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EFFECT OF SYNERGY ON THE FINANCIAL PERFORMANCE OF MERGED INSTITUTIONS

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Abstract

Purpose: The purpose of the study was to determine the effect of synergy on the financial performance of merged institutions.

Methodology: The study adopted a mixed methodology research design. The study population included all the 51 merged financial service institutions in Kenya. Purposive sampling was used. Primary data was obtained from questionnaires and a secondary data collection template was also used. The researcher used quantitative techniques in analyzing the data. Descriptive analysis for the study included the use of means, frequencies and percentages. Inferential statistics such as correlation analysis was also used. Panel data analysis was also applied. Further, a pre and post merger analysis was used.

Results: Synergy had a significant relationship with financial performance of merged institutions.

Unique contribution to theory, practice and policy: The study recommended that institutions should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term financial synergies. They should increase their scope to create high performing supply chains with significant long-term upside that provide sustained value for customers and stakeholders.

Keywords: *Synergy, Financial performance, Merged institutions.*

1.0 INTRODUCTION

1.1 Background of the Study

Mergers and Acquisitions is an important financial tool that enables companies to grow faster and provide returns to owners and investors (Sherman, 2011). According to Ross, Westerfield and Jordan (2003), a merger is the complete absorption of one firm by another, wherein the acquiring firm retains the identity and the acquired firm ceases to exist. Mergers and Acquisitions also refer to the change in ownership, business mix, assets mix and alliance with the view to maximizing shareholders' value and improve the firm performance (Pazarkis, Vogiatzoglo, Christodoulou, Drogalas, 2006;Gaughan,2012;Nakamura, 2015).

According to (Pazarkis *et al*, 2010;Gaughan,2012;Nakamura, 2015), one of the main elements of improving company performance is the boom in mergers and acquisitions. A merger is a corporate strategy usually done between two or more companies where by the acquiring firm and the acquired firm stands on a merger agreement.

Grinblatt, Mark & Titman, Sheridan (2012) identified three different categories of M&A; strategic acquisitions, financial acquisitions and conglomerate acquisitions. Strategic mergers take place between two companies in the same line of business; thus between former competitors (Brealey, Myers, & Marcus, 2011& Grinblatt *et al*., 2012). Financial acquisitions are marked by no operating synergies; instead companies engage in financial acquisitions because the acquirer believes that the target company is undervalued relative to its assets. Another motive for engaging in financial acquisitions is the tax gain sometimes associated with the acquisition (Brealey *et al*., 2011& Grinblatt *et al*., 2012). In a conglomerate acquisition no clear potential for operating synergies exist, since the two companies operate in unrelated lines of business (Brealey et al., 2011& Grinblatt et al., 2012). This type of acquisition according (Brealey et al., 2011& Grinblatt et al., 2012) is often motivated by financial synergies, which enables a company to lower cost of capital there by creating value

Due to changes in the operating environment, several licensed institutions have had to merge or one institution takes over another's operations (Hitt, Ireland & Hoskissn, 2009;Fluck and Lynch, 2011). Some of the reasons put forward for mergers and acquisitions are: to gain greater market power, gain access to innovative capabilities thus reducing the risks associated with the development of a new product or service, maximize efficiency through economies of scale and scope and finally in some cases, reshape a firm's competitive scope (Hitt *et al*., 2009;Fluck et al,2011; Vermeulen and Bakerma, 2011; Vaara, 2012). Other reasons include short-term solution to finance problems that companies face due to information asymmetries (Fluck*et al*2011), revitalize the company by bringing innew knowledge to foster long-term survival (Vermeulen *et al* 2011) and to achieve synergy effects (Lubatkin, 2007; Vaara, 2012).

The synergistic effect of mergers and acquisitions includes economies of scale through greater output, avoidance of duplication of facilities and staff services and stronger financial base. The economic benefits as a reason for pursuing a merger or an acquisition include income enhancement, cost reduction and growth (Amedu, 2014). Some of the reasons for mergers and acquisitions are to: purchase a company having competent management; improve earnings per share, inject fresh ideas for better prospects and enhancement of shareholders' wealth, gain access to the financial market, eliminate duplicate and competing facilities, secure scarce raw materials, diversify into other products or markets or to complete a product range, greater asset backing; and enhance economy of scale and corporate growth (Akinsulire, 2012: Amedu, 2014).

