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EFFECT OF MERGERS ON MARKET PERFORMANCE OF COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITIES EXCHANGE IN MOMBASA COUNTY

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ABSTRACT

The main objective of the study was to establish the effect of mergers on market performance of commercial banks listed in NSE and operating in Mombasa County. The study found out that Mergers generated value added due to efficiency gains, led to increased net profit margin and mergers affected bank's sales growth positively. However, majority of the respondents were unsure that mergers enabled banks to gain dominant market power effect. There is a strong positive correlation between mergers and market performance of listed commercial banks in Mombasa County (r=0.963). Vertical mergers had positive significant effect on market performance of listed commercial banks (r value=0.694, p-value=0.000). Vertical integration resulted in lowering prices by the merged banks and brought efficiencies by reducing the transaction costs associated with the market exchange. Horizontal mergers had positive significant effect on market performance of listed commercial banks (r value=0.654, p-value=0.000). Mergers were common in industries with fewer firms, competition was higher and potential gains in market share were much greater. Horizontal mergers led to increased market power of the merged banks'. However, majority of the respondents were not sure that horizontal merger increased the concentration and eliminated competition. Conglomerate mergers had no significant effect on market performance of listed commercial banks (r value=0.021, p-value=0.871). Mixed conglomerate merger was appropriate for banks that were looking for product extensions or market extensions and conglomerate merger helped to greatly reduce business risk in the banks through diversification. Product extension mergers had positive significant effect on market performance of listed commercial banks (r value=0.888, p-value=0.000). Product extension mergers enabled banks to group together their products, get access to a bigger set of consumers and to penetrate the market hence improved return on assets. The study recommended that horizontal merger should be adopted with caution since horizontal mergers may not necessarily lead to increase market concentration and eliminate market competition.

Key terms: *Conglomerate merger, Horizontal merger, Merger, Product-extension merger, Vertical merger*

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INTRODUCTION

There is global acceleration of mergers in the last decade which has been fuelled by the need to encourage competition among industry players as well as reduce enterprise risk and increase market share for the merging firms. Mergers are poised to affect the overall direction and long-term performance of the entity hence they form part of strategic decisions handled by the top most management. Mergers decisions are accompanied by higher levels of risk thus they should be well thought before execution. However, if effectively implemented, they can have higher returns (Buono and Bowditch, 2016). In many instances, Mergers form part of corporate strategies adopted by corporates to promote future growth and create sustainable value (Wang and Moini, 2014).

The global political turmoil and regulatory changes have greatly adversely affected performance of M&A market. However, despite these global barriers, acquirers across the globe have leveraged strategic combinations to expand their geographic reach and innovation capabilities (Avulala, 2015). The epitome of this truism has been demonstrated by Qualcomm's acquisition of NXP (Next Experience) Semiconductors, London Stock Exchange's merger with Deutsche Boerse Group, Chem China's acquisition of Syngenta, and American Telephone & Telegraph (AT&T) acquisition of Time Warner (Morgan, 2016). Several other global corporates like International Business Machines (IBM), Proctar and Gamble (P&G), Tata & Sons, Mahindra & Mahindra, Johnson & Johnson (J&J), General Electric Company (GE), Pfizer, Cisco, Haier, Lenovo, and Hong Kong and Shanghai Banking Corporation (HSBC) among others, have all adopted a Merger & Acquisition strategy. These corporates adopting M&A strategies depend on three mechanisms to achieve growth: alliances, organic growth, and mergers and acquisitions (Rosinski, 2016).

A merger can be achieved by one business buying another business' assets using cash or its securities or by buying the other business shares or stock by issuing its stock to the other firms' shareholders in exchange for the shares of the acquired firm. According to Avulala (2015), there are three categories of Mergers and acquisitions. They include; vertical merges, horizontal merges, and conglomerate merges. In the other hand acquisition takes place when one entity takes ownership of another entity's stock, equity, interest or assets. To put it clearer, acquisition is the purchase of one business entity by another business entity. In most cases, the acquisition target is usually identified through market research and trade expos among others.

In Africa, Mergers and Acquisitions are being adopted for progressive business competitiveness by expanding market share. Mergers are used to diversify the firm's portfolio as a risk management strategy. According to Kemal (2014), M&A are undertaken in order to enable firms penetrate to new geographical markets, to support growth by capitalizing on economies of scale and increase on customer base among other reasons. The logic behind any corporate merger is the synergy effect. Businesses believe that by either merging or acquiring another business, the performance would be better than the contrary. This is attributed by the fact that shareholder value would effectively be maximized (Sharma, 2015). Hence the motives behind mergers and acquisitions are; increased market share and revenues, economies of scale, synergy, taxation, widen geographical areas and among others.

In Kenya the Kenya competition law as contained in the Restrictive Trade Practices, Monopolies and Price Control Act (Cap 504 Laws of Kenya) best describes mergers or acquisitions. This is the governing law of all mergers and acquisitions in Kenya. This law was enacted to prohibit restrictive trade practices, controlling monopolies, concentration of economic power by encouraging competition in the economy.

