

# **EFFECT OF MERGERS, ACQUISITION ON PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KENYA**

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## **ABSTRACT**

Kenyan banks have a crucial function in fostering economic development by providing financial services, credit, and facilitating investments. They contribute to economic growth by supporting businesses and individuals, promoting savings and investments, and facilitating monetary transactions. Nevertheless, they have been facing performance challenges despite the vital role that they play. The general objective determined the effect of mergers and acquisition on financial performance. It assessed the effect of share capital, operational synergy and customer portfolio on financial performance. The study was underpinned on agency cost theory, capital buffer theory, synergistic mergers theory and value-destroying theories. This study made use of an explanatory research design. 9 commercial banks that were either merged or acquired over the project's time frame, which was from 2015 to 2020 was targeted. The descriptive analysis showed that respondents largely agreed that share capital influences the financial performance of Kenyan banks. The correlation analysis indicated a statistically significant and positive linear association between share capital and financial performance. Operational synergy further showed respondents generally

agreeing that it increases financial performance. Thirdly, customer portfolio strategies showed that it has similar findings. Consequently, the study concludes that share capital helps banks to lend more, handle risks better and open more doors to growth. Further, it is concluded that institutions are able to cut expenses and deliver stronger services when they leverage synergies. Finally, the review shows that when banks tailor their offerings and focus on client outreach, satisfaction levels are raised. In Recommendation, commercial banks are advised to do targeting fundraising so that they can increase their share capital. This can be done by issuing new shares or even attracting long-term investors. Further, banks should focus on pursuing strategic acquisitions, alliances or reorganizing workflows internally if they want to boost their operational synergy. On customer portfolio, it is recommended that Kenyan commercial banks refine their customer segmentation strategies by focusing more on high-value and high-potential customers.

**Key words:** Acquisition, Customer Portfolio, Financial Performance, Merger, Operational Synergy and Share Capital.

## **INTRODUCTION**

Banks execute a crucial mantle in financial intermediation for countries' economic growth and development around the world, in a complex and dynamic corporate environment (Takon, Obim & Atseye, 2019). The financial intermediation job encompasses accepting funds in the form of deposits from surplus units and converting those funds into loans and overdrafts for deficit spending units (Bogale, 2019). There is a probability of profit or risk whenever it pertains to transformation opportunities. Mergers and acquisitions can be mapped to only a few actions in a business environment (M&A). A successful merger or acquisition allows a mid-cadre company to advance to the top tier.

Globally, bank mergers and acquisitions have been a common occurrence, with numerous examples shaping the financial industry landscape (Misigah, 2013). In 2004, JP Morgan Chase, one of the largest banks in the US, acquired Bank One Corporation, another significant financial institution. This merger created one of the largest banking institutions in the world, bringing together diverse financial services and a broad customer base. Bank of America acquired Merrill Lynch in 2008 a deal that was completed amidst the financial turmoil during the global financial crisis. This merger combined a commercial bank with a global investment banking and wealth management giant (Karugu, Achoki & Kiriri, 2018).

In Sub-Saharan Africa, poor performance has been observed across all regions. Several bank failures have occurred in the banking businesses of various countries in the region. Non-compliance with banking regulations, such as giving unsecured loans, huge director loans, and failing to conduct adequate due diligence on loaners' ability to repay, has resulted in banking institutions collapsing with the bankruptcy of Imperial Bank and Chase Bank in Kenya (Kimani & Koori, 2018). Beyond the intermediation role played by commercial banks, profitability has important underlying consequences for a country's economic growth (Odundo & Orwaru, 2018).

In Kenya, there has been a shifting operating environment, making organizations being obliged to merge or take over the operations of one another. The strategic aim of the acquisition is to achieve greater scale to enhance market reach, address operational gaps within the existing portfolio, and generate value by boosting overall business efficiency and effectiveness while also expanding access to products and services. As a result of their ability to offer a number of services, commercial banks are the most important financial intermediaries (Kamande, 2017). Commercial banks, in particular, provide separate services to depositors (lenders) and borrowers. Liquidity and safeguarding for savings services are offered to depositors, who are then compensated.

According to the Annual East Africa Financial Review (2020), in 2019, over 30 M & A deals were recorded in East Africa, with Kenya having the most agreements. Mumo (2016) connoted that Kenyan enterprises are ahead of the curve when it comes to mergers and acquisitions. The

transactions predominantly covered banking industry mergers, which accounted for about 70% of all agreements at the time. Due to their relatively sizable economies and outward-looking policies that facilitate a better business environment, Kenya and Zambia accounted for a significant proportion of the merger deals (Karugu et al., 2018).

Stakeholders, those who do analysis, academicians, stock markets, regulatory bodies and the entire growth of Kenya's economy all stand to gain from a comprehension of the determinants that influence company performance via M&As, necessitating the requisite to assess the contributing factors of company progression through M&As in Kenya. Cap 504 Laws of Kenya is the primary law governing M&A in Kenya. It encourages a competitive economy by restricting trade practices according to the Act (Aila & Muia, 2011).

Bank stockholders receive dividends as a result of increasing profitability. This boosts investor confidence in a bank, resulting in more investments and more economic growth. Poor performance, on the other hand, leads to bank failure or collapse, with negative consequences for economic growth (Okoth & Gemechu, 2013). Commercial banks' survival has depended on their capacity to measure performance over the years (Kimani & Koori, 2018) and it is highly dependent on their performance levels in light of the dynamic business climate (Muraina, 2018).