Merger and Acquisition has become a corporate strategy enabling a firm to strengthen its core competencies and the factors affecting mergers change with their changing legal, political, economic and social environments (Gyanwali, 2013). Firms engage in mergers and acquisitions activity for different economic reasons. For example; synergy is commonly used in a merger and acquisitions activity. Synergy has been described as the combination of firms that have a value which is greater than the sum of the values of the separate firms

(DePamphilis 2009). Hypothetically the underlying principle of synergy is 2+2=5, or 5+5=11 which is technically incorrect. However, it is believed that the net positive gain will be achieved resulting from the merger of two separate entities. Synergy can be produced as operational, managerial and financial synergies (Ross et.al 2003). Operational synergy can be explained as the combination of economies of scale, which would reduce average costs as a result of more efficient use of resources, and economies of scope, which would help companies deliver more from the same amount of inputs" (DePamphilis 2009). Financial synergy refers to the impacts of mergers and acquisitions on the cost of capital of the acquiring firm or the newly formed firm resulting from a merger or acquisition (DePamphilis 2009). The merged entity will be able to reduce the cost of capital and increase its buying power. However (DePamphilis 2015; Frankie TAN, 2009) explain that a conglomerate merger enables an individual unit under the umbrella of one centralized parent company achieve beyond what would have been achieved by each unit competing individually.

1.2 Problem Statement

The resultant benefits and costs of mergers and acquisitions is a strategic issue which may impact positively or negatively on financial performance (Healy, Palepu and Ruback 2012). Shareholders and their agents are therefore faced with a problem of trying to ascertain whether this strategic decision and activity will result in improvement of better financial performance (Katuu, 2003). Mergers and acquisitions could also concern policy makers because they may have negative consequences on the competitive environment by creating monopolies (Wang 2007). Several economic theories and M&A literature support the idea that shareholders experience positive abnormal returns arising from expected value creation post-merger (Halebian, 2009;Cartwright et al, 2013; Moeller et al., 2015). Thus, M&As are expected to create value as a result of firms exploiting economic resources that are both available and implementable but, the general result is that the shareholders of target firms earn positive and significant returns, whereas returns for acquiring firms are much lower and possibly negative(Cartwright *et al*, 2013). This is the practical gap that necessitates this study.

Many studies in M&As have been done in developed markets globally mainly in Asia, Europe and the USA. Healy,*et al* (1992) examined post-acquisition performance for 50 largest U.S. mergers between 1979 and 1984 by measuring cash flow performance, and concluded that performance of merging firms improved significantly following acquisitions, when compared to their respective industries. Lubatkin (1983) reviewed the findings of studies that investigated either directly or indirectly the question, "Do mergers provide real benefits to the combined firm?" The review suggested that combined firms might benefit from merging because of technical, and diversification synergies.Ghosh (2001) examined the operating cash flow performance improvement after corporate acquisitions; and the results showed that merging firms did not show evidence of improvements in the operating cash flow performance of post-merger and acquisition. Wang (2007) investigated the wealth effect of investment banks and fairness opinions they provide in corporate mergers and acquisitions. The study found that firms undertaking opinioned mergers under-perform firms with non-opinioned matching mergers in short windows around the announcement date. Lack

of conclusiveness of studies linking merging activity to performance is a distinct knowledge gap.

