MODERATING ROLE OF INSTITUTIONAL CHARACTERISTICS ON THE RELATIONSHIP BETWEEN MERGERS & ACQUISITION STRATEGIES AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

This paper examines the moderating effect of bank size on the relationship between mergers and acquisitions strategies and the financial performance of commercial banks in Kenya. The study population was 30 commercial banks in Kenya that had completed mergers and acquisitions by 2017. The study used secondary data collected. The moderating effect on the relationship between independent and dependent was tested using the stepwise method as suggested by Baron and Kenny 1986. The study findings were that; bank size had a significant positive relationship with the financial performance of commercial banks. The study's conclusion was that; bank size has a moderating effect on the relationship between mergers and acquisitions strategies and the financial performance of commercial banks in Kenya. The study recommends that; regulators create conductive policies to encourage and promote mergers and acquisitions strategies among commercial banks in Kenya. Corporate managers should also consider mergers and acquisitions strategies to enable their organization to enjoy the benefits associated with large-sized firms.

Keywords: Bank Size, Mergers and Acquisitions Strategies, Financial performance, Commercial Banks in Kenya

1.1   Introduction

Institutional characteristics refer to unique attributes of different organizations such as age, size, and firm ownership. Institutional characteristics are heterogeneous, influenced by the internal processes and policies of an organization (Ferreira et al., 2008). Institutional characteristics also refer to those aspects within the control and influence of the organizational management (Zou & Stan,1998). Institutional characteristics are also described as microeconomic factors whose influence on organizational performance is under management control (Mdoe, 2017).

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Institutional characteristics are categorized into three groups, i.e., institutional characteristics, including firm size, ownership composition. Institutional performance characteristics include; profitability and liquidity. The final group relates to institutional market characteristics, including industry specifics and corporate social responsibility (Rahman &Widyasari, 2008). These attributes can affect the going concern of a firm and its general financial well-being (Kaguri, 2013). Attributes such as operational efficiency, diversification, cost of capital, and Parameters such as board size, ownership structure, and board composition are critical to an organization as they influence corporate governance, which influences financial performance.

In this study, bank size will be considered an indicator of institutional characteristics. The term "bank size" refers to a bank's particular features and capabilities that it possesses and controls for its active activities and which it can easily make available to its customers (Golan et al., 2003). Banks differ significantly and from one banking business model to the next. This includes, among other things, the range of services and products offered, the number of assets and liabilities held, funding sources and capital endowment, balance sheet and off-balance sheet item sizes, and risk appetite. Finally, these factors significantly impact the bank's revenue structure, market activity, organizational complexity, and profitability (Anolli et al., 2015). A small bank, for example, can benefit from a more responsive management strategy, but large banks may encounter issues due to diseconomies of scale and management complications.

Bank size was used as a moderating variable in this study. A moderator is a third variable that influences the zero-order correlation and is frequently analyzed when the connection between the independent and dependent is unexpectedly strong/weak or otherwise inconsistent (Hayes, 2015). To put it another way, the interaction between the predictor and the moderator has the potential to change the existing relationship between predictor and predicted by enhancing, which means increasing the moderator increases the effect of the predictor on the predicted; buffering, which means increasing the moderator decreases the effect of the predictor on the predicted; and antagonizing, which means increasing the moderator reverses the effect of the predictor on the predicted (Baron & Kenny, 1986). The concept of bank size has become increasingly important since it allows banks to diversify risks while receiving additional benefits associated with

economies of scale and scope (Olweny & Shipho, 2011). To put it another way, a forward-thinking bank seeks to expand its capacity through consolidation—mergers and acquisitions—to acquire a competitive advantage over the competition by focusing on average cost reduction per unit to improve profitability indicators.

Because banking involves intermediation, determining bank size is difficult. Three different size views are shown in the literature: market-based indicators, accounting-based indicators, and regulation-based indicators (Simiyu, 2016). Market-based activities capture the scope and scale of a bank's involvement in market activities, accounting-based indicators disclose the soundness of a bank's capital structure, and regulator-based indicators reveal the level of a bank's reliance on collected deposits and other funds (Foos et al., 2010). Total assets, a single balance sheet item that do not account for the sort of assets possessed by a bank and do not explain the funding source of an asset or how such funds accrue, is a widely used firm size measure (Anolli et al., 2015). Furthermore, it does not reflect the activities in which a bank is involved; for example, some banks issue loans using deposits and keep loan balances, while others provide wholesale funding, securities market marking, and derivatives hedging. A composite index is a more reliable and better indication of bank size to address the shortcomings associated with utilizing a single scale indicator.

Other researchers have used the institutional characteristics as a control variable, but the most widely used includes firm size, profitability, financial advantage, and cash flows. The popularity of the variables is due to the availability of their information and ease of measurement (Archambeault, 2002). The natural logarithm of total assets has been used to measure the firm size by the previous authors (Fodio, Ibikunle, & Oba, 2013; Rahman &Widyasari, 2008). Other measures used to measure firm size include employees and revenue generated (Filipovic, 2012; Ahuja & Katila, 2001). According to Kaen and Baumann 2003, the number of employees is ideal in measuring the firm size than turnover and assets. This is because smaller companies can also post high turnover and even have more assets but fewer employees. This study used the logarithm of a total asset to measure the firm size due to the vast application and the fact that its data will be readily available from secondary sources.