### **Mergers and Acquisition**

These postulate the amalgamation of two or more firms with the goal of forming a new company (Galpin & Herndon, 2014). Mergers and acquisitions, according to Chowdhury (2012), improve performance by increasing operational effectiveness leading to the economies of scale, anchor resource apportionment and enhance economies of scale in consumptions. This is driving engine in the innovation, advance technology and greater generation of revenues. Furthermore, it reduces wastage, increase effectiveness and efficiency. In a nutshell it increases the benchmarking and brainstorming since there is immense informational expertise, fundamental assets and utilization of brand name in business (Deloitte, 2016).

Most of Kenyan banks have been merging to increase their financial effectiveness, efficiency and performance by expanding market share (Njangiru & Ondieki, 2015). Furthermore, merger of minority banks are critical in raising the shareholders' value. This is possible through the minimize cost of operation hence higher shareholders' wealth. Afande (2015), the cardinal reasons for merger in Kenya include the acquisition of unique assets and human capital. Moreover, the firm reap big from the economies of scale due to unification. It diversifies risk in order to decrease risk exposure. The diversification is supreme step in managerial motivation. This was operationalized in this study as share capital, operational synergy and customer portfolio.

Share capital is the equity capital that is raised by issuing shares to investors, including individuals and institutions. This capital represents ownership in the bank and is one of the primary funds sources that banks use to finance their growth, and various financial activities (Asikhia & Sokefun,

2013). Share capital has a key function in the entire financial structure of banks (Andasarova, 2018). This was operationalized in terms of capital adequacy, equity funding and dividends.

Operational synergy may appear differently across cases. It often boosts profits, simplify workflows and increase the satisfaction of customers. When banks decide to merge or acquire others, Mutuku & Nganga (2022) state that there should be due diligence, the change in management should be effective and the culture and systems of the organization should match. This was operationalized in terms of cost reduction, risk diversification and economies of scale.

A customer portfolio is the collection of customers who hold various types of accounts and engage in financial transactions with the bank. It encompasses the diverse range of individuals, businesses, and entities that the bank serves (Campbell & Vicera, 2002). Managing and understanding the customer portfolio is essential for banks to tailor their services, make informed business decisions, and maintain strong relationships with their customers. Data-driven insights and strategic decision-making based on the customer portfolio contribute to successful customer relationships and the overall growth of the bank (Arnoud, 2010). This was operationalized in terms of account types, segmentation and behavioral patterns.

### **Financial Performance**

It is the capability of a company in generation of profits and manage its resources efficiently (Alkhatib, 2012). It involves evaluating an organization 's profitability, liquidity, solvency, and financial health using various financial ratios and indicators (Naceur & Goaid, 2010). It encompasses the financial results and outcomes achieved by an organization in terms of its profitability, growth, risk management, and shareholder value creation. It is about analysis of statements of finances, ratios, and key performance indicators to assess the effectiveness of management's financial decisions (Sufian & Chong, 2008). Financial performance is about the economic progress achieved by an organization over time. Furthermore, the focus is not just on profits because Dietrich, & Wanzenried (2011) states that what matters is how well a firm turns capital into shareholder value.

Financial performance according to Muraina (2018) offers key insights on how a firm can handle its resources well and still be able to settle their financial obligations. When a firm assesses these outcomes, the making of decisions is supported, strategies are planned and areas that need progress are spotted. Furthermore, it shows a clear picture according to Ali, Akhtar & Ahmed (2011) of how strong a business stands financially. This therefore helps investors make choices that are informed due to its ability in generating profits, risk control and steady finances. Here, it was operationalized using Return on Assets (ROA).

ROA is described by Khrawish (2011) as a key measure which shows how well a company turns assets into profits. Higher values of ROA means that the company is performing better and reflects that resources are used more efficiently. In contrast, ROE reveals how shareholder funds are being

leveraged effectively. Furthermore, rather than just growth speed, these ratios according to Podder (2012) shows a firm stability and return quality. Therefore, they help assess financial health from different angles.

### **Commercial Banks in Kenya**

Kenyan banks are overseen by the banking act which was passed by the parliament does the regulation and licensing. It's further enforced by the central authority, which in Kenya is the CBK. There are currently 43 commercial banks and a single mortgage company in this industry. Furthermore, the industry has major banks which are largely owned abroad and as CBK (2016) note, it shapes much of Kenya's finance landscape. Moreover, they are listed on the Nairobi Securities Exchange (NSE).

Kenya's banks have faced growing losses over the years. Financial pressure has been noted to be persistent over years as Awuor (2015) notes. Therefore in 2009, the 57% of the pre-tax losses by the industry which totaled 0.09 billion according to CBK (2013) could be pointed to the mid-sized and smaller banks. As of April 2025, gross NPLs in Kenya reached KSh 724.2 billion, pushing the industry-wide gross NPL ratio to 17.6%, the highest level seen in over a decade. In December 2024, the ratio stood at 16.4%, with gross defaults totalling KSh 672.7 billion. These figures reflect a deepening stress on bank balance sheets and rising systemic credit risk.

The takeover of NBK by KCB occurred at the same time, generating a lot of interest in prospective mergers and acquisitions for 2019 (M&As). The necessity to put a large amount of capital into an organization that had run into financial and management difficulties a few years earlier motivated NBK's acquisition. For everyone linked with NBK, including consumers, employees, and stockholders, KCB's takeover stabilized the faltering behemoth, which was looking for a government bailout. The National Bank of Kenya (NBK) reported a profit after tax of Ksh. 155 million in the first quarter of 2020, up 134 percent from the same period last year. The Bank's balance sheet improved during the quarter, reaching KShs.113.8 billion. Customer deposits increased to Ksh. 92 billion in Q1 2019, up from Ksh. 89.5 billion the previous quarter.

