TOPIC: - AN ASSESSMENT OF THE IMPACT OF MERGERS AND ACQUISITIONS AS A STRATEGY FOR IMPROVED FINANCIAL PERFORMANCE IN THE FINANCIAL SECTOR. A CASE STUDY OF FBC HOLDINGS LIMITED

A PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR BACHELOR OF COMMERCE AND HOUNOURS DEGREE IN BANKING AND FINANCE. BINDURA UNIVERSITY OF SCIENCE EDUCATION

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MARCH 2019
APPROVAL FORM

Dissertation Title: An assessment of the impact of mergers and acquisitions as a strategy for improved financial performance in the financial sector (case study of FBC holding acquiring Eagles Insurance Company)

Degree Title: Bachelor of Commerce Honors Degree in Banking and Finance.

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TITLE An assessment of the impact of mergers and acquisitions as a strategy for improved financial performance in the financial sector (case study of FBC holding acquiring Eagles Insurance Company)

YEAR THIS DEGREE WAS GRANTED 2019

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DEDICATION

This work is dedicated to my lovely parents Mr. and Mrs. Mudzengi, my brothers and sisters, friends for their unwavering support both financial and moral as well as standing by my side throughout the entire process. They have been a source of inspiration and support both financially and morally during the course of my studies.
ACKNOWLEDGEMENT

The successful completion of this research rest upon the support received from many selected individuals. My sincere gratitude first goes God almighty for seeing me through my studies and for all the blessings in my life.

My special thanks to my supervisor for his continued advice assistance, guidance availability, suggestions and useful criticism during the entire research period.

I also want to recognize the teaching, administrative and support staff of Bindura University of Science Education for their support through this whole program period. To my parents, brothers, sisters relatives and friends thanks a lot for your support. Many thanks to my classmates and friends for supporting me all the way through the course particularly where matters of team work and revisions are concerned.

May the Almighty God bless you all abundantly!
ABSTRACT

The objective of this research was to assess the impact of mergers and acquisitions on the financial performance of Zimbabwean financial sector (a case study of FBC Holdings.) Theoretically, mergers are assumed to improve company performance as a result of market power, synergies acquired, risk diversification and enhanced profitability. The focus is going to be on the financial performance of FBC Holdings which acquired 95% shareholding of Eagles Insurance Pvt Ltd Company in 2011. A pre and post-merger analysis was conducted so as to establish whether or not merger leads to an improved performance. The study incorporated some findings and arguments that were put forward by different professionals and scholars in finance and financial economist. The views of different researchers on the subject mergers were gathered and analysed so as to make an intricate understanding of what the supporters of mergers claims about mergers being the silver bullet of improving the performance of financial institution as a solution to rehabilitate failed banks secondary data was collected from the group’s financial statements and was collected for 2 years before and 6 after the merger that is from 2009 to 2016. Descriptive research design was used to analyze the pre and post-merger performance. The population used was only from FBC Holdings. The study mainly used secondary data from reports, published figure and facts for the period in study. The data was analyzed on the basis of accounting ratios. Using five variables return on assets, return on equity, earnings per share, asset utilization and cost to income ratio, the study evaluated the financial performance of the before and after the merger. The study reviewed that following the acquisition of Eagles Insurance Company by FBC Holdings the Return on Assets and Return on equity both improved following an increase in the assets of the company. it was also discovered that merging can create efficient, risk spreading and competitive financial system It was recommended that mergers and acquisitions should not only be aimed at avoiding failing of troubled business alive but also fostering competiveness, financial soundness and management should have discipline and improve on corporate governance. Also companies should deepen their financial services to improve on financial inclusion.
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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CR</td>
<td>Current ratio</td>
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<td>CTI</td>
<td>Cost to Income</td>
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<td>EPS</td>
<td>Earnings per share</td>
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<td>EIC</td>
<td>Eagles Insurance Company</td>
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<td>M&amp;</td>
<td>Mergers and Acquisitions</td>
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<td>NPL</td>
<td>None performing Loans</td>
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<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
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<td>ROA</td>
<td>Return on assets</td>
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<td>ROE</td>
<td>Return on equity</td>
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<td>R&amp;D</td>
<td>Research and development</td>
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CHAPTER 1

INTRODUCTION

1.0 Introduction

A company can achieve corporate growth either through the use of internal or external methods. According to Langford and Male (2001), there are three methods that can be applied in order to achieve corporate growth and development. Internally a firm can set its capital to setup and operate a new venture and externally it can engage mergers and acquisitions which is often used where quick reaction to change is the essence and a combination of internal and external development through contractual agreements. At organizational level, M&A have been identified by most businesses as the most favored inorganic strategy for achieving their growth objectives. Choi & Russel (2004), also stated that the principle is that modern business seek to grow in order to survive in competitive markets using M&A and it has been identified as one of the most important events in corporate finance for firms, as well as the economy.

In the past recent years, the global economy has witnessed an increased occurrence of mergers and acquisitions, especially in the financial service industry. This study therefore seeks to assess the impact of mergers and acquisitions on the financial performance of firms in the financial sector in Zimbabwe (a case study of FBC Holding and Eagle Insurance Company (Private) Limited). This chapter introduces the reader the general problem of the study and what the study is seeking to achieve by the end of the research, background to the study, problem statement, the research study objectives, assumptions, delimitations as well as the study limitations. The study seeks to investigate the impact of mergers and acquisitions as a strategy for improved financial performance in the Zimbabwean financial sector.

1.1 Background study

The introduction of the multi-currency regime in 2009 brought a number of operational challenges and the insurance industry boosted because of the crises that had happened in the past years. As a way to reduce another bank crisis as that of 2004, the RBZ revised its capital
requirements of financial institutions by an average of 683%, with commercial banks and
merchants banks expected to raise up to US$100 million, building societies US$80 million,
finance and discount houses US$60 million whilst microfinance institutions were required to
raise US$5 million by June 2014 (RBZ reports 2014).

Quite a number of banks struggled and were failing to meet this 2014 deadline which led to the
extension of the deadlines from June 2014 to June 2020 as the governor of the central bank
stressed that banks were struggling to capitalize due to a large book of non-performing loans.
However, some politicians argued that the Zimbabwean economy is over-banked, which make
banks to become inefficiency, underperform and fail to capitalize. They advocated that banks
need to engage in merger activities if they are to become efficient and improve their
performance. Banks in Zimbabwe are deemed to be performing with excess capacity which leads
them to perform poorly and inefficiently in terms of their cost, liquidity, profitability,
capitalization and product portfolio. This study therefore seeks to examine whether mergers can
act as a solution for bank to improve their performance which may lead them to meet the
requirements set by the RBZ. Financial performance is a measurement of firm’s performance
against standard or prescribed indicators of effectiveness, efficiency and environmental
responsibilities (Devos at al 2008). Policy makers see scope for institutions merger as vital not
only for the financial sector to comply with capital thresholds but also as a solution to improve
the performance of companies.

The financial world is also going through a rapid change and these change are being influenced
by the forces of technological changes and globalization and therefore this has created for intense
competition within these firms. Mergers and acquisitions has been made to cope with the
situations. In 2007 Royal bank of Scotland merged ABN Amro for US$84 billion in what was
recorded to be the greatest merger deal in Europe, Bank of America merged Merrill Lynch for
USD 25 billion in 2009. Fina bank of Kenya merged Guaranty Trust bank for USD 11.5 billion
in 2013 just to mention a few.

Zimbabwe also deregulated it financial sector in order to create a high degree of competition,
allow expansion in both size and the number of institution that operate within our financial
sector. Zimbabwe deregulated its financial sector in order to create a high degree of competition
especially in the banking sector. It also wanted to allow expansion in both size and in the number of financial institutions that operate within the economy of Zimbabwe. This was also pushed by economic hardship, globalization, and technological innovation, supervisory and prudential requirement that had been set by the Reserve Bank of Zimbabwe (RBZ)

As a result of the above mentioned, some financial institutions decided to consolidate through merger and acquisitions (M&A). Example of these firms are in 2012, NMB Bank made a strategic decision to partner with three international shareholders, FMO, Norfund and AfricInvest, ZB Financial holding LTD acquired Intermarket Holding Ltd and CBZ acquired Beverly Building society, FBC Commercial Bank merged with FBC Building Society. Majority of these institutions realized that internal consolidation on its own was in adequate to render competitive advantage in both international and local market, also to meet the new minimum capital requirements.