Bank size was expected to moderate the association between mergers and acquisition strategies and financial performance. On the other hand, more significant, better-capitalized banks might raise funds more efficiently and lend more effectively. Finally, when a larger bank's financial performance is compared to that of a smaller bank, the former tends to outperform the latter due to a higher market share resulting from better decision-making, as well as an abundance of capital, expertise, and technological innovation (Boateng et al., 2013). Furthermore, larger banks outperform smaller banks due to their superior bargaining strength and financial position and increased operational efficiency and fixed cost management. With increased resources, a bank could diversify into diverse banking activities, generating multiple revenue streams and improving financial performance.

1.2   Research Problem

Commercial banks operate in a highly dynamic legal and operating environment, which has necessitated them to develop strategies to deal with the industrial dynamism (Kumar & Bansal, 2008). Some commercial banks in Kenya have been placed under statutory management due to their inability to meet the minimum regulatory requirements. Other banks have been experiencing declining profits and deteriorating balance sheets (Kathali, 2014). Several commercial banks have adopted mergers and acquisitions strategies as a catalyst for revenue growth, elimination of inefficiencies, diversification, increased market share, increased customer base, and improved capitalization (Nguli & Kyule, 2020). Institutional characteristics such as bank's size can influence the strength of the variables during the pre-mergers /and acquisitions phase, while risk management can influence the relationship among the variables in the post mergers/acquisitions phase (Chui,2011; Ciobanu et al.,.2014; Filipovic, 2012; Heller,2013).

Kenya has witnessed a sudden wave of commercial banks considering mergers and acquisitions with mega-deals such as those of CBA and NIC, KCB, and NBK, among others which have stirred up increased interest from regulators, academicians, and professionals. At least 59 commercial bank mergers/acquisitions have been registered in Kenya since 1989. Analysts and the regulator predict more mergers/acquisitions will come shortly (Asokoinsight, 2020; Pazarskis et al, 2021). Most mergers /acquisitions in Kenya are driven by market forces, with some cases are induced through regulatory forces, i.e., chase bank, Dubai bank, and imperial bank.

The studies reviewed on the Mergers and acquisitions strategies and financial performance have revealed inconsistencies in the results. Some studies found that mergers/acquisitions result in the improved financial performance of commercial banks (Ibeji, 2015; Kathali, 2018; Korir, 2006; Ogada et al., 2016; Ombaka&Jagongo; 2018; Mwanza, 2016). In other studies, the researchers found that mergers and acquisitions strategies do not influence financial performance (Chesang, 2002; David, 2011; Ochieng, 2006; Marembo, 2012; Muya, 2006; Ndura, 2010). Harney (2011) explained that most recent mergers and acquisitions do not have direct evidence of financial performance improvement. The contradiction could have arisen due to variations in sample size, study context, methodological approaches, and population characteristics.

Reviewed studies conducted in the Kenyan context have concentrated on the direct association linking mergers and acquisition and financial performance (Juma, Musimenta, & GU, 2017; Kathali, 2018; Ombaka &Jagongo, 2018; Wango'mbe, 2015). No local or international study that was reviewed that have incorporated the moderating variables on the relationship between mergers and acquisitions strategies and financial performance of commercial banks. Most of the internationally, studies reviewed have incorporated two or three variables (Anyanwu & Agwor, 2015; Nga &Kamolrat, 2007). This study will attempt to address the gap of moderation relationship in the Kenyan context.

1.3   Research Objective

To determine the moderating effect of institutional characteristics (bank size) on the relationship between mergers and acquisitions strategies and financial performance of commercial banks in Kenya

2.1   Theoretical Review

2.1.1   Resource- based theory

Penrose (1959), who projected that a firm exceptionality is derived from the heterogeneity rather than the homogeneity of the productive resources available, pioneered the theory. The concept of an organization's resources heterogeneity is the central theme of the resource-based view. According to Penrose (1959), both the internal and external growth of an organization through merging and acquisition and diversification can be determined by how well the organization's

resources are deployed. As such, firms have to understand their strengths and weaknesses so that they can develop how to beat their rivals using the available resources (Wernerfelt, 1984).

RBV states that the major forces that influence and impact the competitive advantage and how excellent an organization performs are derived from the features of the capabilities and the resources of the company that are hard to imitate and are valued (Barney, 1991). Through RBV, firms can design and carry out their firm strategy by looking at where their capabilities and internal resources stand (Sheehan & Foss, 2007). The model is essential for this study since it acknowledges that a firm can increase its market share through distribution channel sharing, increase its financial capacity through customer service orientation, and achieve operational efficiency through production and raw material sharing.

2.2.2   Concentration Theory

Eckbo (1985), who argued that consolidation creates large firms that create economies of scale, operational efficiency that translates into improved financial performance, developed this theory. According to Allen and Gale (2003), an industry with many small banks is prone to financial crises. The theory is helpful in this study as it acknowledges that firms consolidate to increase their size, which is associated with economies of scale and profitability. The theory also points out that regulators encourage concentration for supervision purposes as small-large firms are well-positioned for supervision by a small, widespread organization (Demirgu C-Kunt & Levine, 2004).