Section 27(1) (a) of the law gives the Minister for Finance powers to approve all mergers and takeovers between two or more independent enterprises engaged in manufacturing and which distribute substantially similar services (Kithinji, 2017). Extant literature relating to mergers and acquisitions in Kenya indicate that firm performance after M&A differs from firm to firm and thus the findings are inconclusive. Another study by Korir (2013) on the merger effects of firms listed in the Nairobi Securities Exchange (NSE) established that mergers positively improve financial performance of companies listed in the NSE.

Mergers are continuously being adopted for progressive firm competitiveness by expanding market share and minimizing business risk. Majorly, mergers are used to diversify the firm's portfolio as a risk management strategy (Kemal, 2014). Furthermore, M&A are used to aid firms penetrate to new geographical markets, to support growth by capitalizing on economies of scale and increase on customer base among other reasons. In the Kenya context, extant reviewed literature has been done on the effect of Mergers and Acquisitions on firm performance, particularly in the financial sector (Kithitu *et al.,* 2014). However, these studies indicate mixed reactions on the effect of Mergers and Acquisitions on banks' performance in Kenya. For instance, Ogada and Achoki (2016) did a study on the effect of synergy on financial performance of merged financial institutions in Kenya and concluded that there was a positive relationship between financial performance of the financial institution, operating synergy and financial synergy after mergers. Korir (2013) conducted a study on the effect of mergers and acquisition on the performance of companies listed at the Nairobi securities exchange and concluded that there was a positive improvement in the return on equity of the firms involved in acquisition.

A study by Ndura (2013) on merger restructuring and financial performance of commercial banks in Kenya established that mergers and acquisition did not affect financial performance of commercial banks after merger and acquisition in Kenya. Conversely, commercial banks in Kenya were set for consolidation to meet the deadline to boost minimum core capital. This made several commercial banks to merge their operations so as to meet the minimum core capital as in the case of CFC Stanbic.

Globally, the relationship between Mergers and Acquisitions and firm performance has been broadly studied in the previous researches (Mboroto, 2013; Jayaram, 2014; Abbas *et al.,* 2014; Lai *et al.,* 2015; Mahesh and Prasad, 2014; Selvam *et al.,* 2014; Ismail *et al.,* 2013). However, it can be said that, the findings are still inconclusive. Some empirical studies show positive results (e.g Selvam *et al.,* 2013; Mboroto, 2013; Jayaram, 2014; Ogada and Achoki, 2016) while other researchers indicate the contrary (e.g Brigham 2015; Abbas *et al.,* 2014; Lai *et al.,* 2015; Mahesh and Prasad, 2014; Ismail *et al.,* 2013; Ndura, 2013). In a nut shell, there is still lack of uniformity among the previous scholars on mergers. Besides in the context on Kenya, there is scant literature on the effect of mergers on market growth of commercial banks. Majority of studies have been biased on financial performance while ignoring other performance measures. Thus this research study attempted to fill the gaps in literature by examining the effect of mergers on market performance of listed commercial banks in Mombasa County.

Research Objectives

- To determine the effect of vertical mergers on the market performance of listed commercial banks in Mombasa County.
- To determine the effect of horizontal mergers on the market performance of listed commercial banks in Mombasa County.

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- To determine the effect of conglomerate mergers on the market performance of listed commercial banks in Mombasa County.
- To determine the effect of product extension merger on the market performance of listed commercial banks in Mombasa County.

LITERATURE REVIEW

Theoretical Framework

Free Cash Flow Theory

According to free cash flow theory, diverting free cash flow from shareholders allows managers to avoid having to use capital markets when in need of new capital. It allows managers avoid the monitoring associated with new equity issues (Porter, 1987). Also by diverting free cash flow the company managers can increase the size of the firm, thereby enhancing their power and their earning ability, and minimizing take-over risk. However, there is a conflict of interest associated with the distribution of free cash flow between managers and the shareholders whom they are supposed to represent (Jensen, 1986).

The sure way managers can use to divert free cash flows from dividends is by issuing debt. However, this will bind them to pay out future cash. This theory prompts the need to improve financial performance of firms through mergers and acquisitions. Return on shareholder equity is affected when managers divert the free cash flow from dividends thus affecting the financial performance of a company (Pandey, 2017). This is because return on equity measures a corporation's profitability by revealing how much profit a company generates with the funds invested by shareholders. This theory is relevant to the study in assessing how merged resources for the merged banks influenced market performance of listed and merged commercial banks in Mombasa County.

Resource Dependency Theory

The resource dependency was first propounded by Pfeffer and Salancik in 1978. The theory is based on the assumption that environments are the source of scarce resources and firms are dependent on these scarce resources for survival. The theory further posits that lack of control over resources acts to create uncertainty for firms operating in that particular environment. Therefore, firms must develop ways to exploit these resources, which are also being sought by other firms, in order to ensure their own survival.

The theory further established factors that have significant influence on the level of dependence an organization has on particular resources. The first factor relates to overall importance of the resource to the firm; second is the scarcity of the resource. The more scarce resource is, the more dependent the firm becomes (Ogada and Achoki, 2016). Another factor influencing resource dependence is the competition between organizations for control of that resource. Together, all three of these factors act to influence the level of dependence that an organization has for a particular resource. Resource dependence theory also infers that a firm's strategic options are determined to a great extent by the environment. Since firms are dependent on the environment for resources, they need to enact strategies that would allow them to acquire these resources. Therefore, the external environment has already been determined for these firms, and they experience little strategic choice.