The CBK confirmed the completion of the transaction on Friday, February 13th, 2017, noting that Giro had ceased to operate as a separate licensed business following its amalgamation to I&M Holdings' local unit (Juma, 2017). I&M completed the acquisition after receiving regulatory approvals from Treasury Secretary Henry Rotich. The authorizations were done by treasury on January 27 while CBK completed that in October 27, 2016. Furthermore, I&M took over seven Giro branches through the process. Consequently, the combined entity as NSE's Juma (2017) reports holds a 5% stake in Kenya's market.

On September 30, 2019, Commercial Bank of Africa Limited (CBA) merged formally with NIC Group PLC (NIC). This integration boosted both banks' presence consequently achieving a collective market share of 9.9%. Furthermore, their client network grew to roughly 40 million

people across four East African countries. By May 2020, this number rose further to more than 54 million customers. Additionally, profits reached KSh 1.6 billion in 2020's initial quarter of the fiscal year. Moreover, the total operating income during that period hit Sh10.9 billion. Further, deposit volumes at the time amounted to Sh390.5 billion.

### **Statement of the Problem**

Kenyan banks are very critical as Mohamed (2020) notes when they lend, offering financial tools, and support investment. By assisting firms and households, encouraging saving habits and funding opportunities, Yakubu & Affoi, (2014) state that it will help expand the economy. These efforts consequently raise the national output which Misati & Kamau (2017) say are through broader economic engagement and wider access to finance. Also, such indicators matter most when looking at deposit trends, loan access, money transfers, retirement plans or coverage options. Furthermore, their efforts have helped grow both the private and financial sector systems, which according Paavo (2018) consequently aligns them with broader plans which internationally and nationally aim at lessening income poverty. However, even with all these benefits, performance issues in banks still remain.

Banks face growing pressure to cut prices and reduce lending margins as Shams & Gunasekarage (2016) note because of the strong rivalry from fintech companies and alternative non-bank institutions. Meanwhile, some commercial banks operate numerous branches which of course increases overheads. Consequently, this weakens performance. Furthermore, when banks evaluate risks poorly, Mutuku & Nganga, (2022) state that this may trigger unforeseen losses and increased risk premiums. Additionally, another cause of this performance is that when these mergers and acquisitions are poorly structured, productivity tend to be harmed because duties are usually duplicated. Moreover, Khrawish (2011) say that when assets and liabilities do not match, the bank will experience problems of liquidity in times when it is facing a strain financially. Further, for banks that rely heavily on short-term financing the risk of experiencing liquidity problems increases because they may not meet their obligations when their funding just suddenly dry up. Finally, depositors could pull funds fast as Asikhia & Sokefun (2013) state if public trust/sentiment drops or the markets turn sour which will consequently strain cash flow.

Despite the significance of mergers, acquisitions and their profitability nexus in the banking field, Kenya, this correlation has not been thoroughly investigated. For Habib Bank AG Zurich, Tesfai (2015) investigated the association amid capital sufficiency, customer portfolio, and performance. Despite the fact that the study used a variety of variables to evaluate profitability, the focus was on a single bank, Habib Bank AG Zurich. Asset quality, capital sufficiency, and liquidity all have a strong favorable impact on performance (Kamande, 2017).

Takon, Obim and Atseye (2019) looked into the association between bank-specific traits and profitability, focusing on Nigerian megabanks. According to empirical data, capital adequacy has

a considerable relationship with profitability, whereas customer portfolio and market share caused little impact on bank profitability. The study, on the other hand, was limited to Nigerian megabanks. As a result, the findings are limited to Habib Bank AG Zurich and application to other Kenyan commercial banks is not possible therefore becoming the subject of the current study. As previously mentioned, preceding studies had a number of study gaps.

## **Objectives of the Study**

### **General Objective**

To determine the effect of mergers and acquisition on the financial performance of selected commercial banks in Kenya

### **Specific Objectives**

- i. To determine the effect of share capital on the financial performance of selected commercial banks
- ii. To determine the effect of operational synergy on the financial performance of selected commercial banks
- iii. To establish the effect of customer portfolio on the financial performance of selected commercial banks

### **Research Hypotheses**

**H<sub>01</sub>:** Share capital has no significant effect on the financial performance of selected commercial banks

**H<sub>02</sub>:** Operational synergy has no significant effect on the financial performance of selected commercial banks

**H<sub>03</sub>:** Customer portfolio has no significant effect on the financial performance of selected commercial banks

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **Agency cost theory**

Jensen and Meckling proposed this theory in 1976. It is a framework in economics and finance that seeks to explain the conflicts that can arise leading to agency costs that can impact organizational performance and shareholder wealth (Eisenhardt, 2013). Information asymmetry is the main idea under this theory. Because agents usually hold more details than principals, Jensen & Meckling (1976) say that they might use this edge to benefit themselves personally. The theory presumes that there are misaligned goals and agents could value their own needs above the priorities of the principal which as Eisenhardt, (2013) say, might create tensions or what we call the conflict of interests. Such tensions appear differently and may include taking too much risk, making poor choices and even avoiding duties.