However M&A has been perceived of creating less value than they are purported to be. Question has been raised as whether they are an efficient tool for corporate survival growth and improved performance. According to Malhotra and Zhu (2006) a positive excess return if found on a firm performance of the acquiring firm. However Steiner, (1975) state that a negative return is found on M&A

FBC BACKGROUND

FBC Holdings Limited (FBCH) is an Investment holding company listed on the Zimbabwe Stock Exchange and whose principal activities are in Zimbabwe. The Group offers diverse financial services through subsidiaries that span commercial banking, mortgage financing, short-term insurance, re-insurance, securities trading and micro financing. In all, FBC Holdings Group comprises FBC Bank Limited, FBC Building Society, FBC Reinsurance, FBC Securities (Private) Limited, Micro Plan Financial Services (Private) Limited and an insurance company. In 2011 FBC acquired Eagles Insurance Company so as to improve its operations
1.3 Statement of the problem

The study is focused on mergers and acquisitions in the financial sectors of Zimbabwe. The study will provide shareholders and managers with insight which they can base their decision in relation to mergers and acquisition. The study is therefore going to assess the impact of mergers and acquisition on the financial performance of firms in the financial sector of Zimbabwe (case study of FBC Holdings)

1.4 The objectives of the study

The objectives is statement which shows what the researcher want to achieve and the objectives of this study are

- To examine the impact of mergers and acquisitions on profitability of companies in relation to financial performance
- To determine the impact of the M&As on shareholders’ value.
- To assess liquidity position of a firm after mergers and acquisitions.
- To identify the motives behind merger activities in the Zimbabwean financial sector.

1.5 Research questions

- Does M&As have an impact on the company’s profitability?
- What is the effect of the mergers and acquisitions on shareholder’s value in relation to financial performance?
- Does mergers and acquisitions have an impact on the liquidity position of a firm?
- What are the major motives behind merger activities in the financial sector?
1.6 Significance of the Study

There are several studies on the effects of mergers and acquisitions on firms worldwide. The study would have significance impact to a number of stakeholders. The study would be of importance to investors and firms in Zimbabwe Stock Exchange in having knowledge and understanding of the impact of mergers and acquisitions in analyzing a company’s financial performance especially in the financial sector. It would also be of advantage to other companies in competitive industry and others not listed on the Zimbabwe Stock Exchange. Today’s environment is more dynamic making it a necessity for practitioners of management to keep themselves updated and keeping their respective industries on the best required practices.

Management will have better understanding on effect of mergers and acquisition on the performance of banks and to know if the anticipated economies of scale and scope accrue in the real business world. They will be informed strategies when evaluating merger proposals and properly strategize the most appropriate measures to counter the challenges their company will be facing and to devise more ways of solving these challenges. Also the study may also be of used by RBZ in policy and regulatory formulating.

The study is significant as it is going to assist researchers studying a related topics. It will also act as a guideline in their studies or a reference point to students and lecturers who wish to pursue projects on similar topic. The materials use in this study are useful to other researchers who may want to carry out more studies on this topic in the future. The institution may also make use of issues raised in this study to expand its academic course outline in corporate finance if the need be and if it desires so.

1.7 Assumptions

The following have been made assumptions concerning this research;

- The respondents will be cooperative and be able to disclose information pertaining to the research.
• The sample size chosen is a true representation of the target population and provided the information that truly represents the target population

• Merger, acquisitions, takeovers, combinations, consolidation, amalgamations, integrations, are treated as the same as they result from the concentration of control. These terms are used interchangeably within this study.

1.8 Delimitations

Similar to others study, delimitations are also found in this study. Firstly, this study only takes into account M&As transactions that transpired from 2009 up to 2016. Therefore, the results of this study cannot be a full representation of all the transactions that happened in Zimbabwe. Steiner (1975), noted the reasons for it and identified that the M&As transaction market changes over a certain period of time and also is depended to a distinct waves. This study also gives its focus only on M&As of a company in Zimbabwean financial sector, hence other countries and regions cannot be represented. The study will mainly focus on banks in Zimbabwe, though some extent apply to other industrial sectors especially those in the financial sector.

1.9 Limitations

The study is going to be limited from a period of 2009 up to 2016. However it is important in order to derive more accurate and realistic conclusion. It is also going to be hard to gather information from the targeted stakeholders of these company since it is hard to gather adequate sample from all the stakeholders. The inaccessibility of relevant text or data source so as to enable the collection of all the required data also acted as another constraint the researcher faced in the research period. Respondents resisted parting with certain information which they consider to be private and confidential which however, could have been of use for the study. However, internet was used to search information to gather more comprehensive and important data so as to make informed conclusions. The researcher however, will ensure that the interviews comprehensively obtain information. Financial Constrains is another limitation as the researcher
did not have enough money to travel and gather necessary information from these firms. However, the limited funds were used more economically so as to ensure the success of the study.

1.10 Definition of terms

The terms ‘merger’ and ‘acquisition’ are usually used interchangeably, and in lay parlance, they are both viewed as one. The term mergers and acquisitions brings us to the aspect of corporate finance, corporate strategy and management dealing with the buying, selling and combining of companies that can aid, finance or help a growing firm in a given industry to grow rapidly without the creation of another business entity (Gaughan, 2002)

**Merger**- A merger can be taken as an arrangement where the assets of two different companies are vested in or under the control of one company (which may or may not be one of the original two companies), which has all or substantially all the shareholders of the two companies (Huang & Walking, 1987)

**Acquisition**- According to Coyle, (2000) acquisition can be defined as the process or an event where another company takes over the controlling power, interest and ownership of another company. It may choose to select some assets of the targeted firm and this may also encompass acquiring firm’s stock or assets

**Financial performance**- Financial performance refers to point to which financial objectives have been attained. (Coyle, 2000).

1.11 Summary

In this chapter the writer has succeeded in introducing the research topic which is an assessment of the impact of mergers and acquisition on performance of the financial sector, explaining the problem behind choice of the topic and justified the need to carry out the topic. The writer went on to formulate research objectives and corresponding research questions. In the next chapter the research will be focusing on the critical review of literature.
CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

There is difference on the theoretical and empirical evidence regarding the exact impact of mergers and acquisitions on financial performance. This chapter is going to review some of the theoretical and empirical evidence on M&A. Theoretical review helps us to have an in depth knowledge of the current body of the topic. Empirical evidence helps in understanding the studies previously done by other researcher and their recommendation on the topic an in-depth understanding of the current body of this research topic. However, we will begin by highlighting definitions of M&A, types of mergers and motives of mergers before we go deeper into the theoretical and empirical evidence on this area.

2.1 Definitions

Cyree (2010), defines a merger as acquisition, amalgamation, takeover, combining, integration and marriage of companies. Blunch (2009) agrees with the above definitions and stated that these terms can be used interchangeably and are all part of merger parlance. However academics have tried to point out a few differences that helps in determining whether or not an activity is a merger or an acquisition.

A merger is defined as a combination of two or more companies in which one of the companies continues its survival and the other one ceasing its existence (Gaughan, 2002). It is also defined by Brealey, et al., (2006), as the combining together of two corporations and share resources with the aim of attain common objectives. A third entity is formed in a merger and both firms will remain as joint owner.

On the other hand an acquisition can be explained as an event where a company takes control of ownership interest in another firm, a legal subsidiary of another company, or selected assets of
another firm and this may involve the purchase of another firm’s assets or stock (DePamphilis, 2008). Also, Scharf, (1971) considered an acquisition as a transaction involving buying of all assets or part of the assets, stock, business or other securities of the targeted firm through the willing buyer willing seller. Acquisitions therefore can also be classified into stock and assets acquisitions. Stocks acquisition is the buying of part or all the outstanding stock of the seller shareholding. An asset acquisition is the buying of all or part of the targetable or intangible assets as well as businesses of a seller after entering into an agreement.

As for takeovers, they occur only when the control of firm is transferred from the seller to the buyer. Takeovers can sometimes be hostiles which leads to resistance from management of the targeted firm.

The definitions above incorporates the theoretical definitions when it comes to M&As. Therefore, for the purpose of this research study, the term merger, acquisition & takeover shall be used interchangeably and will have the same meaning because in essence, the company acquiring should buy majority shareholding of the targeted firm.