2.3   Empirical Review

The influence of institutional characteristics proxy by bank size on lending rates among commercial banks in Kenya was evaluated by (Mokaya & Jagongo, 2014). The study population comprised 39 commercial banks whose data from 2016-2015 was collected and analyzed. A significant positive effect of bank size on lending rates was found among commercial banks in Kenya. The study result was also contradictory to (Singh & Mogla, 2010), whose findings were that the firm's size hurt financial performance following consolidation. The differences in the result could result from a contextual gap. The latter examined the impact on lending rates and financial performance following mergers and acquisitions.

Mwangi (2014) examined the influence of institutional characteristics proxy by firm size and age of the firm. The study population was 114 mutual funds licensed by capital market authority, and secondary and primary quantitative data from 2009-2013 was collected. The study findings were the age of the firm and size do not matter when it comes to the mutual fund financial performance. In this study, firm characteristics were used as a moderating variable. The results contradict those of Kithinji (2017), who found that the size of a bank positively influences financial performance when used as a moderating variable in the relationship between bank restructuring and financial performance.

Kioko (2010) examined the impact of firm size on the financial performance of commercial banks in Kenya. The population of the study was 43 commercial banks in Kenya. The data used in the study was collected from 1998 to 2012. The firm size was measured using net assets, number of employees, total loans, and total deposits. The study found was that there was no significant relationship between the number of employees and financial performance. The study also found a significant positive relationship between net assets, total deposits, and total loans with financial performance measured using ROA. The findings of this study are inconsistent with those of Hossai and Saif (2019), who found out that number of employees, had a significant influence on the financial performance of banks in Bangladesh.

2.4   Conceptual Framework

Figure 1 below presents a conceptual framework model of relationships between mergers and acquisitions strategies and financial performance of commercial banks in Kenya. The model shows that mergers and acquisitions strategies can directly influence the financial performance of commercial banks.

Figure 1: Conceptual Model
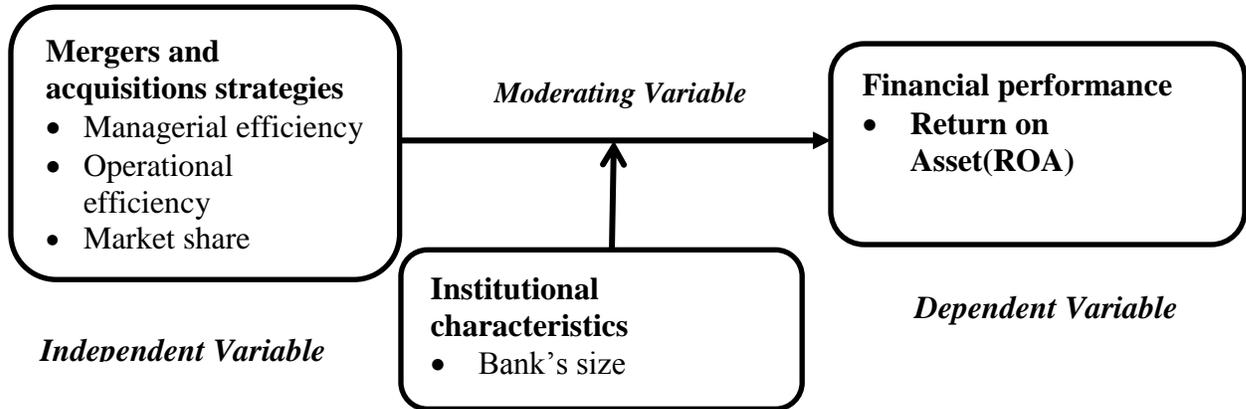
The research hypothesis tested in this study was:

There is no significant moderating effect of institutional characteristics on the relationship between mergers and acquisitions strategies and financial performance of commercial banks in Kenya

3.1   Research Methodology

Positivism research philosophy guided this study as it supports a quantitative approach to analyze a phenomenon, causality investigation and testing of measurable concepts (Orlikowski &Baroudi, 1991; Saunders et al., 2007). A correlational descriptive research design was adopted in this study as it supports a study examining relationships among the study variables. The study's participants were 30 Kenyan commercial banks that have undergone mergers or acquisitions between 1995 and 2017. Because the population is relatively tiny, a census was conducted instead of sampling. Secondary data was used in this study with the data collected from documents and records such as financial statements and the regulator's annual report. A diagnostic test was carried out to ensure no bias in the data arising from linear regression model assumptions. Specifically, the data will be tested for deductions such as linear relationship, normality, multicollinearity, auto-correlation and homoscedasticity. Mergers and acquisition strategies indicators were managerial efficiency, operational efficiency and market share. Managerial efficiency was measured using a total income

and total assets; operational efficiency was measured using a proportion of operating expenses and total revenue.