Firms might use incentives like pay tied to results or company shares as Alchian & Demsetz (1972) say so that the goals of the agent and principal align. Jensen & Meckling (1976) note that connecting rewards to firm outcomes helps push agents toward decisions that serve both sides and not than just themselves. Furthermore, when a firm uses monitoring tools such as reviews, updates and review panels, it can also lower risks linked to misaligned motives. These checks according to Eisenhardt (2013) is meant to keep agents on track and still support the priorities of the owners.

However, the theory has faced several criticisms with some like Alchian & Demsetz (1972) claiming that the theory leans too much on self-interest which makes it possible to ignore other human drives. This is however contrasted to reality in that people frequently act based on ethics, societal rules and responsibility, factors which according to Eisenhardt (2013) are not fully included in the model. Therefore, rather than focusing only on disputes and expenses, it misses cases where agents naturally support principals' goals. When studying mergers and acquisitions (M&A), this framework matters because it highlights tensions between owners and executives. Therefore, looking at how such conflicts shape M&A choices helps clarify what manager incentives should be, possible misalignments, effects on M&A deal results and firm worth. Consequently, this theory helps explain the financial performance variable.

### **Capital Buffer Theory**

Marcus 1984, Milne and Whalley (2001) developed the theory. It holds the assertion that banks strive to have additional capital beyond that of the recommended levels. Regulations targeted at the generation of sufficient capital buffers (Thadden, 2004). The theory rests on the postulations that banks having low capital buffers aim at rebuilding appropriate buffer levels by raising capital whereas those having high buffers aim at maintaining the existing capital buffer levels (Jokipii & Milne, 2011). This is an additional capital leading to greater shock absorption capacity hence eliminating the chances of collapse (Rime, 2001).

Financial institutions hold capital levels beyond the stipulated minimum requirements for various reasons with the first being that capital serves as insurance cover in cases where institutions are undercapitalized (Thadden, 2004). Another rational for having capital levels above the minimum requirements is, having excess capital leads to the ability substantially maintaining their asset risk profile there able to determine their risk-taking behavior. Additionally, by having capital buffer capital, financial institutions are regardless as well performing and in a good financial state and thus, higher capacity to absorb losses (Jokipii & Milne, 2011).

This theory postulation support capital and profitability relationships (Thadden, 2004). Financial institutions strive to hold capital levels above that of stipulated levels due to the fact that capital provides these institutions with higher stability as such ensuring capacity to carry out activities geared towards generating profitability. In holding higher levels of capital, banks will have protection against cases of financial losses (Jokipii & Milne, 2011).

### **Synergistic Mergers Theory**

Bradley, Desai and Kim (1988) were the proponents. It is a framework in corporate finance and strategic management that explores the potential benefits and value creation that can arise when two companies merge. It suggests that firms may experience a boosting of performance, cutting waste and enhanced shareholder value when they combine resources, skills and activities.

This theory bases its ideas on the concept of synergy which happens when a combined company's value exceeds what both separate companies are worth together. That boost according to Bradley et al., (1988) may come through lower costs or greater income, better operations and stronger position in the market. Furthermore, mergers like these often simplify workflows, reduce layers of management and still speed up decisions. Weston, Chung & Hoag, (2003) go on to say that the performance of an organization increases when repeated efforts are removed and when procedures are synced.

Mergers should match core strategies if companies want to unlock the benefits that come with these mergers. Therefore, firms should closely examine if their strengths align so one fills gaps the other has or if possible, together they create worth unreachable separately. Westen et al., (2003) says that due diligence should be proper so that synergies which are potential could be identified and quantified. Furthermore, a company interested in these mergers/acquisitions should deeply look at the daily operations, finances and market dynamics so that they can make better judgment about the value of the merger. Additionally, investors as per Bradley et al., (1988) monitor mergers carefully, weighing gains against possible downsides. Therefore, when markets respond well it signals confidence in added value but poor responses reveal doubt over promised efficiencies.

However, the theory is criticized severally with the major being that the theory sometimes exaggerates the outcomes of these synergies. Actually, reaching expected synergies may prove hard because of merging obstacles, differing workplace cultures or even workflow issues that are unforeseen. When mergers fall short on promised gains, Bradley et al., (1988) notes that they risk losing value instead of building it. This is because expenses from combining firms, interruptions in daily work, along with mismatched goals, might exceed possible advantages. Furthermore, Weston et al. (2003) says that the theory commonly neglects what happens after integration. This theory supported the variable of operational synergy since planning, clear communication and solid leadership matter when combining operations.

### **Value-destroying theories**

The Value-destroying theory explains how some choices reduce worth instead of increasing it and is very common in economics, finance and management. Such models as brought forth by Rau & Vermaelen (1998) and Berkovitch & Narayanan (1993) question the belief that every move adds benefit by showing cases where results hurt people, companies and markets.

These theory as per Malatesta (1983) usually involves agency issues as the central concept. These issues may show up across different areas like corporate oversight/governance, finance and even management of the organization. As explained by agency theory, losses happen if someone pursues high-risk actions while expecting others to face the fallout. Consequently, because of this imbalance, risky decisions become even more likely and as Rau & Vermaelen (1998) state, these then fuel market swings, economic downturns and poor organizational outcomes. However, critics frequently point to financial sectors, where short-term profit pressure tends to weaken support for innovation, growth efforts and forward-looking strategies.

The grasp of value-destroying ideas reveals different settings where Malatesta, (1983) notes that it recognizes harmful effects thereby helping protect worth. Furthermore, firms that focus on future goals and wider range decisions instead of quick wins usually escape these pressures of short-term results. Consequently, businesses may grow value gradually and also form operating models that are more resilient. Therefore, policy makers might use these concepts as a basis for developing frameworks that lower moral hazard, externalities and risk-taking that is excessive. Better oversight combined with clear ethics according to Haynes & Thompson (1999) can help cut down losses in value.