2.2 Theoretical review

A number of theories have been put forward in trying justify the impact of mergers and acquisitions. These theories will also explain the motives behind mergers and acquisitions. These theories will be explained below.

2.2.1 The Synergistic Theory

This theory suggests that mergers and acquisitions occur widely because they are able to benefit the acquiring and target firms with synergies that enhance firm value in the longer term (Hitt, et al., 2007). Synergies refer to the net increase in positive gains that result from combining of firms through mergers or acquisitions (Steiner, 1975). Cox, (2006), also stated that the theory holds that buyers identify specific complementarities that exist between their business and that of the target firm. Thus even though the firm targeted is already performing well, when it combines with its complementary counterpart it is expected to perform even better. The theory implies that firms perform better when they engage in merger activities. Under the synergy
theory, Trautwein, (1990), identified two types of synergies, financial synergy theory and operating synergy theory

2.2.1.1 Financial Synergy theory

The financial synergy of mergers holds that synergies occur due to lower costs of internal financing versus external financing. Olutoye & Akinyomi, (2014), illustrates that a combination of firms with different levels of cash flow and investment opportunities may produce a financial synergistic effect, attain lower cost of capital and also tax savings may result. Yelena, (2015), went on say when two firms engage in merger activities, the combined debt capacity of the two firms may be larger than the sum of their individual capacity prior to the M&As. According to Daojuan & Hamid (2012), when cash flow rate of the acquirer is greater than that of the target firm, capacity is relocated to the target firm and this result in the improvements of the investment opportunities. Thus this theory is useful in this study to seek to understand whether mergers in Zimbabwe results in the achievement of financial synergies and improves the performance of the post-merger firm through capitalization of the firms.

2.2.1.2 Operating synergy theory

The operating synergy theory states that before mergers and acquisitions, the levels of activities that a firm is operating at is quite insignificant to exploit economies of scale. Sherman & Hart, (2006) explained that operating economies occurs due to the indivisibilities of resources such people equipment and overhead and these can be achieved through mergers. The productivity of the indivisibilities of resources increases when they are spread over a large amount of units of output. Operating economies in specific management functions may also be achieved through merger activities between companies which have competencies in different lines of business (Campa & Hernando, 2006). Thus theory is quite useful for this study as it tries to elucidate how the performance of a post-merged firm can be influenced
2.2.1.3 Managerial synergies

Trautwein (1990) asserts that managerial synergies are realized when the bidding management possess superior planning and monitoring capabilities that benefit the target firm’s performance. If a company has an effective management team whose capacity exceeds its current managerial input demand, the company may be able to exploit its extra managerial resources by acquiring a firm that is inefficiently managed due to shortages of such resources.

2.2.2 The Tax Effect Theory

Tax benefits are also among the major motivation for acquisitions. Tax advantages arising from acquisitions include the use of past tax losses so as to offset future taxable income, accumulated tax shields and deployment of surplus funds (Ross, et al., 2010). The first tax consideration relates to offsetting gains and losses for tax purposes. Chesang, (2002), stated that cumulative tax liability of the merged firms is expected to drop below the combined tax liabilities of the separate companies before merger. Mergers allows, the net losses arising from the operations of one company may also be used to offset the gains of the second company. As a result lower taxes or no taxes will be paid by these combined company (Moeller, et al., 2004).

In the case of unused tax shield, Ephraim, (2002) argues that that companies may possibly have allowable tax deductions but maybe unable to make profits large enough that will exploit all the possible tax deductions. An example of tax shield is an interest payment on debt. Consolidation with highly profitable company makes use of such tax shields. Brigham and Daves, (2012), also argue that companies that are highly profitable but facing higher tax rates can benefit greatly from acquiring companies with accumulated tax losses which are then changed into tax savings and hence increase profitability and firm value of the merged entities. Thus the surplus funds arising from these savings can be utilized for dividend payments, debt payments, investments and expanding operations.
2.2.3 Disciplinary Hypothesis

According to Lubatkin, (1983), mergers and acquisitions can also occur as a result of the shareholder management agency problem. Corporate managers are usually more interested in advancing their welfare at the expense of shareholder wealth maximization objective which is the overriding goal of corporations. Disciplinary hypothesis of mergers therefore explains on such crop of management teams who are more into personal goals than the organization value maximization. Managers who do not maximize the value of the firm would deviate and focus on other goals. The disparity in focus between management goals and firm value maximization objective hinders the operating efficiency and hence the financial performance of firms is adversely affected.

Some acquisitions promise strategic capabilities. Firms in mergers are able to take advantage of the dynamic and competitive environment and this enhances flexibility with regard to their future operations (Ross, et al., 2010). Braely and Myers (1991) states that poorly performing firms that have quality assets are key targets for optimistic buyers that are constantly looking out for such targets. Therefore this theory suggests that acquiring firms merge with poorly performing targets and improve their performance as new management realizes the full potential of a target’s assets.

2.2.4 Diversification theory

Diversification theory refers to the concept of reducing risk for a certain level of return or the concept of increasing return for a given level of risk (Ephraim, 2002). It is through diversification effect of combination that mergers can benefit all companies by reducing the variance in expected returns or percentage fluctuation. If the returns of one of the firms generally rise whiles that of the second firm fall, at any one time that fall in one of the firm’s income streams will be able to offset by the countering movement in profits of the other company in the merger. Diversification exist provided that the correlation between the two firm’s incomes is not perfectly positive (James, 2006). The main question on diversification is whether the company can achieve diversification cheaper than the individual investors can do their own (Ephraim, 2002)
Horne (2004), also stated that this theory is based on the assumption that investors evaluate risk solely in relation to total risk of the firm, and realized that there is a benefit of reducing the variability of profits if there are any tangible reasons associated with the cost of bankruptcy such as legal costs and loss of customers. By decreasing the probability of large losses (relative to assets), diversification reduces the probability of bankruptcy and thereby reducing the chance that bankruptcy costs will be experienced. This is advantage is usually reflected in the value of the firms’ stock.

2.2.5 Valuation theory

Ravenscraft and Frederic (1987) Stated that, mergers are planned and performed by managers who have insider information about the target company’s value than the information the stock market. Scherer argues that management of the acquiring firm may be in possession of unique information about the possible advantages that will be derived from merging their operations with that of the target firm. They may have detected an undervalued firm waiting for disposal, and then take advantage of buying the firm at a low price.

However, this hypothesis contradicts with an efficient capital market hypothesis. It has been argued that the two are incompatible because the latter only requires that all publicly available information about a company should be incorporated in the stock price (Ravenscraft & Frederic, 1987). On the other hand if the bidder possessing private information should reveal it in his bid and by so doing the stock price will rise to reflect the new information.

2.2.6 Strategic realignment to changing environment theory

The theory suggests that the companies uses the mergers and acquisitions as a strategy of rapidly adjusting to changes happening in the external environments, that is changes in technological innovation and regulatory framework. It usually happens when a company has an opportunity of growth only for a limited period of time and slow internal growth may not be sufficient. Technical changes may contributes to new products, industries and demand of the market. The use of information technology is likely to encourage mergers which are less expensive and faster
way to acquire new technology and owner knows that how to fill a gap in current offering or to entering new business

2.3 Types of merger and acquisition

Mergers are basically classified into three types which are horizontal, vertical and conglomerate and this is due to their characteristics and effect on the company’s performance.

2.3.1 Horizontal mergers

Horizontal merger occurs when companies that operate in related product lines come together so as to expand the market into one huge markets. This type of merger can lead into reduced competitors thus leading to an increased market share of the acquiring company and level of the industry concentration (Green, 1990). However, laws and regulations are being imposed across the globe by completion authorities, Zimbabwe included, and this is to ensure that completion is fairly maintained within the market, limit concentration as well as abuse of power by monopolies and oligopolies. Horizontal mergers are also used as a measure to protect the supremacy of a firm that already exist. Horizontal mergers also increases the economies of scale and efficiency of the acquiring firm, (Lipcyzynski and Wilson, 2001).