Size and Return to Scale Theory

Benefits of size are usual source of "synergies". This refers to the positive incremental net gain associated with the combination of two firms through a merger or acquisition. Suppose firm A acquires firm B for cash. The synergy or total gain in value to the shareholders of A and B is Synergy = VAB - [VA + VB]. If the synergy is positive, then the combination of the two firms (VAB) is more valuable than the sum of the separate firms. As learnt from the first principles of finance, the value of an asset is the present value of its discounted Future cash flows. The cash flows from

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synergy are: $\Delta CFt = CFABt - [CFAt + CFBt]$. If positive, then the combined firm results in greater cash flow than the Sum of the separate firms. If no value is created through the combination of A and B, i.e. synergy = 0, then the merger is a zero-sum game and the gain to B shareholders is equal to the cost to A shareholders. If $VAB > VA + VB$, then both parties may benefit (Kouser and Saba, 2015).

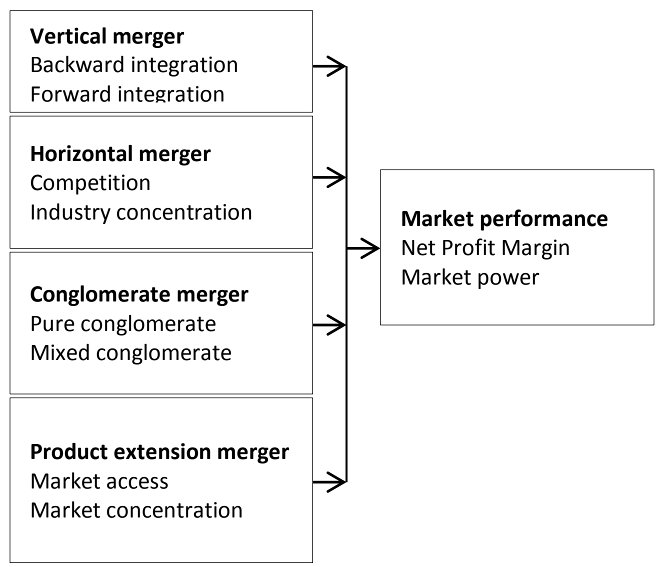
In terms of economies of scale, the average costs decline with larger size. Large firms are more able to implement specialization. A combined firm may operate more efficiently than two separate firms. A firm can achieve greater operating efficiency in several different ways through a merger or an acquisition. Economies of scale relates to the average cost per unit of producing goods and services. If the per unit cost of production falls as the level of production increases, then an economy of scale exists (Kemal, 2014). When companies merge, overheads are reduced and operational efficiency is improved since there is a sharing of central facilities such as corporate headquarters, top management, staff and computer services.

Agency Theory

Agency theory was first exposited by Alchian and Demsetz (1972) and later developed further by Jensen (1986). It is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the gents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents. The theory is conceptually a simple theory that reduces the corporation to two participants of managers and shareholders. The theory posits that employees or managers in organizations can perpetuate self-interest at the expense of the shareholders. However, the shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Rosinski, 2016).

This theory is based on the assumption that there are conflicts of interest between various parties such as shareholders, corporate managers and debtors of an organization. However, since then, the finance theory has developed both theoretically and empirically to allow a fuller investigation of the problems caused by divergences of interest between shareholders and corporate managers. The Agency theory indicates that agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal (Selvam, 2014).

Conceptual Framework



Independent variables Dependent variable

Figure 1: Conceptual framework

Source: Author (2019)

Review of variables

Vertical merger

Vertical merger exists when single ownership extends to two or more levels of the marketing system. An example of vertical merger is where a manufacturer selling its products through its own retailing outlet or a distributor of electricity owning its own power generating plants. A vertical merger occurs between two or more firms operating at different levels within an industry's supply chain. The logic behind these mergers is to increase efficiency (Buzzel, 2017). A vertical merger is one where companies at different product or business life cycle combines. It can be Backward Integration where company merges its suppliers or Forward Integration where it merges its customers. The basic motive of these sorts of merges is to reduce cost and dependence. Example of vertical integration is the merge of Reliance Petrochemicals Ltd. with Reliance Industries Ltd.

Extant literature has argued that increased vertical integration has resulted in improved, consistently high quality, uniform products for consumers. It is also argued that increased vertical integration has resulted in lowering prices by both the unmerged input supplier and the vertically integrated firm (McAfee and Micheal, 2015). Further theoretical literature has shown that under certain conditions, vertical integration will increase economic efficiency in terms of output and price and also increase profit for the integrated firm (Greenhut & Ohta, 2017). Broadly, this strand of literature contends that vertical integration or coordination will create efficiencies by reducing the transaction costs associated with the market exchange. Other most commonly argued benefits of vertical integration include the reduction of risk (Buzzell, 2017), the ability (of integrated firms) to innovate and to differentiate, increased efficiency in the exchange of information and organizational structures, and improved market positions of the integrated firm.

