
By

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A Proposal submitted in partial fulfilment of the requirements of the Master of Business Administration Programme

Graduate School of Management

Faculty of Commerce

University of Zimbabwe

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Supervisor: Mr Chimwara
DEDICATION

To Godfrey, Blessing, Vimbainashe and Faith
DECLARATION

Student Declaration – I, MARTHA CHOTO, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the acknowledgements, references, and by comments included in the body of the report, and that this dissertation is therefore, my original work and has not been presented in part or in full for any other degree in any other University.

Signature.......................................... ................. Date: 13 March 2014

NAME: MARTHA CHOTO

STUDENT NUMBER: R979296O

Supervisor Declaration – I, Mr. M. Chimwara, confirm that the work reported in this dissertation was carried by the candidate under my supervision as University Supervisor. This dissertation has been submitted for review with my approval as University Supervisor.

Signature.......................................... ................. Date 13 March 2014

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Graduate School of Management
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First and foremost, I would like to thank God Almighty for taking me through this accomplishment. The road of completing the Master of Business Administration Programme was not easy but the Lord opened a way for me. I had been timed out of this programme, but a second chance was given to me to complete the studies. This is the Lord’s doing and it is marvellous in my eyes. I would like to express my sincere gratitude to my supervisor, Mr. Chimwara for the valuable input, guidance, support and patience as we undertook the journey of producing this output. Thirdly, I would like to thank all my CBZH colleagues for taking their valuable time in completing the questionnaires. To the executive management and shareholders of CBZH, my profound gratitude for taking time from your busy schedules to accommodate my personal academic schedule. To Mr N. Murota, the CBZH Economist, many thanks for providing your valuable information and financial data on CBZH. To Miss. R Manyeruke, a friend and proof reader I say special appreciation for all your energy, time, effort and contributions. I would also like to thank my maid, Ms T Mandere for helping look after my young children, whilst I undertook my studies. Lastly but not least, a special thanks to my husband for allowing me time off home duties to enable me to produce this dissertation.
ABSTRACT
Commercial banks have engaged in strategic mergers and acquisitions (“M&As”) for expansion purposes both domestically and internationally. M&As initiated by banks post the 2004 banking crisis period have changed the landscape of the Zimbabwean commercial banking sector. Commercial banks have been involved in strategic combinations mainly with the financial services sector companies. This mostly led to the formation of bank holding companies, bearing the name of the initiating bank.

The study investigates the impact of the M&As undertaken on the acquiring company value. The research was a case study of CBZ Holdings Limited (“CBZH”) for the period 2004-2012. CBZ Bank Limited (“CBZB”), the commercial banking subsidiary, existed prior to the formation of CBZH. CBZH acquired Datvest, Beverly Building Society, increased shareholding in Optimal Insurance, merged the bank with the building society and acquired the visa point of sale acquiring business from Standard Chartered Bank from 2005 to 2012.

The impact of M&As on the acquiring firm is a subject that has been researched extensively globally. The literature is divided over whether M&A enhances shareholder value or not. The majority of studies suggest not, though literature reviewed suggest that chances are better in emerging markets than advanced economies.

Both quantitative and qualitative research methodologies were used in the study. Questionnaires, face to face interviews, financial ratio analysis and the deposit market share analysis were used to evaluate the impact of M&As on CBZH. The employees, executive management and shareholders results showed a positive return on the company value. Findings from the ratio and market share analysis show a positive impact on the shareholder value. The price earnings ratio, however show CBZH being outperformed by Barcalys Bank of Zimbabwe. In conclusion, M&As undertaken by CBZH had an incremental impact on the company financial value, whilst the market perception underperformed. The research proposition is therefore largely accepted. We recommend that future studies on the case study seek factors that result in the counter being a sleeper and the extent to which the takeover of most of the Government accounts by CBZS in 2009 contributed CBZH profitability.
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LIST OF ABBREVIATIONS

BBZ  Barclays Bank of Zimbabwe Limited
CBS  Commercial Banking Sector
CBZB  CBZ Bank Limited
CBZH  CBZ Holdings Limited
C/I  Cost to Income Ratio
M&As  Mergers and Acquisitions
P/E  Price to Earnings Ratio
RBZ  Reserve Bank of Zimbabwe
ROA  Return on Assets Ratio
ROCE  Return on Capital Employed
ROE  Return on Equity Ratio
ZSE  Zimbabwe Stock Exchange
CHAPTER ONE
INTRODUCTION AND BACKGROUND

1.0 INTRODUCTION

Mergers and Acquisitions (“M&As”) have gained substantial importance in today’s corporate world, as companies expand and restructure their businesses with the aim of maximising value. This study seeks to investigate the impact of M&As on the acquiring company value. A case study of CBZ Holdings Limited (“CBZH”) will guide the overall analysis of post-acquisition values of acquiring banks in the Zimbabwean Commercial Banking Sector (“CBS”). A detailed background provided the context of the research before the statement of the problem. This is ensued by the research objectives and the research questions which guided the proposition. A justification of the study exemplifies the importance of the research before the limitations and the conclusion of the chapter.

1.1 BACKGROUND TO THE STUDY
1.1.1 Background of the Zimbabwean Banking Sector

The Zimbabwean CBS is relatively sophisticated in nature, comprising of local and international players (Makina, 2009). The Global Economy Issue (2013) highlights, that the Commercial Banking Sector (“CBS”) enhances the savings and investments of any given country. According to Makina (2009), the Zimbabwean banking sector can be split into three periods. These periods relate to the years 1980 to 1990, 1991 to 1999 and 2000 to 2008. The fourth period can be termed the multi-currency period from 2009 to date.

In the post-independence period, Zimbabwe had a developed banking industry, second to South Africa in Africa (Makina, 2009). The industry was dominated by two multinational banks, namely Barclays Bank of Zimbabwe Limited (BBZ) and Standard Chartered Bank (SCB). Other players included Zimbank, Post Office Savings Bank (POSB) and the Bank of Credit and Commerce in Zimbabwe (BCCZ). Financial reforms were initiated during the implementation of the World
Bank/IMF sponsored Economic Structural Adjustment Programme (ESAP) between 1991 and 1999. Financial reforms were enacted through the removal of controls which existed, resulting in new entrants into the banking sector. Foreign banks however, still dominated the CBS. The third period from 2000 to 2008; saw the reforms being reversed (Makina, 2009). This period covered the banking crisis of 2004 and the hyperinflationary period to 2008.

The fourth period from 2009 to date saw the introduction of the multi-currency regime, where the Zimbabwean official currency ceased to be recognized as the legal tender. The fourth period from 2009 to date saw the introduction of the multicurrency regime, where the Zimbabwean official currency ceased to be recognized as the legal tender.

Table 1.1: List of Commercial Banks in Zimbabwe as at 31 December 2012

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Subsidiary of a bank holding company (Yes/No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural Development Bank of Zimbabwe (Agribank)</td>
<td>No</td>
</tr>
<tr>
<td>2. Allied Bank</td>
<td>No</td>
</tr>
<tr>
<td>3. Banc ABC</td>
<td>Yes</td>
</tr>
<tr>
<td>4. Barclays Bank of Zimbabwe Limited</td>
<td>No</td>
</tr>
<tr>
<td>5. CBZ Bank Limited</td>
<td>Yes</td>
</tr>
<tr>
<td>6. FBC Bank Limited</td>
<td>Yes</td>
</tr>
<tr>
<td>7. Interfin Banking Corporation Limited (under curatorship)</td>
<td>Yes</td>
</tr>
<tr>
<td>8. Kingdom Bank Limited</td>
<td>Yes</td>
</tr>
<tr>
<td>9. MBCA Bank Limited</td>
<td>No</td>
</tr>
<tr>
<td>10. Metbank</td>
<td>No</td>
</tr>
<tr>
<td>11. NMB Bank Limited</td>
<td>Yes</td>
</tr>
<tr>
<td>12. Stanbic Bank of Zimbabwe Limited</td>
<td>No</td>
</tr>
<tr>
<td>13. Standard Chartered Bank of Zimbabwe</td>
<td>No</td>
</tr>
<tr>
<td>14. TN Bank Limited</td>
<td>Yes</td>
</tr>
<tr>
<td>15. Trust Bank Limited</td>
<td>Yes</td>
</tr>
<tr>
<td>16. ZB Bank Limited</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Zimbabwe

Currently, the local banking sector is quite diversified, comprising of 22 operating banks, 16 asset management companies and 150 micro finance institutions (RBZ, 2013a). The operating banks comprised of 16 commercial banks, 3 building societies, 2 merchant banks and 1 savings bank. There are six actively listed banks on the local bourse. These are Barclays Bank of Zimbabwe Limited and bank holding companies namely ABC Holdings Limited, CBZ Holdings Limited,
FBC Holdings Limited, NMBZ Holdings Limited and ZB Financial Holdings Limited. Two banking entities have been suspended from the Zimbabwe Stock Exchange ("ZSE") namely Trust Holdings Limited and Interfin Financial Services Limited (ZSE, 2013a). The suspended banking counters are holding companies with various interests in the financial services sector. Table 1.1 shows the list of commercial banks in the country as at 31 December 2012. The banking sector has experienced a number of M&As and this has become a common phenomenon in most of the countries worldwide (Economy Watch, 2010). In Zimbabwe, the CBS witnessed a number of M&As post the 2004 banking crisis period, a phenomenon which was not prevalent in the past. This led to the formation of bank holdings companies as banks sought to diversify into the financial services sector acquiring insurance, securities, building societies and asset management companies.

1.2.2 Zimbabwean Banking Sector Regulatory Agencies

Banks play an intermediary role in any economy and are supervised and regulated closely to protect the diverse stakeholders’ interests (Jimmy, 2008). The regulation of the banking sector in Zimbabwe falls under the Ministry of Finance ("MoF"), being handled through the Reserve Bank of Zimbabwe ("RBZ") (ZSE, 2013b). The Banking Act, with special reference to Section 45(1)(c), has empowered the RBZ to oversee associate companies of banking institutions, thus facilitating the supervision of banking institutions on a consolidated basis (Parliament of Zimbabwe, 1999). The core primary function of the Central Bank is to ensure monetary stability, act as the banker and advisor of the government, act as the bank of last resort and the promotion of a sound financial system (Jimmy, 2008). The MoF’s role is to advise the Government of Zimbabwe ("GoZ") on the fiscal operations together with cooperating with the RBZ on the monetary policy matters (ZSE, 2013b). To facilitate the enhancement of the RBZ, two legislative acts were passed in 1999, namely the Reserve Bank Act [Chapter 22: 15] and a new Banking Act [Chapter 24: 20], which related to the banking sector operations and supervision (ZSE, 2013b). The government on 6 April 2010 signed a bill that saw the setting up of the RBZ board of directors which is chaired by the RBZ Governor and a Monetary Policy Committee which has representation of the MoF (ZSE,
2013b). In addition, the RBZ is also in charge of the exchange control matters as directed by the Exchange Control Act.

The operating environment of the banking sector is constantly changing. The environment compounded with the banking crises experienced have made the regulatory authorities to constantly change the roles and structure of the players in the banking sector (Makina, 2009). Zimbabwean commercial banks are required to make periodic submissions to the RBZ, mainly through the Exchange Control arm. Exchange control submissions are carried out through the CEBAS system on a daily, weekly, monthly, quarterly, semi-annually and annually or adhoc in compliance with the requirements. The RBZ Banking Licensing, Supervision and Surveillance unit has a mandate to ensure a sound banking system and financial system as well as monetary stability (RBZ, 2013b). The unit carries out on and off site banks supervision. There is need for supervisory authorities to continuously look out for activities that expose banks to excessive risk. The RBZ issues periodic circulars and monetary policy statements to manage risk.

1.2.3 M&As undertaken by the Banking Sector

The M&As in the Zimbabwean banking sector are guided by the Competition and Tariff Commission through the Zimbabwe Competition Act (Chapter14:28) and the RBZ Banking Act. The Zimbabwe Competition Act (Chapter14:28) section 34 provides for notification prior of a merger, whilst the RBZ licenses and approvals M&As of banks (Parliament of Zimbabwe, 2001). It is mandatory that the banks fulfil the regulatory procedures prior to engaging in these strategic combinations.

The Zimbabwean banking sector experienced a significant number of M&As activity post the 2004 banking crises era. According to RBZ (2012) during the presentation of the Mid Term Monetary Policy, the Central Bank Governor alluded to the fact that M&As had become a strategic option. The RBZ advocated that banks with limited capacity to meet the minimum capital requirements opt for M&As by a financially stable bank, failure of action will be taken in terms of the Troubled Bank and Insolvent Resolution Framework (RBZ, 2012). The year 2004
also presented challenges to the regulatory authority following cases of mismanagement and fraudulent activities which culminated into a banking crisis (RBZ, 2005).

Table 1.2: Examples of mergers and Acquisitions undertaken by the Zimbabwean CBS

<table>
<thead>
<tr>
<th>Year</th>
<th>Merger/Acquisition</th>
<th>New Name</th>
</tr>
</thead>
</table>
| 2005 | • The acquisition of Century Holdings Limited (a banking institution) by CFX Financial Services emanating in reverse listing  
• Acquisition by CBZ Holdings Limited of Datvest Asset Management  
• FBC Holdings Limited acquisition of 60% share in Zimbabwe Building Society  
• Acquisition of Century Holdings Limited by CFX Financial Services through a reverse listing. | • CFX Financial Services Limited  
• CBZ Asset Management t/a Datvest  
• FBC Building Society  
• CFX Financial Services Limited |
| 2006 | • ZB Financial Holdings merger with Intermarket Holding units namely Intermarket Bank, Building Society, Reinsurance, Life Bank Zambia, | • ZB Bank, ZB Building Society, ZB Life and ZB Reinsurance |
| 2007 | • Acquisition of Beverly Building Society by CBZ Holdings Limited | • CBZ Building Society |
| 2008 | • Acquisition of Trustfin by TN Bank Limited  
• Kingdom Financial Services merger with Meikles Africa Limited | • TN Bank Limited  
• Kingdom Meikles Africa Limited |
| 2010 | • CFX Financial Services acquisition of a 51% stake by Interfin Banking Corporation. The transaction resulted in Interfin, the new entity, listing on the ZSE through a reverse listing of CFX Financial services.  
• Acquisition by Ecobank Transnational Incorporated of a 70% shareholding in Premier Finance Group (a bank holding company for Premier Banking Corporation) | • Interfin Banking Corporation Limited  
• Ecobank Zimbabwe Limited |
| 2012 | • Acquisition of TN Bank Limited by Econet Wireless  
• Acquisitions of the Visa Point of Sale Acquiring Business from Standard Chartered Bank of Zimbabwe by CBZ Bank Limited  
• Acquisition of a significant share by AfriAsia in Kingdom Zimbabwe Limited | • TN Bank Limited  
• CBZ Bank Limited  
• Visa Point of Sale  
• AfriAsia Kingdom Limited |

Sources: Zimbabwe Stock Exchange, Reserve Bank of Zimbabwe Monetary Policy Statements
The period from 2004 resulted in the RBZ taking charge of the supervisory and licensing of banks role from the MoF after the passing of the Financial Laws Amendment Act (Parliament of Zimbabwe, 2004). The CBS has also experienced a sizeable number of M&As, which strengthened the balance sheets of the combined institutions. These M&As are mainly of a horizontal nature as the merging entities are usually involved in the same line of business. Major examples of M&As experienced in the Zimbabwean CBS are as shown in Table 1.2.

On the other hand, like in a marriage set up, M&As relations may turn sour or by consensus demergers and divestitures may be experienced. Major examples of demergers and divestitures experienced in the banking sector are shown in Table 1.3.

Table 1.3: Major Examples of Demergers and Divestitures undertaken by the CBS

<table>
<thead>
<tr>
<th>Year</th>
<th>Demerger</th>
<th>New Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Kingdom Bank Limited demerged from Kingdom Meikles Africa Limited and ceased being a wholly owned subsidiary</td>
<td>Kingdom Bank Limited</td>
</tr>
<tr>
<td>2012</td>
<td>TN Bank Limited demerger from TN Holdings</td>
<td>TN Bank Limited</td>
</tr>
</tbody>
</table>

Source: Zimbabwe Stock Exchange

The M&As initiated in the CBS, have resulted in the majority of them resulting in the formation of bank holding companies. Notable bank holding company examples are ZB Financial Holdings Limited, FBC Holdings Limited, and NMBZ Holdings Limited. Bank holding companies using funds from the banking entities are governed by the banking laws (RBZ, 2009). The growth of M&As in the Zimbabwean banking sector has mainly been driven by the deregulation in the financial market, market liberalisation and the need to meet the prescribed minimum capital requirements, among a number of other factors. There has been mixed results on the performance of merged banks, with some being successful and others failing resulting in demergers and divestitures.
1.2.4 Significance of the Period 2004-2012

The period under study coincides with the period from the 2004 banking crises era that saw nine financial institutions being placed under recuperative curatorship (RBZ, 2005). The year 2004 also saw the department which was in charge of bank licensing in the MoF being co-opted within RBZ, for effective surveillance and supervision of banks. M&As undertaken by banks during this period resulted in the formation of bank holding companies, a phenomenon which was not prevalent in the past. During this phase CBZH also undertook M&As growth strategies, expanding from a commercial bank to a group company.

1.3 PROBLEM STATEMENT

CBZH undertook M&As with players in the financial services sector during the period 2004 to 2012. The M&As undertaken by CBZH resulted in the company having direct linkages with other players in the financial services sector. The motives for such transactions have not been the subject to much scrutiny. This has posed the possibility of management pursuing M&As for reasons other than the maximization of value. Furthermore, the incremental value realized from each M&A undertaken might not have been investigated as CBZB continued being the financially dominating subsidiary of CBZH. The paper seeks to verify whether the M&As initiated through CBZH, a commercial bank holding company have enhanced the company value.