Limited studies have been carried out on the M & As in the Kenyan market. These studies' findings have not shown that M & A activities positively affect financial performance. Some of them even give contradictory findings. Chesang (2002) carried out a studied on implications of merger restructuring on performance of commercial banks in Kenya. She used ratio analysis on this studyand concluded that there was improved performance in some casesthough; the extent of the contribution was not significant. Korir (2006) researched on the merger effects of companies listed in the NSE and found out that mergers improve performance of companies listed at the NSE. Ochieng (2006) did research on the merger between CBA & FABK and the results showed a decline in earnings and lower ratios arising out of the deal. Marangu (2007) studied effects of mergers on financial performance of non-listed banks in Kenya from 1994-2001 and using the ratio analysis, he concluded that there was significant improvement in performance for the non-listed banks that merged compared to the non-listedbanks that did not merge within the same period. The empirical studies conducted in Kenya including; (Maranga, 2010; Katuu, 2003; Muya, 2006; Kiplagat, 2006; Wesonga, 2006; Nyagah, 2007; Njoroge, 2007; Kithinji, 2007, Ndura 2010, Ndung'u 2011, and Ireri 2011) have all failed to treat mergers and acquisitions as a strategic activity. Despite these M&As activities continue to take place in the Kenyan economy; this presents a conceptual knowledge gap. In light of these inconclusiveness and conceptual gaps poised from these past studies, this study sought to establish if mergers and acquisitions strategic activities lead to improved financial performance of financial services institutions in Kenya.

1.3 Research Objective

The objective of this study was to determine the effect of synergy on the financial performance of merged institutions.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Synergy Theory

Synergy theory utilizes different classes of resources to create value.According to (Chatterjee, 1986; Krishnan et al., 2009); the resourced based view offers a useful approach to understanding synergistic acquisitions; thus the resources held by the firm, as compared total resources present in the economy and the opportunities on which these resources are utilized determine the amount of created value. The term resource here has different definitions; such as "inputs to the production process" or "stocks of available factors that are owned or controlled by the firm". Resources can sometimes be categorized as tangible such as capital and buildings; they can also be intangible such as skills and competencies. This resource based view however has setbacks in that it focuses on the company's internal potential as a source of competiveness but ignores "the need for the external market orientation to achieve competitive success" (Broderick et al., 1998).

Three types of synergies have been identified; these are cost of production related that leads to operational synergy, cost of capital related that leads to financial synergy and price related

that leads to collusive synergy (Chatterjee, 1986; Altunbas and Marques, 2008; Hankir et al., 2011; Hellgren *et al*., 2011). Hankir et al. (2011) also supports this view. Synergy theory explains M&A transactions that are undertaken with the aim of realizing synergies that will boost future cash flows thereby enhancing firm's value. These include operating and financial synergiesas an underlying structure of the synergy theory (Chatterjee's, 1986). (Chatterjee, 1986; Altunbas*et al* 2008; Hankir et al., 2011), intimate that financial and operating synergies are achieved by either increasing the firm size; referred to as scale or by combination of the firm specific advantages also referred to as scope; while Hankir et al. (2011) asserts that the third type; thus collusive synergy is often approached separately in circumstances that deals with more complex explanations of operational and financial synergies

Synergistic mergers theory suggests that the bidder firm can achieve efficiency gains by combining an efficient target with their business thereby improving the target's performance. The bidder firms often recognize specific complementarities between their business and that of the target; therefore even though the target is already performing well, it should perform even better when it is combined with its complementary counterpart, the bidder firm. The theory intimates that targets perform well both before and after mergers (Chatterjee, 1986; Altunbas *et al,* 2008; Hankir et al., 2011). This means that operating synergies can be achieved in horizontal, vertical, and even conglomerate mergers because the theory makes the assumption that economies of scale are existing in the industry and that before the merger, the firms are operating at levels of activity that fall short of achieving the economies of scale (Chatterjee, 1986;Weston et al, 2003;Altunba*et al,* 2008;Hankir et al., 2011). The operational synergies can stem from the combination of operations of separate units; such as, joint sales force and the transfer of knowledge (Hellgren et al. 2011 based on Trautwein, 1990).Hankir et al. (2011) explains in similar terms the possibilities for revenue increases that may result from cross or up-selling and cost reductions due to efficiency gains.