However, the theory is not without critics as some like Ghauri & Buckley (2003) claim that these simple theories may distort complicated cases resulting in negative views about choices or plans. Further, it is very difficult to fully capture elements and variables in actual events because there are very many. Additionally, judging if something reduces value is often a matter of opinion (subjective) often shaped by who's involved. Therefore, one group might be seeing harm and the other ones see progress. Moreover, critics argue using the efficient market hypothesis which as per Bollaert & Petit (2009) might present mispricing that is persistent and value destruction that is great. Therefore, this theory informed the customer portfolio variable.

## **Empirical Review**

### **Share Capital and financial performance**

Masud (2015) determined mergers and acquisitions on Pakistani banks' performance. The period span from 2000 to 2012, 3 commercial banks that had amalgamated were evaluated. Ratios derived from secondary data gathered from bank annual reports were utilized. As shown by the profitability ratios, the analysis found that certain banks performed better than others. The study concentrated solely on the profitability ratios whereas the current research examined M&A effects on the financial outcomes.

Inoti (2014) investigated listed acquiring corporations on the NSE to determine the impact of acquisitions in Kenya. The research utilized the association between the ratios used to gauge profitability and asset utilization, leading them to infer that corporate acquisitions had no effect on

acquiring firms' financial performance. However, how mergers and acquisitions affect operational synergy amongst financial institutions was not looked at. Furthermore, the study took into account the performance of Kenya's listed commercial banks, but this study solely looked at the performance of commercial banks.

Takon, Obim, and Atseye (2019) looked at the association between bank-particular traits and profitability, focusing on Nigerian megabanks. The research focused on Nigeria's top ten deposit money banks. Annual panel data was employed, and an ex-post facto study design was used. The researchers used descriptive statistics and a panel regression (fixed effect) model. Capital adequacy has a considerable association with bank profitability, according to empirical data. It was suggested that management maintain a robust deposit base in order for banks to preserve their strength, resilience, and profitability. However, the study focused on Nigerian Mega Banks. The contextual gap was therefore addressed in this study.

Nyabaga and Matanda (2020) investigated capital adequacy and performance of NSE listed banks from 2010 to 2018. The concept of capital sufficiency was created to present an optimistic and meaningful impact on performance. Commercial banks should maintain adequate capital levels in order to be able to sustain losses. This research concentrated on the years 2015 to 2020, offering current empirical data on the association between capital sufficiency and profitability.

### **Operational Synergy and financial performance**

The influence of synergy on performance of merged institutes in the Kenya financial services sector was determined by Ogada, Njuguna and Achoki (2016). The study utilized a mixed research design. Forty institutes that had completed their merger processes by the end of Dec 2013 were targeted. Secondary data was collected where panel data analysis was done to explain the trends for five previous years. There was a positive association was found. A mixed research design was utilized while an explanatory research design was adopted.

A study evaluating synergy influence through M&A on Sidian Bank performance was done by Kimetto (2019). Case study design was used. 590 staff were targeted where 118 of them were sampled randomly to participate in the research. Questionnaires were used. Descriptive and inferential statistics were conducted. Operating synergy strongly, positively and significantly affected performance of the bank. There is need for quantitative analysis using financial metrics from audited reports to objectively measure financial performance linked to operational synergy.

A study examining the influence of the operating, financial synergy and firm reputation on performance in M&A processes was done by Edi, Yuswar and Arafah (2020). Purposive sampling was used. E-reviews program was used in analysis. The results showed that acquisition event can be improved. There is need for a more robust methodological approach using quantitative financial data and statistical analysis to assess synergy-performance linkages in the Kenyan banking sector.

### **Customer portfolio and financial performance**

Portfolio composition and performance of investment companies listed in NSE was done by Kimeu (2015). Descriptive research design was adopted. All the 5 investment companies were targeted where secondary data was sourced from the companies' account books and CMA offices for the years 2012 to 2014. Multiple linear regression equation and Ordinary Least Squares (OLS) helped in analysis. The study revealed that portfolio composition affected performance. The study was context was NSE while this review was conducted on the commercial banks.

Portfolio management strategies and performance of Centum investments was conducted by Micheni (2013). Multiple linear regression equation and Ordinary Least Squares (OLS) helped in analysis. The study revealed that portfolio composition affected performance. The study was context was NSE while this review's contextual scope was the commercial banks.

Olufemi (2022) assessed portfolio management and performance of Nigerian food and Beverage Company. Secondary data was collected. 10 firms out of 15 firms for the years 2010-2021 financial year were sampled. Multiple regression was utilized. Findings revealed that market share and asset allocation were positively related with the return on investment. There is lack of context-specific research in Kenya's banking sector, where customer portfolio strategies differ significantly from manufacturing firms.

### **RESEARCH METHODOLOGY**

The study adopted an explanatory research design, which aimed to investigate and clarify variables' causal relationships to provide a deeper understanding of the observed phenomena. This study method is appropriate for studies that want to look into cause-and-effect links amid research variables, such as predictors and outcomes (Mugenda & Mugenda, 2013). The research centered on selected Kenyan commercial banks that underwent merger or acquisition processes. Between 2015 and 2020, a total of nine banks in Kenya were involved in such consolidation activities during the study period. Employing purposive sampling, 9 commercial banks formed the basis of a research sample. Respondents were managers from the finance, human resource, and marketing and operations departments. Data was collected using a questionnaire which provided a set of questions that were standardized, meaning that every participant received the same enquiries following the same order. This consistency as Babbie (2012) states is very important because it ensures that the data is more reliable. Data was analyzed using a multiple regression model

## RESEARCH FINDINGS AND DISCUSSION

### Response Rate

The focus of the research was on the 45 sampled individuals drawn from all 9 commercial banks. They were drawn from the departments of finance, human resources, marketing and operations. Additionally, branch managers were sampled.