The following are examples of horizontal mergers that happened in Zimbabwe are Merger of National Insurance Company of Zimbabwe (NICOZ) and Diamond Insurance Company Limited, merger of Total Zimbabwe and Mobil Oil Zimbabwe, acquisition of Century Holdings Limited by CFX Financial Services, CBZ Holdings acquiring Beverly Building Society, ZB Financial Holdings Ltd acquiring Intermarket Holding ltd, CFX Bank Ltd acquired by Interfin Banking Corporation, the joining of Premier Bank and Ned Bank

2.3.2 Vertical mergers

Refers to the coming together or the acquiring of a supplier or distributor of one or more of its goods and services. Vertical mergers are amalgamations or combinations of companies with a supplier-customer relationship. This type of mergers happen along the value chain of goods or
services. According to Pearson, (1999), sometimes the differences between horizontal and vertical mergers are subtle for example mergers that were involved when African Banking Corporation was created or the acquisition of a poorly performing firm Universal Merchant Bank by CFX.

Vertical mergers can be broken down into forward and backward. Forward vertical integration is when companies involved in the posterior activities like distribution and further refinement of product or service are acquired. Forward integrations are sometimes called downstream integrations. Backward vertical mergers occurs when those companies involved in prior activities, for example raw materials extraction and production of components are acquired. It can also called upstream vertical integrations. Vertical mergers helps in the reduction of transactions costs for example sales taxes and marketing expenses. In Zimbabwe, examples of this type include the acquisition of the acquisition of Spar Harare by Innscor Africa, merger of Olivine Holdings and Cotton Company of Zimbabwe and the acquisition of CT Bolts by Zimplov Pvt Ltd.

2.3.3 Conglomerate mergers

Conglomerate merger is a combination of two businesses operating in different and unrelated areas of business. Conglomerate mergers occurs when we have confidence the central office have expertise and knowledge to effectively allocate and operate the company that if they have operated it independently (Bruner, 2004). The rationale behind this type of merger is diversifying resources and risk results in increased market share, production, synergy and reduction in the company risk exposure. An example of this type of merger is Kingdom Financial Holdings and Meikles Africa Ltd as well as Tanganda Tea Company and Cotton Printers.

2.3.4 Cross-border acquisitions

Cross border acquisition is another type of merger that is common these days. This is because of globalization and an increased deregulation in most countries across the globe and majority of companies today are spreading their operations to other nations. According to Giovanni, (2005), Cross border acquisitions refer to acquisitions done by a parent company which has its
headquarters in one country and merger in different countries. In Zimbabwe quite a number of cross border acquisitions have taken place. International companies have shown great interest in doing their businesses in Zimbabwe. The following examples of mergers fall under this category: the acquisition of TM Supermarkets by Pick n Pay of South Africa and the merger of Zimnat-Lion Insurance and AIG Insurance of the U.S.

2.4 Measures of Financial Performance.

The process that measures the results of company’s policies and operations in monetary terms is called measuring financial performance. Financial performance generally measures how well a firm can use its assets from its primary business activities and generate revenues. (Damodaran, 2001)

2.4.1 Profitability Ratios

Profit can be commonly defined as the difference between revenues generated and expenses over a specified time period. Profitability ratios however indicates what the firm is earning on its sales, assets or equity overtime. Muhammad, (2006), stated that financial managers should often appraise the efficiency of their companies in terms of profit to ensure growth and survival of the firm. According to Pandey, (2005), the two measures of profitability are return on assets (ROA) as well as return on equity (ROE).

He further alluded that return on asset is a comprehensive measure of the overall company’s performance from an accounting point of view and ROA is a major financial ratio that indicates the company’s profitability. It is a ratio of Income as to total assets and it measures the ability of management to generate income by utilizing company’s available assets at their disposal. Mitchell & Mulherin, (1996), also indicated that ROA is the major indicator of management efficiency as it shows how proficient the firm’s management has been able to convert the company assets into net earnings. ROA is calculated by dividing earnings after interest and tax over the total assets of the firm. Campa & Hernando, (2006), also asserted that an increase Return on assets (ROA) shows that a firm is more efficient in utilizing its resources.
Return on equity (ROE) measures accounting profitability from shareholders point of view. ROE is a financial ratio that shows how much profit a firm has earned related to the total amount of shareholders equity invested, (Khrawish, 2011). ROE is the rate of return which flows to the company’s shareholders as their benefit for investing their capital. It is calculated by dividing earnings after interest and tax with the total number of equity.

2.4.2 Cost to income ratio

The cost to income ratio is a key financial measure, particularly important in valuing financial institutions. As a rule, the lower a company’s cost to income ratio, the more efficiently of the financial institution operates. According to Brealey, et al., (2006), it shows the relationship between the costs and income of a company. To calculate this ratio we divide all the operating costs (fixed cost and variables costs such as salaries bad, non-performing) by the total operating income.

This ratio help investors as well as management by giving them a bigger picture of how efficient the company is being operated. The lower the rate is, the more efficient the company has been and the more profit being realized. Changes in the efficient ratio indicated possible problems that is an increase in the ratio shows that costs are increasing at a rate higher than income which therefore indicate that the company has removed its eyes from the ball hence less attraction of more business and profits.

2.4.3 Solvency ratios

Solvency ratio measures the financial soundness of a company and how well a firm can be able to satisfy the short term to long term obligations (Pandey, 2005). Solvency ratios that can be used to evaluate the institution financial performance are the current ratio, quick ratio, total liabilities to net worth ratio as well as the fixed asset to net worth ratio. Acid test also called the quick ratio only considers cash, marketable securities (account receivables and cash equivalents) because these assets are considered to be the most liquid. It is calculated by dividing the sum of cash with the account receivable by the current liabilities.
Current liabilities to net worth ratio shows the amount of money which is due to creditors within one year period expressed as a percentage of the stakeholder investment. The smaller the net worth then the larger the liabilities and the. The ratio is calculated by dividing the current liabilities with net worth of the entity. Total liabilities to net worth ratio shows how all of a firm’s debt relates to the equity of stock holders. The higher the ratio, the lesser protection there is for the creditors of the firm. The formula for calculating total liabilities to net worth is total liabilities over the net worth. Finally fixed asset to net worth ratio indicates the percentage of assets centered in fixed assets related to total equity. The ratio is computed by dividing the fixed assets with the net worth of a firm.

2.4.4 Other measures of financial performance

The other method which can be used to measure financial performance at any given time is the CAMELS rating system. According to Powell and Yawson (2005), CAMELS rating system is a supervisory rating of a financial institution basing on the financial statements of the firm and on-site investigation by regulators. Most of the banks across the world uses the CAMEL rating system as a performance evaluation technique (Rostami, 2015). The CAMEL model is also used widely among Zimbabwean banks to evaluate the quality of any lending or investment. CAMEL model was formed by the Federal Financial Institution Examination Council in 1979. CAMEL means

C- Capital adequacy
A- Assets quality
M- Management quality
E- Earning quality
L- Liquidity measurement

Capital Adequacy assess institutions through analyzing its capital trends. Examiners will also be checking on whether the company is complying with the set regulations concerning the risk based on the requirement. The company must also comply with the dividend and interest rate regulations. Assets quality reviews the loan quality of an institution, which also reflect earning made by the company. Assessing asset quality involves rating investment risk factors that the
company may face as well as comparing them with the company's capital earnings. Management assessment determines whether an institution is able to properly react to financial stress. Earnings measures a company’s ability to make returns, retain its competitiveness, ability to expand and these are key factors in rating the company’s continued viability. Liquidity examines or look at the company interest rate risk sensitivity, availability of assets that can be converted easily into cash by the firm and its dependency on short term unstable financial resources. Sensitivity looks specifically on how risk exposures might affect the company. (Damodalan, 2001)

2.5 Empirical Evidence

A number of study have done on the subject of mergers in the financial sector. The studies reviewed, used several variables to analyze the link between merger activities and the performance of financial institutions and different methodologies has been used and these include linear regression and panel data regression. Some studies employed the market based methods, others used accounting methods whilst others employed qualitative methods so as to find the effect of M&As on a company’s financial performance in different countries and various financial sectors. These studies revealed different and inconsistent results

Bhuyan, (2002) Assessed the impact of mergers and acquisitions on the performance of banks in Nigerian. His study used pre and post- merger financial statements of two merged banks so to analyse and compare. Ratio technique and the inferential statistical tools were used to point out the synergistic effects of merged banks. The results of the study showed that all the post-merger companies produced in addition to relational as well as operational synergy, financial gains were far more than 2+2=5 synergistic effects. The conclusion was that the performance of the post-merger banks improved due to the achieved synergistic effects.