Horizontal merger

A horizontal merger occurs when two competing firms belonging to the same industry and are at the same stage of business cycle combine. According to McColgan (2014) horizontal merger involves merging between companies in the same industry and which shares the same product lines and markets. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and potential gains in market share are much greater for merging firms in such an industry. For instance; The ICEA LION Group was formed as a result of a merger between Insurance Company of East Africa Limited (ICEA) and Lion of Kenya Insurance Company Limited (LOK). The two companies are well known Insurance and financial services market in Kenya and Eastern Africa region. The merger has resulted in the creation of one of the largest insurance groups in the region.

Horizontal mergers may not only increase the merged firms' market power vis-a`-vis their suppliers, but also increase the concentration in merging firms' industry and thereby create more unfavourable prices for downstream customers (Wang and Moini, 2014). However, depending on the nature of business, mergers between different types of firms might have different impact on the whole supply chain. If downstream retailers are able to cut their operational costs through mergers, they will have the incentive to reduce the price and increase the sales, which would also benefit the final consumers and improve the social welfare. For example, after the purchase of the consumer online service of CompuServe Corp., America Online Inc. boosted its subscriber base to over 10 million, which allowed it to lower its prices to better compete with the upstarts (Gale Encyclopaedia of E-Commerce, 2018). On the other hand, if upstream manufacturers are seeking to increase their bargaining power vis-a`-vis retailers through an upstream merger, like the merger between Greencore Group Plc and Northern Foods Plc in November 2010 to improve their bargaining power with supermarkets, then downstream retailers might increase the prices for the final consumers.

Conglomerate merger

Conglomerate merger involves a merger between firms that have no common business areas. Basically, there are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions (Abbas *et al.,* 2014). A good example of a conglomerate merger is Citigroup's acquisition of Travelers Insurance. While both firms were in the financial services industry, they had different product lines. Conglomerate merger are the ones where companies belongs to different or unrelated lines of business.

The basic motive of conglomerate merger is to reduce business risk through diversification. It also enhances the overall stability of the acquirer and improves the balances in the company's total portfolio of diverse products and production processes. It also encourages firms to grow by diversifying into other markets (Jayaram, 2014). Diversification is a vital strategy for the firm when present market does not have much additional opportunities for growth. Here we can cite the example of Torrent group, which identified power as one of the growing fields, acquired Ahmedabad Electric Company and Surat Electric Company in order to diversify the risk of its existing line of Pharmaceuticals business.

Product extension merger

Product-extension mergers are characterized by firms that merge to gain advantages from diversifying their product range. The merged businesses' products are similar but do not directly compete and as a result of merger they expand into a bigger player (Amburgey & Miner, 2013). Product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. This type of merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits. In addition, there are two types of mergers that are distinguished by how the merger is financed. Each has certain implications for the companies involved and for investors: Purchase Mergers occurs when one company purchases another. The purchase is made with cash or through the issue of some kind of debt instrument. Acquiring companies often prefer this type of merger because it can provide them with a tax benefit. Whilst in Consolidation Mergers, a brand new company is formed and both companies are bought and combined under the new entity.

Market Performance

Mergers differ with respect to when they realize added value. While some mergers generate instant added value due to a dominant market power effect, other mergers generate value added due to efficiency gains which are realized in the more distant future (Kim & Singal, 2016). In the merger literature, it is common to distinguish whether the value created from merging, which could be a mix of efficiency gains and increased market power, is dominated by efficiency gains or by increased market power. Efficiency benefits gained from merging are beneficial to producer and consumer surplus, as output units are transferred from less efficient to more efficient production facilities (Salant *et al.,* 2017).

In contrast, market power effects are associated with elevated prices which are beneficial to producers but harmful to consumers. Profit is the ultimate goal of all corporate organization. All the strategies designed and activities performed thereof are meant to realize this grand objective (Salant *et al.,* 2017). However, this does not mean that companies have no other goals. Companies could also have additional social and economic goals. ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment.

A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. It is further explained by (Khrawish, 2015) that ROE is the ratio of Net Income after Taxes divided by Total Equity

Capital. ROA is also another major ratio that indicates the profitability of a company. It is a ratio of Income to its total asset. It measures the ability of the company management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income.

METHODOLOGY

This study used descriptive survey design. Descriptive study is a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context. Data analysis was carried out in order to transform and model data with the aim of identifying and highlighting useful information that could be used to support the decision making process (Orodho, 2014). Collected data was cleaned, edited, coded and fed into excel before being imported to SPSS for analysis. Hypotheses of the study were tested at 95% confidence level ($\alpha = 0.05$) and a two tailed test was carried out. Pearson correlation coefficient analysis was used to test the specific hypotheses of the study which were guided by the study variables. However, multiple linear regression was used to compute the combined effects of mergers on financial performance of commercial banks. The following regression model was developed for the purpose of this study:

$Y=\alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon_i$ ………….Eqn 2

Where:

Y represent market performance

α is Constant which defines the market performance without inclusion of independent variables

β*i* is Coefficient of variable which measures the extent to which the variation in Y is explained by the variations in X

X_1 represent vertical mergers

X_2 represent horizontal mergers

X_3 represent conglomerate mergers

X_4 represent product extension merger

ε_i is the error term of the test equation

FINDINGS

Vertical Mergers

The study sought to determine the effect of vertical mergers on the market performance of listed commercial banks in Mombasa County. The findings of the study were presented in a five point Likert's scale where SA=strongly agree, A=agree, N=not sure, D=disagree, SD=strongly disagree, T=total and M=mean.