*Table 4.1: Response Rate*

Questionnaires	Frequency	Percent
Responses	39	86.7
Non-responses	6	13.3
<b>Total</b>	<b>45</b>	<b>100</b>

*Source: Survey data (2025)*

The study achieved a response rate of 86.7%. High participation helps the study's group better reflect the overall population. If only few participants reply, the sample could be biased and therefore outcomes may not be accurately show the traits of that entire population. However, a stronger response rate improves how well results can be generalizable to the entire population, which according to Babbie (2012), supports more reliable interpretations in wider settings.

### Descriptive Analysis

Participants rated statements on share capital, operational synergy and customer portfolio using a five-point Likert scale. Their responses were quantified and analyzed descriptively to capture and interpret perceptions on these key aspects.

*Table 4.2 Descriptive Statistics*

Descriptive Statistics	Mean	Std Dev
Share capital	<b>3.83</b>	1.04
Operational strategy	3.94	0.58
Customer portfolio	<b>4.03</b>	<b>0.65</b>

*Source: Research Data (2025)*

In the context of share capital, the commercial bank were found to have strategies in place to maintain a strong balance between its share capital, retained earnings, and risk-weighted assets with a mean of 3.83 and a standard deviation of 1.04. When a firm has a solid cash flow, Miller and Jones (2021) notes that a firm can cover debts while earning and still increase its chances of bigger payouts. However, Thomas & Wright (2023) states that when growth prospects are strong, firms might keep profits to expand operations or even boost Research and Designs. This consequently cuts dividends to fuel progress. This tension shows how businesses weigh shareholder rewards against long-term development. Furthermore, firms that show healthy inflows but still face rapid growth often choose smaller distributions, focusing instead on future gains

(Harris, Smith, 2020). Therefore, payout choices depend on evaluating present financial stability and future growth opportunities.

Results showed that streamlining processes, optimizing supply chains and eliminating redundancies have enhanced overall financial performance had a mean of 3.94 and a 0.58 SD. Effective operational synergy significantly lead to cost reductions the mergers and acquisitions led to economies of scale which positively impacted the bank's cost structure and competitive positioning Keller and Thompson (2021) showed that cutting complexity from workflows by streamlining these processes boosts output while lowering spending. Therefore, there are fewer bottlenecks which means that earnings are stronger earnings and that fiscal stability is improved. Furthermore, supply chains that are optimized help secure materials on schedule which consequently as per Johnson and Lee (2022) state, cuts stockpiling fees and strengthens shipment consistency, thereby lifting buyer approval and revenue numbers. Furthermore, removing repeated actions or extra positions reduces clutter in daily functions. This shrinkage in overhead therefore supports greater net gains (Brown, Clark, 2023). Such methods help firms become quicker and leaner, so they adapt faster to shifts in demand while using assets smarter leading to better profits. Therefore, when businesses apply these approaches consistently, they build momentum for lasting expansion and higher returns for investors.

The bank were found to have a way of striking a balance between catering to the unique needs and preferences of segmented customer groups had a mean of 4.03 and SD of 0.65. Different account types contribute to a well-balanced revenue stream for the bank as well as effective segmentation has enabled the banks to target specific customer groups. Garcia and Zhao (2021) connoted that market segmentation allows banks to target different customer groups, such as millennials, retirees, or high-net-worth individuals, with tailored offerings. According to Patel & Chen (2022), understanding different money habits helps banks provide suitable services such as tailored saving tools, investing choices and mobile banking functions. As a result, clients feel more satisfied and stay loyal, which also boosts income. However, it's difficult to adjust offers precisely without raising expenses. When segments become too narrow, running them gets costly and therefore institutions according Brown & Turner (2020), need models that remain profitable. With smart grouping, banks serve varied demands effectively - and keep earning steadily