1.3.1 The Zimbabwean Case Study of CBZH

1.3.1.1 History of CBZH

The history of CBZH is incomplete without the mention CBZ Bank Limited (“CBZB”). CBZB was established in 1980 as the Bank of Credit and Commerce in Zimbabwe (BCCZ), between the GoZ and the Bank of Credit and Commerce International (BCCI) on a 49:51 shareholding basis respectively (ZSE, 2013c). In 1991, the GoZ acquired the total ownership following the collapse of BCCI and changed the name to the Commercial Bank of Zimbabwe. The year 1998 also saw the Bank’s shares being listed on the Zimbabwe Stock Exchange (ZSE) on 29
June 1998 and it becoming the third largest bank (Imara Asset Management, 2011). CBZH came into being in 2005 through a share swap and reverse listing on the ZSE, with the bank becoming a wholly owned subsidiary of the company. The Bank was rebranded to CBZ Bank Limited in 2005.

1.3.1.2 Overview of CBZH
CBZH was formed as an investment company to increase shareholder value. The M&As undertaken by CBZH resulted in the company having direct linkages with other players in the financial services sector. CBZH's market capitalisation position is that of one of the biggest companies listed on the ZSE and largest diversified financial services group in the country. M&As have continued to be a dominant growth strategy for companies worldwide mainly in pursuit of increased shareholder value by the key vigilant stakeholders (McDonald, Coulthard and de Lange, 2005). The study of CBZH has been carried out to verify the value gains realised by the company from undertaking these business strategies. The company having expanded in size over the past years through M&As to be the largest financial services group in Zimbabwe, has this expansion been translated into a positive impact on the value of the entity is what this paper intends to ascertain?

1.3.1.2 M&As of CBZH

CBZH commercial banking unit, formerly known as the Commercial Bank of Zimbabwe Limited t/a Jewel Bank was rebranded to CBZ Bank Limited in 2005. CBZB offers commercial banking services to corporate and individual clients. CBZB was acquired in 2005 using a share swap of one CBZB share for every two thirds CBZH share value (Imara Asset Management, 2011). The two thirds contribution value of CBZB in CBZH Limited signifies the relative importance of the
commercial banking arm in the holding company. CBZB contributes the majority of the group revenue, contributing 82% of the group’s total turnover as at 31 December 2012 (CBZ Holdings Limited Audited Financial Statements, 2013). The 2012 audited financial statements indicate that CBZB recorded USD117.9 million as core capital surpassing the USD25mln required by the regulatory authority, the Reserve Bank of Zimbabwe at as 31 December 2012 as well as meeting the ultimate USD100 million to be attained by all the commercial banks by 30 June 2014. The bank has grown to be the largest in Zimbabwe in terms of the asset base, geographical spread, deposits and advances.

Datvest Asset Management, a wholly owned subsidiary of CBZH, was acquired in 2005 from Interfin Holdings Limited for Z$100 billion in cash and 7.5 per cent shareholding in CBZB (Mberi, 2005). The company was rebranded to CBZ Asset Management in 2010 though retaining its trading name Datvest. The asset management company core business is to invest on behalf of their customers pooled funds into securities with the matching financial returns, levying clients for these services. According to [www.datvest.co.zw](http://www.datvest.co.zw), Datvest operations have remained mainly independent operating autonomous as a subsidiary within the group.

CBZH acquired the absolute shareholding of Beverley Building Society on 1 January 2007 from the previous owner Andrew Weir (RBZ, 2013b). Beverley was the second largest building society in 2007 after the Central African Building Society (CABS). The building society was acquired for GBP3.75 million (CBZH Agreements, 2006). CBZH acquired the company (subsequently rebranded to CBZ Building Society) to expand its portfolio to offer mortgage finance loans and to spread geographically through a branch network of 50 branches (RBZ, 2013b).

CBZH had a shareholding of 40 per cent in Optimal Insurance Company since the formation of the company, which was later increased to the current 58.2 per cent in 2009. Optimal insurance business offers short term insurance services for personal valuables, motor vehicles, properties, agricultural and marine insurance, and it works closely with CBZB ban assurance unit. The company was rebranded in 2012 to CBZ Insurance Company.
CBZH operationally integrated CBZB and CBZBS in 2010 to consolidate activities, enhance economies of scale and for cost containment measures (CBZH Internal Circular, 2010). However, it is important to note that this merger was legalised in 2013 (CBZH Internal Circular, 2013). The absorption merger resulted in the mortgage finance unit becoming the Home Loans Division within CBZB, with branches being housed under the Retail Banking Division. CBZB took over the Visa Point of Sale (POS) Acquiring Business from Standard Chartered Bank of Zimbabwe (Stanchart). Prior to the acquisition, CBZ and Stanchart were the only two banks offering Visa Point of Sale (POS) Acquiring Business in Zimbabwe. This business entails the convenience of effecting payment by a card both domestically and internationally.

1.3.1.3 CBZH ORGANISATIONAL STRUCTURE
The Group Chief Executive Officer (GCEO) is in charge of the group operations with the Managing Directors of the subsidiaries reporting to the GCEO. Support functions of the group subsidiaries are placed under CBZH reporting structure. These are the Corporate Affairs and Training, Human Resources, Risk Management and Information Technology Divisions which report directly to the GCEO. The subsidiaries were left to concentrate on their core business functions. The company maintained the executive management and the reporting structures of the acquired subsidiaries in place post M&A period for business continuity purposes and minimisation of key staff turnover in the subsidiaries. The current CBZH organisational structure is as shown in Figure 1.1.
1.4 RESEARCH OBJECTIVES

The research evaluates the post-acquisition value of the M&As initiated by commercial banks, to establish if such decisions increased shareholder value. The study sought to verify whether the M&As undertaken by CBZH in particular enhanced the post-acquisition company value. The following are the main research objectives:

a. To examine the impact of the M&As on financial performance between 2004 to 2012;
b. To view the changes in the market share of CBZH, using CBZB as a proxy;
c. To establish executive management motives of undertaking M&As;
d. To investigate the stakeholders expectations and establish the extent to which they were met through undertaking these M&As;
1.5 RESEARCH QUESTIONS

The verification of the followings research questions was the aim of the study:

a. What changes in the financial return of CBZH were evident during the period 2004-2012?
b. What were the changes in market share of CBZH?  
c. What are the motives of undertaking M&As? 
d. What were the stakeholders expectations and the extent to which these expectations were met through the M&As undertaken?

1.6 RESEARCH PROPOSITION

There is a positive relationship between the value of the acquiring company and M&A.

1.7 JUSTIFICATION

There are various justifications for this study. The rationale of the research was based on the need for stakeholders involved in undertaking M&As in the CBS to be vigilant of the aim to enhance the value of the company post M&A period. The following are some of the justifications:-

a. CBZH as a group has invested in the financial services sector through M&As after the banking crisis of 2004 growing to become the largest financial services group in the country. Growth through diversification can be misleading in terms of the real value attached to the company. An understanding of how various stakeholders value these business strategies will give a clearer picture of whether value was indeed enhanced. This research intends to bring out how different stakeholders value these M&As in addition to the financial ratio and market share analysis. Furthermore, there is no study in the literature to my knowledge that has examined this very important issue from the perspective of CBZH.
b. The study intends to ensure that the executive management will have greater responsibility in evaluating M&As in light of the consequences on shareholder value thus reducing the likelihood occurrence of the agency problem.

c. From a shareholder perspective, the study seeks to ensure that shareholders are vigilant of the impact of the approved M&As on overall company performance. In addition, highlight the areas of scrutiny for potential M&As to shareholders so that they make decisions from an informed point of view.

d. The study seeks to also verify results from prior studies on M&As.

e. Benefits from M&As can be realised in the long run, thus the period of study of 2004-2012 will capture these changes, in the short, medium and long term.

f. The present study seeks to improve the notion that M&As benefits can be company specific and situational thus the results are not expected to cut across all the commercial banks initiated M&As in Zimbabwe.

g. The research will improve an understanding of M&As namely the benefits and challenges of these business strategies. This will in turn help provide a strategic framework for the CBS as a guide for an effective M&As implementation.

h. Lastly the research is expected to contribute to the academic fraternity on the impact of M&As on the value of the acquirer in the CBS in Zimbabwe and as a case in the developing world.

1.8 SCOPE OF RESEARCH

The need to qualify and quantify the gains (losses) thereof accruing to the acquiring company, the study covered CBZH employees, shareholders and executive management as well as made use of the financial ratios and market share analysis. The study used accounting methods through the financial ratio and market share analysis, structured interviews for executive management and shareholders together with questionnaires for the employees. The research will cover the period from the year 2004 to 2005.
1.9 LIMITATIONS OF THE STUDY

The study was carried out with the researcher being aware of the limitations. Firstly, the CBS operating environment is constantly changing. These changes might overtake the recommendations of the study, making them irrelevant. Thus the recommendations for this research are valid for the period under consideration, from 2004 to 2012. Secondly, the period of study relates to the post banking crisis period of 2004, which was followed by the hyper inflationary environment to the current multi-currency regime which came into effect in 2009. The Zimbabwean CBS underwent through a period of impeded development in the 10 years to 2009 due the hyperinflationary environment which prevailed in the economy (Chikoko and Mangwendeza, 2012). The researcher will capture changes in the various periods and cite the different effects. The role played by timing will also be considered over the two distinct operating environments namely the period prior and after the year 2009. Thirdly, the study was undertaken using results of one company, which has its own attributes distinct from other players in the market such as the market share composition, deposit base, customers and management just to mention a few. Results from this study may not be generalised across other players in the Zimbabwean CBS who undertook M&As as business growth strategies. Fourth, the research also required that the respondents be in a position to answer the questions hence should have the requisite knowledge and information to do so. All the respondents were considered literate as they are all professionals. In the instances where the respondent was not clear, the researcher clarified the issue on hand. Fifth, the researcher will target employees in Harare, where about 70% of the employees reside. Besides the employees being concentrated in Harare, the company constantly relocates employees across the regions thus most of employees based in Harare have worked from other work stations outside the capital city. The executive management is all based in Harare, hence use of respondents in Harare. Lastly, for the sample of the shareholders, the four top institutional shareholders who constitute more than fifty four per cent of the company shareholding were considered the sample size, with two being nonresidents of the country and the others being resident in the country. The sample interviewed was for the two local shareholders. Their responses were
considered to be representative of the other counterparts. Furthermore, being resident in the country, these were considered to have a clearer oversight of the company operations as opposed to their nonresident counterparts.

1.10 STRUCTURE OF THE STUDY

The structure of the paper is as follows:

Chapter one deals with the topic through the background view of the M&As in the Zimbabwean CBS in general over the period 2004-2012. The problem statement captures the issues on hand with regards to M&As value enhancement motive. The research objectives and questions will act as a guide to what the research aims to achieve. Chapter two reviews the literature of the various authors on the impact of M&As on the acquiring company value and the results thereof. Comparisons will be made and literature gaps highlighted. Chapter three explains the various methods of data collection and presentation. Chapter four present findings of this study and bench mark them against the set objectives and past literature studies. Lastly, Chapter five draws conclusions basing on the results attained. The findings present ground for recommendations and areas of further study.

1.11 SUMMARY

The chapter viewed the M&As initiated by the Zimbabwean CBS. A background overview of the commercial banks initiated M&As was given. The research objectives and the problem statement set the tone for the study against which the results will be measured and recommendations be based on. The limitations of the study were highlighted to guide the reader’s expectations. The ensuing is an in-depth review of literature related to M&As theory and practice, especially in the CBS.
CHAPTER TWO
LITERATURE REVIEW

2.0 INTRODUCTION

The post banking crisis period in Zimbabwe resulted in a significant number of indigenous commercial banks forming bank holding companies by undertaking M&As as growth strategies. M&As formed part of the commercial banks’ business strategies as they sought to expand, relate to economic changes and meet regulatory capital requirements. A common view of M&As is that they are stimulated by the firms’ objective to obtain more benefit from the combined firms compared to their total value when operating independently. The chapter will focus on the study of the effect of M&As on the acquiring company value post acquisition period. Definitions, theories, drivers of the M&As globally and within the banking sector will be discussed. Empirical evidence of the impact M&As have on the book and market value of the acquiring firm will be highlighted. A case study analysis of the banking sector and literature gaps will be discussed prior to the conclusion of the chapter.

2.2 DEFINITIONS

Roberts, Wallace & Moles (2010) define a merger or an acquisition as a business combination of two or more firms into a new company. The terms ‘merger’, ‘acquisition’, ‘buyout’ and ‘takeover’ are used interchangeably (Sudarsanam, 2003:2-3). Sudarsanam (2003) points out definition differences in the words. A merger refers to the combination and sharing of resources to achieve set goals, with each shareholder retaining its business share (Sudarsanam, 2003). The merger definition according to Roberts, Wallace & Moles (2010) is the combination of at least two companies into a newly formed single entity. Gaughan (2007) defines a merger as the survival of one company after the combination of two or more such companies, usually the acquiring company. The definition of a merger in this study is the combination of at least two companies, with the survival of the acquiring company which was in existence prior to the merger.
Ray (2013) refers to an **acquisition** as the buying of one company by another. An **acquisition** is also known as a takeover or a buyout, which is the buying of one company by another (Roberts, Wallace & Moles, 2010). The term **acquisition** refers to the taking over of the shareholding of the target firm (Sudarsanam, 2003). According to Chunlai Chen and Finlay (2003), two forms of acquisitions exist which are the assets and share acquisitions. **Asset acquisition** relates to the purchase of all or part of the target company’s assets; with the acquired company remaining as a separate entity thereafter. The **share acquisition** relates to the buying of a percentage ownership in the target firm enabling the influence of management of the target firm. The meaning of an **acquisition** in this study is the buying of one company by another, with the buyer assuming a controlling stake in the target company (51-100% shareholding).

M&As can be classified according to their business expansion strategy (vertical, horizontal or conglomerate), geographic scope (cross border or domestic), legal status of the targets or bidders (private or public), ownership control (full or partial) and legal origins of the targets and bidders.

### 2.2.1 Types of M&As

The **horizontal type** of M&A refers to a combination of at least two firms that are in direct competition and sharing the same products and markets (Ray, 2013). **Horizontal M&A** involves the coming together of direct rivals (Gaughan, 2007). According to Economy Watch (2010), M&As in the banking sector are of a horizontal type as the combined entities are involved in the same line of business. The example of a **horizontal M&A** is that of Chase Manhattan Corporation with J.P. Morgan & Company forming J.P. Morgan Chase & Company in the US banking sector (Economy Watch, 2010).

Ray (2010) refers to the **vertical M&A** as a combination which reduces the supply chain participants. DePamphilis (2011), states that this type of merger involves firms that form the value chain. **Vertical M&A** results in the combination of entities that have an existing or perceived buyer-seller relationship (Gaughan, 2007). An
example of a **vertical M&A** is of a commercial bank buying an insurance company (Ray, 2010).

According to Roberts, Wallace & Moles (2010), a **conglomerate** refers to the consolidation of companies that have no common business areas. It refers to the combination of unrelated enterprises at different levels of the product life cycle to reduce financial risks by portfolio diversification (Gaughan, 2007). This type of merger enhances the overall stability of the acquirer in terms of the total portfolio of diverse products and production processes (Ray, 2010).

### 2.2.2 Forms of M&As

There are different forms of M&As which are absorption, amalgamation, spin-off, equity alliance and strategic alliance (Ray, 2010). **Absorption or takeover** relates to a situation whereby two companies combine and one ceases to exist (Ray, 2010). The term **absorption** relates to two or more companies combining into an existing company (Chunlai Chen and Findlay, 2003). The merger of Firstar Corporation with U.S. Bancorp, resulting in the formation of U.S Bancorp is such an example of an absorption M&A type (Economy Watch, 2010). The **amalgamation** or merger by establishment form refers to a situation whereby two or more companies are combined and a new entity being formed thereafter (Chunlai Chen and Findlay, 2003). The merger of Mellon Financial Corporation with Bank of New York Company Inc to form Bank of New York Mellon is such an example in the United States of America (Economy Watch, 2010). The **spin off** form refers to the divesting of smaller parts of company businesses, with the main ones continuing to exist together with the new company formed post M&A period (Ray, 2010). **Equity alliance** refers to the combination of firms such that no firm loses its identity but one controls the affairs of another (Ray, 2010). The acquiring firm becomes the holding company (Ray, 2010). The **strategic alliance** form relates to companies combining for a specific strategic alliance with no balance sheet impact on the two companies.
2.2.3 Drivers of M&As in the Banking Sector

Sherman and Hart (2006) argue that the most important motive of engaging in M&As is to obtain synergy with the motive to maximise shareholder wealth. Santoso (2009) notes three key drivers in the financial sector in the Asian Pacific region. These are the equity and financial investors’ investment preferences, competition strategies and the responses to the regulatory environment. Resultantly, this has resulted in a 25 per cent annual increase in Asian Pacific M&As being experienced since 2003 (Santoso, 2009). Other key drivers in the banking sector are financial innovations, information technology changes as well as economic growth and investment climate (Global Economic Issue, 2013; African Development Report, 2012). In this study, focus is on business motives, whilst acknowledging the impact of managerial interests which also play a role.

The competitive landscape in the banking sector is constantly changing due to financial innovations, globalisation and information technology advancements (Global Economy Issue, 2013). Banks are pushing to gain competitive advantage through enhancing their monopoly and market power (Santoso, 2009). Gregoriou and Renneboog (2007) state that firms engage in horizontally motivated M&As deals to reduce competition. The merging of two large banks is a good example as it eliminates competition (Santoso, 2009).

