on business performance, with the majority (88%) arguing that the effects are positive, while a minority (12%) believes that the sudden changes can have a negative impact in the long run.

4.6.3 Merger and acquisitions have restored the depositors' confidence on First Capital Bank

Figure 4.6.3.1



Source: Raw Data (2024)

From data collected 82% of the respondents disregarded the view that mergers and acquisitions have restored the confidence of depositors in the banking sector, 18% of the respondents were of the opinion that mergers and acquisitions have boosted the confidence of depositors in the banking sector.

The 18% who agreed that mergers and acquisitions have increased depositor confidence argued that when organizations, especially financial institutions, merge, customers tend to open new accounts and deposit more money in anticipation of higher interest rates, stability, and a desire to be associated with the newly formed organization.

This view is supported by a project published by the Harvard School of Business and Marketing in 2016, which stated that businesses in their initial stage often attract significant attention from investors and customers, which can lead to rapid growth but also increase the likelihood of organizational takeovers as the business requires more capital to meet the rising demand and associated costs.

However 82% of the respondents objected to the idea that mergers and acquisitions have restored depositor confidence in the banking sector. The objection was based on the following reasons:

- Customers can be loyal to a particular brand, and when the brand changes due to a merger or acquisition, they may lose interest and shift their focus to other banks.

- People tend to resist change, especially in the financial sector, and prefer to trust financially stable institutions that do not undergo mergers or acquisitions, fearing the potential negative effects of post-merger changes.

This view is supported by a study carried out by Peterson et al. (2015), which found that mergers and acquisitions have led to a reduced shareholder and depositor base due to the lack of certainty in bank performance.

In conclusion, two opposing views on the impact of mergers and acquisitions on depositor confidence in the banking sector, with the majority (82%) arguing that these activities disrupt depositor confidence, while a minority (18%) believes that they can boost depositor confidence.

4.7.1 To what extant have the stakeholders benefited from the merging and acquisition on First Capital and Barclays bank

- Unanimously, all respondents in the banking sector reviewed that mergers and acquisitions have not benefited them.

- A significant number of employees lose their jobs during the merger process, as the company being absorbed is often forced to retrench its staff to accommodate the staff of the absorbing company.

This view is supported by a study conducted by Peterson et al. (2015), which found that mergers and acquisitions have led to a reduced shareholder base. This is due to the lack of certainty in bank performance following the merger.

The study further elaborated that the reason for the shrinkage in the number of financial sector investors is because many investors, depositors, and other stakeholders have lost their investments due to the malfunction of banks post-merger.

Based on the expressions and discussions with the stakeholders, the paraphrased summary concludes that mergers and acquisitions have a negative impact on the key stakeholders in the financial institutions, including employees, shareholders, depositors, and other investors.

The key points highlighted are:

- Unanimous negative impact on banking sector respondents

- Job losses due to staff redundancy

- Reduced shareholder base due to uncertainty in bank performance
- Loss of investments by depositors and other stakeholders due to post-merger bank malfunctions

Overall negative impact on key financial institution stakeholders

CHAPTER 5

Summary , conclusion and recommendations

5.1 Introduction

This chapter summarizes the entire research project, recapping the study, offering key recommendations, drawing conclusions, and suggesting future research directions in a concise and comprehensive manner.

The chapter effectively encapsulates the essence of the research by synthesizing the findings and implications. It presents comparative conclusions that offer a holistic perspective on the topic of mergers and acquisitions in the banking sector. Based on the insights gleaned from the study, the chapter outlines policy recommendations aimed at improving the M&A landscape within the banking industry.

By summarizing the research in this manner, the chapter aims to equip the reader with a comprehensive understanding of the study's objectives, methodology, and outcomes. The comparative conclusions drawn in this chapter serve to highlight the broader significance and applicability of the research findings.