Bank size was measured using a ratio total bank asset to aggregate industrial asset. Studies which used the similar measure includes those of (Ogada, Njuguna, & Achoki, 2016; Ombaka & Jagongo, 2018). The change in the financial performance between the pre-merger/acquisition and post-merger/acquisition period was determined using three techniques. First, ratios were computed by considering the average of 3 years before mergers and acquisition and three years after mergers and acquisition of banks. The second T-test was used to test for significant differences between the pre mergers and acquisition and post mergers and acquisition ratios individually (Abbas, 2014; Ong, Teo, & Tec, 2011).ROA was used as the indicator of the financial performance with its ratio as the measure. The year of merger/acquisition was excluded from the study. The mathematical relationship between the study variables in the two periods was determined using multiple regressions. F-Test was used to measure the predictive ability of the model. The coefficient of determination (R_2) was used to establish the model's goodness of fit. The relationship between mergers and acquisitions strategies and financial performance was established by using a multiple regression model. The below numerous regression models will be used to test hypothesis one of the study.

The moderating effect of institutional characteristics on the relationship between mergers and acquisition and financial performance was established using multiple regression models. The methodology suggested by Baron and Kenny (1986) was adopted as follows:

Unmoderated and Moderated regressions were estimated. Given ROA as the dependent variable, M&A as the independent, IC as the moderating variable and (M&A*IC) is the interaction between the independent and moderating variable and the study will estimate:

Unmoderated:

$ROA = \beta_0 + \beta_1 M\&A + \varepsilon$ …………………………………………………………… (i)

Moderated:

ROA=β_0+β_1M&A+β_2IC+β_3 (M&A∗IC) +ε……………………………………… (ii)

Where;

ROA-Return on Asset

M&A-Mergers and acquisitions

IC-Institutional characteristics

β0   : Regression constant or intercept,

βi   : Regression coefficients of variable

4.1 Data Analysis, Findings and Discussions

4.1.1 Diagnostics Tests

4.1.1.1 Independence Test

The data must have little or no autocorrelation to perform linear regression analysis.

Table 1: Independence Test before mergers and acquisitions strategies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.635ᵃ	.403	.390	.172	.403	30.063	4	178	.000	1.808

a. Predictors: (Constant), Firm's size pre-merger, Operational efficiency pre-merger, Market share pre-merger, Managerial efficiency pre-merger

b. Dependent Variable: ROA pre-merger

Table 2: Independence Test after mergers and acquisitions strategies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.513ᵃ	.263	.227	.105	.263	7.309	4	82	.000	1.537

a. Predictors: (Constant), Firm's size, Managerial efficiency Post Merger, Operational efficiency Post Merger, Market share Post Merger

The Durbin-Watson statistic is = 1.808 and 1.537 for pre (Table 1) and post-merger (Table 2) respectively, which is in the middle of the two essential values of 1.5 d 2.5, indicating that the data has no first-order linear auto-correlation.

4.1.1.2 Linearity test

Table 3: Linearity test before mergers and acquisitions strategies

		Sum of Squares	df	Mean Square	F	Sig.
Operational efficiency pre-merger	Between Groups	17.340	181	.096	29.841	.145
Managerial efficiency pre-merger	Between Groups	1.240	181	.007	.162	.986
Market share pre-merger	Between Groups	1.074	181	.006	5.190	.339
Firm's size pre-merger	Between Groups	62.834	181	.347	76.496	.091

Table 4: Linearity test after mergers and acquisitions strategies

		Sum of Squares	df	Mean Square	F	Sig.
Operational efficiency pre-merger	Between Groups	17.340	83	.096	29.841	.132
Managerial efficiency pre-merger	Between Groups	1.240	83	.007	.162	.886
Market share pre-merger	Between Groups	1.074	83	.006	5.190	.439
Firm's size pre-merger	Between Groups	62.834	83	.347	76.496	.191

Based on the significance from linearity the P values of all variables (Table 3 and 4) are greater than 0.05 which means variables has a linear connection.

4.1.1.3 Multicollinearity test

Linear regression requires that there should be little or no multicollinearity. Variance Inflation Factor (VIF) was used where a VIF>5 indicates that multicollinearity may be present while a VIF >10 is a certainty that multicollinearity is present.

Table 5 Multicollinearity test result before Mergers and Acquisitions strategies

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	.585	.286		2.043	.043		
Operational efficiency pre-merger	-.105	.043	-.146	-2.445	.015	.936	1.069
Managerial efficiency pre-merger	-1.514	.158	-.575	-9.565	.000	.929	1.076
Market share pre-merger	.038	.169	.013	.227	.821	.976	1.025
Firm's size pre-merger	.025	.022	.067	1.135	.258	.964	1.037

a. Dependent Variable: ROA pre-merger

Table 6 Multicollinearity test result after Mergers and Acquisitions strategies

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	1.537	.267		5.761	.000		
Operational efficiency Post Merger	.051	.023	.212	2.192	.031	.965	1.036
Managerial efficiency Post Merger	.314	.069	.436	4.554	.000	.979	1.021
Market share Post Merger	-.087	.154	-.055	-.566	.573	.949	1.054
Firm's size	.005	.017	.028	.284	.777	.910	1.099

a. Dependent Variable: ROA Post Merger

The VIF in all the variables (Table 5 and 6) is less than five, which is an indication that there is no Multicollinearity among the variables.