The financial synergy theory on the other hand is based on the proposition that nontrivial transaction costs associated with raising capital externally as well as the differential tax treatment of dividends; may constitute a condition for more efficient allocation of capital through mergers from low to high marginal returns, production activities, and possibly offer a rationale for the pursuit of conglomerate mergers. Thus, firms can use this strategy of mergers and acquisitions as a way of adjusting to changes in the external environment (Weston et al, 2003). When a company has an opportunity for growth available only for a limited period of time slow internal growth may not be sufficient, thus mergers become more favorable (Chatterjee, 1986;Weston et al, 2003;Altunbas *et al,* 2008;Hankir et al., 2011). Hellgren et al. (2011) explain that financial synergies result in lower costs of capital; thus by lowering the systematic risk through investments in unrelated business, and hence increasing the company's size; this may give it access to cheaper capital, or may lead to the creation of an internal capital market that can operate on superior information and hence allocate capital more efficiently (Trautwein, 1990).Hankir et al. (2011) explains further that new opportunities in financial engineering, tax savings, or cash slack may also give rise to financial synergy

Chatterjee (1986) includes a third element of synergy; collusive synergy besides operational and financial synergies. Hankir et al. (2011) also uses this collusive synergy but as a separate market power theory. The other element of the synergy theory explained in Hellgren et al. (2011) is managerial synergies. These are achieved when the bidder firms' managers possess superior planning and monitoring abilities that benefit the targets' performances (Trautwein, 1990). The concept of managerial synergies is similar to Carpenter et al. (2009) explanation of the agency theory. Trautwein's (1990) further explanation of mergers as a disciplinary force against agents supports this assertion. The study follows Eisenhardt (1989) and Shapiro (2005) and attributes superior management performance as an agency related topic.

Generally, there are systematic explanations of the synergy theory in M&As research papers confirming the existence of operational and financial synergies (Chatterjee, 1986; Trautwein, 1990; Hankir et al., 2011; Hellgren et al., 2011). Chatterjee (1986) however explains the possibilities of collusive synergy, which is often treated as a separate approach in some studies. Hellgren et al. (2011) also emphasizes the possibilities of benefiting from managerial synergies that are used in the context of agency related in many studies

2.2 Empirical Review

Misigah (2013) examined the effect of merger and acquisition in achieving synergy for commercial banks in Kenya. The population of the study comprised of 15 commercial banks which have successfully completed merger and acquisition transactions between the years 2000-2010. The design of this research was a survey. Secondary data was also used to obtain the required information. Documentary secondary data included reports to shareholders, administrative and public records. Comparison and analysis of ratios was used to compare the effect of mergers on growth in assets, profitability and shareholders' value during the pre-merger period and post-merger period. The Wilcoxon Signed Ranks Test was used to determine the significant difference in growth before and after the merger activity. Results indicated that the main reason why the bank undertook merger was growth in shareholders' value and growth in profitability. The measure of growth that was significant as a result mergers and acquisitions was profitability and achievement of synergy.

Eliasson (2011) analyzed synergies in relating to mergers and acquisitions in technical trading companies. This study used a qualitative approach and the empirical findings were compiled by semi-conducted interviews with company representatives from the organizations. The findings pointed at three success factors namely; the entrepreneurship and human capital, the corporate head's knowledge, the experience and selection capability and the inclusion of acquisitions (developed from the urge for growth) in their business models.

Amegah (2012) examined the impact of mergers and acquisitions on the acquiring company‘s corporate financial performance, within the Ghanaian economy, using Vodafone Ghana as case study. The issue was investigated using performance measure based on the company‘s annual reports and a nonparametric test was carried out on the views of customers and staff in order to know the areas of improvements after the acquisition. The results of the study showed that the accounting performance has increased in some aspect and declined in others after the merger. Sales growth increased during the post-mergers periods since it has the same trend with the pre-mergers period but much higher values in the post-mergers

periods. Operating expense and financial leverage have been decreasing while liquidity has been on the rise.

Aswath (2009) examined the various sources of synergy and categorized them into operating and financial synergies. The study examined how best to value synergy in any investment and how sensitive this value is to different assumptions. The researcher also looked at how this synergy value could be divided between the parties (or companies) involved in the investment. They concluded with an empirical examination of how much synergy is actually created in corporate mergers, and how much is paid. Synergy, the researcher concludes, is so seldom delivered in acquisitions because it is incorrectly valued, inadequately planned for and much more difficult to create in practice than it is to compute on paper.