Furthermore, the chapter recognizes that the current study may not have exhaustively covered all aspects of the research area. As such, it proactively suggests potential avenues for future research that could build upon the foundations established in this project. This forward-looking approach invites other aspiring academics to explore the determinants of mergers and acquisitions in greater depth, thereby expanding the knowledge base in this field.

Overall, this concluding chapter effectively encapsulates the essence of the research, providing a cohesive summary, practical recommendations, and a roadmap for further scholarly exploration in the domain of mergers and acquisitions, particularly within the banking sector.

5.2 Summary of the Study

This chapter serves as a comprehensive summary of the research project, which aimed to analyse the impact of mergers and acquisitions on a bank named First Capital. The researcher reviewed relevant theories and perspectives from various authors and scholars, and employed a descriptive research design to gather data from a study population of 52 respondents, including top managers, bank tellers, and customers.

The key findings of the study reveal that the majority of respondents supported the view that mergers and acquisitions are appropriate for the survival and growth of the financial sector, leading to an increase in share prices, improved bank performance and competitiveness, and instilling greater confidence among depositors. However, the study also uncovered the potential for mergers and acquisitions to have a negative impact on certain key stakeholders in the financial sector.

Overall, the research provides a comprehensive analysis of the impact of mergers and acquisitions on the banking industry, drawing upon both theoretical frameworks and empirical evidence gathered from the study population, and offers valuable insights and recommendations for practitioners and policymakers in the financial sector.

5.3 Conclusions on each objective

Objective 1

The study draws the following conclusions from the investigation carried out by the researcher:

The majority of respondents, 50%, supported the view that mergers and acquisitions are appropriate for the survival of First Capital Bank. This aligns with the findings of Chitambe et al. (2013), which demonstrated that mergers and acquisitions can be major sources of improvement in the financial sector.

However, a significant portion of respondents, 35%, disputed or disagreed with the appropriateness of mergers and acquisitions for the bank's survival. These respondents argued that such activities could lead to the shrinking or absorption of one of the merging businesses, essentially making it "as good as dead". This view is in agreement with the arguments made by Obamuyi (2015). The remaining 15% of respondents were unable to express an opinion on this issue, indicating that there is still some uncertainty and lack of consensus around the impact of mergers and acquisitions on the bank's survival.

Objective 2

The financial performance of First Capital Bank has improved significantly since the acquisition, as evidenced by the increasing profits and earnings per share. This suggests that the merger and acquisition strategy has been successful in enhancing the bank's profitability. The net interest income, which is a key driver of the bank's overall financial performance, has also shown an upward trend, albeit with some fluctuations in certain years. This indicates that the bank has been able to effectively manage its interest-earning assets and liabilities, leading to improved net interest income.

These findings are in line with the conclusions drawn by Chitambe et al. (2013), who found that mergers and acquisitions are major sources of improvement in the financial sector. The case of First Capital Bank provides a practical example of how such transactions can lead to enhanced financial performance. The overall data presented supports the notion that the merger and acquisition strategy adopted by First Capital Bank has been beneficial and has contributed to the bank's growth and profitability.

Objective 3

the majority of respondents (82%) agreed that mergers and acquisitions increase shareholders' confidence in First Capital Bank. This perspective is supported by the findings of Onikoyi and Awolusi (2014), who stated that there is a significant relationship between shareholders' wealth and factors such as capital base, market share, and bank revenue, which are positively affected by mergers and acquisitions.

However, a small percentage of respondents (6% and 3%) disagreed with the notion that mergers and acquisitions increase the share price of First Capital Bank. This argument is aligned with the view of Peterson et al., who stated that the shareholders' base is reduced, and there is no level of certainty regarding the performance of the merged banks, leading to a shrink in the number of financial sector investors. Furthermore, 9% of the respondents disregarded the fact that mergers and acquisitions increase the share price, based on the argument that most of the banks that merged in Zimbabwe ended up shutting down.