The respondents were asked whether their banks had undertaken backward integration. Majority of the respondent 50% were neutral, 35% of them strongly disagreed and 16.7% of them agreed while 8.3% of them disagreed respectively. None of the respondents strongly agreed to the statement. The findings of the study indicated that majority of the respondents were unsure that their banks had undertaken backward integration.

The respondents were also asked whether their banks preferred forward Integration over other forms of vertical integration. Majority of them 50% were neutral, 25% of them agreed and 16.7% of them strongly agreed while 8.3% of them disagreed. None of the respondents strongly disagreed to the statement. The results of the study revealed that majority respondents agreed that their banks preferred forward integration over other forms of vertical integration.

The respondents were further asked whether vertical integration resulted in lowering prices by the merged banks. The results of the study indicated that 50% of the respondents were neutral, 41.7% of them agreed while 8.3% of them disagreed. None of the respondents strongly agreed or strongly disagreed to the statement. These result implied that majority of the respondents agreed that vertical integration resulted in lowering prices by the merged banks.

The study sought to find out whether vertical integration would increase bank's economic

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efficiency in terms of output. Majority of the respondents were neutral, 25% of them agreed and strongly disagreed while only 8.3% of them disagreed. None of the respondents strongly disagreed to the statement. The findings of the study show that majority of the respondents agreed that vertical integration would increase bank's economic efficiency in terms of output.

The study also sought to establish whether vertical integration brought efficiencies by reducing the transaction costs associated with the market exchange. Majority of the respondents 41.7% agreed to the statement, another 41.7% were neutral while 8.3% of them disagreed and strongly agreed to the respondents. None of the respondents strongly disagreed to the statement. The findings of the study implied that majority of the respondents agreed that vertical integration brought efficiencies by reducing the transaction costs associated with the market exchange.

The study also sought to establish whether vertical mergers reduced risk. Majority of the respondents 41.7% agreed to the statement, 33.3% of them were neutral while 25% of them disagreed. None of the respondents strongly agreed or strongly disagreed to the statement. Thus, majority of the respondents agreed that vertical mergers reduced risk.

Finally, the respondents were asked whether vertical mergers increased banks profitability. Majority of them 33.3% agreed and disagreed, 25% of them strongly agreed while 8.3% of them were neutral. None of the respondents strongly disagreed to the statement. Thus, majority of the respondents agreed that vertical mergers increased banks profitability. Table 1 illustrated the findings of the study.

Table 1: Vertical Mergers

Statement		SA	A	N	D	SD	T	M
My bank has undertaken backward Integration	%	0	16.7	50	8.3	25	100	2.58
My bank prefers forward Integration over other forms of vertical integration	%	16.7	25	50	8.3	0	100	3.50
Vertical integration results in lowering prices by the merged banks	%	0	41.7	50	8.3	0	100	3.33
Vertical integration will increase bank's economic efficiency in terms of output	%	25	25	41.7	8.3	0	100	3.67
Vertical integration brings efficiencies by reducing the transaction costs associated with the market exchange	%	8.3	41.7	41.7	8.3	0	100	3.50
Vertical mergers reduces risk	%	0	41.7	33.3	25	0	100	3.17
Vertical mergers increases banks profitability	%	25	33.3	8.3	33.33	0	100	3.50

Horizontal Mergers

The study sought to determine the effect of horizontal mergers on the market performance of listed commercial banks in Mombasa County. The findings of the study were presented in a five point Likert's scale where SA=strongly agree, A=agree, N=not sure, D=disagree, SD=strongly disagree, T=total and M=mean.

The respondents were asked whether horizontal mergers were common in industries with fewer firms. Majority of the respondents 33.3% agreed, another 33.3% of them were neutral, 25% of them disagreed while 8.3% of them strongly agreed respectively. None of the respondents strongly disagree to the statement. This result imply that majority of the respondents agreed that mergers were common in industries with fewer firms.

The respondents were also asked whether horizontal integration was appropriate where competition was higher and potential gains in market share were much greater. Half of the respondents 50% were neutral, 25% of them agreed and 16.7% of them strongly agreed while only 8.3% of them disagreed respectively. None of the respondents strongly disagreed to the statement. The findings of the study showed that majority of the respondents agreed that horizontal integration was appropriate where competition was higher and potential gains in market share were much greater.

The respondents were further asked whether horizontal mergers led to increased market power of the merged banks'. Majority of the respondents 41.7% were neutral, 33.3% of them agreed, 16.7% of them disagreed while 8.3% of them strongly agreed respectively. None of the respondents strongly disagreed to the statement. The findings of the study showed that majority of the respondents agreed that horizontal mergers led to increased market power of the merged banks'.

The study sought to find out whether horizontal merger increased the concentration in merging banks' industry and thereby creating more unfavourable prices for downstream customers. Slightly more than half of the respondents 58.3% were neutral to the statement, 25% of them agreed while 8.3% of them strongly agreed and disagreed respectively. None of the respondents strongly disagreed to the statement. The findings of the study showed that majority of the respondents were not sure that horizontal merger increased the concentration in merging banks' industry and thereby creating more unfavourable prices for downstream customers.