Adebayo & Olalekan, (2012), also did a study in examining the implications of mergers and acquisition of Nigerian commercial banks. They were mainly focused on the profitability and other measures of performance that are associated. Published financial statements from 10 Nigerian banks that merged where used and they also collected data from the central bank of
Nigeria. Simple percentage and table where used to analyse and test the collected data. They also tested the hypothesis formulated using correlation coefficient and T-test. The results showed there was an increase in the capitalization of commercial banks. There was a change in the bank’s share ownership, a change in the bank lending rate and an increase in the cost of services. The conclusion was that mergers improves the overall performance of banks and also contributed immensely to the growth of the real sectors sustainable development.

Ikpefan, (2012), carried out a study to find out the challenges which Nigerian banks faced during after the consolidation exercise, the performance of the merged banks post consolidation and to analyse if mergers and acquisitions has affected the banks and the ways they would have affected. The study made use of the panel data regression technique to analyse the data. The findings of the study were that mergers do affect the performance of the merged banks but does not affect bank’s cost of equity capital. The study recommended that the management of banks needs to be efficient and effective in allocating the resources available if they need to stay relevant in a competitive financial industry so as to enjoy the full benefits that comes with merger activities.

Olowoniyi and Ojenike (2011), analysed the investment returns on shareholders of conglomerate companies that involved in mergers and acquisitions and also their performance. The data used for the study was collected from four sample companies for the period of fifteen years covering from (1990-2005). The study results showed that the relationship of net total assets in relation to the profit tax, turnover, and profit margin indicated a positive relationship. The research also found that mergers also add value to the share price of a post-merger bank. However, the relationship between net total assets relative to return on assets, return on capital return on capital employed and after tax profit showed otherwise. Their recommendation that firms should transform the improved performance into benefits for company’s shareholders.

Abbas et al (2014), provided a paper and the purpose was to study to find the impact on the financial performance in the Pakistan financial system post the M&As. This research took 10 sample of Pakistan banks. In addition, data research was for a period of six years from a period
of 2006 to 2011. Ratio analysis was used to point out the dependent variable such as efficiency and profitability, liquidity and leverage ratios, while the independent variables were the pre and post-merger acquisitions. The findings of the study showed that there is no improvement or progress in the financial performance of banks in Pakistan after they engage into merger and acquisition activity. Most banks even showed a decline in the dependent variable such as profitability, liquidity and efficiency.

However some banks like the Dubai Bank Group, HSBC Banking, and Middle East Limited experienced growth in financial performance after engaging M&As. Moreover, its leverage and its liquidity results showed not much or little advancement in performance. The overall outcome of this study was concluded that M&As does not perform proficiently in financial performance of Pakistan banks (Abbas et al 2014).

Another study was carried out in Pakistan by Afza & Yusuf, (2012). The main purpose of the study was to point out the impact of cost profit efficient on the performance of Pakistan banking industry from the period of 1998 to 2006. They used the intermediation approach to determine and define the independent and dependent variable. They made use of a four year study approach, calculated and compared cost and profit efficient for both pre and post-merger period. The found out that on average the profitability of a bank was 93.83% before merger and it increased to 94.15% post-merger thus an improvement of 0.32% in the profitability and the results were at 10% significant level. The study therefore concluded that mergers activities in Pakistan would improve the profitability. However no significant statistical evidence on cost efficient was found.

Yeh & Hoshino,Y., (2002), studied on the effect of merger on the firms operating performance for the period 1970-1994. The study was carried out using 86 corporate merger that was experienced in japan during this period. The success of the merger was tested basing on the effect of M&As on profitably, efficiency and growth of a firm. The study used total productivity as an indicator of efficiency, ROA and ROE as profitability indicators. Sales and employment growth as indicators of a company’s growth rate. The results showed a negative effect on mergers since there was a downward trend in profitability, productivity, sales and reduction in workforce. The overall conclusion was that, mergers have a negative impact on japan firm’s performance.
2.6 Gap analysis

Although quite a number of studies have been done on the subject of M&As, it is therefore instructive to note that there is still a gap which exist in the field of merger and acquisitions since most of the studies were done in countries with stable and developed economic structures. This study therefore is interested in assessing the impact of mergers on the financial performance of financial sector in a less developed economy like of Zimbabwe.

2.7 Summary

The chapter examined the relevant theoretical literature reviewed by the researcher, including some theoretical framework supporting the concept. In light of reviewing leading studies in the literature that discusses the effects of M&A on the financial performance of companies, analysis of previous studies reviews inconsistent results due to differences in the type of merger, countries time, and micro or macro effects among other issues. The chapter to follow will present the research methodology that the researcher used to carry out this study.
CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This section is going to describe the methodology used by the researcher in carrying out the study and to address the research propositions proposed in the previous chapter. It discusses the research design, population description, details on the data collection methods, the analysis techniques used and their interpretation. The research design will aid the researcher in guiding towards achieving objectives of the research and it seeks to clarify and answer the raised questions in chapter one.

3.1 Research design

Kothari (2004), defined a research as a plan and a structure of investigating the outcome so that we obtain answers to research questions. A research design also points out a true reflection for the collected data, measurement and analysis. This research is based on a case study of FBC Holdings acquiring Eagle Insurance Company.

The research adopts a descriptive research design so that we determine the relationship that exist between mergers and acquisition and the financial performance of a company. Descriptive research design is mainly concerned with the relationship that exists, attitude held practices beliefs and the effects felt. (Whitney et al, 2013). This design method also provided an opportunity and ground for conclusion making basing on the research finding. Descriptive research design was used in the study the use of an in-depth interviews in gathering the relevant data. In addition the design was easy to administer since there was no need for sophisticated devices to record actions or reactions like other types of research designs. More importantly this design enabled the researcher to gather both qualitative and quantitative data, thus the use of primary and secondary data was enabled.
3.1.1 Qualitative method

Qualitative method is subjective in nature and this approach comprises data which is written in nature and the questions are often open ended. The methods used in collecting qualitative data are action research, observations, focus groups, and individual interviews. The researcher however decided to use interviews. According to Whitney et al, (2013) the advantage qualitative research methods have is that they offer the researcher the flexibility to probe initial participant responses, which is asking why or how. It also gives participants an opportunity to respond in their own words rather than forcing them to choose from fixed responses as quantitative methods do.

However it is difficult to tell whether or not that the findings were biased or truth by the researcher’s own options. Although qualitative approach may be time consuming it involves direct interface with the individuals under the study which may result in high, rich and deeper insight of the phenomenon under the study. Qualitative approach is usually collected from a smaller sample than quantitative and this makes it a more expensive approach.

3.1.2 Quantitative research

Quantitative data is that data that can be presented in numbers, figures and statistical parameter (Whitney, et al., 2010). Quantitative approaches makes use of numerical data and usually the questions are close ended although this may be accomplished on a one to one, administration through the telephone, postal, in a group. It is inferential and objective in nature since the results are expressed in numeric form. This type of research has got an advantage that data analysis is relatively less time consuming as one can make use of statistical software. However, quantitative research may be time consuming especially if the researcher is not well versed with numbers hence it can take time when entering, cleaning and analyzing data. Moreover some information produced by quantitative data might be too conceptual and comprehensive for direct application to specific local context, situations and individuals.
3.2 Subjects

Subject are the respondents who make up a population. The general population was made up of the executive management, management staff and the audit management committee of FBC HOLDINGS

3.2.1 Population

Laurel (2003) refers to a population as all items that have specific characteristics and that are of interest to the researcher from which a generalization can be formed from the data collect. Gratton and Jones (2010), defined the study population as everyone who possesses those traits defined by the researcher as applicable to the study and in this case all the FBC Holdings head office management and branch managers. It is not always practical in most research studies to investigate on every member of a given population because of the constraints of time, finance, urgency and practicability.

The research study targeted a population of all 5 senior executive staff, 3 individuals from strategic planning committee, 3 from the risk management and 3 individuals from finance management committee at head office. The executive management staff sets policies that governs the overall direction of the financial institution as well as overseeing the bank’s departments including the risk management team. The strategic planning committee together with the executive team develops strategic plans to be implemented by the bank such like mergers and acquisitions, strategic alliance and divestment and they also monitor bank risk management policies. Finally risk management committee constitutes monitoring compliance with the bank risk management policies and procedures, and for reviewing the adequacy of the risk management policies and procedures in relation to the risks faced by the bank.