Table 2.1: New Capital Requirements

<table>
<thead>
<tr>
<th>Category</th>
<th>Current Minimum Requirement (USD)</th>
<th>New Minimum Capital Required (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>12.5 million</td>
<td>100 million</td>
</tr>
<tr>
<td>Merchant Banks</td>
<td>10 million</td>
<td>100 million</td>
</tr>
<tr>
<td>Building Societies</td>
<td>10 million</td>
<td>80 million</td>
</tr>
<tr>
<td>Finance Houses</td>
<td>7.5 million</td>
<td>60 million</td>
</tr>
<tr>
<td>Discount Houses</td>
<td>7.5 million</td>
<td>60 million</td>
</tr>
<tr>
<td>Micro Finance Banks</td>
<td>1 million</td>
<td>5 million</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Zimbabwe
The regulatory environment is the main driver of bank M&As over the world (Santoso, 2009). The Global Economy Issue (2013) states that the role of banks has been changing due to globalisation; financial innovations and information technological advances; which have led to changes in the way the banks are regulated and supervised. In Zimbabwe, the RBZ continuously reviews the minimum capital requirements for banks. Table 1.1 shows the new thresholds as announced in the RBZ Mid-term Monetary Policy of 2012.

The respective bank categories are to comply in half yearly phases of 25%, 50%, 75% and 100% of the prescribed minimum equity until 30 June 2014 (RBZ Mid Term Monetary Policy Statement, 2012). The monetary policy presentation notes that those not able to meet the thresholds will have the options of entering into M&As within the banking sector. In Nigeria, the increase of minimum capital requirements of banks by the Central Bank of Nigeria (CBN) in 2004 from N2 billion to N25 billion by 31 December 2005, resulted in most banks engaging in M&As (Ebimobowei and Sophia, 2011). The numbers of banks in Nigeria were reduced from eighty nine to twenty five as banks sought to comply.

The new trends of investors in the developed markets according to Santoso (2009) are seeking an enlargement of investments in overseas and emerging markets to diversify their risks and returns (Santoso, 2009). These investors intend to lock up their investments for a longer term opts for M&As.

Value enhancement is another important factor that drives M&As in the banking sector. Sherman and Hart (2006) argue that the most important motive of engaging in acquisitions is to obtain synergy with the motive to maximise shareholder wealth. Synergy creation is evidenced in firms who are able to share competencies or resources.

2.2.4 Benefits of M&As in the Banking Sector

The researcher is aware of a significant number of benefits that accrue to banks resultant from M&As undertaken. This study will dwell on the major benefits which
include the enhancement of shareholder value, enhancement of efficiency, synergism, meeting regulatory requirements and growth or diversification (McDonald, Coulthard and de Lange, 2005; Fadzlan, 2004; Gaughan, 2007; Ebimobowei and Sophia, 2011).

The shareholder anticipates the M&As with other entities will result in the value being increased both in terms of book and market value. According to McDonald, Coulthard and de Lange (2005) M&As have continued to be a dominant growth strategy worldwide and this is mainly to increase shareholder value by vigilant shareholders.

Efficiency can be measured in terms of improved operational, financial and managerial efficiencies. Empirical evidence from Malaysian banks for the period 1998 to 2003, indicates an overall efficiency level of 95.9% within the banks that undertook M&As (Fadzlan, 2004). The performance is particularly pronounced in small and medium banks, with benefits emanating from economies of scale (Fadzlan, 2004). Closely related to efficiency benefit is synergism. Synergism exists whenever the value of the combination is greater than the sum of the values of its parts operating separately. According to Devos, Kadapakkam and Krishnamurthy (2009), gains realisable from synergy are at least 10 per cent of the combined firm value. This is mainly attributable to operational efficiencies and not taxation savings. Furthermore, within the operational benefits, most efficiency improvement is realised through reduction of expenses rather than revenue growth (Devos, Kadapakkam and Krishnamurthy, 2009). Gaughan (2007) concludes that financial synergy is the dominant motive for an acquirer to purchase another company.

The meeting of regulatory requirement is another benefit as banks comply with the regulatory authorities. According to Nzotta (2004) as cited in Ebimobowei and Sophia (2011), banks in Nigeria were opting for M&As to meet the new capital base of N25 billion.
Growth of banks through inorganic growth is faster than through the normal organic growth hence M&As are beneficial (Jimmy, 2008). Growth is achievable through geographical expansion, a larger customer base, product diversification, financial growth and having a pool of skilled human resources. According to Jimmy (2008), the growth of Access Bank involved in M&As is faster than Zenith Bank whose growth was organic. Eschenfelder and Hillier (2011) confirm the results that an acquisition is a profitable strategy for the acquiring company as there would be fewer choices available to the consumers hence prices are increased due to limited competition.

2.3 THEORIES OF MERGERS AND ACQUISITIONS

Various theories of M&As are put forward by different schools of thought. According to Weitzel and McCarthy (2011) the M&As theories are divided into two namely the value increasing and value decreasing theories (redistribution theories).

2.3.1 Value Increasing Theories

Ray (2010) states, that these business strategies are undertaken after the rational consideration of the underlying businesses which will in turn benefit both companies. According to Weitzel and McCarthy (2011), the value increasing theories add value to the acquiring firm post-merger period. The value increasing theories under consideration in this study are the Efficient Theory, Market Power and Corporate Control.

The efficiency theory is underpinned on the basis that both the acquiring and acquired entities will realise positive returns from the M&A deal (Weitzel and MacCathy, 2011). The gains are attained through synergies. According to Brealey, Myers and Marcus (2007), efficiency gains motivate companies to enter into M&As through synergies available from the combined company. The study of mergers by
Gugler, Mueller, Yurtoglu and Zulehner (2003) shows that increased profits are attributable to increasing efficiency and this is true for small firms.

The market power theory suggests that firms with a large market share can influence the market by charging higher prices and earning higher profit margins (Weitzel and MacCathy, 2011). The gains of the theory are obtainable through restricting competition, deterring potential future entrants and cross subsidisation of acquired business lines (Ray, 2010). Gugler et al. (2003) study show that an increase in profits is attributable to either increasing market power or increasing efficiency for both small and large corporates.

Theory of corporate control according to Weitzel and MacCathy (2011) highlights the motive behind M&A as taking over an underperforming firm, remove those managers who will have failed to capitalise on the opportunities to create synergies and improve the performance of its assets. The corporate control theory is partially based on efficiency theory (Weston, Mitchell and Mulherin, 2004). Differences exist between the two theories namely the efficiency theory is based on the existence of synergies whilst the corporate control dwells on management capabilities. Secondly the corporate control is likely to be a hostile takeover as the inefficient management in place is the source of the acquisitions, whilst this is not the case for the efficiency theory (Weston, Mitchell and Mulherin, 2004).

### 2.3.2 Value Decreasing Theories

Value decreasing theories can be divided into two namely the theories which assume that the bidder’s management is ‘boundedly rational’ or has self-serving interests (Weitzel and McCathy, 2011). Boundedly rational theories such as theory of managerial hubris and theory of managerial discretion, note that management have intentions to enhance the value of the acquiring company but are constrained by available information. Self-serving management theories such as the theory of management entrenchment and theory of empire building, consider that the management is rational but has selfish interests (Weitzel and McCathy, 2011).
The Hubris Theory relates to the bidder paying in excess of the target firm’s value because of overconfidence (Roll, 1986). Malmendier and Tate (2008) study support the notion that managers affected by the hubris are more likely to destroy shareholder value. According to Li and Tany (2010), in a study of 2,790 CEOs of diverse manufacturing companies in China, a positive relationship is found between CEO Hubris and risk taking. Hayward, Shepherd and Griffin (2006) note that though the hubris can lead to estimate errors, it enables the entrepreneurs to venture and select projects that might go unexploited.

The theory of managerial discretion according to Jensen (1986) states, that the presence of free cash flow (“FCF”) prompts managers to engage in decisions which might be unproductive. Management might overlook the need of undertaking due diligence in their decisions thus prompting them to settle for less productive projects, if the profitable ones are unavailable (Martynova and Renneboog, 2008). These decisions are less challenged by shareholders thus managerial discretion increases. Moeller and Schlingemann (2005) found evidence that cash offers are associated with stronger value enhancement post-acquisition unlike other forms of payment. Sudarsanam (2006) confirms the bidder shareholder returns are positive in cash offers and negative in share offers. The positive gains realised through cash offers are contrary to the theory expectations.

The theory of management entrenchment according to Weitzel and McCarthy (2011) argues that management enriches itself at the expense of shareholder value. Gompers, Ishii and Metrick (2003) note that firms with the strongest shareholders rights perform better than those with rights more favorable to management. Bebchuk, Cohen and Ferrell (2009) confirm that companies with higher levels of the entrenchment index are associated with large negative abnormal returns. These empirical results are consistent with the theory.

The theory of empire building argues that M&As are undertaken to increase the growth at the expense of the profit motive (Weitzel and McCarthy, 2011). Ray (2010) states that an analysis of the US merger waves until the turn of the century
indicate that the managerial power motive began to dominate the shareholders motive to increase profits. According to Hennessy and Levy (2003), there is strong evidence supporting the theory especially in cases were founder status is used as a proxy for empire preferences.

M&As are driven by various complex motives, varying from one deal to the other, thus proving difficult to be understood through any single theory. The study is based on the value maximising theories.

2.4 STAKEHOLDERS EXPECTATIONS IN MERGERS AND ACQUISITIONS

Ray (2010) states that apart from the shareholders, other stakeholders expectations should be satisfied by the management M&A decision. These stakeholders include employees, customers, public, government, industry analysts/press and board of directors. The stakeholders influence and significance on the M&As is as shown in Figure 1.1.

![Figure 2.1: Influenceability and significance of stakeholder groups](source)

These stakeholders’ impact on the performance of M&As affect the results during and after the post M&A integration announcement period. The management need to take note of the interests of the important stakeholders and ensure that they are protected to enhance value. The researcher is aware of other important stakeholders but will however focus on two namely the shareholders and employees in this study. Employees are mainly concerned with the quality of work post the M&A period (Ray, 2010). Schuler (2003) states the merger of H-P and Compaq success being hinged on a post integration plan that was put in place. This included the process of partnering from the top through announcements of the executive selections shortly after the merger announcement, thus increasing the insider knowledge of the new partner. These companies also resolved on the different working cultures. Fapohunda (2012) study in Nigeria Banking Industry shows that that human resources play an important role in M&As as the intended consolidation objectives may not be met if they are overlooked. The shareholders being the owners of the company are concerned with the increase in value of the company. (Bruner 2004) suggests that M&As can actually create value for the acquiring firm in the short and long term. On the contrary, Gadiesh, Ormiston and Rovit (2003), noted that at least half of the M&As deals undertaken ended up reducing the shareholder value.

2.5 STAGES OF MERGERS AND ACQUISITIONS

Sudarsanam (2003:3) introduces a five stage model which M&As should follow in order to maximise synergy gains between firms. These stages are corporate strategy development, organising for acquisitions, deal structuring and negotiation, post-acquisition integration as well as the post-acquisition audit and organisational learning (Sudarsanam, 2003:3). The study is investigating the last stage of auditing the M&As and the lessons from these business strategies.

The corporate strategy development stage requires proper planning and the alignment of the corporate strategy with the M&As strategy (Harding and Rovit,
Harding and Rovit (2004) study of over 1,700 M&As interviewing 250 CEOs show that less than a third of the CEOs had a clear rationale for the M&As undertaken and their long term financial gains. In conclusion, Albizzati and Sias (2004) note that the purpose of undertaking M&As need to be more strategic as opposed to the use of FCFs and reducing costs. The organising for acquisitions stage requires that the criteria for potential acquisitions be laid out which is in line with the strategic objectives (Sudarsanam, 2003). The screening process for the potential targets will be initiated at this phase. The deal structuring and negotiation stage involves the detailed analysis of the target firm and setting parameters of negotiations (Sudarsanam, 2003:6). At this stage that the duties of a third party are necessary to ensure that a rational outcome is obtainable (Sinickas, 2004). The post-acquisition integration according to Schuler (2003) should meet the five best practices namely the need to start planning early, paying considerable attention to leadership selection, getting an insider’s view of the knowledge networks and information flow, development of a clear, coherent and timely communications strategies as well as dedication of adequate resources to the transition management team. The merger of H-P and Compaq resulted in H-P to realising USD3 billion in savings within the nine months of the deal because of the lessons learnt from past large merger failures (Schuler, 2003). The post-acquisition audit and organisational learning evaluates the impact of the M&As on the acquiring company in the long term (Sudarsanam, 2003). The stage enables the firm to develop and effect new changes that will contribute to its performance. The present study is concerned with the post-acquisition audit period and evaluation (Sudarsanam, 2003).

2.6 EMPIRICAL REVIEW

The impact of M&As on the acquiring firm’s value is a study well researched. The various studies note positive, negative or no changes in the post-merger announcements valuations. Empirical evidence of some studies undertaken is discussed below and the results thereof.
2.6.1 M&As Measurement Methods

Akben-Selcuk and Altiok-Yilmaz (2011) note two measurement approaches employed in the M&As literature namely the stock and accounting based approaches. The stock based approach makes use of the stock market changes during the period of the announcement by calculating the gains (losses) in a given event period. The approach assumes that the stock market is efficient and parties involved in the M&As make informed decisions. According to Cording, Christmann and Weigelt (2010), event study method differs in attributes such as the length of the window viewed, level of stableness and calculation methods. On the other hand, the accounting based approach assesses the impact over a longer term through calculating changes in the financial measures. Tuch and O’Sullivan (2007), state that the strategic aim of business is to earn return on capital and these returns will eventually reflect in the accounting statements. Zollo and Meier (2008) study of 88 empirical studies between 1970 to 2006, identify 12 different approaches of measuring the impact of M&As. Notably, the three most used methods were the short term event window, long term accounting measure and long term event window, each with a 41, 28 and 19 percentage share respectively (Zollo and Meir, 2008). The account based method is used in this study.

2.6.2 Studies on Bidding Firms Returns in General

The research will look at some of the studies which verify the impact of M&As on the acquiring company value post announcement period.

2.6.2.1 The Impact of M&As on Acquirer Performance: Evidence from Turkey

The study by Akben-Selcuk and Altiok-Yilmaz (2011) comprising of 62 companies engaged in M&As activities from 2003 to 2007 in Turkey made use the stock market and the accounting methods to verify results. The companies in the sample are publicly listed on the Istanbul Stock Exchange (ISE). Using the stock market approach, consideration of different event windows is used to capture
varying information available over the different periods using regression analysis. The accounting approach made use of three ratios namely Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS) using a two year period prior and after were in use. The year of the M&As announcement is the base year. The accounting figures are adjusted by eliminating the industry median of companies which fall under the industry but not involved in M&As. The accounting approach made use of the change and intercept model to assess the changes in the profitability of acquiring firms. The conclusions using the stock market approach indicated the acquiring companies' performance exceeding the industry average returns. The results for shorter periods are however unconfirmed. The change model test using ROA and ROS support the hypothesis of having a significant change in the periods. The post-acquisition ROA and ROS were significantly lower than the pre-acquisition. The ROE results were not confirmed. The intercept model results show no significant difference pre and post-acquisition for acquiring companies. The accounting data support performance of the acquirer being affected by the M&As activities. The delimitations of the study are that public companies listed on the ISE were considered in the study. The ISE was considered to be small thus market efficiency might not prevail. Net income was used and not the actual cash flows. The period under consideration was considered short thus longer term benefits might not have been captured.

2.6.2.2 The Impact of Domestic M&As on Acquirer Shareholder’s Wealth in India

A study by Rani, Yadav and Jain (2013) in India over a period from 2003-2008, was based on the share performance evaluation of the domestic M&As in India. The objective was to evaluate the impact of M&As on the acquiring firm’s shareholders in the short run. The specific characteristics of the firms such as the role of the status of the target, the impact of the ownership structure (fully integrated in the acquiring firm’s operations or subsidiary), the effect of the financing method (cash or stock financed) and the form of the target firm (whether
public or private), were considered. The results of the study show that M&As were beneficial to the acquiring company during a 5 day event window, generating a statistically significant 1.60% Cumulative Average Abnormal Return (CAAR), whereas negative returns were experienced during the period (+2;+20) for all acquisitions. The results for different window periods vary and those basing on the status of the target firm. The study reaffirms the on-going debate on whether M&As are beneficial to the acquiring firm or not.

2.6.3 Studies on Specific Characteristics that Vary the Acquirer’s Returns

Many studies note the role the intrinsic characteristics of the acquiring firm and target firm play on the post-acquisition value. DePamphilis (2011) highlights that results from the acquiring firm perspective are largely situational. These returns vary according to attributes such as the type of target (private or public), size of the acquiring firm, mode of payment (cash or stock), number of transactions undertaken (several or not), impact of control (shareholding), impact of firms being related or unrelated and impact of country analysis (DePamphilis, 2011). Tuch and O'Sullivan (2007) also examine the impact of the characteristics of the bid on the post-acquisition performance noting superior performance in acquisitions paid for in cash, hostile takeovers larger target, with inconclusive evidence from related acquisitions. Below is the analysis of the impact of the selected characteristics of the acquiring company and the impact on the shareholder value.

2.6.3.1 The impact of the control stake in the target firm

Rani, Yadav and Jain (2013) state that abnormal returns are realisable in cases where the target firm operations is fully integrated with the acquiring firm, unlike in instances where the target firm operates as a subsidiary (50-99 per cent ownership). Martynova and Renneboog (2006) highlight that the bidding firm will accrue more value if the acquisition is complete rather than partial. However, Meyer and Estrin (2007) note that partial ownership is a means to attaining the full ownership, being increased gradually in stages. Gradual acquisition is undertaken from an informed position with the acquiring company gaining insider information of
the value and target management actions hence reduce the chances of overpayment (Meyer and Estrin, 2007). The impact of the control stake is inconclusive.