Finally, the respondents were asked whether horizontal mergers eliminated competition in the industry. Majority of the respondents 41.7% were neutral, 25% of them agreed, 16.7% of them disagreed while 8.3% of them strongly agreed and strongly disagreed respectively. The findings of the study revealed that majority of the respondents were not sure that horizontal mergers eliminated competition in the industry. Table 2 illustrated the findings of the study.

Table 2: Horizontal Mergers

Statement		SA	A	N	D	SD	T	M
Horizontal mergers are common in industries with fewer firms	%	8.3	33.3	33.3	25	0	100	3.25
Horizontal integration is appropriate where competition is higher and potential gains in market share are much greater	%	16.7	25	50	8.3	0	100	3.50
Horizontal mergers leads in the increase of the merged banks' market power	%	8.3	33.3	41.7	16.7	0	100	3.33
Horizontal merger increases the concentration in merging banks' industry and thereby create more unfavourable prices for downstream customers	%	8.3	25	58.3	8.3	0	100	33.3
Horizontal mergers eliminates competition in the industry	%	8.3	25	41.7	16.7	8.3	100	3.08

Conglomerate Mergers

The study also sought to determine the effect of conglomerate mergers on the market performance of listed commercial banks in Mombasa County. The findings of the study were presented in a five point Likert's scale where SA=strongly agree, A=agree, N=not sure, D=disagree, SD=strongly disagree, T=total and M=mean.

The respondents were asked whether pure conglomerate mergers were uncommon in banking industry since they involved firms with nothing in common. Majority of the respondents 41.7% were neutral, 16.7% of them strongly agreed, disagreed and strongly disagreed while 8.3% of them agreed respectively. These results showed that majority of the respondents were unsure that pure conglomerate mergers were uncommon in banking industry since they involved firms with nothing in common.

The respondents were also asked whether mixed conglomerate merger was appropriate for banks that are looking for product extensions or market extensions. Majority of the respondents 33.3% of them agreed, 25% of them disagreed, 16.7% of them strongly agreed and another 16.7% of them were neutral while 8.3% of them strongly disagreed respectively. These findings revealed that majority of the respondents agreed that mixed conglomerate merger was appropriate for banks that are looking for product extensions or market extensions.

The respondents were further asked whether conglomerate merger helped to greatly reduce business risk in the banks through diversification. Majority of the respondents 41.7% were neutral, 25% of them agreed, 16.7% of them strongly agreed while 8.3% of them disagreed and disagreed respectively. The results of the study imply that majority of the respondents agreed that conglomerate merger helped to greatly reduce business risk in the banks through diversification.

The study also sought to establish whether conglomerate merger enhanced overall stability of the acquirer and improved balances in the bank's total portfolio of diverse products. Majority of the respondents 33.3% were neutral, 25% of them agreed, 16.7% of them strongly agreed and disagreed while 8.3% of them disagreed respectively. The results of the study imply that majority of the respondents agreed that conglomerate merger enhanced overall stability of the acquirer and improved balances in the bank's total portfolio of diverse products.

Finally, the respondents were asked whether conglomerate merger encouraged banks to grow by diversifying into other markets. The distribution of findings showed that majority of the respondents 33.3% were neutral, 25% of them agreed and strongly agreed while 8.3% of them disagreed and strongly disagreed respectively. These results indicated that majority of the respondents agreed that conglomerate merger encouraged banks to grow by diversifying into other markets. Table 3 showed the findings of the study.

Table 3: Conglomerate Mergers

Statement		SA	A	N	D	SD	T	M
Pure conglomerate mergers are uncommon in banking industry since they involve firms with nothing in common	%	16.7	8.3	41.7	16.7	16.7	100	2.92
Mixed conglomerate merger is appropriate for banks that are looking for product extensions or market extensions	%	16.7	33.3	16.7	25	8.3	100	3.25
Conglomerate merger greatly helps reduce business risk in the banks through diversification	%	16.7	25	41.7	8.3	8.3	100	3.33
Conglomerate merger enhances the overall stability of the acquirer and improves the balances in the bank's total portfolio of diverse products	%	16.7	25	33.3	16.7	8.3	100	3.25
Conglomerate merger encourages banks to grow by diversifying into other markets	%	25	25	33.3	8.3	8.3	100	3.50

Product Extension Mergers

The study sought to determine the effect of product extension merger on the market performance of listed commercial banks in Mombasa County. The findings of the study were presented in a five point Likert's scale where SA=strongly agree, A=agree, N=not sure, D=disagree, SD=strongly disagree, T=total and M=mean.

The respondents were asked whether product extension mergers enabled banks to group together their products and get access to a bigger set of consumers. Majority of the respondents 41.7% were neutral, 33.3% of them strongly agreed while 25% of them agreed respectively. None of the respondents disagreed or strongly disagreed to the statement. These findings indicated that majority of the respondents agreed that product extension mergers enabled banks to group together their products and get access to a bigger set of consumers.