4.1.1.4 Normality Test

Linear regression analysis assumes that all variables should be multivariate normal

Table 7 Normality test result before mergers and acquisitions strategies

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
ROA pre-merger	.051	183	.200*	.976	183	.003
Operational efficiency pre-merger	.054	183	.200*	.982	183	.017
Managerial efficiency pre-merger	.042	183	.200*	.983	183	.024
Market share pre-merger	.036	183	.200*	.996	183	.912
Firm's size pre-merger	.048	183	.200*	.985	183	.044

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Table 8 Normality test result before mergers and acquisitions strategies

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA Post Merger	.065	87	.200*	.985	87	.395
Operational efficiency Post Merger	.080	87	.200*	.982	87	.267
Managerial efficiency Post Merger	.062	87	.200*	.978	87	.139
Market share Post Merger	.064	87	.200*	.990	87	.746
Firm's size	.061	87	.200*	.972	87	.056

*. This is a lower bound of the true significance.

The result above (Table 7 and 8) indicates that the data is normally distributed as the P-value for all the variables is greater than 0.05.

4.1.2　Correlation Analysis

Table 9 indicates operational efficiency(r=-0.283, p<0.01) is significantly negatively related to financial performance. The negative relationship is an indication that an increase in operational efficiency results in a decrease in financial performance as measured using ROA. This implies that, for a firm to achieve optimal operational efficiency, it has to employ operational cost-cutting measures, revenue enhancement strategies, and improvement of capital base, asset quality, and liquid assets (Musah et al., 2019). This outcome is similar to those of (Musah et al.,

2019; Meseret & Getahun, 2017; Hongxing et al., 2018). However, the findings were inconsistent with those of Ranjan and Bishnu (2017), who found a significant positive relationship on ROA, and Rania and Warrad (2015), who found no association between operational efficiency and ROA.

Table 9: Correlational matrix before Mergers and Acquisitions strategies

		ROA pre-merger	Operational efficiency pre-merger	Managerial efficiency pre-merger	Market share pre-merger	Firm's size pre-merger
ROA pre-merger	r	1				
Operational efficiency pre-merger	r	-.283**	1			
Managerial efficiency pre-merger	r	-.616**	.244**	1		
Market share pre-merger	r	.017	.002	-.024	1	
Firm's size pre-merger	r	.109	.047	-.089	-.150*	1

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

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

Managerial efficiency (r=0.616, p>0.05) is positively related to financial performance. This implies improvement in managerial efficiency results in the improvement in financial performance. Managerial efficiency results from inefficient utilization of resources and hence better financial performance. This outcome is similar to (Wangari 2017; Sakwa et al., 2019; Barus et al., 2017; Kaneza, 2016). Market share (r=0.0179, p<0.01) indicates an insignificant positive relationship with ROA. This infers that as the market share increases, the ROA increases, but with a smaller margin. This observation is because firms with high market share yield reduced performance as measured using ROA. The explanation given to this deviation from theoretical expectation is that companies with high market share tend to return low margins (Fraering & Minor, 1994). These results are similar to those of (Fraering & Minor, 1994; Hagigi et al., 1990; Mutshinyani, 2009). However, the results are inconsistent with other studies where the findings were that market share had a strong positive relationship with the ROA. The reasoning behind the observation is that a larger market share attracts economies of scale which

comes with benefits such as low cost of production and higher returns (Etale et al., 2016; Leverty, 2001; Venkatraman & Prescott, 1990).

The firm's size (r=0.1098; P>0.05) indicates a significant positive correlation with financial performance measured using ROA. This implies that as the firm's size increases, the return in assets increases and vice-versa. Studies that had similar findings include (Mutunga & Owino, 2017). Studies inconsistent with the results consist of Eyigege, 2018; Olawale et al., 2017 and Mohamed, 2015, who found a significant negative relationship. As the firm size increases, it may result in diseconomies of scale and hence declining financial performance; other studies indicated that fit size does not influence the financial performance as measured using ROA (Sudrajat, 2020).

Table 10: Correlational matrix after Mergers and Acquisitions Strategies

		ROA Post Merger	Operational efficiency Post Merger	Managerial efficiency Post Merger	Market share Post Merger	Firm's size
ROA Post Merger	r	1				
Operational efficiency Post Merger	r	.253*	1			
Managerial efficiency Post Merger	r	.459**	.077	1		
Market share Post Merger	r	-.094	-.057	-.046	1	
Firm's size	r	.136	.178	.132	-.224*	1

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

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

Table 10 indicates operational efficiency(r=0.254, p>0.051) is significantly positively related to the financial performance as measured using ROA. The positive relationship is an indication that an increase in operational efficiency increases financial performance as measured using ROA. This implies that, after the mergers and acquisitions, the firms achieved optimal operating efficiency, enhanced revenue, improved capital base asset quality, and liquid asset. This outcome is similar to those of (Ranjan & Bishnu, 2017; Megeid et al., 2019; Natarajan et al., 2017). The findings were, however, inconsistent with other researchers who found an inverse relationship

between operational efficiency and ROA (Musah et al., 2019; Meseret & Getahun, 2017; Hongxing et al., 2018) other found no connection at all (Rania & Warrad, 2015).