3.0 RESEARCH METHODOLOGY

The study adopted a mixed methodology research design where qualitative and quantitative research approaches were used to answer the research questions. The study population included all the 51 merged financial service institutions in Kenya which had completed their merger process by 31 December 2013. Purposive sampling was used. Primary data was obtained from questionnaires and a secondary data collection template was used to collect data on Return on Assets, Return on Equity and mergers and acquisitions aspects. The researcher used quantitative techniques in analyzing the data. Descriptive analysis for the study included the use of means, frequencies and percentages to describe the primary and secondary data collected. Inferential statistics such as correlation analysis was also used to test for the relationship of the variables from the secondary data. Panel data analysis was also applied to describe change in the study variables over time and trends over a period of five years from 2009 to 2013. A pre and post merger analysis was used to test whether the merger and acquisitions had brought any significant difference in the merged firms.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

One hundred and twenty (120) questionnaires were administered to the respondents.

Table 1: Response Rate

Response	Frequency	Percent
Returned	83	69.2%
Unreturned	37	30.8%
Total	**120**	**100%**

Out of which 83 were properly filled and returned, representing a response rate of 69.2% as shown on table 1 According to Mugenda and Mugenda (2013) and also Kothari (2010) a response rate of 50% is adequate for a study. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

4.2 Demographic Characteristics of Respondents who participated in the Primary Study.

Table 2 presents the results on demographic characteristics of the respondents.

Table 2: Demographics Demography

	Category	Frequency	Percent
Gender	Female	36	43.4
	Male	47	56.6
	Total	**83**	**100**
Age	20-30	17	20.5
	31-40	22	26.5
	41-50	23	27.7
	Above 51	21	25.3
	Total	**83**	**100**
department	Accounts/Finance	25	30.1
	HR	6	7.2
	Customerservice/Business Development/Relationship Management	11	13.3
	Operations/strategy/planning	17	20.5
	Credit/risk/debt recovery	18	21.7
	Asset Finance	6	7.2
	Total	**83**	**100**
Position	Top Manager	15	18.1
	Senior Manager	25	30.1
	Middle Manager	43	51.8
	Total	**83**	**100**
Academic Qualification	College	14	16.8
	Undergraduate	37	44.6
	Masters	32	38.6
	Total	**83**	**100**
Number of Employees			
	11-50 employees	29	34.9
	over 50 employees	54	65.1
	Total	**83**	**100**

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Majority of the respondents were male who represented 56.6 % of the sample while 43.4% were female. On the question of age, 20.5% the respondents were in the age bracket of between 20-30years, 25.5 % were between 31-40 years, 27.7% were between 41-50 years while 25.3% were above 51 years. On the question on department, 30.1% of the respondents worked in the finance/account departments, 7.2% were from the HR department, 13.3% of were from the Customer service/Business Development/Relationship Management departments, 20.5% were from the operations, strategy and planning departments, 21.7% of the respondents were from the Credit, risk and debt recovery departments and 7.2% were from asset finance department.

The respondents were also requested to indicate their current position they held in the different departments 51.8% which was the majority indicated that they were in middle management position, 30.1% were in senior management position while 18.1% of the respondents indicated that they held top management positions.

On the question of academic qualification 44.6% had undergraduate qualification, 38.6% had masters qualification, while only16.89% had a college qualification. Lastly the respondents were requested to indicate the number of employees in their institutions, 65.1s% who were the majority indicated that their institution had over 50 employees

The respondents stated that the mergers took place through the replacement of inefficient managers of the acquired firms and amalgamations. The respondents cited gaining market share, competitive advantage, increasing revenues, risk and product diversification and improving shareholder value were stated as the most important motivating factors behind the merger and acquisition. The most obvious motive to engage in M&A was to obtain synergy effects. These were attained through cost savings gained from economies of scale and scope.

On the question of the critical strategies that the management put in place to enhance success of the merger and acquisition, respondents stated size of merging partners, number of bidders and methods of financing. Stocks were preferred as a financing method.