3.2.2 Study sample

It was not practical for the researcher to obtain data from every observation in the population and therefore the researcher had to make use of sampling. Sample size is the number of sampling units that are included in an investigation (Whitney, et al., 2010). Gratton and Jones (2010),
also defined a sample as a subgroup of the precise which is then used for testing and analysis with the assumption that the sample will be fully representative of the target population. An accurate sample must be a true representative of the population under study hence, a sample should provide a fair distribution of gender, skill, income and age of the targeted population. Since the study seeks to study the role of merger on the financial performance of commercial, a sample frame had to be developed which mainly focused on FBC Holding.

There are two main types of sampling methods which are the probability and the non-probability sampling method. According to Cohen et al (2000), probability sampling is a sampling process that draws a sample from the wider population on a random basis. Patton (2002) pointed that by using the probability sampling method, the researcher can be ensured of obtaining information from a relatively representative group of the population of interest. The probability sampling methods comprise of cluster sampling, simple random sampling and stratified sampling method. The sample consist of 15 staff member form different financial group departments. How they were selected is illustrated on the sampling procedure. The sample size is illustrated by the table below.

Table 3.2: Sample size and composition

<table>
<thead>
<tr>
<th>NUMBER OF RESPONDENTS</th>
<th>Total population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive management staff</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Finance committee</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Strategic planning committee</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Risk management committee</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>15</td>
</tr>
</tbody>
</table>

3.2.3 Sampling Procedure.

Stratified and Simple Random sampling techniques were used in this research. The target population was grouped into four strata that is executive management, strategic planning committee and audit management committee and finance committee members. In order to select
individuals to survey, the researcher selected the executive management staff on random bases. Individuals from strategic planning committee and risk committee were also selected randomly to get a total of all the available respondents representing the sample. The method of simple random was selected because it was highly representative and was the ideal method of giving every member an equal opportunity to be selected but also because the researcher had a limited choice of respondents. Stratified sample helped the researcher to obtain sufficient data and while saving money. However it was more complex and required more time.

3.3 Research instruments

Researchers should settle on research instruments that provide utmost accuracy and explanatory power with low cost, rapid speed and minimum management demands, with high administrative convenience (Haralambos & Holborn, 2004)

3.3.1 Primary Data

Primary data is defined as data collected for the first time from its original source. Kotler (1988), defines primary data as data which is collected by the researcher in the field especially with project at hand. Primary data can be obtained through the use of questionnaires or interviews. Kothari (2004), says that questioners are a popular method of collecting primary data and they contain a number of questions that are arranged in a certain order depending on what the researcher wants. The questioners are then given to the expected respondents by any possible means for example by mail or directly and respondents are expected to answer on their own. Primary data was collected using interviews.

3.3.1.1 Interviews

Personal interviews are among the best methods of obtaining comprehensive or detailed information. It usually involves a lengthy questionnaire that the interviewer fills out while asking questions. Haralambo and Holborn (2004) purported, interviews allows for an extensive probing by the interviewer and they give respondents the time and ability to elaborate their answers.
Interviews were used because the information that was required was comprehensive. The major advantages of conducting interviews were that:

- Instant feedback was acquired.
- Personal interviews provided the opportunity to use non-verbal communication to the Interviewer, hence provided a better understanding of respondents
- Comprehensive and more detailed information was gathered.
- Some issues were clarified and the researcher had the opportunity to come up with more comprehensive data.

However, the researcher faced some challenges regarding targeting the right respondents for the interviews since some respondents gave the completion of the task to their subordinate staff. This challenge was nevertheless resolved by making prior arrangements with the targeted respondents. Also some of the respondents could not provide all the information that was required for confidential purposes. The researcher overcame these shortcomings through the use of a letter of transmittal from Bindura University of Science Education faculty of commerce which was confirming that the information needed was for academic purposes only.

3.3.2 Secondary Data

Secondary data is data that is already available in the public domain and it comes in different forms depending on the source where the data is extracted from. Data can be obtained from textbooks, journals and the internet. It is less expensive to use than to collect the data using primary sources. Even though in some cases secondary data may fail to give sufficient detail and to meet the exact requirements of the research. The secondary data was collected from published financial statements of FBC HOLDINGS. Secondary data was also useful in the section of literature review which is chapter two of the project. However, the weaknesses of secondary data could not be overlooked. For example, the information provided sometimes will not have been designed to meet the needs of the researcher and in some cases information was outdated.
3.4 Summary

This chapter has presented and outlined the methodology to be used for this dissertation. The following chapters will tackle the actual data estimation within the model outlined above and the interpretation of results.
CHAPTER 4

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This section discusses the research findings, offers the data analysis and interprets the research findings. The study sought to assess the impact of mergers and acquisitions as a strategy for improved financial performance in the financial sector (case study of FBC acquisition of Eagle insurance company). The measures used to evaluate the financial performance included profitability, efficiency liquidity and capital adequacy ratios. The data was exclusively gathered from the secondary data. Data was analysed using descriptive statistics and raw data was presented by means of tables.

4.1 Interview response

Most of the managers were interested about the research, direction, intensions of the research and how the research could help them to manage the institution better than ever. Due to this cause, 80% respond was acquired from the executive management. Face to face interviews were the most appropriate because executive managers wanted to insure that clarification was made that information revealed would not breach confidential clauses or destroy the concern of the institution. They were also curious on the issue, hence an interview would give them a better insight than answering a questionnaire which is tailored by the researcher to fit his research. Strategic planning committee’s got a response rate of 33% was not satisfactory as it was the department the researcher was mainly aiming at since it is the one which is directly concerned with formulation and implementation of strategic plans of company. The finance committee got 75% response from a total of 4. A total of 3 respondents out of the possible 3 did responded, that is a 100% in the risk management committee. The response rate is presented on the table 4.1 and fig 4.1 below.
Table 4.1 Summary of responses

<table>
<thead>
<tr>
<th>Respondent’s positions</th>
<th>Size of the sample</th>
<th>Respond</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive managers</td>
<td>5</td>
<td>4</td>
<td>80%</td>
</tr>
<tr>
<td>Finance committee</td>
<td>4</td>
<td>3</td>
<td>75%</td>
</tr>
<tr>
<td>Strategic planning committee</td>
<td>3</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td>Risk management committee</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>12</td>
<td>80%</td>
</tr>
</tbody>
</table>

Source: primary data

4.2: Findings of the Study

4.2.1 Return on asset (ROA)

The average return on assets (ROA) for FBC Holding before the acquisition was 0.07% and 0.07% respectively for the period 2009 and 2010. In the year of the acquisition, ROA was a
positive at 4.47% with Eagle Insurance contributing 3.7% of its profit. In the second year (2012) return on assets (ROA) decreased by 0.48% to 3.99% but the acquired company increased its contribution from 3.7% to 5.7%. ROA continued dropping to for the next two years that is 3.06% in 2013 and 1.03% in 2016. However the contribution of Eagle Insurance continued to increase to 10.29% in 2013. In the year 2014 the ROA dropped again to 1.03% but the contribution of Eagle towards profitability remain at 10.29%. In 2015 the ROA increased to 3.68 with Eagles contributing 9.25% which is a reductions in contribution. Finally in 2016 the 5.59% of ROA was attained with a continued reduction in contributions from Eagle Insurance Company to 5.66%. The finding are also in line with Yeh & Hoshino,Y., (2002), finding on his research. These findings are well elaborated in the tables 4.2 and 4.3 as well as figure 4.2 below.