2.6.3.2 The impact of mode of payment

The results of a study by Rani, Yadav and Jain (2013) show that the long term benefits of firms using cash in purchasing a target are better in comparison to stock. Investors anticipate purchases from stock to underperform as stock financing is a signal that the shares are overvalued (DePamphilis, 2011). UK studies however indicate the reverse, with stocks outperforming cash financing (Martynova and Renneboog, 2008). This was attributed to the ownership concentration and supervision of actions of management by the large shareholders in the UK (Martynova and Renneboog, 2008). The results are inconclusive.

2.6.3.3 The impact of type of the target firm acquired (public or private)

Draper and Paudyal (2006) from their research in UK on publicly and privately held acquired firms over the period 1980 to 2001 conclude that the acquisition of a privately held company is an attractive option for increasing shareholder wealth. A study by Rani, Yadav and Jani (2013) showed that acquirers of domestic private firms’ earnings were higher as compared to their public counterparts. DePamphilis (2011) reaffirms that returns are often positive for private target firms.

2.6.3.4 The impact of the size of the acquiring company

DePamphilis (2011) highlights that there is an inverse relationship between the size of the acquirer and financial returns, with small sized bidders on average outperforming the bigger ones. He suggests that the possibility of management over confidence and empire building tendencies of large firms could be the driving force of the M&As. Over the past 20 years studies have shown that larger firms destroy shareholder wealth, with small firms creating value (DePamphilis, 2011).
Regardless of other attributes, smaller firms have returns on announcements 1.55 per cent higher comparing to the larger firms (Moeller, Schlingemann and Stulz, 2004). Empirical evidence is in agreement that smaller firms performance is better.

2.6.3.5 The impact of the role experience plays in M&As

The experience of acquisitions may not improve the long term performance of firms post acquisition. DePamphilis (2011) states that although experience is necessary, it does not have a significant impact on the success of the firm. The performance of acquiring firms engaging in a series of acquisitions declines with each additional acquisition (DePamphilis, 2011). The reason for such decline is attributable to the role hubris plays. Rovit and Lemire (2003) establish that frequent buyers regardless of economic cycles will increase the chances of success by 1.7 times than those who are not frequent (between 1-4 deals). Prior study results are not in agreement.

2.6.3.6 The impact of the country level analysis

Many studies undertaken were focusing on evidence from the US, UK and Europe. The study by Kumar (2009) shows that acquiring companies from developing countries such as South Africa, India and China gain more value from M&As than their counterparts in the developed nations. The basis for such performance suggest that M&As strategies are being used for strategic reasons in the developing nations, with the developed countries counterparts using them to eliminate competition, increase operational efficiency and synergies (Kumar, 2009).

2.6.3.7 The impact of related and unrelated companies

According to Akbulut and Matsusaka (2003) unrelated acquisitions benefits are seasonal. They note that positive significant average returns accrue to the bidder shareholders, whose values are destroyed in the following decades. Villalonga
(2004) study concludes that diversified firms actually trade at a large and significant premium. The studies on the specific characteristics of the acquirer and target showed mixed results. There is however need to note the composition of the set of companies selected, definition of terms as per author as well as the diversification measures (Villalonga, 2004).

Diverse considerations formed of the analysis of the M&As characteristics. The research will incorporate these terms in the M&As of CBZH, a case under study, with a view to substantiate the results.

2.7 STUDIES UNDERTAKEN IN THE BANKING SECTOR

Information on bank M&As provide evidence of gains that are attributable mostly to cost savings and not revenue enrichment (Houston et al, 2004 as cited in Bell, Brooks and Prokopczuk, 2013). Schiereck, Sigl-Grub and Unverhau (2009) explain that the relationship between bank reputation and the resultant wealth effects after undertaking M&As has no significant effect on average wealth. The empirical evidence below was undertaken in the developed and developing world, citing different attributes under study and the results thereof.

2.7.1 M&As in the United States of America Banking Industry

Zollo and Singh (2004) highlight a study of 228 sample acquisitions in the United States banking industry basing on the organizational learning theory and knowledge based approach. The purpose of the study was to view the impact of integration decision by the acquiring firm management on the post-acquisition performance. Assumptions of the management making the decision, the extent of integrating the target firm and replacement of key personnel were made. The results show a positive and strong relationship between knowledge codification and acquisition performance. In addition, ceteris paribus, there is a positive and significant relationship between the level of integration and performance, with the
replacement of top managers of the target firm having a negative impact on performance.

Mueller and Schiereck (2011) investigate the role of timing in the banking industry, the boom and financial crisis phase. The investigation carried out in the US from 2003 to 2009 on over 72 banks M&As, where US banks acquired other financial institutions. JP Morgan Chase & Co was identified as the crisis winner hence was used as a barometer in the analysis. The findings partially confirm that a well performing bank creates value through M&As, with the crisis period presenting opportunities in the form of targets being less costly and limited takers on the market (Mueller and Schiereck, 2011).

2.7.2 M&As in the European Countries Banking Industry

Diaz, Olalla and Azofra (2004) carry out a study to examine bank performance derived from the acquisition of another bank and a non-banking financial company in the European Union. The sample was of 1,629 banks during the period of 1993-2000 wherein 181 acquisitions were on record. The methodology of panel data is employed. The results from all bank mergers show that there are some efficiency gains, with an increase of ROA in the long term being evidenced. The combination of a non-banking institutions and banks split into bank commercial, savings and cooperative bank types indicate that the acquiring of financial institutions by the banks in Europe can enhance their profitability. A lag of at least two years is observed from the time of acquisition to the time when the change in performance is recorded.

Lepetit, Patry and Rous (2004) carry out a study on the stock market effects from changes in expected returns to bank M&As announced between 1991-2001 from 13 European countries. M&As are separated in strata using activity, geographic specialisation or diversification. The methodology of the bivariate GARCH was employed. The results show a positive and significant increase in the value of acquired banks together with market distinctions amongst the different types of
M&As. Further exploration of the sample of crossing M&As classification show that the combination of activity diversification and geographic specialisation reduce the probability of having a negative abnormal return.

Maditinos, Theriou and Demetriades (2009) carry a study on the merger effects of two banks in Greece namely Ioniki-Laiki Bank and Pisteos Bank in 1999 forming Alpha Bank. The research was undertaken in the short and long term. The data used in the short run covered 122 days of daily closing prices of namely Ioniki-Laiki Bank and Pisteos Bank (the merged banks) covering the period 4-1-99 to 30-6-99 before merger announcement and 128 days of Alpha Bank from 1-7-99 to 31-12-99 after announcement. The test for the long term merger effects was carried out from end of 1999 to the end of 2003 studying Alpha Bank financial statements, with using ratio analysis, in comparison with the banking industry statistics. The results of the study show that Alpha Bank is not only profitable, but also competitive within the banking industry (Maditinos, Theriou and Demetriades, 2009).

2.7.3 M&As in the Indian Banking Sector in Post Liberalisation Regime

Khan (2011) studies the impact of mergers on the acquiring banks pre-merger and post-merger using financial data for the three years before merger and three years after merger using the t-test with a 5% level of significance on four attributes. The year of the merger is considered the base year and excluded from the analysis. The accounting ratios used are the Net Profit Margin (NPM), Return on Capital Employed (ROCE), Return on Equity (ROE) and Debt Equity Ratio (DE), testing for the significance difference between their pre and post-merger performance. The study is made on two merger cases in the banking sector, with one selected from the private namely HDFC Bank Limited and the other from the public sector namely Punjab National Bank to evaluate the impact of the mergers. The study made use of the stratified random sampling to select the sample. Table 2.2 show the sample of the banks under study.
Table 2.2: M&As in the Indian Banking Sector in Post Liberalisation Regime

<table>
<thead>
<tr>
<th>Bidder Bank</th>
<th>Target Bank</th>
<th>Date of Announcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab National Bank</td>
<td>Nedungadi Bank Limited</td>
<td>1 February 2003</td>
</tr>
<tr>
<td>HDFC Bank Limited</td>
<td>Centurion Bank of Punjab Ltd</td>
<td>23 May 2008</td>
</tr>
</tbody>
</table>

Source: Khan (2011)

Khan (2011) evaluates the ratios of the separate banks before merger independently before combining their summed effect. The t-value results highlights that the performance of Punjab National Bank improved in all the ratios with the null hypothesis being accepted as there is a significance difference between the pre and post-merger NPM, ROCE, NPM and DE (Khan, 2011:43). The results of HDFC Bank Limited show an improvement on the ROE and the DE, with the null hypothesis being accepted for the NPM and ROCE (Khan, 2011:43). The researcher acknowledges the limitations of the study being over a short time frame and the need to consider more banks to attain better results. This study also acknowledge that there is a possibility of the bidder benefiting in the longer run instead of the timeframe used under the study.

2.7.4 The Efficiency Effects of Bank M&As in a Developing Economy – Evidence from Malaysia

A study of 10 ten domestic incorporated Malaysian commercial banks that engaged in the merger program from 1998-2003 using published balance sheet information is carried out (Fadzlan, 2004). According to Fadzlan (2004), results from the study show an overall efficiency level of 95,9% for the banks that are involved in M&As. However, during the merger year, the overall efficiency levels deteriorated in comparison to the pre-merger levels, with this being attributed to scale inefficiencies. The post-merger period efficiency improved. The performance is particularly pronounced in small and medium banks, with benefits emanating from EOS. Larger banks are recommended to downsize to benefit from EOS and
regulatory authorities to be cautious in the promotion of M&As for efficiency gains (Fadzlan, 2004).

2.7.5 M&As in the Nigerian Banking Sector

The CBN increased the minimum capital requirements of the Nigerian banks on 6 July 2004 from N2 billion to N25 billion with a deadline of 31 December 2005 to comply. According to Ebimobowei and Sophia (2011), the numbers of banks reduced from eighty nine to twenty five with most banks engaging in M&As in compliance with the statutory requirements. The study made use of the exploratory research, using secondary data with the analysis being descriptive. Out of the twenty five banks, fourteen were as a result of sixty nine combining through M&As. The state of the Nigerian banks as at 31 December 2006 highlights ten banks to being sound, five to being satisfactory, five to being marginal and the other five to being unsound. The study concludes that the CBN failed to meet the desired results. The study recommends that the government should plan its policies for the banking sector and strategise the promotion of M&As. In addition, the minimisation of fraud, corruption and inside abuses in the banking industry is also recommended (Ebimobowei and Sophia, 2011).

Jimmy (2008) study of the Nigerian banking sector, evaluating the impact of M&As in comparison to organic growth using Access Bank and Zenith Bank as case studies. Zenith Bank pursued organic growth whereas Access Bank growth was through M&As to meet the capital requirements of N25 billion as at 31 December 2005. Performance was measured using various financial ratios for the period 2003 to 2007. The case of Access Bank which engaged in M&As, data is collected over five years covering three years before the merger of Access Bank with Capital Bank and Marina International Bank Limited and two years post-merger. The results show that growth through M&As was higher. Zenith Bank maintained its quality performance, though growth was slower. The results were in line with the past literature on the growth through M&As comparing to organic growth (Jimmy, 2008).
The studies from Nigeria both cited the meeting regulatory requirements as the reason for undertaking M&As. The study from Ebimobowei and Sophia (2011) was generalised across the banks concluding that the M&As were a failure. The case study by Jimmy (2008) concluded inorganic growth fared better. The case study approach brought an in-depth analysis of counterparts under study. The researcher in this dissertation seeks to derive attributes which are based on a case study.

2.8 LITERATURE RESEARCH GAPS

The various studies were mainly to verify on whether M&As acquirer specific characteristics and M&As engaged by banks result in the improvement of the shareholder value during the post-M&A announcement period. The findings from various authors indicate inconclusive results on the specific acquirer characteristics of the impact of control stake in the target firm, mode of payment used, experience of the acquirer, impact of country analysis and that of related and unrelated companies. There is an agreement on the impact of role played by size and the type of target firm. Empirical evidence agrees that a M&A with a target private firm increases value. In addition, the smaller acquiring firms perform better in comparison to the larger firms.

The finding from the banks generally highlight the capture under review in the short to medium term. Various authors cite the need to carry out these studies over a longer period to capture the long term effects. The present study will be over a longer period thus adding to empirical evidence.

The various studies in the banking sector make use of the accounting ratios as methodology. These studies mainly deal with the profitability ratios and make conclusions using financial analysis data. The current study intends to add the market value from the perspective of the employees, shareholders and executive management perspective, as value entails both the book and market value.
Consideration of the role of time in the United States during the boom and financial crisis by Mueller and Schiereck (2011) is another issue to verify in the study. This study will not only look at the role of time from these aspects but add the role of different currencies experienced in Zimbabwe namely the use of the Zimbabwean Dollar before the year 2009 and the United States Dollar (multiple currencies) after 2009.

Most of the studies on M&As in the banking sector are limited to a particular M&A, and not a series, whereby a merger or acquisition is undertaken in series. The case of CBZH will analyse the impact of the three acquisitions and one merger undertaken by the company with players within the financial services sector, post 2004 banking crisis period. The results will be used to substantiate the role experience play in M&As value addition, whose result was inconclusive in the prior studies.

The impact from M&As between banks and banks as well as banks and non-financial institutions is considered. This is based against the results of Diaz, Olalla and Azofra (2004) in the European countries whereby empirical evidence show an increase in profitability. The result of the role played by the company being publicly or privately owned is also compared to the results of Khan (2011) in the Indian Banking sector.

The present study is investigating in detail the impact of M&As in the Zimbabwean CBS, as a case study of CBZH a bank holding company, for the period 2004-2005. The purpose of the study is to gather an in-depth analysis of company specific benefits in line with the studies of Jimmy (2008) in the Nigerian banking sector.
2.9 CHAPTER SUMMARY

Companies the world over have engaged in inorganic growth strategies which include the undertaking of M&As to expand business operations. These strategies can be undertaken amongst domestic companies or involves cross borders companies. Despite the inconclusive results on the benefits realisable from M&As, firms have continued to engage in these business strategies. Banks have also consolidated to enhance their value. The case study of CBZ Holdings Limited, a bank holding company will investigate the study of M&As impact from a company level analysis, results which will not be generalised. The methodology of carrying out the current research will be highlighted in the next chapter.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 INTRODUCTION

The methodological procedure used of solving the problem under study will be discussed in this chapter. The activities and procedures undertaken were highlighted in relation to the research. The research method and instruments chosen will be highlighted together with the target population, sampling techniques and procedures to be followed and the justifications thereof. The research ethics and values together with the limitations are highlighted before concluding the chapter.

3.1 RESEARCH DESIGN

Arnould, Price and Zinkhan (2004) defines research design as the framework or blueprint for conducting a research project. The research design according to Denscombe (2010) does three things namely to provide a description of the components of the investigation, provide the rationale for the choice of research strategy which relate to the research questions and explain how the key components link together. There are four principal elements of research design according to Crotty (1998), namely methodology, epistemology, methods and the theoretical perspective. The research problem stated in this study will drive and determine the design for the study. An integration of the survey methodology and the case study approach coxsrowned the post-test research design. Abramson (1990) describes a survey as an investigation in which information is systematically collected with the aim of analysing it, extracting patterns and making comparisons. According to McLeod (1999), a case study is the study of a person, a small group, a single situation, or a specific "case," is called a case study. It involves extensive research, including documented evidence of a particular issue or situation, symptoms, reactions, effects of certain stimuli, and the conclusion reached following the study. CBZH was chosen as a case study as it has grown to be the
largest banking holding company in the country. In addition, being a listed bank, audited financial information is readily available. The case study enabled understanding of the complex issue of evaluating the impact of M&As on a single company. The survey methodology facilitated the collection of data on the opinions and attitudes of target respondents on the level of success of M&As in relation to company value.

3.3 RESEARCH PHILOSOPHY

According to Denscombe (2010) “it calls on the researcher to provide a clear rationale for the combination of the alternative methods and strategies and to explain how data from one approach link with data from the other”. The quantitative approach and qualitative approaches were used in this study. The quantitative method was used to determine the resultant change in the market share, the questionnaire and ratio analysis to determine the extent of the impact on the acquiring corporate in numerical numbers. According to Denscombe (2010) numerical data is comparable, subject to statistical analysis, precise, repeatable, rigour, repeatable, objective and value neutral. The qualitative approach was used to establish value from the perspective of the shareholders and executive management using the structured interviews. The use of mixed methods enabled the researcher to appreciate the overall picture of the company under investigation.

3.4 RESEARCH STRATEGY

The research strategy employed in this study is a case study analysis. Case studies are used to obtain an in-depth knowledge of the unit under analysis over a long period of time (Eisenhardt, 1989). It involves extensive research, including documented evidence of a particular issue or situation, symptoms, reactions, effects of certain stimuli, and the conclusion (McLeod, 1999). The results obtained from the case study are usually applicable to the subject matter.
3.5 POPULATION AND SAMPLING TECHNIQUES

3.5.1 Target Population

Target population are all subjects that are under study. The target population is total number of respondents that meet the selected criteria (Burns and Groove, 1997). Chimedza, Chipoyera and Mupambireyi (2001) define a target population as the totality of all elements under investigation. A population consists of all the possible observations of the random variable under study (Wegner, 1993). The CBZH current employees, executives and shareholders were the target population in this study. CBZH employees total 1000 inclusive of 17 executive appointments (CBZH, 2013). CBZH maintained the executive management and employees of the respective acquired and merged subsidiaries. The population was mostly representative of the personnel who had seen the transition from being a separate company to being a subsidiary of CBZH.