4.3 Description of Merged Financial Institutions

4.3.1 Financial Synergy

Results in table 3 below indicate the descriptive statistics of financial synergy from the secondary data collected. Liquidity ratio was used as a proxy for financial synergy.

Table 3: Descriptive Financial Synergy

Variable	Year	Observations	Mean	Std. Dev.	Min	Max
Financial Synergy	2009	40	0.36131	0.11331	0.15889	0.71444
	2010	41	0.35836	0.10791	0.16667	0.69333
	2011	41	0.33957	0.10628	0.16	0.63
	2012	42	0.37716	0.12362	0.15	0.82
	2013	42	0.37258	0.11081	0.19	0.6423
Average			**0.3618**	**0.11239**		

As indicated in the table 3 the mean financial synergy for the period 2009to 2013 ranged between 0.33 and 0.37, with the standard deviation ranging between 0.10 and 0.12indicating insignificant variability in financial synergy over time.

Figure 1 shows the financial synergy trend for the merged institutions from the year 2009 to 2013.

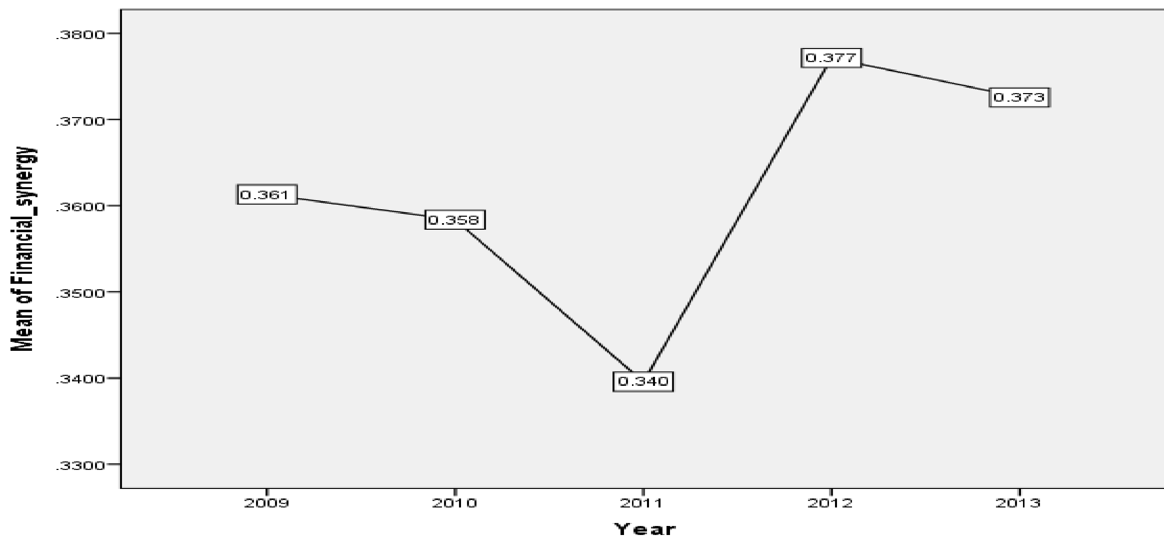

Figure 1: Financial Synergy Trend

The trend indicates that financial synergy had been decreasing through the years 2009-2011 but experienced a sharp increase from 2011-2012 then dropped slightly.

4.4 Effect of Synergy on Financial Performance (secondary data)

4.4.1 Correlation Analysis on the effect of Diversification on Financial Performance (Secondary Data)

Table 4 presents the results of the correlation analysis between financial synergy, operation synergy, ROA and ROE.