The respondents were also asked whether banks preferred purchase mergers because it provided them with a tax benefit. Majority of the respondents 41.7% agreed to the statement, 25% of them were neutral, 16.7% of them disagreed while 8.3% of them strongly agreed and strongly disagreed respectively. These findings implied that majority of the respondents agreed that banks preferred purchase mergers because it provided them with a tax benefit.

The respondents were further asked whether consolidation mergers were uncommon in the banking sector. Majority of the respondents 66.7% were unsure, 25% of them agreed to the statement while 8.3% of them strongly disagreed respectively. None of the respondents disagreed or strongly agreed to the statement. The findings of the study revealed that majority of the respondents were unsure that consolidation mergers were uncommon in the banking sector.

Finally, the respondents were asked whether product extension mergers enabled banks to penetrate the market hence improved return on assets. Majority of the respondents 33.3% agreed to the statement, 25% of them disagreed and another 25% of them were neutral while 16.7% of them strongly agreed. None of the respondents strongly disagreed to the respondents. The findings of the study revealed that majority of the respondents agreed that product extension mergers enabled banks to penetrate the market hence improved return on assets. Table 4 illustrated the findings of the study.

Table 4: Product Extension Mergers

Statement		SA	A	N	D	SD	T	M
It has enabled banks to group together their products and get access to a bigger set of consumers	%	33.3	25	41.7	0	0	100	3.92
Banks prefer purchase mergers as it provides them with a tax benefit	%	8.3	41.7	25	16.7	8.3	100	3.25
Consolidation mergers is uncommon in banking sector	%	0	25	66.7	0	8.3	100	2.08
It enables the bank to penetrate the market hence improve return on assets	%	16.7	33.3	25	25	0	100	3.42

Market Performance

The study sought to determine the effect of mergers on the market performance of listed commercial banks in Mombasa County. The findings of the study were presented in a five point Likert's scale where SA=strongly agree, A=agree, N=not sure, D=disagree, SD=strongly disagree, T=total and M=mean.

The respondents were asked whether mergers enabled banks to gain dominant market power effect. Majority of the respondents 50% were neutral, 25% of them agreed and 16.7% of them disagreed while 8.3% of them strongly agreed respectively. None of the respondents strongly disagreed to the statement. The findings of the study showed that majority of the respondents were unsure that mergers enabled banks to gain dominant market power effect.

The respondents were also asked whether mergers generated value added due to efficiency gains. Majority of the respondents 41.7% agreed, 25% of

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them disagreed and another 25% of them were neutral while 8.3% of them strongly agreed respectively. The results of the study indicated that majority of the respondents agreed that mergers generated value added due to efficiency gains.

The respondents were further asked whether mergers led to increased net profit margin. Majority of the respondents 33.3% of them agreed, another 33.3% of them were neutral, 16.7% of them strongly agreed while 8.3% of them strongly disagreed and disagreed respectively. The findings revealed that majority of the respondents agreed that mergers led to increased net profit margin.

Finally, the respondents were asked whether mergers affected bank's sales growth positively. Majority of the respondents 41.7% were neutral, 33.3% of them agreed while 25% of them strongly agreed to the statement. None of the respondents disagreed or strongly disagree to the statement. The findings of the study showed that majority of the respondents agreed that mergers affected bank's sales growth positively. Table 5 summarised the findings of the study.

Table 5: Market Performance

Statement		SA	A	N	D	SD	T	M
Mergers have enabled banks to gain dominant market power effect	%	8.3	25	50	16.7	0	100	3.25
Mergers generate value added due to efficiency gains	%	8.3	41.7	25	25	0	100	3.33
Mergers will lead to increased Net Profit Margin	%	16.7	33.3	33.3	8.3	8.3	100	3.42
Mergers affect bank's sales growth positively	%	25	33.3	41.7	0	0	100	3.82

Table 6: Analysis of Secondary data

Ratio	N	Maximum	Minimum	Mean	Standard Deviation	P-value
ROA (%)	20	1.38	5.0	2.71	2.55	0.465
ROE (%)	20	14.4	28.8	20.77	12.23	0.593
EPS	20	1.6	20.5	12.9	5.73	0.612

Inferential Statistics

Table 7: Correlations

		Horizontal	Vertical	Conglomerate	Product Extension	Market Performance
Vertical	Pearson Correlation	1	.804**	.131	.762**	.694**
	Sig. (2-tailed)		.000	.318	.000	.000
	N		60	60	60	60
Horizontal	Pearson Correlation		1	.238	.676**	.654**
	Sig. (2-tailed)			.067	.000	.000
	N			60	60	60
Conglomerate	Pearson Correlation			1	.379**	.021
	Sig. (2-tailed)				.003	.871
	N			60	60	60

Product Extension	Pearson Correlation	1	.888**
	Sig. (2-tailed)		.000
	N		60
Market Performance	Pearson Correlation		1
	Sig. (2-tailed)		
	N		60

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

Hypothesis One

H_{01}: There is no significant effect of vertical mergers on market performance of listed commercial banks in Mombasa County.

H_{11}: There is positive significant effect of vertical mergers on market performance of listed commercial banks in Mombasa County.