<table>
<thead>
<tr>
<th>Table 4.2 Pre- merger Return on Assets (ROA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
</tbody>
</table>

Source. Secondary data

<table>
<thead>
<tr>
<th>Table 4.3: Post-merger Return on asset (ROA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
</tbody>
</table>

Source. Secondary data
4.2.2: Return on equity

The study also sought to find the return on equity (ROE) of FBC Holding pre and post the acquisition of Eagles Insurance Company. Return on equity ratio or (ROE) is defined as a profitability ratio that measures the firm’s ability to generate profits from its shareholders investments in the company. A return of 1 therefore means that every dollar of common stockholders' equity generates 1 dollar of net income. In other words, the ratio shows how much profit each dollar of common stockholders' equity generates. The return on equity (ROE) for FBC Holding before the acquisition was 2.57% and 2.72% respectively for the period 2009 and 2010. In the year of the acquisition, ROE increased 16.85% with Eagle Insurance contributing 3.7% to total return on equity. In the second year (2012) ROE increased to 17.73%whiles the acquired company increasing its contribution from 3.7% to 5.7%. ROE dropped for the next two years that is 13.26% in 2013 and 5.66% in 2014. However the contribution of Eagle Insurance continued to increase to 10.29% in 2013 and maintained the same contribution in 2014. In the year 2015 the ROE increased to 17.25% with Eagles contributing 9.25% which is a reductions
in contribution. Finally in 2016 the 17.73% of ROE was attained with a continued reduction in contributions from Eagle Insurance Company to 5.66%. These findings are well elaborated in the tables 4.4 and 4.5 as well as figure 4.3 below.

**Table 4.4 pre-merger Return on Equity (ROE)**

<table>
<thead>
<tr>
<th>Year</th>
<th>FBC HOLDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2.57%</td>
</tr>
<tr>
<td>2010</td>
<td>2.72%</td>
</tr>
</tbody>
</table>

Source: secondary data

**Table 4.5: Post-merger Return on Equity (ROE)**

<table>
<thead>
<tr>
<th>Year</th>
<th>FBC Holdings</th>
<th>Contribution Made By Eagle Insurance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>16.85%</td>
<td>3.7%</td>
</tr>
<tr>
<td>2012</td>
<td>17.73%</td>
<td>5.7%</td>
</tr>
<tr>
<td>2013</td>
<td>13.26%</td>
<td>10.29%</td>
</tr>
<tr>
<td>2014</td>
<td>5.55%</td>
<td>10.29%</td>
</tr>
<tr>
<td>2015</td>
<td>17.25%</td>
<td>9.25%</td>
</tr>
<tr>
<td>2016</td>
<td>17.73%</td>
<td>5.66%</td>
</tr>
</tbody>
</table>

Source: secondary data
4.2.3 Earnings per share (EPS)
The study also sought to find the earnings per share (EPS) of the FBC holding institution that is before the acquisition and earnings per share after the acquisition. The earnings per share for the financial institutions two years before the acquisition was weakly positive at 0.01. In the year of merger that is 2011 the institution registered an increase in EPS of 1.71. In the second year after the acquisition the earnings per share improved to a positive 2.42, then in 2013 a decrease to 2.30 and continued decreasing in to 0.73 in 2014. The continued decrease was due to the disposal of Turnall Holdings Limited which was making losses. Thereafter it increased to 2.72 and 3.40 for the years 2015 and 2016 respectively. The contributions made by Eagles Insurance Company are the same with those made to ROA and ROE. These findings are tabulated on below on table 4.6, 4.7 as well as figure 4.4.

**Table 4.6 Pre- acquisition EPS**

<table>
<thead>
<tr>
<th>Year</th>
<th>FBC HOLDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>0.01</td>
</tr>
<tr>
<td>2010</td>
<td>0.01</td>
</tr>
</tbody>
</table>

*Source: secondary data*
Table 4.7 Post-Acquisition EPS

<table>
<thead>
<tr>
<th>Year</th>
<th>FBC Holdings</th>
<th>Contribution Made By Eagle Insurance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.71</td>
<td>3.7%</td>
</tr>
<tr>
<td>2012</td>
<td>2.42</td>
<td>5.7%</td>
</tr>
<tr>
<td>2013</td>
<td>2.30</td>
<td>10.29%</td>
</tr>
<tr>
<td>2014</td>
<td>0.73</td>
<td>10.29%</td>
</tr>
<tr>
<td>2015</td>
<td>2.72</td>
<td>9.25%</td>
</tr>
<tr>
<td>2016</td>
<td>3.40</td>
<td>5.66%</td>
</tr>
</tbody>
</table>

Source: secondary data

Fig 4.4: pre and post M&A EPS trend

Source: secondary data

4.2.4 Current ratio
Apart from the profitability ratios the study also sought to establish the solvency ratios that is ratios that are used to measure the financial soundness of a company and how well a firm can satisfy its short term to long term debts. The ratio used is current ratio. Prior to the acquisition the current ratio was 1.09 and 1.12 for the period 2009 and 2010 respectively. A drop to 1.02 was experienced in 2011 the year of acquisition. The current ratio started increasing and continued to increase from the year 2012 to 2016 and the ratio are 1.07, 1.12, 1.13, 1.16 and 1.17 respectively. The current ratio of EIC as a subsidy shows that the acquire company continued to increase its contribution in helping the company in improving the current ratio. The current ratio of EIC was 1.57 in 2011 in the acquisition year and it drop to 1.44 in 2012. However it increased from 2013 to 2016 and the ratios are 1.65, 1.68, 1.80 and 2.17 respectively. These finding are also in line with the study that was done by Abbas et al (2014). These finding are tabulated on the tables and fig below

**Table 4.8 Pre- acquisition current ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1.09</td>
</tr>
<tr>
<td>2010</td>
<td>1.12</td>
</tr>
</tbody>
</table>

*Source: secondary data*

**Table 4.9 Post-acquisition current ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>FBC holding ltd Current ratio</th>
<th>Eagle Insurance Company current ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1.01</td>
<td>1.57</td>
</tr>
<tr>
<td>2012</td>
<td>1.07</td>
<td>1.44</td>
</tr>
<tr>
<td>2013</td>
<td>1.12</td>
<td>1.65</td>
</tr>
<tr>
<td>2014</td>
<td>1.13</td>
<td>1.68</td>
</tr>
<tr>
<td>2015</td>
<td>1.16</td>
<td>1.80</td>
</tr>
<tr>
<td>2016</td>
<td>1.17</td>
<td>2.17</td>
</tr>
</tbody>
</table>

*Source: secondary data*
4.2.5 Efficient ratio

Efficient ratio is also called the cost to income ratio and it measures the ability to turn assets into revenue. The efficiency ratio in financial institutions is calculated as expenses (not including interest) divided by revenues. The efficient ratio was high in 2009 and 2010 that is 88% and 89% respectively. The acquisition of EIC in 2011 contributed to sharp drop to 75% in cost to income ratio and that is a 14 % decrease. In 2012 and 2013 efficient ratio increased to 77% and 80 % respectively. Cost to income ratio drop from 80% to 78%, 74% and 72% in the years 2014, 2015 and 2016 respectively. The linear line on the fig below indicate that cost to income ratio generally reduced

Table 4.10 Pre- acquisition cost to income ratio (efficient ratio)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost to income ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>88%</td>
</tr>
<tr>
<td>2010</td>
<td>89%</td>
</tr>
</tbody>
</table>

Source-secondary data
Table 4.10 Post-acquisition cost to income ratio (efficient ratio)

<table>
<thead>
<tr>
<th>Year</th>
<th>FBC holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>75%</td>
</tr>
<tr>
<td>2012</td>
<td>77%</td>
</tr>
<tr>
<td>2013</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>78</td>
</tr>
<tr>
<td>2015</td>
<td>74%</td>
</tr>
<tr>
<td>2016</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: secondary data

Fig 4.6 Pre and post M&A cost to income ratio trends. Source: secondary data

4.2.6 Motive behind Eagles Insurance Company (EIC) acquisition

The majority of the respondents painted that the major motives economies of scale, increasing the liquidity conditions of the company, diversification, recapitalization, maximizing shareholder wealth, managerial skills and need for new technology. However majority of the respondents argued that the diversification and shareholder wealth maximization the main major motives for such schemes were to spread risk and proving a wide range of services and products,
the institution also managed to increase their human capital, asset base and information and technology advancement.

4.3 Summary

This chapter presented the results from this research study as conducted by the researcher. The researcher used tables, graphs and percentages to present some of the findings in a manner that is simple and understandable. The next chapter is the final chapter which is going to give a summary of the findings and this is where conclusions and recommendations are drawn.
CHAPTER 5

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the findings from chapter four, conclusions, limitations and recommendations based on the objectives of the study that is to assess the impact of mergers on the financial performance companies in the financial sector.