Table 3.1: Top Ten CBZH Shareholders

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Percentage of total issued shares (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Zimbabwe</td>
<td>16.08</td>
</tr>
<tr>
<td>Libyan Foreign Bank (Non Resident)</td>
<td>14.12</td>
</tr>
<tr>
<td>African Investment (Non Resident)</td>
<td>12.99</td>
</tr>
<tr>
<td>NSSA</td>
<td>10.78</td>
</tr>
<tr>
<td>CBZH</td>
<td>8.55</td>
</tr>
<tr>
<td>Stanbic Nominees P/L (N/R)</td>
<td>6.35</td>
</tr>
<tr>
<td>Stanbic Nominees (N/R)</td>
<td>2.31</td>
</tr>
<tr>
<td>Datvest Nominees P/L</td>
<td>2.17</td>
</tr>
<tr>
<td>Bethel Nominees</td>
<td>2.00</td>
</tr>
<tr>
<td>Commercial Bank of Zimbabwe Employees Scheme</td>
<td>1.17</td>
</tr>
<tr>
<td>Others</td>
<td>23.48</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: CBZ Holdings Limited
CBZH also has several institutional and individual shareholders. The four largest shareholders are the GoZ, Libya Arab Foreign Bank, Africa Investment and the National Social Security Authority (“NSSA”), with a shareholding totalling 54.41 per cent (CBZH Annual Report, 2013). Table 3.1 shows the shareholding structure of CBZH, showing the top ten shareholders.

### 3.5.2 Sampling Methods

A sample is a sub set of the population. Chimedza, Chipoyera and Mupambireyi (2001) define a sample as any subset of a population. Burgess (2001) states that a sample is chosen when accessing all members of the population is prohibitive in terms of time, money and other resources. Trochim (2006) defines sampling as the selection of units from the target population with results obtained from the sample of study being representative of the population from which they were chosen. A sample survey was conducted to minimise on costs, meet the set timeframe and ensure accuracy. The CBZH employees based in Harare only were considered for the study. Harare employees were chosen as they constitute about 70 per cent of the company employees. Furthermore, employees are constantly being relocated due to transfers within the company hence those in Harare especially the Retail Division, would have been at least posted out of Harare in the past.

For purposes of this study, the research method used was stratified random probability sampling method as a procedure for sampling the employees’ opinions. Wegner (1993) defines stratified random sampling as a procedure used when the population contains some distinct groups. Stratified random sampling has a higher statistical precision as differences within a chosen group are lower than in the entire population. The researcher used stratified random sampling to ensure presence of all the key representatives within the sample of the employees of the company. The respondents were grouped according to the job title/level of seniority as well as across the companies engaged in the M&As namely CBZ Bank Limited, former Beverly Building Society, CBZ Asset Management, CBZ Insurance Company and the CBZ Bank Limited Card Centre Department. Simple random
sampling was used to select respondents in each group. Simple random sampling is a probability sampling technique whereby each independent variable in a given population is given the same chance of being a subject (Wegner, 1993). The employees’ researcher made use of the following distinct groups:

<table>
<thead>
<tr>
<th>Table 3.2: Sampling procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stratum</strong></td>
</tr>
<tr>
<td>Senior Management – Senior Managers and Head of Departments</td>
</tr>
<tr>
<td>Middle Management – Assistant Managers and Managers</td>
</tr>
<tr>
<td>Non managerial – Supervisors/Officers</td>
</tr>
<tr>
<td>Non – managerial - Clerical</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data

The executive management sample sought to sample 10 out of the possible numbers of the 17 respondents hence a survey study was conducted. The decision was made to gather extensive information from the executives who are in charge of different units and whose perception on M&As might differ dependent on their areas of control.

Additionally, because of the composition of CBZH shareholders, the shareholder sample was restricted to the top four shareholders. Judgmental sampling was used as the four shareholders have more than fifty four per cent of the total shareholding in the company. These have the combined power to influence decisions made on the company. However, it was noted that of the four, two namely the GoZ being the top shareholder and the National Social Security Authority are resident in the country, with the other two namely the Libyan Foreign Bank and Africa Investment being non-resident. The researcher interviewed the two local shareholders because of the difficulty in contacting the non-resident shareholders.
3.6 DATA COLLECTION METHODS

Data sources are two namely the primary and secondary (Babbie, 1995). The researcher relied on both secondary and primary data sources to collect the information used to validate the problem statement.

3.6.1 Primary Data

Primary data is original data that is gathered for a specific purpose and evaluated. Wegner (1993) defines primary data as information that is captured at the point where it is generated. Arnould, Price and Zinkhan (2004) highlight that primary data collection is simply the research carried out for a specific purpose. Such data is captured for the first time and with a specific purpose in mind. This research made use of face-to-face interviews and questionnaires to collect primary data. Giddens (1993) states that primary research is important as it generates richer and more in-depth information relevant to the topic in context than other methods, and should complement secondary research. The researcher used questionnaires for employees, face to face interviews for executives and shareholders to complement secondary data.

3.6.1.1 Questionnaire

Chimedza, Chipoyera and Mupambireyi (2001) define a questionnaire as a document containing a list of pertinent questions for a statistical inquiry. Peterson and Mangen (1982) describe it as a list of questions that are carefully formulated, constructed and sequenced so as obtain the most useful data in the most cost effective manner. The questionnaires were used to allow the researcher to obtain data from many respondents. The interviewer responses are unbiased whilst maintaining uniform presentation of questions with no verbal interferences to the respondents. This research instrument is relatively cheaper to use when there is a
large target population with the data being easy to code. Questionnaires, however usual are associated with a low response rates.

Questionnaires were administered on the employees CBZH subsidiaries acquired through M&As namely CBZ Bank Limited, former Beverly Building Society, CBZ Asset Management, CBZ Insurance Company and the CBZ Bank Limited Card Centre Department. Since, employees are key stakeholders in the running of the company and are pivotal to its success; the researcher sought their opinion on the subject under study. CBZH maintained the key personnel in charge of running the subsidiaries’ core businesses with similar reporting structures. However, it was only supporting units such as Human Resources and IT which were combined and housed under the CBZH Group structure. The researcher noted that the subsidiaries of CBZH had different cultures and reporting structures whilst operating as separate entities. The different cultures had to be managed over time for employees to embrace the CBZ culture and expectations. The use of the questionnaire sought to validate the qualitative impact of the M&As from the employees perspective.

The employees were grouped into non managerial and managerial levels up to the senior management levels. The non-managerial was split between the clerical up to the supervisory levels (officer), with the managerial being grouped from assistant managers to the senior managers. Questionnaires were administered on the different categories to view divergent contributions across the subsidiaries and level of seniority in the respective companies. This was against the background that most of the employees of CBZH, had worked for the subsidiary as a separate entity prior to the M&As being undertaken therefore would be in a position to visualise changes that had taken place over time and take note of the advantages and disadvantages of M&As. Employees expectations from M&As could have also differed due to the level of seniority within the different entities, hence there was need to gather views from this perspective.

The questionnaires were delivered electronically, with a signed cover letter to make the questionnaire personal. Random sampling was used to select the
respondents in each category to ensure a high response rate. Fixed alternative items, open ended questions and attitude scales were the different types of questions used in the questionnaire document. Fixed alternative questions have multiple choice of answers from which the respondent chooses from, usually one answer from the set of alternative presented. The researcher used fixed alternative items so as to achieve greater uniformity of measurement, allow easy coding and to ensure that respondents answer in a manner fitting the response category. The possible replies normally are few and clear. Open ended questions were used to solicit for additional information sometimes unknown by the researcher from the respondent. Tapera (2002) state that there are no restrictions on either content or the manner in which the respondents reply. Open-ended questions enabled employees to explain where the M&As shortcomings existed and what they expected. Attitude scales were used to express the level of satisfaction/agreement of the impact on the acquiring corporate using the Likert scale. Tapera (2002) stated that the use of scaled items and open-ended questions has been developed so as to allow checking of data elicited by open-ended questions against attitude scale scores. The three types of questions highlighted were used in the questionnaire to cover questions on the information of M&As, the performance measures changes, awareness, impact, employees expectations, identification of inefficiencies and opportunities and employees expectations from the business strategies undertaken.

3.6.1.2 Face to Face Interviews

Wegner (1993) states that personal interviews are interviews where the questionnaires are completed face to face in contact with the respondent. Face to face personal interviews were conducted on the company executives and shareholders. These respondents normally have busy schedules, hence might not get the time to complete the questionnaire. The researcher prepared a thorough interview guide to reduce interviewer bias. Appointments were set up with the target respondents. The interview guide was distributed electronically to the respondent prior to the appointment date, thereby enabling the interviewee to
prepare for the discussion. The discussion atmosphere provided the interviewer and interviewee the opportunity to engage in the discussion, with the interviewer noting down the answers. Room for further probe was granted as an hour appointment was granted for the interviews, except in few cases where they were limited to half an hour. The interviewer gained additional knowledge and experience for conducting the discussions as the number of interviews progressed. Wegner (1993) states that face to face interviews enable the interviewer to take note of the non-verbal responses in addition to the high response rates as opposed to other survey methods. In addition, the data collection is immediate, as responses are spontaneous, which safeguards accuracy and reduces bias.

3.6.2 Secondary Data

Wegner (1993) defines secondary data as data collected and processed by others for a purpose other than the one at hand. If the research has a historical dimension, secondary data can prove useful (Giddens, 1993). The researcher relied on secondary data from RBZ bulletins and publications, CBZ annual reports, investors' publications, magazines and CBZ organisational records. The use of secondary data especially the audited published accounts of the bank holding companies allowed the researcher to determine the real economic gain and the effect over time. The results obtained from these findings can form the basis for further analysis.

The choice of the methods used were influenced by the need to report accurately the information under study, the points of collection, the data collection strategy and the time cost factors at the disposal of the researcher. The historical secondary data was validated using the current findings from the interviews and questionnaires.

3.7 RESEARCH PROCEDURE

According to Kwesu, Mudimu, Nyatanga, Chisi, Madzigire, Mhlanga, Kwandayi and Makombe (2002), the basic stages of a data collection procedure as follows:
a. Seeking of permission from relevant authority to collect data.
b. Making appointments with research subjects.
c. The distribution and administering of instruments.
d. Retrieval of instruments.

Data collection procedure is the process of obtaining useful information. The researcher was granted authority to carry out the study by the CBZ Holdings approving authority, the Company Secretary. Questionnaires were distributed to the CBZH employees in the Harare region only. Authority was sought from the departmental heads and regional managers who are in charge of the head office departments and retail banking branches. Permission was granted from all the units via electronic mail. A data collection plan was prepared. Table 3.3 below shows the format:

**Table 3.3: Data Collection Plan**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number of Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Structured questionnaire and interview guide - Preparation,</td>
<td>30</td>
</tr>
<tr>
<td>pretesting and finalising</td>
<td></td>
</tr>
<tr>
<td>2. Textbooks and Journals</td>
<td>20</td>
</tr>
<tr>
<td>2. CBZ Annual Reports, RBZ Bulletins.</td>
<td>15</td>
</tr>
<tr>
<td>3. Face-to-face interviews</td>
<td>20</td>
</tr>
<tr>
<td>4. Questionnaires</td>
<td>30</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

Questionnaires were administered via electronic mail so as to access a large number of respondents within a short period of time at a low cost. All respondents were accessible on e-mail, as it was established that the all members of the sampling frame were contactable that way during the course of the research. Questionnaires were collected via electronic mail as well as the internal
organizational mail system. Substitution of all personnel that did not respond was also undertaken to increase the response rate.

Appointments we sought for the face to face interviews through the relevant Personal Assistants of the executive and shareholders. Upon confirmation of the time and date set for the interview, the interviewer was given an opportunity to interview the shareholder representative or executive, noting the responses down. The interviews were concluded, with the researcher consolidating the information in the soft copy format.

3.8 DATA ANALYSIS

Data analysis is a stage whereby a number of statistical techniques are applied one after the other (Ader and Mellenbergh, 2008). This stage is continuous in nature and cannot be separated from the data collection methods and reduction stages (Ader and Mellenbergh, 2008). Miles and Huberman (1994) describe the major phases of data analysis as data reduction, data display, and conclusion drawing and verification. Miles and Huberman (1994) describe as the first stage of data analysis as data reduction. It refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in written up field notes or transcriptions (Miles and Huberman, 1994). The second stage entails the organization of the data in a manner that allows the researcher to draw conclusions. The last stage is the conclusion drawing which is also closely linked to data verification (Miles and Huberman, 1994).

The quantitative data from the questionnaire was analysed using the Statistical Package for Social Sciences (SPSS) to describe the basic features of the data collected. Frequency, descriptive statistics and graphs were the major output.

Content analysis was used to review the data gathered using face-to-face interviews. The content analysis method was used to investigate the responses
from the executives and shareholders by noting the number of times there is an agreement in their views. The cases of divergent responses were noted.

Secondary data analysis involved the use of numerical data. This information was extracted from the audited financial statements and annual reports of the banks for the period 2004 to 2012. Financial ratios were used to investigate the financial performance trend over the period under review. The use of financial ratio analysis presents the data in an organized form (Rees, 1995). The profitability ratios, investment valuation ratios and efficiency ratios were used. The profitability ratios namely ROA, ROE and ROCE relate to the use of the company resources to enhance value. The efficiency ratio used was the cost to income ratio (C/I). The forecast returns which accrue to the investors were measured using the investment ratio of earnings per share (EPS). Line and bars graphs formed the output of the comparison.

The market share data for CBZH using CBZB as a proxy was obtained from the company records through the office of the bank economist. The data sought to view the deposit market share trend of the bank, whose contribution is significant on CBZH's overall performance. Bars graphs and pie charts were the used to display the results.

3.8.1 Validity and Reliability

The researcher was aware of the challenges posed by the validity and reliability of the analysis. Reliability in quantitative terms is about the consistency of results when repeated over time (Joppe, 2000). Validity refers to whether the research is measuring the right attributes (Joppe, 2000). The researcher ensured validity in the questionnaire by asking a series of questions, in the process verifying the answers to the other questions. Reliability of the results from the questionnaire where measured using cross tabulation to verify consistency from the responses obtained through the SPSS statistical package tool.
The numerical data made use of ratio analysis whose sources were audited financial statements. This enabled the data used to be considered reliable. The ratio formulas used are given thus the same tests can be repeated. The financial ratios have formulas stipulated thus the respective form of ratios is measured using the predetermined form, hence the results are valid.

Whilst the quantitative research validity and reliability focuses on the instrument used under study, the qualitative research has the researcher being the instrument (Patton, 2001). The trustworthiness of the results was viewed from the response of the executives and shareholder results that is whether they are in agreement or not. The shareholders approved the M&As business strategies after the executive management sought for their authorisation. The comparison of the content analysis of the shareholders and executive played a critical role in validating the results. Triangulation of multiple data collection and data analysis methods was also used to ensure that the results are consistent and credible.

### 3.9 RESEARCH ETHICS

The research was in line with ethical guidelines. The researcher obtained the relevant authorisation of using CBZ Holdings Limited as a case study for public viewing thereafter from the Group Company Secretary of the company.

#### 3.9.1 Rights of Individual

Individual rights needed to be maintained in the process of research. The individual rights include voluntary participation, risk of harm and informed consent. Voluntary participation entails the individual’s right to participate willingly and not to be coerced. The researcher ensured that the rights of the individual were maintained in line with the ethical guidelines through non-disclosure of respondents’ names.
3.9.2 Informed Consent

The participants were fully informed of the research procedures together with the anticipated risks. The researcher gave the respondents the option of their consent to participate and no undue inducement or coercion was used to manipulate their participation in the survey.

3.9.3 Privacy and Confidentiality

The confidentiality clause which assured the respondents that the information gathered will not be made available to anyone involved directly in the study was incorporated on the questionnaire. The questionnaires were treated with confidentiality so as to ensure that privacy is maintained. The researcher ensured that participants’ contributions were safeguarded from unauthorised access in turn enhancing integrity of the study. Respondents opened up without the fear of victimisation.

Another ethical attribute of privacy was also upheld. The researcher ensured that the individual’s right was free from intrusion by concealing the personal identification information of the individual.

3.10 RESEARCH LIMITATIONS

The researcher was aware of the limitations that the study encountered but proceeded with the research in the hope that future projects will build up on the findings. The first limitation was that the study was carried as a case study of a bank holding company. The findings might not be similar across all other banks who undertook these growth strategies although a financial ratio analysis comparison was carried out in relation to FBC Holdings Limited.

Secondly, M&AS are also time specific. The time of study which saw CBZH undertaking these growth strategies might not have been advantageous for other
banking institutions as time opportunities differ. The researcher acknowledged this phenomenon with the hope that other researchers will further develop the subject citing companies’ performances at different levels of the business cycle.

The respondents’ views were referring to the past events over the period under consideration. The researcher might have been misled with respondents who referred to particular events in evaluation rather than the general overview. This scenario will further distort the findings.

Finally, the constraints faced by the research such as the time and resource limitations, prompted the researcher to narrow down the area of study to ensure that the results are meaningful and conclusions can be made from the analysis. With more available time and resources, the researcher would have included more bank holding companies to increase the validity and relevance of the findings to the Zimbabwean banking sector.

3.11 SUMMARY

The methodology presentation of the study was illustrated in this chapter, giving the detailed considerations of the research purpose and design, data collection methods, data analysis, ethical issues, validity and reliability issues before citing the limitations. The following chapter will dwell on the research findings.
CHAPTER FOUR
RESULTS PRESENTATION, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION
The purpose of this study is to evaluate the impact of M&As on the value of the acquiring company. Data was collected using primary and secondary sources. Primary sources used were questionnaires and face to face interviews whilst the secondary sources used were the audited financial statements and market share reports for the period 2004 to 2012. This chapter presents the data gathered in both these processes. Presentation and analysis will focus and be structured on the specific research problems and questions of the research study. The theories captured in the literature review will serve as a guide to the interpretation of results. The chapter ends with a conclusion, which displays the main issues captured in the chapter.

4.2 RESPONSE RATE

Table 4.1 below shows the response rate for the CBZH employees’ questionnaire both in absolute and percentage terms.