The results showed that the r-value (correlation value) for vertical mergers and market performance of listed commercial banks in Mombasa County was 0.694 which indicated an average positive relationship. The p-value for the variables was 0.000 and since it was less that error term 0.05, the null hypothesis was rejected. The study concluded that vertical mergers had positive significant effect on market performance of listed commercial banks in Mombasa County.

Hypothesis Two

H_{02}: There is no significant effect of horizontal mergers on market performance of listed commercial banks in Mombasa County.

H_{12}: There is positive significant effect of horizontal mergers on market performance of listed commercial banks in Mombasa County.

The results showed that the r-value (correlation value) for horizontal mergers and market performance of listed commercial banks in Mombasa County was 0.654 which indicated an average positive relationship. The p-value for the variables was 0.000 and since it was less that error term 0.05, the null hypothesis was rejected. The study concluded that horizontal mergers had positive significant effect on market performance of listed commercial banks in Mombasa County.

Hypothesis Three

H_{03}: There is no significant effect of conglomerate mergers on market performance of listed commercial banks in Mombasa County.

H_{13}: There is positive significant effect of conglomerate mergers on market performance of listed commercial banks in Mombasa County.

The results showed that the r-value (correlation value) for conglomerate mergers and market performance of listed commercial banks in Mombasa County was 0.021 which indicated a very weak positive relationship. The p-value for the variables was 0.871 and since it was greater that error term 0.05, the null hypothesis was accepted. The study concluded that conglomerate mergers had no significant effect on market performance of listed commercial banks in Mombasa County.

Hypothesis Four

H_{04}: There is no significant effect of product extension mergers on market performance of listed commercial banks in Mombasa County.

H_{14}: There is positive significant effect of product extension mergers on market performance of listed commercial banks in Mombasa County.

The results showed that the r-value (correlation value) for product extension mergers and market performance of listed commercial banks in Mombasa

County was 0.888 which indicated a strong positive relationship. The p-value for the variables was 0.000 and since it was less that error term 0.05, the null hypothesis was rejected. The study concluded that product extension mergers had positive significant effect on market performance of listed commercial banks in Mombasa County.

Regression Analysis

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963[a]	.927	.921	.94482

a. Predictors: (Constant), Vertical, Horizontal, Conglomerate, Product Extension

Table 9: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	619.236	4	154.809	173.420	.000[b]
	Residual	49.097	55	.893		
	Total	668.333	59			

a. Dependent Variable: Market performance

b. Predictors: (Constant), Vertical, Horizontal, Conglomerate, Product Extension

Table 10: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.788	.839		3.322	.002
	Vertical	.282	.078	.271	3.632	.001
	Horizontal	.213	.059	.230	3.631	.001
	Conglomerate	.262	.026	.413	9.930	.000
	Product Extension	1.507	.086	1.095	17.454	.000

a. Dependent Variable: Market Performance

CONCLUSION

The study concluded that vertical mergers had positive significant effect on market performance of listed commercial banks in Mombasa County (r value=0.694, p-value=0.000). Vertical integration resulted in lowering prices by the merged banks and brought efficiencies by reducing the transaction costs associated with the market exchange. In addition, vertical integration increased economic efficiency in terms of output, reduced risk and increased banks profitability. However, majority of the respondents were not unsure that their banks had undertaken either backward or forward integrations.

Horizontal mergers had positive significant effect on market performance of listed commercial banks in Mombasa County (r value=0.654, p-value=0.000). Mergers were common in industries with fewer firms, competition was higher and potential gains in market share were much greater. Horizontal mergers led to increased market power of the merged banks'. However, majority of the respondents were not sure that horizontal merger increased market concentration and eliminated competition.

Conglomerate mergers had no significant effect on market performance of listed commercial banks in Mombasa County (r value=0.021, p-value=0.871). Mixed conglomerate merger was appropriate for banks that are looking for product extensions or market extensions and conglomerate merger helped to greatly reduce business risk in the banks through diversification. Conglomerate merger enhanced overall stability of the acquirer and improved balances in the bank's total portfolio of diverse products.

Finally, the study concluded that product extension mergers had positive significant effect on market performance of listed commercial banks in Mombasa County (r value=0.888, p-value=0.000). Product extension mergers enabled banks to group together their products and get access to a bigger set of consumers and to penetrate the market hence improved return on assets. However, majority of the respondents were unsure that consolidation mergers were uncommon in the banking sector.

RECOMMENDATIONS

Based on the findings of the study, the researcher made the following recommendations: Banks should communicate to their employees the type of vertical merger it had used or it prefers to help the employees understand the merger process in order for them to consolidate the market base of the merged banks. Horizontal merger should be adopted with caution since the study found out that horizontal mergers may not necessarily lead to increase market concentration and eliminate market competition.

Banks should also employ conglomerate mergers because it helps to reduce business risk in the banks through diversification and enhanced overall stability of the firm. Banks should further focus more on product extension mergers since it enable banks to group together their products and get access to a bigger set of consumers, penetrate the market thus leading to improved return on assets.

Suggestion for Further Studies

- Effects of acquisitions on market performance of listed commercial banks in Kenya.
- Challenges facing mergers and acquisitions of commercial banks in Kenya.
- Effects of mergers on market or financial performance of manufacturing or telecommunication industry in Kenya.

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