## Financial Performance

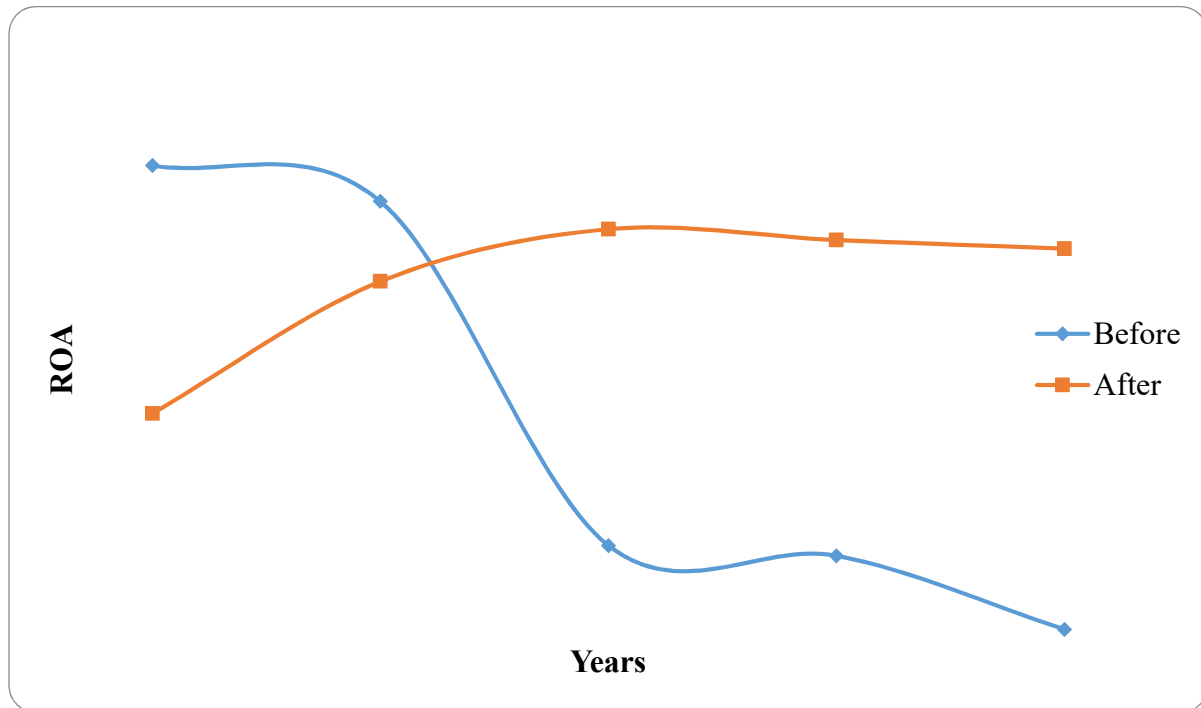


Figure 4.1: Financial Performance

The findings indicate a gradual drop in performance among the selected commercial banks in the years before the merger took place. Still, overall, these banks achieved positive ROA after the consolidation over the next five-year period. In addition, ROA improved steadily as more time passed since the merger event. Bank mergers per Sharma & Gupta (2021), help lower operating expenses and enables portfolio diversification thus enhancing effectiveness and financial gain. Greater scale combined with pooled resources typically supports stronger use of assets, supporting higher ROA eventually (Buchanan & Lee, 2022).

However, the integration process can also present challenges such as cultural clashes, system incompatibility, and restructuring costs, which may negatively affect financial performance in the short term (Jones & Smith, 2020). Additionally, M & As can lead to over-expansion, increasing risk exposure, and potentially diluting the bank's focus, negatively impacting its ROA (Keller & Harris, 2023). Therefore, while M & As can create financial synergies and growth opportunities, their effect on ROA depends on effective integration, strategic alignment, and management of post-merger challenges.

## Correlation Analysis

*Table 4.2: A Pearson correlation results*

		Financial Performance	Share capital	Operational synergy	Customer portfolio
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
Share capital	N	39			
	Pearson Correlation	.149*	1		
Operational synergy	Sig. (2-tailed)	.029			
	N	39	39		
Customer portfolio	Pearson Correlation	.251**	.420**	1	
	Sig. (2-tailed)	.000	.000		
Customer portfolio	N	39	39	39	
	Pearson Correlation	.291	.568**	.349**	.490**
Customer portfolio	Sig. (2-tailed)	.073	.000	.000	.000
	N	39	39	39	39

The result implies that increasing share capital and operational synergy increases financial performance in the selected commercial banks positively and significantly. Earlier studies like Brown & Harris (2021) highlight how proper funding together with smooth operations boosts bank profits alongside financial strength. Further, strong share capital backs lending while enabling investments and this tends to lift overall performance. Similarly, operational synergy achieved efficiently via leaner methods according to Smith & Patel (2022) helps cut expenses, enhance customer service and gain market edge.

An increase in customer portfolio boosts financial results in the studied banks but insignificantly. Yet, this impact remains minimal pointing to quality over sheer size in client portfolios. Therefore, as Johnson (2020) state, growth alone doesn't guarantee better returns without solid relationship handling or tailored services. Instead, strategic finance and operations matter more than how many customers are added. Therefore, in order to improve performance, institutions should strengthen capital reserves, streamline processes, while refining interactions with clients for lasting benefit.

**Regression Analysis**

The impact of share capital, operational synergy and customer portfolio on financial performance in Kenyan banks was determined.

*Table 4.3: Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502 <sup>a</sup>	.463	.452	.86104

a. Predictors: (Constant), Customer portfolio, Share capital, Operational synergy

*Source: Survey data (2025)*

The combination of share capital, operational synergy and customer portfolio explains 46.3% of the variation in financial performance among Kenyan banks. This therefore indicates a substantial explanatory power. The remaining 53.7% is attributable to other influences outside the model, such as shifts in regulations, macroeconomic conditions, risk management, cost structures or even external shocks.

**Table 4.4: ANOVA**

Model	SS	df	MS	F	Sig.
1 Regression	7.338	3	2.446	2.447	.038 <sup>b</sup>
Residual	47.995	35	1.371		
Total	55.333	38			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Customer portfolio, Share capital, Operational synergy

Source: Survey data (2025)

From the ANOVA results, the model was found to be significant at sig=0.038. This indicates that share capital, operational synergy and customer portfolio significantly affected financial performance in Kenyan banks.