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Questionnaires Sent out</th>
<th>Number of Respondents</th>
<th>Percentage Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Managers – Senior Managers and Head of Department</td>
<td>35</td>
<td>24</td>
<td>67%</td>
</tr>
<tr>
<td>Middle Managers - Assistant Managers and Managers</td>
<td>45</td>
<td>43</td>
<td>96%</td>
</tr>
<tr>
<td>Non Managerial – Officers/Supervisors</td>
<td>36</td>
<td>28</td>
<td>78%</td>
</tr>
<tr>
<td>Non Managerial - Clerical</td>
<td>35</td>
<td>19</td>
<td>54%</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>114</td>
<td>76%</td>
</tr>
</tbody>
</table>

Source: Primary Data

The quantitative survey had a 76% (114/150) response rate which was a positive for the results.
An analysis by respondents’ subsidiary was also done and Figure 4.1 below illustrates the findings. A greater proportion (45%) of the respondents was former CBZB employees, followed by former Beverley building Society (45%). CBZB had a total of 45% made up of the respondents from the bank (34%) and of card centre (11%), a department within CBZB. The two were split to capture the specific benefits to Card Centre following the acquisition of the Visa Point of Sale acquiring business from StanChart in 2012. The other subsidiaries were represented though in lesser percentages as expected considering that these only have a branch each situated in Harare as opposed to twenty under CBZB.

![Figure 4.1: Percentage respondents by subsidiary/department](image)

The response rate for the shareholders interview guides was 100% as all the two respondents were interviewed.

The response rate for the executive management was 83%. The researcher sent out 12 interview guides to the executive management for appointments with the Personal Assistants. Of the 12 sent out, 10 were interviewed successfully. The targeted number of respondents was 10 interviews, thus the researcher managed to interview all the respondents as per the required sample size. The response
rates for the study can generally be considered good. Hubberman (1994) states that a response rate of between 65% and 70 % can be deemed satisfactory to good as achieving a 100% response rate is difficult in large samples. This statement tallies with the results at hand. For the small sample sizes using interviews, the response rate was higher as compared to the larger sample sizes administered through questionnaires.

4.3 DEMOGRAPHIC ASPECTS

4.3.1 Senior Management Category

The senior management report directly to the executive management of the CBZH subsidiaries. These are head of departments usually based at the head offices and senior managers within the group. 67% of the senior management responded to the questionnaires sent out by email. Reminder emails and telephone follow ups were made to achieve these results. This category is expected to be knowledgeable of the M&As formulation and benefits in CBZH as they are likely to have been employed with the company at a lower levels when these business strategies were undertaken. In addition, they are also in line for the next vacant executive positions. It is however important to note that of the questionnaires sent out, six respondents were from head of departments, whilst 12 were from senior managers. The relative low response rate from head of departments can be attributed to their busy schedules as they oversee large departments.

4.3.2 Middle Management

The middle management group comprise of assistant managers, relationship managers, branch managers and operations managers. These form the entry point into management of the company. A response rate of 96% was attained being the largest under the employees’ respondents. This can be attributed to the fact that most of them are still undertaking professional studies and value the input from them as they are still to move up the corporate structures. Not much follows ups
were made from this group. An analysis of the respondents show that relationship managers scored highest with 19 followed by operations managers with 12 responses. This managerial category interface with clients on a daily basis thus services delivery is of paramount importance to them, hence the high response rate.

4.3.3 Supervisors/Officers

The officer/supervisor level relates to the highest rank in the non-managerial category. These are usually involved in the day to day operational duties of the company. They report directly to the middle management. A response rate of seventy eight per cent was attained from this group, which is commendable. Follow ups were made through the email and telephone to achieve this rate. The background information of these business strategies seemed clear as most of them had just joined the company when the M&As were undertaken.

4.3.4 Clerical

The clerical grade is the entry point into the company for employees involved in the operating activities of CBZH. A response rate of fifty four per cent was attained from this group. The rate though low reflects a low appreciation of the M&As undertaken by CBZH by this group. This might be as a result of the respondents not being directly involved in policy formulations and being accustomed to their daily routine duties. In addition, the value might not be clear as most had not been employed by CBZH when the initial M&As were undertaken, thus the appreciation of the impact is low.

4.3.5 Executive Management

The executive management is the highest decision making body in the company. They oversee the company on behalf of the shareholders and are accountable to the board of directors. The executive management in addition to reporting the
board of directors also sits on the board as executive directors as opposed to the non-executive board members. A response rate of eight four per cent was attained from this group. The executive management gave a detailed analysis of the M&As undertaken and were knowledgeable of their relevance. The value generated by them was clear and areas of further improvements were highlighted. This was expected at this is the group that formulate the policies. In addition, the increase in the value of the company has a good reflection on the executive management running the company.

4.3.6 Shareholders

The shareholders being the owners of the business should ensure that every policy undertaken will eventually increase their shareholder value. Shareholders have the power to approve or decline the policies of the executive management. A high rate of one hundred per cent was achieved from the local two top four shareholders. The shareholding structure of CBZH shows that the control is in the institutional investors who influence is significant on the company operations. The top four shareholders own more than fifty four per cent of the company.

4.4 DATA PRESENTATION

The study will report on the findings, discuss them and make the interpretations. Five research objectives were outlined in this study and the data presentation will be based along these objectives.

4.4.1 To examine the impact of the M&As on financial performance using financial ratios in the post-acquisition period from 2004 to 2012.

The source of data used was obtained from the nine years financial statements from 2004 to 2012. The study used a comparison of CBZH and Barclays Bank Limited Zimbabwe (BBZ) to illustrate the impact M&As had on the performance of CBZH. BBZ is listed on the ZSE and it offers commercial banking services to the
individuals and corporates. It is one of the leading commercial banks in Zimbabwe and is a world class bank (Imara, 2010). The bank has not undertaken M&As in the past with other banks and the financial services sector, unlike other commercial banks like CBZB whose growth has been spearheaded by these business strategies. Both banks, BBZ and CBZB have been operating in the country since 1980.

The study has acknowledged the two distinct operating environments namely period prior to 2009 when the ZWD was in use and the dollarization era from 2009. Comparisons will be split into these two operating period and conclusions of the ratio analysis made thereafter.

c. Illustrative Analysis between CBZH and BBZ

The study used the profitability ratios of ROA, ROE and ROCE, cost to income efficiency ratio and the earnings per share investment ratio for comparison between the two companies. CBZH financial results considered were for a year prior the formation of the company to seven years in operation, with BBZ financial results being for the period under review. Profitability ratios evaluated the ability of the company to generate profits. Profits are required to ensure that the company is a going concern. Efficiency ratios evaluated the overhead structure of the group companies. The lower the efficiency ratio, the more it is considered favourable. The investment valuation ratios assess the financial return to the investor. The financial ratio analysis presentation of the banks is shown below.

Figure 4.2 below illustrates the ROA analysis for CBZH and BBZ over the period 2004 to 2008.
CBZH performance during the period 2004 to 2008 was largely better in comparison to BBZ. The company experienced a low of 12.6% in the year 2008 and a high of 82.7% in 2007. Both companies followed a similar trend, which could be as a result of the effect of the operating environment changes as both companies operate in the financial services sector. This period coincides with the era when CBZH undertook the acquisitions of the building society and asset management companies. The decrease for CBZH in 2006 is likely to be due to the acquisition of Datvest in 2005 which increased the overall assets base on one hand, whilst the acquisition of Datvest which was in cash and shares form, might have reduced retained profits for the following year.

Figure 4.3 below shows the ROA analysis for CBZH and BBZ over the period 2009 to 2012.
The performance of CBZH post the dollarization period was better as compared to BBZ. The ROA of CBZH increased gradually from 2009 reaching a peak in 2011 of 3.5% before reducing to a low of 1.7% in 2012. The BBZ trend was different, having reached a low of -0.81% in 2010 and rising gradually to 1.08% in 2012. The impressive performance of CBZH during the multi-currency period could largely be pinned on the fact that CBZB, the largest subsidiary of CBZH, had most of the Government deposits channeled through it as the RBZ ceased to offer this function. The large deposits base could have resulted in CBZB having a competitive advantage over other banks during the period under review.

In addition, other contributing factors also played a role in its performance namely the role of the market power and acquisition of wholly owned acquired subsidiaries. Santoso (2009) state that banks push to gain competitive advantage through enhancing their monopoly and market power, as there would be fewer choices available to the consumers. The abnormal returns of CBZH also might be attributed to the fact that the target firm operations were fully integrated with the acquiring firm, unlike in instances where the target firm is owned partially (Rani, Yadav and Jain, 2013). CBZH acquisition of Beverly Building Society resulted in CBZB having the largest branch network in the country, offering services in areas
where other banks are not in existence. CBZH thus outperformed BBZ as it had a competitive advantage over the latter.

Figure 4.4 below shows the ROE analysis for CBZH and BBZ over the period 2004 to 2008.

![ROE Analysis (ZWD)](image)

**Figure 4.4: BBZ & CBZH Return on Equity Analysis 2004 to 2008**

*Source: BBZ & CBZH Annual Reports, Imara African Banking Report 2010*

The return on shareholders funds in the ZWD era for the banks followed a different sequence. Both BBZ and CBZH peaked in 2007 with ratios of 193.90% and 343.93% respectively and reached a lows of 82.8% and 27.8% in 2008 respectively. The hyperinflationary environment of 2008 might have caused the drastic reduction experienced in 2008, being the lowest in the period.

Figure 4.5 below illustrates the ROE analysis for CBZH and BBZ over the period 2009 to 2012.
The performance post dollarization depicted a different trend. CBZH showed a continued improvement over the period reaching a high of 32.2% in 2012. The scenario showed an increased performance by the holdings company which is commendable. BBZ increased to a high of 7.53% in 2012, however having dipped in 2010 to a low of -6%. The growth of the profits realised from CBZH operations outweighed the equity growth resulting in ROE increasing consistently.

Literature reviewed from Weitzel and McCarthy (2011), state that according to the value increasing theories, value addition is realised by the acquiring firm post-merger period, a result evident in CBZH results. In addition, acquisition of privately held companies as undertaken by CBZH, was an attractive option for increasing shareholder wealth acquisitions as the return are usually positive (DePamphilis, 2011). The acquisition of Beverly Building Society, the second largest building society enhanced CBZH market power of CBZB in the banking sector as competition was reduced.
The Figure 4.6 below shows the ROCE analysis for CBZH and BBZ over the period 2004 to 2008.

![ROCE ANALYSIS (ZWD)](image)

**Figure 4.6: Return on Capital Employed Analysis 2004 to 2008**

*Source: BBZ & CBZH Annual Reports, Imara African Banking Report 2010*

ROCE performance of CBZH and BBZ during the ZWD era depicted a similar sequence. Both companies peaked in 2007 at 215.70% and 187.20% for CBZH and BBZ respectively. A low of 28.60% was experienced by BBZ in 2004, whilst CBZH experienced 26.20% in 2008.

The performance post dollarization showed a gradual increase for both CBZH and BBZ, though BBZ reached a low of -0.94% in 2010. The highest returns were realized in 2012 of 21.6% and 1.27% for both CBZH and BBZ respectively. This period show profits growth outpacing the growth of capital employed. Figure 4.7 below illustrates the ROCE analysis for CBZH and BBZ over the period 2009 to 2012.
Tuch and O’Sullivan (2007) conclude that the strategic aim of business is to earn return on capital and these returns will eventually reflect in the accounting statements, as confirmed by CBZH results. The positive performance of CBZH could be resultant from cash offers for the M&As undertaken. According to Moeller and Schlingemann (2005), cash offers are associated with stronger value enhancement post-acquisition unlike other forms of payment. Sudarsanam (2006) confirms the bidder shareholder returns are positive in cash offers and negative in share offers. The positive gains realised CBZH confirm these findings and contradict the theory of managerial discretion. According to Jensen (1986), that the presence of free cash flow (“FCF”) prompts managers to engage in decisions which might be unproductive. This was proved incorrect as the ROCE for CBZH improved significantly.

Figure 4.7: BBZ & CBZH Return on Capital Employed Analysis 2009 to 2012

Source: BBZ & CBZH Annual Reports, Imara African Banking Report 2010-2013

Figure 4.8 below shows the C/I analysis for CBZH and BBZ over the period 2004 to 2008.
Figure 4.8: BBZ & CBZH Cost to Income Ratio Analysis from 2004 to 2008


There was a gradual improvement in the efficiencies of both companies during the period 2004 to 2008. The performance of CBZH was better as compared to that of BBZ. CBZH experienced the best C/I rate of 2.3% in 2008 and reached the worst of 29.6% in 2006, whilst BBZ experienced 16.8% in 2008 and 42.30% in 2004 respectively. CBZH performed better than BBZ during the period under review.

The post dollarization period followed the same sequence as the one experienced in the ZWD era. The efficiency of CBZH improved from 71% in 2009 to a low of 61.4% in 2012. BBZ C/I ratio improved for the period under review, though a high of 105.76% was experienced in 2010, before reaching a low of 91.80% in 2012. Figure 4.9 below depicts the cost to income ratio analysis for CBZH and BBZ over the period 2009 to 2012.
The period from 2004 to 2008 CBZH efficiency improved significantly, as well as during the post dollarisation period from 2009 to 2012 though at higher levels. The efficiency of CBZH improved though in a similar trend with BBZ. The trend though is similar hence the operating environment conditions could have made the impact on the companies efficiencies.

Prior studies support this notion that M&As results in efficiencies being improved. A study by Fadzlan (2004) show that the efficiency of Malaysian banks increasing by 95.9% post merger. Furthermore, according to Devos, Kadapakkam and Krishnamurthy (2009), these gains realisable are mainly attributable to operational efficiencies and not taxation savings as shown above. Within the operational benefits, most efficiency improvement is realised through reduction of expenses rather than revenue growth (Devos, Kadapakkam and Krishnamurthy, 2009). This supports the CBZH scenario, were costs reduction outweighed growth in income. The M&As had a positive impact on the CBZH C/I ratio performance post M&A period.

![C/I Ratio Analysis (USD)](image-url)
The price earnings ratio (P/E ratio) for the period 2009 to 2012 shows CBZH being generally outperformed by BBZ. The general trend though is a gradual decrease in the ratios over time. CBZH P/E ratio peaked in 2009 at 12.2 and decreased gradually to a low of 2.07 in 2012, whilst on the other hand BBZ P/E ratio in 2009 was 316.67 in 2009 and dropped to a low of -70.00 in 2011. The results show that generally, investors had more confidence in the performance of BBZ over CBZH. Based on the P/E ratio performance, an investor would prefer to buy the BBZ counter over CBZH on the Stock Exchange. It is however important to note that a higher P/E ratio may result from overpricing of shares. Similarly, a lower P/E ratio such as that of CBZH may mean that the share is a sleeper that has been overlooked by the market.

Maditinos, Theriou and Demetriades (2009) study on the merger effects of two banks in Greece namely Ioniki-Laiki Bank and Piesteos Bank in 1999 forming Alpha Bank, showed that Alpha Bank was not only profitable, but also competitive within the banking industry. This is however contrary to the performance of CBZH, whose P/E ratio is depressed. Ray (2010) states that apart from the shareholders, other stakeholders’ expectations should be satisfied by the management M&A decision and these include the investors/public. The investors’ decisions have
influence the outcome from an M&A. The low P/E ratio of CBZH might be resultant of a lower investor confidence in the decision of management which in turn depressed the stock price. Albizzati and Sias (2004) note that the purpose of undertaking M&As need to be more strategic as opposed to the use of FCFs and reducing costs. From the above P/E ratio, the CBZH M&As undertaken might not have been strategic from investors perspective.

Figure 4.11 below compares the earning per share for both companies during the post dollarisation period.

Figure 4.11: BBZ & CBZH Earnings Per Share Analysis from 2009 to 2012

Source: BBZ & CBZH Annual Reports, Imara African Banking Report 2010-2013

CBZH basic EPS outperformed BBZ during the period under review. The average basic earning for CBZH was 4.26 cents as compared to 0.045 cents realised by BBZ. The highest EPS for both companies were attained in 2012, of 8.08 cents and 0.10 cents for CBZH and BBZ respectively. The comparison results from the C/I ratio and EPS show that CBZH performed better than BBZ, with the results for the profitability ratios holding true during the multi currency period from 2009 to 2012.
The high EPS experienced from CBZH was resultant mainly from the high profitability levels during the multi-currency period. This supports the value increasing according to Weitzel and McCarthy (2011), whereby is enhanced to the acquiring firm post-merger period. The value destroying theories are not supported. The results from the financial performance confirm prior studies that indicate that companies that undertake M&As outperform those that grow organically (Jimmy, 2008). CBZH scenario is in agreement with prior studies.

The comparison results from the C/I ratio and EPS show that CBZH performed better than BBZ, with the results for the profitability ratios holding true during the multi currency period from 2009 to 2012. However from the market perception as measured through the P/E ratio, BBZ is preferred to CBZH. This is in agreement with Jimmy (2008), whereby Zenith Bank whose growth was organic (like BBZ) had a lower growth rate but maintained a better service quality to the public.

4.4.2 To establish market share changes over the period

This study sought to view the deposit market share changes of CBZH using CBZB as a proxy. CBZH is a bank holding company, with the commercial banking arm CBZB being the largest subsidiary. The bank deposits market share will be used in the data presentation to show the deposits fluctuations proportionate to the total bank deposits in the country’s banking sector. The study made use of the deposit market share quarterly averages. The use of quarterly averages will ensure a visible graphical presentation and reduce outliers.

Figure 4.12 below illustrates the deposit market share analysis for CBZB over the period 2004 to 2008.
The quarterly average monthly market share for CBZB fluctuated below 20% for the period prior to September 2008. A peak of 46.90% was attained in the quarter July-September 2008. The Zimbabwean dollar era deposits fluctuated reaching a low of 10% during the quarter October 2007 to December 2007.