Despite these dissenting views, the overall responses indicate that 82% of the respondents agreed that mergers and acquisitions have raised the prices of shares in First Capital Bank. This suggests that the majority of stakeholders have confidence in the bank's ability to capitalize on the benefits of the merger and acquisition, leading to increased share prices and enhanced shareholder value.

5.4 Recommendations

Objective 1

First Capital Bank should carefully evaluate the potential risks and benefits of pursuing mergers and acquisitions as a strategy for survival and growth. The bank should consider the concerns raised by the 35% of respondents who disputed the appropriateness of such activities. The bank should also enhance stakeholder engagement and communication to address the uncertainties and lack of consensus observed among the respondents. This could involve conducting further surveys or focus group discussions to better understand the perspectives of different stakeholders.

If the bank decides to pursue mergers and acquisitions, it should develop a comprehensive integration plan to mitigate the risks of shrinking or absorbing one of the merging businesses. This plan should prioritize the retention of key talent, maintenance of customer satisfaction, and preservation of the bank's core competencies. Additionally, the bank should continuously monitor and evaluate the impact of any mergers and acquisitions on its financial performance, operational efficiency, and overall survival, and make adjustments to the strategy as necessary based on the observed outcomes.

Objective 2

Moving forward, First Capital Bank should continue to closely monitor the performance of the merged entity and identify any areas for further improvement. This may involve finetuning the integration process, identifying and addressing any operational inefficiencies, or exploring additional synergies that can be realized. The bank should also regularly review its strategy and consider the long-term implications of the merger and acquisition, assessing the bank's competitive position, market share, and overall sustainability in the industry.

To ensure the continued success of the merger and acquisition, the bank should maintain effective communication with its stakeholders, including shareholders, customers, and employees. This will help to address any concerns or uncertainties and foster a sense of unity and purpose within the organization. The bank should also explore opportunities for further growth and expansion, either through organic means or additional mergers and acquisitions, if deemed appropriate and in line with the bank's strategic objectives.

Finally, the bank should continue to monitor the regulatory environment and ensure that its operations and practices align with any relevant laws and regulations governing the financial sector. By implementing these recommendations, First Capital Bank can build upon the successes achieved through the merger and acquisition and further strengthen its position in the market.

Objective 3

Firstly, the bank should enhance its transparency and communication with shareholders. Maintaining clear and ongoing communication, providing regular updates on the integration process, synergies realized, and the bank's overall performance, will help to address any concerns or uncertainties and foster stronger investor confidence. This open and transparent approach will demonstrate the bank's commitment to keeping its stakeholders informed and addressing any issues that may arise.

Secondly, the bank should focus on ensuring operational efficiency. By identifying and addressing any operational inefficiencies that may have resulted from the merger and acquisition, the bank can streamline its processes, leverage economies of scale, and optimize resource allocation. This will not only improve the bank's overall financial performance but also contribute to its long-term sustainability and competitiveness.

Thirdly, the bank should explore opportunities to diversify its product and service offerings, as well as expand its market reach, both geographically and in terms of customer segments. This diversification strategy can help to mitigate any potential risks associated with the merger and acquisition and further enhance the bank's competitiveness. By offering a wider range of products and services and reaching new customer segments, the bank can capitalize on the increased shareholder confidence and generate additional revenue streams.

Finally, the bank should maintain strong corporate governance practices. Aligning its governance with industry best practices will help to instil confidence in shareholders and other stakeholders, demonstrating the bank's commitment to transparency, accountability, and responsible decision-making. This, in turn, will further strengthen the positive sentiment towards the bank and its future prospects.

By implementing these recommendations, First Capital Bank can build on the positive sentiment and confidence expressed by the majority of respondents, further solidifying its position in the market and delivering enhanced value for its shareholders.

5.5 Hypothesis

We reject Ho , this means that there is a significant impact of mergers and acquisitions on bank performance.

5.6 Suggestions for further study

Recognizing the need for further exploration, the researcher suggests that future studies should focus on conducting a more comprehensive analysis of the impact of mergers and acquisitions on the overall performance of banks, in order to provide a more complete understanding of this phenomenon and its implications for the financial sector.