**Table 4.5: Regression Coefficients**

Model		Unstandardized		Standardized		t	Sig.
		Coefficients		Coefficients			
		B	Std. Error	Beta			
1	(Constant)	0.330	0.109			3.033	0.004
	Share capital	0.119	0.116	0.200		1.178	0.047
	Operational synergy	0.201	0.222	0.309		0.046	0.036
	Customer portfolio	0.213	0.224	0.099		0.554	0.083

a. Dependent Variable: Financial Performance

Source: Survey data (2025)

As outlined in Table 4.5, the beta coefficients: share capital,  $\beta_1 = 0.119$  ( $t = 1.178$ ,  $p = 0.047 < 0.05$ ); Operational synergy,  $\beta_2 = 0.201$  ( $t = 0.046$ ,  $p = 0.047 < 0.05$ ) and customer portfolio  $\beta_3 = 0.213$  ( $t = 0.554$ ,  $p = 0.083 > 0.05$ ). This means that share capital and operational synergy had positive and statistically significant effect on financial performance of the 9 commercial banks which had undergone mergers and acquisitions in Kenya. However, customer portfolio was found to have a positive insignificant effect on financial performance thus, the equation predicting mergers and acquisitions on financial performance took the form;

**Financial performance = 0.330 + 0.119 Share capital + 0.201 Operational efficiency + 0.213 Customer portfolio**

### **Test of Hypotheses**

#### **H<sub>01</sub>: Share capital has no significantly affect financial performance of selected Kenyan commercial banks.**

The analysis presented in Table 4.5 reveals important insights into the influence of share capital on the financial performance of Kenyan commercial banks. To begin with, share capital was found to have a positive and statistically significant impact on financial performance, with a beta coefficient ( $\beta$ ) of 0.119 and a p-value of 0.047. This led to the rejection of the null hypotheses this finding implies that increasing a bank's share capital is likely to result in an improvement of 0.119 units in its financial performance. However, this conclusion is inconsistent with the findings of Inoti (2014), who argued that share capital had no meaningful impact on firms' financial outcomes. Additionally, Masud (2015) observed that performance varied across banks but did not directly link this variation to share capital, further diverging from the current findings.

#### **H<sub>02</sub>: Operational synergy has no significantly affect financial performance of selected Kenyan commercial banks.**

The results demonstrate that operational synergy was found to have a positive and statistically significant impact on financial performance. The regression output indicated a beta coefficient of 0.201 and a significance value of 0.036, which is well within the acceptable range for rejecting the null hypothesis. This suggests that enhancing operational synergy—such as through improved coordination, shared services, or efficient integration—can lead to a 0.201 unit improvement in financial outcomes. Ogada, Njuguna, and Achoki (2016) and Kimetto (2019), similarly found that operational synergies significantly boost bank performance.

#### **H<sub>03</sub>: Customer portfolio has no significantly affect financial performance of selected Kenyan commercial banks.**

The regression results showed that the customer portfolio share capital was found to have a positive and statistically insignificant impact on financial performance, with a beta coefficient of 0.213 and a p-value of 0.083. Since the p-value exceeds 0.05, the null hypothesis is accepted, meaning that the effect, though positive, is not statistically strong enough to be deemed significant. This supports Micheni (2013), who found no significant correlation between portfolio strategies and performance. However, it contrasts with Kimeu (2015), whose study indicated that the composition of customer portfolios had a significant effect on performance.

### **Conclusion**

Higher share capital improves loan capacity, risk handling and supports growth efforts clearly lifting performance. Further, share capital affects financial results strongly, especially through equity support and dividend policies. Consequently, a solid equity position builds trust among investors, opening doors to more funding while helping gain wider market reach. Moreover, with better capital buffers, banks operate securely, adapt faster and finally perform stronger over time.

On operational synergy and financial performance, cutting expenses, spreading risks and gaining scale boosted results clearly. Further, it is concluded that banks which align activities effectively, simplify workflows or make better use of assets usually see stronger profits and

performance. Therefore, by using synergies, institutions may lower spending, deliver services faster and still gain edge over rivals. When firms coordinate key areas like risk management, customer service and tech systems, they operate more smoothly plus build sturdier finances.

Finally, when we come to customer portfolio, account types, segmentation and behavioral patterns helped a bit though barely made a difference financially. Even though customizing services for certain users may boost satisfaction and keep them longer, it doesn't strongly lift earnings. Further, things like available banking products or knowing customer behavior matter for customer retention and service customization but they still don't consistently lead to bigger profits. Therefore, lenders should look at extra approaches aside from customer portfolio management if they want better returns.

### **Recommendations**

With regard to share capital, Kenyan commercial banks are advised to focus on boosting funds via planned equity drives like offering new shares or drawing stable investors. These moves help improve their financial standing and at the same time, they build resilience against market shifts and industry rivalry. Furthermore, regulatory bodies ought to back these efforts through supportive policies promoting funding increases and yet still uphold openness and sound management.

Kenyan banks should also explore operational synergies using strategic mergers, alliances or restructuring internally. This opens paths to efficiency. Further, when similar tasks are combined they help reduce redundancies, scale faster and respond better under pressure. Furthermore, instead of isolated efforts, linking teams with tech upgrades pushes smoother workflows forward. Consequently, focusing here means that apart from stronger profits the bank experiences steady expansion down the line. In conclusion, such moves prepare institutions well for shifts in Kenya's fast-moving and competitive banking scene.

When looking at customer portfolio, Kenyan commercial banks should learn to improve how they segment clients especially targeting those who bring higher returns or who show potential for a strong future. However, depending only on managing customer portfolio won't drive lasting profit. Instead, combining better operations with smart tech use and tighter spending controls creates stronger results. Moreover, putting resources into clear marketing about tailored services helps build trust and engage in cross-selling and upselling to enhance revenue from existing customers.

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