The performance of CBZB in terms of the market share post the dollarization period fluctuated in excess of 23%, reaching a high of 28.10% in the quarter January to March 2010. The multi-currency period presented opportunities to CBZB. Prior to undertaking M&As, the bank was ranked third, and it improved significantly during the dollarization period. The use of the USD saw the RBZ not being able to play its role of being the lender of last resort. All of the GoZ deposits were now being channelled through commercial banks, with most of them being deposited through CBZB, resulting in the large market share. The bank has maintained this pole position and it commands almost a quarter of the banks total deposits.

Figure 4.13 below illustrates the deposit market share analysis for CBZB over the period 2009 to 2012.
The current market share position of CBZB can be related to the market power theory. Weitzel and MacCathy (2011), state that gains through market power influence include the restriction of competition, deterring of potential future entrants and cross subsidisation of acquired business lines. Gugler et al. (2003) study show that an increase in profits is attributable to either increasing market power or increasing efficiency for both small and large corporates. CBZH might have benefitted through the market power of CBZB hence restricted competition in the banking sector and cross subsidised its other subsidiaries using CBZB market influence. The acquisition of Beverly Building Society further strengthened CBZH footprint in the financial services sector, increasing the company’s branch network, clientele base and geographical reach through the elimination of competition of this player. The impact of M&As was however enhanced by the GoZ large deposits which were mainly channelled through the bank. CBZH was in a position to fulfil the deposit channels of their clients, including the GoZ deposits channels due to its wide geographical reach.
The banking industry deposit market share as at 31 December 2012 is shown in Figure 4.14 below:-

![Deposits Market Share - Dec 2012](image)

**Figure 4.14  Banks Market Share Deposits**

*Source: CBZB Market Share Reports 2012*

The comparison of CBZB market share deposits in the banking sector as at December 2012 was 26%. The graph shows that CBZB has the largest deposits market share as compared to the other players in the banking industry, commanding more than a quarter of the total deposits in the market.

According to Santoso (2009), banks push to gain competitive advantage through enhancing their monopoly and market power (Santoso, 2009). Furthermore, Gregoriou and Renneboog (2007) state that firms engage in horizontally motivated M&As deals to reduce competition. The merging of two large banks was given as a good example by Santoso (2009) as it eliminates competition. CBZH’s acquisition of Beverly Building Society, eliminated to some extent competition. CABS’ presence with a market share of 8%, illustrates the possibility of a portion of percentage for the former Beverly Building Society, which is absorbed within CBZB. The M&As to a large extent had a positive impact on CBZH market share.
4.4.3 To establish from executive management, the aim of undertaking the M&As and the anticipated and resultant benefits thereof.

The M&As undertaken were initiated by the executive management of CBZH. The research sought to establish whether the M&As undertaken by the company had achieved the required outcome of enhancing the shareholder value.

The survey accessed the motives of undertaking the M&As from an executive management point. A number of motives were highlighted, with each respondent capturing at least two of them. Table 4.9 below outlines the total number of times the executives cited the objectives against which the current results would be used to measure.

**Table 4.2: Executive Management motives of undertaking M&As**

<table>
<thead>
<tr>
<th>Motives for M&amp;As</th>
<th>Number of Times Captured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the shareholder value</td>
<td>7</td>
</tr>
<tr>
<td>Offer a one stop shop in the financial services sector</td>
<td>6</td>
</tr>
<tr>
<td>Synergy benefits</td>
<td>5</td>
</tr>
<tr>
<td>Increased income streams</td>
<td>3</td>
</tr>
<tr>
<td>Enhance efficiency/Economies of scale</td>
<td>2</td>
</tr>
<tr>
<td>Cost containment measures</td>
<td>1</td>
</tr>
<tr>
<td>Offer complementary services</td>
<td>1</td>
</tr>
</tbody>
</table>

The three dominant motives for undertaking M&As from an executive management view in the order of importance are to increase shareholder value (70%), offer a one stop shop in the financial services sector (60%) and to benefit from synergies (50%). The key motive is that of enhancement of shareholder value with 70% of the respondents citing this goal.

This confirms that the executive management conforms to the value increasing theory. According to McDonald, Coulthard and de Lange (2005), the dominant growth strategy for companies worldwide is mainly in pursuit of increased shareholder value by the key vigilant stakeholders. The value decreasing theories
which conclude that the bidder’s management is ‘boundedly rational’ or has self-serving interests (Weitzel and McCathy (2011) is held incorrect. The motive to enhance synergy benefits can be tied to the theory of efficiency which is underpinned on increasing shareholder wealth through synergy gains (Weitzel and MacCathy, 2011). According to Brealey, Myers and Marcus (2007), efficiency gains motivate companies to enter into M&As through synergies available from the combined company. The executive management motives were agreeable to value increasing theories and earlier studies. However, the value decreasing theories were not confirmed in this study.

The executive management were also asked to verify on whether the motives of undertaking the M&As were achieved. The executive management in their opinion all noted that most of the motives of undertaking these business strategies were achieved. The reasons for the achievements being attained include:-

a. Beverly Building Society properties across the country increased CBZH asset base significantly..
b. Largest capital base in the banking sector.
c. Cost containment – cost to income ratio having been reduced from 65% to 58%.
d. Offering one stop shop services being the largest financial services sector group

e. Market share and deposits have increased
f. Economies of scale – Wide branch network and products being sold through the retail branches

g. Skills embedded under the entities without incurring an additional training costs
h. Brand image has become stronger on the market
However some respondents noted that there is still room for further expansion and improvement. The reasons cited are shown below:

a. Existence of synergy benefits between the group subsidiaries
b. The economic cyclical challenges having a negative impact on the M&As
c. Group still able to benefit from more cross selling opportunities

The cost containment improvement cited by the executive concurs with the improvement of the cost to income ratio analysis under the financial ratio analysis. The areas of further improvement and constraints highlight that CBZH has not reached its optimal position.

Further analysis was made to review the impact of M&As on CBZH. The general consensus was that these M&As have made a positive impact on CBZH in the following manner:

Table 4.3: Impact of M&As

<table>
<thead>
<tr>
<th>Impact of M&amp;As</th>
<th>Number of times cited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>4</td>
</tr>
<tr>
<td>One stop shop for financial services</td>
<td>4</td>
</tr>
<tr>
<td>Increased Income Streams</td>
<td>3</td>
</tr>
<tr>
<td>Growth or size of the company</td>
<td>3</td>
</tr>
<tr>
<td>Enhanced capacity to borrow offshore</td>
<td>2</td>
</tr>
<tr>
<td>Diversification</td>
<td>1</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>1</td>
</tr>
</tbody>
</table>

The two most important results of M&As on CBZH were the enhancement of profits (40%) and offering a one stop shop for financial services (40%). Second placed, equally ranked impacts are increased income streams (30%) and growth or size of the company (30%). The four most important impacts show a relation of a pair each. An increased income stream is likely to increase profitability whilst growth or
size of the company is likely to result in the company offering a one stop shop for its financial services. This confirms with the study by Maditinos, Theriou and Demetriades (2009), that M&As are not only profitable but competitive within the banking industry.

The executive management respondents were also asked to highlight the companies acquired and merged with, that had benefitted CBZH the most and the least respectively. The responses are as highlighted in the table 4.4 below:-

**Table 4.4: Best & Worst Company Performances of M&As undertaken by CBZH**

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Benefitted the most (times)</th>
<th>Benefitted the least (times)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverly Building Society</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Datvest Asset Management</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Optimal Insurance Company</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Do not know</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

Beverly Building Society had the most significant impact with 90 per cent of the respondents agreeing that the building society was the most valuable acquisition. The company which had benefitted the least saw 50 per cent highlighting the short term insurance business as the worst performer, closely followed by Datvest with 40 per cent. The acquisition of the building society enhanced value of the group as it brought a large asset base, branch network and mortgage finance loans which are tax free. The building society products being mainly land and buildings’ preserve value.

The short term insurance was considered risky as the high incidence of claims can wipe away all the profits, high incidences of fraud cases, many players in the economy resulting in undercutting being prevalent, the business depending on volumes and the subsidiary being partially owned by CBZH. The lack of full control
of the insurance company could have resulted in management reaching this conclusion. Studies by Rani, Yadav and Jain (2013) and Martynova and Renneboog (2006) conclude that the bidding firm will accrue more value if the acquisition is complete rather than partial. However, Meyer and Estrin (2007) note that partial ownership is a means to attaining the full ownership, being increased gradually in stages. This was the case in the acquisition of Optimal Insurance by CBZH, but the results are not in agreement.

The case of Datvest and CBZ Insurance underperforming can be a result of the boundedly rational theories which note that the management have intentions to enhance the value of the acquiring company but are constrained by available information (Weitzel and MacCathy, 2011). In addition, this might support Jensen (1986) theory of managerial discretion. The presence of fee cash flows might have resulted in management not undertaking due diligence. On the other hand, depressed economic conditions might have resulted in these companies underperforming especially for Datvest, whose model is to manage liquid assets on behalf of customers. The downturn in the economy resulted in the business model being unprofitable to CBZH, a situation which might be reversed by a boom in the economy.

4.4.4 To find out the view of employees on the resultant impact of the M&As on overall organizational performance.

To understand employee perceptions on the M&As undertaken by the group, the survey questionnaire asked general questions related to internal processes and systems by the group. These ranged from employee knowledge of the M&As, service efficiency to questions around the perceived contributions of the M&As to overall group objectives.

Any strategic initiative within an organization needs to be fully understood by the staff in order for them to drive it successfully. The questionnaire sought to get
CBZH group staff perception with the regards to how knowledgeable they are of the M&As undertaken. A majority of the respondents expressed knowledge of the way the M&As were done except 2.6% (3 – who are all former CBZ Bank workers) who strongly disagreed. Figure 4.15 below makes a clearer illustration.

Figure 4.15: Knowledge of awareness of M&As by the group from 2005 to 2012

Schuler (2003) states the merger of H-P and Compaq was hinged on a post integration plan that was put in place. Sudarsanam (2003:3) introduces a five stage model which M&As should follow in order to maximise synergy gains between firms. The fact that employees were made knowledgeable of the M&As being undertaken, will ensure the transition will be handled in set stages (Sudarsanam,2003). Fapohunda (2012) study in Nigeria Banking Industry shows that that human resources play an important role in M&As as the intended consolidation objectives may not be met if they are overlooked. The case of CBZH making employees aware of the M&As being undertaken is commendable and supports the views of earlier studies.
Table 4.5: Employee perception of processes and systems within CBZH

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Moderate</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The service we offered to the customer was personalized, reliable and efficient?</strong></td>
<td>0</td>
<td>0</td>
<td>42.1</td>
<td>55.3</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>The branch networks were readily accessible to customers?</strong></td>
<td>0</td>
<td>0</td>
<td>28.9</td>
<td>52.6</td>
<td>18.4</td>
</tr>
<tr>
<td><strong>The level of customer service has improved since the company became part of CBZ Holdings Limited?</strong></td>
<td>0</td>
<td>0</td>
<td>26.3</td>
<td>52.6</td>
<td>21.1</td>
</tr>
<tr>
<td><strong>The branch network has improved (accessibility the nearest area of service.)</strong></td>
<td>0</td>
<td>2.6</td>
<td>2.6</td>
<td>31.6</td>
<td>63.2</td>
</tr>
<tr>
<td><strong>The services offered under CBZ Holdings Limited have offered more options for the clients' financial needs under one group?</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>55.3</td>
<td>44.7</td>
</tr>
</tbody>
</table>

The table 4.5 above shows analysis of different but related variables assessing the group’s systems and processes from an employee standpoint on a Lickert scale of 1 – 5 (strongly disagree to strongly agree). The results show that of all the variables, there are insignificant proportions of staff that are negative about the M&As contribution on systems and processes. In all cases (except one) as
illustrated, the staff were agreeing with the statements from a “moderate” to a “strongly agree” scale which shows high levels of agreement. However it must be noted here that the fact that a significant proportion were on the moderate point might actually show that there are other gaps still to be identified which might still be needing due consideration. This is particularly so in relation to personalized, reliable and efficient customer service (42.1% moderate), branch accessibility to customers (28.9%) and improvement of level of customer service as a result of company being part of the group (26.3%). Notwithstanding these variables, the general picture is that the employees seeing some notable change in the group’s subsidiaries on these specific variables resulting from the M&As. This is commendable as employees recorded positive changes resultant from the M&As undertaken.

Employees are mainly concerned with the quality of work post the M&A period (Ray, 2010). The employees responses indicate that they are quite satisfied with benefits emerging from M&As thus should in turn be satisfied with their quality of work. The fact that a significant number of the employees responses were in the moderate category, might have been as a result of stages of M&As which were not fully addressed. According to Schuler (2003), the post-acquisition integration according should meet the five best practices. The five best practise might not have been met thus the need for CBZH to revisit the attributes of personalized, reliable and efficient customer service (42.1% moderate), branch accessibility to customers (28.9%) and improvement of level of customer service as a result of company being part of the group (26.3%) and note changes to their policies.

Further analysis was done relating to whether the staff saw any benefits in terms of brand visibility and subsidiary’s monetary contributions as a result of the M&As. Figure 4.16 below shows the results. In both scenarios, the employees asserted that they were overwhelmingly in agreement with the perceived benefits. It is important to note that in terms of brand visibility, cross tabulation results showed that, 15.4 % (n=39) of the former CBZ Bank Ltd employees strongly disagreed on
there being any benefit resulting from the M&As. This, according to the qualitative findings of the survey might be as a result of these employees being of the view that there is an overreliance on the bank by other subsidiaries.

Figure 4.16: Benefits accruing to company as a result of M&As

The survey also assessed the employees' view in terms of the opportunities available for the group and its subsidiaries. About 71% of the respondents agreed that there were opportunities for the group’s subsidiaries to benefit from CBZH.

The result is agreement with the efficiency theory which highlight that the efficiency benefits are attained through synergies (Weitzel and MacCathy, 2011). According to Brealey, Myers and Marcus (2007), efficiency gains motivate companies to enter into M&As through synergies available from the combined company. The results from employees support the additional value realised from group companies through synergies.

Figure 4.17 below gives an illustration of the available opportunities, of which, a large customer base (47.4%) is the main one.
Figure 4.17: Opportunities available for group subsidiaries within CBZH

The respondents were also asked of their opinion of the most important benefit of the M&As to the group. This is important in determining whether there was any benefit from the strategic initiative to the group. The figure 4.18 below gives a clear illustration of the results, which show that diversification (68%) was the most prominent. Cross tabulation results did not show any major variances as diversification seemed important across the subsidiaries.

Employees response in terms of diversification being the most important benefit from the M&As undertaken, have prompted the researcher to seek an explanation on whether the merger of CBZB and CBZ Building Society (“CBZS”) was necessary. The researcher however noted that the reason might be the need to benefit from synergies which prompted this decision. According to Sherman and Hart (2006) the most important motive of engaging in acquisitions is to obtain synergy with the motive to maximise shareholder wealth. This was likely the case for CBZS and CBZB as the firms were able to share competencies and resources thus enhancing efficiency. On the other hand, the merger might have been undertaken to meet the minimum capital requirements as was required by RBZ. According to Santoso (2009) the regulatory environment is the main driver of bank M&As over the world. The reason might be unclear to the researcher, but the
merging of CBZS and CBZB resulted in increased operational efficiencies (Imara Investor Conference, 2010).

![Pie chart showing the most important benefit from the M&As for CBZH]

**Figure 4.18: Most important benefit from the M&As for CBZH**

The employees generally agree that the M&As have made a significant contribution from the above analysis to the overall group performance and that of its individual subsidiaries.

### 4.5.5 To determine the perception of shareholders on whether the M&As increased the value of their investment.

To understand shareholders perceptions on the M&As undertaken by the group, the survey interview guide asked the shareholders, as owners of CBZH to capture the motives of undertaking M&As. Shareholders are co-owners of these motives with the executive management as authority for undertaking is sought and authority granted prior to the company engaging in these strategies. Both the shareholders noted that the management by engaging in M&As sought to improve the shareholder investment value and gain market share in the areas of operation. Furthermore, the additional motives were to enhance service delivery, establish a large footprint in the country, complementing of commercial banking service with other players in the financial sector and increasing customer loyalty by offering more services under one company. The dominating motive of undertaking M&As
captured by both the executive management and shareholders is for the enhancement of shareholder value. According to Gompers, Ishii and Metrick (2003), companies with high shareholder rights perform better than those with favourable management rights. In the CBZH case, shareholder rights played a role in the positive outcome from the M&As undertaken.

Any strategic initiative carried out within an organization need to be evaluated. The interview sought the shareholders verify on whether M&As motives were achieved and if not state the reasons of disagreement. All the respondents noted that these motives were achieved, after reviewing the performance made to date by the company. However, one respondent noted the need for subsidiaries to fully maximize their synergies especially with the commercial banking arm through its wide branch network.

Further analysis was done relating to the subsidiary acquired which had benefitted CBZH the most and the least. The respondents both agreed that the acquisition of Beverley Building Society had made the largest contribution the company, with Datvest having captured as the worst performer. The largest contribution of Beverley Building Society was agreeable to both the executive management and shareholders. The huge asset base, tax free component that accrues to building society income, financing of mortgage loans, huge branch network and ability to borrow at concessionary rates for mortgage financing were considered to be the reasons of the building society contributing the most value according to the shareholders. Datvest was captured as the second underperformer with 40% under to be executive management, whilst shareholders agreed 100%. The underperformance of Datvest was mainly captured to be due to the economic meltdown that eroded the relevance of wealth management as the economy was faced with liquidity challenges. According to Akbulut and Matsusaka (2003) unrelated acquisitions benefits are seasonal, hence this might explain the underperformance of Datvest, because it is unrelated to the other subsidiaries of CBZH.
Other benefits which accrued to the shareholders resultant from the M&As undertaken were noted by both respondents to be to be a pool of skilled human resources at all levels. Additional benefits included a strong CBZ brand and a diverse shareholder base.