Given the focused nature of this study on a single bank, First Capital Bank, future research could expand the scope to investigate the generalizability of the findings by examining a broader sample of banks that have undertaken merger and acquisition activities. This could involve a comparative analysis across regional or national banks, or an industry-wide study to assess whether the observed impacts on profitability and share price are consistent across the banking sector. Conducting a multiple-case study approach would provide a more comprehensive understanding of the nuances and contextual factors that shape the relationship between M&A and bank performance.

Additionally, future studies could delve deeper into the specific integration processes and post-merger integration strategies employed by First Capital Bank. Exploring the challenges, best practices, and organizational changes associated with the integration of acquired banks or business units could offer valuable insights into the operational and managerial factors that contribute to the success or failure of mergers and acquisitions. This line of inquiry could also investigate the role of corporate culture, leadership, and employee engagement in facilitating a smooth integration process.

Finally, future research could explore the implications of technological advancements and digital transformation in the banking industry on the strategic rationale and outcomes of mergers and acquisitions. As the banking landscape continues to evolve, understanding how factors such as fintech, digital banking, and changing customer preferences might influence the drivers and consequences of M&A activities for banks like First Capital Bank would be a valuable area of inquiry.

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APPENDIX 1 :QUESTIONER

I am a banking and finance student at Bindura University of Science Education conducting a study titled "The impact of mergers and acquisition on bank performance". The intention of this questioner is to achieve study objectives and the responses that will be valuable in accomplishment of research objectives. The information collected will be used solely for educational purposes, the information provided will be kept private and confidential. Your assistant is greatly appreciated**.**

Section A – DEMOGRAPHIC DATA

INSTRUCTION: Please indicate or complete your response by marking the corresponding box or area designated for each question below

1. Indicate your gender . MALE………. FEMALE……….
2. INDICATE YOUR AGE

   18-24…… 25-34……...

   35-44…… 45-50……...

50 and above………

3. OCCUPATION

   Manager…….   Tellers………...

   Customers……...

Section B: Mergers and Acquisitions Appropriateness for Survival

INSTRUCTION: Please indicate or complete your response by marking the corresponding box or area designated for each question below

1.In your opinion, are mergers and acquisitions an appropriate and necessary strategy for the long-term survival and growth of First Capital Bank?

Strongly agree…………

Agree……………….

Neutral………………….

Disagree………………

Strongly disagree…………...

1.1.What are the primary reasons that you believe mergers and acquisitions are (or are not) an appropriate strategy for First Capital Bank? Please explain.

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1.2.In your view, what are the key factors that would make mergers and acquisitions a viable strategic option for First Capital Bank's future success?

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SECTION C: Impact on Profitability

1.Based on your experience and knowledge, how have the mergers and acquisitions undertaken by First Capital Bank impacted the bank's profitability?

Significantly increased profitability………………………………...

Moderately increased profitability……………………………………

No significant impact on profitability………………………………….

Moderately decreased profitability……………………………………….

Significantly decreased profitability…………………………………………...

2.Please describe the specific ways in which mergers and acquisitions have affected First Capital Bank's financial performance and profitability.

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3.What operational, strategic, or other factors do you believe have contributed to the impact of mergers and acquisitions on First Capital Bank's profitability?

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Section D : Impact on Share Price

1.In your assessment, how have the announcements of mergers and acquisitions involving First Capital Bank influenced the bank's stock price?

Resulted in significant positive abnormal returns………………………

Resulted in moderate positive abnormal returns………………………….

No significant impact on stock price…………………………………………….

Resulted in moderate negative abnormal returns…………………………………….

Resulted in significant negative abnormal returns…………………………………….

2.Please explain the reasons why you believe the market has reacted in the manner observed to mergers and acquisitions announced by First Capital Bank.

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3.What do you think are the key factors that drive the market's perception and valuation of First Capital Bank's mergers and acquisitions?

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