Managerial efficiency (r=0.462, p>0.05) is significantly positively related to financial performance as measured using ROA. This implies improvement in organizational efficiency results in the improvement in financial performance. Managerial efficiency results from inefficient utilization of resources and hence better financial performance. This outcome is similar to (Wangari 2017; Sakwa et al., 2019; Barus et al., 2017; Kaneza, 2016). Market share (r=-0.095, p<0.05) indicates a significant negative relationship with financial performance measured using ROA. This infers that as the market share increases, the ROA decreases and vice-versa. As the firm increases, it may experience reduced profitability due to low margins. The findings were similar to those of (Fraering & Minor, 1994; Hagigi et al., 1990; Mutshinyani, 2009). The conclusions were inconsistent with those (Etale et al., 2016; Leverty, 2001; Venkatraman & Prescott, 1990). This author found that as the market share increases, ROA increases because firms with high market share enjoy economies of scale and efficient utilization of idle shared resources.

The firm's size (r=.137; P>0.05) indicates a significant positive correlation with financial performance measured using ROA. This implies that as the firm's size increases, the return in assets increases and vice-versa. Other studies with similar findings include (Mutunga & Owino, 2017). Studies with inconsistent results included those of (Eyigege 2018; Olawale et al., 2017; Mohamed 2015), who found a negative relationship. The reasons behind the observed deviation are that, as the firm size increases, it may result in diseconomies of scale and hence declining financial performance. Other studies indicated that fit size does not influence financial performance as measured using ROA (Sudrajat, 2020).

4.2   Hypothesis testing and Discussion of Findings

The null hypothesis tested the moderating effect of institutional characteristics on the relationship between mergers and acquisition strategies and commercial bank financial performance. The study hypothesized that the moderating effect of institutional characteristics on

the relationship between mergers and acquisitions strategies and financial performance of commercial banks in Kenya is not significant. The following hypothesis was tested:

H_2 : **The moderating effect of institutional characteristics on the relationship between mergers and acquisitions strategies and financial performance of commercial banks in Kenya is not significant.**

In testing the moderating effect of the institutional characteristics on the relationship between mergers and acquisition strategies and the commercial bank financial performance, the method proposed by Baron and Kenny (1986)) was adopted. This involved testing the effects on the dependent variable of mergers and acquisition strategies, moderator variable) and the respective interaction between mergers and acquisition strategies and institutional characteristics. In the first step of this procedure, the independent variable (mergers and acquisition strategies) and moderating variable (institutional characteristics) are jointly fitted in a regression model as regresses of the dependent variable (financial performance). In the second step, the independent variable, moderating variable, and a composite variable formed by multiplying the dependent variable by the moderating variable (interaction variable) are jointly regressed against the dependent variable. The moderating effect is deemed present if the extent to which variability in the dependent variable can be attributed to variability in the independent variables increases after the inclusion of the interaction terms.

The goodness of fit results of standard linear multiple regressions with bank financial performance as the dependent variable, mergers and acquisition strategies, and moderator variable (institutional characteristics) as predictors are reported in Table 14(a). The model summary is in Table 14(b), and the coefficients are in Table 14(c). The moderating variable, institutional characteristics, was introduced to commercial bank financial performance in the mergers and acquisition strategies. The hypothesis was based on the two below models.

ROA= β_0+ β_1M&A+ β_2IC +ε …………………………………………………………….. (i)

ROA=β_0+β1M&A+β_2IC+β_3 (M&A∗IC) +ε….. (ii)

The model is a good predictor of the financial performance of bank (Sig. =< 0.05).

Table: 11 Regression results for bank financial performance as outcome variable and mergers and acquisition strategies, institutional characteristics as the predictor variable

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.513	.263	.227	.105	.263	7.309	4	82	.000

a.Predictors: (Constant), Firm's size, Managerial efficiency, Operational efficiency, Market share

b. Dependent Variable: Financial performance

Goodness of fit

Model.		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.325	4	.081	7.309	.000
	Residual	.912	82	.011		
	Total	1.237	86			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Firm's size, Managerial efficiency, Operational efficiency, Market share

Regression Coefficients

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	1.537	.267	5.761	.000
	Operational efficiency	.051	.023	2.192	.031
	Managerial efficiency	.314	.069	4.554	.000
	Market share	-.087	.154	-.566	.573
	Firm's size	.082	.043	1.284	.035

a.   Dependent Variable: Financial performance

Table 11(a) portrays the effectiveness of the model in measuring the influence of size. The coefficient of determination (Adjusted R Square) of 0.227 indicates that the financial performance in the regression model can be explained by 22.7% of the variations in size, operational efficiency, managerial efficiency and market share. This is an indication that the size of commercial banks is an important moderator of the relationship between mergers and acquisition strategies and financial performance.