The shareholders being the owners of the company are concerned with the increase in value of the company (Ray, 2010). According to Martynova and Renneboog (2008), ownership concentration and supervision of actions of management by the large shareholders in the UK resulted in the bidders’ shareholders maximising value. The positive effect of the CBZH M&As can be attributed to the shareholders actively monitoring the actions of management in their endeavour to increase company value, and in turn enhance their returns through dividend payout and/or sell of shares that would have appreciated in stock value.

The shareholders agreed that the motives of undertaking the M&As were met and the shareholder value was enhanced. There is however room for further enhance the value of the company through maximizing synergies of subsidiaries within the group.

**4.6 SUMMARY**

The chapter sought to verify whether the M&As undertaken by CBZH have enhanced the value of the company using different scenarios. Various opinions were sought from the employees, shareholders and executive management. Financial ratio analysis using profitability, efficiency and investment valuation ratios were out. The deposit market share of CBZH was also noted using CBZB as a proxy.

Chapter five follows where conclusions, recommendations and areas of further study will be outlined.
CHAPTER FIVE
CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

The objective of this study was to investigate the impact that M&As as business growth strategies have on the acquiring company value, using CBZH as a case study. This chapter will make conclusions on the discussions and analysis of the subject matter before validating the research proposition. The research recommendations will be outlined followed by the areas of further before the chapter conclusion.

5.1 SUMMARY OF FINDINGS

5.2.1 The impact of the M&As on financial performance

The profitability, efficiency and investment valuation ratios were considered under this study. The profitability ratios used were ROA, ROCE and ROE. The cost to income ratio was used under the efficiency ratios with the earnings per share used for the investment valuation ratios. The market valuation ratio looked at in this study is the P/E ratio. The following conclusions are made on respective ratios:

a. Profitability ratios

The results indicate that the profitability ratios improved gradually over the period. The improvement was distinct during the post dollarization period. The M&As increased the profitability of CBZH during the period under review. From the above findings, it can be concluded that there is a positive relationship between M&As and the profitability of the company. M&As increases company profitability,
b. Efficiency ratios

Evidence from the cost to income ratio showed that CBZH efficiency improved in both the pre and post dollarization period. The company thus managed to contain its costs resulting in less costs being incurred for every dollar of income. In conclusion, M&As can improve efficiency of the organization. They reduce redundancy and duplication, enhance economies of scale, improve managerial efficiencies and increase income streams.

c. Investment valuation ratios

The earnings per share ratio was used for the period multi-currency period only. The results highlighted a gradual increase in the performance of EPS ratio. The company shareholders were realising more return in profits year after year from 2009 to 2012. M&As have a positive impact on investments performance.

5.2.2 The impact of M&As on market valuation

The research made use of the P/E ratio for the period multi-currency period only. Evidence from the P/E ratio indicated that CBZH performance was low, actually declining during the period under review. From the above findings, it can be concluded that M&As can decrease the market valuation of the organization. The market valuation maybe viewing the company as underperforming.

5.2.3 The impact of M&As market share over time

Findings from this study show that performance of CBZB deposit market share was improved after the multi-currency regime significantly. The introduction of the multi-currency period presented an opportunity and CBZH capitalized on this and consolidated its market position through the channeling of the GoZ deposits through its large branch network. The deposit market share of CBZH was increased resultant from the M&As undertaken.
M&As improves the market share of a company as immediately two or more market share company will be combined at the onset of merging while economies of scale can also improve the form muscle to fight competition through strategies such as pricing and geographical representation.

5.2.4 Executive management appraisal of the performance of CBZH M&As

The executive management was of the view that the motives of M&As were met. The major motive cited was the enhancement of the shareholder value thus the M&As undertaken have increased the value of the company.

From the above findings it can be concluded that the motives for undertaking by management was to enhance shareholder value.

5.2.5 Employees view of the M&As on overall organizational performance.

Evidence from the employees show that the M&As have made a significant contribution to the overall group performance and that of its individual subsidiaries. The term value under from the employees’ perspective refers to the brand, service delivery and financial value. Employees view on the impact of M&As on the overall organisational performance was positive.

5.2.6 Shareholders appraisal of the performance of CBZH M&As.

The shareholders results show that the increase of the shareholder value was achieved from the M&As undertaken. From the above findings it can be concluded that there is a direct relationship between M&As and shareholder value enhancement.

5.3 RESEARCH PROPOSITION VALIDATION

The study sought to evaluate the impact of M&As growth strategies on the acquiring company value. Evidence from the shareholders, executive management
and employees show that the value of CBZH has been increased. Market share indicate a significant change in the deposit market share from 2009, thus the M&As impacted positively on the company value. The results from the financial ratio analysis namely the profitability ratios of ROE, ROA and ROCE, efficiency ratio of the cost to income and investment valuation through the use of the EPS had a positive impact on the acquiring company value. However, the market valuation P/E ratio indicate an inverse relationship of the M&As and the investor perception. There is therefore largely a positive change in the value of the acquiring company CBZH post announcement of the M&As. The research proposition is largely accepted.

5.4 POLICY RECOMMENDATIONS

The main purpose of this subsection is to provide policy recommendations drawn from the study. Amongst the main observations from this study is the low market valuation of the CBZH. Various causes of this low market perception have been discussed and the following are the recommendations to CBZH in particular and the Zimbabwe banking sector in general.

a. Reduction of the bad book – provisions

CBZH financials are usually perceived to be reflecting a picture of a performing book, especially the results of CBZB. The contributions during the analysts briefings usually question the quantum of the bad book, as the market perceives that is will be suppressed in the financials as compared to the true reflection. The organization should put in place prudent lending guidelines which will reduce the bad debts provisions.
b. Engage the services of a debt buyer

The organization can engage the services of a private debt collection law firm that purchases delinquent debts. This will leave CBZH to concentrate on the performing book and enhance its image.

c. Target business of multinational companies

CBZH should also target business from multinational companies in the manufacturing, mining, services and other sectors to spruce up its image. The rendering of services to these organizations will spruce up the market perception of CBZH and enhance confidence of other market players to engage the company’s services.

d. Reduction on the dependence of government deposits

CBZB, the major subsidiary of CBZH has been handling most of the government deposits since 2009. This has in a way led to a negative perception of the bank’s competitive edge in the absence of these accounts. CBZH should work on ensuring that its dependence on government accounts is reduced, by securing other sources of deposits from established companies of reputation as well as enhance ability to secure lines of credit.

e. Board of Directors Composition

The company should engage board of directors of good standing in the society to spearhead its operations. The shareholders should actively participate in the engagements of board of directors and ensure that they are of good reputation. This will enhance the company image as characters of certain individuals of good standing are valued by investors and public.
f. Comprehensive due diligence and strategic fitness

Comprehensive due diligence to be undertaken prior to a final agreement of M&As being undertaken. There is need for CBZH to engage services of an independent reputable party to carry out the investigations on the prospective buy prior to engaging in the merger or acquisition. This will also result in the strategic fitness of the combination being analysed prior to entering into the agreement. This is against the executive management responses on least benefits being realized from the acquisitions of Datvest and Optimal Insurance Company.

5.5 AREAS FOR FURTHER STUDY

The case under consideration was based on a case study of CBZH, a bank holding company of CBZB. The results are specific for CBZH and might not be comparable with other group companies of the same nature. There is need to increase the population of bank holding companies under consideration to at least 75 per cent for the results to be generalized in the banking sector. The study of CBZH might also incorporate the industry averages for those banks that were not involved in the M&As, to find out if their performance was surpassed. Furthermore, the role played by the business cycles and different currencies might also form another perspective for further analysis. These further considerations might improve the understanding of the evaluation of the impact of M&As on the acquiring company value.

5.5 CHAPTER SUMMARY

The chapter concluded the research findings as measured against the research proposition. The conclusions were highlighted together with the recommendations and areas of further study. It is envisaged that the recommended strategies would improve the performance of CBZH if management incorporate them to form part of the company’s strategic objectives.
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01 July 2013

Dear Sir/Madam

RE: MASTERS IN BUSINESS ADMINISTRATION RESEARCH QUESTIONNAIRE

My name is Martha Choto, a Masters of Business Administration student with the University of Zimbabwe Graduate School Of Management. As part of the degree programme requirements, I am conducting a research which seeks to verify the impact of mergers and acquisitions on the acquiring company valuation with special reference to CBZ Holdings Limited for the period 2004-2012. May you kindly spare your precious time to give your opinions on the underlying issues. Kindly be advised that this research is for academic purposes only and will be treated with strict confidentiality. The findings of this survey will be used for purposes of this research only.

For further clarifications regarding this study, please feel free to contact the researcher on the following telephone numbers 0778 250 707 or email address mchoto@cbz.co.zw.

Your cooperation is essential for the results of the survey to be meaningful, valid and accurate.

Yours faithfully,

Martha Choto
APPENDIX II: RESEARCH QUESTIONNAIRE FOR EMPLOYEES

A) BACKGROUND INFORMATION

1. What is your job title?
   Head of Department [ ]
   Senior Manager [ ]
   Relationship Manager [ ]
   Branch Manager [ ]
   Operations Manager [ ]
   Assistant Manager [ ]
   Officer [ ]
   Teller [ ]
   Clerk [ ]

2. Subsidiary /department
   Former CBZ Bank Limited [ ]
   Former Beverly Building Society [ ]
   Datvest [ ]
   CBZ Bank Limited Card Centre Department [ ]
   Optimal Insurance [ ]

3. Years of experience within CBZ Holdings Limited
   Less than 5 years [ ]
   6 – 10 years [ ]
   11 – 15 years [ ]
   16 – 19 years [ ]
   20 years and more [ ]

B) INFORMATION OF MERGERS AND ACQUISITIONS UNDERTAKEN BY CBZ HOLDINGS LIMITED

4. We are fully aware of the mergers and acquisitions undertaken by CBZ Holdings Limited since 2005 to 2012?
   Strongly disagree [ ] Disagree [ ] Moderate [ ] Agree [ ] Strongly agree [ ]
C) INFORMATION ON THE SUBSIDIARY/DEPARTMENT CHOSEN UNDER QUESTION 2 PRIOR TO BEING ACQUIRED AND/OR MERGED WITHIN CBZ HOLDINGS LIMITED.

5. The service we offered to the customer was personalized, reliable and efficient.
   Strongly disagree [ ]  Disagree [ ]  Moderate [ ]  Agree [ ]  Strongly agree [ ]

6. The branch networks were readily accessible to customers.
   Strongly disagree [ ]  Disagree [ ]  Moderate [ ]  Agree [ ]  Strongly agree [ ]

D) INFORMATION ON THE CURRENT STATUS OF THE SUBSIDIARY AND/DEPARTMENT BEING PART OF CBZ HOLDINGS LIMITED.

7. The level of customer service has improved since the company became part of CBZ Holdings Limited.
   Strongly disagree [ ]  Disagree [ ]  Moderate [x]  Agree [ ]  Strongly agree [ ]

8. The branch network has improved (accessibility the nearest area of service).
   Strongly disagree [ ]  Disagree [ ]  Moderate [ ]  Agree [ ]  Strongly agree [ ]

9. The services offered under CBZ Holdings Limited have offered more options for the clients' financial needs under one group.
   Strongly disagree [ ]  Disagree [ ]  Moderate [ ]  Agree [ ]  Strongly agree [ ]

10. The brand name of the company/department has become more visible by being part of the CBZ brand name.
    Strongly disagree [ ]  Disagree [ ]  Moderate [ ]  Agree [ ]  Strongly agree [ ]

11. The monetary contribution of the company/department has increased due to business opportunities within CBZ Holdings Limited as opposed to the entity operating separately.
    Strongly disagree [ ]  Disagree [ ]  Moderate [ ]  Agree [ ]  Strongly agree [ ]
E) INFORMATION ON THE BUSINESS OPPORTUNITIES AVAILABLE FOR
THE SUBSIDIARY/DEPARTMENT WITHIN CBZ HOLDINGS LIMITED.

12. There are still opportunities within CBZ Holdings Limited for
subsidary/department named in question 2 to benefit from.
Strongly disagree [ ] Disagree [ ] Moderate [ ] Agree [ ] Strongly agree [ ]

13. The followings are some of the opportunities available to the subsidiary by
being part of CBZ Holdings Limited. Kindly choose the appropriate in the rank of
their importance of the scale 1-5 with 1 being the most important benefit.
Large customer base [ ]
Large revenue base [ ]
Large pool of skilled human resources [ ]
Customer Retention [ ]
Wider geographical representation [ ]

14. There are still business opportunities for CBZ Holdings Limited to tap from the
subsidiary/department named in question 2.
Strongly disagree [ ] Disagree [ ] Moderate [ ] Agree [ ] Strongly agree [ ]

15. The followings benefits have accrued to CBZ Holdings Limited because of the
mergers and acquisitions undertaken. Kindly choose the appropriate attribute and
rank them in line of their importance from 1-5, with 1 being the most important.
Diversification [ ]
Customer retention [ ]
Skilled human resources in the area of specialty [ ]
Wider geographical representation [ ]
Increased available income streams [ ]

16. The importance of the subsidiary/department to the operations of CBZ
Holdings Limited is visible and significant.
Strongly disagree [ ] Disagree [ ] Moderate [ ] Agree [ ] Strongly agree [ ]
F) VALUATION OF CBZ HOLDINGS LIMITED

17. The mergers and acquisitions undertaken by CBZ Holdings Limited have enhanced the brand visibility of its subsidiaries.

   Strongly disagree [ ] Disagree [ ] Moderate [ ] Agree [ ] Strongly agree [ ]

18. The mergers and acquisitions undertaken in the financial services sector have created a one stop shop for all the customer’s financial needs. Does this hold true for CBZ Holdings Limited.

   Strongly disagree [ ] Disagree [ ] Moderate [ ] Agree [ ] Strongly agree [ ]

19. If you disagree with question 18, kindly elaborate other financial services that CBZ Holdings Limited should undertake to achieve the one stop shop criterion.

   …………………………………………………………………………………………………
   …………………………………………………………………………………………………

20. What are your future expectations for CBZ Holdings Limited?

   …………………………………………………………………………………………………
   …………………………………………………………………………………………………

G) BUSINESS ENVIRONMENT COMPETITION

21. What are the business opportunities and strategies available to CBZ Holdings Limited to enhance its value in the future?

   …………………………………………………………………………………………………
   …………………………………………………………………………………………………

22. How do you rate the overall services offered by CBZ Holdings Limited?

   Bad [ ] Fair [ ] Satisfactory [x] Good [ ] Excellent [ ]

23. Any suggestions would you like to give to enhance service delivery

   …………………………………………………………………………………………………
   …………………………………………………………………………………………………

THANK YOU
APPENDIX III: RESEARCH INTERVIEW QUESTIONS FOR EXECUTIVES

1. CBZ Holdings Limited has undertaken mergers and acquisitions from 2005 to 2012. In your view what were the management motives of undertaking these business strategies?

2. Judging from the performance to date, where these motives achieved? If not, state your reasons of indicating so.

3. What impact have these mergers and acquisitions strategies made on CBZ Holding Limited?

4. In your own opinion, which merger and/or acquisition benefitted the acquiring company the most? State your reasons for the answer.

5. In your own opinion, which merger and/or acquisition benefitted the acquiring company the least? State your reasons for the answer.

6. Research has indicated that integration plays an important role post-merger and acquisition period. What steps did CBZ Holdings Limited put in place to maximize benefits derived from cross company linkages?

7. CBZ Holdings Limited undertook the mergers and acquisitions following the 2004 Zimbabwean banking crisis, starting in 2005. Where these mergers and acquisitions undertaken as opportunities presented themselves or they were planned beforehand?

8. Various stakeholders play an important role in the performance of a company during the post-merger and acquisition period? Kindly highlight how the concerns of employees and shareholders were met to derive maximum benefits from these business strategies?
   - Employees
   - Shareholders
9. The stock market share price of CBZ Holdings Limited has generally been quoted to be under performing. From your analysis, what could be the reasons for explaining this trend?

10. What other opportunities outside those derived through mergers and acquisitions were presented to CBZ Holdings Limited resultant from the expansion of the company.

11. If you had been given the task to expand CBZ Bank Limited in 2005, what would you have done differently?

12. Organic growth is another option of company growth. Had CBZ Bank Limited sought to grow organically and entered into strategic alliances with the companies merged and acquired, what would be your anticipated performance of the company vis a vis the current position.

13. What lessons have been learnt from the mergers and acquisitions undertaken by CBZ Holdings Limited?

THANK YOU
APPENDIX IV: RESEARCH INTERVIEW QUESTIONS FOR SHAREHOLDERS

1. CBZ Holdings Limited has undertaken mergers and acquisitions from 2005 to 2012. The shareholders being the business owners were notified and agreeable to these strategies. What were the management motives of undertaking these business strategies?

2. Judging from the performance to date, where these motives achieved? If not, state your reasons of indicating so.

3. In your own opinion, which merger and/or acquisitions benefitted the company the most? State your reasons for the answer.

4. In your own opinion, which merger and/or acquisitions benefitted the company the least? State your reasons for the answer.

5. What other opportunities outside those derived through mergers and acquisitions were presented to CBZ Holdings Limited resultant from the expansion of the company.

6. Organic growth is another option of company growth. Had CBZ Bank Limited sought to grow organically and entered into strategic alliances with the companies merged and acquired, what would be the current performance of the company vis a vis the current position.

7. What lessons have been learnt from the mergers and acquisitions undertaken by CBZ Holdings Limited?

THANK YOU