5.1 Summary

The research primarily aimed at assessing the impact of mergers and acquisitions as a strategy for improved financial performance in the financial sector (case study of FBC holding acquiring EIC. The research aimed at establishing the motives behind merger activities, identifying the impact that mergers play on the efficient performance, to assess the impact of mergers and acquisitions on the company’s profitability in relation to financial performance, determining the impact of the M&As on shareholders’ value and assess the liquidity position of a firm after mergers and acquisitions. To conduct this study the researcher was motivated by the challenges that banks are failing to raise the capital requirements as well as a number of bank failure that had happen in the recent years.

The literature review of the study is made of the theories of M&As, different types of M&As, the reasons behind M&As and the empirical literature of some related studies. The different types of mergers and acquisitions are horizontal, vertical, conglomerate and cross border mergers. Furthermore, literature review also looked at the various motives behind mergers and acquisitions and motives where pointed out by theories of M&As. In addition, return on assets (ROA), return on equity (ROE), efficiency, liquidity are the determinants of financial performance. The literature review finally entailed related empirical review. A sound connotation on the impact of merger and acquisitions activities on the financial performance of Zimbabwean financial system was provided in chapter four were data presentation, analysis and
discussion was conducted. In carrying out the study, the researcher encountered quite a number of challenges such as financial resources in terms of transport cost and inadequate literature resources. Though the project was accomplished it was not easy sail through as respondents were busy to respond to interview questions and as some information was considered to be of private nature.

The finding of the study pointed out that, the acquisition of Eagle Insurance Company by FBC Holdings Ltd led to an improved return on assets (ROA) and return on equity (ROE) both improved as the assets of the company improved. This shows out that the profitability of the firm increased after merging. However the improvements were not very significant as they were influenced by a slow growth in the returns compared to the assets and also the slow growth of the economy. It was also affected by other big subsidies of the company.

The research also revealed that the current ratio of the company increase with the help from the acquired company. A continued rise in current ratio was experience from 2011 to 2016 with great contribution coming from 1.01 to 1.17 with the acquired company reaching up to 2.17 on its on as a subsidiary.

An increase in earnings per share was also experienced, however it was slow due to the declining Zimbabwean economy. EIC contribution continued making great contribution toward EPS thus an increase in shareholder value and ROA and ROE also shows that shareholder value increased.

M&As can also lead to a decrease in the cost of operation of post-merger company thus improved performance and efficiency. The study reveals that over cost to income ratio decreased from 89% to 72% for a period from 2011 to 2016. The research study revealed that mergers in the banking sector were motivated by factors such as, diversification, geographic spread, to meet liquidity requirements, recapitalization, maximizing shareholders wealth, managerial skills and need for new technology.
5.2 Conclusion

The findings of the study resulted into a conclusion that M&A’s indeed is a strategy and have a positive relationship with financial performance of the financial sector and this is based on the data presentations in chapter four and the summary of the outcomes above the study. The study found that the financial performance of FBC Holdings limited appreciated in the period subsequent to the mergers.

The study also concluded that there was a mergers do contribute positive liquidity, profitability and efficient in the financial performance of financial sector. Risk reduction can also be achieved through mergers and acquisitions.

5.3 Policy recommendations

Based on the outcomes of the study, it is important to give recommendations so that we realize more achievements from mergers and acquisitions. From the conclusions presented in chapter four and in the summary given above, this study would like to recommend that institutions with an unstable capital base and poor performing companies should seek to consolidate their institutions through mergers and acquisitions. It is through mergers and acquisitions that the financial institutions will be able to increase their market share and revenue base and thus an increase in their profitability and to diversify against risk especially in the Zimbabwean contest.

The study also recommends that, management of financial service organizations should instill discipline upon itself through the use of good corporate governance, promotion of technological advancement and increasing the paid up capital irrespective of the statutory requirements such that the existence of a firm continue and not risked after going through mergers and acquisitions. Financial institutions should not only take on mergers and acquisitions as a way of trying to survive or sustain failing companies but to improve operations competitiveness and financial standings.

These organizations should design some sound strategies towards asset and liability management so as to avoid the problem of mismatching investments whilst improving the quality of assets.
With improved financial sector deepening, the financial institutions will be in a position to improve their performance by attainment of more financial stability with high capital adequacy ratios.

5.4 Limitations of the Study

The data was not readily available given the longer period of the study. This, as a result made the data collection process strenuous and time consuming given the limited available time for data collection. The data was secondary data that had been collected for other purposes and could have been inaccurate for this study.

The study used one or two ratio for each of the categories of the ratios; liquidity, profitability, efficiency and capital adequacy ratios which as may have given biased results based on the specific components of the ratios used. There are several ratios that can be used to measure each of the several variables and thus these ratios should be considered in aggregation in order to produce more conclusive results.

The study only considered mergers in evaluating the financial performance of the merged companies yet there other factors that affect performance and these factors includes market share and size. The general economic and political condition of Zimbabwe have also not been considered.

5.5 Suggestions for further research

Further research should be carried out on the performance of merged banks before and after the merger but include other variables in the study such as size of the bank, market share and the performance of the economy.

The study was restricted to FBC Holdings and studies should be done on the effects merger on financial performance of companies as a result of cross border mergers and acquisition for example the acquisition of Barclays by First bank from Malawi. As the research covered a
duration of 2 years pre and 6 post-merger, more study should be carried done on the effects of mergers and acquisitions on the financial performance of Zimbabwean financial system but covering a longer period such as 10 years pre and post-merger so as to get more representative results.
References


Anon., n.d. s.l.:s.n.


Blunch, B., 2009. Creating and Appropriating Value from Mergers and Acquisitions.’. A merger wave perspective..


## APPENDIX A: PRE AND POST ACQUISITION RATIO RESULTS

<table>
<thead>
<tr>
<th>Years</th>
<th>ROA</th>
<th>ROE</th>
<th>EPS</th>
<th>CTI</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Pre-merger</td>
<td>0.07%</td>
<td>2.57%</td>
<td>0.01</td>
<td>88%</td>
</tr>
<tr>
<td>2010</td>
<td>Pre-merger</td>
<td>0.07%</td>
<td>2.72%</td>
<td>0.01</td>
<td>89%</td>
</tr>
<tr>
<td>2011</td>
<td>Post-merger</td>
<td>4.47%</td>
<td>16.85%</td>
<td>1.71</td>
<td>75%</td>
</tr>
<tr>
<td>2012</td>
<td>Post-merger</td>
<td>3.99%</td>
<td>17.73%</td>
<td>2.42</td>
<td>77%</td>
</tr>
<tr>
<td>2013</td>
<td>Post-merger</td>
<td>3.06%</td>
<td>13.26%</td>
<td>2.30</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>Post-merger</td>
<td>1.03%</td>
<td>5.55%</td>
<td>0.73</td>
<td>78</td>
</tr>
<tr>
<td>2015</td>
<td>Post-merger</td>
<td>3.68%</td>
<td>17.25%</td>
<td>2.72</td>
<td>74%</td>
</tr>
<tr>
<td>2016</td>
<td>Post-merger</td>
<td>3.59%</td>
<td>17.73%</td>
<td>3.40</td>
<td>72%</td>
</tr>
</tbody>
</table>
Dear Sir or Madam

RE: Request for conducting interviews and annual reports

As part of my BBS Banking and Finance (HONS) Degree program with Bindura University of Science Education, I am conducting a research study with the topic “An assessment of the impact of mergers and acquisitions as a strategy for improved financial performance in the banking sector (case study of FBC holding acquiring Eagle insurance company)

I am therefore kindly appealing for your assistance by providing information through your published annual financial accounts (prior to the acquisition) and through conducting interviews. It is hoped that the results of this study will be of great importance to this institution, management, staff, other stakeholders and the academic community. Your response will be treated as confidential and will not be used for purposes other than those intended for this research.
You are kindly asked to complete the questionnaire, which will be treated within confidentiality.

With Regards

MUDZENGI COURAGE
APPENDIX C: INTERVIEW GUIDE FOR FBC HOLDINGS MANAGEMENT

1. What were the motives behind acquisition of EAGLE INSURANCE?

2. What were the challenges faced by FBC HOLDING before the merger?

3. Are there any possible benefits that were achieved by the financial institution following the acquisition?

4. In your own opinion suggest possible ways that can be put to improve on the financial performance of the Zimbabwean financial sector

5. Besides acquisition of EAGLE INSURANCE, what other strategies were available to increase profit

6. In your own opinion what can be done by the RBZ to stabilize the financial sector and reduce the level of corporate struggles?