Table 11(b), the ANOVA results indicate that the regression had a sum square of 0.325 and a model residual's of 0.912 with a mean square of 0.081 for the regression and 0.011 for the residuals. The ANOVA produced an F-statistic of 7.309 and a $p-value$ (0.000).This is evident that size of the bank alone is not significant in moderating the effect of bank restructuring

and financial performance. All the variables used in this model except operational restructuring and the moderation of capital using size were found not to be significant. 11(c) with respect to the specific independent variables, operational efficiency and managerial efficiency are significant (p=< 0.05). Market share and size remains insignificant (p=>0.05).

The goodness of fit results of standard linear multiple regression with bank financial performance as the dependent variable, mergers and acquisition strategies, moderator variable (institutional characteristics) and interaction terms as predictors are reported in Table 12(a). The model summary is in Table 12(b), and the coefficients are in Table 12(c)

The coefficient of determination (R Square) (Table 12 a) of 0.232 indicates that the financial performance in the regression model can be explained by 23.27% of the variations in bank size, operational efficiency, managerial efficiency and market share. This is an indication that the size of commercial banks is an important moderator of the relationship between mergers and acquisition strategies and bank financial performance. The ANOVA results (Table 12 b) indicate that the regression had a sum square of 0.364 and a model residual is of 0.873 with a mean square of 0.052 for the regression and 0.011 for the residuals. The ANOVA produced an F-statistic of 4.711 and a $p-\text{value}$ of 0.000.

At a confidence level of significance of 0.05, managerial efficiency provided a significant positive effect on financial performance of the commercial banks in Kenya with a coefficient value of 11.4 % ($t = 2.338$) and a strong $p-\text{value}$ of 0.022. Operational efficiency on the other hand did not have a significant effect on financial performance with a coefficient value of -.11.3 % ($t = -0.615$) and a $p-\text{value}$ of 0.540. Market share as well did not have a significant effect on financial performance with a coefficient value of 55% (t=0.449) and a p-value of 0.655.When operational efficiency was moderated by size, the interaction between operational efficiency and size reveals an insignificant positive effect (p=0.052). Therefore, bank size has moderated the relationship between managerial efficiency and bank financial performance. Operational efficiency has now become significant predictor of financial performance while market share remains insignificant.

Table: 12 Regression result for bank financial performance as the outcome variable and mergers and acquisition strategies, institutional characteristics and interaction terms as the predictor variables

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.543	.294	.232	.105	.294	4.711	7	79	.000

a. Predictors: (Constant), Firmsizemarketshare, Operational efficiency, Firmsizemanagerialefficiency, Firm's size , Managerial efficiency Firmsizeopertionalefficiency, Market share

b. Dependent Variable: Financial performance

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.364	7	.052	4.711	.000
	Residual	.873	79	.011		
	Total	.315	86			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Firmsizemarketshare, Operational efficiency , Firmsizemanagerialefficiency, Firm's size , Managerial efficiency , Firmsizeopertionalefficiency, Market share

Regression Coefficients

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	.409	1.930	.212	.833
	Operational efficiency	-.113	.183	-.615	.540
	Managerial efficiency	.114	.490	2.338	.022
	Market share	.550	1.226	.449	.655
	Firm's size	.281	.446	.630	.531
	Firm size*operational efficiency	.037	.041	.900	.052
	Firm size*managerial efficiency	.331	.077	4.245	.000
	Firm size*market share	-.148	.286	-.518	.606

a. Dependent Variable: Financial performance

Hypothesis 2 (H2) predicted that the institutional characteristic has no significant moderating influence on the relationship between mergers and acquisition strategies and bank financial performance. Results of this study indicate that the relationship between bank financial

performance, mergers and acquisition strategies, institutional characteristics and interaction terms is statistically significant (p=<0.05). The interaction term between managerial efficiency and bank size in addition to managerial efficiency itself are also both significant (p=<0.05). The null hypothesis was rejected and consequently the alternate one was accepted. Consequently, it can be concluded that the institutional characteristics has a significant moderating influence on the relationship between mergers and acquisition strategies (managerial efficiency and operational efficiency) and bank financial performance.

The prediction model, ROA=β_0+β1MA+β_2IC+β_3 (M&A∗IC) +ε can be written as;

ROA=0.409-0.113OF+1.147ME+0.550MS+0.281FS+0.037(OFFS)-0.212(MEFS)-0.148(MSFS)

The model specification when omitting the variables that are not statistically different from zero becomes ROA= 1.147ME. The results of the assessment of whether institutional characteristic moderates the relationship between mergers and acquisition strategies and bank financial performance are summarized in the below table 13.

Table: 13 Summary of the Results of Moderation of institutional characteristics Between Mergers and Acquisition Strategies and bank financial performance

Independent variables	Does institutional characteristics moderates
	Relationship between independent and dependent variable
Operational efficiency	No
Managerial efficiency	Yes
Market share	No

5.1 Discussion

The objective of the study was to determine the moderating effect of firm characteristics on the relationship between mergers and acquisitions strategies on financial performance of commercial banks in Kenya. The hypothesis under this objective was; the relationship between mergers and acquisitions strategies and financial performance is not moderated by firm characteristics. One attribute of firm characteristic was used in this study, which was bank size. When the relationship between mergers and acquisitions strategies and financial performance

was moderated using size, the results were as follows;

Operational efficiency, managerial efficiency and bank size a significant effect on financial performance of commercial banks in Kenya (p<0.05). Market share did not have a significant effect on financial performance of commercial banks (p>0.05). The interaction of managerial efficiency and bank size had a significant positive effect on bank financial performance. The interaction of operational efficiency with bank size and the interaction of market share with bank size did not have a significant effect on bank financial performance (p>0.05). The result findings therefore imply that managerial efficiency and bank size are significant variables which if managed well can influence the financial performance of commercial banks in Kenya. However, bank size has to be managed together with operational efficiency and market share an increase in bank financial performance.