Table 4: Correlation Analysis for Synergy and Financial performance

		ROA	ROE	Financial synergy	Operating synergy
ROA	Pearson Correlation	1	.410**	.150*	.352**
	Sig. (2-tailed)		0.000	0.031	0.000
ROE	Pearson Correlation	.410**	1	0.019	.209**
	Sig. (2-tailed)	0.000		0.791	0.008
Financial synergy	Pearson Correlation	.150*	0.019	1	-0.045
	Sig. (2-tailed)	0.031	0.791		0.573
Operating synergy	Pearson Correlation	.352**	.209**	-0.045	1
	Sig. (2-tailed)	0	0.008	0.573	

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The results show that there is a positive and significant relationship between ROA, operation synergy and financial synergy (r=.352, p=0.000), (r=.150, p=0.000). This was determined by comparing the calculated p value (0.00) to the critical p value (0.05). A p value less than the critical value is an indication of a significant relationship.

4.4.2 Regression Analysis on the effect of Operating Synergy on Financial Performance

Regression analysis was conducted to empirically determine whether operating synergy was a significant determinant of performance which is measured in ROA and ROE

Table 5: Regression Analysis Operating Synergy

	ROA	ROE
Parameter estimate	**Coefficient(P value)**	**Coefficient(P value)**
Constant	.226(0.12)	.147(0.000)
Operation Synergy	2.299(0.000)	0.95(0.08)
R Squared	0.124	0.44
F statistic (ANOVA)	28.616(0.000)	0.48 (0.08)

Regression results in indicated the goodness of fit for the regression between operating synergy and ROA is 0.124. An R squared of 0.124 indicates that 12.4% of the variations in ROA are explained by operating synergy. The overall model significance is also presented in Table 5 The overall model of operation synergy and ROA was significant with an F statistic of 28.616

The equation is therefore:

ROA= 0.226 +2.299 Operating Synergy

ROE= 0.147+0.95 Operating Synergy

This implies that an increase in Operating synergy leads to a 2.299 increase in ROA while an increase in Operating synergy leads to a 0.95 increase in ROE.

4.4.3 Hypothesis Testing

To determine whether synergy had an impact on the performance of merged financial institutions, the hypothesis that there is no significant relationship between synergy and financial performance of merged institutions was tested.

Decision rule: reject hypothesis if calculated p value is less than the critical p value of 0.05

Table 6: Regression Analysis Financial Synergy

	ROA	ROE
Parameter estimate	**Coefficient(P value)**	**Coefficient(P value)**
Constant	-.371(0.170)	0.139(0.00)
Financial Synergy	1.545(0.31)	0.13(0.791)
R Squared	0.23	0.000

F statistic (ANOVA)	6.171(0.31)	0.00(0.791)

Regression results in Table 6 indicate that the null hypothesis is rejected since the calculated p value (0.000) is less than the critical p value (0.05). Therefore, there is a significant relationship between synergy and financial performance of merged institutions.

4.4.4 Synergy Pre and Post Merger Analysis

To test whether there is a statistical difference in financial synergy mean before and after merger, an event window analysis was carried out.

Table 7: Financial Synergy Pre and Post Merger Analysis

	Merger period	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**	**t**	**Sig. (2-tailed)**
Financial Synergy	1	23	41.913	10.50936	2.19135	5.197	0
	0	45	29.3556	8.26591	1.23221		

Results in Table 7 indicate that, there is a significant statistical difference in financial synergy mean before and after merging. This implies that merging improved the liquidity of the merged institutions.
To test whether there is a statistical difference in operating synergy mean before and after merger, an event window analysis was carried out.

Table 8: Operating Synergy Pre and Post Merger Analysis

	Merger period	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**	**t**	**Sig. (2-tailed)**
Operating synergy	1	23	0.79087	0.10063	0.020983	15.242	0.000
	0	45	0.428222	0.084619	0.012614		

Results in Table 8 indicate that, there is a significant statistical difference in operating synergy mean before and after merging. This implies that merging improved the sales of the merged institutions.

4.4.5 Effect of Synergy on Financial Performance (Primary Data)

The study used primary data to explain the effect of synergy (operation and financial) on financial performance of merged institutions. The responses were rated on a likert scale and the results presented in Table 9.