The study findings are similar to those of Ngware, Olweny, and Muturi, 2020;Athanasoglou, Brissimis and Delis, 2008;Stiroh, 2004;Afzal and Mirza, 2012 whose findings were that;size has a postive relationship with financial performance.The study findings are also inconsistent with those of Maja and Josipa (2012) whose findings were that; were that, the size had an insignificant positive relationship to financial performance. Eyigege, 2018 found that the size has a negative insiginificant relationship with financial performance. Hossain and Saif, 2019 also found a negative relationship between size and financial performance. Niresh and Thirunavukkarasu, 2014 found that ,the size has no impact on financial financial,that is the two are independent of each other.The reasons behind the findings were that,the size can contribute to economies and of scale and commands market power which results to better financial perofrmance.

5.2   Summary of Findings

The objective of the study was to determine the moderating effect of institutional characteristics (bank size) on the relationship between mergers and acquisitions strategies and the financial performance of commercial banks in Kenya. The moderation effect was tested using step wise method as proposed by Baron and Kenny 1986.In step one, where mergers and acquisitions strategies and bank size were regressed against financial performance, the findings were that; mergers and acquisitions strategies and banks' size explains 22.7% of variation in financial

performance. In the moderation regression, operational efficiency, managerial efficiency and bank size were found to have a significant contribution toward financial performance of commercial banks in Kenya (P<0.05). Market share was found to be an insignificant predictor of the financial performance of commercial banks in Kenya (P>0.05). In step two, where the interaction terms were added in the regression model as per step one, it was found that; 23.2% of variation in financial performance is explained by mergers and acquisitions strategies, bank size and the interaction term. Managerial efficiency remained a significant predictor of financial when interacted with size (P<0.05).Bank size and operational efficiency becomes insignificant predictor of financial performance after interaction (P>0.05).Market share remains an insignificant predictor of financial performance. The above findings resulted to rejection of the null hypothesis and acceptance of the alternative hypothesis and consequently; the moderating effect of institutional characteristics on the relationship between mergers and acquisitions strategies and financial performance of commercial banks in Kenya are significant*.*

5.3   Conclusions

Banks size influences the strength of the relationship between mergers and acquisitions strategies and the financial performance of commercial banks in Kenya. Specifically, size has a strongly influence on managerial efficiency which is in line with synergies and concentration theory. Mergers and acquisitions strategies enhance managerial efficiency as managers from both side brings onboard their expertise. Concentration of business enables the firm to enjoy the benefits that accompanied large entities such as economies of scale.

5.4   Contribution to Knowledge

The findings of this study contribute to knowledge on mergers and acquisitions strategies, institutional characteristics, and bank financial performance. The established the moderating effect of institutional characteristics on the relationship between mergers and acquisitions strategies and bank financial performance. Some previous studies had evaluated the effect of institutional characteristics on financial performance. Others had evaluated the moderating effect of institutional characteristics on the relationship between mergers and acquisitions strategies and financial performance. However, the findings were contradictory and inconclusive (Abondo,

2013; Dogan, 2013; Eyigege, 2018; Jajat & Daud, 2020; Salim, 2012). The study results indicate that size has an insignificant positive relationship with financial performance.

5.5   Recommendation and contribution to Policy and Practice

The study findings show that bank size has an influence on financial performance. This implies that, banks with a larger asset base are in a position to cause accelerated growth resulting from market power, economies of scale among other benefits that comes with large size. The study hence recommends that, the regulator should come up with policies that facilitate seamless mergers and acquisitions processes. Corporate bank managers should consider mergers and acquisitions as a strategy to build up on their asset base inorder to enjoy the benefits which are associated with large sized firms'. The study is also in line with the concentration theory which hypothesis that, fewer large size are better managed and results to better financial performance than smaller wide spread firms.

5.6   Limitations of the study

The study limited itself to bank size moderating the relationship between mergers and acquisitions strategies, but did not test if the relative size of target and acquirer matters in determining the success of mergers and acquisitions strategies. The study also limited itself to banking context in Kenya where the size was used as a moderating variable. The study concentrated to size as the only moderating variable in the relationship between mergers and acquisitions strategies.

5.7   Suggestion for further study

From the above limitation, an empirical study needs to be conducted to determine if the relative size of the target and the acquirer plays a role in guaranteeing the success of mergers and acquisitions strategies in a local context. A study examining the influence of size in other industries need to conducted and possibly within the East Africa. An empirical study examining other control variables which could possibly moderate the relationship between mergers and acquisitions strategies and financial performance is inevitable.

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