Table 9: Effect of Synergy on Financial Performance

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Std. Dvn	Mean
The merger activity has led to shared markets	6.0%	7.2%	20.5%	47.0%	19.3%	1.1	3.7
The merger activity has led to shared human resource talents	7.2%	6.0%	22.9%	38.6%	25.3%	1.1	3.7
The merger activity has led to shared marketing efforts	4.8%	9.6%	20.5%	42.2%	22.9%	1.1	3.7
The merger activity has led to shared managerial capacity and efforts	7.2%	10.8%	15.7%	36.1%	30.1%	1.2	3.7
The merger activity has led to shared source of long term finance	10.8%	4.8%	13.3%	39.8%	31.3%	1.3	3.8
The merger activity has led to shared source of overdraft finance	6.0%	10.8%	21.7%	30.1%	31.3%	1.2	3.7
The merger activity has led to shared working capital	8.4%	7.2%	12.0%	44.6%	27.7%	1.2	3.8
The merger activity has led to improved liquidity arising from the cash and cash equivalents of the merged firms	7.2%	7.2%	13.3%	43.4%	28.9%	1.2	3.8
Average						**1.2**	**3.7**

Majority (66.3%) of the respondents agreed that the merger and acquisition had led to shared markets, 13.2% disagreed while 20.5% were neutral. Another 63.3% of the respondents agreed that the merger and acquisition had led to shared human resource talents, 22.9% reserved their opinion while 13.25% disagreed. On the question on whether the merger and acquisition had led to shared marketing efforts, 65.1% of the respondents agreed, 14.4% disagreed while 20.5 reserved their comments. Majority (66.2%) of the respondents agreed that the merger and acquisition had led to shared managerial capacity and efforts, 15.7% reserved their opinion while 18% disagreed. Further, 71.1% of the respondents agreed that the merger and acquisition had led to shared source of long term finance, 13.3% reserved their comments while 15.6% disagreed. 61.4% of the respondents agreed that the merger and acquisition had led to shared source of overdraft finance, 21.7% reserved their comment while 16.8% disagreed. On a five point scale, the average mean of the responses was 3.7 which means that majority of the respondents were agreeing to the statements in the questionnaire; however the answers were varied as shown by a standard deviation of 1.2.

4.4.6 Comparative Analysis of Effect of Financial Synergy on Financial Performance

Financial synergy was found to be a significant predictor of ROE in the banking sector but not in the insurance sector.

Table 10: Effect of Financial Synergy on ROE

	Banks	**Insurance**
Parameter estimate	Coefficient(P value)	Coefficient(P value)
Constant	0.80(0.002)	0.195(0.000)
Financial Synergy	0.141(0.016)	0.153(0.230)
R Squared	0.048	0.017
F statistic (ANOVA)	5.927(0.016)	1.459(0.230)

Financial synergy was found to explain 4.8% of the variations in ROE in the banking sector and only 1.7% of the variations in the insurance sector. Findings are presented in table 10

The regression equation for the banking sector is therefore:

ROE= 0.8+0.141 financial synergy

Table 11: Effect of Financial Synergy on ROA

	Banks	**Insurance**
Parameter estimate	Coefficient(P value)	Coefficient(P value)
Constant	0.484(0.393)	0.60(0.054)
Financial Synergy	1.876(0.158)	0.060(0.562)
R Squared	0.017	0.004

F statistic (ANOVA)	2.016(0.158)	0.339(0.562)

Financial synergy was not a significant determinant of ROA in both the banking and insurance sector. Findings are shown in table 11

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

A test was conducted on the effect of synergy on financial performance. There is significant relationship between operating synergy, financial synergy and financial performance of merged institutions. The implication is that a high degree of synergy seems to improve performance in terms of profitability. Merger activity led to shared human resource talents, merger activity led to shared managerial capacity and efforts, merger activity led to shared marketing efforts, merger activity led to shared source of long term finance, merger activity led to shared source of overdraft finance, merger activity led to improved liquidity arising from the cash and cash equivalents of the merged firms and merger activity led to shared working capital.

5.2 Recommendations

From the study findings, synergy was found have a positive significant effect on performance. It is therefore recommended that institutions should critically evaluate the overall business and operational compatibility of the merging institutions and focus on capturing long-term financial synergies. They should increase their scope to create high performing supply chains with significant long-term upside that provide sustained value for customers and stakeholders

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